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Office of Inspector General





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AUDIT  
NUMBER: 27002-0011-13

TO: Audrey Rowe  
Administrator  
Food and Nutrition Service

ATTN: Mark Porter  
Director  
Office of Internal Control, Audits and Investigations

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Analysis of FNS' Supplemental Nutrition Assistance Program  
Fraud Prevention and Detection Efforts

This report presents the results of the subject review. Your written response to the official draft is included at the end of this report. Excerpts of your September 24, 2012, response and the Office of Inspector General's position are incorporated into the applicable sections of the report.

Based on your response, we have reached management decision on all of the report's recommendations. Please follow your internal agency procedures in forwarding final action correspondence to the Office of Chief Financial Officer.

Also, please note that Departmental Regulation 1720-1 requires final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.



# **Table of Contents**

<b>Executive Summary .....</b>	<b>1</b>
<b>Background and Objectives .....</b>	<b>4</b>
<b>Section 1: SNAP Fraud Detection and Reporting .....</b>	<b>9</b>
<b>Finding 1: Improvements Needed in Fraud Detection and Prevention Tools</b> .....	<b>9</b>
<b>Recommendation 1 .....</b>	<b>15</b>
<b>Recommendation 2 .....</b>	<b>16</b>
<b>Recommendation 3 .....</b>	<b>16</b>
<b>Recommendation 4 .....</b>	<b>17</b>
<b>Recommendation 5 .....</b>	<b>17</b>
<b>Recommendation 6 .....</b>	<b>18</b>
<b>Recommendation 7 .....</b>	<b>18</b>
<b>Finding 2: FNS Can Improve the SNAP Trafficking Fraud Rate</b>	
<b>Methodology .....</b>	<b>19</b>
<b>Recommendation 8 .....</b>	<b>21</b>
<b>Recommendation 9 .....</b>	<b>21</b>
<b>Scope and Methodology .....</b>	<b>22</b>
<b>Abbreviations .....</b>	<b>24</b>
<b>Exhibit A: List of OIG SNAP Audit Reports .....</b>	<b>25</b>
<b>Agency’s Response .....</b>	<b>27</b>



# Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts – 27002-0011-13

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## Executive Summary

The Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, provides monthly food assistance and nutrition for the health and well-being of more than 44 million low-income individuals.<sup>1</sup> The program has grown by 70 percent since 2007 and disbursed over \$71.8 billion in benefits in fiscal year (FY) 2011. Given the program's significance, fraud committed by both SNAP recipients and the retailers that redeem SNAP benefits is a critical concern. For this audit, we began by analyzing SNAP-related databases at Federal and State levels to identify anomalies that may result in ineligible individuals receiving SNAP benefits. In response to questions posed during the December 2011 House Agriculture Committee's Subcommittee on Department Operations, Oversight, and Credit's hearing, we expanded our audit scope.<sup>2</sup> The Subcommittee Chairman asked the Office of Inspector General (OIG) to evaluate FNS and State agency tools used to prevent and detect SNAP fraud, and also to evaluate the integrity of recipient and retailer fraud reporting.

While FNS and States do have tools for ensuring applicant eligibility and detecting fraud, States either do not make full use of the tools, or cannot rely on the data provided by the tools to take actions related to benefits. This occurs because FNS does not require States to use all the tools available to them. Also, States consider some databases' data to be unreliable, and must conduct further research before acting on data contained within them. Research is often conducted by the States' fraud detection and prevention units; however, in the 10 States we visited, we found that despite significant increases in SNAP participation none of the States had increased the resources in these units.

We found that of the more than 13.9 million average monthly recipients in the 10 States we reviewed, there were 27,044 recipients (.20 percent) who were potentially deceased, using a deceased individual's Social Security Number (SSN), had erroneous SSNs, were receiving duplicate benefits in the same State, were receiving benefits simultaneously from at least one other State, or were listed as being disqualified from receiving SNAP benefits.<sup>3</sup> These potentially ineligible recipients cause us to question approximately \$3.7 million for each month

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<sup>1</sup> For fiscal year 2011 according to FNS' *SNAP: Average Monthly Participation*, April 30, 2012.

<sup>2</sup> Subcommittee on Department Operations, Oversight, and Credit of the House Committee on Agriculture, Hearing to Review Updates on USDA Inspector General Audits, Including SNAP Fraud Detection Efforts and IT Compliance, December 1, 2011.

<sup>3</sup> Of the 13.9 million average monthly recipients in the 10 States we reviewed, our State audits collectively identified 8,612 (.06 percent) individuals matching deceased individuals SSN's; 2,080 (.01 percent) with erroneous SSN's; 8,182 (.06 percent) receiving duplicate benefits in the same State; 6,865 (.05 percent) receiving benefits simultaneously from at least one other State; and 1,305 (.01 percent) listed as being disqualified from receiving SNAP benefits.

they received benefits.<sup>4</sup> Given the size and complexity of SNAP, this low rate of data anomalies is a notable achievement and the States have made significant progress resolving the questioned recipients identified in our matches. However, since SNAP participation has reached record levels, we believe that even incremental improvements in fraud detection and prevention can have a meaningful impact on SNAP program integrity.

We also evaluated how FNS reports fraud in SNAP. Recipient fraud can occur when a client obtains benefits by providing fraudulent information to a caseworker, as well as when a client misuses benefits. Detecting and preventing recipient fraud is predominantly the responsibility of the States. Retailer fraud involves any instance where a store employee exchanges something other than food (typically cash) for benefits—called “trafficking”—or store owners redeem more benefits than the store’s total food sales, or a store employee charges an electronic benefits transfer (EBT) card manually without an associated purchase. Detecting and preventing retailer fraud is primarily the responsibility of FNS.

We also found that FNS has not established processes to identify or estimate the total amount of SNAP fraud occurring nationwide, either by recipients or by retailers. As a result, FNS does not have tools to effectively measure a total SNAP fraud rate over time. FNS cannot estimate a recipient fraud rate because it has not established how States should compile, track, and report fraud in a uniform manner. FNS reports recipient fraud as the number of recipients disqualified each year. This number only includes those recipients actually identified committing fraud and does not estimate the rate of potential fraud. Without a consistent methodology for compiling recipient fraud data, we believe the current method of State reporting would make it difficult for FNS to provide a total recipient fraud rate. As for retailer fraud, FNS does not report a total rate but instead focuses on reporting a trafficking rate.<sup>5</sup> Because FNS estimates its trafficking rate using a judgmental sample method, results may not be representative of the retailer population; therefore, the actual extent of trafficking could be over or underestimated.

