

SUMMARY OF REVIEWS MADE OF FOOD STAMP
FISCAL ACCOUNTABILITY OPERATIONS
FOOD AND NUTRITION SERVICE
WASHINGTON, D. C.
AS OF MARCH 30, 1976
REPORT NO. 2799-8-Hy

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I - INTRODUCTION, BACKGROUND, AND SUMMARY

A. INTRODUCTION

1. Why This Review Was Made - Office of Audit (OA) was negotiating with Food and Nutrition Service (FNS) to perform a follow-up audit on our 1974 Food Stamp Program (FSP) accountability survey and a complete FSP fiscal audit, when a cash shortage of about \$2 million was discovered in October 1975 at a St. Louis, Missouri, food stamp issuing office. Because of that, and the suspicion that cash shortages could exist at other issuing agents, OA immediately began a review to try to determine whether there were other problem agents. Our review in Washington, D. C., disclosed that the FNS accountability system was not effectively reconciling cash and coupon transactions. OA personnel, however, developed methods to utilize existing FNS records to perform this work. Although these records were unduly voluminous and inaccurate, they provided a means to detect about 1,300 problem vendors.
2. Scope of Issuance Activities - Currently, FNS is supposed to receive about 6,700 monthly reports that detail food stamp sales activity of the approximately 14,000 issuance agents. Of these, about 3,700 are operated by either State or county Government personnel, 7,300 are banks, 2,100 are post offices and about 1,100 are classified as other, e.g., community action agencies, currency exchanges, credit unions, etc.
3. Scope of Our Review - We reviewed FNS Headquarters records of cash collections and deposits for the 6,700 agents designated as reporting points. Those records represented sales activity for the about 14,000 issuing agents. This review covered the period July 1974 generally through October 1975, or the latest Form FNS-250, Food Stamp Accountability Report, on file in FNS prior to October. We reviewed several types of computer printouts, Federal Reserve Bank (FRB) listings of deposits, Forms FNS-250 on file from reporting points, and any other documents that would permit a reasonable reconciliation of reported cash collections with deposits to FRB. We also made a survey of the coupon inventory system at FNS Headquarters.

These reviews identified 1,320 problem issuing agents, as follows:

- There were 224 where reported deposits could not be confirmed.

- There were 1,096 with patterns of indicated serious late depositing.

Accountability audits were performed on 266 of these and the balance were referred to FNS for administrative action.

There were an additional 192 vendors (exclusive of Chicago and New York City) which represented the balance of agents classified as other than Post Offices, banks and Government offices, that were not identified among the possible problem cases. We counted and verified coupon inventories at these agents, and determined their present cash position and depositing patterns.

In addition, we surveyed the cash and coupon accountability systems in use by the major contract point banks in Chicago and New York City (which have several hundred non-bank or non-government sub-vendors), and confirmed coupon inventory and current cash position at a representative number of the sub-vendors.

We plan to survey the cash and coupon accountability systems in Puerto Rico and the Virgin Islands in the near future; results of those reviews will be included in separate reports.

We also made a limited study of the overall system of coupon control and review in effect for bank, Post Office, and Government issuing agents that make up the bulk of the authorized issuing agents.

About 170 personnel were involved in the accountability audits and coupon inventories. These included 120 OA auditors, 45 FNS personnel, and 5 State agency representatives.

B. BACKGROUND

1. The Program - During FY 1975 food stamps valued at about \$7.3 billion were issued Nationwide; the cash value collected by issuing agents totaled about \$2.9 billion. These collections were the cash amounts recipients were required to pay for the coupons, based on their certified eligibility. These collections were to be deposited to

the FRB on a daily basis when collections exceeded \$1,000, or when accumulated collections reached \$1,000; provided that collections were deposited not less frequently than weekly and on the last issuance day of each month. Form FNS-250 was to be prepared monthly by the reporting points which, together with other relevant information, showed the daily coupon sales and collections. Information from these reports was transmitted to the ADP accountability system via terminals at the FNS Regional Offices (FNSROs).

