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REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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Food Stamp Receipts-- Who's Watching The Money?

Food and Nutrition Service Department of Agriculture

Misuses and mishandling of over $34 million in food stamp receipts went undetected for extended periods because neither the Food and Nutrition Service nor the States were effectively monitoring the agents which sold food stamps. Known major weaknesses in the monitoring system at both levels were allowed to continue for years without adequate efforts to correct them. Reported deposits were not verified, agents' depositing patterns were not monitored, and there was no followup when agents failed to submit required reports. The Service's computer-produced management reports, designed to identify problem agents, were not usable because they listed too many agents without problems, as well as agents with problems.

Some improvements have been made, but much more still needs to be done. GAO is recommending ways to correct problems with the monitoring system. Also, GAO believes the Service should retain a strong, active role in the day-to-day monitoring of agent accountability in cooperation with the States.

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JUNE 15, 1977

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the misuses and mishandling of over $34 million in food stamp receipts which went undetected for extended periods because neither the Department of Agriculture's Food and Nutrition Service nor the States were effectively monitoring issuance agent accountability. It also discusses the Department's actions to identify and recover the misappropriations.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Agriculture; the Secretary of the Treasury; and the Chairman, Board of Governors of the Federal Reserve System.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FOOD STAMP RECEIPTS--
WHO'S WATCHING THE MONEY?
Food and Nutrition Service
Department of Agriculture

D I G E S T

Last year over 17 million people paid about $3.3 billion for food stamps worth $8.3 billion. GAO checked whether food stamp receipts were being properly tracked from the 6,100 issuance agents, that distribute food stamps and collect the money, to the final deposit of the money in the U.S. Treasury. Because this tracking had not been done effectively in the past, the Department of Agriculture's Office of Audit found misuses and mishandling of over $34 million that went undetected for extended periods. Some of this money may never be recovered.

WHY MISUSES OF RECEIPTS WENT UNDETECTED

Known major weaknesses in both Federal and State monitoring were allowed to continue for years without enough effort to correct them.

--Reported deposits were not verified.

--Issuance agents' depositing patterns were not reviewed and monitored.

--No follow up was performed when agents failed to submit required reports.

Consequently, the Department's Food and Nutrition Service did not know whether food stamp receipts were being deposited as required. At the time of GAO's review, early detection of misuses was still not assured.

The Service's computer-produced management reports, designed for use in monitoring and verifying issuance agent deposits and depositing patterns, were unreliable and unusuable. They contained too many "exceptions"

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(primarily deposits shown on agents' accountability reports that could not be matched with deposits to a Federal Reserve Bank) requiring inquiry. Some of these exceptions were valid and indicated misuses of receipts; others were invalid, having been caused by technical and human errors, loss or non-receipt of data, and other problems. Valid exceptions could not be distinguished from the invalid ones without extensive, time-consuming work. (See pp. 4 to 10.)

Accurate and prompt accountability reports from agents are essential to a good system. Not enough has been done to get agents to submit such reports as required by Service regulations.

The Service had not adequately shared the information in its computer-produced reports (especially exception reports dealing with cash deposits) with the States. Sharing information could have helped States monitor agent transactions. For their part, the States had not adequately carried out their own review procedures, and they had not made the basic checks, verifications, and audits that a good system must have. (See pp. 10 to 17.)

There was little indication of cooperative assistance between the Service and States to improve the system, even though both knew of major shortcomings that almost invited misuse of food stamp receipts.

ACTUAL AND PLANNED SYSTEM CHANGES

Some improvement has been made in the accountability system--but not enough.

First, to permit "matching" of deposits, the Service began sending States monthly lists showing deposits received by Federal Reserve Banks from agents. However, the reports did not reach the States soon enough and, for various reasons, were sometimes not used. (See pp. 18 and 19.)

Second, fewer unmatched deposits are now listed on Service exception reports. This has enabled the Service to reduce the backlog in monitoring agent accountability. However, most unmatched items are still invalid exceptions, and more needs to be done to increase report reliability and to identify and resolve valid exceptions. (See p. 20.)

Service proposals for changing the system would seem to require more State, and less Service monitoring of vendor accountability. This was true for changes issued by the Service in May 1976 (since revoked) and for the Service's proposed telecommunications depositing and reporting system. (See pp. 21, 22 and 24-32.)

The Service is a nationwide organization and has experience, resources, and computer capability. It makes sense for the Service to be heavily involved in accountability monitoring. The Service should identify potential problems and refer them to the States for investigation and correction. (See p. 32.)

In addition to some uncertainties regarding Service-estimated costs of the proposed telecommunications depositing system, the Service had not adequately developed, analyzed, and shown the advantages, disadvantages, costs, and benefits of alternatives for improving the depositing and monitoring of food stamp receipts. (See pp. 32 and 33.) However, the food stamp purchase requirement may be eliminated (instead, coupons would be distributed without charge), thereby eliminating the need for any depositing system. This should be specifically considered. (See p. 32.)

IDENTIFICATION AND CORRECTION OF MISUSE OF FUNDS

The Department's Office of Audit had given early warnings of agent-depositing problems, but the Service did not take effective corrective measures. The problems continued until special work by the Office of Audit showed millions of dollars of depositing irregularities, including misappropriations of program funds. (See pp. 34 to 41.)

The Office of Audit's special efforts to identify those agents grossly deviating from prescribed depositing procedures were reasonable and generally effective. (See p. 44.)

The Service's followup actions were slow in getting started and have not yet corrected late depositing by agents. Additional work, technical assistance to States, and perhaps firmer action with States are needed to get agents to deposit all food stamp sales proceeds on time. (See pp. 39 and 44.) The Office of Audit should continue to periodically monitor this aspect of agents' operations until late depositing is no longer a significant problem.

Issuance agents involved with missing food stamp receipts or food coupons or late depositing practices should be penalized; and if the problems continue, the agents should be kept from participating in the program. If replacement agents cannot be found, local food stamp offices may have to issue the stamps.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

Chapter 5 of this report presents specific recommendations designed to help improve issuance agent operations and accountability in the food stamp program.

The Service's views on GAO's conclusions and recommendations were mixed. They are recognized throughout the report, particularly on pages 48 to 54. Service officials emphasized their belief that responsibility for administering the food stamp program, including accounting for cash and coupons, properly rests with the States and that its proposed changes to the accountability system reflect this assignment of responsibilities.

GAO believes that the Service should maintain a major, active role in agent accountability monitoring in a partnership arrangement with the States, rather than one primarily involving oversight of State operations.

If the purchase requirement is eliminated, it may not be necessary to implement some of the recommendations, but other steps GAO recommends will still be necessary because food coupons--which are almost like cash--will have to be accounted for and this accountability will have to be monitored. (See p. 48.)

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CHAPTER 1

INTRODUCTION

Senator Thomas F. Eagleton asked us to review the food stamp vendor accountability system, including any new procedures the Department of Agriculture implemented to prevent the problems already exposed in the system. The request was made after the Department's Office of Audit had identified serious accountability system problems and significant misappropriations of food stamp proceeds.

The food stamp program, authorized by the Food Stamp Act of 1964, as amended (7 U.S.C. 2011 et seq.), is designed to help low-income households obtain nutritionally adequate diets by supplementing their food budgets. The program is administered nationally by the Department's Food and Nutrition Service. Participating households may purchase food stamps (coupons) having a monetary value greater than their purchase price and use the stamps to buy food through normal food outlets. The difference between the purchase price and the stamps' face value is called the bonus value--the Federal contribution to the household's food-purchasing power.

According to preliminary Service data as of April 1977, 17.2 million persons were in the program in January 1977. The total value of stamps sold that month was about $691 million and the amount paid for them was $273 million.

THE DISTRIBUTION OF FOOD STAMPS

The Service contracts with each State for the distribution of food stamps within a State and pays 100 percent of the program benefits and 50 percent of a State's program administration costs. The State agrees to accept the fiscal responsibility and liability for food stamps by submitting to the Service a "plan of operation"--a contract signed by the State stating the general terms and conditions of how the program will be administered. The plan includes a statement asserting that the program will be administered in accordance with the Food Stamp Act and with applicable Federal regulations and Service instructions. It also identifies the State agency responsible for operating the program.

Food stamps are dispensed at over 13,000 locations throughout the country by vendors (issuance agents) which have contracted with State agencies to sell food stamps for a fee.

ACCOUNTABILITY SYSTEM

The issuance agent accountability system is the series of procedures which the Service established to promptly disclose irregularities concerning food coupons and the proceeds from their sale. These procedures involve the participation of the Service's headquarters and regional offices, States and local agencies operating the food stamp program, issuance agents, and Federal Reserve Banks. The system is described in detail in appendix I and is the central focus of this report.

Essentially, the system involves the analysis and verification of information shown on monthly accountability reports prepared by issuance agents or States. These reports include data on the value of food coupons under an agent's control, the agent's coupon sales transactions for the month, and its deposits during the month with the Federal Reserve Bank. Verification can be made by comparing this data with related information obtained from independent sources. Thus, the value of food coupons can be compared with the previous month's coupon inventory plus documents showing all subsequent coupon receipts, sales, and transfers. Coupon sales transactions must agree with related information on authorization-to-purchase cards surrendered by participants when they buy their stamps. Deposits can be verified against Federal Reserve Bank reports of received deposits. Also, deposit information from Federal Reserve Banks can be used to analyze agents' depositing patterns to help detect irregularities.

SCOPE OF REVIEW

We made our review from February 1976 to February 1977 at the Service's headquarters in Washington, D.C., and its regional offices in Princeton, New Jersey; Chicago, Illinois; and Atlanta, Georgia. We reviewed in some detail the operation of the accountability systems in Missouri and New York, including visits to Jefferson City, St. Louis, St. Charles, and Independence, Missouri, and Westchester County, Albany, and New York City, New York. We discussed with State officials in Pennsylvania, Illinois, Michigan, and Massachusetts their States' accountability system operations.

We reviewed food stamp regulations and instructions relating to the accountability system, State and Service documents, Department of Agriculture internal audit reports, and records of selected agents. We interviewed Federal and State food stamp officials; Department of Agriculture investigators and internal auditors; Federal Reserve System personnel in Washington, D.C.; St. Louis and Kansas City, Missouri; and New York, New York; and officials of the Postal Service.

CHAPTER 2

WHY MISAPPROPRIATIONS WENT UNDETECTED

Weaknesses in the issuance agent accountability system at both the Federal and State levels denied the Food and Nutrition Service adequate assurance that food stamp receipts were deposited as required by Federal regulations. These weaknesses stemmed from problems in the design and implementation of the Service's system for monitoring agent accountability, the Service's failure to provide States with available independent information for their use in verifying that deposits reported by agents were actually made, and the States' failure to adequately implement their own procedures for reviewing and verifying information reported on agents' monthly accountability reports. As a result, the misuse and mishandling of over $34 million in Federal proceeds from the sale of food stamps went undetected for extended periods. Some of this money may never be recovered. Also, misappropriations can still remain undetected.

WEAKNESSES IN THE FEDERAL SYSTEM FOR MONITORING ACCOUNTABILITY

Essentially, the weaknesses in the Service's monitoring system involved (1) a lack of verification that reported deposits had actually been made, (2) a lack of review and monitoring of issuance agents' depositing patterns, and (3) a lack of follow up when agents failed to submit required reports. Service headquarters' personnel responsible for using various computer-produced management reports, designed for use in monitoring and verifying agent deposits and depositing patterns, have stated that the reports have been unreliable and unusable for verification purposes since the time agent accountability was first automated. The reports have not been usable because they contained excessive numbers of exceptions (unmatched items) requiring inquiry. Some of these exceptions were valid and indicative of misappropriations of food coupon proceeds or other improper depositing practices. However, the valid exceptions were not investigated because Service personnel could not readily distinguish them from the large number of invalid exceptions--items that were not matched because of technical and human errors, loss or nonreceipt of required data and/or reports, and other system problems.

Because the reports from the automated system were unreliable, headquarters personnel, at one time, tried to verify agents' accountability--especially deposits--by making manual comparisons of accountability reports with information from other sources, such as deposits reported by Federal

Reserve Banks. A Service official told us that relatively few accountability reports could be checked this way because of the thousands of reports involved and the small staff available for such work.

As of February 1, 1977, there were about 6,100 issuance agents in the program, and food coupons were being issued at over 13,000 locations as shown below.

Kinds of agents	Number of locations
Banks	6,509
State and local government agencies	3,584
Post offices	2,174
Currency exchanges	525
Check cashers	18
Community action agencies	128
Credit unions	55
Others	257
Total	13,250

Invalid exceptions

The large numbers of exceptions on the Service's computer-produced reports were most critical in the case of the cash reconciliation detail report--a report that tries to match deposit information shown on accountability reports with deposits reported by Federal Reserve Banks. Like most of the other exception-type reports, the Service did not regularly use this report to identify agents which were not following the Service's depositing requirements. For example, the October 1975 report showing cumulative data for fiscal year 1975 consisted of 5,100 pages with about 125,000 exceptions. This is the same report that the Department's internal auditors worked with to identify agents not depositing food stamp sale proceeds. (This process is discussed more fully in chapter 4.) The Department's internal auditors spent about 240 staffdays (48 work weeks) working with just part of the 125,000 items--trying to determine which of them were valid exceptions needing further followup.

The Service's headquarters staff responsible for reviewing the reports and referring cases to the regional offices could not cope with such large volumes of mismatches, and thousands of unresolved exceptions remained in the cash reconciliation detail reports for fiscal years 1973 through 1976.

Our limited check of the accuracy of the cash reconciliation detail report confirmed that most of the exceptions were not valid. For example, when we reviewed the Missouri section of the report for March 1976 and checked 65 randomly selected agents, we found that all but 1 of the 82 unmatched deposits shown on the report for these agents were actually received and reported by the Federal Reserve Banks, and thus were not valid.

The irregular deposits report, which shows agents' depositing patterns, is sent by the Service to its regional offices for use in monitoring agents' deposits. However, staff members in three regional offices told us that the report was not used because it was unreliable. The report often lists the date the Federal Reserve Bank processed a deposit, which is not always the same date that it received it. The report is not useful for monitoring depositing patterns unless either deposit or receipt dates are consistently shown. Also, the report sometimes lists incorrect data because of keypunching errors.

The several management reports designed to monitor the agents' coupon inventory levels also contained errors which made them unreliable for use as management tools. For example, the food stamp inventory management report was not always accurate because agent accountability reports--the primary source of the inventory report--were not always accurate or submitted in time to be included as part of the inventory report. Also, the inventory report often erroneously showed shortages in the amount of on-hand inventory reported by an agent when compared against the inventory amounts calculated from coupon shipment information reported by the coupon printer. These indicated shortages were due to the time lag between the printer's shipping of coupons and the actual receipt of the coupons by the agents. Discrepancies of this type require manual correction.

According to Service personnel, the Service's inventory report and other accountability monitoring reports will continue to be unreliable for use as management tools as long as agents submit inaccurate and/or late accountability reports. Because these management reports were considered unreliable, the Service's headquarters and regional staffs have not used them for monitoring agent accountability for some years.

Further compounding the difficulty in using the reports produced by the automated accountability system is the absence of written guidelines and procedures for their use. Service headquarters officials told us that personnel responsible for using the reports sometimes did not fully understand what certain parts of the reports meant, how the information was compiled, and what should be done to investigate and/or correct exceptions. They also told us that they planned to develop the needed instructions and procedures.

Although the overall reports were unreliable and produced many invalid exceptions, they did contain valid exceptions indicating that some agents were misappropriating food stamp receipts and/or were not making proper deposits. For example, the irregular deposits report for December 1974 (prepared February 22, 1975) identified an agent which made only one deposit between August and November 1974 and only one other deposit in December 1974. The food stamp cash reconciliation detail report for March 1975 (prepared May 13, 1975) showed, for this same agent, 33 unmatched deposits totaling $237,833 from its accountability reports, compared with only 2 deposits totaling $4,910 from deposit documents received from the Federal Reserve Bank. Subsequent investigation showed that this agent had misappropriated about $2 million in food stamp funds.

Problems appearing to cause large numbers of invalid exceptions

We have identified several weaknesses in the Service's accountability procedures and its automated system which, if corrected, should (1) decrease the likelihood of losing cash deposit information between the Federal Reserve Banks and the Service, (2) speed up data processing time, (3) provide the Service with a means of comparing data from different sources to identify potential problems, and (4) go a long way toward bringing the numbers of exceptions listed on its management reports (and requiring verification) within manageable bounds.

