

UNITED STATES DEPARTMENT OF AGRICULTURE**ASSISTANCE LISTING 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)****ASSISTANCE LISTING 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**A. Administration**

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

State human services agencies (or county human services agencies under the oversight of the state government) certify eligibility and provide benefits to households. They also provide nutrition education. FNS provides funding for state administration and benefits and oversees the operation of state agencies to ensure compliance with federal laws and regulations. In addition, FNS is solely responsible for authorizing and monitoring retail stores that accept SNAP benefits in exchange for food.

B. 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, except for those functions listed in III G.1, "Matching, Level of Effort, Earmarking – 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.

States receive federal funds for SNAP nutrition education and obesity prevention (SNAP-Ed) activities based on a formula. The state agency must use these funds for the administrative costs of planning, implementing, and operating a SNAP-Ed program in accordance with its approved SNAP-Ed Plan. The federal government pays 100 percent of the costs. However, the state agency is prohibited from obligating additional federal funds for SNAP-Ed activities.

C. Certification

Eligibility for SNAP is based primarily on income and resources. Although a number of available state design options can affect benefits for recipients, a key feature of the program is its status as an entitlement program with standardized eligibility and benefits.

1. *Assessing Need*

Households generally cannot exceed a gross income eligibility standard set at 130 percent of the federal poverty standard. Households also cannot exceed a net income standard, which is set at 100 percent of the federal poverty standard. 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. Nonfinancial eligibility criteria include school status, citizenship/legal immigration status, residency, household composition, work requirements, and disability status. Some noncitizens are ineligible to participate in the program. Able-bodied adults without dependents are subject to a time limit for receiving benefits if certain requirements are not met.

A total of 42 states have adopted the policy known as broad based categorical eligibility (BBCE). This policy allows a state to base SNAP eligibility determinations on households' receipt of a Temporary Assistance for Needy Families (TANF)-funded noncash benefits or service (Assistance Listing 93.558). Depending on the eligibility criteria of the TANF program used to confer SNAP categorical eligibility, the BBCE may enable a state to (1) use a higher threshold (up to 200 percent of the poverty level) when applying the gross income test, and/or (2) eliminate the asset test altogether.

2. *Application Process for SNAP Benefits*

The application process for SNAP benefits includes the completion and filing of an application form, an interview, and the verification of certain information. In addition to using information supplied by the applicants, state or county agencies use data from other agencies, such as the Social Security Administration and the state employment security agency, to verify the household's identity, income, resources, and other eligibility criteria.

D. 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 used to purchase food at authorized 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).

E. Benefit Redemption

Generally, households must use program benefits to purchase foods for preparation and consumption at home. There are, however, very few exceptions to this general policy. For example, there are provisions for seniors, disabled persons, and homeless persons 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 US 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 US Treasury.

States must obtain an examination report by an independent auditor of the state EBT service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under SNAP in accordance with the American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements (AT) Section 801, *Reporting on Controls at a Service Organization*. Appendix VIII to the Supplement provides additional guidance on these examinations and service auditor reports, referred to as a "service organization control (SOC) 1 type 2 report." In performing audits of SNAP under 2 CFR Part 200, Subpart F, an auditor may use these SOC 1 type 2 reports to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

F. 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. Although legislation provides a measure of administrative flexibility, the authorizing legislation 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, 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, particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management evaluation reviews, quality control reviews, and reporting to FNS on program performance. State agencies shall conduct management evaluation reviews 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 regulations at 7 CFR

section 271.2, although states may request approval by FNS to use “management units” instead of project areas for management evaluation reviews. The state must also ensure corrective action in response to the detection of program deficiencies.

G. Federal Oversight and Compliance Mechanisms

FNS oversees state operations through an organization consisting of headquarters and seven regional offices. 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.

FNS also assesses penalties related to payment accuracy. FNS has other mechanisms to recover losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds from states for failure to implement program requirements.

USDA’s Office of Inspector General (OIG) has primary responsibility for investigating authorized retailers, but the OIG has delegated most such authority to FNS. Consequently, FNS makes most of the investigations of retailers. The Retailer Investigations Branch of the FNS Retailer Operations Division conducts undercover investigations. FNS also uses EBT transaction data to identify retailers who engage in trafficking. SNAP legislation and regulations provide for sanctions against such retailers, which may be temporary or permanent depending on the severity of the violations. In certain circumstances, monetary penalties may be imposed.

H. Certification Quality Control System

SNAP maintains an extensive quality control system required by law and regulation. 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 actions to deny, terminate, or suspend benefits.

1. Measurement

States are required to select a statistical sample of cases, both active (currently receiving benefits) and negative case actions (benefits denied); review the active cases for eligibility and benefit amount; and review the negative cases for the correctness of the decision to deny benefits. 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 statistical 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 and negative case error rates. By law, the payment error rate is the combined value of overpayments and under payments to participating households. The FNS national office also reviews its regional operations and provides technical assistance to assure consistency in the national quality control system.