In addition to this report, we have previously issued 10 State-specific reports detailing potentially ineligible recipients we identified in each State during our review.<sup>6</sup> This report presents a summation of our previous findings, identifies new issues that emerged during our subsequent fieldwork, and reflects new information related to our expanded objective.

## **Recommendation Summary**

To better detect and prevent recipient fraud, FNS should specify a set of tools that States are required to use for fraud detection, and create associated guidelines for their consistent usage. Also, FNS needs to designate systems that can be relied on by States so they are able to take

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<sup>4</sup> Our State audits collectively identified 27,044 potentially ineligible recipients, which cause us to question approximately \$3.7 million for each month they received benefits: Alabama - \$207,989; Florida - \$380,225; Kansas - \$112,831; Louisiana - \$308,704; Massachusetts - \$117,767; Mississippi - \$123,643; Missouri - \$96,409; New Jersey - \$569,098; New York - \$1,268,260; and Texas - \$523,551.

<sup>5</sup> Trafficking is any instance where a store employee exchanges something other than food (typically cash) for SNAP benefits.

<sup>6</sup> We issued State-specific reports for Alabama, Florida, Kansas, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New York, and Texas.

immediate action based on their data, and improve the quality of data in its current systems. In addition, FNS must establish a nationwide system and new requirements to prevent duplicate interstate and intrastate accounts. FNS has awarded a grant to develop a pilot of such a system. In order to make effective use of its detection tools, FNS should also ensure States have internal controls in place to protect the integrity of data input. To improve its fraud reporting, FNS should assess the feasibility of (1) creating a uniform method for States to report recipient fraud and (2) conducting a nationwide random sample of SNAP retailers.

### **Agency Response**

FNS agrees with our recommendations. It has issued guidance to the States clarifying the requirements of using the Social Security Administration's Death Master File, identifying duplicate participation, and explaining the expectations regarding fraud prevention and detection. It is also working to enhance the disqualified recipient tracking system and develop a new system that can aid the States in detecting interstate duplicate participation. FNS will continue to work with States to make them aware of systems that are verified upon receipt. FNS is also going to determine the feasibility of creating a uniform methodology for States to calculate a fraud rate, and the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate. FNS estimates all recommendations will be addressed by September 30, 2013.

### **OIG Position**

OIG concurs with FNS' response. We have reached management decision on the report's nine recommendations.



## Background and Objectives

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### Background

FNS' SNAP, formerly known as the Food Stamp Program, provides monthly food assistance and nutrition for the health and well-being of more than 44 million low-income individuals. Since 2007, the program has grown by 70 percent. In FY 2011, FNS disbursed over \$71.8 billion in SNAP benefits that were redeemed by an average of 44.7 million recipients each month. While FNS pays the full cost of recipient benefits, both FNS and the States share the program's administrative costs.

SNAP helps low-income families buy nutritious foods at FNS-authorized stores.<sup>7</sup> FNS has replaced paper benefits with EBT transaction cards, which are used like debit cards at retailers to purchase food. Each State hires a contractor, or EBT processor, to handle its EBT transactions. For enrollment and eligibility procedures, SNAP regulations at the Federal level specify minimum guidelines, such as maximum income requirements, to be enforced by the State agencies.

FNS' policy is to allow State agencies the flexibility to establish control systems that meet the individual needs of each State, so long as they satisfy Federal requirements. Each State agency also develops and maintains its own unique eligibility system, including software and databases. In most State agencies we reviewed, applicants submit documents to prove citizenship, residency, income, and expenses. To continue in the program, recipients are required to report that they are still eligible every 6 or 12 months, depending on the applicant's status. SNAP recipients are approved or denied by the State agency based on pre-established eligibility requirements.

Once applicants have submitted eligibility information, the State agencies perform several automated data checks to validate selected submitted information, including SSNs. State agencies are required to establish a system to ensure that individuals incarcerated in Federal, State, or Local prison for more than 30 days are not receiving benefits.<sup>8</sup> State agencies must also check recipient data against a national Social Security Administration (SSA) database to ensure that the State agency does not authorize or issue benefits to deceased persons.<sup>9,10</sup> In addition, most State agencies that administer SNAP utilize additional national and State database systems to verify income and employment information provided by applicants.

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<sup>7</sup> "Stores" and "retailers" include grocery stores, supermarkets, meal services, farmer's markets, etc. Although we use the terms "store" and "retailer" in this report, we extend this term to other types of organizations, such as wholesalers, meal services, and group living arrangements. As stated at 7 Code of Federal Regulations (CFR) §278.1(a), FNS approves retailers and stores for participation in SNAP.

<sup>8</sup> Public Law (PL) 105-33, Balanced Budget Act of 1997, Section 1003(a)(1), August 5, 1997; and PL 110-246, the Food and Nutrition Act of 2008, Section 11(q), October 1, 2008.

<sup>9</sup> Provided at no cost to State agencies, the State Verification Exchange System (SVES) matches against several national databases to provide death and SSN verification information for every submitted individual. SSA's Death Master File can also be used to identify deceased recipients.

<sup>10</sup> PL 105-379, An Act to Amend the Food Stamp Act of 1977, Section 1(a), November 12, 1998.

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State agencies also have primary responsibility for discovering improper payments issued to recipients, as well as intentional program violators.<sup>11</sup> This can be the result of fraud, recipient error, or agency error. States are primarily responsible for addressing recipient fraud, while FNS is responsible for addressing retailer fraud. Recipient and retailer fraud data would need to be combined to produce total SNAP fraud. Currently, various investigative bodies are responsible for monitoring SNAP fraud.

- FNS has an internal investigative unit, the Retailer Investigations Branch (RIB), which conducts investigations to monitor the activities of SNAP retailers. The RIB can take disqualification actions based on its investigations.
- USDA OIG also conducts criminal investigations of retailer fraud.
- State fraud detection units conduct statewide investigations of recipient fraud, and can form State Law Enforcement Bureau (SLEB) agreements with FNS to investigate and take administrative action against retailers committing fraud. The size, structure, and operation of these units vary by State.