The Service's cash reconciliation reports are designed to verify that cash deposits shown on monthly accountability reports match food coupon remittance cards (deposit cards) and the associated deposits received by Federal Reserve Banks. To do this, the computer must match individual deposits by agent identification number, deposit serial number, and deposit amount. For such a match to be successful, both the identification number and the serial number must be exactly the same on both the accountability report and the related remittance cards received from the Federal Reserve Bank, and must be correctly entered into the computer.

Each agent's remittance cards start with the same three-digit serial number (001) and run through number 999. The computer, therefore, cannot correctly match deposit information based only on this number because different deposits made by different agents could have the same numbers. Also, if an error is made in entering the agent's identification number into the computer, the computer will not be able to properly match related deposit information because an individual agent or several agents could make numerous deposits for the same amount. If a second method of uniquely identifying each deposit were devised, it could help avoid some of the invalid exceptions being shown on cash reconciliation reports.

A second weakness with the Service's accountability system involves a subsystem which is supposed to automatically issue prepunched remittance cards to agents for use in depositing cash receipts in Federal Reserve Banks. This subsystem does not always issue an adequate number of remittance cards to each agent. Some agents get more cards than they need, while others exhaust their supply before it is replenished. When the latter happens, many agents either borrow another agent's remittance cards or use photocopies of cards they previously used to make cash deposits. The results are obvious.

If an agent uses another agent's card, the deposit cannot be matched because each agent's identification number is prepunched into its cards. If a photocopy is used, there will be more than one card with the same identification and serial numbers and the computer will not be able to match one or more deposits. These unmatched deposits just add to the already large number of exceptions shown on the cash reconciliation report.

A third weakness is that input data is frequently inaccurate and/or not timely submitted by agents as required. For example, some agents list several individual deposits on their monthly accountability reports but combine these deposits on a single remittance card. Others use several remittance cards to make separate deposits but list a single consolidated deposit on the accountability report. These practices result in unmatched items on the cash reconciliation reports. Also, monthly accountability reports from some agents have not been submitted for over a year, and some State and local agencies have never submitted some required documents used as input for various management reports. These kinds of practices and failings have generated a large number of exceptions that must be dealt with.

A fourth weakness is that the Service has not undertaken a major priority project to identify the basic causes of the major kinds of exceptions generated by its accountability system and taken action to prevent their recurrence. The computer produces detail and summary listings which identify the type of error being made and the number of times each type of error occurred. These error lists are supposed to be used by Service headquarters and regional staffs as a basis for correcting the reports and resubmitting the pertinent transactions for computer processing. However, these reports have not been used to determine which errors occur most frequently, why they occur, and what needs to be done to prevent them.

In the past, error identification has been done piecemeal as part of the Service's routine processes, rather than as a sorely needed special task. Basic problems with the system have not been systematically identified and efficiently corrected, and additional stafftime continues to be required to correct individual errors. Frequently, the processing and error correction cycle must be repeated before errors are corrected. The entire error correction process increases the workload for the Service's finance division and regional offices, and results in increased computer processing time and costs.

A fifth weakness is that the food coupon remittance cards returned to the Service by the Federal Reserve Banks and used to enter cash deposit data into the computer can easily be lost or damaged. The Federal Reserve Banks batch these cards (received with agents' deposits) and prepare batch control documents (summary documents) listing the number of cards and the total amount of deposits in the batch. The Banks mail the batches with their batch control documents to Service headquarters for processing.

We believe it is unwise and unsafe to follow a routine of physically transferring thousands of punched machine cards between widely dispersed locations. The batches of cards can be dropped, hence cards can be lost, folded, or crushed making it impossible to process them through the computer. If any cards are damaged, the data on the cards must be repunched onto new cards to replace those no longer usable. If these cards (which are source documents) are destroyed or lost, their data may be irretrievably lost. When data from these cards is not entered into the computer, additional exceptions appear on the cash reconciliation and irregular deposit reports, which requires additional analysis and corrective measures.

Service officials told us that about 30 percent of the batches of remittance cards and batch control documents received from Federal Reserve Banks are rejected by the computer from further processing. Some of this is caused by differences between (1) the record count (number of remittance cards) and the total cash deposit shown on the batch control document and (2) the computer-produced arithmetic totals of detail information on the remittance cards actually in the batch.

Normal data processing practice is to convert files of punched cards to magnetic tape files before the data is transferred between locations. Individual records on a magnetic tape file cannot be as easily lost or destroyed as can individual records in a file of punched cards. In commenting on our report (see app. II), the Service said that this was an excellent idea and, although it had pursued it previously, it planned to pursue it again with those Federal Reserve Banks that have the capability to convert the information on the remittance cards to magnetic tape files.

A sixth weakness concerns the processing of the food coupon remittance cards by the Federal Reserve Banks. When a Bank receives a remittance card, it is to keypunch the deposit date and amount on the card. According to the Department of the Treasury's instructions to the Banks, the date is to be that date the Bank receives the deposit. Although some Banks complied with this instruction, others used (1) the date the deposit was processed or (2) the date the issuance agent showed it submitted the deposit. This variation caused the Service headquarters staff problems in monitoring the agents' depositing patterns, as discussed on page 5.

Service officials said that, in spite of their efforts to standardize this date, inconsistencies among Federal Reserve Banks remained.

A seventh weakness, which was subsequently corrected, had to do in part with the design of the food stamp master accountability file which contains all the information reported to the Service on issuance agents.

At the time of our review, the Service had four separate master files on magnetic disk and magnetic tape: one for fiscal year 1975, another for fiscal year 1976, a third for the transition quarter (July 1 to September 30, 1976), and a fourth for fiscal year 1977. Food stamp transaction data in these files included deposit data from monthly accountability reports, cash deposits reported by Federal Reserve Banks, food coupon shipment data reported by the coupon printer, shipment and other coupon inventory data reported by agents on their accountability reports, and advices of coupon shipments and coupon transfers.

Monthly food stamp transactions were first read into the computer, sorted into separate transaction files by time periods, and processed through separate computer runs to post the data to the appropriate master file. If there had been a single accountability master file, transaction data would not have had to be sorted and the monthly activity data could have been posted to the master file in a single computer run--saving more than half the computer time involved.

Also, because transaction data was sorted into separate transaction files, separate exception reports were produced--one for each fiscal year. Many transactions processed near the beginning and end of each fiscal year were included on exception reports, when, in fact, they were not bonafide exceptions. For example, if an agent made a cash deposit on June 29 and included it on its June accountability report, but the Federal Reserve Bank gave the deposit a July date, the deposit was shown as an unmatched deposit on two cash reconciliation reports--June's and July's. Looking into such items took additional time and effort that could have been better used elsewhere. As previously discussed, the number of discrepancies needing research and correction just on the cash reconciliation detail and summary reports had become virtually unmanageable.

We told Service officials that it is good data processing practice to maintain all related master records in one file, to maintain all transactions in one file, and to post all appropriate transaction data to the master file at the same time. This would reduce clerical workload in manually researching and correcting rejected transactions, expedite posting transaction data to the master file, and reduce computer processing time. Although the Service continued to maintain fiscal year files, it combined these files to compare transaction data on deposits. The results have been savings in time, effort, and cost, and more accurate reports.

WEAKNESSES IN ACCOUNTABILITY MONITORING AT THE STATE LEVEL

In the absence of an effective Federal control system, major weaknesses in the implementation of accountability system procedures at the State level helped make it easy for some agents to disregard depositing requirements and misappropriate Federal food stamp funds without early detection. We reviewed accountability operations in New York and Missouri in some detail and briefly looked at, and discussed with State officials, operations in Pennsylvania, Illinois, Michigan, and Massachusetts.

As discussed in appendix I, Service instructions require States to reconcile transacted authorization-to-purchase cards to related accountability reports each month, and to verify the sales and collections data on the accountability reports to the data shown on the cards. Also, the States are to compare the authorization-to-purchase cards submitted by agents with their files of authorized recipients to identify any altered, duplicate, counterfeit, or stolen cards. Neither the food stamp regulations nor related instructions specifically require that States verify shipments or transfers of food coupons, make physical counts of coupons on hand at the agents' locations, or verify that the deposits reported on accountability reports were actually made with a Federal Reserve Bank. According to Service officials, however, they expected that the States would verify all the accountability report information because they are financially liable for coupon and cash shortages.

Before January 1976, none of the States had an independent source of confirmed deposit information that could be used to verify deposits reported by agents on their accountability reports. Beginning in January 1976, the Service took a major step toward helping the States verify agent deposits by sending them confirmed deposit listings to use for this purpose. Even after this, however, two of the six States we checked still were not verifying deposits, and another was verifying only the deposits of its largest agents.

Some States were not verifying the accuracy of reported food coupon transfers or inventories. In one State some project areas were not examining the authorization-to-purchase cards to verify authorized coupon issuances and required cash collections. Several State officials said that they could not properly implement the accountability system because of a lack of staff.

New York

The food stamp program in New York is operated and controlled primarily at the county level. Officially, the State's Department of Social Services is responsible to the Service for administering the program, but in actuality the State has delegated the administrative responsibility to 58 area offices. Of these areas, 57 correspond to counties in the State, and the other encompasses the five counties of New York City. We visited two area offices--Westchester County and New York City.

All but 1 of the 58 area offices issue authorization-to-purchase cards to eligible households; the exception mails the food coupons directly to the recipients. The State and counties have contracted with about 400 issuance agents; all but 3 are banks. A large number of outlets have subcontracted with some of the agents to issue food coupons at different locations. For example, in New York City, 9 agents submitted monthly reports covering 980 outlets. One of these agents--a bank--issued food stamps from only 1 location, but another--also a bank--had over 500 outlets.

Agents submit food stamp requisitions directly to the State agency which reviews them and sends them to the Service for approval. The agents submit monthly accountability reports simultaneously to the Service, State agency, and applicable area office; consequently, there are no reviews of the reports before they are sent to the Service. Although the State agency had some procedures for reviewing accountability reports, agency officials said that the procedures have not been fully implemented because of staff shortages.

Basic weaknesses in the New York system included the following.

--Neither the State agency nor the area offices routinely verified the cash deposits reported by agents. Although the Service did not provide any State with available, independently confirmed deposit data until January 1976, New York made no effort to obtain such data either from the Service or directly from the Federal Reserve Bank. Even after the Service started providing confirmed deposit data to the States, New York still did not verify agent deposits.

--State personnel told us that they were checking the mathematical accuracy of accountability reports, but an 8-month backlog of reports was not checked.

--State officials said that the beginning coupon inventory amount on each accountability report was not checked back to the ending inventory amount on the prior month's report. One of the two area offices was not doing this.

--Neither the State nor the two area offices were verifying the accuracy of reported on-hand coupon inventories by physically counting coupons at agent offices.

--Although agents were required to send a copy of the transfer form to the State when food coupons were transferred between agents, State officials said that no action was taken if the form had not been received. If it had been received, no check was made to assure that offsetting transfers appeared on the accountability reports of the related sending and receiving agents. At the two area offices, coupon transfer documents attached to the accountability reports of receiving agents were checked to the applicable data on the reports. However, this procedure only covered reported transfers in. Because there was no cross-checking of transfers out against transfers in, coupon transfers could not be fully verified.

The major verification procedure specifically required by Service instructions was the reconciliation of transacted authorization-to-purchase cards to related data on agent accountability reports and to authorized recipient files. Both area offices we visited were doing this, but State officials were doubtful that all area offices were.

Missouri

The accountability system in Missouri has been a centralized operation. The Service contracts with the State agency for the distribution of food stamps within Missouri and the State contracts with issuance agents throughout the State. Missouri also distributes food stamps directly to recipients in some parts of the State through a State-operated mail issuance system. Generally, Missouri requisitions food stamps based on inventory levels shown on agents' accountability reports. The requisition, signed by a State official, is submitted to the Service for approval. As of July 1976, there were 144 agents in Missouri.

Agents' accountability reports were submitted to the State for review before transmittal to the Service. Missouri required agents to submit their reports within 5 working days following the last day of sales in a month. As the reports were received, the State annotated a register of currently authorized agents to indicate receipt. If a report had not been received by the sixth working day, the State called the agent. If necessary, a second call was placed on the 8th or 9th day.

Missouri made a mathematical check of all accountability reports before sending them to the Service. It also checked authorization-to-purchase cards against accountability reports and program recipient files. Shipments of food coupons were verified by the State by comparing the information on accountability reports with the attached shipment documents and the requisition information available in the State's records. These records were noted when a receipted shipment document was received from an agent. If a receipted shipment document had not been received within 2 months of the requisition date, Missouri investigated the status of the shipment. Coupon transfers were verified by comparing the receiving agent's accountability report with the sending agent's report and the attached transfer documents. Physical counts were periodically made of food coupons at agent locations starting in April 1976.

Any errors detected during the State's review of accountability reports were corrected. If an error had not affected the agent's accountability, it was corrected by the State, and a corrected copy was sent to the agent. If an error had affected accountability, the State prepared a corrected report and sent it to the agent for signature and resubmission. Any submitted reports that were unsigned were returned for signature.

Missouri was trying to verify deposits reported by agents by checking them with receipts or copies of negotiable instruments (such as money orders) purchased by agents for forwarding to Federal Reserve Banks. Such a procedure is not fully effective. The documents can show that a negotiable instrument was purchased by the agent, but they do not show that the instrument was deposited with a Federal Reserve Bank. In June 1975, Missouri officials requested confirmed deposit information from the Service for use in verifying agents' deposits, but their request was turned down.

In the case of one major agent in Missouri that misappropriated food stamp funds, a modification of the procedure described above could have worked effectively. The agent ran a check cashing operation which also issued its own money orders. The agent deposited food stamp sales receipts using its own money orders as negotiable instruments. Since cancelled money orders are returned to the issuer, the State could have checked the agent's reported deposits against the cancelled original copies of the money orders returned through regular banking channels. However, State personnel were accustomed to accepting carbon copies of money orders as indications of deposit--since this was normally all that was available--and did not check deposits against the cancelled copies of the money orders allegedly used to make deposits. The agent had not sent the Federal Reserve Bank nearly $2 million worth of food stamp receipts reported as being deposited on its accountability reports. A Service representative became aware that a problem existed and brought it to the attention of the State agency sometime prior to March 27, 1975. However, the magnitude and ramifications of the problem were not identified until it was independently rediscovered during a routine audit by the Department's Office of Audit in October 1975.

Recognizing the need for timely and reliable deposit data to use in checking agent accountability, Missouri, through its own initiative, arranged to obtain listings of confirmed food stamp deposits made by its agents from the two Federal Reserve Banks serving the State. It started getting daily listings from one of the Banks in December 1975 and weekly listings from the other in February 1976. This data enabled Missouri to verify reported deposits before forwarding accountability reports to the Service.

Pennsylvania, Illinois, Michigan, and Massachusetts

Our discussions with State officials in Pennsylvania, Illinois, Michigan, and Massachusetts identified some weaknesses in the implementation of accountability systems in those States.

All four States were checking authorization-to-purchase cards to agent accountability reports. One of the two States we asked was checking authorization cards to authorized recipient files to detect duplicates, forgeries, alterations, or stolen cards. The other State had a big problem with fraudulent authorization cards.

Agents in Illinois submitted monthly accountability reports directly to the Service without prior State review. None of the four States had verified deposits reported on the accountability reports until January 1976 when the Service began sending them confirmed deposit listings, based on Federal Reserve Bank information. Subsequently, two of the States began verifying deposits; the third verified the deposits of only its largest agents; and the fourth continued not to verify any deposits.

All four States checked the opening coupon inventory amount on accountability reports against the prior month's ending inventory amount reported by each agent or against some comparable inventory record. However, two of the States had not routinely verified the accuracy of reported on-hand inventories by making physical counts at agent locations.

Agents in Illinois, Michigan, and Massachusetts submitted their requisitions for food coupons directly to the State where they were reviewed and sent to the Service. Pennsylvania requisitioned food coupons from the Service to replenish stocks at its various bulk storage facilities. Although requisition information thus was available to the four States, only two verified coupon shipments by comparing reported shipments with related coupon requisitions. One of the States was cross-checking coupon transfers from receivers' reports to senders' reports. In another State, procedures did not provide for transfers between agents so verifying such transfers was unnecessary. Neither of the remaining two States verified transfers.

