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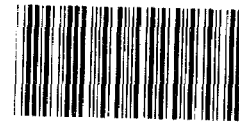
GAO

Report to Congressional Requesters

April 1988

FOOD STAMP PROGRAM

Progress and Problems in Using 75-Percent Funding for Automation



135958

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United States
General Accounting Office
Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

B-217883

April 28, 1988

The Honorable Jesse Helms
United States Senate

Dear Senator Helms:

This report discusses the Department of Agriculture's implementation of the Food Stamp Act Amendments of 1980, which authorize the Secretary of Agriculture to pay each state agency 75 percent of the costs incurred by state agencies for planning, designing, developing, or installing automatic data processing and information retrieval systems for their Food Stamp Programs.

This report includes a matter for consideration by the Congress to express its current position on the 75-percent funding incentive and recommends several administrative actions to monitor and enforce Department regulations.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 2 days after its issue date. At that time, we will send copies of this report to the appropriate House and Senate committees; interested Members of Congress; the Secretaries of Agriculture, and Health and Human Services; the Director, Office of Management and Budget; and other interested parties.

This report was prepared under the direction of Brian P. Crowley, Senior Associate Director. Major contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in cursive script that reads 'J. Dexter Peach'.

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

Senator Jesse Helms, former Chairman of the Committee on Agriculture, Nutrition, and Forestry, asked GAO to examine the progress and problems in automating the Food Stamp Program by addressing the following questions:

- What automatic data processing (ADP) and information retrieval systems has the U.S. Department of Agriculture's Food and Nutrition Service approved for 75-percent federal funding during fiscal years 1981 through 1986?
- Do state systems or projects approved for 75-percent funding comply with the legislative mandate and the regulatory requirements that automated Food Stamp Program systems be capable of certifying applicants' eligibility, issuing stamps, and performing other general computerized functions?

Background

The Food Stamp Program was established as a permanent program in 1964 to improve the nutrition of low-income households. It has grown to the point where in fiscal year 1986, about \$10.7 billion worth of food stamps were distributed. Administrative costs amounted to about \$956.4 million. The Food Stamp Act Amendments of 1980 provided an incentive for state agencies to develop automated Food Stamp Programs to help improve the program's administration and to help reduce fraud, waste, and abuse. The act increased the federal share of costs from 50 to 75 percent.

The legislative history of the act indicates that 75-percent federal funding was to be offered by Agriculture as a onetime incentive for initially automating the program, for upgrading or modifying existing systems during the first year of its availability, and for integrating the program with automated systems used to administer the Aid to Families with Dependent Children (AFDC) Program. The 50-percent federal funding was to continue for all other Food Stamp Program automation. (See ch. 1.)

Results in Brief

During fiscal years 1981-86, the Service approved 51 requests from 33 state agencies for 75-percent funding totaling about \$66 million in the 6 regional offices reviewed by GAO. GAO found that Agriculture's implementation of the 1980 act was consistent with the broad statutory language included in the Food Stamp Act Amendments of 1980, but different from the more restrictive language contained in the House Agriculture Committee report on this legislation. In this regard, the Food

and Nutrition Service has approved some state agency requests for 75-percent funding to

- provide assistance for the development of automated Food Stamp Programs more than once,
- develop other than first attempts to automate the program,
- upgrade and modify existing automated systems, or
- develop automated Food Stamp Programs that were not integrated with the AFDC Program.

The Service also approved requests for 75-percent funding for systems that are not able to determine program eligibility or issue coupons, reconcile food stamps authorized with those actually issued, and report on program operations, as required by Agriculture regulations. Finally, the Service's regional offices did not document that any of the approved state agency requests would perform all of the required Food Stamp Program functions.

Principal Findings

Some 75-Percent Approvals Differ From What Drafters Expected

Service policy and the 51 requests approved by the Service for 75-percent funding totaling about \$66 million comply with the act. However, GAO found that Service policy and approval of requests from 17 of the 33 state agencies differed from what the drafters of the 75-percent provision expected as expressed in House Agriculture Report 96-788. Service policy states that all planning, design, development, or installation of ADP and information retrieval systems may be funded at the 75-percent funding level when the system is the state's initial attempt, or an upgrade, or a modification of an existing automated system for the Food Stamp Program. Also, USDA regulations allow 75-percent funding to develop automated Food Stamp Program systems that do not achieve the kind of integration with the AFDC Program which the drafters of the Food Stamp Act Amendments of 1980 were seeking. (See ch. 2.)

Some Approved Systems Are Not Expressly Permitted by Agriculture Regulations

GAO found that 5 of the 17 state agencies approved for 75-percent funding to develop automated systems different from what the drafters of the 75-percent funding provision expected also had requests approved to develop systems not expressly permitted by Agriculture's regulations. The regulations required approved systems to be either (1) a total certification system designed to determine program eligibility and to calculate benefits or (2) a total issuance system designed to issue and reconcile benefits and report on Food Stamp Program operations. However, according to Service officials, 75-percent funding has been approved for parts of a total certification or issuance, reconciliation, and reporting system because in the "long term" this development will become part of a total automated program system. (See ch. 2.)

Approved Systems' Compliance With Agriculture's Regulations Not Documented

GAO found that Service officials approved about \$66 million worth of ADP development, within the 6 regions GAO reviewed, for 75-percent federal funding without sufficient documentation to show that the systems met regulatory requirements. Agriculture regulations state that proposed systems seeking 75-percent funding must, at a minimum, meet the applicable Food Stamp Program certification, issuance, reconciliation, and reporting standards, as well as some general standards applicable to all automated systems. However, no corresponding requirement exists to document the systems' compliance. As a result, GAO could not determine whether (1) the approved systems met the requirements or (2) Service officials actually determined the approved systems' compliance with the regulations. (See ch. 3.)

Matters for Congressional Consideration

Since 1980 the Department of Agriculture has used 75-percent federal matching funds to automate the Food Stamp Program in a manner allowed by the act but which departed significantly from what was envisioned in the legislative history. Accordingly, the Congress may wish to consider expressing its current position on the manner in which 75-percent funding is being used. (See p. 26.)

Recommendations

GAO recommends that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to require that state agency requests approved for 75-percent federal funding be for the kind of comprehensive automated systems defined in Agriculture regulations and that the use of funds for these purposes be fully documented. (See pp. 26 and 36.)

Agency Comments

The Service disagreed with GAO's position that Service policy and approval of some requests differed from what the drafters of the 75-percent provision expected. GAO continues to believe that its interpretation of intent is correct and, given the difference of views, is bringing this issue to the attention of the Congress for its consideration and any additional direction it may wish to provide. (See pp. 26-28 for a more detailed discussion of this issue.) The Service agreed with most of GAO's recommendations and said it would implement them. (See pp. 37 and 38.) The Service also made suggestions to improve the report's technical accuracy and where appropriate, GAO made changes. (See app. III for the text of the Service's comments and for GAO's response to additional Service comments.)

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Abbreviations

ADP	automatic data processing
AFDC	Aid to Families with Dependent Children
APD	Advance Planning Document
ATP	Authorizations to Participate
FAMIS	Family Assistance Management Information System
FNS	Food and Nutrition Service
GAO	General Accounting Office
IEVS	Income Eligibility and Verification System
USDA	United States Department of Agriculture
WMS	Welfare Management System

Introduction

The Food Stamp Program, which began in 1961, was established as a permanent program in 1964 to improve the nutrition of low-income households. State welfare agencies administer the program under the supervision of the U.S. Department of Agriculture's (USDA) Food and Nutrition Service. Since its inception, the program has grown substantially to the point where in fiscal year 1986 about \$10.7 billion worth of food stamps were distributed. In October 1974, the Congress legislated federal financial participation¹ in state program administrative expenses at the 50-percent level. Such expenses increased from about \$119 million in fiscal year 1974 to about \$956.4 million in fiscal year 1986, prompting efforts to improve the program's administration and to reduce fraud, waste, and abuse. The Congress felt that one way to accomplish this was through program automation.

Automating the Food Stamp Program

The Food Stamp Act Amendments of 1980, Public Law 96-249, amended the Food Stamp Act of 1977 to authorize the Secretary of Agriculture to pay each state agency 75-percent of the costs incurred by the state agencies² to plan, design, develop, or install automatic data processing (ADP) and information retrieval systems, beginning October 1, 1980. According to a 1980 congressional committee report regarding this legislation,³ computerization would help reduce fraud, waste, abuse, and errors, as well as help improve the efficiency and effectiveness of program administration. The report also stated that computerization would be strongly encouraged by increasing federal funding from the normal 50 percent for ADP development costs to 75 percent for initial computerization costs. The 50-percent federal funding would continue for all other program automation.

According to the July 1982 Agriculture regulations, to meet the act's requirements, a state's request to the Food and Nutrition Service for 75-percent funding must show that the planned ADP or information retrieval system will encompass the entire state, be integrated with the Aid to Families with Dependent Children (AFDC) Program and, at a minimum, be capable of performing specific AFDC Program functions. The

¹Federal financial participation is the portion or amount of expense (up to 100 percent) that a federal grantor agency provides through a grant, contract, or other agreement. For purposes of this report, we will use federal funding or funding in place of federal financial participation.

²"State agency" refers to the state welfare agency that administers the Food Stamp Program and is accountable to the Service for the use of funds provided.

³House of Representatives, Report No. 96-788: Agriculture Committee Report together with Supplemental Views, Dissenting Views, and Separate Views, Feb. 27, 1980.

automated functions include certifying applicants' eligibility, issuing the food stamp coupons, reconciling authorized issuance with actual issuance, and reporting the results of AFDC Program operations. Additionally, all automated systems must be able to perform certain general functions. For example, the systems must be able to make certification decisions, generally within 30 days from the date of the application, and the systems must incorporate Food Stamp Program regulatory changes, called "mass changes," generally within 90 days of the change. (See app. I for details on Food Stamp Program functional standards.)

Continuing the emphasis on automating the Food Stamp Program, the Food Security Act of 1985 (P.L. 99-198) required USDA, through the Food and Nutrition Service, with the assistance of an advisory group of state agencies, to develop a model plan for the comprehensive automation of Food Stamp Program information systems by February 1, 1987.⁴ Additionally, by October 1, 1987, each state agency with primary responsibility for administering the program was to develop and submit for Service approval a plan based on the Service plan for using ADP and information retrieval systems to administer the program. By April 1, 1988, the Service is required to report to the Congress on the status of state agency program automation.

Status of Automation

To respond to the Food Security Act mandate to report on the status of Food Stamp Program automation, the Service contracted with a private firm to collect descriptive summary data on program automation from all the state agencies. In order to avoid duplicating this data-collection effort, which was in progress at the time of our review, we focused on available Service summary information, presented below, and on program automation approved by the Service for 75-percent funding discussed in chapters 2 and 3 and listed in appendix II.

The most recent Service information available on the status of Food Stamp Program automation consisted of a survey completed in February 1985.⁵ The survey information consisted of responses to questionnaires completed by Service regional or state agency officials regarding program automation. Table 1.1 shows the number of state⁶ agencies that

⁴On September 18, 1987, the Service published regulations implementing the Food Security Act's Model Plan requirements.

⁵Food Stamp Program Automation Survey, Food and Nutrition Service, Feb. 1985.

⁶State includes the 50 U.S. states, District of Columbia, Guam, and the Virgin Islands.

reported some program automation before and after 1980. The automated system functions were categorized as certification, verification/matching, issuance, reconciliation, and reporting processes.

Table 1.1: State Agency Food Stamp Program Automation^a

Function automated	Number of operational systems		Total
	Before 1980	Between 1980 ^b and 1985	
Certification	27	19	46
Verification/ matching	24	20	44
Issuance	28	18	46
Reconciliation	6	26	32
Reporting	27	16	43

^aFor the Automation Survey, the District of Columbia completed two questionnaires for its two systems, and California responses were for San Francisco and Los Angeles counties.

^bFrom 1980 to February 1985.

Source: Food and Nutrition Service Food Stamp Program Automation Survey, Feb. 1985.

The certification process includes being able to perform, to some degree, Food Stamp Program eligibility determination from information furnished by the applicant and certify applicant eligibility for participation for a specified period. The automated verification/matching process includes being able to perform verification of applicant-supplied information with information from other data bases such as social security benefits with the Social Security Administration records. Issuance and reconciliation functions include such functions as actually issuing the food stamp coupons and reconciling the authorized issuance with the actual issuance. Finally, automated reporting would include such functions as reporting the number of program participants, number and amount of food stamp coupons issued, as well as other program statistics needed for management purposes.

Since 1980, state agencies have increased the Service's federal share of expenditures for automating the Food Stamp Program as shown in table 1.2. During fiscal years 1981 through 1986, state agencies spent approximately \$47.2 million of federal funds to develop ADP and information retrieval systems for the program. Because Service records did not distinguish between expenditures for ADP development approved for 50- and 75-percent funding levels, the amounts presented in table 1.2 include both 50- and 75-percent federal funding.