FNS and the State agencies have several tools to monitor SNAP fraud. Briefly, these systems are:

**The Anti-Fraud Locator Using Electronic Benefits Transfer Retailer Transactions (ALERT)**, maintained by FNS, analyzes patterns in States' EBT transaction data to identify suspicious patterns most commonly associated with SNAP retailer fraudulent behavior such as benefit trafficking.<sup>12</sup> Currently, FNS is enhancing ALERT with more advanced technology and analytical tools to improve its ability to identify suspicious SNAP retailers. FNS refers to the updated system as "Next Generation ALERT," and phase one of the project was implemented in June 2012. Examples of the enhancements include providing three years of data as opposed to one; calculating time and distance patterns to identify fraudulent behavior; and tracking the activity of households that have previously redeemed benefits at a disqualified retailer to identify other possible trafficking retailers.

**The Watch List** compiles retailer data that meet predefined parameters (generally, retailers with the highest ALERT scores) into a single list. Investigators use the Watch List to identify stores for investigation.

**The Store Tracking and Redemptions System (STARS)** helps FNS manage data on participating retailers. It contains information about the retailers and identifies their investigative history. It includes administrative information about the store, such as the name of the owner, the store's location and hours, sales data, etc. Information from STARS is incorporated into the ALERT system.

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<sup>11</sup> An intentional program violation is defined as any act violating the Food and Nutrition Act of 2008, the SNAP regulations, or any State statute, for the purpose of using, presenting, transferring, acquiring, receiving, possessing, or trafficking SNAP benefits. The definition includes any act that constitutes making a false or misleading statement or concealing or withholding facts.

<sup>12</sup> FNS' retailer compliance department, known as the RIB, uses ALERT information to investigate retailers. RIB's nationwide staff conduct undercover investigations of SNAP approved retailers. RIB investigators receive professional training and conduct investigations throughout the year.

**Public Assistance Reporting Information System (PARIS)** is a Department of Health and Human Services' (HHS) computer system where the SSNs of public assistance recipients can be matched against various Federal databases and those of participating States to prevent simultaneous participation in benefit programs among States. FNS does not require States to participate in PARIS or to check for interstate participation.

**National Accuracy Clearinghouse (NAC) Database Pilot** stems from a grant FNS awarded through the Office of Management and Budget (OMB) Partnership Fund for Program Integrity Innovation that will fund the development of a system to detect duplicate participation in five Southern States. FNS anticipates the pilot will run from July 2013 until June 2014.

**Electronic Disqualified Recipient System (eDRS)** is a national internet-based system developed and administered by FNS that contains records of SNAP recipients who have been disqualified in each State. States are responsible for adding, modifying, and removing records from the system.

**The State Activity Report (SAR)** is the main way States report their fraud detection efforts to FNS.<sup>13</sup> The SAR is a compilation of both State-reported data and data calculated from information provided by the States. States annually report on their fraud detection efforts, such as providing the number of investigations they conduct in a year, as well as general program information such as participation levels, amount of benefits issued, and administrative costs.

**The SNAP Quality Control System** measures the accuracy of State eligibility and benefit determinations, referred to as the "payment error rate." This rate, as of FY 2011, was at an all-time low of 3.80.

**EBT reports** provide States with detailed analyses of recipient activities based on information collected and maintained by the States' EBT contractors. States must request EBT reports from contractors, and the costs and types of these reports vary for each contractor. States can request specific reports tailored to their own needs; however there is usually an additional cost for these reports. These reports are intended to assist the States with program management, operations, and performance.

As part of our expanded audit scope, we looked at item-level SNAP purchases and recipient and retailer fraud rates.

FNS has previously conducted a study on the feasibility of collecting and analyzing detailed information on what products recipients buy from retail stores with their SNAP benefits. This study, issued in September 1999, determined that it was possible to collect item-level SNAP purchase data from retailers with scanning systems, but only by requesting the information

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<sup>13</sup> FNS' national office prepares the SAR from information reported by each State in the Program and Budget Summary Statement Part B – *Program Activity Statement Report* (FNS-366B) report.

manually and on a case-by-case basis.<sup>14</sup> Collecting such information on a massive scale—for instance, as part of a nationwide database—was found to be unfeasible because each store uses different systems and collects information about product types differently. In addition, retailers are not required to submit such information to FNS, and consider such information to be sensitive and proprietary. The study concluded that collecting item-level food data on a voluntary basis from SNAP retailers would be costly and have very low compliance.

One of the challenges faced when trying to quantify the item-level purchases of SNAP recipients is the sheer number of food items available for purchase. According to the Food Marketing Institute, the average supermarket carried nearly 39,000 items in 2010.<sup>15</sup> FNS plans to initiate a study in FY 2013 to determine the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate. FNS plans to investigate the options for automatically capturing item-level details using EBT systems or similar cash register technology, as point-of-sale records provide reliable, independently created documentation of the benefits redeemed by recipients at the SNAP retailers' registers.

FNS also estimates the percentage of fraud that occurs in the SNAP program due to “trafficking,” which is a specific type of retail fraud that generally involves a store employee exchanging something other than food (typically cash) for SNAP benefits. The most recent study found that:

- Trafficking diverted an estimated \$330 million annually from SNAP benefits.<sup>16</sup>
- Overall, one cent of each benefit dollar was trafficked.
- About eight percent of all authorized SNAP stores engaged in trafficking.

In December 2011, FNS explained its three key oversight areas to curb fraud and enhance SNAP integrity.<sup>17</sup> Its first focus area—reducing improper payments and errors—is addressed by the FNS Quality Control system, which identifies over or under payments to recipients. FNS stated that its payment accuracy rate was 96.2 percent in FY 2011. The second area—combating the abuse and misuse of benefits—includes the improvements to ALERT, plans to upgrade retailer surveillance technology, promotion of a trafficking hotline number, and an expanded definition of trafficking. Moreover, FNS is in the process of developing stronger penalties and sanctions for small retailers. To address the third area—better pursuing recipient fraud—FNS issued guidance encouraging States to make greater use of USDA fraud data, reminded States of the importance of data matching, and sent letters to State Commissioners and Governors in 2011 expressing the importance of addressing recipient integrity issues.<sup>18</sup>

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<sup>14</sup> FNS, Office of Analysis, Nutrition, and Evaluation Study, *Feasibility Study of Capturing Food Data at Checkout*, September 1999.