MISAPPROPRIATIONS OF FOOD STAMP RECEIPTS REMAINED UNDETECTED

The weaknesses that existed in the food stamp accountability system at both the Federal and State levels made it possible for some issuance agents to misappropriate millions of dollars in food stamp receipts without detection for extended periods. The weaknesses also allowed some agents to retain food stamp sales proceeds longer than permitted by the Service's depositing requirements. If the Federal system had functioned effectively, and if the States had verified deposits reported by agents, misappropriations of food stamp proceeds could have been minimized through early detection and appropriate remedial action.

After the Department's Office of Audit had identified serious problems with a major agent in Missouri, the Department started a nationwide audit to identify agents that might have misused food stamp receipts. This effort is discussed in chapter 4.

Most of the problem agents the audit identified had not submitted accountability reports to the Service. If the Service or the States had been monitoring accountability properly, they could have identified and taken timely action against delinquent agents. For example, the Service's management reports on missing and invalid accountability reports should have identified agents not submitting accountability reports. The potential use of this report is illustrated in the case of a delinquent agent in New York identified during the Department's audit.

From the print-out on missing and invalid reports, Department auditors noted that the agent apparently had not submitted accountability reports from March to October 1975. Although the agent had made some deposits during this period, the auditors were able to estimate from previous accountability reports that the agent had not deposited over $1 million of food stamp sales receipts.

In addition to the print-out of missing accountability reports, the Service could have used the irregular deposit report to identify this agent as one with improper depositing practices.

Cases where agents failed to deposit food stamp receipts could have been detected by Service personnel through an analysis of the cash reconciliation reports. As previously explained, however, these reports were ineffective because of the large numbers of invalid exceptions they contained. Most States we reviewed were not attempting to verify that deposits shown on accountability reports were actually made and, accordingly, did not detect falsified reports. Until January 1976 the Service did not provide the States with a listing of deposits received by Federal Reserve Banks which could be used for this purpose.

CONCLUSIONS

Known major weaknesses in the issuance agent accountability system at the Federal and State levels were allowed to continue for years without adequate efforts to correct their basic causes. There was little indication of cooperative assistance between the Service and the States to improve the system. At the time of our review, timely detection of misappropriations was still not assured.

The Service has not taken adequate steps to increase the usefulness and reliability of its computer-produced reports dealing with agent accountability and, before January 1976, had not shared the information in these reports, including the exception-type reports (such as the cash reconciliation report) with the States. Adequate and effective steps had not been taken to get agents to submit accurate and timely accountability reports as required by Service regulations.

It is necessary for the Service to make sure that report users understand how the data in the computer reports is compiled, what the reports mean, and how they should be analyzed and used by the Service and the States to effectively monitor agent accountability. The Service also must make sure that States are aware of, and are doing, their share of accountability monitoring--making the checks, verifications, and audits needed to properly carry out their responsibilities for agent operations, and effectively following-up and taking corrective measures on all problem cases.

CHAPTER 3

ACTUAL AND PLANNED CHANGES IN THE ISSUANCE AGENT ACCOUNTABILITY SYSTEM

Between January and November 1976, the Service made improvements in two aspects of the issuance agent accountability system which enabled it to more quickly detect the kinds of misappropriations of food stamp sales proceeds discussed in this report. First, the Service began sending the States monthly lists showing deposits received by Federal Reserve Banks from agents. Second, some of the Service's more important computer-produced exception reports became easier to work with and were being used to help monitor issuance agent accountability. Much of this increased usefulness was attributed to reduced delays in receiving agent accountability reports.

However, review and followup of the exception reports was still not current at the time of our review, although the Service said it was adding staff in an effort to become current. Further improvements are needed in the computerized accountability system to make the exception reports more usable in monitoring agent accountability.

Enforcement of the penalty provisions of the yet to be implemented Emergency Food Stamp Vendor Accountability Act (Public Law 94-339, 90 Stat. 799), approved in July 1976, could help bring about some needed improvements in agent operations.

We have expressed to Service officials our reservations regarding the Service's planned implementation of an "electronic fund transfer system" as a means of improving the monitoring of agent accountability for food stamp collections and getting the money to the Treasury quicker. Our concerns are discussed in a separate section of this chapter.

DEPOSIT INFORMATION PROVIDED TO STATES

The first major change in the accountability system since the Department found that misappropriations of funds had occurred was made in January 1976 when the Service began preparing and supplying the States with monthly confirmed deposits lists showing all food coupon remittance cards (deposit cards) processed by Federal Reserve Banks during the month. The lists are prepared about the 17th of each month and cover the previous month's deposits. The lists show the agents' identification numbers, the serial number for each food coupon remittance card, the amount of each deposit, and the dates the deposits were sent and processed. Service officials stated that the production and distribution of the confirmed deposit listings was initated as a "stop gap" measure and that the quality of information in the report was questionable in some cases because of the problems the Service was experiencing with some of the Federal Reserve Banks in keypunching the correct dates into the remittance cards.

The States are supposed to use the confirmed deposits lists to verify deposits reported by their agents and to monitor agent depositing patterns. Any errors in the agent accountability reports are to be reported to the appropriate regional office. However, the confirmed deposits lists do not reach the State agencies until 3 weeks or more after the accountability reports are required to be submitted to the Service. Consequently, the States that are using the lists to verify agents' deposits can do so only after the accountability reports have been submitted to the Service.

Missouri has overcome this problem by requesting that its two Federal Reserve Banks send it lists of confirmed deposits directly so that State personnel can verify reported deposits before forwarding accountability reports to the Service. One Bank submits these lists daily; the other, weekly.

Michigan and Illinois started using the confirmed deposits lists to verify agent deposits, but Massachusetts was using the lists to verify the deposits of only its 20 to 30 largest agents. New York and Pennsylvania were not using the confirmed deposits lists at all.

State personnel in New York contended that the lists were not reliable for verification purposes. Their contention was based on a State evaluation of a prior confirmed deposits list which disclosed deposits missing from the lists and errors in reported amounts. Because the State believed that the deposits lists were not reliable, it did not send them to the area offices for their use. We did not check the deposits lists for New York; however, our work in Missouri indicated that the list for that State was reasonably accurate, complete, and not difficult to use.

State officials in New York, Pennsylvania, and Massachusetts--which are not making full use of the deposits lists--said that they did not have enough staff to closely monitor and verify agent deposits and other aspects of accountability.

USE BEING MADE OF THE SERVICE'S COMPUTER-PRODUCED REPORTS

The current operation of the accountability system at the Federal level is basically the same as described in chapter 2--but with some improvement. According to the Service, it is receiving more of the monthly accountability reports earlier and therefore its computer-produced management reports contain fewer unmatched items and are more usable for verifying and monitoring some aspects of agent accountability.

The cash reconciliation report printed in August 1975, which showed cumulative information for fiscal year 1975, listed about 260,000 unmatched items representing $1,304,580,000 in food stamp receipts. A year later, the cash reconciliation report printed in August 1976, which showed cumulative information for fiscal year 1976, listed about 110,000 unmatched items representing about $751,000,000 in food stamp receipts. Although the Service is reportedly giving increased attention to obtaining agent accountability reports earlier than before, we were unable to obtain evidence showing just how much sooner the Service was receiving such reports. Timely receipt of these reports could reduce the number of unmatched items shown on the Service's exception reports.

Available Service reports showing the receipt of accountability reports covering June through November 1976 indicated that over 95 percent of accountability reports were being received within 3 months following the report month. However, as few as 4 percent were being received by the 20th of the month following the report month--as required by Service regulations. Greater efforts obviously must be made in this regard.

In October 1976 Service staff responsible for reviewing cash reconciliation detail reports told us they were investigating all exceptions on the reports. The staff is also billing the States for (1) deposits reported by agents on their accountability reports but not reported as received by the Federal Reserve Banks and (2) deposits confirmed in amounts less than amounts reported on the accountability reports. The investigation of all exceptions became feasible because the number of invalid exceptions on the cash reconciliation reports had been reduced, and the size of the Service staff working in this area had been increased. However, most exceptions on the report are still invalid, and further improvments are needed to make the reports more useful.

SERVICE ATTEMPT TO INCREASE STATE REQUIREMENTS

On May 7, 1976, the Service issued regulations--halted by a court order--that would have placed more requirements on the States for agent accountability and would have decreased the Federal role. The regulations, which would have been effective on June 1, 1976, required that

--the State reconcile coupon inventories and issuances, the monies collected from eligible households, and other receipts, on a monthly basis; report the results of these reconciliations to the Service monthly in the form of a consolidated accountability report; and stop sending individual agent accountability reports to the Service;

--all receipts from coupon sales be promptly deposited, in accordance with Service instructions, to a State bank account maintained solely for this purpose; each day the State would send all of the previous day's deposits to the Federal Reserve Bank for credit to the Treasury;

--the Service monitor coupon inventories and shipping activities by maintaining records of shipping and inventory changes; also, the Service would supplement this monitoring by periodic, unannounced on-site audits of selected agents;

--the State agency not contract with any agent for the issuance of food coupons until the State and the Service agree on the selection.

Under these regulations, agents would have submitted accountability reports directly to the State which would verify and reconcile each agent's report and satisfy itself that reported deposits had been made. These reports would have then been consolidated into one State summary accountability report which would be submitted to the Service. The regulations would also have required each State to establish a system capable of validating agent reports and ensuring the propriety of agents' actions with respect to cash deposits and coupon inventory.

These revisions, the Service contended, would have ensured the direct supervision of agents by the States, and limited the Service's activities to evaluating States' performance and reconciling the consolidated accountability reports. During its regular audit cycle, the Department's Office of Audit would have made on-site audits of the agents' operations and reviewed the States' systems. Service officials believed that requiring the States to do more regarding issuance agent activities would more closely match the intent of the Food Stamp Act of 1964 and implementing regulations which assign States the responsibility for administration of the program, including performing certification and coupon issuance functions and ensuring that such functions are performed correctly. Service officials view their role as establishing uniform regulations and instructions for program operations and for ensuring that States carry out their administrative responsibilities.

Many State agencies and interest groups were opposed to the proposed program revisions--including the change dealing with agent accountability. The major issue raised by the States and others concerned the higher costs of implementing the revised procedures and the administrative burden the new procedures would place on the States.

On May 28, 1976, a U.S. District Court issued a temporary restraining order to prohibit the revised food stamp regulations from going into effect on June 1, 1976, as scheduled. The order resulted from a lawsuit filed by 26 State agencies, 73 individual households, and over 100 interest groups. The court later issued a preliminary injunction against these revisions and the Department subsequently rescinded them.

We have some difficulty with the proposed accountability changes because it seems that the changes would place a much greater burden on the States--which generally have not been able to cope with their accountability problems in the past and cannot do so now. We believe it would have been better for the Service to make a greater effort to make its computerized system work better and furnish the States with useful exception-type reports that the States could look into and resolve with their limited resources.

The automated system the Service has been operating seems to be a reasonable approach to monitoring issuance agent accountability through analysis of the vast quantities of data that are involved. The Service's system needs to be improved and the reports generated by the system effectively used by both the States and the Service. Needed improvements to the system would involve mainly the reduction or elimination of invalid exceptions on the exception-type reports. As discussed in chapter 2, there appears to be a multitude of small problems causing invalid exceptions, but the presence of these problems does not negate the basic soundness of the system.

The Service should, on a priority basis, systematically investigate and correct the causes of invalid exceptions appearing on its reports and make the reports more useful for monitoring agent accountability.

EMERGENCY FOOD STAMP VENDOR ACCOUNTABILITY ACT

On July 5, 1976, the Congress enacted the Emergency Food Stamp Vendor Accountability Act of 1976. This law amends the Food Stamp Act of 1964 to strengthen the accountability procedures applicable to issuance agents. It requires agents to notify the State at the time they deposit food stamp sales proceeds in Federal Reserve Banks, and it imposes penalties in the form of dollar fines and/or imprisonment for

--not providing the State agency with the required notification of deposit or doing so falsely;

--not submitting accountability reports as required;

--not submitting food coupon inventory reports as required;

--falsifying any of these required documents;

--not depositing food stamp receipts in accordance with Service instructions;

--misappropriating food stamp sales receipts; and

--not using the appropriate procedures for the delivery, custody, care, and storage of food coupons.

On January 7, 1977, the Department published proposed revisions to the food stamp regulations designed to implement the requirements of the accountability act. The proposed revisions (1) specify State and agent responsibilities for the handling of food coupons and cash receipts, (2) establish standards for State monitoring of agent coupon inventories, (3) specify that agents are fiduciaries of the Federal Government, (4) provide that food coupon receipts are Federal funds, and (5) restate the criminal sanctions imposed by the accountability act, and (6) provide for withholding the payment of fees to delinquent issuance agents.

While some sections of the proposed revisions are to become effective upon final publication of the regulations, Service officials told us that other sections, including those dealing with State monitoring of agents' food coupon sales activities, would be implemented by October 1, 1977--the scheduled date for the implementation of the Service's proposed telecommunications system for handling food stamp receipts. This system is discussed in the following section.

PROPOSED IMPLEMENTATION OF TELECOMMUNICATIONS SYSTEM FOR HANDLING FOOD STAMP RECEIPTS

The Service is planning to implement by October 1, 1977, a nationwide telecommunications system to improve cash depositing and reporting. Service officials provided us with an evaluation that compared the present food stamp cash depositing system with the proposed system. According to Service officials, the decision to go ahead with the proposed system was based partly on this evaluation.

From our review of the Service's evaluation and the additional information received from Service officials, we have serious concerns about the Service's justification of the proposed system. We are concerned because the Service had not adequately analyzed the proposed system's potential costs and benefits. Also, the Service had not adequately developed and analyzed the costs and benefits associated with other management alternatives and had not displayed such information in its proposal of an approach for improving controls over food stamp receipts.

A third concern stems from the fact that some Members of the Congress and the Secretary of Agriculture are seriously considering elimination of the purchase requirement for food stamps. If this is done, there would be no need for any kind of cash depositing system for food stamp receipts.

Background

A Service official told us that in June 1975, the Service's Administrator asked for a study of ways of getting food stamp sales receipts into the Treasury quicker. The Administrator, being familiar with a firm that had expertise in the field of electronic funds transfer systems, suggested that Service officials meet with the firm's representatives and discuss the possibility of devising a system that would facilitate food stamp funds flowing into the Treasury as quickly as possible.

The discussions resulted in a pilot test of the proposed telecommunications system at selected project areas in Georgia, California, and Tennessee beginning March 1, 1976. During the test the regular depositing system was discontinued at the test sites and was replaced by the telecommunications depositing and reporting system. Service officials told us that the test system operated successfully.

Under the telecommunications depositing system

--each agent will deposit cash receipts from coupon sales in a special account in a local bank;

--immediately following the last deposit for the day, the agent will telephone a contractor-operated data collection center on a toll-free line giving its identification number and the amount of the day's deposits;

--the contractor employee taking the call will enter into a computer the agent's identification number and the total of all deposits made during the day;

--once a day, the data collection contractor's computer will communicate all deposit transactions reported as occurring that day to computers located in "concentration banks" (commercial banks that will maintain automated records and accounts of food stamp sales receipts deposited at the local banks);

--based on information received from the data collection center, concentration banks' computers will prepare daily depository transfer checks drawn on the special accounts in the respective local banks (it will be required that the local bank accounts be used only for depositing food stamp receipts and that the funds deposited be withdrawn only through a depository transfer check from a concentration bank); and

--after depository transfer checks are processed through normal banking channels and the food stamp funds are transferred from the local banks to the concentration banks, the concentration banks will wire a net amount through the Federal Reserve System's communication network for credit to the Service's account with the Treasury.

The plan is that, barring any hitches, food stamp receipts will be deposited into the Treasury within 3 days of the agents' notifications to the contractor--depending on how quickly the depository transfer check is processed through regular banking channels.

Issuance agent procedures

Each agent is to continue to maintain a food coupon remittance register showing all monthly deposits made. Under proposed procedures, however, each issuance agent will be required to reconcile its sales and deposit activity each month before submitting its accountability report to the

State. Service officials have said that this is one of the most important benefits of the proposed system. The procedures the agents used during the pilot test and will probably use if the system becomes operational are summarized below.