Table 1.2: Food and Nutrition Service's Share of ADP Development Expenditures by State Agencies

Dollars in thousands						
Fiscal years expenditures						
1981	1982	1983	1984	1985	1986	Total
\$1,808	\$5,217	\$4,309	\$11,481	\$11,880	\$12,500	\$47,195

Source: Food and Nutrition Service.

Obtaining Federal Funding for ADP Development

The Food Stamp Program regulations require that state agency requests involving computerized systems costing \$100,000 or more in federal and state funds over a 12-month period or costing a total of \$200,000 or more be submitted to the Service for prior approval.⁷ The Service's procedural guidelines,⁸ require that acquisition requests be submitted in the form of an advance planning document. That document is to contain an ADP systems design, a systems feasibility study, and a cost/benefit analysis.

Regional Service officials determine whether planned state agency ADP development requests meet the regulatory requirements for 75-percent funding. Beginning in July 1985, state agency requests that total more than \$1 million of federal funding must have the concurrence of the Service's National Office Advance Planning Document Oversight Committee. Service regional program, technical, and fiscal personnel review state agencies' requests and prepare and submit executive summaries of the requests with their recommendations to the oversight committee. The committee, which consists of the Service's headquarters deputy administrators for management, financial management, and family nutrition programs, completes its review and notifies the regional offices. Regional officials then notify the state agency as to whether federal funding is approved.

Objectives, Scope, and Methodology

In response to a request from Senator Jesse Helms (former Chairman, Committee on Agriculture, Nutrition, and Forestry), we reviewed the Food Stamp Program automation and focused on the following questions:

⁷The Service revised its policy in February 1987 to increase the prior approval cost thresholds to \$200,000 for a 12-month period and \$300,000 for the total acquisition. This policy change applied to expenditures beginning in fiscal year 1987, which is after the period covered by our review.

⁸ADP Advance Planning Document Handbook, Food and Nutrition Service Handbook 151.

- What ADP and information retrieval systems has the Service approved for 75-percent funding during fiscal years 1981 through 1986?
- Do the approved state systems or projects comply with the legislative mandate and meet USDA's regulatory certification, issuance, and general functional standards for 75-percent funding?

To address the first objective, we performed a detailed review of all records pertaining to requests for ADP and information retrieval systems development funding at 6 of the 7 Service regional offices, which oversee 45 state agency Food Stamp Programs. Specifically, we visited the Mid-Atlantic, Midwest, Mountain Plains, Northeast, Southeast, and Southwest Service regional offices. Additionally, we interviewed officials at the Service headquarters in Alexandria, Virginia, and regional office personnel in the six regions to identify all state agency ADP systems approved for 75-percent federal funding. Because reviewing and summarizing file records was very time consuming, we were unable to complete work at the Western Region—the seventh Service regional office. Therefore, the information reported concerning the Service's approval for automated Food Stamp Program systems pertains to the six regions only. Appendix II lists each program's state agency covered by our review and identifies the applicable number of requests, type of automated system, and amount of funding approved by the Service for 75-percent funding.

We addressed the second objective by reviewing at each of the six regional offices the information that Service officials used to evaluate state agency requests for 75-percent funding. Additionally, we compared the Service's regional records of state requests for 75-percent funding with the Service's regulatory requirements. We depended upon the adequacy of the Service's records to (1) describe the planned state automated systems and their specific capabilities, (2) document the extent of the Service's reviews, and (3) show the Service's decision-making process. We discussed major deficiencies with appropriate Service regional office and headquarters officials. Finally, we reviewed the legislative history of Public Law 96-249 to determine Congress' intent in authorizing 75-percent funding for the development of automated Food Stamp Program systems.

Our work was done between January and July 1987. We made our review in accordance with generally accepted government auditing standards with the following exception. Because of time constraints, we

made only limited tests to assess the reliability of the Service's computer-generated financial information. Specifically, we tested the reliability of reported summary data of state agency payment requests for ADP development costs. The tests consisted of comparing computer-generated figures for fiscal years 1984 through 1986 with corresponding state agency documents. We found the computerized data on these payment requests to be generally accurate.

Service Officials Broadened the Intended Use of 75-Percent Funding for Program Automation

Because the Food Stamp Program Act Amendments of 1980 do not limit the use of 75-percent funding to a onetime incentive to encourage state agencies to initiate Food Stamp Program automation, Service officials legally broadened the use of this incentive beyond the scope intended by the drafters of the 75-percent provision. Since its availability in fiscal year 1981 through fiscal year 1986, Service officials approved 51 requests for ADP development from 33 state agencies for 75-percent funding totaling about \$66 million. Of these 33 state agencies, 17 received approval for 75-percent funding to develop automated systems different from what was envisioned in the legislative history, for one or more of the following reasons and as shown in table 2.1:

- The state agency received more than the intended one-time infusion of funding.
- The state agency planned to develop a system that was not the state's first effort to automate the program.
- The state agency planned to upgrade or modify an existing automated program system.
- The state agency planned to develop an automated system that was not integrated with the AFDC Program.

Additionally, Service officials approved requests from 5 of these 17 state agencies for 75-percent funding to develop systems that were not able to at least determine Food Stamp Program eligibility or issue and reconcile program benefits, and report program results as required by USDA regulations.

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 Service Officials Broadened the Intended Use
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 Program Automation

Table 2.1: State Agencies Approved for 75-Percent Funding to Develop Systems Different From What the Drafters of the Provision Expected or Not Expressly Permitted by USDA Regulations

State agency	Different from what drafters expected				Not integrated	Not permitted by regulations
	More than one-time approval	Had existing system	Upgrade existing system	Modified existing system		
New Jersey	x	x		x		
Pennsylvania	x			x		
North Dakota	x			x		
New York	x			x		
Alabama	x			x	x	
Illinois	x					x
Nebraska	x				x	x
Wyoming	x					x
Wisconsin	x			x		x
Iowa	x			x		x
South Carolina	x		x		x	
Mississippi	x					
Colorado		x			x	
Kansas					x	
Missouri					x	
New Mexico				x		
Virgin Islands					x	
Total	12	2	1	8	7	5

Despite Compliance With the Act, Service Policy and Some 75-Percent Funding Approvals Differ From What the Drafters Expected

Service policy and approval of the 51 requests from 33 state agencies for 75-percent funding comply with the act. However, we found that Service policy and approval of requests from 17 state agencies differed from what the drafters of the 75-percent provision expected regarding the development of state agency program automation. Service policy states that all planning, design, development, or installation of ADP and information retrieval systems may be funded at the 75-percent funding level, whether the system is the state's initial attempt or an upgrade, or a modification of an existing automated system for the program. Also, USDA regulations allow 75-percent funding to develop automated systems dedicated to the Food Stamp Program only, that is, not integrated with the AFDC Program.

Because the language of section 129 of the act (1) does not expressly prohibit this Service policy and approval action, and (2) is broad enough

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to include the Service's interpretation, Service policy and approval actions comply with the act. Specifically, section 129 states that the

“ . . . Secretary is authorized to pay to each state agency an amount equal to 75 per centum of the costs incurred by the state agency in the planning, design, development, or installation of automatic data processing and information retrieval systems”

However, the legislative history of the act states that

“The costs that would be reimbursed at the 75-percent rate would include all costs involved in originally bringing ADP equipment, services, or systems to bear on the food stamp program, that is, essentially, the threshold costs of planning, designing, developing and installing such equipments, services, or systems.”

The drafters of the 75-percent provision also expected that certain limitations be placed on the type of automation efforts to which increased funding could be applied. According to the House Agriculture Committee, where the 75-percent funding provision originated (House Report 96-788),

“The boost in cost-sharing is intended to be a one-shot infusion of Federal funds strictly limited to initial developmental costs assuming the fullest possible computerization consistent with cost effectiveness.”

The committee report explained that at that time, many of the states were computerizing their Food Stamp Programs with the normal 50-percent federal funding. Although this level of funding would continue to be available, according to the report, an additional incentive was needed to encourage states not computerizing their programs to automate. Therefore, as stated in the report, the committee was of the opinion that the increase in federal funding from 50 to 75 percent was more than enough to encourage the needed automation.

So that states in the process of computerizing the program would not adversely be affected by the October 1, 1980, trigger date for the stepped-up match, the committee report stated that such states could also apply for 75-percent funding to complete the system's development. According to the report, the committee expected that the final phase of this computerization would be fully completed after the onset of fiscal year 1981. Aside from the fiscal year 1981 exception for states in the process of computerizing their programs to complete its development, the committee specified that the 75-percent funding would not apply to the “ongoing utilization of ADP equipment, services or systems or to any

post-installation modification” due to “changes subsequently made in the food stamp program by virtue of laws or regulations.” “Ongoing system utilization or upgrading expenses would continue to be shared at the 50 percent rate” Finally, the committee specified that “The Secretary . . . would have to analyze each State’s increased computerization proposals to assure that any systems that would be installed could be used as well for the AFDC program.”

We reviewed the act, its legislative history, and Service policy to determine what costs associated with the developmental stages of ADP and information retrieval systems the Congress intended for 75-percent funding and to determine what costs were eligible for 75-percent funding under section 129 of the act. As discussed below, Service officials, through their broad but legal interpretation of the act, approved 75-percent funding in the following instances.

Some States Receive More Than a Onetime Approval for 75-Percent Funding

The Service approved more than a onetime infusion of 75-percent funding for 12 state agencies to initiate, upgrade, or modify Program automated systems. In accordance with the Service’s interpretation of the act, Service policy guidance to the regional offices state that a state agency can receive approval for 75-percent federal funding to replace previously automated program systems or to upgrade or modify previously automated program systems. In fact, according to the Service’s guidance to the Southeast Region, no restrictions exist on the number of times a state agency can receive 75-percent funding to develop an automated Food Stamp Program system.

Although the drafters of the 75-percent provision expected the 75-percent funding incentive for a onetime only use to initiate an automation effort, the law as stated above places no such limitation on its use. The following summarizes the state agencies approved for more than a onetime infusion of 75-percent funding for ADP development:

- Five state agencies—New Jersey, Pennsylvania, North Dakota, New York, and Alabama—each had two requests approved for 75-percent funding: one for a program certification or certification and issuance system and one to modify the system to encompass new legislative changes to the Food Stamp Program as discussed in the next section of this chapter.

- Three state agencies—Illinois, Nebraska, and Wyoming—each had two requests approved for 75-percent funding: one for a program certification system and one to develop other than a total certification or issuance system as required by Service regulations and as discussed in the next major section of this chapter.
- Two state agencies—Wisconsin and Iowa—each had three requests approved for 75-percent funding: one for a program certification system, one for a modification to encompass legislative changes, and one for the development of other than a total certification or issuance system as required by Service regulations.
- One state agency—South Carolina—had two requests approved for 75-percent funding: one to develop a program certification system and another to develop an upgraded program certification and issuance system.
- One state agency—Mississippi—had three requests approved for 75-percent funding: one for a program certification system for which funding was eventually suspended as discussed later in the chapter, one for a modification to the first certification system development which was withdrawn once the approved funding was suspended, and one for another certification and issuance system.

Some States With Existing Program Automation Received Approval for 75- Percent Funding

As discussed earlier, the Service interpreted the act to include ADP development whether or not the system being developed is the first attempt to automate the program. The Service approved requests for 75-percent funding for two state agencies to develop new automated systems although the states' programs had an existing automated system. Specifically, the New Jersey state agency had an automated statewide Food Stamp Program system funded by the Service at the normal 50-percent match. This system was integrated with the AFDC Program and had been operational since June 1981. Yet, the Mid-Atlantic Region approved 75-percent funding of about \$1.3 million in November 1986 for the development of another automated system meant to replace the existing one. (As discussed later, modification to this new system was also approved, although the drafters of the 75-percent provision expected that 75-percent funding would not be available for subsequent legislated Food Stamp Program changes.) Similarly, the Colorado state agency developed an automated statewide program in November 1983 with 50-percent funding by the Service. About 2 years later, the Service approved 75-percent federal funding of about \$1.2 million for the state agency to develop another automated program system with greater capabilities. (As discussed later in this chapter, this system also would not be integrated with the AFDC Program as envisioned in the legislative history.)

Because section 129 of the act does not explicitly prohibit 75-percent funding for development costs not associated with initial Food Stamp Program development and installation of ADP systems, the Service can legally approve 75-percent funding for more than first-time attempts to automate the program. Thus, the 75-percent funding request approved for New Jersey and Colorado for ADP development complies with the act, but departs significantly from what was envisioned in the legislative history as it pertains to initially bringing automation to bear on the Food Stamp Program.