<sup>15</sup> FNS, *Research and Evaluation Plan—Fiscal Year 2012*, February 9, 2012.

<sup>16</sup> *The Extent of Trafficking in the Supplemental Nutrition Assistance Program: 2006-2008 Final Report*, March 2011. This study is the fifth in a series of periodic analyses to estimate the extent of trafficking in SNAP.

<sup>17</sup> USDA Announces *New Tactics to Combat Fraud and Enhance SNAP Program Integrity*, Release No. 0503.11, December 6, 2011.

<sup>18</sup> FNS, Fighting SNAP Fraud site: <http://www.fns.usda.gov/snap/fraud.htm>.

## Objectives

When we began this audit, our overall objectives were to:

- Determine whether funds were used properly by analyzing SNAP-related databases at Federal and State levels for anomalies and signs of fraud, waste, and abuse.
- Compare the 10 selected States' SNAP recipient databases to SSA's Death Master File.

However, after the December 2011 House Agriculture Committee's Subcommittee on Department Operations, Oversight, and Credit's hearing on SNAP fraud, our scope was expanded to:

- Evaluate the adequacy of FNS and State tools used to prevent and detect SNAP fraud, and whether the States were using the tools provided.
- Identify and evaluate the integrity of amounts reported for recipient and retailer fraud.

## Section 1: SNAP Fraud Detection and Reporting

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### Finding 1: Improvements Needed in Fraud Detection and Prevention Tools

While FNS and States do have tools for ensuring applicant eligibility and detecting fraud, States either do not make full use of the tools, or cannot rely on the data provided by these tools to take actions related to benefits. This occurs because FNS does not require States to use all the tools available to them. Also, States consider some databases such as PARIS and eDRS to be unreliable because of incomplete or untimely data. When States feel that they cannot rely on the data, they must research each potential case of fraud identified before taking action. Research is often conducted by the States' fraud detection and prevention units; however in the 10 States we visited we found that despite significant increases in SNAP participation, none of the States had increased the resources in these units. In fact, FNS officials stated that States face significant resource challenges and are relying on staffing cuts, as well as furloughs, to meet current financial challenges.

As a result, we found that of the over 13.9 million average monthly recipients in the 10 States we reviewed, 27,044 recipients (.20 percent) were potentially deceased, using a deceased individual's SSN, had erroneous SSNs, were receiving duplicate benefits in the same State, were receiving benefits simultaneously from at least one other State, or were listed as being disqualified from receiving SNAP benefits.<sup>19</sup> These potentially ineligible recipients cause us to question approximately \$3.7 million for each month they received benefits.<sup>20</sup> Also, we found that States were not evaluating EBT reports as an additional tool for identifying recipient fraud. Given the size and complexity of SNAP, this low rate of data anomalies is a notable achievement. However, since SNAP participation has reached record levels, we believe that even incremental improvements in detection and prevention can have a meaningful impact on SNAP program integrity.

FNS can designate certain databases as "verified upon receipt" (hereafter referred to as verified), which means that States are allowed to take action based solely on the data results. FNS designates databases as verified based on two criteria: (1) the database is not questionable, and (2) the provider is the primary source of the information.<sup>21</sup> While FNS does give examples of three Federal databases from other agencies that meet these criteria, it does not provide a comprehensive list of the databases that it considers verified. States also have authority to designate databases as verified if they choose.

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<sup>19</sup> Of the 13.9 million average monthly recipients in the 10 States we reviewed, our State audits collectively identified 8,612 (.06 percent) individuals matching deceased individuals SSN's; 2,080 (.01 percent) with erroneous SSN's; 8,182 (.06 percent) receiving duplicate benefits in the same State; 6,865 (.05 percent) receiving benefits simultaneously from at least one other State; and 1,305 (.01 percent) listed as being disqualified from receiving SNAP benefits.

<sup>20</sup> Our State audits collectively identified 27,044 potentially ineligible recipients, which cause us to question approximately \$3.7 million for each month they received benefits: Alabama - \$207,989; Florida - \$380,225; Kansas - \$112,831; Louisiana - \$308,704; Massachusetts - \$117,767; Mississippi - \$123,643; Missouri - \$96,409; New Jersey - \$569,098; New York - \$1,268,260; and Texas - \$523,551.

<sup>21</sup> FNS, *SNAP Questions and Answers on the Noncitizen Eligibility and Certification Provisions Final Rule*, November 21, 2000.

FNS instructs State agencies not to discontinue benefits based on information from a database unless the database is considered verified. The *Computer Matching and Privacy Act of 1988* requires that all matches from databases that are not verified be confirmed through a secondary source. We found that even when a potentially ineligible recipient is identified using a verified system, States are generally still conducting further research before they will terminate the recipient's benefits.

## **Database Weaknesses**

FNS and the State agencies have several databases to aid in monitoring SNAP fraud. An example of this would be verifying that benefits are not issued to individuals who are deceased by comparing the information in SNAP recipient databases with national (SSA) death information. Despite the States' efforts to perform checks on applicant information, we found the following weaknesses in the databases that resulted in potentially ineligible recipients in the SNAP program:

**SSA Death Match:** To verify that benefits are not issued to individuals who are deceased, State agencies that administer SNAP are required to compare the information in their SNAP recipient databases with national (SSA) death information.<sup>22</sup> We used SSA's Death Master File (DMF), which is a comprehensive list of deaths, to perform this check in the 10 States we examined. Though our audit work did not address the accuracy of the DMF, an SSA official asserted that SSA death data are 99.5 percent accurate and the DMF is not a verified system.<sup>23</sup>

We found that 8,612 current SNAP recipients' SSNs matched SSNs in the DMF. This occurred for several reasons. The most common reason is that, though State agencies may have identified the match between the DMF SSN and the current recipient's SSN, they cannot act on the information until they have conducted further research.

After a match is found, States require further research to ensure the data were correct—which takes time and resources. Therefore, the States waited until the recipients next recertification period, generally 6 or 12 months, to discontinue benefits, which is allowed

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<sup>22</sup> Food and Nutrition Act of 2008, Section 11(r), October 1, 2008.

