U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: July 12, 2010

REPLY TO
ATTN OF: 27703-02-Hy

TO: Julie Paradis
Administrator
Food and Nutrition Service

ATTN: Katherine Day
Director
Office of Internal Controls, Audits and Investigations

FROM: Gil H. Harden **/s/**
Assistant Inspector General
for Audit

SUBJECT: State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program

The American Recovery and Reinvestment Act of 2009[1] (Recovery Act) provided the Department of Agriculture with $28 billion in funding. Of this amount, $19.8 billion was specifically allotted to the Food and Nutrition Service (FNS) to fund the 13.6 percent increase in benefits to participants in the Supplemental Nutrition Assistance Program (SNAP).[2] Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Further, on February 18, 2009, the Office of Management and Budget (OMB) issued initial guidance that required Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.[3] OMB issued additional guidance on April 3, 2009, to clarify existing requirements and establish additional steps that must be taken to facilitate the accountability and transparency objectives of the Recovery Act. Moreover, OMB emphasized that, due to the unique implementation risks of the Recovery Act, agencies must take steps, beyond standard practice, to initiate the additional oversight mechanisms.[4]

[1] Public Law 111-5, February 17, 2009.
[2] The potential amount of benefits to be funded through the Recovery Act increased when estimates were prepared for the fiscal year (FY) 2011 budget. According to FNS, the Recovery Act funding for SNAP is now estimated to total $65.8 billion through FY 2019.
[3] Office of Management and Budget Memorandum M-09-10.
[4] Office of Management and Budget Memorandum M-09-15.

SNAP provides nutrition assistance to approximately 40 million low-income individuals and families by supplementing their incomes with benefits to purchase food they need for healthy eating choices. FNS administers SNAP through a Federal-State partnership by which the Federal Government pays the full cost of recipient benefits, while the cost of administering the program is shared with the States. SNAP regulations specify functional areas to be addressed by the State agencies; however, these regulations did not establish a standardized system of internal control at the State level. FNS' policy is to allow States the flexibility to establish control systems that meet the individual needs of each State. In addition to administering the day-to-day program operations, State agencies also have the primary responsibility for monitoring recipients' compliance with program requirements and for detecting and investigating cases of alleged intentional program violation.[5] States do not have responsibility for monitoring program compliance by participating retailers; this function is performed by FNS' Compliance Branch.

The audit objectives are to assess FNS' oversight of State agencies' efforts to identify recipients fraudulently misusing SNAP benefits, and to determine whether Recovery Act funds are expended in a manner that minimizes the risk of improper use. This report documents the results of our assessment of FNS' oversight of States' fraud detection units, and describes the need for FNS to periodically perform reviews of State fraud detection efforts to identify areas which need improvement. To accomplish our objectives, we conducted fieldwork at the FNS national office, the FNS Mid-Atlantic Regional Office, and the FNS Southeast Regional Office. Additionally, we visited the State Agencies in Florida and New Jersey, as well as five county offices in New Jersey. We conducted interviews with pertinent FNS and State officials, reviewed program regulations, and assessed program policies and procedures, as well as internal controls relating to the SNAP program.

According to Federal regulations,[6] each State is required to establish and operate internal fraud detection units in all areas in which 5,000 or more households participate in SNAP. Each fraud detection unit is responsible for detecting, investigating, and assisting in the prosecution of program fraud committed by SNAP recipients. In May 2009, FNS issued its American Recovery and Reinvestment Act Plan, which stated that management evaluation (ME) reviews would be conducted of State SNAP program operations as a tool to measure and improve the integrity of program benefits. The ME reviews are performed by both the FNS regional offices and the States. This review process addresses specific program target areas determined by the FNS national office to measure compliance with policies, procedures, and standards of timeliness as mandated by program regulations. States have the option to include additional target areas for review, as they deem necessary, to assure that FNS programs are operated in an efficient and effective manner within each State. However, the specific target areas determined by FNS do not include coverage of State fraud detection units. Only one of the two States we visited, New Jersey, had included reviews of the State fraud detection unit as a supplemental target area

[5] An intentional program violation is defined as any act violating the Food Stamp Act, the Food Stamp Program regulations, or any State statute for the purpose of using, presenting, transferring, acquiring, receiving, possessing, or trafficking authorization cards. Also, it is any act that constitutes making a false or misleading statement or concealing or withholding facts.
[6] Title 7 CFR, §272.4 (4) (g), January 1, 2009.

in its ME reviews. However, that State's fraud detection unit reviews were limited to ensuring that salaries attributed to each fraud investigator were solely for the purpose of performing fraud related activities.

We found that neither State we visited had developed a fully effective fraud detection unit. FNS had not conducted periodic reviews of the States' fraud detection efforts to verify their effectiveness. According to an FNS national office official, such reviews were not considered necessary because information collected by States for FNS' annual State Activity Report (SAR) was sufficient for FNS officials to ensure that States were devoting sufficient resources to their fraud detection efforts. The information reported on the SAR is compiled using each State's Program and Budget Summary Statement Part B – Program Activity Statement (FNS-366B). The FNS-366B is used by States to report information on SNAP operations, such as participation rates, investigations, prosecutions, disqualifications, and claims. This information is used to produce the SAR which FNS officials rely upon to assess the effectiveness of States' fraud detection units. However, FNS' assessment of State fraud detection activities could be limited by the accuracy of the State-reported information.