A deposit report, Form FNS-282, was supposed to be prepared for each deposit sent to the FRB. The FRB sent FNS each of these reports received along with a daily/weekly listing of deposits. This information was used for input to the accountability system. The Form FNS-282 information for each reporting agent should have agreed on a monthly basis with the total reported collections on the Form FNS-250.

2. The Agency - FNS, which administers the Food Stamp Program, is composed of a headquarters organization in Washington, D. C., and six FNSROs in Boston, Massachusetts; Princeton, New Jersey; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; and San Francisco, California. FNSROs are responsible for administering the program through agreements with 54 State agencies (SA) (The 50 States, District of Columbia, Puerto Rico, Virgin Islands and Guam). These SAs have the ultimate responsibility for the program at the local level. They issue the food coupons, or contract with Post Offices, local Government agencies, or non-government organizations to issue the coupons. Since SAs are responsible for issuance activities, they are liable for any losses incurred.
3. Money Town, Inc., St. Louis, Mo. - In October 1975 an audit was made of the St. Louis, Mo., food stamp operations. As a part of this audit, a visit was made to the FRB to verify deposits reported on the Forms FNS-250 by the several issuing agents in St. Louis. This visit disclosed that several reported deposits by Money Town, Inc., could not be confirmed by FRB records. Ultimately, OA determined that \$1,763,929.40 had not been deposited. When brought to light the agent deposited \$741,856.40 in the FRB and the SA transferred \$9,147.25 from the vendor's bank account to the FRB. The agent could not produce the balance of \$1,012,925.75. This issuing agent was terminated and

ceased selling food coupons on November 3, 1975. As of January 15, 1976, the SA was retaining \$14,631.75 in commissions due to the vendor for selling food coupons.

4. Initial Efforts of OA - Based on the disclosures at Money Town, Inc., OA began a review of the existing records at FNS Headquarters to try to determine if there were other problem vendors. Our initial review was highly selective in that we attempted to identify only those nondepositing or late depositing cases that were highly significant. That review resulted in our quickly identifying 17 additional cases of agents who either had not been depositing or were excessively late depositing large amounts. Field review of the 17 cases confirmed \$3.2 million in non-deposits and \$3.6 million in late deposits.

There was considerable publicity and Congressional interest concurrent with our efforts.

As part of our overall Departmental effort, OA developed action plans to detect the extent of the problem, and FNS developed action plans to correct the problems.

5. Action Plans Developed -

- a. OA - Seven action plans were developed to deal specifically with the accountability problems, as follows:

Action Plan 1 - To refer all known or identified cases of cash shortages or false reporting to Office of Investigation.

Action Plan 2 - To identify, Nationwide, actual or potential cases of nondeposit or late deposit of funds.

Action Plan 3 - To determine whether vendors identified in Action Plan 2 are in fact late or not depositing funds.

Action Plan 4 - To determine whether vendors other than banks, Post Offices and Government issuing offices (excluding New York City and Chicago) have coupon inventory problems.

Action Plan 5 - To determine the adequacy of coupon

and cash accountability in New York City and Chicago.

Action Plan 6 - To determine whether FNS has an adequate perpetual inventory system, and whether the inventory system will identify coupon shortages.

Action Plan 7 - To determine whether there is a need to inventory coupons at all banks and Government issuing agents.

The period covered in these plans was from July 1974 to the review date for cash transactions, and from February or March 1975 (date new coupons were issued) to review date for inventory purposes.

Information prior to January 1, 1974, (when the new cash deposit procedures were implemented) had not been entered into the computer or had been entered and lost. Also, deposit forms prior to 1974 had not been sorted and filed. FNS has an action plan to get all of the unentered data into the computer (along with the January to July 1974 information) and reconcile the data. After that is completed, OA will review for potential cases of nondeposit.

b. FNS - Twenty action plans were developed to correct the procedural and system weaknesses that precipitated the problems with cash accountability.

Eighteen of the 20 plans pertain to the new system (in effect since January 1974). As FNS is reporting to the Secretariat on their implementation of these 18 plans, this report will not cover their progress on each one. However, we have reviewed their action plans and in our opinion they will substantially eliminate cash accountability problems. This opinion is offered on the premise that the plans will be implemented as published with reasonable adherence to the expressed target dates for the various actions.