Each agent will receive a receipt when it makes a deposit in the special account in its local bank, as well as a monthly bank statement listing all deposits and all the concentration bank's withdrawls from the account. The agent is to compare the local bank statement with the deposit receipts and with the remittance register to ensure that proper credit has been given for all deposits. Any discrepancies are to be resolved with the local bank.

Each agent will receive a monthly listing showing all deposit calls made by the agent. The agent will be required to compare the deposit call listing with the remittance register and the bank statement to ensure that the deposit call listing is correct and that a withdrawal in the correct amount is listed on the bank statement for each deposit call shown on the call listing.

If all these documents (i.e., deposit receipts, local bank statement, food coupon remittance register, and deposit call listing) agree, the agent is to certify that the deposit call listing is correct and attach it to the monthly accountability report.

Under the Service's proposed regulations implementing the requirements of the emergency accountability act (see pp. 23 and 24), agents, immediately after depositing food stamp receipts, are to send the State a written notification of the deposit and a copy of the deposit document and the transacted authorization-to-purchase cards supporting the deposit.

State monitoring

Service officials explained that the emergency accountability act requires that the States be given a mechanism to monitor the depositing activities of their agents. The deposit information the States will receive under the proposed system will enable them to do this.

Under the proposed system, the States will receive weekly and monthly computer printouts showing agent deposit activities. The weekly printout will include information on all depository transfer checks issued for each agent. Each month the States will receive a master directory containing information on agent deposits, depository transfers, and amounts wired to the Treasury. The States will also receive for verification and forwarding to the Service, a monthly accountability report from each agent.

Service officials said that they will expect the States to monitor their agents' depositing patterns by using the weekly printouts. However, because it may be difficult to try to establish an agent's depositing pattern from a single week's activity, the States probably will have to manually analyze more than one weekly printout at a time--looking at every issuance agent to see if a pattern of irregular depositing develops. For most States, monitoring agents this closely will probably require significant additional resources. As stated earlier some of the State officials we spoke to indicated that they could not properly implement the present accountability system because of a lack of staff. However, Service officials stated that State agencies have been introduced to the concept of the telecommunications system and that it was regarded favorably in the majority of instances.

Service monitoring

The Service's headquarters staff will receive a copy of every deposit listing that the States receive, plus some additional daily listings. The Service also will receive a monthly accountability report for each issuance agent. The daily reports will provide information on (1) telephone calls received by the contractor on agent deposits, (2) depository transfer checks prepared, (3) funds transferred from the local banks to concentration banks, (4) funds wired to the Treasury, (5) depository transfer checks returned for insufficient funds, and (6) the concentration banks' verifications of the deposit telephone calls received and reported by the contractor.

Service officials said that the headquarters staff will monitor the above management reports on a daily basis and resolve any exceptions. On a monthly basis, the staff also will compare (by computer) the deposits shown on agents' accountability reports with the actual deposits reported as being received by the concentration banks. Any unmatched items will be printed out as exceptions that will have to be checked. The Service will bill the States for any shortages found.

Questions on justification for new telecommunications system

In June 1976 the Service established an evaluation team to study the results of the telecommunications depositing system pilot test and to prepare written findings and recommendations on whether to adopt the system nationwide. The evaluation team consisted primarily of Service personnel and also included representatives from the Department of the Treasury and Office of Audit. The evaluation team issued its findings in July 1976, and in August 1976 the Service decided to implement the system nationwide by October 1977. Service officials stated that the evaluation team's report was the only documention available to support the decision to go ahead with this system.

The evaluation report stressed that, although the operating cost of the proposed system would be a little more than that of the present system, the proposed system would result in an overall net savings to the Government of about $527,000 a year because of reduced Treasury interest costs. This amount was later raised to about $3.4 million.

Cost and other considerations

The evaluation report contained the following comparison of estimated annual operating costs of the present depositing system versus the proposed telecommunications system.

Present System

Function	Estimated cost
Direct automated data processing by the Service	$421,000
Service staff resources for automated data processing	123,000
Cash data input and monitoring by the Service	195,000
Services of Federal Reserve Banks	179,000
Total	$918,000

Proposed System

Function	Estimated cost
Direct automated data processing by the Service	$ 52,000
Service staff resources for automated data processing	22,000

Function	Estimated cost
Service monitoring	75,000
Services of contractor (including startup)	632,000
Services of concentration banks	196,000
Total	$977,000
Operating cost difference	$ 59,000

We asked Service officials on several occasions for the details supporting the above cost estimates but were not provided with any. At various times we were told by Service personnel that a documented basis for the estimates was not available. Service officials later told us that they could better determine estimates for the proposed system once the contractor bidding was completed. We told Service officials that, in the absence of supporting documentation, we could not be satisfied that their estimates were reasonable. We noted that some of the figures for the proposed system seemed low--such as the $22,000 for Service staff resources for automated data processing.

Office of Audit representatives also expressed some concern about the reliability of the Service's cost estimates and have undertaken a review of the Service's proposal.

After our review work had been completed and our report drafted, Service personnel told us that they had found documented support for the cost estimates in the evaluation report, and they furnished us with copies. Rather than going back and making a detailed analysis of this data, we furnished a copy to the Office of Audit staff that is reviewing the Service proposal.

We asked Service officials what management alternatives they had considered in evaluating the possible use of a telecommunications funds transfer system. Officials told us that they had discussed among themselves on several occasions various alternatives to the present cash monitoring system, but that no detailed evaluative or cost-benefit studies of them had been made. A Service official said that it seemed futile to waste time and money for studies on other alternatives when the proposed system seemed so much superior. It seems to us that a judgment as to such superiority should be based on a consideration of all pertinent factors--including cost-benefit analyses of various management options.

Service officials recently prepared and provided us with a document describing some system alternatives they had considered in the last year or so. However, the information was not based on comparative studies of management advantages versus disadvantages, and economic benefits versus costs. Moreover, pertinent details of such alternatives had not been included in the proposed package advocating implementation of the telecommunications system.

Service officials told us that, in deciding to implement the telecommunications system nationwide, overall cost savings was not the most important factor. They said that they would achieve better control over food stamp sales receipts with the proposed system and that this was the most important consideration in making the decision. According to the officials, the improved control would result from getting accurate and complete information on agents' deposits more quickly.

Additional non-cost considerations shown in the Service evaluation report were based on a scoring of the two systems in terms of (1) the timeliness and usefulness of cash deposit information, (2) the accuracy and reliability of deposit information, and (3) the adaptability of the proposed system to current operations as well as to the new regulations implementing the Emergency Food Stamp Vendor Accountability Act.

Unfortunately, these considerations were weighed only in the context of the proposed system versus the existing system. They were not systematically applied to other management alternatives that might achieve improved cash flows and better system controls--for example, the possibility that the present system could be modified to require agents to deposit collections in local banks regardless of whether the telecommunications system is used.

Consultant's critique

A Department consultant critiqued the Service's evaluation of the proposed telecommunications system. He criticized the cost estimates cited in the evaluation as unsupportable and said that there was no evidence showing how the costs were derived and what sources were used to supply the data. He noted that cost estimates should have been developed for all alternatives and should have been identified by more detailed categories, such as personnel costs (Federal, State, and local), communications costs, training costs, etc.

The Service's estimated savings of Federal interest costs was criticized on two counts. First, it is questionable whether, given the present nature of banking systems, the proposed telecommunications system could increase the speed with which funds are transferred to the extent the Service claims. Second, the Service did not study the alternative of modifying the present depositing system to speed up the cash flow process. The consultant pointed out that, if the Service's primary objective is to reduce interest costs to the Government, it may be cost-effective to implement alternative changes to the present system. He noted that Service officials should have been more specific in describing the goals they hoped to achieve and how such goals related to their problems with the present cash depositing system.

The consultant's report concluded that, although the telecommunications system may be the most cost-effective approach for handling food stamp transactions, the Service evaluation report did not present sufficient economic analysis evidence to support the proposed telecommunications system over the present system. The report noted that appropriate techniques of economic analysis were not followed; therefore, it was not possible to make an evaluation which was consistent with Federal and Department guidelines for performing benefit/cost analyses of automated data processing procurements.

The report recommended a more detailed benefit/cost analysis of the proposed system, including specific discussion relating to

--the goals and objectives to be achieved;

--management alternatives, including upgrading of the present system;

--explicit identification of all assumptions;

--identification of the expected system life and a detailed breakdown of all system costs for personnel, hardware, software, communications, overhead items, maintenance, and all Federal, State, and local costs associated with the alternatives;

--analyses of the major elements of cost, such as personel costs, software costs, and hardware costs;

--analyses of the contingency of eliminating the purchase requirement for food stamps; and

--finally, a more detailed analysis of the interest cost savings resulting from implementing the telecommunications system.

Possible elimination of the food stamp purchase requirement

Bills have been introduced in the Congress with provisions to eliminate the purchase requirement for food stamps. On April 5, 1977, the Secretary of Agriculture stated that the cornerstone of the President's food stamp proposal was the elimination of the purchase requirement. The Administration's proposal is to calculate food stamp benefits as though a 30-percent purchase price were in effect but to eliminate the cash requirement and provide the benefit amount in food coupons. The Secretary stated that eliminating the purchase requirement would reduce administrative costs and the possibility for abuse by issuance agents that had occurred in the past.

If the purchase requirement for food stamps is eliminated, there would be no need for any cash depositing system for food stamp receipts.

CONCLUSIONS

Some improvement has been made in the issuance agent accountability system--but not enough. The reduction in the number of unmatched deposits on Service exception reports has enabled the Service to make good progress toward becoming current in its monitoring of agent accountability, but more needs to be done to increase report reliability and to identify and resolve exceptions.

Service proposals for system changes seem directed toward placing greater requirements on the States and reducing the Service's involvement in monitoring agent accountability. The Service believes that this is the proper direction to take if Service responsibilities are put in their proper perspective--that of reviewing States' program operations to ensure that they are being carried out properly. We believe, however, that because of the Service's nationwide organization, experience, resources, and computer capability, it makes more sense to have the service retain a major active role in accountability monitoring--to uniformly handle, screen, process, and present in analytical management reports pertinent information that can be used at the Service headquarters and regional levels and at the State and project levels to identify, investigate, and correct problem situations.

The Service has not adequately justified the need to implement a nationwide telecommunications depositing and reporting system as is proposed. In addition to some uncertainties about Service-estimated costs, the Service had not adequately studied possible alternative methods for improving the deposit and monitoring of food stamp receipts such as requiring agents to deposit food stamp sales proceeds daily into special accounts in local banks from which daily transfers would be made to the Federal Reserve Banks. Also, specific consideration is needed of the possibility that the food stamp purchase requirement may be eliminated--thereby eliminating the need for any depositing system.

Any proposals for improving the accountability system should take into account the problem of getting adequate resource input from the States to make the system work. Merely saying that it is now up to the States to do the job probably will not accomplish much. What is needed is a good working partnership arrangement in which the Service and the State would carry out the respective functions each is best suited to do, and interchange data and assistance as needed to get the job done.

Getting accurate and timely accountability reports is the key to the whole system. Vigorous implementation of the Emergency Food Stamp Vendor Accountability Act, which should help accomplish this, should not be delayed any further.

The Service said that it agreed that the strict enforcement of the Emergency Food Stamp Vendor Accountability Act would be a tremendous aid in enforcing reporting requirements. It also said that the Service can refuse to pay the Federal share (50 percent) of a State's administrative costs of operating the program if the accountability reports are inaccurate or not filed on time. Seven formal warnings of the Service's intention to cancel such administrative funds have been issued and compliance obtained.

CHAPTER 4

ACTION TAKEN BY THE DEPARTMENT TO IDENTIFY AND RECOVER MISAPPROPRIATIONS

The Department's Office of Audit, in its regular reviews of State and local food stamp project offices since 1969, had reported to the Service that misappropriations of food stamp sales proceeds could occur and remain undetected for extended periods because of the weaknesses in the issuance agent accountability system discussed in chapter 2. During fiscal years 1969 through 1975, the auditors reported 427 instances of late depositing by agents. Included were cases in which agents had received interest on food stamp sales proceeds between the time they received the funds and the time they deposited them in Federal Reserve Banks. A 1973 audit disclosed that at least 12 of 18 food stamp issuance agents in one county were late depositors; three of them had earned interest income amounting to $46,695.93 from investing food stamp cash receipts during the deposit delay period.

The Office of Audit, based on Servicewide accountability reviews in 1969 and 1971, reported serious weaknesses in cash and coupon accountability controls exercised by the Service's finance division. The 1971 report pointed out that the weaknesses had permitted undeposited cash collections to remain undetected since fiscal year 1968 and cited examples of over $600,000 in collections for which verification of the deposits had not been received. The report also pointed out that since fiscal year 1966, the Service had not reconciled the coupon inventory values on its records with those reported by agents.

With the assistance of a management consultant firm, ~~the~~ implementation of an automated accounting system in 1971, additional staffing, and the issuance of accountability instructions, the Service attempted to improve accountability over program cash and food coupons. As discussed in chapter 2, however, this effort was not successful.

In October 1975 the Department's auditors discovered, during a routine audit, that an agent had misappropriated over $2 million in food stamp receipts. This triggered an intensive review in 1975 and early 1976 by the auditors to identify agents not following the Service's depositing requirements. This review showed that about $6.5 million in food stamp sales proceeds had not been deposited and that about $27.7 million had been deposited later than permitted. Substantial amounts of these missing and late deposits were used by some agents for their own purposes, and these agents have been prosecuted or are being considered for prosecution. About $2.3 million in missing deposits has been recovered.

The Service and States are trying to correct agents' late depositing practices through direct contacts with the late depositors and through subsequent monitoring of their depositing practices. However, a followup review by the Department's auditors showed that in July 1976 there were late deposits of $13.5 million.

INTENSIVE REVIEW OF FOOD STAMP ISSUANCE AGENTS BY DEPARTMENT AUDITORS

After discovering during a routine audit that an issuance agent had not deposited about $2 million in food stamp sales proceeds, Department auditors in October 1975 made a quick review of exception reports produced by the Service's headquarters' computerized accountability system and other documents to identify other agents with large ($100,000 and over) discrepancies between amounts and/or dates of deposits shown on their accountability reports and the deposit information reported by Federal Reserve Banks. This brief review identified 17 additional agents with large discrepancies, and subsequent on-site audits of the agents showed $3.2 million in missing deposits and $3.6 million in late deposits.

Based on these preliminary findings, the Office of Audit undertook a comprehensive review of agents' accountability in January 1976 to identify all cases of missing and late deposits. This review, described in more detail below, consisted of two phases: an overall screening process at Service headquarters to identify agents that appeared to have discrepancies in their accountability, and a series of complete on-site audits of agents identified in the headquarters screening to establish whether there were misappropriations and in what amounts.

This review covered the period July 1, 1974, through December 31, 1975. Information prior to July 1974 either had not been entered into the computer or had been entered and lost. The Service plans to enter this data into the computer, after which, the auditors plan to review it for potential cases of nondeposit. Also, the auditors began a Servicewide accountability review in February 1977 which will cover the period since December 31, 1975.

Some of the same agents identified as late depositors between 1969 and 1975 were again identified as late depositors in the accountability review made in 1976. For example, a 1971 audit identified as late depositors 33 of the 188 agents found to be late depositors in the review made in 1976. One of these agents had a cash shortage of $106,000 in 1971 and a shortage of $137,000 with late deposits of $45,000 in 1976.

Procedures used to identify misappropriations

The Department's auditors began their headquarters screening process by reviewing the October 1975 cash reconciliation report which contained about 125,000 unmatched items for fiscal year 1975. The auditors also used the master directory of issuance agents, the listing of missing and/or invalid accountability reports, and the irregular deposits report.

In early 1976 there were about 6,700 agents, but the auditors' overall screening process excluded the activities of (1) the 2,100 agents that were post offices and (2) the 314 agents in Vermont, Connecticut, Puerto Rico, and the Virgin Islands. Post offices were excluded because the Office of Audit, based on its assessment of Postal Service procedures and discussions with Postal Service officials, determined that postal controls for food stamp receipts were reasonably effective and a special screening and review by the Department would be unnecessary. The four States and Territories were excluded from the initial effort because most of the accountability reports for their agents had not been received. In a subsequent review of the accountability of issuance agents in the Virgin Islands, the Office of Audit reported, on December 6, 1976, that cash receipts from food stamp sales were deposited weekly rather than daily as required; no missing deposits were reported. In February 1977, the auditors began a follow-up, Servicewide review of the accountability of issuance agents which included Vermont, Connecticut, and Puerto Rico, but the reports had not been issued as of May 26, 1977.