Some Approvals Were
Made for ADP System
Upgrading and
Modification

Although the legislative history indicates that with the exception of fiscal year 1981, the drafters of the 75-percent provision did not intend for 75-percent funding to be used to upgrade and modify automated program systems subsequent to its initial automation effort. Section 129 of the act does not prohibit 75-percent funding for upgrading and modification expenses. Specifically, the House Committee report stated that although some of the 75-percent funding during the first year of its availability, fiscal year 1981, could be for upgrading or modifying systems being developed, once a system was complete or had received a onetime infusion of funding, subsequent upgrading or modification would be at the 50-percent level. However, the act's reference to the funding of "planning, design, development, or installation" of ADP and information retrieval systems is equally applicable to modifications or upgrading of existing systems, which must also be planned, designed, developed, and installed. Thus, the act permits the Service to use 75-percent funding to upgrade and modify existing ADP systems.

Approval of 75-Percent Funding
to Upgrade an Existing System

We found one instance where the Service approved more than a one-time infusion of 75-percent funding to upgrade an existing automated Food Stamp Program. Service policy guidance to the regional offices states that a state agency can receive approval for 75-percent federal funding to upgrade previously automated program systems. Specifically, from August 1984 to January 1986, the Service's Southeast Region approved 75-percent funding totaling about \$1.6 million for a statewide automated program system for the South Carolina state agency. This system was dedicated to the Food Stamp Program only. In 1986, another state agency request was approved for 75-percent funding to develop a Food Stamp Program system that would be integrated with the AFDC Program. Specifically, in September 1986, the Southeast Region approved a request for 75-percent funding totaling about \$1.8 million

for South Carolina to develop the requested, more sophisticated state-wide Food Stamp Program system with greater capability.

Modifications to Account for Food Stamp Program Changes

We found that eight state agencies received approval for 75-percent federal funding requests totaling about \$1.7 million to modify existing automated program systems in order to implement the Program's Income Eligibility Verification System (IEVS) provisions of the 1984 Deficit Reduction Act.¹ Although 75-percent funding for such modifications complies with the language of the act, 75-percent federal funding to implement post-installation ADP development departs significantly from what was envisioned in the legislative history. As stated in the House Agriculture Committee Report:

"The increase in matching from 50 to 75 percent would not apply . . . to any post-installation modification of computer systems to take account of changes subsequently made in the food stamp program by virtue of laws or regulations."

However, Service policy for such modifications provides that the automated system being modified to meet the IEVS requirement can be approved for 75-percent funding if the system qualifies for or has previously been approved for 75-percent funding. For example, the Service's Mountain Plains Region approved a total of \$295,095 at the 75-percent funding level in May 1983 for the Iowa state agency to develop an automated program benefits calculation system. Then, in July 1986, the region approved 75-percent funding of \$23,320 for the state agency to implement the IEVS requirements. Similarly, the Service approved 75-percent funding, or \$843,878, in January 1984 for the North Dakota state agency to develop an automated program eligibility system. Subsequently, the region approved 75-percent funding for another \$36,173 in July 1986 for the state to implement the IEVS requirements.

We found that the Service's Mid-Atlantic and Southwest Regions also approved post-installation modifications with 75-percent funding. For example, the Mid-Atlantic Region first approved about \$1.46 million at the 75-percent funding level in October 1984 for the Pennsylvania state agency to develop a program eligibility system. After receiving an additional \$7.27 million for the system in March 1985, the state agency

¹The IEVS provisions of the 1984 Deficit Reduction Act require federally funded public assistance and unemployment agencies to make more accurate eligibility determinations and benefit payments by exchanging information with each other and by obtaining unearned income data from the Internal Revenue Service and other income and wage data from the Social Security Administration and from state wage and Unemployment Insurance Benefits data files.

requested another \$808,000 in October 1986 to modify its system to implement IEVS requirements; the Service approved 75-percent funding totaling \$605,505 in December 1986. In March 1984, the Service's Southwest Region approved \$1.27 million at the 75-percent funding level for the New Mexico state agency to develop a statewide program system. Subsequently, in May 1985 the Service's Southwest Region approved \$35,339 at the 75-percent funding level for the state agency to develop and implement the IEVS requirements.

Some Approved Systems Are Not Integrated With AFDC

We identified seven state agencies with ADP development requests in three of the six Service regions we visited that were approved for 75-percent federal funding. We believe those seven agencies do not achieve the kind of integration with the AFDC Program that the drafters of the act were seeking. Although the act requires that approved systems only be compatible with the AFDC Program, USDA regulations define the compatibility requirement to mean that the systems approved for 75-percent funding must be integrated with the AFDC Program. We believe this definition is consistent with what the drafters of the 75-percent provision expected. However, USDA regulations allow for exceptions to the AFDC integration requirement, an exception that we believe was not consistent with what was envisioned in the legislative history. The House Agriculture Committee Report states that:

"The Secretary . . . would have to analyze each State's increased computerization proposals to assure that any systems that would be installed could be used as well for the AFDC program."

The Service's regional program and technical personnel told us that some nonintegrated systems, referred to as "stand-alone" program systems, are approved for 75-percent funding because, in their opinion, it is the first step toward automation from a totally manual mode of operation. For example, the Southeast Region approved 75-percent funding for the South Carolina state agency to develop an automated stand-alone system. In June 1984, as discussed earlier, the South Carolina state agency submitted a request for a stand-alone certification and issuance automated system that encompassed the entire state. The Service's regional officials approved 75-percent funding totaling \$986,173 in August 1984. Regional officials approved additional requests for 75-percent funding of \$416,425 for this system in August 1985 and \$191,551 in January 1986. Although the 75-percent funding totaled \$1.59 million for this system, it was not integrated with the AFDC Program.

In the Mountain Plains Region, the Colorado state agency developed a statewide, stand-alone automated Food Stamp Program System, as discussed earlier, in November 1983 with 50-percent federal funding. In March 1985, the state agency requested 75-percent funding totaling \$5.9 million from the Service to develop a certification and issuance system that it stated would be integrated with the AFDC Program. Regional officials found the proposed system description deficient and suggested that the state agency either rewrite the proposed system description to better explain how the Food Stamp Program system would be integrated with the AFDC Program or submit a new request for enhancements to the existing stand-alone automated program system. The state agency submitted a new request in July 1985 to upgrade the existing stand-alone system. The region approved the request for 75-percent funding totaling \$1.2 million in October 1985.

According to the Service's Southeast regional ADP personnel, stand-alone systems have been approved in order to initiate some action to automate a manual state agency program. The regional Food Stamp Program Specialist told us that some of the states in the Southeast had a totally manual system. The educational process required to go from totally manual to a statewide, integrated automated system requires a quantum leap in both technology and in personnel training. Attempting too much, too soon can be costly. As an example, the supervisor cited the initial automation attempt by the Mississippi state agency.

The Mississippi state agency submitted a request in April 1982, which was revised in July 1984, for 75-percent funding to develop an automated statewide certification system integrated with AFDC. The Service approved the request for \$1.24 million. Also, in May 1983, the Service approved an amendment to the system for 75-percent funding of \$181,095 to add monthly reporting and retrospective budgeting capabilities to the system. However, complications in the development process—going from a completely manual system to an automated one—caused the project's development to slip its planned schedule by 1 year. In May 1984, the Service suspended funding because of the state agency's lack of progress. Because of the difficulty in developing a state system from a totally manual system, the Service encouraged and subsequently approved another 75-percent funding request of \$783,865 for the Mississippi state agency to transfer and adapt an automated system used by the North Dakota state agency.

However, drafters of the 75-percent provision expected the 75-percent funding as an incentive to encourage the development of an automated

system designed to be integrated with the AFDC Program. A stand-alone system, which would not qualify for this additional incentive, should be developed with the normal 50-percent funding match.

Some Funding for Approved Systems Is Not Expressly Permitted by USDA Regulations

The Service approved requests from 5 of the 17 state agencies, which received 75-percent funding to develop systems different from what the drafters expected, to develop automated systems that are not expressly permitted by USDA regulations. USDA regulations require that automated systems approved for 75-percent funding be developed so that they can determine program eligibility or issue, reconcile, and report program operations. Further, as discussed in chapter 1 and listed in appendix I, the regulations identify 12 standard program functions that each certification or issuance system must, at a minimum, be capable of performing.

We found that the Service's Mountain Plains and Midwest Regions have approved development of automated systems for 75-percent funding that will incorporate only part of the required functions for a total certification or issuance, reconciliation, and reporting system. As discussed earlier in this chapter, the Mountain Plains Region approved 75-percent funding of \$257,316 to upgrade an existing wage-matching system for Wyoming in May 1985. Wage-matching is only one element of a certification system. According to the regional ADP supervisor, approval was granted because this wage-matching system, which by itself is one of the required certification system functions, would eventually become an integral part of a total automated program certification system.

The Mountain Plains Region also approved part of a total certification system for the Iowa state agency. In May 1983, the region approved 75-percent funding of \$295,095 for the state agency to develop an automated benefits calculation system. Regional ADP file information describes this as a partial certification system designed to provide uniform application of policy to calculate benefit levels for AFDC, Medicaid, and food stamps. When all eligibility criteria except for income are met, the planned system would compute the benefit amount and generate a notice to the client and the program eligibility worker, but only after the eligibility worker manually determines the applicant to be eligible. However, under the regulations, an automated certification system should determine program eligibility.

According to the Mountain Plains Regional ADP supervisor, the Service approved 75-percent funding for Iowa's system because it provided

statewide on-line data entry capability for the existing automated system. Thus, this capability to enter certification information into a centralized file meets one of the functional requirements for 75-percent funding. He told us that additional funds requested by the state agency to subsequently upgrade the state's program system were approved at the 50-percent rate.

We also found that the Midwest Region approved 75-percent federal funding for state agencies' ADP development that was only a part of the total certification or issuance, reconciliation, and reporting system. For example, the Midwest Region approved 75-percent funding for two automatic mailing machines to support Illinois' program mail issuance project, and two mail-stuffing machines for the Wisconsin state agency. As explained in the Midwest regional office files, the Illinois state agency became concerned about their means of distributing food stamps. To reduce costs, the state agency began a pilot project for direct mail issuance. In December 1982, the state agency requested 75-percent funding for \$68,475, and received approval for two automatic mailing machines to support the project. Similarly, the Wisconsin state agency requested and received approval for 75-percent funding of \$368,117 in August 1984 and another 75-percent funding approval of \$109,148 in November 1985 for two machines that select food stamp coupons by denomination for individual issuance, stuff and address envelopes, and batch envelopes by zip code.

According to the Midwest regional ADP Section Chief, the Service approved 75-percent funding for the automatic mailing and stuffing machines because, in his opinion, the machines were not just part of an issuance system, but a complete rework of the issuance system. The machines enabled the states to centralize the inventory of food stamps—food stamp coupon inventories were no longer needed in each county. Also the machines enabled the mail issuance to be staggered throughout the month and automatically stuffed the food stamp coupons into envelopes for mailing.

However, the regulations describe the issuance, reconciliation, and reporting system to encompass more than merely issuing the food stamp coupons. The system developed should also have the capability to perform such functions as generating authorizations for benefits in issuance systems employing direct mail or online issuance and to store all participant household information. The system should also be able to provide necessary information to evaluate the program's performance, such as

reconciling all issuances, generate data necessary to meet federal reporting requirements, and select samples for quality control reviews of casefiles.

According to Service officials, 75-percent funding has been approved for parts of a total certification or issuance, reconciliation, and reporting system because in the "long run," this development will become part of a totally automated program system. However, in order to qualify for more than the normal 50-percent funding to develop automated systems, USDA regulations do not permit this piece-meal approach to developing a program system. In fact, the regulations state that, at a minimum, systems approved for 75-percent funding must be capable of performing 12 specific functions for certifying applicants' eligibility, or be capable of performing 12 specific functions for issuing coupons, reconciling issuances with authorizations, and reporting program operations. And all approved systems must also be capable of performing five general functions geared toward meeting program time frames.

Conclusions

The Food Stamp Act Amendments of 1980 provide broad authority for the Secretary of Agriculture to pay each state agency 75-percent of the costs incurred by the state agencies to plan, design, develop, or install ADP and information retrieval systems. The act's legislative history indicates that the act's drafters increased the federal funding rate from 50 to 75 percent for a onetime use to initiate program automation that was integrated with the systems used to administer the AFDC Program.

USDA's interpretation of the act and implementing regulations, although legal, are broader than the drafters of the 75-percent provision expected as set forth in the legislative history of the act. We found many instances where USDA has approved 75-percent funding for systems that differ from this expectation. Specifically, USDA has approved 75-percent funding for more than onetime state agency requests, requests to develop other than the first attempt to automate the Food Stamp Program, requests to upgrade previously automated state program systems, requests to modify automated systems to account for program changes, and requests to develop systems dedicated to the Food Stamp Program only. In addition, Service personnel approved types of automated systems development not expressly permitted by USDA regulations to approve only systems designed to determine program eligibility or issue, report, and reconcile benefits.

In order for USDA to comply with what the drafters of the 75-percent provision expected, USDA would need to limit the approval of 75-percent funding of state agency requests to (1) a onetime use at 75-percent of costs incurred for only the initial costs for establishing these systems and (2) automated Food Stamp Program systems that are integrated with the AFDC Program. However, the Service's actions indicate a possible need for an increased level of funding to upgrade and modify existing automated program systems. Accordingly, we plan to continue our review of this and other issues concerning program automation. In the interim, the Congress may want to consider expressing its current position on the 75-percent funding incentive.