As of April 9, 1976, action was completed on ten of the plans. Some of the more important accomplishments include:

- (1) Furnishing monthly listings of confirmed deposits to State agencies for use in monitoring issuance agents deposit activities.

- (2) Improving procedures for processing Forms FNS-282 so that these deposit documents are entered into the computer system within 48 hours of receipt from FRB and re-entered within 24 hours after rejection by the computer.
- (3) Reducing the volume of FRB Debit Vouchers, and establishing procedures to assure their timely entry into the Cash Reconciliation System.
- (4) Developing proposed regulations that will tighten qualification criteria for issuance agents, and provide sanctions for late or non-depositing.

Four of the plans, which involve such actions as testing new deposit systems, increasing State agency responsibility for the preparation and certification of Forms FNS-250, and developing procedures for periodic, unannounced inventory checks at all issuing points, have scheduled completion dates of June 1, 1976, or later, and appear to be generally on target.

The four remaining plans pertain basically to obtaining missing Forms FNS-250 and deposit documents and entering them into the computer. The missing documents have an adverse affect on the cash reconciliation system, coupon inventory system, billing States for shortages, and in detecting cases before they become major shortages. FNS has fallen somewhat behind their initial target dates on these projects. The delay in completing these projects is due in large part to the sheer volume of activity involved. For instance, approximately 13,000 line item adjustments have been made to the cash reconciliation system and yet, as of March 16, 1976, the FY 1975 cash reconciliation detail report was 2,781 pages long and contained about 60,000 unmatched items.

A major cause of the unmatched items on the cash reconciliation detail report is missing or invalid Forms FNS-250. FNSROs indicated that there were only 27 old series coupon reports missing for FY-75. However, computer printouts show that there were about 1,300 old series reports that were either missing from or have

been rejected by the system for the period July 1, 1974, to February 28, 1975. In addition, the FNSROs indicated that only 2 new coupon series reports were missing through December 31, 1975. The computer printouts, however, show 6,500 missing or invalid. Officials said the major cause of this problem was that FNSROs have to return many reports to the State agencies for correction before they will be accepted by the computer.

Despite these problems, there have been considerable improvements made to the accountability system since we began our review in October 1975, and progress is still being made. Subsequent OA review at FNS Headquarters after the plans have been implemented will evaluate their ultimate effectiveness.

FNS established two additional action plans for updating and correcting cash reconciliations data for years prior to 1974. One of the plans is completed. The other relates to contracting the work to be done.

Prior to January 1974, FNS had not reconciled cash data because numerous Forms FNS-250 were missing, and because sufficient resources and priority were not placed on this activity. Cash information for that period either had not been entered into the computer, or had been entered and lost. FNS has contracted with a private firm to manage the data entry and reconciliations. The objective of the action plan is to reconcile, by June 30, 1976, (1) deposit information for the period July 1, 1970, through December 31, 1973, received from reporting points (through FRBs) with that reported on Forms FNS-250; and (2) deposit information for the period July 1, 1971, through December 31, 1973, received from reporting points (through FRBs) with that reported directly to Treasury by FRBs.

As of April 9, 1976, the contractor had keypunched all available data and together with FNS is in the process of identifying and locating missing data. When all data is obtained the reconciliation process will begin. States will be billed for shortages detected during these reconciliations. When the reconciliation process is completed, OA will review it for appropriateness, and schedule any additional work needed to confirm or verify any indicated nondeposits not resolved by the reconciliations.

C. SUMMARY OF RESULTS OF OA ACTION PLANS

We identified 1,320 potential cases of problem issuing agents. Of these, 1,096 were possible late depositors and 224 appeared not to have made required cash deposits. We referred information on 1,054 of these to FNS for administrative action and made audits of the other 266.

The 1,054 referred to FNS involved 975 banks and local Government offices that have been making deposits on a monthly or less frequent, but late, basis; and 79 cases of deposits we could not confirm, generally for amounts under \$2,000. Late deposits for these agents totaled about \$6 million monthly, and the small deposits which we could not confirm totaled about \$64,000.