Regarding the exclusion of post offices, we noted that Service efforts to identify late and missing deposits in fiscal year 1976 showed no significant problem with late 1/ or missing post office deposits. Our review of computer exception reports for three States having the largest number of post office issuance agents in fiscal year 1976 supported the Service's findings in this regard. Aslo, our review of audit

1/ Post offices have different depositing requirements than other issuance agents. They have to deposit food stamp proceeds only twice a month--around the middle and end of the month.

reports issued by the Postal Service's Inspection Service showed no irregularities in the handling of food stamp receipts.

We believe the auditors developed and followed a pratical and effective screening system as described below.

In reviewing the cash reconciliation report, the auditors' primary objective was to identify missing deposits. Many of the unmatched items in the report could be manually matched with other unmatched items in the report through the serial number of the food coupon remittance card and/or the date and amount of the deposit. Other unmatched items were considered matched if the totals were the same. For example, if the total of several deposits reported by a Federal Reserve Bank was the same as one deposit shown on an agent's accountability report, this was considered a match. After matching as many of the previously unmatched items as they could, the auditors reviewed accountability reports, confirmed deposits reports, and other available documents which might shed further light on the items they were unable to match.

For agents with unmatched confirmed deposits for which the Service had no monthly accountability reports on file, the auditors computed the average monthly deposit from the accountability reports on file for earlier and later months and compared this average with the monthly average of the unmatched confirmed deposits on the report. If the computed averages were fairly close, no further check was made. Unresolved unmatched items were referred for further action to the Service or to the Office of Audit regional offices.

A potential shortage was considered if the non-reporting/invalid accountability report showed missing or invalid reports for an agent which had no unmatched confirmed deposits shown on the cash reconciliation reports for certain months. The master directory of agents showed all authorized agents and the dates of their participation and termination; it was useful in establishing that agents should be depositing food stamp receipts.

Although some late deposits were identified in carrying out the preceding steps, the auditors also did other audit work specifically designed to identify late deposits. This began with a review of special computer listings of deposits (as reported by Federal Reserve Banks) for each agent for July through December 1975 showing the dates the agent reported sending deposits to a Federal Reserve Bank, the dates the Bank processed the deposits, and the amounts of the deposits. The auditors looked for (1) deposits for which the two dates were more than a week apart, (2) agents making deposits less than once a week or making four or fewer deposits a month when the deposits were $2,000 or more each, and (3) large volume agents who should have, but did not, deposit daily. The auditors also identified additional late deposits by reviewing an irregular deposit report covering the period July through November 1975.

For agents identified as depositing late, the auditors reviewed available accountability reports to further establish the agents' depositing history. Large deposits ($10,000 or more) which were classified as being significantly late (processed by the Federal Reserve Banks 10 or more days past the end of the month in which they should have been deposited) were referred to the Office of Audit regional offices for full field audits. The other, less serious cases were referred to the Service for administrative followup.

The auditors' headquarters screening process identified possible missing or late deposits for 1,320 agents/locations (including the 17 identified in late 1975). Of these, 1,054 were not considered serious and were referred to the Service for administrative action. They included 975 agents/locations involving late deposits of about $6 million and 79 agents/locations involving missing deposits of about $64,000. All of the 79 cases involved banks or local government agencies, and all but one were under $2,000. Initially, the auditors considered 266 cases (1,320 less 1,054) to be serious but later dropped 77 based on further review work at Service headquarters. The remaining 189 were subjected to full on-site audits.

An additional 184 field audits were made of agents which were currency exchanges, check cashers, or other private, non-bank agents which, although not surfacing during the headquarters screening process, were considered by the auditors to be more apt to have accountability problems. Nine of the 184 were located in the 4 States and Territories not included in the screening process.

The field audits covered the agents' accountability from March 1975, when a new coupon series went into effect, to the dates the audits were made--generally in the early spring of 1976. The audits included physical counts of coupon inventories and cash on hand, verification of deposits shown on accountability reports, and verification of coupon shipments.

The field audits showed that 67 agents had serious depositing irregularities involving missing deposits of about $6.5 million, late deposits of about $18.8 million, and food stamp coupon inventory shortages of about $130,000. The audits also identified 85 additional agents with less serious late-depositing practices (involving about $2.9 million).

Recovery and followup actions

Of the 67 serious cases identified through field audits, 50 were referred to the Department's Office of Investigation because violations of Federal criminal laws were suspected. The other 17 cases, along with the 85 less serious cases, were referred to the Service for administrative action.

According to the latest information we could get from the Office of Investigation (October 1976), investigations had been completed in 30 of the 50 referred cases. Eighteen of the 30 cases were referred to the Department of Justice for prosecution; prosecution had been completed in 4 cases (with 4 convictions); and indictments had been returned in 2 more cases. The remaining 12 cases were being considered for prosecution by the Department of Justice.

The remaining 12 cases, for which the Office of Investigation had completed its investigations, were referred to the Service for administrative followup because the Office of Investigation determined that there was not sufficient evidence of criminal acts to warrant prosecution.

As of March 1977, about $2.3 million of the $6.5 million in missing deposits had been recovered. The Service plans to hold the States liable for all losses not ultimately recovered and has billed the States for $3.2 million in unrecovered losses. The remaining $1 million related to five cases which were under investigation, being considered for prosecution, or in the process of being billed. According to the Service, however, only 15 agents had been terminated--the others were allowed to continue handling food coupons and food stamp receipts.

After the auditors identified and reported specific cases involving late and missing deposits to the Service in February and March 1976, the Service referred the cases to the States (through Service regional offices)--naming the agents, describing the problems identified, and telling the States what actions were required. The Service's regional offices were to follow up to see that appropriate actions were taken by the States, with Service headquarters monitoring the regional offices' actions.

Except for the cases being prosecuted for criminal violations, the Service's efforts to recover missing deposits and to correct late depositing have basically consisted of trying to get the States to take action. If the States do not take appropriate steps, the Service can withhold the 50 percent Federal cost-sharing of State administrative costs of the food stamp program. Warnings (formal and informal) have been sent to some States in this regard.

It took the Service's regional offices a month or more to notify the States of specific cases of late and missing deposits. It then took the States as much as a month or more to notify the agents involved and to initiate corrective action.

Service officials told us that, although overall statistics were not available, relatively few agents were terminated as a result of the Service's referrals of cases to the States in the spring of 1976. They said that maintaining service to program recipients could be a problem if noncomplying agents were terminated, and the States had trouble in some areas finding other organizations or businesses willing to act as agents. For this reason the States generally preferred to work with agents to try to get them to improve their depositing practices, rather than trying to find new agents.

In June 1976 the Service surveyed 1,000 agents having the largest volume of deposits from July 1975 to May 1976 and, using a computer printout showing depositing irregularities, found 55 agents with serious depositing deficiencies. The cases were forwarded to Service regional offices for further checking and referral to States for action to ensure the correction of serious noncompliances. As of March 1977, compliance had been obtained in 53 cases; problems had not been resolved in the other 2 cases.

In August 1976 the Service surveyed all 6,500 reporting agents and identified about 1,000 agents with questionable practices. These were referred to the regional offices for further review.

Also, in August 1976 the Service started taking firmer actions to obtain compliance with depositing requirements. These actions included on-site visits to the problem agents and warnings to States that administrative funds would be withheld if late depositors were not brought into compliance.

In October 1976 the Office of Audit completed a followup review of the previously identified problem cases involving late deposits, missing deposits, or coupon shortages. Based on agent depositing practices in May and July 1976, the auditors found that Service followup action on missing deposits was generally satisfactory but that corrective action on agents with late deposits was not fully effective because of State delays and inadequate efforts by Service regional offices. Earlier that year the auditors had identified about 1,100 agents making late deposits of $27.6 million. Of these, about 850 were still making late deposits amounting to $15.3 million in May 1976, and 750 were making late deposits of $13.5 million in July 1976.

SERVICE ANALYSIS OF CASH RECONCILIATION REPORTS AND SETTLEMENT OF CASH DEPOSIT DISCREPANCIES

In addition to following-up on agent depositing irregularities identified by the Office of Audit and its own special surveys, the Service has been trying to get up-to-date in resolving prior years' cash reconciliation exceptions. As of May 1977, the Service had completed its analysis of cash reconciliation reports for 50 States, Guam, the Virgin Islands, and the District of Columbia for fiscal year 1975. Work had not been completed on Puerto Rico. For fiscal year 1976 and the transition quarter, the Service had completed the analysis of cash reconciliation reports for 50 States, Guam, the Virgin Islands, and the District of Columbia. Work had not been completed for Puerto Rico.

Service officials told us they plan to begin analyzing the cash reconciliation reports and the inventory reports to detect cash and inventory shortages for fiscal year 1977 as soon as the prior 2 years are completed. For periods before fiscal year 1975, the Service has contracted with a private firm to reconcile cash and coupon shortages from fiscal year 1971 through the first half of fiscal year 1974. (See pp. 43 and 44.) Service officials have not yet decided whether the Service's own staff or a private contractor will handle the accountability analysis needed for the last half of fiscal year 1974.

Billing the States for cash and coupon shortages

The Service is billing the States for any coupon or cash shortages it discovers in analyzing the computerized management reports. However, because of errors in the management reports and the agents' continued failure to submit their accountability reports on time, the billings are often in excess of the actual amount the State may owe the Federal Government. Therefore, once a State receives a bill, it is allowed to produce any late or missing accountability reports, deposit documents, or other evidence which would rebut the indicated shortages. If the State can produce these documents and account for the missing money or inventory, the Service will reduce the bill accordingly.

The status of the Service's billing efforts is summarized below.

	Cash shortages		Coupon shortages	
	Number of States (note a)	Amount	Number of States	Amount
Fiscal year 1975				
No identified shortages	15	$ -	-	$ -
Shortages not determined	1	-	-	-
Shortages billed	38	3,442,931	54	11,765,410
Bills settled in full	9	21,421	6	60,847
Bills partially settled	3	10,490	16	210,960
Bills with no settlement	26	3,396,693	32	2,003,726
Fiscal year 1976 (note b)				
No identified shortages	12	-	-	-
Shortages not determined	1	-	-	-
Shortages billed	41	2,770,175	54	2,418,049
Bills settled in full	1	17	9	100,302
Bills partially settled	1	244	9	98,420
Bills with no settlement	39	2,741,186	36	1,513,499

a/ Includes District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

b/ Includes all of fiscal year 1976 and transition quarter for cash shortages; includes only first half of fiscal year 1976 for coupon shortages.

Reconciliation of food stamp cash receipts from fiscal year 1971 to January 1974

The Service has contracted with a private firm to reconcile receipts from food stamp sales for the period July 1970 to January 1974. Service officials told us that coupon issuance activity before fiscal year 1971 (July 1970) had previously been reconciled.

The deposit documents and accountability reports being reconciled by the contractor had not been entered into the Service's computer, were not in the computer files, and had to be converted to a computer-readable form before they could be reconciled. This required the conversion of about 230,000 accountability reports and 3.6 million remittance cards representing over $5 billion in unreconciled cash deposits. A Service official told us that this amount included about $660 million in food stamp sales deposits that was shown in the Treasury Department accounts as received from Federal Reserve Banks before January 1974 but not shown in the Service's accounts.

As of March 31, 1977, the contractor had completed an initial reconciliation covering 47 States and the District of Columbia. (Pennsylvania had operated under a different reporting system and will require special analysis. New Hampshire and Delaware were not yet in the program.) This effort entailed searching for and locating available accountability reports and cash deposit documents, entering the data into the computer, and matching related transactions. After the contractor reconciled each State's issuance activities, he gave the results to the Service's headquarters staff for final analysis and reconciliation. During this phase Service staff added any additional accountability reports and cash deposit documents that had been found.

As of April 1977, Service staff had reconciled transactions for 33 States and had accounted for all but $705,733 of those States' food stamp receipts for the period involved. Service staff must still reconcile the deposit information for the 16 remaining States, representing an unreconciled amount of about $10.2 million. After this is completed, the staff will make a final check with Treasury records to try to further reduce the outstanding amounts.

Service officials are trying to bring each State's unreconciled amount down to $250,000 or less, at which point Service officials will make a judgment on a State-by-State basis as to whether (1) further reconciliation efforts should continue, (2) the State should be billed for the unreconciled amount, or (3) the entire amount should be written off. Service officials believe such an approach allows them the flexibility to do what they believe would be in the best interest of the Government. As previously mentioned, the Service has not yet decided whether to analyze the last half of fiscal year 1974 in-house or turn it over to the contractor for completion.

CONCLUSIONS

The Department's Office of Audit had given early warnings of agent depositing problems in the food stamp program but the Service had not taken effective corrective measures. The problems continued until the Office of Audit's special work surfaced millions of dollars of agent depositing irregularities, including misappropriations of program funds.

The Office of Audit's special efforts to identify issuance agents which were significantly deviating from prescribed depositing procedures (other than agents in four States or Territories initially excluded) were reasonable and generally effective. However, the Service's followup actions on problem cases referred to it by the Office of Audit were slow in getting started and have not been fully effective in correcting late depositing by agents. Additional efforts, technical assistance to States, and perhaps firmer action with States are needed to get agents to deposit all food stamp sales proceeds on time. Application of the penalties provided for in the Emergency Food Stamp Vendor Accountability Act (discussed in ch. 3) against agents which are chronically late in depositing food stamp receipts, could go a long way toward helping to correct this problem.

Because of the difficulty the Service has had in getting agents to deposit on time, auditors should continue to periodically monitor this aspect of agents' operations until such time as late depositing ceases to be a significant problem.

Issuance agents which the States, the Service, or the Office of Audit identify as having problems involving missing food stamp receipts or food coupons, or significant late depositing practices, should be penalized and, if the problems continue, should be terminated from further participation in the program. If replacement agents cannot be obtained for terminated agents, local food stamp offices may have to assume the issuance function.

CHAPTER 5

RECOMMENDATIONS AND AGENCY COMMENTS AND OUR EVALUATION

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

To ensure that major changes in the present issuance agent accountability system are necessary and appropriate, we recommend that the Secretary require the Service to study, document, and display for management's consideration all pertinent factors--including administrative advantages and disadvantages, and economic benefits and costs--for any proposed system change and other possible management alternatives. The telecommunications system the Service proposes to implement this year is a case in point. A further consideration in planning major system changes is the possible elimination of the food stamp purchase requirement, which would eliminate the need for any cash depositing system.

We recommend that, before any major changes are made in the system for monitoring agent accountability, the Secretary require the Service to take into account the problems and additional burden this would place on the States and to help the States work out their problems.

To reduce the number of invalid exceptions on cash reconciliation and other reports and improve the reports' reliability and usefulness for monitoring agent accountability, we recommend that the Secretary require the Service to

--establish, on a priority basis, a special task force to analyze and correct the causes of invalid exceptions on Service management reports dealing with agent accountability;

--take all necessary measures to get agents to submit accurate and timely accountability reports--including immediate implementation and strict enforcement of the penalty provisions of the Emergency Food Stamp Vendor Accountability Act; withholding from noncomplying agents payments of their fees for food stamp transactions; and, insist that States terminate agents which continue non-compliance as a last resort;

--request Federal Reserve Banks to uniformly show, in any deposit data furnished the Service or States, the date they received each agent deposit, so that agent depositing patterns can be accurately identified;

--devise and implement a second (back-up) method of uniquely identifying each deposit made and relating it to the agent making the deposit so that errors in entering agents' primary identification numbers into the computer can be readily detected and corrected without extensive staff analysis;

--take adequate steps to ensure that agents are provided with adequate advance supplies of deposit forms, so that using borrowed or reproduced forms will not be necessary and will not add to the invalid exception problem;

--arrange to have Federal Reserve Banks convert the agent deposit data to be submitted to the Service to magnetic tapes to prevent physical loss of individual records and cards sent to the Service; and

--develop a new agent deposit form that will provide bank-receipted copies for use by States, the Federal Reserve Banks, and the agents.