Our reviews in New Jersey disclosed several instances in which the accuracy of the reported information on the FNS-366B could not be verified. For example, we noted that in fiscal year (FY) 2009 for the five counties the Office of Inspector General (OIG) visited, New Jersey reported the issuance of 125 waivers where clients signed disqualification consent agreements.[7] However, we found that State officials could only provide documentation to substantiate the issuance of 14 (11 percent) of the reported waivers. Similarly, in FY 2008 the State reported 131 instances where decisions rendered by the State during the administrative hearing process were upheld; however, only 18 could be substantiated (14 percent).[8] According to New Jersey State officials, the State does not require supporting documentation be submitted from the county offices to validate the information reported. We conducted visits to the county offices and found that the information could not be validated because of inadequate record keeping.

Further, during our review in Florida, we found non-SNAP cash benefits were reported on the FNS-366B.[9] A Florida State official acknowledged that the inclusion of non-SNAP cash benefits on the FNS-366B was incorrect, and attributed it in part to the continued use of outdated guidance. This guidance, prior to being superseded on November 30, 2007, required the inclusion of cash benefits in one section of the report. Moreover, the official acknowledged that Florida personnel had misinterpreted the older guidance and had improperly included the cash benefits in subsequent sections of the FNS-366B.

[7] This reflects the number of cases where individuals waived their right to a hearing, but did not contest the disqualification period.
[8] The scope of our review (FY 2008 and FY 2009) included a timeframe prior to the establishment of the Recovery Act. The Recovery Act was not signed into law until February 17, 2009.
[9] Non-SNAP cash benefits are provided through the Temporary Assistance for Needy Families program, which is a program administered by the State.

Without a system to periodically verify State-reported information on recipient fraud detection activities, FNS' ability to assess program risks and improve SNAP program integrity and efficiency is reduced. We discussed this issue with FNS officials on June 1, 2010. Although FNS officials agreed with our findings, they contended that this issue pertains to their normal program operations and is not directly related to the expenditure of Recovery Act funds; therefore, it should not be reported on the Recovery.gov website. Although we acknowledge the FNS officials' concerns, we also note that this issue does affect the increased SNAP funding provided under the Recovery Act. Due to the heightened expectations for accountability and transparency of the Recovery Act, it is the agency's responsibility to develop and implement additional measures beyond normal operations to ensure program integrity. Therefore, we recommended that FNS identify and implement a process for periodically assessing the States' fraud detection units.

Please provide a written response within 5 days that outlines your corrective action on this matter. If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Theresa Bulla, Audit Director, Food and Marketing Division, at (202) 720-5907.

USDA'S

FOOD AND NUTRITION SERVICE

RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive
Room 803

Alexandria, VA 22302-1500

DATE: July 23, 2010

TO: Gil H. Harden
Assistant Inspector General, Office of the Inspector General

FROM: Julie Paradis, FNS Agency Administrator /S/

SUBJECT: Response to the FAST Report 27703-02-HY: State Fraud Detection Efforts in SNAP

Thank you for the opportunity to respond to the OIG FAST Report 27703-02-HY: State Fraud Detection Efforts in SNAP.

The audit objectives stated in the FAST Report were to assess FNS' oversight of State agencies' efforts to identify recipients fraudulently misusing Supplemental Nutrition Assistance Program (SNAP) benefits, and to determine whether Recovery Act funds are expended in a manner that minimizes the risk of improper use. Specifically, the report documents the results of the OIG's assessment of two States' fraud detection units, and asserts that FNS needs to periodically perform reviews of State fraud detection efforts to identify areas that need improvement.

The OIG looked at New Jersey and Florida, and found variances in their respective operations that may have indicated reporting and documentation inadequacies. While the inconsistencies identified with the reporting and documentation are of concern, FNS does not believe these deficiencies are a sufficient basis on which to conclude that State efforts to detect and deter program fraud are ineffective or otherwise compromised. Additionally, because of the very limited sample size, it is not possible to generalize the finding identified in two States as characteristic of other States' performance.

FNS will work with New Jersey and Florida to address the reporting and documentation inconsistencies identified in this report. We will also work to determine the implications of those apparent deficiencies for the overall effectiveness of States' anti-fraud efforts, and share lessons learned with other States and FNS Regional Offices as appropriate.

FNS has a robust and effective program of technical assistance and oversight to insure proper administration of SNAP by our State partners. It is a comprehensive multi-faceted approach including Program Management Evaluations (MEs), Quality Control (QC) reviews, and Financial Management Reviews (FMRs). Where State responsibilities or funding changed under the Recovery Act, the Agency has taken timely and effective steps to further strengthen this process with extensive policy guidance and expanded scope and frequency of MEs and FMRs. The areas of State operational responsibility addressed in this FAST Report, however, were unaffected by the provisions of the Recovery Act.

FNS and its State partners share a strong, collaborative partnership to promote payment accuracy, combat program fraud, and strengthen efforts to identify and recover improper payments made in the Program. The outcome of this partnership, and the significant investment FNS has made in program integrity, is most notably demonstrated in the dramatic improvements that have been achieved in overall SNAP payment accuracy rates. Since FY 1999, SNAP payment accuracy has risen from 90.14 percent to 95.64 percent—the highest rate ever achieved by the Program.

FNS and its State partners' welcome the independent assessments of the OIG and acknowledge the contribution they represent to further strengthening the integrity of the SNAP, and encourage the OIG to consider including a broader examination of State anti-fraud activities, including the concerns suggested in this report, in their plans for future audit work as deemed appropriate by OIG. An independent, nationally representative review of these issues would be extremely helpful to the Agency as it works to target its limited technical assistance and oversight resources in thoughtful, risk-based manner.