

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)
CFDA 10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR THE
SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

I. PROGRAM OBJECTIVES

The objective of SNAP is to help low-income households buy the food they need for good health.

II. PROGRAM PROCEDURES**Administration**

The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS) administers SNAP in cooperation with State and local governments.

State welfare agencies (or county welfare agencies under the oversight of the State government) certify eligibility and provide benefits to households. FNS authorizes, monitors, and investigates stores that redeem benefits, provides funding for State administration and benefits, and oversees the operation of State welfare agencies to ensure compliance with Federal laws and regulations.

Federal Funding of Benefits and State Administrative Costs

The Federal Government pays 100 percent of the value of SNAP benefits and generally reimburses States for 50 percent of their costs to administer the program (7 CFR section 277.4(b)), except for those functions listed in III G.1., Matching. SNAP's authorizing statute places no cap on the amount of funds available to reimburse States at the 50 percent rate for allowable administrative expenses. No reimbursement is allowed for State expenditures for activities undertaken as a condition of settlement of quality control claims against the State for low payment accuracy.

Certification

Eligibility for SNAP is based primarily on income and resources. Although welfare reform and subsequent legislation increase State design options that can affect benefits for recipients, a key feature of the program is its status as an entitlement program with standardized eligibility and benefits.

Assessing Need

Households generally cannot exceed a gross income eligibility standard set at 130 percent of the Federal poverty standard (7 CFR section 273.9(a)(1)). Households also cannot exceed a net income standard, which is set at 100 percent of the Federal poverty standard (7 CFR section 273.9(a)(2)). The net income standard allows specified deductions from gross income, e.g., a standard deduction and deductions for medical expenses (elderly and disabled only), excess shelter costs, and work expenses. Non-financial eligibility criteria include: age, school status,

citizenship/legal immigration status, residency, household composition, work requirements, and disability status. Some non-citizens are ineligible to participate in the program (7 USC 2015(f)). Able-bodied adults without dependents are subject to a time limit for receiving benefits if certain requirements are not met (7 USC 2015(o)).

Application Process

The application process includes completing and filing an application form, being interviewed, and having certain information verified. In addition to using information supplied by the recipients, welfare agencies use data from other agencies, such as the Social Security Administration, the Internal Revenue Service, and the State employment security agency, to verify the household's identity and income.

Benefits

Benefit amounts vary with household size and income. As required by law, allotments for various household sizes are revised October 1 of each year to reflect the cost of the Thrifty Food Plan, a model plan for a low-cost nutritious diet that is developed and costed by USDA.

The benefits each household receives are redeemed for food in participating retail stores. States issue benefits in the form of debit cards, which recipients can use to purchase food. This is known as electronic benefits transfer (EBT). Welfare reform legislation required all States to use EBT by 2002, and all States have achieved full compliance.

Benefit Redemption

Generally, households must use program benefits for foods to be prepared and consumed at home. There are, however, some exceptions to this general policy. For example, there are provisions for the homeless to use program benefits in authorized restaurants and for residents of some small institutional settings to participate in the program.

The State's EBT contractor is responsible for settlement, or payment, to retailers that have accepted EBT cards for food purchases. The contractor's "concentrator bank" makes the payment through the National Automated Clearing House (ACH) system. The concentrator bank is reimbursed for the payments by a draw made on the State's EBT benefit account with the U.S. Treasury. States usually authorize their EBT contractors to make these draws, although some States draw the cash and pay the concentrator banks themselves. The State is responsible for reconciling the payments made to retailers by its EBT contractor with the amounts drawn from its EBT account with the U.S. Treasury.

States must obtain an examination by an independent auditor of the State EBT service provider (service organization) regarding the issuance, redemption, and settlement of benefits under SNAP in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations. Appendix VIII to this Supplement provides additional guidance on these examinations.

In performing audits under OMB Circular A-133 of SNAP, an auditor may use these SAS 70 reports to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

State Responsibilities

A State administering SNAP must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program (7 CFR section 272.2). Although welfare reform and subsequent legislation provided additional administrative flexibility, the Food Stamp Act remains highly prescriptive. Both the law and regulations prescribe detailed requirements for: (1) meeting program goals, such as providing timely service and rights to appeal; and (2) ensuring program integrity, such as verifying eligibility, safeguarding coupon inventories, establishing and collecting claims for benefit overpayments, and prosecuting fraud.