2. *Corrective Action and Penalties*

Program regulations require corrective action for any of the following reasons: (1) a payment error rate of 6 percent or greater, (2) any negative case error rate that exceeds 1 percent, (3) deficiencies identified from any FNS review, Government Accountability Office (GAO) audit, contract audit, or reports to FNS regarding the implementation of major changes as discussed in 7 CFR 272.15, (4) a result of 5 percent or more of the state's quality control (QC) caseload being coded as incomplete, or (5) any state agency rules or procedures that lead to under issuances, improper denials, improper suspensions, improper terminations, or improper systemic suspension of benefits to eligible households. 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.

3. *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. 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 TANF, SNAP, Medicaid) testing may be done as part of the work on multiple programs.

Source of Governing Requirements

SNAP is authorized by the Food and Nutrition Act of 2008 (7 USC 2011 et seq.), which replaced the Food Stamp Act of 1977, as amended. This description of SNAP procedures incorporates provisions of the following amendments to the Act: the Food, Conservation, and Energy Act of 2008 (Pub. L. No. 110-246, 122 Stat. 923, enacted June 18, 2008) and the Agriculture Act of 2014 (Pub. L. No. 113-79, 128 Stat. 649, enacted February 7, 2014). SNAP regulations are found in 7 CFR parts 271 through 285.

Availability of Other Program Information

Other program information is available from FNS's SNAP site at <https://www.fns.usda.gov/snap/supplemental-nutrition-assistance-program>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. **When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.**

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	Y	N	Y	N	N	Y	Y

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 (E&T) activities, must be used for such purposes (7 CFR Part 277).

SNAP-Ed funds must be used for the administrative costs of planning, implementing, operating, and evaluating a SNAP-Ed program in accordance with the state's approved SNAP-Ed Plan. However, the state agency is prohibited from obligating additional federal funds for SNAP-Ed activities (7 CFR section 272.2(d)(2)).

G. Matching, Level of Effort, Earmarking

1. Matching

The state is required to pay 50 percent of the costs of administering the program. Exceptions to this 50 percent reimbursement rate include 100 percent grants to:

- a. Administer the E&T component of the program (7 CFR section 277.4(b)) (**Note:** States receive a 100 percent grant for the E&T component and must pay 50 percent for E&T costs that exceed that grant); and
- b. Provide SNAP-Ed services. A state's SNAP-Ed costs are 100 percent federally funded, up to the level of its formula-generated federal SNAP-Ed grant. That amount is the maximum level of federal financial participation in a state's SNAP-Ed costs; any SNAP-Ed costs incurred beyond that level must be borne by the state (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010).

The federal reimbursement will decrease, 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)). 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 \$6 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. 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 prior written approval (7 CFR section 277.18).
2. For procurement activity covered by the USDA implementation of the A-102 Common Rule (see Part 3 of the Supplement for effective dates), regardless of whether the state elects to follow state or federal rules, 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)).
3. For procurements covered by the USDA adoption of 2 CFR Part 200 and the regulations at 2 CFR section 416.1, the following applies:
 - a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions or other documents for use by a state shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide states with specification information related to a state procurement and still compete for the procurement if the state, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).

- b. Procurements by states shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).

N. Special Tests and Provisions

1. ADP System for SNAP

Compliance Requirements 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 that 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 Objectives 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. (**Note:** References to the "ADP/CIS Model Plan" are outdated and no longer valid. Examination of 7 CFR section 272.10 should focus only on the functional requirements of SNAP automation and should disregard any references to the "ADP/CIS Model Plan" referenced in 7 CFR sections 272.10(a)(1) and 272.10(a)(2)).

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. In addition, FNS has developed a review tool for use by state and federal staff in conducting pre- and post-implementation reviews of states' automated SNAP systems.

The review tool can be found at

http://www.fns.usda.gov/sites/default/files/apd/SNAP_System_Integrity_Review_Tool.pdf. The auditor should test the ADP system to ascertain if the system:

- a. Accurately and completely processes and securely stores all case file information for eligibility determination and benefit calculation.

- b. Automatically cuts off households from receiving SNAP benefits at the end of their certification period unless the household is recertified.
- c. Provides data necessary to meet federal issuance and reconciliation reporting requirements.

2. EBT Reconciliation

Compliance Requirements States 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 (e.g., electronic point-of-sale 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 274.3(a)(1) and 274.4(a)).

Audit Objectives Determine whether the state reconciles retailer credit 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 nonfederal liabilities in the daily EBT reconciliation (i.e., transactions which cannot be charged to the

program). If so, verify that the nonfederal liabilities were funded by nonfederal sources (e.g., the state or the contractor).

3. EBT Card Security

Compliance Requirements The state is required to maintain adequate security over, and documentation/records for, EBT cards, to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR section 274.8(b)(3)).

Audit Objectives Determine whether the state maintains security over EBT cards.

Suggested Audit Procedures

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

IV. OTHER INFORMATION

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) the related compliance requirements will apply to the local government.

See Assistance Listing 10.000 for additional information regarding to waivers for this program due to COVID-19.