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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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RESOURCES AND ECONOMIC
DEVELOPMENT DIVISION

APR 7 1976

The Honorable Richard L. Feltner
Assistant Secretary for Marketing
and Consumer Services
Department of Agriculture

Dear Mr. Feltner:

In a review of certifying officer activities in the Food and Nutrition Service, we noted some problem areas regarding controls over cash collected from food stamp sales and audits of State and local welfare agencies' reimbursable administrative costs. We brought these matters to the attention of Department officials in October 1975. They are summarized below for your information and consideration.

CONTROLS OVER RECEIPTS
FROM FOOD STAMP SALES

Collections not reconciled

The Food and Nutrition Service had not verified that all cash collected by food stamp issuing agents was deposited in the Federal Reserve System. During fiscal year 1975 issuing agents collected about \$2.9 billion for food stamp sales.

Each issuing agent authorized to sell food stamps is required to prepare a monthly accountability report showing the stamps received, issued, and on hand and the cash collections and deposits for the period. The State agencies are required to verify the reports to insure that all food stamps and related receipts have been properly accounted for. Copies of the monthly reports are forwarded to the Service for use in accounting for collections.

Issuing agents are required to promptly deposit food stamp receipts in the Federal Reserve Banking System to the credit of the United States. Records of these deposits are forwarded to the Service by the Federal Reserve System. To insure that all collections reported by the issuing agents have been deposited to the credit of the United States, the agents' monthly accountability reports must be reconciled with the deposits reported by the Federal Reserve System.

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The Service compares, by computer, the collections shown on issuing agents' accountability reports with deposits reported by the Federal Reserve System. These comparisons produced a large number of mismatches which the Service had not reconciled. As a result, the Service did not know whether all collections reported on the monthly accountability reports had been deposited. The Department's Office of Audit is currently investigating millions of dollars of collections which were not deposited.

According to the Service, the mismatches were caused primarily by issuing agents submitting accountability reports on forms pre-coded to identify other agents or making numerous separate deposits but consolidating them on their accountability reports. If the accountability reports and the deposits reported by the Federal Reserve System do not show the same agent code, the computer process will result in two mismatches. The accountability report data will indicate that a required deposit was not made for one agent code and the deposit data will indicate that a required accountability report was not received for the other agent code. Mismatches due to consolidated deposits occur because the computer process matches items on a one-for-one basis. If separate deposits are consolidated, all the individual deposits and the consolidated accountability report amounts will remain unmatched.

Reconciliation of the mismatches described above would require extensive manual analysis. To permit reconciliations to be made by computer processing, agents must comply with Service requirements and use only accountability reports pre-coded to identify themselves and list each individual deposit on their accountability reports.

Promptness of deposits not monitored

A Food and Nutrition Service study in June 1975 showed that many issuing agents were not promptly depositing receipts from food stamp sales. Delays in depositing receipts denies the U.S. Treasury the use of the funds during the period of delay and requires it to borrow and pay interest on equivalent funds during that period. The study indicated that delayed deposits were costing the Federal Government about \$1.3 million each year in avoidable interest costs.

Generally, the Service requires issuing agents to make deposits (1) daily if receipts are \$1,000 or more, (2) at least weekly, and (3) at the end of each month. When deposits are made, a standard form is sent to the Federal Reserve System along with the money. The Federal Reserve System forwards this form to the Service where the data is entered into

the computer system. Through this system the Service can determine when each issuing agent made deposits.

A Service analysis of deposit frequency for June 1975 indicated that 3,514 of 6,714 issuing agents made deposits when required. The remaining issuing agents failed to meet one or more of the Service's deposit requirements. About 500 agents made no deposits during the month.

We noted that the Service had not regularly used available deposit data to identify and follow-up on deposit delays. The Service recognizes the need to monitor the promptness with which issuing agents deposit collections, and to investigate and correct delays in depositing.

Old differences between
Service and Treasury accounts

Treasury Department accounts show that the Federal Reserve Banks received over \$200 million more in deposits from the sale of food stamps before January 1974 than were recorded in the Service's accounts.

Before January 1974, issuing agents reported their deposits in the Federal Reserve System directly to the Service for entry in the Service's accounts. The Treasury advised the Service of the amount of deposits the Federal Reserve System received. A comparison of the Service's and Treasury's accounts showed that the Treasury had over \$200 million more in deposits than the Service had recorded. This difference could represent deposits made by issuing agents but not reported to the Service, and deposits reported by agents but not recorded by the Service. It also could mask situations where issuing agents might have failed to deposit amounts collected but reported the amounts to the Service as being deposited.

The Service Finance Officer told us that the Service was attempting to acquire detailed deposit data from the Federal Reserve System and that progress was expected in the near future to resolve this matter.

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In response to congressional concern about accountability and controls over monies collected by vendors from food stamp sales, we are currently reviewing the work programs, plans, and scope for the Department's ongoing audit of food stamp receipts and deposits. We also will monitor the progress and results of the Department's work and supplement this with

additional work and evaluations as necessary. As part of this effort we will further evaluate the matters discussed above and any corrective actions taken or planned by the Department.

POTENTIAL DUPLICATION OF EFFORT IN
AUDITS OF STATE AND LOCAL WELFARE
AGENCIES' ADMINISTRATIVE COSTS

Potential duplication of effort
by Food and Nutrition Service
and the Office of Audit

The Service reviews the financial management of the State agencies to determine, among other things, whether the costs they have charged to the food stamp program are reasonable and proper. The Office of Audit also audits the State agencies to determine, among other things, the allowability of the costs for which the agencies have claimed reimbursement.

Officials of the Service and the Office of Audit told us that coordination of such work had been limited in the past and that they recognized the need for better coordination.

Potential duplication of effort
by the Departments of Agriculture
and Health, Education, and Welfare

Many local welfare offices which administer Agriculture's food stamp program also administer Department of Health, Education, and Welfare programs. Each department (1) reimburses the local offices for the portion of their direct and indirect expenses properly chargeable to each of the programs and (2) makes audits to determine, among other things, the propriety of the allocation of indirect costs among programs. The departments do not coordinate the scope and timing of their audits to permit each one to make full use of, and not duplicate, the other's work.

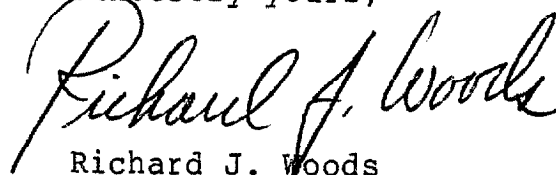
Office of Audit personnel told us that they recognized the need for improved coordination and that, as audit techniques are refined, coordination with the Department of Health, Education, and Welfare will be improved.

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We would appreciate your comments on the foregoing matters and your advice on any further actions taken or planned.

Copies of this report are being sent to the Assistant Secretary for Administration, the Administrator of the Food and Nutrition Service, and the Director of the Office of Audit.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard J. Woods". The signature is written in dark ink and is positioned above the typed name and title.

Richard J. Woods
Associate Director