To ensure that States operate in compliance with the law, program regulations, and their own Plans of Operation, each State is required to have a system for monitoring and improving its administration of SNAP (7 CFR section 275.1(a)), particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management reviews, reviews of quality control systems, and reporting to FNS on program performance. State agencies shall conduct a review once every year for large project areas, once every two years for medium project areas, and once every three years for small project areas, unless an alternative schedule is approved by FNS. Projects are classified as large, medium, or small based on State determinations. The State must also ensure corrective action in response to the detection of program deficiencies (7 CFR sections 275.2, 275.5, and 275.16-19).

Federal Oversight and Compliance Mechanisms

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. In addition, about 60 field offices are often involved in State agency oversight.

FNS program oversight includes budget review and approval, reviews of financial and program reports and State management review reports, and on-site FNS reviews. Each year FNS headquarters conveys to its regions the concerns that were elevated to the national level through audits or other mechanisms. Regions combine this with their knowledge of individual States to inform the States of possible vulnerabilities to include in their internal management reviews and corrective action plans.

Although FNS uses technical assistance extensively to promote improvements in State operation of the program, enforcement mechanisms are also available. In addition to the financial rewards and penalties related to payment accuracy, FNS has other mechanisms to recover other losses and the cost of negligence (7 CFR sections 276.2 and 276.3). For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds for failure to implement program requirements (7 CFR section 276.4).

Certification Quality Control System

SNAP maintains an extensive quality control system required by law and regulation (7 CFR sections 275.10-14). The system provides State and national measures of the accuracy of eligibility and benefit amount determination (often referred to as payment accuracy), both underpayment and overpayment, and of the correctness of decisions to deny, terminate, or (beginning in fiscal year 2001) suspend benefits.

Measurement

States are required to select a statistically valid sample of cases and to review the cases for eligibility and benefit amount. Review methods in this sample are generally more intensive than those used in determining eligibility. States submit findings of all sampled cases, including incomplete and not-subject-to-review cases, to an automated database maintained by the Federal Government. State quality control data allow a State to be aware on an ongoing basis of its level of accuracy, and allow for the identification of trends and appropriate corrective action.

The applicable FNS regional office reviews each State's sampling plan annually and re-reviews a subsample of the State quality control reviews. The FNS re-review process provides feedback to each State on its quality control system. FNS uses the State's sample and the FNS subsample in a regression formula (described in regulation) to determine payment error rates. By law, the error rate is the combined value of overpayments and under payments to participating households. FNS headquarters also reviews its regional operations and provides technical assistance to assure consistency in the national quality control system.

Corrective Action and Penalties

There is a specific legislative requirement for corrective action by any State with an error rate above 6 percent (7 USC 2025 (c)(1)(B)). FNS maintains an extensive system of technical assistance for States as they develop and implement corrective action. FNS also monitors the implementation of corrective action plans. States with persistently high error rates are assessed fiscal liabilities based on the amount of benefits issued in error.

Implications of Quality Control for the Compliance Supplement

The SNAP Quality Control system uses an intensive State review of a sample of active cases across the United States to measure the accuracy of SNAP eligibility determinations and benefit amounts. An FNS re-review of a subset of those cases follows. These samples are statistically valid at the State and national level. Information from Federal program oversight indicates that this sampling system is operating adequately to provide assurances that FNS is measuring the accuracy of eligibility decisions and that these data provide a basis for corrective action to improve the accuracy of eligibility decisions. Therefore, the Quality Control System sufficiently tests individual eligibility in SNAP.

However, in those situations where computer systems are integral to the operation of the program, e.g., automated eligibility determination, the auditor should perform tests as deemed necessary to obtain assurance of the integrity of these systems. In those instances where multiple programs share the same systems, e.g., automated intake systems for Temporary Assistance for Needy Families (TANF), SNAP, Medicaid, etc., testing may be done as part of the work on multiple programs.