<sup>23</sup> Social Security Testimony Before Congress, *Statement of Bill Gray, Deputy Commissioner of System SSA, Testimony before the Permanent Subcommittee on Investigations of the Senate Committee on Homeland Security and Governmental Affairs on Medicare Payments for Claims with Identification Numbers of Dead Doctors*, July 9, 2008.

under the “simplified reporting” policy.<sup>24,25</sup> Simplified reporting was implemented to reduce the frequency that SNAP recipients are required to provide information in order to maintain eligibility and benefits. Reducing the frequency of recipient information received reduces the recipient’s reporting burden and the States’ administrative burden to verify the information.

We found that in some cases, a State could not rely on the death match because the SSN entered into the State’s system was input incorrectly and therefore erroneously matched the death file. Since we noted that all 10 State agencies’ systems had SSN input errors which resulted in death matches, we believe a control to prevent SSN input errors could help mitigate improper payments and erroneous cases of living persons being identified as deceased. Also, because there are several Federal databases containing SSA death information, FNS should designate a comprehensive, national database containing information on deceased individuals, and require States to check that system periodically and take appropriate action on the results. FNS responded that it is currently in the process of issuing this guidance.

Several of the death matches we found involved other issues, such as one State agency that did not use a national SSA database, but was instead using a file that listed only individuals who had died in its State. Two other State agencies experienced system problems during the period we reviewed, and therefore were not performing the matches. Another State only ran the match on a quarterly basis, so it experienced timing delays in identifying potentially deceased recipients. Both FNS and the States are working to correct these issues based on our previous recommendations in the individual State audit reports.

**Simultaneous Participation in Multiple States:** We also found individuals who were simultaneously receiving benefits in multiple States. A recipient should only receive benefits from the State in which he resides.<sup>26</sup> Currently, FNS does not have a nationwide system of SNAP recipients, and each State maintains its own eligibility system.

The Public Assistance Reporting Information System (PARIS) is the HHS computer system which matches the SSNs of public assistance recipients against various Federal and participating State databases to prevent simultaneous participation in benefit programs in multiple States. PARIS’ interstate match compares the SSNs of all participating States’ public assistance recipients to determine if they are enrolled in two or more States. Nine of the 10 States we reviewed participated in PARIS to detect and prevent simultaneous interstate participation. However, participation in this database is

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<sup>24</sup> 7 CFR 273.12(a)(5). Households certified for SNAP for longer than 6 months must submit a periodic report at least once every 6 months, but no more than once every 4 months, during the certification period. Some State agencies have opted to certify simplified reporting households for 12 months, with a periodic report at 6 months.

<sup>25</sup> State agencies have the option of requiring SNAP recipients to report their financial circumstances at various intervals and in various ways. The intervals are referred to as “interim reviews.” States can conduct interim reviews either quarterly, monthly, or under a “simplified” system with reduced reporting requirements. Under the simplified reporting option, households are required to report changes in income between certification and scheduled reporting periods only when total countable income rises above 130 percent of the poverty level.

<sup>26</sup> Food and Nutrition Act of 2008, Section (j), October 1, 2008.



not required by FNS, and Federal regulations only require that States check for intrastate duplicate participation.<sup>27</sup> Further, PARIS gathers data on a quarterly basis and some States may submit their recipient data to PARIS less often than quarterly. When States submit their data on a quarterly or less than quarterly basis, those that check PARIS may not be running matches against the most current information.

Despite the high level of participation in PARIS, we found 6,865 recipients who were receiving SNAP benefits simultaneously in multiple States. As with SSA death matches, after receiving a match in PARIS, State agencies must research the match to ensure it is valid before they remove a recipient from the program.

FNS encourages States to identify individuals simultaneously participating in multiple States, yet does not require the use of PARIS and does not provide guidance for performing this type of check. FNS awarded a grant for a pilot system in March 2012 that will allow the five participating southern States to check for duplication in real-time. With mandatory participation of such a system, FNS could ensure that State agencies use a reliable, complete, nationwide database that could improve their fraud detection efforts and reduce interstate duplicate participation.

**Duplicate Accounts Within One State:** States are required to ensure that no individual participates in more than one household within the same State, and FNS issued a policy memorandum on November 15, 2011 reminding States of this requirement.<sup>28</sup> However, we found 8,182 instances where individuals were potentially receiving SNAP benefits simultaneously under two separate households within the same State. This generally occurred in three States where there was not an edit check that prevented an SSN from being entered twice in the State's system. During our fieldwork, we found several edit checks that could have helped to prevent duplicate accounts; however, these checks were not used by all States. We recommend that FNS consider providing guidance or requiring an edit check that would prevent duplicative accounts.

**Erroneous SSNs:** In most States we found erroneous SSNs in the system that caused invalid matches. These erroneous SSNs bring the integrity of the data into question, causing States to use already short resources to conduct further research prior to acting on matches. The erroneous SSNs resulted from processor's input errors. We note that throughout our analysis of various State databases, we found frequent SSN input errors. As noted above, many of our SSN matches with the DMF were caused by erroneous SSNs that incorrectly matched against a deceased individual's SSN.

Some of the erroneous SSNs could have been prevented by using an edit check for SSN schemes that are not allowed by SSA, such as those starting with "666." In the 10 States visited, we found 2,080 individuals with an SSN that did not fall within the range of possible SSNs according to SSA. Adding an edit check or a control on SSNs can ensure that input errors are corrected, and would improve the integrity of data in the system.

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<sup>27</sup> 7 CFR 272.4(e)(1). Each State agency shall establish a system to assure that no individual participates more than once in a month, in more than one jurisdiction, or in more than one household within the State.

<sup>28</sup> 7 CFR 272.4(e)(1).

Controls that prevent erroneous SSNs are critical to ensure the integrity of the data so that States can rely and act on data matches performed to identify potentially fraudulent accounts.

**Previously Disqualified Recipients Receiving Benefits:** We reviewed the Electronic Disqualified Recipient System (eDRS) and identified 1,305 active recipients who were listed in eDRS as being disqualified from receiving SNAP benefits. FNS maintains eDRS, which is a national system that tracks SNAP recipients who have been disqualified from the program due to intentional program violations. States are required to input individuals who have been disqualified, but they are not required to check this system before allowing a person into the program, unless they suspect the applicant has been previously disqualified.<sup>29</sup> Many recipients we found were allowed to continue receiving SNAP benefits because 6 of the 10 States reviewed did not regularly check eDRS before allowing an individual into the program.