The previously mentioned points are designed to help improve the present accountability system. Some, however, would not be applicable under a telecommunications depositing and reporting system as has been proposed by the Service.

Regardless of what changes are made in the accountability system, we recommend that the Secretary require the Service to

--provide the States and its regional offices with their respective sections of any management exception reports and other accountability-related reports prepared by the Service or others, so that monitoring of agent transactions can be facilitated;

--disseminate regulations on the respective responsibilities of the States and the Service, and provide specific instructions and procedures on how agent accountability is to be monitored by the States, Service headquarters, and Service regional offices, respectively;

--take steps to terminate agents which continue to have significant accountability problems involving missing deposits, late deposits, or coupon shortages;

--provide special help to States having the most serious problems in monitoring agent accountability; and

--ensure, through special reviews and day-to-day contacts by Service regional offices, that States and local food stamp projects are taking all necessary steps to monitor and verify agent accountability in a partnership arrangement with the Service and, if they are not, withhold program administrative funds.

To help ensure that necessary corrective measures are taken by the Service and that they work effectively, we recommend that the Secretary have the Office of Audit periodically monitor issuance agents' depositing practices and evaluate the adequacy of corrective measures taken by the Service and States.

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If the food stamp purchase requirement is eliminated (as discussed on p. 32), some of the steps recommended above will not be necessary because there will be no cash to deposit and account for. However, the accountability system also covers the monitoring of accountability for food coupons--which are almost like cash--and the need for coupon accountability and its monitoring will continue even if the purchase requirement is eliminated. Accordingly, improvements in the issuance agent accountability system will still be needed.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on this report (see app. II), the Service emphasized that responsibility for administering the food stamp program, including accounting for cash and food coupons, properly rests with the States and that its proposed changes requiring greater State involvement in cash and coupon accountability (discussed in chapter 3) reflect this assignment of responsibilities. We recognize that the States have program administration responsibilities but, as discussed on pages 22 and 32, we continue to believe that the Service should maintain a major active role in agent accountability monitoring, rather than one primarily involving oversight of State operations.

In response to our recommendation that the Service study, document, and display for management's consideration all pertinent factors (including advantages and disadvantages and benefits and costs) for any proposed major system changes, including other possible management alternatives, the Service said it agreed that any major change should be evaluated prior to implementation and noted that it had furnished us a description of options considered some time before its decision to implement a telecommunications system. However, this does not address the basic thrust of our recommendation--that proposals for major system changes should be supported not only by a cost-benefit study of the proposed versus the existing system, but that costs and benefits and advantages and disadvantages of alternative approaches should be adequately developed and displayed as part of the proposed document so that management can properly consider various possible solutions to existing system problems. This was not done in the case of the proposal to implement a telecommunications system. Also, as discussed on page 30, a Department consultant concluded that appropriate techniques of economic analysis were not followed in the Service's evaluation, and that its evaluation report did not present sufficient economic analysis evidence to support the proposed system change over the present system.

The Service said that it would have been more helpful if we had expressed our concerns earlier regarding the justification for the proposed change. Possibly so; however, this does not remove the need for the Service to properly carry out its own responsibilities in this regard. The proposed implementation of the telecommunications sytem was only one part of our overall review of the issuance agent accountability system. A Service official told us that the decision to go ahead with the proposed system was made in August 1976. We briefed Service officials on our concerns about the proposed system in February 1977 and followed this up with a letter to the Assistant Secretary for Administration in March. On May 2, 1977, the Assistant Secretary said that, in light of pending legislation to eliminate the food stamp purchase requirement, the Service was reevaluating its position on the proposed system and that, if such legislation was not enacted, the concerns surfaced in our letter (and spelled out in this report) would need to be addressed/discussed.

In commenting on our recommendation on the need to take into account the problems and additional burden any major changes to the accountability system would place on the States, the Service referred to an earlier change to provide States with confirmed deposit listings and to its opinion that implementation of the proposed telecommunications system would be a good change. It is precisely this kind of change that we believe needs to be preceded by a practical assessment and solution of any problems and burdens at the State level that would hinder effective operations. We point out in this report that States have serious staffing and other problems under the present system that hinder system effectiveness. Simply imposing a major system change without working out major problems that exist or that would develop in State operations would not get the job done.

On the need to eliminate invalid exceptions in its management reports dealing with agent accountability, the Service said that the reports and the accountability system were being reviewed on an on-going basis. We believe that much more is needed; that a special priority effort specifically directed to solving the problem is long overdue. Reliable reports are essential to the operation of an effective system and need to be achieved at the earliest possible time.

The Service agreed with the need for measures to have agents submit accurate and timely accountability reports and it said that implementation and enforcement of the Emergency Food Stamp Vendor Accountability Act would help. Although, as the Service noted, the termination of noncomplying agents is outside its authority, we believe the Service can work with the States involved to have agents terminated where appropriate.

The Service said it had been unsuccessful in getting Federal Reserve Banks to uniformly show the dates they receive agent deposits, as required by Treasury instructions. We believe that efforts to obtain compliance by the Banks should be continued--perhaps at higher levels of the respective agencies or departments involved. The Service also said that it would be more helpful for State and Service monitoring to have the deposit date shown rather than the Bank receipt date. If this is so, steps should be taken to have the Treasury instructions changed. However, the Service's procedure for matching agent-reported deposits with Bank-confirmed deposits is primarily geared to identifiers other than deposit dates (see p. 6). We believe that either deposit or receipt dates can be used to show depositing patterns as long as either one is uniformly and consistently used by all Banks.

The Service disagreed with our recommendation to implement a second (back-up) method of uniquely identifying each deposit and relating it to the agent making the deposit. The Service said that the problem existed because issuance agents sometimes used borrowed or blank remittance cards and that the borrowed cards would also contain the back-up identification of the lender agent. However, this would not happen if the back-up identification was not prepunched into the deposit card but was simply written or stamped onto the card by the depositing agent at the time of deposit. Such a procedure also would be helpful in cases where the primary agent identification code is erroneously entered into the computer. In most data processing systems dealing with a high volume of transactions, at least two means of identification are normally used.

In response to our recommendation that issuance agents be provided with adequate supplies of deposit forms, the Service said it would contact the States to determine where additional supplies of cards are needed. Although this may be a satisfactory short-term solution, it seems to us that the Service should determine why its automated system is not providing the proper numbers of cards and correct the problem with the system so that shortages will not recur in the future.

The Service said that our recommendation to have it arrange with the Federal Reserve Banks to convert agent deposit data from individual deposit cards to magnetic tape was an excellent idea that had been pursued previously with the Banks. The Service said that negotiations to get such tapes would be started immediately but it pointed out that not all Federal Reserve Banks have the computer capability to convert data on cards to magnetic tapes. For those Banks not having the conversion capability, the Service should pursue the idea of allowing them to subcontract for such services.

The Service said it would not be worthwhile to pursue the idea of developing an issuance agent deposit form capable of providing bank-receipted copies of deposits for use by States, Federal Reserve Banks, and issuance agents, considering the impending implementation of the telecommunications system. A multicopy deposit form is planned for use with the proposed telecommunications sytem. We believe such a form--perhaps even an adaptation of that same form--should be put into use regardless of what system may ultimately be used.

The Service said it believed that providing additional accountability-related management reports to States or the regional offices under the present system would not be beneficial, because of the reports' poor quality; but it said that the necessary (presumably better quality) reports would be provided under the proposed telecommunications system. We recognize that the Service needs to strive to provide more reliable reports that would be more useful in monitoring accountability. At the same time, we think it would be useful for States to routinely get and use, for example, the pertinent sections of the Service's cash reconciliation reports and the irregular deposits reports--perhaps through the Service's regional offices.

The Service said it was preparing a handbook that would discuss the respective responsibilities of the States and the Service regarding accountability. Hopefully, the handbook will provide specific instructions and procedures on the respective duties of Service headquarters, Service regional offices, and the States.

The Service said that procedures existed to (1) terminate issuance agents that continue to have significant accountability problems, (2) provide help to States that identify problems in their corrective action plans, and (3) encourage States to monitor and verify agent accountability. As pointed out in this report (see p. 40), however, Service officials told us that relatively few agents have been terminated as a result of the serious problems uncovered in the past. While it makes sense to try to remedy minor or occasional problems and retain agents that are doing a reasonable job, agents that continue to have serious accountability problems should be terminated.

We believe that requesting and reviewing State-prepared corrective action plans that are to identify the more serious State problems in monitoring agent accountability could be helpful, but this procedure should be supplemented by the Service's own detailed evaluations of the actual efforts being made by States and by providing technical and other assistance specifically addressing the problems found. The Service should continue using its system of informal and formal warnings that may lead to cancellation of administrative funds to encourage States to monitor and verify agent accountability. We were told that, of 13 formal warnings that had been issued since January 1976, compliance was obtained in 7 cases; the other 6 were still pending as of June 1977. Of the six States where we made inquiries during our review (see pp. 10 to 15), one (Massachusetts) was included in these warnings.

The Service said that the Department's Office of Audit would continue to periodically monitor issuance agents' depositing practices and evaluate the adequacy of corrective measures taken.

The Service took some exception to our discussion of the problem with maintaining separate computer master files for issuance agents. (See pp. 9 and 10.) The Service said that:

--It did not accept our recommendation to maintain combined master files instead of a separate file for each fiscal year.

--There were only three master files at the time of our review--our report said there were four.

--The Service's plans for correcting the problem were described to our auditors in July 1976--our report indicated that the plans were not developed until after we brought the problem to the Service's attention and suggested corrective measures.

According to our records of discussions with Service personnel, in August 1976, we pointed out the problems with maintaining separate master files and advised that the accepted data processing practice of maintaining only one master file would seem to solve these problems. Service officials said that maintaining a combined master file in their case would entail some problems with computer storage capacity, but that they would consider the problem and possible solutions. They did not mention plans for corrective action at that time.

On November 16, 1976, Service officials told us at a meeting that they had revised their procedures for processing transactions to the master file so that, although separate files would be maintained, they would be combined for data processing purposes. During and after this meeting, the officials provided us with information on savings resulting from reduced use of computer time and indicated that there would be additional savings because users of the exception reports would not have to make so many corrections.

Regarding the number of master files, there were four by the time we completed our detailed review work in November 1976--fiscal years 1975, 1976, and 1977 and the transition quarter between 1976 and 1977.

The Service also expressed unhappiness with the title of the report and said it demonstrated a preliminary bias on our part. It should be noted, however, that the title was not given to the report until well after we had completed our work and assessed the problems in the system. We believe the title is appropriate. Known major weaknesses in the system at both the Federal and State levels--allowed to continue for years without effective corrective measures --made it possible for some issuance agents to misappropriate or mishandle millions of dollars of food stamp funds. There was little indication of cooperative assistance between the States and the Service to improve the system. We recognize in the report that some improvements have been made but more needs to be done.

THE FOOD STAMP ISSUANCE

AGENT ACCOUNTABILITY SYSTEM

This appendix describes essential aspects of the food stamp issuance agent accountability system as it operated before October 1975 when misuses of the proceeds of stamp sales discussed in this report occurred. Changes to the system after October 1975 are discussed in chapter 3 of this report.

BACKGROUND

How food stamp coupons are issued

Each State determines how it will issue food coupons to approved program participants, subject to Service requirements. Food coupons are issued by State and local agencies operating the program, banks, post offices, currency exchanges, check cashers, credit unions, community action agencies, and other organizations, such as churches and miscellaneous businesses.

Many of the more than 14,000 locations where food coupons were sold in 1976 were actually subcontractors; that is, they had agreements with issuance agents which had agreements with the States. Issuance agents which contract with the States are accountable to the States and the Service for the activities of their subcontractors. As of January 1976, there were 6,770 issuance agents nationwide with contracts with State agencies.

In States in which food coupons are issued by entities other than the governmental agency operating the program, the State or local food stamp agency each month sends authorization-to-purchase cards to households holds authorized to participate in the program. These cards must be signed by the heads of the households and surrendered to the issuance agents at the time food coupons are purchased. Issuance agents return the cards to the State or local agencies which issued them.

Each card shows the name of the head of household and an identification number, the amount of stamps the household is authorized to obtain, the amount required to be paid for them, and the card's expiration date--usually the last day of a month.

In some States, especially those in which local food stamp offices issue the coupons, authorization-to-purchase cards are not used. Instead, the head of the household simply presents a food stamp identification card at the issuing office and is issued coupons based on a household issuance record on file at that office. This record shows the amount of coupons each household is authorized to receive and the amount each is required to pay. Each issuance (sale) of coupons is recorded on the household issuance record and the participant is required to sign the record, acknowledging receipt of the coupons.

Some States also mail food stamp coupons to approved households after receiving the required payments by mail or after appropriate withholdings from the households' public assistance payments. Authorization-to-purchase cards, if used, are sent out in the normal manner by the State or local food stamp agency and returned by the program participant with the payment.

Issuance agents which are not State or local government agencies receive fees, ranging from about $.50 to $1.50 per transaction, for selling food coupons. The total amount is based on the number of authorization-to-purchase cards the agent turns in. States negotiate the fee amounts with their agents, and the Service pays half of the cost as an administrative expense. Issuance agents make their own arrangements with any subcontractors they may have.

Agents, such as banks, post offices, and check cashers, were chosen by the States to distribute food coupons primarily because they were located throughout the States in areas affording easy access to food coupon recipients.

In the early days of the food stamp program, many States experienced trouble finding issuance agents to sell food coupons, and little emphasis was placed on assessing the quality and honesty of the agents hired. The States were financially liable for food coupon sales proceeds and the Service did not provide them with criteria for determining who should qualify to be an issuance agent. New regulations being developed by the Service will establish such criteria.

Federal program regulations require that anyone, except officials and employees of the U.S. Postal Service, responsible for the sale of food coupons be covered by an appropriate surety bond in favor of the State agency. The amount of the bond is required to be adequate to protect the financial interests of the State agency in case of loss.

How issuance agents obtain food coupons

Service instructions state that issuance agents should keep a 3- to 6-month supply of food coupons on hand. When an agent's supply needs replenishing, either the agent or the State initiates a requisition for more. Both the State and the Service are supposed to evaluate the requisition's reasonableness in light of the agent's recent activity. After approving the requisition, the Service sends it to the private contractor who prints the coupons and ships them out. Food coupons are printed in denominations of $1, $5, and $10 and are assembled into books with total face values of $2, $7, $40, $50, and $65.

Before sending coupons to an issuance agent, the contractor sends the agent an advice of shipment--a Service-prescribed form notifying it that a shipment will be arriving. Shipments are made by registered mail or by armored car, depending on the shipment's value. The issuance agent receives several copies of the advice of shipment. The agent is supposed to sign them, send one to the State, and attach the other to the accountability report for the month in which the shipment was received. The contractor also advises the Service of shipments of food coupons.

Issuance agents can also receive food coupons by a transfer from another agent. Some agents which do not have adequate facilities (vaults, large safes, etc.) for storing large quantities of coupons frequently receive coupons this way instead of by direct shipments from the printer. The transferor prepares an advice of transfer (a Service-prescribed form) and the transferee signs a copy, acknowledging receipt of the coupons, and gives the receipted copy to the transferor. In some locations, the State hires a bank or armored car company to be a distributor of coupons to agents which do not have large storage facilities. The distributor requisitions coupons and transfers them to issuance agents using the normal procedures described above. For accountability purposes, the distributor is treated as an issuance agent although it does not actually issue coupons to program beneficiaries.

ISSUANCE AGENT FUNCTIONS

Receipts and deposits

When obtaining food coupons, a program participant signs and gives the issuance agent an authorization-to-purchase card and the required amount of money shown on the card, and shows the agent his or her food stamp identification card. The agent gives the participant the amount of coupons authorized and cancels the transacted card by stamping it with the date and name of the issuance agent.

If an agent receives $1,000 or more from food coupon sales in one day, it is required to send the money to one of the 12 Federal Reserve Banks or their 24 branches within 24 hours. If it receives less than $1,000 in one day, it may hold the money until it accumulates $1,000, but it must deposit any receipts from food coupon sales at least weekly and on the last business day of each month. The Service requires that all such deposits be made by cashier's check, money order, or by check issued by the local government administering the program, payable to the Treasurer of the United States.