Source of Governing Requirements

SNAP is authorized by the Food Stamp Act of 1977, as amended (7 USC 2011 *et seq.*). This description of SNAP procedures incorporates provisions of the following amendments to the Act: the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform, Pub. L. No. 104-193, August 22, 1996), the Balanced Budget Act of 1997 (Pub. L. No. 105-33, August 5, 1997); and the Agricultural Research, Extension, and Reform Act of 1998 (Pub. L. No. 105-185, June 23, 1998); and the Farm Security and Rural Investment Act of 2002 (Pub. L. No. 107-171, 116 Stat. 134 *et seq.*, May 13, 2002). SNAP regulations are found in 7 CFR parts 271 through 285.

Availability of Other Program Information

Additional program information is available from FNS's SNAP site on the Internet at <http://www.fns.usda.gov/fsp>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Note: Generally, E, "Eligibility," G.1, "Matching," I, "Procurement and Suspension and Debarment" (with respect to procurement), and N, "Special Tests and Provisions" apply only to State governments. However, when States have delegated to the local governments functions normally performed by the State as administering agency, e.g., eligibility determination, issuance of SNAP, etc., the related compliance requirements will apply to the local government.

A. Activities Allowed or Unallowed

Funds made available for administrative costs must be used to screen and certify applicants for program benefits, issue benefits to eligible households, conduct fraud investigations and prosecutions, provide fair hearings to households for which benefits have been denied or terminated, conduct nutrition education activities, prepare financial and special reports, operate automated data processing (ADP) systems, monitor subrecipients (where applicable), and otherwise administer the program. Portions of the award made available for specific purposes, such as ADP systems development or Employment and Training activities, must be used for such purposes (7 CFR part 277).

E. Eligibility**1. Eligibility for Individuals**

The auditor is not required to test eligibility because detail testing of the individual case files is performed by the quality control unit and reviewed by FNS and the automated system supporting eligibility determinations and processing and tracking food stamp issuances is tested under III.N.1, "Special Tests and Provisions - ADP System for SNAP."

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**3. Eligibility for Subrecipients - Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching**

The State is required to pay 50 percent of the costs of administering the program. An exception to the 50 percent reimbursement rate is 100 percent grants to administer the Employment and Training Program (7 CFR section 277.4(b)).

For Federal fiscal years 1999 through 2007, the Federal reimbursement will be decreased and the State share of administrative costs will increase by an amount equal to certain common certification costs grandfathered into the States' TANF grant levels but attributable to SNAP (7 USC 2025(k), Section 4122 of Pub. L. No. 107-171, 116 Stat. 324, May 13, 2002). The amount of each State's downward adjustment was determined by the Department of Health and Human Services, and the States were notified by letter.

Costs of payment error rate reduction activities conducted under reinvestment agreements with FNS are not eligible for any level of Federal reimbursement. Private in-kind contributions are not allowable to count toward the State's share of the program's administrative cost (7 CFR sections 277.4(c) and 275.23(e)(10)).

2. Level of Effort - Not Applicable**3. Earmarking - Not Applicable****I. Procurement and Suspension and Debarment**

- 1. ADP Systems Development** - For competitive acquisitions of ADP equipment and services costing \$5 million or more (combined Federal and State shares), the State must submit an Advanced Planning Document (APD) for the costs to be approved and allowable as charges to FNS. This threshold is for the total project cost. In addition, noncompetitive acquisitions of \$1 million or more require an APD. Contracts resulting from noncompetitive procurements of more than \$1 million

and contracts for EBT systems, regardless of cost, also must be provided to FNS for review (7 CFR section 277.18).

2. *Procurement* - Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated on or after October 1, 2000:
 - a. A State or local government shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR section 3016.60(b)).
 - b. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

2. Performance Reporting - Not Applicable

3. Special Reporting

Note: The requirement for State agencies to automate their SNAPs includes automation of reporting requirements (7 CFR section 272.10(b)(2)(vi)). The testing to ensure accuracy and completeness of the following reports should be coordinated with the testing of the ADP System for SNAP (see III.N.1 - "Special Tests and Provisions - ADP Systems for SNAP").

- a. FNS-46 - *SNAP Issuance Reconciliation Report (OMB No. 0584-0080)*. This monthly report is used to account for benefits issued during a report month for each issuance reconciliation point. The FNS-46 reports the reconciliation of food stamp benefits actually issued with the State's (or county's in county-run operations) Master Issuance File. The Master Issuance File contains records on all households eligible to receive benefits (such as a listing of the households and the benefits each is authorized to receive). Actual issuances may be recorded in the Record

for Issuance (RFI) or alternative filing system. The RFI is created from the Master Issuance File and shows the amount of benefits the household is eligible to receive and the actual amount issued. Generally, one FNS-46 covers the entire State. However, if a State concurrently operates more than one type of issuance system (e.g., over-the-counter issuance, mail issuance, etc.), its FNS-46 report(s) must separately identify the amount of benefits issued under each system.