In addition, USDA should enforce its regulations requiring that automated systems approved for 75-percent funding be for total program certification or issuance, reconciliation, and reporting systems only.

Matters for Consideration by the Congress

Since 1980, the Department of Agriculture has used 75-percent federal matching funds to automate the Food Stamp Program in a manner allowed by the act but which departed significantly from what was envisioned in the legislative history. Accordingly, the Congress may wish to consider expressing its current position on the manner in which 75-percent funding is being used.

Recommendation to the Secretary of Agriculture

We recommend that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to monitor and enforce regulations requiring that automated systems approved for 75-percent funding be for total Food Stamp Program certification or issuance, reconciliation, and reporting systems only.

Agency Comments and Our Evaluation

The Food and Nutrition Service generally agreed with the technical accuracy of the information pertaining to Service policies for providing 75-percent funding for state agency automated Food Stamp Program systems development. However, it disagreed that such policy and corresponding approval actions were inconsistent with funding restrictions intended by the Congress. Its opinion centered on the fact that the language of the act does not specifically limit Service approval to onetime use of 75-percent funding, initial ADP and information retrieval systems development, or AFDC integrated systems development. The Service also said that the House Agriculture Committee Report 96-788 permitted 75-percent funding for systems upgrade and modification and did not limit

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the use of 75-percent funding to states with manually operated systems or a onetime use by states.

We have revised the report (see p. 16) to more clearly reflect the House Committee report language with regard to limiting funding to states with manually operated systems. We do not agree with the Service that 75-percent funding was expected to be for more than onetime use and available for upgrading and modifying existing program automation systems. In the Service's view, when the Committee said that 75-percent funding was to be limited to "initial development costs," the Committee was referring to the types of costs that could be funded at 75 percent, rather than to the type of state agency program operation. The Service interprets this as permitting funding costs of development of upgrades or modifications of an existing system.

In its comments, the Service does not reconcile its interpretation with other contrary language in the House report:

"The increase in matching from 50 to 75 percent would not apply to ongoing utilization . . . or to any post-installation modification to take account of changes subsequently made in the food stamp program The boost in cost-sharing is intended to be a one-shot infusion of Federal funds Ongoing system utilization or upgrading expenses would continue to be shared at the 50 percent rate"

The only exception cited by the House Committee report was that to prevent states with a head start in computerization from being adversely affected by the fiscal year 1981 trigger date for the stepped-up match, 75-percent funding could be obtained in fiscal year 1981 to complete the development of systems being automated in the best possible fashion.

Service comments stated that this exception permits 75-percent funding to upgrade all systems at any time. Such a view though, is inconsistent with the House Committee report statement that 75-percent funding is not intended for post-installation.

Regarding the Service's comment that exceptions are permitted to the AFDC integration requirement when a state can demonstrate that a local, food stamp-dedicated or single-function system will provide for more efficient and effective administration of the program, we continue to believe that that would be different from what the drafters of the 75-percent provision expected. As the House Committee report states, "The

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Secretary . . . would have to analyze each state's increased computerization proposals to assure that any systems that would be installed could be used as well for the AFDC program." A stand-alone system, which would not qualify for 75-percent funding, should be developed with the normal 50-percent funding match.

Although the Service stated that all statutory and intended requirements and conditions for the provision of 75-percent funding for Food Stamp Program automation have been properly implemented by the Service, it also stated that it would welcome additional clarification by the Congress on this issue and would revise Service policy accordingly if changes are made to the Food Stamp Act.

In response to our recommendation to the Secretary of Agriculture to monitor and enforce existing regulations, the Service stated that it would continue to monitor and enforce all regulations governing the submission, review, approval, and development of state proposals for food stamp automated systems. Additionally, it would issue clarification and direction to all Service regional offices on the approval of funding for total food stamp certification, issuance, reconciliation, or reporting systems. (See app. III for the text of the Food and Nutrition Service's comments and our response to additional Service comments.)

Insufficient Evidence to Show That Approved Requests for 75-Percent Funding Met All Regulatory Requirements

Within the 6 regions covered by our review, none of the approved 51 requests for 75-percent funding to develop automated Food Stamp Program systems showed that the approved systems met all of the regulatory requirements. The federal share of these systems totaled about \$66 million. USDA regulations governing the establishment of ADP and information retrieval systems state that proposed systems seeking 75-percent federal funding must, at a minimum, meet the applicable program standards for certification, issuance, reconciliation and reporting, as well as some general standards applicable to all automated program systems. (See app. I.)

Although the Service's regional offices we visited maintained most of the necessary state agency request planning documents, amendments, and related correspondence, we could not determine from the file information whether (1) approved state agency requests for 75-percent funding for program systems included the required program functions or (2) regional officials had actually reviewed the requests to determine that planned systems would incorporate the required program functions. Moreover, the headquarters oversight committee's documentation used in its review of certain high dollar requests also provides no evidence that the required functions would be included in the ADP systems. In addition, Service-required recordkeeping procedures for identifying and tracking requests for funding, amendments to requests, and other related correspondence generally were not followed by the Service's regions.

Service Records Do Not Evidence Compliance With All Functional Standards

Although regulations governing approval of the 75-percent funding rate require that systems approved for that rate perform certain functions, none of the 51 state agency requests approved contained sufficient information to show that the systems would meet all of these requirements. As a result, we could not determine whether these state agency requests, approved for about \$66 million, comply with the regulatory requirements for 75-percent funding.

For example, the Service's Northeast region approved \$995,965 at the 75-percent rate in September 1986 for the Rhode Island state agency's request for a certification and issuance system. The documentation for the proposed system described only 3 of the 12 functional standards required for a certification system, 1 of the 12 functional standards required for an issuance system, and 1 of the 5 general functional standards required for all automated Program systems. Similarly, the Service's Mountain Plains region approved a certification system for the

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South Dakota state agency that described only 9 of the 12 required certification functional standards. The state received initial 75-percent funding of \$754,886 in February 1985 and another 75-percent funding approval for \$227,546 in October 1985.

Although USDA regulations require that state agency requests for 75-percent funding be prepared in the format prescribed by the Service's Handbook 151 for advance planning documents, the handbook does not specifically require that the program functional standards be described in the documents. In fact, we found that the handbook for preparing the advance planning document has not been amended to reflect the requirements for 75-percent funding. Specifically, the handbook defines an advance planning document as a written plan of action to acquire proposed ADP services, systems, or equipment that contains a

- statement of needs and objectives,
- preliminary cost/benefit analysis,
- personnel resource statement,
- detailed description of the nature and scope of the activities to be undertaken and methods to be used to accomplish the project,
- proposed activity schedule for the project,
- proposed budget,
- statement indicating the period of time the state expects to use the ADP service or equipment, and
- feasibility study.

Service officials in each of the six regions we visited told us that although the states are not specifically required to mention the program's functional standards in advance planning documents, these documents are the basis for determining whether the proposed program systems will comply with the standards necessary for 75-percent funding approval. However, none of the 51 state agency requests approved for 75-percent funding that we examined in the six regional offices provided enough information to determine whether the proposed systems meet the required functional standards.

Little Evidence Shows That Service Officials Reviewed Requests for Compliance With Regulations

Although Service regional office personnel are charged with reviewing state agency requests for 75-percent funding to determine that the systems perform required functions, they are not required to document the extent of their review. We found that in 51 instances, regional file information did not evidence that Service officials had reviewed the state agency requests for compliance with the regulatory standards. As a result, we could not tell whether (1) regional officials were aware that the state agency requests did not describe the required system functions or (2) regional officials orally resolved the apparent noncompliance before approving the requests for 75-percent funding. Moreover, the Service headquarters oversight committee's documentation used in its review of requests for \$1 million or more provide no additional evidence that the planned systems would perform required functions.¹ Service officials maintain that the lack of documentation on the extent to which they review state agency requests does not mean that the reviews were not performed. Further, they stated that oral resolution of review comments or problems with technical, program, or fiscal matters is allowable under present procedures when approving state agency requests.

Limited Documentation to Show That Functional Standards Are Met

Regional office procedures, both written in the Food and Nutrition Service Handbook 103, ADP Advance Planning Document Handbook For FNS Offices and explained by regional personnel, generally require requests for ADP development, regardless of the funding rate, to receive: (1) a technical (Will the system work?) review, (2) a fiscal (Can it be done at the requested cost?) review, and (3) a program (Does the system incorporate the required functional standards?) review. However, no requirement exists to document that the reviewing official determined that all of the minimum functional standards were described in the request.

According to the Service's headquarters management and regional program and ADP supervisors, the lack of documentation does not mean that they did not perform the review. They determine that each request meets or plans to meet the required program functional standards before the system is approved. Evidence of this review, however, may be only in the form of a joint intra-regional office letter of approval to the state agency or a request for more information from the state agency.

¹On October 20, 1987, the ADP Oversight Committee directed the Service's regional offices to specifically include a statement in executive summaries of systems recommended for approval that all functional standards are met by the proposed system.

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Generally, all six of the Service's regional offices maintained only informal memoranda that documented or highlighted the individual regional officials' review comments, questions, or problems on technical, program, or fiscal matters. According to the Service's regional personnel, because they are not required to document the extent to which they review state agency requests for funding, individual comments or recommendations may also have been discussed and resolved orally in joint, interoffice meetings with other Service regional personnel or state agency personnel without any record. Thus, some approvals do not show evidence regarding the extent of the Service's review or that any review was performed to determine whether the approved program system would perform the required functions.

For example, the Midwest regional office approved 75-percent funding of \$1.4 million in July 1982 for the Indiana state agency to develop a statewide, AFDC Program-integrated Food Stamp Program certification system. We found one interoffice memorandum prepared by the Food Stamp Program supervisor stating only that they had completed their comparison of the request with the regulations pertaining to 75-percent funding and found the request approvable. The Information Resources Management personnel also prepared an informal memorandum stating only that they had completed their technical review. Neither memorandum documented the extent of the review. As a result, we could not tell from the file information whether the requested systems development would meet the required program functional standards.

In addition to the lack of specific documentation in the Mountain Plains regional office, we noted some confusion about who is responsible for performing the review to determine compliance with the USDA regulations for 75-percent funding approval. Mountain Plains regional office ADP personnel told us that program personnel perform the regulatory program functional review for requests for 75-percent funding. In a separate meeting with the person who performed the program review, he told us that ADP personnel performed the review for functional standards. However, program and ADP personnel, in a joint meeting, told us that ADP personnel perform the functional requirement review. Thus, because the regional office lacked documentation describing the functional standards review, we were unable to verify that the 14 approved requests for 75-percent funding were reviewed by regional officials for compliance with the regulations, and actually included each of the required functional standards.

ADP supervisors in three of the Service's six regions we reviewed told us that the Service has developed a pro forma checklist that could be used to document the functions the proposed system will perform, but the checklist is not used to review requests. This checklist is part of the "Functionally Automated Client Transaction System." The Transaction System contains a narrative, flow charts, a listing of required data elements, and a checklist for detailed review of an individual state agency's system by state or federal reviews. The checklist also contains a listing of all the program's functional standards required for systems to be approved for 75-percent funding. According to the Mountain Plains, Northeast, and Mid-Atlantic regional ADP supervisors, this checklist has principally been used to complete the post-installation review of the completed systems' development. Heretofore, such a checklist has not been required in advance of a state agency's request approval.

Oversight Committee
Review Adds No
Assurance That Functional
Standards Are Met

The additional Service review for state agency requests for \$1 million or more does not add assurance that systems approved for 75-percent funding meet the functional requirements. After August 15, 1985, state agency requests for ADP development with 75-percent funding exceeding \$1 million require the National Office Advanced Planning Document Oversight Committee's concurrence. However, the executive summary of the state agency requests, prepared by the applicable Service regional officials, do not always document that the program's functional standards are met. The executive summary is the only document the oversight committee sees.

The Service headquarters' guidelines for preparing the executive summaries for the oversight committee's review require only that a statement be included that the proposed system meets the criteria for 75-percent funding. The following is an illustration. The Mountain Plains Region submitted an executive summary for a request from the Wyoming state agency to the oversight committee for its review in May 1985. Although the summary did not state that the automated system, which required \$1.6 million at 75-percent funding, met the required functional standards, the oversight committee concurred with the region's approval. We found that the regional file records contained insufficient information to show whether Wyoming's planned program system would meet the requirements. Thus, the oversight committee had no assurance that regional officials checked for the required functional standards.

Similarly, executive summaries prepared in June 1985 by the Service's Mid-Atlantic regional office for the Virginia state agency for 75-percent funding of \$2.34 million stated that the regional office had completed the program, financial, and technical review of the system and recommended approval. In October 1985, the oversight committee concurred with the region's approval. Yet, we found insufficient information in the regional files to substantiate that the proposed system included program functional standards.