Even when a State checks eDRS and finds an applicant identified as disqualified, the States are not allowed to take any action unless they contact the State that imposed the disqualification and verify that the information is correct.<sup>30</sup> If the State that imposed the disqualification cannot provide this verification, no action can be taken, and disqualified individuals are allowed to continue participating in the program.

States also noted that the information in eDRS is not always actionable, as the disqualifications in eDRS may not be supported. Since FNS maintains this database, FNS should ensure that data in the system are complete so that the data can be relied on when checking for SNAP recipients that have been previously disqualified. In response to our previous recommendations, FNS is now making eDRS checks mandatory. We agree with this action, and also recommend that FNS improve the completeness of the information in eDRS so that States can make decisions based on their own data, without requesting information from another State.

**EBT Reports:** EBT management reports are available to the States through their EBT contractors. These reports help identify trends in recipient transactions that may suggest fraudulent behavior. Throughout our review, we found that States underutilized these reports or did not use them at all. One of our previous SNAP audits found that FNS did not require States to use EBT management reports to identify fraudulent activities. In that audit, we identified over 2,600 questionable transactions that totaled over \$181,700 for a 1-month period in two States that did not use the reports to identify potentially fraudulent activities. For example, one EBT report identifies excessive even dollar transactions which may indicate potentially fraudulent activity since retail transactions are not typically in whole dollar amounts. The audit recommended that FNS establish and provide guidance to States in identifying and assessing available EBT management reports to determine which reports could be most useful to each State's fraud detection

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<sup>29</sup> 7 CFR 273.16(i).

<sup>30</sup> FNS, *eDRS Technical Guide*, November 18, 2010, states that the *Computer Matching and Privacy Act of 1988* requires that all matches be verified through a secondary source.

unit.<sup>31</sup> We continue to believe that FNS needs to encourage States to use a defined set of EBT management reports in detecting fraudulent activities and in following up on SNAP transactions that could be indicative of fraudulent activities.

There are numerous EBT reports available to States and customized reports can also be created. Several examples of the available reports are:

- “Out of State Activity” reports that identify SNAP recipients who redeem a majority of their benefits at retailers located out of their State.
- “Even Dollar Transaction” reports that identify individuals who process an unusual number of even dollar transactions.
- “Manual Transactions” reports summarize retailers who enter recipient EBT information manually instead of swiping the EBT card.
- “Excessive Card Replacement” reports track recipients who request a replacement EBT card above a threshold number of cards set by each State.
- “Out of State Card Replacement” reports list all cards issued to recipients from the EBT contractor and sent to out of State addresses.

Management decision was reached on this prior recommendation and FNS officials issued guidance to the States on the importance of working with their EBT processors to determine the best tools available to assist in fraud prevention.

## Other Issues

During our review we found other issues that, while not violations, are areas of concern that may warrant further review.

**Income limitations exceeded in SNAP:** While not a program violation or a case of questionable payments, we also found households participating in the SNAP program that exceeded the income and asset limitations for SNAP. For example, in one State we found 61,065 households that exceeded the income limitations. Also, in another State, we found 6,970 households that exceeded the asset limitations of the SNAP program. This occurred because of the categorical eligibility policy, which makes those who are eligible for other Federal welfare programs, such as Temporary Assistance for Needy Families (TANF), automatically eligible for SNAP.<sup>32</sup> However, these Federal welfare programs have different income and asset limitations, some of which are higher than SNAP’s. For instance, SNAP income and asset limitations, which apply for all States,<sup>33</sup> require that households receiving SNAP cannot have more than \$3,250 of countable

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<sup>31</sup> *State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program* (27703-0002-HY, January 2012).

<sup>32</sup> According to 7 CFR 273.2(j)(2), January 1, 2011, the “categorically eligible” policy allows States to align the SNAP income and asset limits with other means-tested programs. A household is “categorically eligible” for SNAP if all members receive Supplemental Security Income (SSI), general assistance (GA), TANF assistance, or non-cash benefits or services. “Categorically eligible” households must meet the income and asset limits for the TANF, GA, or SSI program to be eligible for SNAP. We did not include these instances in the count of improper payments.

<sup>33</sup> Alaska and Hawaii have higher income limits than other States.

assets, such as a bank account. However, in Florida, the State's own TANF eligibility rules do not place any limit on a recipient's assets. Thus, someone who had a small income but a large amount of assets would be able to receive SNAP benefits in Florida if they qualified for TANF.

**Temporary SSNs:** We also found individuals using invalid SSNs. States typically do not require a recipient to provide an SSN immediately upon application if the applicant can show good cause for not being able to. If a recipient does not provide an SSN at application, they are required to provide one at recertification, which must occur within one year, unless the recipient has good cause.<sup>34</sup> If case workers forget to check, SSNs can remain blank or labeled as temporary. We found this problem in the majority of the States we reviewed. In one State alone, we found 10,137 such individuals because caseworkers were not being automatically alerted to acquire a valid SSN from a recipient at recertification. For reporting purposes, we did not consider these 10,137 as receiving improper payments because temporary SSNs are allowed—though the long-term use of temporary SSNs could be a concern. A system control that alerts the States to take action on an outstanding temporary SSN would improve this issue.

In all, the 27,044 recipients whose eligibility should have been researched cause us to question approximately \$3.7 million in benefits per month, based on the average benefit amount a recipient and household receives in each of the 10 States reviewed. These recipients were forwarded to their respective State agencies for further research and investigation. In response to our recommendations, the State agencies are currently researching our findings, correcting those cases found to be true errors, and working towards developing edit checks and procedures to prevent these types of errors in the future.

FNS does have a variety of tools to detect and prevent fraud, and if these tools are 1) improved to include more accurate data and 2) used to their full advantage by State agencies in a consistent manner, we believe the SNAP program can be further strengthened. Currently, most States do not solely rely on data matches to detect ineligible recipients, and must conduct further research to determine the appropriate course of action. Because States' fraud detection units have not expanded to keep pace with significant increases in SNAP enrollment, having effective data analysis tools becomes even more critical. Expanding database use, making enhancements resulting in improved data accuracy, and making more verified systems available would decrease the potential for improper payments in the SNAP program.

## **Recommendation 1**

Ensure States have internal controls in place to prevent SSN input errors and invalid SSNs in State agency systems.

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<sup>34</sup> 7 CFR 273.6.