Key Line Items - The following line items contain critical information:

- (1) Line 6 - *Total Issuance this month*
 - (2) Line 7 - *Returns during current month*
 - (3) Line 9 - *Value of authorized replacements(s) transacted*
- b. FNS-209 - *Status of Claims Against Households (OMB No. 0584-0069)*. If a household receives more food stamp benefits than it is entitled to receive, the State must establish a claim against that household and demand repayment (7 CFR section 273.18 (a)). The State is required to create and maintain a system of records for monitoring these claims against households. These State systems generate the data entered on the FNS-209 report. The minimum requirements for such systems are listed at 7 CFR section 273.18(m). The State is permitted to retain a portion of the collected repayments: 35 percent of the recovered funds from claims involving fraud or other intentional program violations; 35 percent of the funds recovered from claims generated by inadvertent household errors, collected by reducing a person's unemployment compensation benefits; and 20 percent of the recovered funds from inadvertent household error claims collected by other means. No portion of funds recovered from agency-error overpayments may be retained (7 CFR section 273.18(k)).

Key Line Items - The following line items contain critical information:

- (1) Line 3a *Beginning Balance* and line 13 *Ending Balance* - represent the beginning and ending balances, respectively, of the claims. Columns A, B, and C represent the number and amount of claims by claim type (i.e., intentional program violation, inadvertent household error, and State agency administrative error). The aggregate value of claims activity from the subunits should equal the State totals. The beginning and ending balances should represent the total of individual claims that comprise these balances.
- (2) Line 14 *Cash, Check, and M.O.* - represents total claims payments made in the form of cash, checks, or money orders.

- (3) Line 15 *SNAP* - represents all payments in the form of food stamp coupons and EBT benefit returns.
- (4) Line 16 *Recoupment* - represents the value of collections made through allotment reductions.
- (5) Line 17 *Offset* - represents the total value of collections made by offsetting restored benefits against outstanding claim balances.
- (6) Line 18b *Cash Adj.*(+ or -) - represents amendments or corrections to the collection summary of a previous report.
- (7) Line 18c *Non-Cash Adj.* (+ or -) - represents amendments or corrections to the collection summary of a previous report relative to the return of SNAP, recoupment, or offsetting transactions.
- (8) Line 19 *Transfers* (+ or -) - represents the claims that were contained in the collection summary of a previous report and which are being transferred from one claim category to another claim category.
- (9) Line 20a *Cash Refunds* - represents the value of cash refunds provided to households that overpaid claims.
- (10) Line 20b *Non-Cash Refunds* - represents the value of non-cash refunds provided to households that overpaid claims.
- (11) Lines 21 *Total*, and 28 *Total Letter of Credit Adjustments* - represent the Total Collection Summary and the Total Letter of Credit Adjustments. The aggregate value of claims collection activity from the subunits should equal the State totals.

N. Special Tests and Provisions

1. ADP System for SNAP

Note: See III.E.1, "Eligibility - Eligibility for Individuals," for the reason why the testing of the ADP system for SNAP is under this special test and provision instead of under Eligibility.

Compliance Requirement - State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their

certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

Audit Objective - Determine whether the State administering agency's ADP system for SNAP is meeting the requirements to: (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation; (2) automatically cut off households at the end of their certification period unless recertified; and, (3) provide data necessary to meet Federal issuance and reconciliation reporting requirements.

Suggested Audit Procedures

Because of the diversity of ADP hardware and software systems, it is not practical for the Compliance Supplement to provide suggested audit procedures to address each system. See Part 3, E.1.a (suggested audit procedures for eligibility for individuals relating to automated systems) in this Supplement for other guidance concerning testing ADP systems. The auditor should test the ADP system to ascertain if the system:

- a. Accurately and completely processes and stores all case file information for eligibility determination and benefit calculation.
- b. Automatically cuts off households from SNAP at the end of their certification period unless the household is recertified.
- c. Provides data necessary to meet Federal issuance and reconciliation reporting requirements. Note: This testing should be coordinated with the testing of III.L.3, "Reporting – Special Reporting."