The 266 audits resulted in Forms OA-7600-1, Significant Inquiry, being sent FNS covering indicated serious conditions at 79 agents, and 110 memorandum reports covering the less serious, or no problems. The other 77 were resolved by additional audit at FNS Headquarters and were not field reviewed. The 79 more serious cases had about \$6.4 million in nondeposits; \$18.5 million in late deposits; and \$98,000 in coupon shortages. The 110 agents covered in our memorandum reports included 51 that had late deposits of about \$2.5 million.

There were an additional 192 vendors, which represented the balance of agents classified as other than Post Offices, banks or Government offices that were not identified among possible problem cases. We visited these to physically inventory and reconcile coupon balances and to verify current cash positions. Forms OA-7600-1 were sent FNS for 12 more serious problem issuing agents covering coupon shortages of about \$32,000, nondeposits of about \$123,000, and late deposits of about \$335,000. Memorandum reports on the balance reported late deposits of about \$350,000 by 34 agents.

A summary of these audit results are as follows:

	: Late Deposits :		: Non-Deposits :		: Coupon Shortages :		: Total :	
	No. of	Amount	No. of	Amount	No. of	Amount	No. of	Amount
	Agents		Agents		Agents		Agents	
<u>Accountability</u>								
<u>Audits:</u>								
Forms OA-7600-1	52	\$18,467,988	25	\$6,395,786	2	\$ 98,139	79	\$24,961,913
Memorandum Rpts. With Findings	51	2,500,000	-	-	-	-	51	2,500,000
<u>Coupon Inventories:</u>								
Forms OA-7600-1	5	334,925	5	122,944	2	31,937	12	489,806
Memorandum Rpt. With Findings	34	350,000	-	-	-	-	34	350,000
<u>Referred for Ad- ministrative Action</u>	975	6,000,000	79	64,000	-	-	1,054	6,064,000
TOTALS	1,117	\$27,652,913	109	\$6,582,730	4	\$130,076	1,230	\$34,365,719
<u>Field Review</u>								
<u>Without Findings</u>							205	-
<u>Deposits Verified by Hqs. Review</u>							77	-
							<u>1,512</u>	<u>\$34,365,719</u>

We found that controls over coupon and cash accountability by the major contract point banks in Chicago and New York and their branch banks, were generally adequate; however, there was a need for improved supervision and monitoring of New York sub-vendor operations. Also, the contract bank in Chicago had delayed transmitting deposits from 4 to 34 days during the period September 1, 1975 to December 31, 1975. During our review the system was changed, which reduced the delays considerably; but, we believed further improvements were needed. In addition, there was about \$515,000 in accumulated sub-vendor shortages being held by the contract bank for which the bank had not been billed. The responsible FNSRO is now working this out with the State agency and contract bank.

The results of our field reviews indicates that coupon inventory shortages are not a problem of serious concern. Based on that, and the survey we made of the State agency and other controls over coupons at banks and Government issuing offices, we concluded that a full coupon inventory of all banks and Government issuing offices would not be necessary.

Our review of the reliability of the FNS system for maintaining perpetual inventories indicated that improvements are needed to assure (1) proper identification of coupon shortages, and (2) adequate follow-up with the State agencies.

We have made no recommendations in this report because:

- Each identified problem agent has been reported to FNS for their action.
- Completion of the approved action plans of FNS, and completed action on the three related reports commented on later in this report, should effect the improvements needed to avoid similar problems in the future.

II - DETAILS OF OA ACTION PLAN RESULTS

REFERRALS TO INVESTIGATION

1. We originally planned to refer all confirmed cases of non-deposit, or late depositing to Office of Investigation (OI). However, based on U. S. Attorneys' evaluations of criminal or civil fraud potential in certain early cases, representatives of OA and OI, with concurrence of the Office of General Counsel (OGC), agreed that only certain identified actions would be referred for investigation. In essence, all cases of reported deposits that were never made, and all coupon shortages, were referred; but, only those cases of late depositing where false reporting could be alleged were referred. Based on this criteria, 47 cases involving about \$6.4 million in non-deposits, \$5.3 million in late deposits, and \$130,000 in coupon shortages were referred to OI. In addition, OI had already initiated investigations relating to accountability matters at seven other issuing agents.