Deposits of food coupon sales proceeds must be accompanied by a Service-supplied food coupon remittance card. These cards are automatic data processing punchcards in which the Service prepunches the issuance agent's identification number and a set of consecutive serial numbers beginning with 001 for each issuance agent. The cards, which also have identification information and general instructions printed on them, are supposed to be used in numerical order. The agent fills in the information required, including the preparation date and the amount of deposit. Agents do not receive deposit receipts from Federal Reserve Banks.

When the banks receive deposits from issuance agents, they are supposed to punch into each card the amount of the deposit and the date the deposit was confirmed as received. They credit the funds to the account of the Treasurer of the United States and send the remittance cards to Service headquarters each day, along with lists summarizing the deposits received.

ISSUANCE AGENT ACCOUNTABILITY

General procedures

The Service has prescribed basic procedures for issuance agents to use for recording their food coupon sales, maintaining internal accountability, and summarizing their food stamp activities in monthly reports to the States and the Service. These accountability procedures entail the use of a cashier's daily report (the issuance agent's primary food stamp activity record) and the food coupon remittance register.

The cashier's daily report provides a means for recording, reporting, and reconciling food coupon sales, and is retained at the issuance office for review and audit by the Department and/or the State. Each of the issuance agent's cashiers is required to prepare the report, and one of the agent's supervisory employees is required to verify it. Before each day's food coupon sales begin, the supervisor records the number of coupon books on the report by denomination in the possession of each cashier at the beginning of the day, and the amount of change money given each cashier.

During the day, the report must show all additional coupon books or money received, transferred, or turned in. At the day's end, the cashier must record on the report the (1) coupon books and cash on hand, (2) authorization-to-purchase cards redeemed, (3) total value of coupons authorized to be issued and payments required (shown on the authorization cards), (4) actual value of coupons issued and payments received, and (5) differences, if any, between authorized and actual amounts. The cashier must sign the report and submit it to the issuance supervisor for signature and verification.

A food coupon remittance register must be maintained by each issuance agent as a detailed record of all remittances to Federal Reserve Banks. The agent must record in the register certain identification data, the Federal Reserve Bank to which the deposits were sent, and the month covered by the register. Also, for each deposit made, the agent must record the deposit date, the remittance card number, and the type, serial number, and amount of the negotiable instrument used to make the deposit.

How issuance agents report on accountability to the States and the Service

The issuance agent accountability system is centered on the agent's monthly accountability reports. These reports are Service-prescribed forms which every agent is required to fill out for each month and send to the Service's regional office by the 20th of the following month. The Service receives about 80,000 such reports a year. They summarize each agent's overall accountability and include information on coupon inventories, authorized and actual transactions, and cash deposits. The reports show details on coupon books received, issued, transferred, returned, and on hand at the beginning and end of the month.

Another section of the accountability report summarizes and compares each agent's actual and authorized transactions and food stamp bonus. Authorized coupon issuances and required participant payments are shown on the authorization-to-purchase cards the agent submits; the difference is the bonus. States are liable to the Service for amounts by which actual bonuses exceed authorized bonuses, and the States, in turn, may hold their agents liable.

The accountability report also contains a list of individual deposits made in Federal Reserve Banks. For each deposit, the report shows the date the remittance card was sent to the Federal Reserve Bank, the card's serial number, and the deposit amount. The total amount deposited by each agent during the month should equal the amount of participants' payments received that month.

Most of the information needed to prepare the accountability report should be available from the cashiers' daily reports and the food coupon remittance registers described earlier. The Service requires that agents make physical counts of coupons to obtain the ending inventory information for the accountability report.

Service instructions state that accountability reports should be sent to the Service's regional office having jurisdiction over the State in which the issuance agent is located, with copies to the State and/or local food stamp agency. Some States require that issuance agents send accountability reports to the State agency where they are reviewed before being sent to the Service.

HOW ACCOUNTABILITY REPORTS SHOULD BE REVIEWED AND VERIFIED

Both the Service and the States are involved in the review and monitoring of issuance agent activities--the Service because of its overall program responsibilities and the States because they are financially liable to the Department for all losses resulting from issuance activities. This involvement consists primarily of the verification, analysis, and evaluation of information on the issuance agents' monthly accountability reports. State and Federal actions to monitor agent accountability are discussed below.

Review of accountability reports by the States

Food stamp regulations require States to provide a reconciliation of coupon inventories, issuances, and receipts from food coupon sales on the prescribed accountility reports;

however, this requirement may be--and usually is--delegated by the States to their issuance agents.

Service instructions also require States to reconcile transacted authorization-to-purchase cards to the accountability reports. As explained earlier, issuance agents send transacted cards to the States each month. Each submission of cards is to be accompanied by a transmittal statement indicating the number of cards transmitted, the total value of coupons authorized to be issued, and the total number of participant payments required. The States are required to verify that the cards are properly summarized on the transmittal statement. If discrepancies occur which cannot be reconciled with the issuance agent, the State's figures are used for all reports, including the monthly accountability report.

Service instructions require States to use the transmittal statements to verify, at the end of each month, the sales and collections data on the accountability reports. If unreconciled differences occur, a corrected accountability report is submitted to the Service using the State's figures.

For each food stamp recipient, the States are required to maintain a file for use in preparing authorization-to-purchase cards and recording each food stamp transaction. The States are to compare the authorization-to-purchase cards submitted by issuance agents to the file to identify any altered, duplicate, counterfeit, or stolen cards.

Neither the food stamp regulations nor related instructions specifically require that States (1) verify the shipment or transfer of coupons, (2) conduct physical inventories at the issuance agents' locations, or (3) verify that deposits, reported on the accountability report, were actually made with the Federal Reserve Banks.

According to Service officials, however, they expected that the States would verify all the information on the accountability reports because they were financially liable for coupon and cash shortages. Also, although it was not specified in the instructions or regulations, Service officials expected that the States would (1) periodically take a physical count of their issuance agents' food coupon inventories, (2) verify coupon shipments by comparing the information on the accountability report to the coupon requisitions and/or advices of shipment, and (3) compare coupon transfer documents and accountability reports between inventory points and issuance agents.

Service officials also expected the States to verify issuance agent's deposits even though the States were not provided with a means of doing this. The agents' use of cashier's checks, money orders, or bank drafts for making deposits could provide proof that a negotiable instrument was purchased but could not provide proof that a deposit was actually made with the Federal Reserve Bank. Once the negotiable instrument is deposited, it is processed through regular banking procedures, cancelled, and returned to the seller of the instrument, not to the buyer (the issuance agent, in this case).

How the Service's automated system was established

The Food Stamp Act of 1964 requires the States to be responsible for the proper accounting to the Federal Government for all food stamp issuance activities, including coupon sales and cash collections by authorized issuance agents. Service officials explained that the Department had to get involved in the detailed monitoring of food stamp accountability because the States were not properly evaluating and verifying agent activities.

Service officials said that, during the first few years of the food stamp program, the States were more concerned with enlisting participants in the program than they were with developing effective accountability systems to monitor issuance agents. They explained that, as the size of the program grew in both dollars and participants, the States began to lose control over the verification of agents' activities. Around the late 1960s, the Department recognized this fact and began to try to reconcile the inventory and depositing information of every agent.

When the food stamp program began, the verification of agent accountability activities was a manual process operated by the former Consumer and Marketing Service, which was then responsible for administering the food stamp program. The increasing size of the program made the manual verification method difficult to implement and a decision was made to automate an accountability system at the Federal level.

On August 8, 1969, the Food and Nutrition Service was established and given responsibility for administering the food stamp program. In 1970 the Service hired a private contractor to assist in developing an automated food stamp accountability system with the capability of gathering program data and cash information at the Federal level. We were told that the system was not intended to help serve the needs of the States.

The Service's automated system began operations on July 1, 1971, when the Service was 2 years behind (fiscal years 1970 and 1971) in verifying agent accountability information. The automated system, although designed to aid the Service in verifying agents' activities, did not operate satisfactorily and the Service continued to lose control over this phase of program operations.

In July 1972 an automated data processing division established by the Service was assigned the task of revamping and making operational the automated accountability system designed by the contractor. (From 1970-1972, over $7 billion of food stamps were issued and $4 billion of cash was collected.) The revamped system became operational in February 1973 and began producing management reports for July 1972 and subsequent months. This same basic system was in operation at the time of our review and is described below.

Review of accountability reports by the Service

The Service's automated accountability system was designed to compare the information on every issuance agent's accountability report with information compiled by the Service from other sources on cash deposits, shipments and transfers of food stamp coupons, and coupon inventories; to help evaluate patterns of agents' depositing; and to identify missing and/or invalid accountability reports. The system results in computer-produced management reports detailing depositing and coupon activity of every agent on a State-by-State basis. These management reports are supposed to be used by the Service's headquarters and regional offices to monitor food stamp agent activities. The regional offices are supposed to provide the liaison between Service headquarters and the States in attempting to correct identified deficiencies.

Some of the reports are supposed to be reviewed in Service headquarters to determine whether reported exceptions are valid or not. Other reports are sent, with little or no headquarters review, to the Service's regional offices. In either case, discrepancies which cannot be resolved by analyzing the computer reports, accountability reports, food coupon remittance (deposit) cards, or other documents readily available to the Service must be referred to the States, through the Service's regional offices, for review and corrective action.

Most of the reports produced by the automated system are exception-type reports; that is, they flag items which indicate that agents are not meeting various predetermined standards programed into the computer.

The food stamp master accountability file is the main repository of computerized information used in checking agent accountability. It contains a historical file on every agent in the program and is updated monthly with information from the accountability reports and the coupon printing contractor. This file can be checked to verify whether an agent has submitted its accountability report and whether it is receiving but not reporting food coupon shipments.

The major reports printed by the automated system are discussed below.

The non-reporting/invalid accountability report identifies each agent and shows, cumulatively for each fiscal year, the status of its accountability reports for each month of the year--those submitted and accepted, submitted and rejected, or not submitted. If an accountability report was received but rejected because of error, the date the report was received would also be shown. This automated report is sent to the regional offices for use in monitoring issuance agent activities. A copy of the report is also provided to Service headquarters but has not been used for monitoring purposes on a regular basis.

The most important automated reports dealing primarily with cash deposits are the cash reconcilation detail and summary reports, and the irregular deposits report. The cash reconcilation detail report lists agents for which the deposit information on their accountability reports does not match the deposit information supplied by Federal Reserve Banks based on food coupon remittance cards (bank deposit cards). Such mismatches can occur (1) if the accountability report was submitted late or not at all, (2) if the deposit amount or date on the remittance card is not the same as the amount or date recorded on the accountability report, or (3) if a deposit is reported from one source but not the other.

The data on this report is compiled by region, State, and agent and the report includes (1) a section listing the deposits reported on each agent's accountability report but not on food coupon remittance cards and (2) a section listing the reverse. Each section shows the date and amount of each deposit and the serial number of the remittance card.

If for any reason the information on the remittance card does not exactly match the deposit information on the accountability report or vice versa, such deposit information will appear on the report as a mismatch.

If a mismatch occurs on the cash reconcilation report, Service headquarters personnel are supposed to review it to see whether it appears to be a valid exception or an obvious system error. If the exception appears valid and is less than a dollar, the deposit figure on the accountability report is supposed to be corrected to reflect the amount on the remittance card. If an exception is more than a dollar, headquarters personnel are supposed to review the appropriate food coupon remittance card and accountability report, identify the source of the discrepancy, and notify the regional office which in turn notifies the State. The State is supposed to try to resolve the discrepancy, and is subject to being billed by the Service if the discrepancy ultimately shows that a loss has occurred.

A cash reconcilation summary report is also prepared showing the total amounts, by agent, of all unreconciled remittance cards and accountability reports. It is designed to show the overall magnitude of cash reconcilation problems which need further attention. It can also be used as a data base for billings to States for losses from issuance agent activities. Service headquarters employees stated that they had not used this report in the past but would try to use it in the future to help identify delinquent agents.

The irregular deposits report is another exception report designed to show whether agents are depositing food coupon receipts on a regular basis. The report is intended primarily for use by Service regional personnel for determining which agents are not following depositing requirements and for improving future depositing practices.

The report uses deposit information submitted by Federal Reserve Banks and is not dependent on monthly reports or documents from the agents. Several different criteria have been programmed into the computer against which the computer compares each agent's depositing pattern. If the comparisons show an agent's depositing pattern to be satisfactory, nothing will appear on the report except the agent's name, number, and a message that proper depositing procedures are being followed. If the depositing pattern appears unsatisfactory, the report will identify the agent and list the dates, amounts, and serial numbers of all deposits during the month. A message will also appear identifying the irregular depositing problem--such as, "no deposits were received" or "deposits were more than a week apart."

An agent, if thoroughly familiar with the preprogramed criteria for the irregular deposit report, might be able to violate the Service's depositing requirements and not be identified as such on the report. Also, an issuance agent, especially one with little or no food coupon sales during the month, could appear as an irregular depositor when, in fact, it had complied with all the depositing requirements. These drawbacks notwithstanding, the irregular deposit report seems potentially very useful in monitoring issuance agent accountability. Headquarters personnel said that the irregular deposits report has not been used for monitoring purposes on a regular monthly basis.

The Service's automated system also produces management reports detailing agent's food coupon inventory activities. These reports provide the Service with a means of storing, retrieving, and comparing inventory data reported on the accountability reports with shipment information submitted by the contractor that prints the food coupons. The most significant of these reports include: the inventory management report, the unmatched shipment tape and advice of shipment report, the advice of shipment totals and unmatched comparisons report, and the unmatched transfer summary.

The inventory management report identifies, by State and region, agents whose coupon inventory has dropped below a 1-month supply or exceeds a 6-month supply. For each agent the report shows the amount of coupons on hand, the amount issued in the past month, and the projected supply of coupons needed.

Service headquarters personnel use this report to monitor agent inventory levels and evaluate requisitions for coupons. Any agent with more than a 6-month supply of food stamps is considered to have excess inventory, and the amount requested on its next requisition may be changed to ensure that its inventory level will not exceed a 6-month supply.

The unmatched shipment tape and advice of shipment report identifies agents for which data on the advices of coupon shipment they submit does not agree with the shipment information received from the coupon printer. This is an exception-type report which identifies issuance agents by State and region and provides, for each agent, various data on coupon shipments. This report is sent to the respective regional offices for use in monitoring issuance agents; however, Service regional and headquarters officials indicated that the report was not being used for that purpose.

The advice of shipment totals and unmatched comparisons report is an exception report showing any discrepancies between coupon shipment data reported on the accountability reports and the shipment information reported on the related advices of shipment. This report is sent to the regional offices for use in monitoring agents' accountability. One regional office staff member stated, however, that because accountability reports are not all submitted in time to be included in this report, it is unreliable and generally not used.

The unmatched transfer summary is an exception report which identifies discrepancies between information in accountability reports on coupon books transferred out and information reported by the receiving issuance agents on coupon books transferred in. This report is sent to the regional offices for use in monitoring the accuracy of accountability reports. The States are to be notified by the regional office of any discrepancies shown on the report and are required to inquire into and resolve the discrepancies.

UNITED STATES DEPARTMENT OF AGRICULTURE

FOOD AND NUTRITION SERVICE

WASHINGTON, D.C. 20250

Mr. Henry Eschwege, Director
Community and Ecomonic Development Division
United States General Accounting Office
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Washington, D.C. 20548

Dear Mr. Eschwege:

In response to the draft report regarding the Food Stamp Program accountability system, the Agency provides the following comments.

Our first comment concerns the title of the report itself - Food Stamp Receipts - Who's Watching the Money. The title implies that nothing is currently being done to monitor food stamp receipts. This statement is not correct and we feel any implication in this regard demonstrates a preliminary bias on the part of GAO. It also appears to us to be an editorial comment whose purpose is to impart a generally unfavorable opinion of the Agency prior to any review of the report itself. The following narrative briefly describes both the actions which have and are being taken to improve food stamp accountability at the Federal and State level. While some of this information is contained within the report, we feel that it has been sufficiently diffused to support the implication of the report title.

Agency Efforts

In June 1974, an MBO to improve the Food Stamp Accountability System was developed. The major elements involved bringing the Agency up-to-date in State agency billings, improving State agency accountability procedures, and improving the Federal automated accountability system. Subsequently, a Food Stamp Accountability Project Manager was appointed to coordinate the efforts and progress of the Agency. Over the past years, the Agency has made significant progress toward achieving these goals.