2. EBT Reconciliation

Compliance Requirement - States that use EBT must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., on-line purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone

verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.12(a), 274.12(g)(1) and 274.12(j)(1)).

Audit Objective - Determine whether the State reconciles retailer activity to client transactions, to its issuance files of postings to recipient accounts with the EBT contractor, and to postings to and drawdown activity from the State's benefit account with Treasury.

Suggested Audit Procedures

- a. Verify that the State has a system in place to reconcile total funds entering into, exiting from, and remaining in the system each day.
- b. Select and test a sample of reconciliation(s) to verify that discrepancies are followed up and resolved. This is generally a contractor duty.
- c. Verify that the State or its contractor has a system in place to reconcile retailer credits against the information entered into the Automated Clearinghouse network and to the amount of funds drawn down by the State or the State's fiscal agent (the EBT contractor).
- d. Ascertain if the State or its contractor has recorded any non-Federal liabilities in the daily EBT reconciliation, i.e., transactions which cannot be charged to the program. If so, verify that the non-Federal liabilities were funded by non-Federal sources (i.e., the State or the contractor).

3. Issuance Document Security

Compliance Requirement - The State is required to maintain adequate security over, and documentation/records for, Authorization to Participate (ATP) cards, other documents authorizing issuance, EBT cards (7 CFR section 274.12(h)(3)), and the food stamp coupons themselves to prevent: coupon theft, embezzlement, loss, damage, destruction; unauthorized transfer, negotiation, or use of coupons; and alteration or counterfeiting of coupons and other documents authorizing issuance (7 CFR sections 274.7(b) and 274.11(c)).

Audit Objective - Determine whether the State maintains security over instruments used to authorize issuance of food stamp benefits.

Suggested Audit Procedures

- a. Observe the physical security over SNAP, ATP cards, EBT cards, and/or other negotiable instruments used in the issuance process.
- b. Verify that food stamp coupons, ATP cards, and EBT cards returned from the Postal Service are returned to inventory or destroyed.

4. Physical Inventory

Compliance Requirement - Each coupon issuer and bulk storage point that distributes SNAP is required to prepare a Food Coupon Accountability Report (FNS-250) to report monthly coupon issuance and inventory (7 CFR section 274.4(b)). Each State agency must assure that day-to-day operations of all coupon issuers comply with regulations by performing a triennial on-site review, including physical inventory, of each coupon issuer and bulk storage site under its direction (7 CFR section 274.1(c)).

Audit Objective - Determine whether the State agency has conducted required triennial on-site reviews, including physical inventories, at coupon issuers and bulk storage points.

Suggested Audit Procedures

Determine by inquiry or inspection of records that the State agency conducts the required triennial reviews of coupon issuers and bulk storage points to ensure physical inventories are appropriate, inventories are made as required, and differences between recorded and actual inventories are reconciled.

5. Food Coupon Inventory Levels

Compliance Requirement - State agencies must monitor the coupon inventories of coupon issuers and bulk storage points to ensure that inventories are neither excessive nor insufficient to meet the issuance needs and requirements. Inventory levels are not to exceed a "six-month supply," taking into account coupons on hand and on order (7 CFR section 274.7(a)(1)). State agencies must review the FNS-250 and other reports including shipping and transfers, returned and/or replaced mail-issuances, improperly manufactured or mutilated coupons, and reports of shortage or overage of food coupon books to ensure the accuracy of monthly inventories, compliance with required inventory levels, and accuracy and reasonableness of coupon orders.

Audit Objective - Determine whether food stamp coupon levels are neither excessive nor insufficient to meet the issuer's requirements.

Suggested Audit Procedures

Verify that the State agencies determine that inventory levels at coupon issuers and bulk storage points are neither excessive nor insufficient to meet the issuance needs and requirements, and that inventory levels do not exceed a six-month supply, taking into account coupons on hand and on order.

6. Quality Control Unit

Compliance Requirement - The State or local government must establish a quality control unit that is independent of program operations (7 CFR section 275.2(b)).

Audit Objective - Determine whether the quality control unit is organizationally independent of program operations.

Suggested Audit Procedures

Ascertain that the quality control unit is organizationally independent of program operations.