Also, the executive summaries prepared for the South Carolina state agency system in September 1986, and the Connecticut state agency system in June 1986 included a list that highlighted the major benefits and functions of the systems being reviewed. While these lists contained many of the functional standards required of systems receiving 75-percent funding, they were not complete and not supplemented by a statement that the system would perform all of the required functions. However, the oversight committee concurred with the regional office decisions and approved both requests.

Records Are Not Maintained as Required

Five of the six regional offices we visited do not use the required record-keeping procedures for identifying and tracking requests for ADP funding, amendments to the requests, or related correspondence. We had to search all of the regional ADP files to identify individual state agency requests for 50- or 75-percent funding. Although no summary information existed to verify our computations for the period fiscal years 1981-86, we reviewed all regional files pertaining to state agency ADP and information retrieval systems development to identify the individual state agency requests for 75-percent funding.

According to Service Handbook 103 for reviewing the state agency requests, all ADP requests for funding should be identified with a 12-digit number and maintained on a control log to account for each state agency's requests and amendments to those requests. Only the Southwest regional office maintained the required control log. The other regions maintained continuing status reports. These reports were used internally to monitor action taken on outstanding requests. However, once a requested ADP development was completed, its record was dropped from the report.

According to Mid-Atlantic regional ADP officials, the 12-digit number is assigned to each request. However, the number is not assigned to related

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correspondence concerning state, Service regions, or Service headquarters action, or to subsequent entries on the regional status reports. Such assignment is not needed because a state agency usually has only one ADP request document at a time; thus, the number is not necessary.

Table 3.1 shows that of 51 state agency requests for 75-percent funding, we could not locate 4 funding request records in 4 regional file records. We also found that 8 amendments to the state agency requests were missing and 11 approval letters that identified the funding amount that the Service's regional officials approved could not be located. Instances of lost or misplaced records precluded us from reconciling discrepancies.

Table 3.1: Available Documentation Supporting the State Agency Requests Approved for 75-Percent Funding

Regional office	No. of requests		No. of amendments		No. of approval letters	
	Found	Not found	Found	Not found	Found	Not found
Mountain Plains	14	0	16	5	28	7
Southwest	5	0	4	0	9	0
Mid-Atlantic	8	1	2	0	9	2
Midwest	8	1	7	0	16	0
Southeast	7	1	5	2	13	2
Northeast	5	1	1	1	8	0
Total	47	4	35	8	83	11

For example, the Mountain Plains Region's approval letter for the South Dakota state agency's third amendment to its eligibility system development request stated that the revised total Service share of costs at 75-percent federal funding was \$1.385 million. However, prior approval letters maintained in the regional ADP files for the initial amount request of February 1985, and the individual requests to amend the original amount approved in October 1985, December 1985, and May 1986, totaled \$1.249 million at 75-percent funding. Because of the lack of supporting documentation in the ADP files, we were unable to reconcile the conflicting \$135,930 difference between the approval letter for the third amendment (\$1.385 million) and the prior approval letter amounts (\$1.249 million).

Conclusions

At the six Food and Nutrition Service regional offices we visited, we found that none of the 51 state agency requests for 75-percent funding contained sufficient information to show whether the approved systems would include the required functional standards. Also, we found that regional file records did not document the Service's review of the

requests and that the required recordkeeping procedures for identifying and tracking state agency requests generally were not used.

Because the Service's procedures do not require that these standards be described in state agency requests, the Service has no assurance that the planned system would incorporate the required functions and, thus, states may not be accountable for tasks not described in their requests once the Service approves them. In addition, since the Service's regional offices did not maintain the necessary information regarding review of each state agency's requests for 75-percent funding, the Service has no assurance that approved state agency requests totaling about \$66 million meet regulatory requirements. Moreover, because the Service approves some state agency requests on the basis of oral conversations held during interoffice meetings with other Service regional personnel or state agency personnel without any record, we believe the Service is in a weakened position should a state agency subsequently dispute oral agreements made with the Service on the state's approved funding request.

In order to ensure that the Food Stamp Program's automated systems development approved for 75-percent federal funding are meeting the requirements set in USDA's regulations, the Service needs to amend its Handbook 151 to require that state agency requests include documentation on how the proposed automated system will meet the required program functional standards. In addition, the Service needs to amend Handbook 103 to require Service personnel to document that requests for 75-percent funding meet the required program functional standards. Regional Service personnel could document their review on a checklist similar to the Functionally Automated Client Transaction System checklist used currently for post-installation reviews. Finally, Service regional personnel should implement a records control system for each state agency request.

Recommendations to the Secretary of Agriculture

To help ensure that the Food Stamp Program's automated systems development approved for 75-percent federal funding meets the requirements set forth in USDA's regulations, we recommend that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to do the following:

- Amend Service Handbook 151, ADP Advance Planning Document Handbook for State Agencies, to direct that state agency requests for 75-percent funding fully describe in their planning documents how the

required program functional standards will be incorporated into the proposed automated Food Stamp Program system.

- Amend Service Handbook 103, ADP Advance Planning Document Handbook for FNS Offices, to direct regional Food Stamp Program personnel to document their determination that each of the required program functional standards are met prior to approving requests for 75-percent funding. This amendment could take the form of the ADP system's checklist prepared as part of the Functionally Automated Client Transaction System for a detailed review of an individual state agency's system.
- Direct regional office personnel to implement the state agency request file records control system described in Service Handbook 103 to maintain a planning document control log and numbering system for related amendments and correspondence pertaining to each state agency's request for federal funding.

Agency Comments and Our Evaluation

Although the Food and Nutrition Service commented that our draft report did not adequately identify the specific functional standards that each of the 51 requests failed to describe, it recognized the need to document compliance with these requirements and to fully implement our recommendations. Concerning the file records control system described in Handbook 103, Service officials commented that our report and recommendations suggested a centralized advance planning document control system at the headquarters level for all regional offices. As such, they did not agree because the Service has a decentralized system; regional office decision-making addresses most funding requests.

We did not intend that the Service implement a centralized control system but that it maintain the type of file record and document control system described in Handbook 103 at the regional level only. Such a system is needed to track all agency requests for ADP and information retrieval systems development and related correspondence. A perpetual control log could identify what documents exist and should be contained in the regional files.

Moreover, to ensure the systems already approved for 75-percent funding actually meet the requirements, we have provided the Service with a list of functional standards not described in the regional file records for each system approved for 75-percent funding at the time of our visit. To ensure that the Service obtains all the necessary information to support state agency requests and Service action on these requests, we have provided a list of the state systems development requests, amendments, and approval letters for 75-percent funding missing from their files at the

Chapter 3
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Regulatory Requirements

time of our visit. (See app. III for the text of the Food and Nutrition Service's comments and our response to additional Service comments.)

Program Functional Standards Required for State Agency Food Stamp Program ADP Development Approval for 75-Percent Funding¹

According to USDA regulations on the establishment of ADP and information retrieval systems, a state agency may, at its option, receive federal financial participation at 75-percent of costs, provided that the proposed system meets the following program functional standards:

1. Certification.

(a). Determine eligibility and calculate benefits or validate the eligibility worker's calculations by processing and storing all casefile information necessary for the eligibility determination and benefit computation (including but not limited to all household members' names, addresses, dates of birth, and social security numbers; individual household members' income by source; both earned and unearned deductions, and resources; and household size). Redetermine or revalidate eligibility and benefits based on notices of change in households' circumstances.

(b). Identify other elements that affect the eligibility of household members, such as alien status, presence of an elderly person in the household, or status of periodic work registration.

(c). Provide for an automatic cutoff of participation for households that have not been recertified at the end of a certification period.

(d). Notify the certification unit (or generate notices to households) of cases requiring notices of:

- case disposition,
- adverse action and mass change, and/or
- expiration.

(e). Provide for verification of income by matching with records of other federal and state programs (AFDC, Medicaid, benefits and wage data, state employment security agency).

¹Final rules for "Food Stamp Program: Automation of Data Processing Model Plan - 52FR 35331," dated September 18, 1987, added the requirement that all certification systems funded at the 75-percent level must meet the requirements of the IEVS system [7 CFR 272.10(b) (1) (vi)].

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(f). Prior to certification, cross-check for duplicate cases for all household members by matching with food stamp records within the relevant jurisdiction.

(g). Provide the capability to effect mass changes—those initiated by the state, as well as those initiated at the federal level—ineligibility standards, allotments, deductions, utility standards, Supplemental Security Income, AFDC, and Social Security benefits.

(h). Identify cases pending action or followup. For example, households with verification pending or households containing disqualified individuals or strikers.

(i). Calculate or validate benefits based on restored benefits or claims collection, and maintain a record of the changes made.

(j). Store information concerning characteristics of all household members.

(k). Provide for Social Security enumeration for all required household members.

(l). Provide for monthly reporting and retrospective budgeting, as required.

2. Issuance, reconciliation, and reporting.

(a). Generate authorizations for benefits in issuance systems employing Authorizations to Participate, direct mail, or on-line issuance; and store all Household Issuance Record information, including name and address of household, household size, period of certification, amount of allotment, case type, name, address of authorized representative, and racial/ethnic data.

(b). Prevent a duplicate Household Issuance Record from being established for presently participating or disqualified households.

(c). Allow for authorized under- or over-issuance due to claims collection or restored benefits.

(d). Provide for reconciliation of all transacted Authorizations to Participate (ATP), account for any replacement or supplemental ATP issued to a

**Appendix I
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household, and identify cases of unauthorized and duplicate participation.

(e). Provide a mechanism allowing for a household's redemption of more than one valid ATP in a given month.

(f). Generate data necessary to meet federal issuance and reconciliation reporting requirements, including:

- Issuance
 - FNS-259—Summary of mail issuance and replacements and
 - FNS-250—Reconciliation of redeemed ATPs with reported authorized coupon issuance.
- Reconciliation: FNS-46—ATP Reconciliation Report.

(g). Generate data necessary to meet other reporting requirements, including

- Food Nutrition Service-101—Program participation by race and
- Food Nutrition Service-388—[State] Coupon issuance and participation estimates.

(h). Allow for sample selection for quality control review of casefiles, and for management evaluation reviews.

(i). Provide for programwide reduction or suspension of benefits and restoration of benefits if funds later become available, and store information concerning the benefit amounts actually issued.

(j). Provide for expedited issuance of benefits within designated time frames.

(k). Produce and store a participation history covering 3 years for each household receiving benefits.

(l). Provide for cut-off of benefits for households which have not been recertified timely.

3. General. The following standards apply to all proposed systems.

(a). Perform all activities necessary to meet the various FNS timeliness requirements.

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- (b). Allow for reprogramming to implement regulatory and other changes, including a testing phase to meet implementation deadlines, generally within 90 days.
- (c). Generate whatever data are necessary to provide management information for the state's own use, such as caseload, participation, and case action data.
- (d). Provide support as necessary for the state's management of federal funds relative to Food Stamp Program administration, and generate information necessary to meet federal financial reporting requirements.
- (e). Provide for routine purging of casefiles and file maintenance.