All cash billing for FY 75, 76 and the transition quarter, with the exception of Puerto Rico, have been completed. Inventory and bonus difference billings for all but 14 States through the transition quarter have also been completed.

With regard to improving State Agency accountability procedures, FNS has attempted over the past years to institute a system whereby State agencies would assume the initiative in ensuring the accuracy of vendor reports. These efforts are documented in the Agency's response to Senate Resolution 58, the proposed Administration's Regulations which were enjoined in July 1976, and most recently in the Helms'

Regulations. Our philosophy in this area is discussed in more detail below, but our continuing basic thrust was to place with the State responsibility for ensuring the accuracy of vendor reports and operations, given their access to documents validating such activity.

Our automated accountability system has shown improvement as evidenced by the decreasing number of exception reports. However, as pointed out by the auditors, the volume of documents coupled with human errors in processing do result in error.

Further actions undertaken by the Agency to resolve the problems related to food stamp accountability are detailed in Exhibit A. This report was prepared in November 1976. /See GAO note./

Federal/State Responsibilities for Food Stamp Accountability

The Food Stamp Act and Regulations assign to the State agency responsibility for the administration of the program. This administrative responsibility includes not only performing the functions of certification and issuance, but also ensuring that such functions are performed correctly. The Food and Nutrition Service (FNS) is responsible for establishing uniform regulations and instructions for program operations and for ensuring that State agencies carry out their administrative responsibilities.

In response to Senate Resolution 58, Tightening Food Stamp Accountability, we reaffirmed the Federal and State responsibilities assigned under program legislation and regulations. We have been moving toward a restructuring of Federal/State involvement to reflect these responsibilities. The Helms' Regulations mandate State agency reconcilation of issuance activity and verification of vendor reports. Improvements to the depositing system--including a confirmed deposit listing and the EFT depositing system--were designed to facilitate State agency accomplishment of these activities. By ensuring State agency assumption of responsibilities for vendor activity, FNS has planned to assume the proper and feasible role of ensuring the adequacy and performance of the State agency's accountability system. This is the proper delineation of Federal and State roles. The State agency reviews operations and initiates corrective action to improve performance. FNS performs State reviews to ensure that the system is functioning properly.

Prior to October 1974, FNS had no authority to pay any portion of State issuance costs. Given the absence of Federal funding and our desire to maintain accurate accounts with both the State and Treasury, FNS developed an accounting system which monitored issuance activity on a vendor by vendor basis. We recognize that our current procedures have tended to obscure State agency responsibility since they do not mandate State agency review of vendor reports. As a result, both the accuracy and timeliness

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of vendor reports have not been assured. Through a conscious decision making process, the Federal/State roles and responsibilities, as outlined above, have met with the approval of the Department at the Secretary's level, and are borne out by the wording of the Food Stamp Act. Any restructuring of responsibility would necessarily have to take into consideration both the assignment of responsibility contained in the Act and the results desired from the monitoring functions. While FNS has the ability to monitor vendor activity on an estimated basis, only the State agency has the necessary documents to ensure the true validity of vendor operations.

Electronic Funds Transfer (EFT)

In an effort to provide States with the most easily workable tool to monitor vendor depositing activity, FNS instituted a pilot EFT system. This system was evaluated against the current depositing system (FNS-282) in July 1976 using four basic criteria: (1) Timeliness and usefulness of deposit information, (2) Accuracy and reliability of information, (3) System cost, and (4) Adaptability of the system to present and proposed regulations. The evaluation proved favorable to the EFT system in all areas. The EFT system was particularly well suited to eliminating one of the major problems encountered with the current system--removing, to the greatest extent possible, the occurrence of human error from the cash depositing system. As stated by the auditors, inherent in any system of this size are document handling problems. By moving to an automated EFT system, we perceive that these problems will be minimized, allowing both the State and FNS to concentrate on substantive rather than technical problems.

Our responses to the specific recommendations follow.

1. To insure that major changes in the present issuance agent accountability system are necessary and appropriate, we recommend that the Secretary require the service to study, document, and display for management's consideration all pertinent factors--including administrative advantages and disadvantages, and economic benefits and costs--for any proposed system change and other possible management alternatives. The telecommunications system the service proposes to implement this year is a case in point. A further consideration in planning major system changes is the possible elimination of the food stamp purchase requirement, which would eliminate the need for any cash depositing system.

ANSWER

The Agency agrees, of course, with the concept that any major changes should be carefully evaluated prior to implementation. Our basic problem with this recommendation is one of timing. GAO began their effort in April 1976. They were provided with information on the EFT system when their audit began and subsequently on an ongoing basis. As stated above, in July 1976 FNS formally evaluated the EFT system against the FNS-282 deposit system. (Comments on additional alternatives considered by the Agency were transmitted to Mr. Stanley Sargol in a March 1977 memorandum, copy attached as Exhibit B.) /See note./ Representatives from the Department of the Treasury and an USDA auditor participated in the evaluation. The evaluation was submitted to the Administrator of FNS and he concurred in the decision to implement the system based upon the evaluation criteria. Further, the Requests for Proposal for the system were approved, prior to release, by OMF, ADS, and Office of Operations at the Departmental level and Treasury and GSA.

If the auditors believed that the Agency was making an unwise decison in its implementation of the EFT system, we feel that this should have been immediately brought to the attention of the Department. Given the numerous man-years which have been expended on the development of this project, we are unsure of the cost effectiveness of returning to a ground-zero point at this time.

Further, in recognition of the President's proposal regarding the elimination of the purchase requirement (EPR), we have informed all potential bidders that the EFT project may be cancelled. We plan on withholding contract award until the fate of EPR in Congress can be more clearly judged.

2. Recommendation regarding daily depository transfers deleted by GAO.

3. We recommend that, before any major changes are made in the system for monitoring agent accountability, the Secretary require the Service to take into account the problems and additional burden this would place on the States and to help the States work out their problems.

ANSWER

One of the major State criticisms of the FNS-282 depositing system was the lack of confirmed deposit information. Their concern was specifically justified in light of their financial liability for deficiencies in vendor operations. The "Confirmed Deposit Listing" was initiated as a stop gap measure, but with its inception it was recognized as precisely that. The quality of information supplied was severely hindered by the nonuniformity of FRB's handling of the FNS-282 cards and, again, the human error associated with the manual handling of such cards. The reports generated by the EFT system were seen as the best tools which could be given States. State agencies have been introduced, by our Regional Offices, to the concept of the EFT system and, in the majority of instances, implementation of EFT has been regarded favorably.

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4. To reduce the number of invalid exceptions on cash reconciliation and other reports and improve the reports' reliability and usefulness for monitoring agent accountability, we recommend that the Secretary require the Service to:

   A. Establish, on a priority basis, a special task force to analyze and correct the causes of invalid exceptions on Service management reports dealing with issuance agent accountability.

ANSWER

As GAO points out, some of the problems have resulted from both deficiencies in the Federal system and methods which have been used to monitor Program operations. Both the accountability reports and the system itself are being reviewed within the Agency on an ongoing basis.

   B. Take all necessary measures to get issuance agents to submit accurate and timely accountability reports--including immediate implementation and strict enforcement of the penalty provisions of the Emergency Food Stamp Vendor Accountability Act; withholding from noncompliant agents payments of their fees for food stamp transactions; and, as a last resort, insist that State agencies terminate agents for noncompliance.

ANSWER

Untold numbers of hours have been spent in attempting to get accurate and timely reports for all of our programs. Exhibit C details the progress made in this area. The lack of legislative authority to penalize agents for late, missing, or inaccurate food stamp reports has hampered our effectiveness.

(1) We agree that strict enforcement of the criminal penalties and fiscal sanctions contained in the Emergency Food Stamp Vendor Accountability Act will be a tremendous aid in enforcing reporting requirements.

(2) A provision for States to withhold the payment of fees for noncompliant agents is contained within the regulations implementing the Emergency Food Stamp Vendor Accountability Act. Further, FNS has the ability to refuse to pay States the Federal share (50 percent) of the administrative costs of operating the program if reports are inaccurate or not filed on time. Seven formal warnings stating our intention to cancel such administrative funds have been issued and compliance obtained.

(3) Termination of agents for noncompliance is outside the scope of FNS authority. The sanction of cancelling administrative

costs is available to us as well as the authority, under the Vendor Accountability Regulations, for assessing States an interest charge for late depositing.

C. Require Federal Reserve Banks to uniformly show, in any deposit data furnished the Service or the State, the date they received each agent deposit, so that agent depositing patterns can be accurately shown.

ANSWER

The "Procedural Instructions for Federal Reserve Banks Relating To Deposits of Food Coupon Receipts," issued by the Department of Treasury, Office of Fiscal Assistant Secretary, dated January 1, 1974, provides for the FRB's to show on each FNS-282 the date received. (Part II, 201.1) However, in spite of continuing Agency efforts, the FRB's have not uniformly followed this practice. Further, since FNS requirements are geared to the date deposit is made, keying the receipt date rather than the deposit date inhibits FNS and State ability to monitor agent compliance based on the date supplied by the FRB.

D. Devise and implement a second (fall-back) method of uniquely identifying each deposit made and relating it to the agent making the deposit so that errors in entering agents' primary identification numbers into the computer can be readily detected and corrected without extensive staff analysis.

ANSWER

We disagree. In the present system there is no problem in identifying an agent's deposits as long as the agent uses his/her own prepunched FNS-282 cards. The problem only occurs when borrowed cards are used or when blank cards are used. We could not eliminate the problem of borrowed cards by adding a "fall-back" identifying code, because such cards would also contain the "fall-back" code of the lender.

E. Provide adequate advance supplies of deposit forms, so that using borrowed or reproduced forms will not be necessary and will not add to the invalid exception problem.

ANSWER

We agree. We will contact the State agencies through our Regional Offices to determine where additional supplies are needed and will take immediate action to alleviate this problem.

F. Arrange to have Federal Reserve Banks convert the agent deposit data to be submitted to the Service to magnetic tapes to prevent physical loss of individual records and cards during their transference to the Service.

ANSWER

We feel that this is an excellent idea and have, in fact, pursued it previously with the FRB's. However, it should be recognized that not all FRB's and their Branch Banks have the magnetic tape capability. FNS will immediately begin negotiations to get tapes from those FRB's capable of furnishing them. This will not, however, resolve the problems with the quality of information contained on the FNS-282's.

G. Develop a new agent deposit form that will provide bank-receipted copies for use by States, the Federal Reserve Banks, and the agents.

ANSWER

We do not feel it is worthwhile to pursue this idea considering the impending implementation of the EFT system.

5. Regardless of what changes are made in the accountability system, we recommend that the Secretary require the Service to:

-- Provide the States and its own Regional Offices with their respective sections of any management exception reports and other accountability-related reports prepared by the Service or others, so that monitoring of agent transactions can be faciliated.

-- Disseminate regulations on the respective responsibilities of the States and the Service, and provide specific instructions and procedures on how agent accountability is to be monitored by the States, Service headquarters, and Service Regional Offices, respectively.

-- Take steps to terminate issuance agents who continue to have significant accountability problems involving missing deposits, late deposits, or coupon shortages.

-- Provide special help to States having the most serious problems in monitoring agent accountability.

-- Insure, through special reviews and day-to-day contacts by Service Regional Offices, that States and local food stamp projects are taking all necessary steps to monitor and verify agent accountability in a partnership arrangement with the Services, and withhold program administrative funds where they are not.

ANSWER

Our comments on all the above facets of your recommendation are as follows:

-- Under the present system, States are provided, on a monthly basis, with a confirmed Deposit Listing. Regional Offices are provided with management exception reports and after their review, transmit pertinent information to the appropriate State agencies. Given the quality of the current management exception reports, as stated by the auditors, we do not believe that their routine dissemination would prove beneficial.

-- The Concentration Bank and/or Commercial Service will provide the necessary accountability and exception reports under EFT. We are currently preparing an Accountability Handbook to disseminate regulations on the respective responsibilities of the States and Service, etc. Through the Performance Reporting System, both the State agency and FNS Regional Offices are continuously monitoring vendor operations. Termination of issuance agents is currently handled through a procedure of sanctions when significant accountability problems are uncovered. States which have the most serious problems in monitoring agent accountability are requested to submit corrective action plans for review by FNS Regional and Washington personnel in an effort to tighten up performance. Finally, through a system of informal and formal warning which may lead to cancellation of administrative funds, steps are taken to encourage States to monitor and verify agent accountability.

6. To help insure that necessary corrective measures are being taken by the Service and are working effectively, we recommend that the Secretary arrange for the Office of Audit (OA) to periodically monitor issuance agents' depositing practices and to evaluate the adequacy of corrective measures taken by the Service and States.

ANSWER

The Office of Audit has been, is currently, and will continue to periodically monitor issuance agents' depositing practices and to evaluate the adequacy of corrective measures. As pointed out in the GAO report OA performed Service-wide accountability reviews in 1969, 1971, 1973 and 1976, with a follow-up review in FY 1977. Specific audits of certain finance office accountability operations were also conducted in 1972 and 1975. Further, cash and coupon accountability aspects are reviewed during regular State and Project Office audit. For example, during fiscal years 1969 through 1975, OA reported 427 instances of late depositing by agents. During fiscal year 1977, OA plans to audit all 54 States agencies. These audits will include evaluations of cash and coupon accountability controls. In addition, OA is now in the process of reviewing accountability controls and collection efforts currently in effect in the Finance and Program Accounting Division. Further, OA will audit both the adequacy of the reconciliation of prior years' cash and the disposition of the unreconciled differences when FNS completes that reconcilation project.

While not cited in the recommendation, we would also like to make the following comments. Regarding the Food Stamp Master Accountability File discussed in the body of the report, the auditors reported on page 12, "A sixth weakness, which subsequently was corrected, had to do with the design of Food Stamp Master Accountability File which contains all of the information reported to the Service on issuance agents."

1. We did not accept the recommendation of the auditor's that data for all FY's be placed in one file.

2. This would have been extremely costly and inefficient and perhaps not possible due to unreasonable data storage requirements and expanded computer time for most processing.

3. This is what actually has happened:

First of all, we would like to clarify how the separate fiscal year processing of FNS-250 reports evolved.

When we first began processing the FNS-250 reports using the Intelligent Terminal (IT) as the input device, we anticipated having any original reports in the system within a ten month time span. However, this did not occur. If we could have accomplished this, the plan was to retire the earliest two months worth of data to a historical file. For instance, in January 1976 data for January and February 1975 would have been placed on the historical file. This method of processing was used through June 1976. But, due to a great deal of accountability reports being received that applied to the historical file a decision was made to move all data for July 1975 through June 1976 to the historical file and to establish a new file for the transition quarter. Since data was still being received that applied to the historical files we separated the historical data and processed it separately.

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One discrepancy in the report deals with the number of FY files we were dealing with at the time. The FY 77 file had not yet been established when we discussed our plans for processing accountability reports with the GAO auditors in late July 1976. We stated in the discussions that we felt that the separate processing was getting a little cumbersome and that we planned to change this method of processing before we got into FY 77 processing. One of the auditors, who was familiar with data processing, threw out an idea on combining all our fiscal year files into one and creating an extended record for each project. This approach would not be feasible since the data for one month for a reporting point requires over 500 characters storage in the master record. This means that our master records would expand to a length where they would be impossible to process after a couple of years.

We explained to the GAO staff that we were in the process of working out a modification that would allow us to read our separate fiscal year files into the FNS-250 update program and process all fiscal years in one run. We also explained that it would not be feasible nor economically efficient to maintain the file as one unit. Our reasoning was based on the fact that most of our report requests are on a FY basis. Therefore, the processing time and input/output handling would be greatly increased by reading and/or writing records for fiscal years that are not being requested.

If further clarification is needed please let me know.

Sincerely

Royal Shipp

Acting Administrator

Enclosures

PRINCIPAL OFFICIALS CURRENTLY RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF AGRICULTURE:		
Bob Bergland	Jan. 1977	Present
ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES:		
Carol Tucker Foreman	Mar. 1977	Present
ADMINISTRATOR, FOOD AND NUTRITION SERVICE:		
Lewis B. Straus	May 1977	Present

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