As of April 9, 1976, OI reports that 48 investigations have been initiated; four have been completed; one was declined; one is under consideration; and none have been referred to Department of Justice for prosecutive consideration. However, U. S. Attorneys are directly involved in several of the investigations.

IDENTIFICATION OF ACTUAL OR POTENTIAL CASES OF NON-DEPOSIT OR LATE DEPOSIT OF FUNDS

2. Our review of the accountability system showed that the system had not been functioning in a manner to provide proper reconciliation of reported collections with confirmed FRB deposits. The cash reconciliation system was not used to monitor deposits by issuing agents, because the system was not considered reliable or creditable due to missing/inaccurate data and computer oriented problems. As a result, virtually none of the 6,700 reporting agents had been identified by FNS as actual or potential problems with regard to the depositing of food stamp collections.

Contributing to the lack of confidence in the system at both Headquarters and FNSROs was the massive volume of unmatched deposits. For example, the October 15, 1975, cash reconciliation report for fiscal 1975 contained over 5,100 pages and listed about 125,000 unmatched items. The unmatched items resulted because of missing or invalid Forms

FNS-250, delays in entering confirmed deposits into the system, data in the wrong fiscal year, incorrect project code numbers, and duplicate entries. These conditions affected the reliability and creditability of the printouts to the extent that they were not used to monitor deposits.

An OA team of auditors reviewed the cash reconciliation reports, and manually checked indicated and potential problems to other available records to identify possible problem issuing agents. Concurrently with this OA effort, FNS formed a task group to (a) rid the system of invalid and duplicate data, (b) obtain and enter missing data, and (c) get the reconciliation process on a current basis. These efforts pertained only to activities from July 1974 to date.

Based on the manual reconciliations by the OA group, many actual or potential problem cases were identified. The more significant were selected for field review by OA; those of less significance were referred to FNS for follow-up. Some of the apparent non-deposit cases were resolved by records review when additional information became available. The ultimate result was:

- 1320 problem issuing agents were identified.
 - 224 represented possible non-deposits.
 - 145 of these were audited by OA.
 - 79 were referred to FNS because the individual amounts were relatively small.
 - 1096 represented late depositors.
 - 975 of these were referred to FNS because they were banks and Government offices that consistently made deposits, but not at the required frequency.
 - 121 of the late depositors were audited by OA.

The disposition of these cases is covered in the following section.

DETERMINATION OF WHETHER THESE VENDORS ARE IN FACT
LATE, OR NOT, DEPOSITING FUNDS

3. As indicated above, a list of 975 banks and Government offices with routine late depositing patterns, and a list of 79 issuing agents with small deposits which we could not confirm were referred to FNS for administrative action. We made accountability audits of the remaining 266 cases.

The 975 agents were banks and Government offices, where deposits were being made, but not at the required frequency. We estimated that the total amount of late depositing for these agents amounted to about \$6 million. The 79 cases were small (all but one under \$2,000) isolated instances of deposits which we could not confirm, totaling about \$64,000.

Our accountability audits of the remaining 266 cases included verification of deposits reported on Forms FNS-250 from July 1974 to the time of the audit. We traced the deposits to source documents such as cancelled checks, bank drafts, or FRB confirmation data. Our review of later data at FNS Headquarters resulted in our confirming deposits for 77 bank and Government issuing agents that we had initially identified as having possible non-deposits. Since we were able to account for all deposits, we cancelled our contemplated visits to those agents. At the 189 reporting agents visited, we also performed a physical inventory and accounted for all shipments, transfers and issuances of new series coupons from February or March 1975 to the dates of our visits.

Forms OA-7600-1, Significant Inquiry, were released for the 79 problem issuing agents found in our audits. Those agents had about \$6.4 million in non-deposits, \$18.5 million in late deposits, and \$98,000 in coupon shortages. We issued memorandums to FNS for the remaining 110 issuing agents where we found no problems or only relatively minor problems (51 of the 110 had late deposits totaling about \$2.5 million) for their information and follow-up.