State Agencies That Report to the Six Service Regional Offices Covered by GAO's Review: Requests Approved for 75-Percent Federal Funding During Fiscal Years 1981-86

Service regional office and location	State agency	Number of requests	Type of ADP systems	Integrated with AFDC (Yes / No)	Total amount approved for 75-percent funding	
Mid-Atlantic, Trenton, New Jersey	Delaware	0	(b)	(b)	\$0	
	District of Columbia	1	Certification and issuance	Yes	18,000	
	Maryland	1	Certification and issuance	Yes	1,634,940	
	New Jersey		2	Certification and issuance	Yes	1,336,094
				IEVS modified	(c)	156,890
	Pennsylvania		2	Certification	(d)	8,517,699
				IEVS Modified	(c)	605,505
	Puerto Rico ^a	0	(b)	(b)	0	
	Virgin Islands	1	Certification and issuance	No	143,400	
	Virginia	1	Certification and issuance	Yes	3,782,391	
West Virginia	1	Certification	(d)	3,894		
Midwest, Chicago, Illinois	Illinois	2	Certification	(d)	1,405,227	
			Mailing machines	(c)	68,475	
	Indiana	1	Certification and issuance	Yes	1,436,404	
	Michigan	2	Certification and issuance	Yes	1,097,058	
			Issuance	(c)	405,882	
	Minnesota	0	(b)	(b)	0	
	Ohio	1	Certification	Yes	5,154,278	
	Wisconsin	3	Certification	Yes	246,974	
IEVS modified			(c)	51,047		
Mail-stuffing machines			(c)	505,568		
Mountain Plains, Denver, Colorado	Colorado	1	Certification ^e and issuance	No	1,359,069	
	Iowa	3	Certification	Yes	98,542	
			IEVS modified	(c)	23,370	
			Benefits/ calculation	(c)	295,096	
	Kansas	1	Certification and issuance	No	534,025	
	Missouri	1	Certification and issuance	(d)	1,225,883	
	Montana	0	(b)	(b)	0	
	Nebraska	2	Certification and issuance	No	1,359,169	
			Local office terminals	(c)	182,770	
			IEVS modified	(c)	36,173	
	North Dakota	2	Certification	Yes	843,878	
	Wyoming	2	Certification	Yes	1,117,125	
			Wage-matching	(c)	308,763	
	South Dakota	1	Certification	Yes	1,249,416	
Utah	1	Certification and issuance	Yes	1,611,114		

(continued)

**Appendix II
State Agencies That Report to the Six Service
Regional Offices Covered by GAO's Review:
Requests Approved for 75-Percent Federal
Funding During Fiscal Years 1981-86**

Service regional office and location	State agency	Number of requests	Type of ADP systems	Integrated with AFDC (Yes / No)	Total amount approved for 75-percent funding	
Northeast, Boston, Massachusetts	Connecticut	1	Certification and issuance	Yes	\$1,791,300	
	Maine	0	(b)	(b)	0	
	Massachusetts	1	Certification and issuance	Yes	4,065,792	
	New Hampshire	0	(b)	(b)	0	
	New York		2	Certification	Yes	10,548,285
				IEVS modified	(c)	265,153
	Rhode Island	1	Certification	Yes	995,965	
Vermont	1	Certification and issuance	Yes	875,725		
Southeast, Atlanta, Georgia	Alabama	2	Certification and issuance	No	402,940	
			IEVS modified	(c)	551,000	
	Florida	0	-	(b)	0	
	Georgia	0	-	(b)	0	
	Kentucky	0	-	0	0	
	South Carolina	2	Certification and issuance	No	1,594,150	
			Certification and issuance	Yes	1,832,412	
	Mississippi	3	Certification ^f	Yes	1,299,892	
			Certification and issuance	Yes	783,865	
			Monthly Reporting ^f	(d)	181,095	
	North Carolina	0	(b)	(b)	0	
Tennessee	1	Certification and issuance	(c)	1,724,288		
Southwest, Dallas, Texas,	Arkansas	0	(b)	(b)	0	
	Louisiana	2	Certification	Yes	101,265	
			Certification ^g	Yes	80,619	
	New Mexico	1	Certification and issuance (includes IEVS modification)	Yes	1,893,990	
	Oklahoma	2	Certification	Yes	171,594	
			Certification ^g	Yes	327,098	
	Texas	0	(b)	(b)	0	
Total		51			\$66,360,547	

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^aPuerto Rico was excluded after June 1982, when it began its own nutrition assistance program.

^bState agency did not receive approval for 75-percent funding to develop Food Stamp Program ADP and information retrieval systems.

^cUSDA regulations require only statewide certification or issuance systems to be integrated with the AFDC Program.

^dService regional files did not provide this information.

^eService officials indicated that the approved system was cancelled approximately 6 months after approval.

^fService regional officials suspended approval of this system and its monthly reporting modification requests prior to approval and the remaining certification and issuance system development.

^gAlthough the state agency received approval for two requests for 75-percent funding, the funding was for the development of the same system according to regional file information.

Comments From U.S. Department of Agriculture's Food and Nutrition Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park Center Drive
Alexandria, VA 22302

FEB 10 1988

Mr. J. Dexter Peach
Assistant Comptroller General
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

The Food and Nutrition Service has reviewed the December 17, 1987 GAO Draft Report RCED-88-58, entitled "Food Stamp Program: Progress and Problems in Using 75-Percent Funding for Automation." Enclosed are the Agency's comments on the draft report.

We are particularly encouraged that GAO found the policies and actions of FNS in implementing 75-percent funding for Food Stamp Program automation to be in accordance with the Food Stamp Act and Amendments of 1980. However, GAO also expressed the opinion that some of FNS' policies and approval actions may differ from the original Congressional intent regarding the development of food stamp automated systems. After reviewing the bases for the GAO's opinion, FNS continues to believe all policies and actions of the Agency in this regard are fully consistent with the legislation and the expressed intent of the Congress.

We appreciate the opportunity to present these comments and hope that the comments and recommendations are incorporated into the final audit report. We look forward to continued cooperation with your office on the remaining portions of this audit.

Anna Kondratas
ANNA KONDRATAS
Administrator

Enclosure

FNS COMMENTS ON
GAO DRAFT REPORT RCED-88-58
"FOOD STAMP PROGRAM: PROGRESS AND PROBLEMS IN USING
75-PERCENT FUNDING FOR AUTOMATION"

I. GENERAL COMMENTS

o Congressional Intent

The Food and Nutrition Service (FNS) is encouraged by GAO's finding that the policies and actions of FNS to implement 75-percent funding for Food Stamp Program automation have been in accordance with the Food Stamp Act and Amendments of 1980.

However, GAO also expressed its opinion that some of FNS' policies and approval actions may differ from the original Congressional Intent regarding the development of food stamp automated systems. Specifically, GAO reported the following policies of FNS may differ from what Congress may have intended:

- FNS may provide 75-percent funding for the development of food stamp automated systems more than once;
- FNS may provide 75-percent funding for the development of automated programs other than the first attempts at food stamp automation for a particular State;
- FNS may provide 75-percent funding to upgrade or modify existing systems;
- FNS may provide 75-percent funding to develop automated programs that are not fully integrated with the AFDC Program.

FNS acknowledges that the four policies listed above reflect Agency policy. However, FNS disagrees with GAO's opinion that these Agency policies may differ from Congressional intent.

The Food Stamp Program Amendments of 1980 established the authority for USDA to provide 75 percent of the costs involved in the planning, development, or installation of automated systems used in the administration of the Food Stamp Program. GAO correctly found that the Food Stamp Act and Amendments of 1980 do not, in any way, prohibit USDA from providing 75-percent funding for any of the first three situations listed above (i.e., funding more than once, funding other than first automation attempts, and funding for system upgrades and modifications). In fact, barring any statutory limits on the enhanced funding, FNS is required by law to provide 75-percent funding when requested and all conditions of the Food Stamp Act and regulations are to be met.

FNS COMMENTS ON GAO DRAFT REPORT RCED-88-58

GAO, however, has presented the opinion that House Agriculture Committee Report 96-788 implies funding restrictions were intended by Congress even though there are no such restrictions included in the statutory language.

Agency policies governing 75-percent funding for food stamp automation are fully consistent with the Act and the expressed intent of Congress. Despite the statutory language, it is GAO's opinion that Congress intended funding restrictions that were not implemented by FNS. The draft audit report contains findings based on GAO's opinion regarding Congressional intent. While FNS does not question the authority of GAO to examine legislative intent, we believe audit findings should primarily be based on the requirements of the law. FNS recommends all policy-related findings of the audit report be prefaced with qualifying language that such findings are based on GAO's opinion rather than statutory language.

o Interpretation of House Committee Report 96-788

GAO has presented the opinion that Congress intended funding restrictions on 75-percent funding for automation which were not included in the statutory language. GAO referred to House Agriculture Committee Report 96-788 as the authoritative expression of Congressional intent.

With regard to limiting funding to manually operated States, GAO's interpretation of the report is incorrect. The report did not state or imply the 75-percent funding should be limited to States with manually operated systems. In fact, the report recognized most States had automated systems but not to the level of sophistication and computerization envisioned by Congress.

"The fiscal year 1981 costs would be high since, although the great majority of States now have systems, those systems cannot perform more sophisticated computer functions, such as computing eligibility or integrating with AFDC files. The planning necessary to transform and upgrade those systems would necessarily result in most States incurring significant developmental and installation costs in fiscal year 1981."
(House Committee Report 96-788, page 113)

Congress clearly intended to initiate automation for manually operated States and to upgrade the level of automation in the Food Stamp Program for States which were automated.

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With regard to the issue of one-time funding, FNS believes that neither the Act nor the amendments place any restrictions on the frequency that States can be granted 75-percent funding. It is important to note that Congress made 75-percent funding discretionary to States. Although the funding was available beginning in Fiscal Year 1980, States could request and receive the enhanced funding at any time, provided that statutory and regulatory conditions were met. The report did not make a realistic projection of the operational readiness in the Nation for increased food stamp automation. The need for ADP funding has not proven to be a one-time infusion of funds in Fiscal Year 1981. Although focused activity certainly began in Fiscal Year 1981, the majority of State requests did not occur until several years later. Since Congress did not establish any restrictions in the Act on the frequency that enhanced funding could be granted, FNS has been able to work successfully with State and other Federal agencies to achieve the fullest level of automation consistent with cost-effectiveness.

With regard to whether enhanced funding could be used for upgrading and modifying systems, GAO misinterpreted the report language that stated 75-percent funding for food stamp automation would be "strictly limited to initial development costs assuming the fullest computerization consistent with cost-effectiveness." GAO has presented the opinion that this language conveys the Congressional intent to limit 75-percent funding to first-time attempts at automation. However, no mention of that restriction is contained in the Act. The report limitation for "initial development costs" refers to the types of costs that may be funded at the enhanced rate rather than the type of State agency food stamp operation. The language of the Food Stamp Act section 16(g) supports this interpretation by limiting enhanced funding only to the planning, design, development or installation of automated systems. The Food Stamp Program regulations (7 CFR 277.18) properly implement the statutory language by limiting enhanced funding to only the costs associated with system development in accordance with the Act. All other costs after such initial development are funded at the 50-percent rate.

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Finally, regarding the issue of AFDC compatibility, GAO reported USDA regulations allow 75-percent funding to develop automated program systems that do not achieve the level of integration with the AFDC Program which was intended by Congress. One of the conditions in Section 16(g) of the Act for authorizing 75-percent funding is that the system must be "compatible with other such systems used in the administration of State plans under the Aid to Families with Dependent Children Program under Title IV of the Social Security Act."

Food stamp regulation section 7 CFR 277.18(d) specifies systems to be funded at the 75-percent rate must be Statewide and integrated with the AFDC Program. FNS made this requirement in order to provide for more efficient and effective automated systems. This decision is explained in the preamble to the June 11, 1982 final rule that implemented the provisions of the 1980 Food Stamp Amendments:

"Due to comments received on this issue, we have further restricted the definition of compatibility. Food Stamp systems, in order to be compatible with AFDC, must be integrated with the AFDC system. Also, since AFDC's enhanced funding legislation limits funding to Statewide systems, requiring food stamp systems to be Statewide would provide for maximum automation consistent with cost-effective use of Federal funds."

The final regulation also recognized that in some circumstances it may be more cost beneficial to the Food Stamp Program to implement systems successfully which are not fully integrated with AFDC or statewide. The final rule permits exceptions to the statewide and AFDC-integration requirements when a State can demonstrate that a local, food-stamp-dedicated or single-function (issuance or certification only) system will provide for more efficient and effective administration of the program.

FNS has permitted exceptions to the statewide systems and AFDC-integration requirements in order to encourage automation attempts by States with less technologically developed systems and to maximize the possibilities of success for those developmental projects. FNS generally does not look favorably on exception requests by States, but recognizes that in certain States it is necessary to ensure success for more limited automated systems in order to achieve greater levels of computerization at a later time. This policy is fully consistent with the directive by Congress to encourage automation but only when efficiency and effectiveness can be assured.

FNS Comments on GAO Draft Report RCED-88-58

II. SPECIFIC COMMENTS

This section provides comments and concerns with the language and factual content of specific portions of the draft audit report. There are numerous references and findings throughout the audit report which are based on GAO's opinion of Congressional Intent. FNS' comments on these references and findings are summarized in the General Comments section and are not repeated here.

Now on p. 10.

1. The draft audit report states on page 12 that FNS' records do not distinguish between expenditures approved for 50- and 75-percent funding levels.

See comment 1.

State agencies report expenditures for ADP developmental costs at the 75-percent funding level and operational costs at the 50-percent funding level on the quarterly SF-269 report. FNS automated records distinguish between State expenditures at the 75-percent and 50-percent levels.

2. The draft audit report provides FNS' outlays for ADP development costs of State agencies in Table 1.2. These figures are adjusted over time. The following chart provides updated data as of January 26, 1988.

**Federal Outlays for ADP Developmental Costs (thousands)
 by Fiscal Year**

See comment 2.

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
\$1,808	\$5,217	\$4,277	\$11,481	\$11,880	\$12,423

Now on p. 11.

3. The draft audit report states on page 13 that computerized systems costing \$100,000 or more in Federal and State funds over a 12-month period or \$200,000 or more in total costs must be submitted to FNS for prior approval.

See comment 3.

FNS revised this policy on February 17, 1987 to increase the prior approval cost thresholds to \$200,000 for a 12-month period and \$300,000 for the total acquisition.

Now on p. 15.

4. The following comments pertain to Table 2.1 on page 17.

See comment 4.

-- FNS assumes the listing of New York State as "More Than One-time Approval" and "Modified Existing System" reflects the upstate county development, rather than the New York City development. Excluding the approval of Income Eligibility Verification System (IEVS) changes at enhanced funding rates, only one project, the Welfare Management System (WMS) in New York City, has received any enhanced funding. The upstate WMS was developed prior to the availability of enhanced funding and is an eligibility system only.