## **Agency Response**

To ensure participant information is accurate and complete, FNS is actively engaged in a dialogue with regional offices and with States regarding policies and technical assistance tools which can strengthen integrity to an even greater extent. FNS is processing final rules that will codify the requirement that States perform the SSA death match, the prisoner match, and eDRS matching prior to certification. The final regulation which codifies the current policy for the use of the SSA death match by States was published August 13, 2012. FNS issued a policy memo reminding States of the death and prisoner matching requirement on November 15, 2011. FNS agrees with this recommendation and estimates completion by September 30, 2013.

## **OIG Position**

We accept management decision for this recommendation. To achieve final action, FNS needs to provide OCFO with specific internal controls used to prevent SSN input errors and invalid SSNs in State agency systems.

## **Recommendation 2**

Designate a comprehensive, national database containing information on deceased individuals, and require States to check that system periodically and take appropriate action based on the results.

## **Agency Response**

Use of the SSA's Death Master File is required by public law and FNS issued the final regulation to codify the policy regarding its use on August 13, 2012.

## **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## **Recommendation 3**

Continue with efforts to develop and implement the pilot system that will allow the five participating southern States to check for dual participation within this group of States and report the progress of the pilot program to OIG annually. Report the resulting determination on a permanent, nationwide system to OIG upon completion of the pilot.

## **Agency Response**

FNS agrees with this recommendation and estimates completion by September 30, 2013. FNS continues efforts to develop and implement the National Accuracy Clearinghouse project in FY 2013, which includes developing and deploying the system. The project is currently in procurement and a feasibility report is expected in 2014.

## **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## **Recommendation 4**

Develop a comprehensive list of Federal databases States can use to check recipient information that FNS considers to be verified.

## **Agency Response**

FNS agrees with this recommendation and estimates completion by March 31, 2013.

## **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## **Recommendation 5**

Require States to implement edit checks that would prevent duplicative accounts within the same State.

## **Agency Response**

FNS agrees with this recommendation. FNS issued a policy memorandum to all States to outline their expectations regarding duplicate participation on November 15, 2011.

## **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## **Recommendation 6**

Improve the information in eDRS so that States have comprehensive resources to draw from when they identify individuals disqualified from receiving SNAP benefits.

### **Agency Response**

FNS has recently set in motion steps to enhance the eDRS system. It is making technology upgrades which will allow for enhanced functionality for the States and increase data reliability. FNS estimates completion by September 30, 2013.

### **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## **Recommendation 7**

Define and communicate a standard set of fraud detection and prevention tools to be used by all States for fraud detection and prevention, such as required EBT reports.

### **Agency Response**

FNS communicated the importance of increasing fraud detection efforts on March 30, 2012. FNS encouraged States to work with their contractors to develop more functional EBT reports, focus on higher-value fraud cases, and require standard and ad hoc data warehouse analysis tools for State fraud investigators. On October 14, 2011, FNS also issued a memo notifying States they are expected to use results of FNS retailer disqualifications to pursue administrative actions against recipients. FNS has notified the States of additional data that can be used to pursue recipient fraud. In FY 2013, FNS plans to initiate a study for determining and documenting the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate. FNS estimates that the study will be completed by September 30, 2013.

### **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## **Finding 2: FNS Can Improve the SNAP Trafficking Fraud Rate Methodology**

FNS has not established processes to identify or estimate the total amount of SNAP fraud occurring nationwide, either for recipients or for retailers. FNS cannot estimate a total for recipient fraud because it has not established how States should compile, track, and report fraud in a uniform manner. Each State compiles data at different times using different sources. As for retailer fraud, FNS does not report a total rate but instead focuses on reporting a trafficking rate.<sup>35</sup> Because FNS estimates its trafficking rate using a judgmental sample method, results cannot be assumed to be representative of the retailer population; therefore, the actual extent of trafficking could be over or underestimated. As a result, FNS does not have tools to effectively measure total SNAP fraud over time.

The Improper Payments Information Act (IPIA) requires all agencies to identify, estimate annual amounts, and report results of programs and activities that may be susceptible to significant improper payments. USDA's strategic plan includes a requirement to eliminate improper payments and FNS designated SNAP as one of five programs susceptible to significant improper payments.

FNS reports fraud using two types of estimates: one focused solely on a type of fraud, the other focused on payment accuracy. Currently, SNAP fraud can be placed in two categories—recipient fraud and retailer fraud. FNS does not have an overall rate that incorporates retailer and participant fraud.

### **Recipient Fraud**

Recipient fraud involves a client giving fraudulent information to a caseworker to obtain benefits. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.<sup>36</sup> Currently, FNS publishes an improper payment rate that may include payments related to fraud as well as those not related to fraud.<sup>37</sup> Other than what is reflected in the improper payment rate, States themselves do not publish a total recipient fraud rate in their annual State Activity Report.

The prevention and detection of recipient fraud is the responsibility of the State agencies. In the State Activity Reports, States report the number of recipient fraud investigations, prosecutions, and administrative disqualifications that they perform on an annual basis.<sup>38</sup> FNS acknowledges discrepancies in State data, as States compile their data at different times and from different

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<sup>35</sup> Trafficking is any instance where a store employee exchanges something other than food (typically cash) for SNAP benefits.

<sup>36</sup> Improper Payments Information Act of 2002 (P.L. 107-300, November 26, 2002).

<sup>37</sup> FNS identifies payment errors during its annual Quality Control review process. The Quality Control review identifies over or under payments to the benefit amount a recipient receives. This is generally referred to as the error rate.

<sup>38</sup> Administrative disqualifications occur when FNS finds an individual has committed an intentional program violation.



sources.<sup>39</sup> Because States do not have uniform rules for compiling these data, we believe the current method of State reporting would make it difficult for FNS to provide a total recipient fraud number.

## **Retailer Fraud**

Retailers engage in a variety of fraudulent activities. The highest dollar amounts typically result from trafficking, which is any instance where a store employee exchanges something other than program-approved food (typically cash) for SNAP benefits. Other types of retailer fraud involve issues such as allowing purchases of ineligible items (like alcohol and tobacco) or charging EBT cards manually without an associated purchase. Retailer fraud is the responsibility of FNS; however, FNS does not have a methodology for determining a total rate for retailer fraud. It does publish a trafficking rate on a periodic basis.