On April 9, 1976, FNS officials advised us that provisions have been made to advise State agencies of the problem

issuing agents. The States will be instructed to take appropriate corrective action to get deposits current and to advise FNSROs of the actions taken. FNSROs are to follow-up as necessary. In addition, the FNS Finance and Program Accounting Division has started a review of fiscal 1975 data on a State by State basis for the purpose of billing the SAs. Cash and coupon shortages and late deposits pointed out in Forms OA-7600-1 and memorandums will be included in the SA billings if they have not been made, or are not current, as a result of the SA corrective action and FNSRO follow-up.

DETERMINATION OF WHETHER VENDORS OTHER THAN BANKS,
POST OFFICES AND GOVERNMENT ISSUING OFFICES (EX-
CLUDING NEW YORK CITY AND CHICAGO) HAVE COUPON
INVENTORY PROBLEMS

4. We identified 192 of these type vendors who previously had not been selected for accountability audits. We obtained the inventory information available from FNS records for these vendors, and made physical coupon verifications. We inventoried coupons and reconciled back to the zero base when the new coupon series went into effect during February and March 1975. In addition, we determined the current cash positions and depositing patterns for each agent by verifying deposits reported on the latest Form FNS-250, and accounting for all collections from the time of the last Form FNS-250 to the time of our review.

Forms OA-7600-1 were sent to FNS for the 12 problem issuing agents found in these reviews. Those agents had coupon shortages of \$31,937, nondeposits of \$122,944, and late deposits of \$334,925. We issued memorandums to FNS for the 180 agents where we found no problems or only minor discrepancies (34 issuing agents had late deposits of about \$350,000) for their information and follow-up. FNS took similar corrective action on these cases as that described in Section 3 above.

In view of the small number of problems identified, we do not believe that coupon inventory and control by issuing agents is a major problem.

INVENTORY OF COUPONS IN NEW YORK CITY AND CHICAGO

5. Separate reports were issued on our review of controls over food coupons and cash at New York City (Report No. 2799-14-Hy) and Chicago (Report No. 2799-23-Ch) where there are 980 and 539 issuing agents, respectively, authorized to sell food stamps.

In New York City nine contract point banks (CPBs) issue food coupons through 632 branch or other banks, 3 credit unions, and 345 check cashers. We reviewed operations at the three CPBs that had non-bank sub-vendors, 13 branches of the CPBs, and 51 sub-vendors (check cashers and credit unions). We found that inventory controls at the CPBs and their branch banks were generally adequate to assure proper accountability of food stamps received, issued, and in inventory. However, there was a need for improved supervision and monitoring of the sub-vendors. Indicative of this need were our findings that: (a) physical inventories were not being made at sub-vendor locations; (b) some sub-vendor monthly reports to the branch banks were inaccurate; (c) informal transfers (loans) of food stamps between sub-vendors were neither documented nor reported to the branch banks; and, (d) some shortages of food stamps at the sub-vendor level, although relatively minor in amounts, were not reported for extended periods of time.

Our review included a verification of food stamp inventory totaling about \$80 million. The review disclosed minor shortages or overages (ranging from \$1 to \$453) at 39 locations. In addition, we found an unexplained shortage of \$9,800 at one check casher (suspended from operation during the survey), and an overage of \$1,100 at another check casher.

Lincoln National Bank (LNB), Chicago, Illinois, issues food coupons through 514 currency exchanges in Cook County, and 25 currency exchanges in 12 downstate counties. Our physical inventory of about \$50 million in coupons on hand at the LNB, 31 Cook County currency exchanges, the 25 downstate currency exchanges, and the ten banks designated as coupon storage banks disclosed no substantial or unreported differences between the counts and our computed inventory balances. However, we did find that during the period September 1, 1975, to December 31, 1975, LNB delayed