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FNS anticipates that New York State will successfully complete requirements for the Benefit Issuance Control System (BICS), an upstate issuance/reconciliation/redemption system. Viewing New York State as one State agency will result in one-time enhanced funding for eligibility and issuance in New York City, one-time enhanced funding for issuance in the upstate counties and 50-percent funding for the upstate eligibility system. To obtain statewide functionality (i.e., two systems, upstate and New York City, with an Information Interface) FNS will fund the State at a rate less than 75 percent.

-- Table 2.1 indicates Kansas is not integrated. The Kansas system is integrated with the AFDC and Child Support Programs.

-- Table 2.1 indicates Nebraska, Colorado and Missouri systems are not integrated.

This is true to the extent the systems are not combined with other welfare programs, but the systems meet the requirements of the Food Stamp Act and regulations in that they are statewide, compatible with the AFDC Program, and meet all functional requirements.

-- Table 2.1 indicates the Iowa system received 75-percent funding more than one time.

The Iowa system advance planning document was originally submitted as an integrated system with the AFDC Program. Approximately 6 months into the project a change in governorship took place and the new governor cancelled the project. Most of the design was then incorporated into the Iowa Automated Benefit Calculation (ABC) System which was funded at the 75-percent rate. The first funding request was not funded other than the portion actually utilized in the ABC request. This should be considered one-time funding.

-- Table 2.1 indicates the Virgin Islands food stamp system is not integrated with the AFDC Program.

The AFDC Program does not operate in the Virgin Islands. Thus, the AFDC-integration criterion cannot be applied to the Virgin Islands.

5. The audit report states on page 22 that 75-percent funding was approved for New Jersey to develop a new automated system although the State had an existing system.

See comment 4.

See comment 4.

See comment 4.

Now on p. 18.

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See comment 5.

The new system in New Jersey is a centralized system for the Medicaid, AFDC and Food Stamp Programs. When FNS approved 75-percent funding for this new system, FNS funded only the enhancements which did not exist in the prior system. FNS' share of costs represented 3.33 percent (i.e., \$1.3 million out of \$39 million) of total costs. FNS did not approve ADP funds at the 75-percent rate for functions previously funded at the 50-percent level.

Now on p. 20.

6. The draft audit report states on page 25 that the FNS Midwest Regional Office approved 75-percent funding for the State of Pennsylvania to develop a program eligibility system and system modifications to implement the IEVS provisions of the 1984 Deficit Reduction Act.

See comment 6.

The FNS' Mid-Atlantic Regional Office, not the FNS' Midwest Regional Office, is and has been responsible for program administration in Pennsylvania, including APD approvals.

Now on p. 23.

7. The draft audit report states on page 29 that the FNS' Mountain Plains Regional Office reported that FNS approved 75-percent funding for the Iowa system because it provided statewide on-line data entry capability.

See comment 7.

The FNS' Mountain Plains Regional Office indicated the auditors may have misunderstood regional officials on this point. The on-line entry capability of the system was not the sole basis for FNS' decision on enhanced funding. The regional office official questioned by the auditors on this point had indicated the entry of certification information into a centralized file meets one of the requirements for 75-percent funding.

See comment 8.

8. GAO reports in chapter 3 that documentation was insufficient in the regional office to show approved requests for 75-percent funding met all regulatory requirements.

The draft audit report does not indicate which specific functional standards the auditors were unable to find described in regional office APD documentation. Without more specificity, FNS cannot properly respond to this finding.

However, all approvals for 75-percent funding are based on the condition that all required functional standards will be met. States must make the commitment to FNS to ensure the functional standards are met in order to receive enhanced funding. FNS generally verifies that all required functional standards are met during the detailed development, implementation and operational phases of projects. Existence

FNS Comments on GAO Draft Report RCED-88-58

of systems features meeting requirements are verified by program, financial and/or ADP personnel during on-site visits and through review of detailed system documents developed during the developmental process.

9. The draft audit report states on page 35 that system documentation for FNS-approved systems in Rhode Island and South Dakota did not describe all of the required functional standards.

Although Rhode Island's APD did not reflect all of the detailed functional standards for certification and issuance systems, the proposed system to be transferred incorporates all required standards. Rhode Island provided written commitment to incorporate the transferred system's functionality and improve upon it. Since this commitment is a condition of approval, FNS is entirely justified in granting enhanced funding.

The FNS' Mountain Plains Regional Office reported file documentation available in the regional office describes and supports all certification standards for the South Dakota system. Without more detailed information about the nature of the information the auditors were unable to find, FNS cannot properly respond to this finding.

10. The draft audit report states on pages 38-39 that there was some apparent confusion in the Mountain Plains Regional Office over organizational responsibilities for performing the review to determine compliance with USDA regulations for 75-percent funding.

The Mountain Plains Regional Office reported there may have been some misunderstanding expressed on this issue by the person who performed the program review, but there is no confusion in regional policy on procedures. The regional Financial Management and Family Nutrition Program directors signed a memorandum of understanding in 1981 and 1983 specifying organizational responsibilities for APD review and approval. Functional requirements are reviewed by both staffs cooperatively and on-site reviews of State systems are performed in all instances by a joint team of ADP program and financial staffs. The extensive use of the FAMIS-certified Alaska/North Dakota System by transfer to three other Mountain Plains States may account for some of the apparent confusion, since system transfers generally require less analysis of functional requirements than non-transfer

Now on p. 29.

See comment 9.

Now on p. 32.

See comment 10.

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proposals. The regional office reports that extensive documentation is available to describe how program functional requirements are met and disagrees with GAO's statement that review requirements may not be met.

Now on p. 33.

11. GAO reported on page 40 that the review by the FNS APD Oversight Committee adds no assurance that all functional standards are met since the executive summaries of State agency requests do not always document compliance with functional standards.

See comment 11.

The APD Oversight Committee directed regional offices on October 20, 1987 to specifically include in all executive summaries of systems recommended for approval at the enhanced rate a statement that all functional standards are met by the proposed system.

12. GAO reported that FNS Handbook 103 establishes a 12-digit control number to be used for logging each APD request and that only the FNS Southwest Regional Office was maintaining the required control numbers and log.

FNS operates a decentralized review and approval process for State system automation requests. The FNS' regional administrators are responsible for the review and approval/disapproval of all requests. The APD Oversight Committee reviews only the State requests which exceed \$1 million in FNS Federal Financial Participation. FNS does not intend to maintain a central control log for all APD actions in Headquarters. FNS believes the decentralized administration of the review and approval process makes such centralized control unnecessary. Regional offices may maintain any control system as long as it is effective in tracking document submittals. All regions use a periodically updated APD status report which provides greater information than a simple control log and assures the status of each project is reviewed periodically. This system provides for management information and control and FNS is surprised to see no mention of regional status reporting in the draft audit report.

See comment 12.

Also, FNS' Mid-Atlantic Regional Office uses the 12-digit control number in an automated control history of all APD activity. The system monitors costs, correspondence and due dates and generates follow-up letters.

Now on p. 35.

13. The draft audit report states on page 42 (i.e., Table 3.1) that GAO was unable to find certain documents in regional files.

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Agriculture's Food and Nutrition Service**

FNS Comments on GAO Draft Report RCED-88-58

Without knowing which specific documents the auditors could not find, FNS cannot properly respond to these data in Table 3.1. Also, FNS' Southwest Regional Office was advised by the GAO auditor-in-charge that the notation on Table 3.1 concerning that office was in error. Table 3.1 should indicate that all requested files were provided by the Southwest Regional Office.

14. The program functional standards, included as Appendix A to the report, were revised by the publication of a final rule (Food Stamp Program: Automation of Data processing Model Plan - 52 FR 35221) on September 18, 1987. These provisions specify at 7 CFR 272.10(b)(1)(vi) that all certification systems funded at the 75-percent level must meet the requirements of the IEVS system and generate information, as appropriate, to other programs.

See comment 13.

Now as app. I.

See comment 14.

GAO Draft Report RCED-88-58
GAO Recommendations

GAO Recommendation to Congress

GAO recommended that Congress consider expressing its current position on the 75-percent funding initiative for food stamp automation in light of FNS' use of such funds. Furthermore, GAO recommended that Congress may consider revising the Food Stamp Act if it decides FNS did not implement Public Law 96-249 as originally intended.

Agency Comment:

As previously stated, all statutory requirements and conditions for the provision of 75-percent funding for Food Stamp Program automation have been properly implemented by the Agency. Nevertheless, FNS would welcome additional clarification by Congress on this issue and will revise Agency policy accordingly if changes are made to the Food Stamp Act.

GAO Recommendation to the USDA Secretary

GAO recommended the USDA Secretary direct the FNS Administrator to monitor and enforce regulations requiring automated systems approved for 75-percent funding be for total Food Stamp Program certification or issuance, reconciliation, and reporting systems only.

Agency Comment:

USDA is fully committed to continue to monitor and enforce all regulations governing the submission, review, approval, and development of State proposals for food stamp automated systems. To ensure full compliance with the specific policy referred to in the GAO recommendation, USDA will ask FNS to issue clarification and direction to all FNS regional offices on the approval of funding for total food stamp certification, issuance, reconciliation, or reporting systems.

**Appendix III
Comments From U.S. Department of
Agriculture's Food and Nutrition Service**

FNS Comments on GAO Draft Report RCED-88-58

GAO Recommendation to the USDA Secretary

GAO recommended the USDA Secretary direct the FNS Administrator to implement the file records control system described in Handbook 103 in all regional offices.

Agency Comment:

It is USDA's position that a centralized system for maintaining advance planning document file records and document control logs and correspondence is inappropriate for a decentralized operation. Regional offices are responsible for maintaining the file record control system, control log, and correspondence tracking systems for their own operations. The current system of periodic regional status reports provides better management information and control than simple control logs. However, due to the auditors' findings that certain documents were not found at the regional offices, USDA will take the following actions:

- Request the auditors to provide FNS with a listing of specific documents that were not located.
- Follow up with FNS' regional offices for each document to determine whether the documents in question were on file and available.
- Based on the regional follow-up, determine whether file and document control problems exist.
- Develop a plan for correction, as necessary.

GAO Comments

The following are our responses to section II of the Food and Nutrition Service's letter dated February 10, 1988, that forwarded its comments on our draft report. The numbers used in this section correspond to the numbers used by the Service in section II of its letter.

1. We revised the report to indicate that the Service records did not distinguish between expenditures for ADP development approved for 50- and 75-percent funding levels.

2. The Service states that the figures in table 1.2 of our draft report may need to be adjusted and provided updated data for fiscal years 1983 and 1986.

Although our reported figures for fiscal years 1983 and 1986 differ only slightly from the "updated figures" provided by the Service, we are more confident in the accuracy of our reported figures. We compiled our information about state expenditures for ADP development from the final reports prepared by the individual state agencies. The Service's updated figures are taken from a computer-generated summary of the state expenditure reports. Although our limited testing of these summary data showed the information to be generally correct, some discrepancies were found with the source documents—final expenditure reports—prepared by the state.

3. We revised the report to reflect the Service's new approval threshold.

4. The Service provided several comments pertaining to table 2.1 of our draft report. Our response follows each comment, where appropriate.

- In commenting, the Service generally states that it assumes the listing of New York State as "More Than One-time Approval" and "Modified Existing System" reflects the upstate New York county development, rather than the New York City development. Excluding the approval of Income Eligibility Verification System (IEVS) changes at enhanced funding rates, only one project, the Welfare Management System (WMS) in New York City, has received any enhanced funding. The upstate WMS was developed prior to the availability of enhanced funding and is an eligibility system only.

Our listing of New York reflects the 75-percent funding approval for the New York City system development and the 75-percent approval of the IEVS development that, according to the state's advanced planning document, would affect both the upstate New York county and the New York

City ADP systems. According to the Service's Northeast regional officials, Service action pertaining to the Food Stamp Program remains at the state agency level. Accordingly, table 2.1 reflects the requests approved for the state agency regardless of further delineation of specific ADP development efforts.

- The Service's comment states that our draft report should state that the Kansas system is integrated with the AFDC and Child Support Programs.

According to Kansas' advance planning document submitted to the Service and reviewed by us, the Kansas system interfaces with the AFDC and Child Support Programs. Mountain Plains regional Service officials told us that a system that interfaces with another uses different data bases, whereas an integrated system uses the same data base. Therefore, we conclude that the Kansas system is not integrated as indicated in table 2.1.

- In commenting that table 2.1 of our draft report states that the Iowa system received 75-percent funding more than one time, the Service stated that the Iowa system should be considered as receiving onetime enhanced funding. It further stated that the Iowa system's advance planning document was originally submitted as an integrated system with the AFDC Program. Approximately 6 months into the project, the project was cancelled. Most of the design was then incorporated into the ABC system, which was funded at the 75-percent rate. The first funding request was not funded except for the portion actually utilized in the ABC request.