transmitting deposits to the FRB from 4 to 34 days. The late depositing resulted in an average daily balance of undeposited cash of about \$2,600,000 for that period. Beginning January 23, 1976, LNB changed their system for depositing collections and reduced the delay to about three days for Cook County exchanges, and to from one to 18 days for downstate exchanges. This reduced the average daily balance of undeposited cash for Cook and downstate counties during February 1976 to about \$1,000,000 and \$325,000, respectively. While the new system is better, we believed further improvements are needed to assure that LNB obtains daily sales data from exchanges more timely. We also found about \$515,000 in accumulated shortages by sub-vendors which LNB was holding. This was an accumulation for about 6 years, and LNB had not been billed for these. The responsible FNSRO is working this out with the State agency and contract bank.

DETERMINATION OF WHETHER FNS HAS AN ADEQUATE PERPETUAL INVENTORY SYSTEM AND WHETHER THE SYSTEM WILL IDENTIFY COUPON SHORTAGES

6. FNS had not developed action plans to assure that food coupon inventories were properly accounted for. We found several problem areas that need to be corrected before FNS can effectively use the current inventory system as a management tool. Problems noted included: (a) reports generated were too voluminous to utilize effectively, (b) no one had been assigned responsibility for reviewing and updating inventory reports, (c) the FS Master Directory Report and Accountability File were not maintained on a current basis, (d) the American Bank Note Company Shipping List was not current, (e) procedures for billing States for cash and coupon shortages were not adequate, and (f) returned coupons were not properly accounted for.

These problems, with related details and recommendations for action, are included in Report of Audit No. 2799-13-Hy.

DETERMINATION OF NEED TO INVENTORY COUPONS AT ALL BANKS AND GOVERNMENT ISSUING AGENTS

7. About 11,000 of the approximately 14,000 issuing agents fall into the classification of banks or Government issuing offices. Only a few of these were identified as

possible problems and covered in our accountability audits. Based on the results of our coupon inventories at vendors (see 4 above), and the reviews in Chicago and New York (see 5 above), together with other information developed through our survey, we did not physically inventory coupons at all these issuing agents. Among the other factors considered were:

- FNS Regional Offices have tightened their controls through recent letters to States advising them of the problems with cash and coupon accountability, and requesting a more vigorous effort of follow-up on problems.
- FNS' action plans, when fully implemented, will provide for better accountability, including mandated State controls.
- Future Federal and State audits, and State E&E reviews, will be reviewing issuing activities, including coupon controls.

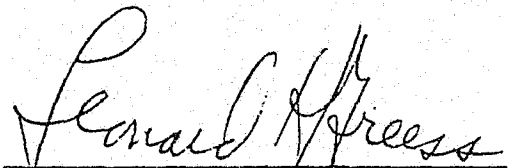
In light of the above, and the volume of work needed to inventory approximately 11,000 locations, we believe the coupon inventory and control at bank and Government issuing agents can be accepted for this overall review as not representing an undue risk.

However, we did find in our survey of National Banking Organizations (Federal Reserve System, Comptroller of the Currency, and Federal Deposit Insurance Corporation) that some strengthening of their awareness, and improvement in their attention to FS coupons, might be desirable. Generally, the headquarters of these organizations have not prescribed mandatory coverage of food stamp accountability in their bank examinations; and, top officials of these organizations are not clear in their understanding of the extent bank internal auditors, or others such as CPAs, actually review food stamp accountability at issuing banks. Thus, OA will work with these organizations in an effort to assure that their examinations, or those of others which they review or monitor, are sufficient to offer protection to the Federal interest in food stamp accountability at bank issuing points.

III - GENERAL COMMENTS

Close coordination was maintained with FNS Headquarters and FNSROs throughout these reviews. OA received considerable assistance from FNSRO personnel during the field work. To assure proper communication at all levels, all Forms OA-7600-1 were released to FNS Headquarters with a copy to the appropriate FNSRO. All memorandum reports covering the less serious problem agents, or those with no problems, were sent directly to the responsible FNSRO. OA will follow-up after a reasonable time to determine final action on all the Forms OA-7600-1 and memorandum reports.

MAY 12 1976



LEONARD H. GREESS
Director

END