Table 2.1 of our report reflects the number and amount of 75-percent federal funding requests approved for automated systems development. We did not determine the number or amount of 75-percent funding the states actually received for each of the approved systems. Therefore, no change is made to table 2.1. However, appendix II, which lists the individual requests approved for 75-percent funding, now notes that the system was suspended.

- The Service states that table 2.1 indicates that the Virgin Islands food stamp system is not integrated with the AFDC Program because the AFDC Program does not operate in the Virgin Islands. Thus, the AFDC-integration criteria cannot be applied to the Virgin Islands.

Our review of Service records indicates that according to the Service's advanced planning document approval letter to the Virgin Islands Commissioner of Social Welfare, dated July 8, 1983, "Since the system will have the capability of an automated data exchange with the AFDC system, an exception to the statewide AFDC integration requirement of those regulations at 7 CFR 277.18(d) was granted." Therefore, we concluded that the Virgin Islands operated at least some type of AFDC Program at the time of the request for 75-percent funding. In fact, the Virgin Islands has had an AFDC Program in effect since October 1, 1950. Mid-Atlantic regional office records did not indicate otherwise.

5. In commenting on our report's discussion that 75-percent funding was approved for New Jersey to develop a new automated system although the state had an existing system, the Service states that the new system in New Jersey is a centralized system for the Medicaid, AFDC, and Food Stamp Programs. When the Service approved 75-percent funding for this new system, it funded only the enhancements which did not exist in the prior system. The Service's share of costs represented 3.33 percent (i.e., \$1.3 million out of \$39 million) of total costs. Finally, the Service states that it did not approve APD funds at the 75-percent rate for functions previously funded at the 50-percent level.

Our review of Mid-Atlantic regional file records shows that the old system was being replaced by the new system. In fact, in correspondence dated August 27, 1984, the regional Service Family and Nutrition Programs Director stated that the new system appeared to achieve similar benefits to the Food Stamp Program as the existing system and requested that the state agency explain how the new system would benefit the program in a manner the old system could not. Following this Service's regional office review, the state agency decided to include, among other things, the capability to obtain individualized income levels in the new system. This shortcoming in the old system was a major reason it did not obtain approval for 75-percent funding. Further, the executive summary for the new system, dated August 12, 1986, does not indicate that only enhancements to the old system were approved for 75-percent funding. Quite to the contrary, the executive summary describes the new system as being designed to replace the old system but with enhanced capabilities. The total cost attributed to the state agency Food Stamp Program was estimated at \$1.781 million; the Service's share at 75-percent funding was \$1.336 million.

6. We revised the report to show that the Mid-Atlantic regional office is responsible for program administration in Pennsylvania.

7. We revised the report accordingly.

8. The Service comments state that our reported finding that documentation was insufficient in the Service's regional offices to show that approved requests for 75-percent funding met all regulatory requirements does not indicate which specific functional standards we were unable to find. Further, the Service states that without more specificity, it cannot properly respond to this finding.

The regulations require that, at a minimum, requests must meet the certification, issuance, reconciliation, reporting, and general standards in order to be approved for 75-percent funding. Because Service regional officials did not prepare documentation to show that the automated systems approved for 75-percent funding met each required functional standard, it was necessary for us to review all information available at the time of our visit at each of the six regional offices. We compared information pertaining to state agency requests and Service action on these requests for 75-percent funding with the list of functional standards described in the Service's regulations, 7 CFR 277.18. We have provided the Service with a list of all functional standards not described in the regional file records for each system approved for 75-percent funding at the time of our visit.

9. The Service states that although Rhode Island's APD did not reflect all of the detailed functional standards for certification and issuance systems as reported in our report, the proposed system to be transferred to Rhode Island incorporates all required standards. Rhode Island provided written commitment to incorporate the transferred systems' functionality and improve upon it. Since this commitment is a condition of approval, the Service believes it is entirely justified to grant enhanced funding. In addition, the Service states that the Mountain Plains regional office reported that file documentation available in the regional office describes and supports all certification standards for the South Dakota system. Without more detailed information about the nature of the information that we were unable to find, the Service states that it cannot properly respond to this finding.

As discussed in comment 8 above, Service regulations state that, at a minimum, systems must meet the required functional standards in order to be approved for 75-percent funding. State agencies must always comply with the commitment made in the approved requests. At the time of our visit, we found that Rhode Island's and South Dakota's approved

systems documentation did not describe all the required functional standards. For example, the Mountain Plains Service regional records showed that the South Dakota state agency system approved for 75-percent funding met only 9 of the 12 required certification standards and four of the 5 general standards. As mentioned in comment 8, we have provided the Service with a list of all functional standards not described in the regional file records.

10. The Service commented on a statement in our draft report that there was some apparent confusion in the Mountain Plains Regional Office over organizational responsibilities for performing the review to determine compliance with USDA regulations for 75-percent funding. The Service states that its Mountain Plains Regional Office reported that there may have been some misunderstanding expressed on this issue by the person who performed the program review, but there is no confusion in regional policy on procedures. The regional Financial Management and Family Nutrition Program directors signed a memorandum of understanding in 1981 and 1983 specifying organizational responsibilities for APD review and approval. Program staff are responsible for approval of functional requests. Functional requirements are reviewed by both staffs cooperatively, and on-site reviews of state systems are performed in all instances by a joint team of ADP Program and financial staffs. The extensive use of the FAMIS-certified Alaska/North Dakota System by transfer to three other Mountain Plains States may account for some of the apparent confusion, since system transfers generally require less analysis of functional requirements than nontransfer proposals. The regional office reports that extensive documentation is available to describe how program functional requirements are met, and disagrees with GAO's statement that review requirements may not be met.

Although our draft report notes some confusion about who was responsible in the Mountain Plains Regional Office for determining compliance with USDA regulations for 75-percent funding, the issue raised was whether the review was actually performed and not necessarily who was organizationally responsible for the review. The report states that (1) the ADP personnel told us that the program person performed the functional review, (2) the program person told us that the ADP personnel performed the functional review, and (3) in a joint meeting, the ADP and program personnel decided that the functional review was performed by the ADP personnel. Now, Service officials state that both ADP and program personnel cooperatively review functional requirements. Because of the lack of documentation to show that any regional person determined that requests approved for 75-percent funding complied with the

required program functional standards, we continue to have questions about whether a review was performed. Further, we reviewed the extensive documentation available at the regional office and found that none of the approved requests for 75-percent funding described all of the required functional standards.

11. We revised the report to reflect the Service's October 20, 1987, directive to its regional offices.

12. The Service provides several comments on our finding that FNS Handbook 103 established a 12-digit control number to be used for logging each APD request and that only the Service's Southwest regional office was maintaining the required control numbers and log. The Service states that it operates a decentralized review and approval process for state system automation requests and that the Regional Administrators are responsible for the review and approval/disapproval of all requests. The APD Oversight Committee reviews only the state requests which exceed \$1 million in Service Federal Financial Participation. The Service headquarters does not intend to maintain a central control log for all APD actions. It believes that the decentralized administration of the review and approval process makes such centralized control unnecessary. Regional offices may maintain any control system as long as it is effective in tracking document submittal. All regions use a periodically updated APD status report, which provides greater information than a simple control log and assures that the status of each project is reviewed periodically. The Service believes that this system provides much greater management information and control, and is surprised to see no mention of regional status reporting in the draft report. Also, the Service states that its Mid-Atlantic regional office uses the 12-digit control number in an automated control history of all APD activity.

Our draft report does not state nor suggest that the Service's headquarters maintain a central control log of all APD actions. It recognized the decentralized review and approval process and discusses the use of the FNS Handbook 103 recordkeeping requirements in the context of regional operations. The draft report does discuss regional status reports. (See p. 34.) The principal drawback we found with the status reports is that in order for one to determine all state agencies' requests for any ADP funding—related amendments, changes, approvals, and other action—one has to review all of the status reports since the date the request was originally submitted. Service regional action on all state requests is entered and maintained chronologically and not by specific request.

Additionally, once the requested system development is completed, record of the request is dropped from these reports. Our report now clarifies the description of the Mid-Atlantic regional use of the 12-digit numbering system to explain that a 12-digit number is assigned to each state agency request. However, the number is not assigned to related correspondence concerning state, Service regional, or Service headquarters action or to subsequent entries on the regional status reports.

13. In commenting that our report was unable to find certain documents in regional files, the Service states that without knowing which specific documents we could not find, it cannot properly respond to the data in table 3.1. Further, the Service states that its Southwest regional office was advised by the GAO auditor-in-charge that the notation on table 3.1 concerning that office was in error and that table 3.1 should indicate that all requested files were provided by the Southwest regional office.

As explained to the Service's Southwest regional office personnel, a transposition error occurred in the draft report that inadvertently indicated that one of the requests for 75-percent funding was missing from their files. As supported by our review documentation, the report now shows that the regional office maintained the information related to its five requests for 75-percent funding. To ensure that the Service obtains all the necessary information to support state agency requests and Service action on these requests, we have provided the Service with a list of the state systems development requests, amendments, and approval letters for 75-percent funding missing from their files at the time of our visit.

14. We revised the report to reflect the Service's September 18, 1987, final rule requirements.

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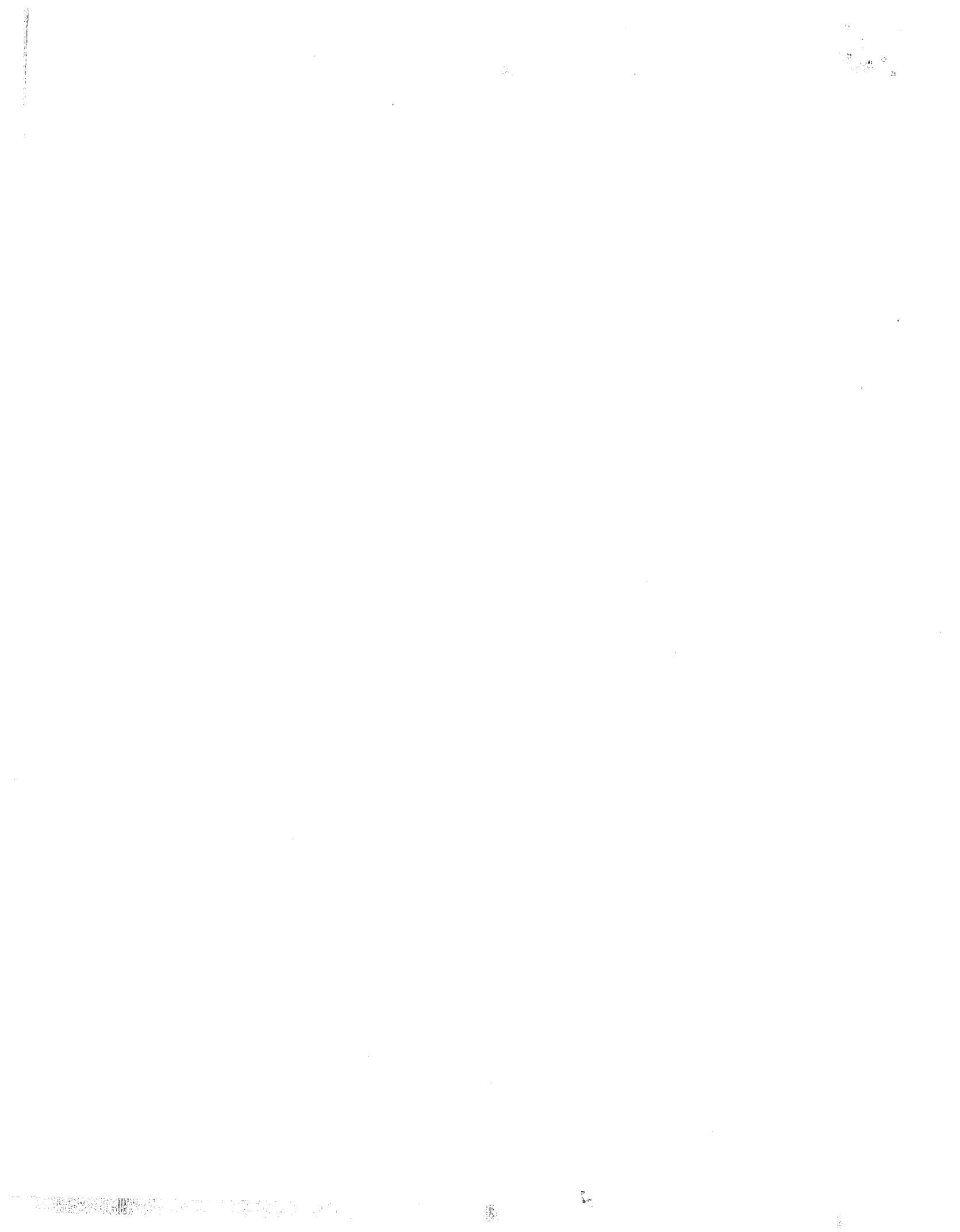
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