While we believe FNS used extensive quantitative analyses to calculate the SNAP retailer trafficking rate for 2006-2008, we also believe the study's methodology can be improved.<sup>40</sup> FNS researchers reviewed a sample of retailers that exhibited suspicious behavior based on a particular set of indicators. Therefore, the retailers selected cannot be assumed to be representative of the entire retailer population. This occurred because FNS used a judgmental sample of this population for its statistics.<sup>41</sup> FNS tailored its methodology to fit data available from investigations and transaction databases instead of using a national random sample, and FNS notes this limitation in its study.

Also, the study applied assumptions without providing a basis for those assumptions. For example, when estimating the dollar value of trafficked benefits, researchers assumed that "90 percent of redemptions in violating small stores were trafficked, and 40 percent in violating large stores were trafficked."<sup>42,43</sup> This assumption means that, for a violating small store, 10 percent of the SNAP redemptions are assumed valid; 60 percent are assumed valid for large stores that trafficked. FNS does not explain its method for arriving at that assertion.

We note that FNS has formed a new Technical Working Group to examine its methodologies for calculating trafficking on the national and possibly the State levels, and we support FNS' effort to refine its current methods. We also note that FNS is planning to make substantial improvements to ALERT this year, including the ability for ALERT to retain three years of data instead of one. Since ALERT and the Watch Lists it generates are the basis for much of the judgmental sample FNS uses to calculate its trafficking rate, if successful, these ALERT

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<sup>39</sup> FNS Program Accountability and Administration Division, *SNAP State Activity Report*, December 2011.

<sup>40</sup> FNS, *The Extent of Trafficking in the Supplemental Nutrition Assistance Program: 2006–2008*, March 2011. <http://www.fns.usda.gov/ora/menu/published/SNAP/FILES/ProgramIntegrity/Trafficking2006.pdf>.

<sup>41</sup> A judgment sample is a sample that is chosen by means other than mathematically random selection; in a judgment sample, the laws of probability cannot be assumed to apply.

<sup>42</sup> *Ibid*, pg. C-1.

<sup>43</sup> In *The Extent of Trafficking in the Supplemental Nutrition Assistance Program: 2006–2008*, FNS categorized stores as either large or small based on whether their gross annual sales were greater than or less than \$500,000. Large stores are typically supermarkets or large retailers such as Walmart, and small stores are typically small grocery stores and convenience stores such as 7-Eleven.

improvements could also help strengthen FNS' trafficking rate methodology as well. Finding effective ways to track both recipient and retailer fraud over time will help strengthen the SNAP program as a whole.

### **Recommendation 8**

Determine and document the feasibility of creating a uniform methodology for States to calculate their recipient fraud rate. Incorporate that information into a national recipient fraud rate.

#### **Agency Response**

FNS agrees with this recommendation and estimates completion by September 30, 2013. FNS will initiate a review to determine and document the feasibility to create a uniform methodology for States to calculate a fraud rate.

#### **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

### **Recommendation 9**

Determine and document the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate.

#### **Agency Response**

FNS will initiate a study for determining and documenting the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate. FNS estimates completion by September 30, 2013.

#### **OIG Position**

OIG concurs with FNS' response for this recommendation and has reached management decision.

## Scope and Methodology

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To accomplish our objective, we examined and summarized SNAP eligibility data from 10 selected State agencies in Alabama, Florida, Kansas, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New York, and Texas.<sup>44</sup> These States were selected for review due to high numbers or percentages of recipients, or close proximity to surrounding States and OIG offices where the audit was being performed. We interviewed the 10 selected State agencies' officials and obtained an extract of their eligibility databases in order to analyze States' SNAP program recipient information for the timeframe of August 2009 through April 2011. We selected this timeframe because, at the time of our audit, it was the latest information available. We conducted this audit from September 2011 through June 2012.

We also coordinated our audit with FNS' Mid-Atlantic regional office in Robbinsville, New Jersey; Mountain Plains regional office in Denver, Colorado; Northeast regional office in Boston, Massachusetts; Southwest regional office in Dallas, Texas; Southeast regional office in Atlanta, Georgia; and FNS' national office in Alexandria, Virginia. We interviewed FNS and State officials to identify the fraud detection tools available and determine how they were using the tools. In addition, we identified the different fraud and error rates published by FNS and determined if they were complete and accurate. To determine the methodology used to calculate the SNAP trafficking fraud rate, we reviewed FNS' study titled *The Extent of Trafficking in the Supplemental Nutrition Assistance Program: 2006–2008*.

Our work involved a review of public laws, FNS regulations, policies, and other controls governing the administration of SNAP to ensure State agencies complied with Federal guidelines. We also evaluated previous USDA OIG audit reports on SNAP, FNS studies, the *Federal Manager's Financial Integrity Act Report for FY 2011*, and Government Accountability Office reports.

We obtained SSA's Death Master File and extracts of key SNAP recipient data from the 10 selected State agencies. We further obtained a listing of individuals listed as disqualified within eDRS for the months of August 2009 through April 2011, and compared it to the SNAP recipient data. We analyzed these data using Audit Command Language. Our tests were developed to identify anomalies that may result in ineligible recipients receiving SNAP program benefits, and to determine whether FNS provided adequate program guidance and oversight.

Our tests determined whether:

- Active SNAP recipients were listed in the DMF.
- Invalid SSNs were entered into the system.

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<sup>44</sup> We conducted our audit work with the Department of Human Resources in Montgomery, Alabama; Department of Children and Families in Tallahassee, Florida; Social and Rehabilitation Services in Topeka, Kansas; Department of Children and Family Services in Baton Rouge, Louisiana; Department of Transitional Assistance in Boston, Massachusetts; Mississippi Department of Human Services in Jackson, Mississippi; Department of Social Services in Jefferson City, Missouri; Division of Family Development in Trenton, New Jersey; Office of Temporary and Disability Assistance in Albany, New York; and Health and Human Services Commission in Austin, Texas.

- Recipients received duplicate payments.
- Recipients were receiving benefits simultaneously from nearby States.
- Active SNAP recipients were listed as disqualified in eDRS.

As appropriate, when we identified anomalies, we forwarded the information to the respective State agency for review and verification. In New York specifically, given the large volume of anomalies we found, we sent the State a random statistical sample of our results to decrease the amount of resources required to research the results.

To determine the feasibility of collecting and analyzing detailed information on what recipients buy from retail stores with their SNAP benefits, we reviewed a September 1999 FNS study on capturing food data at checkout to determine the advantages and disadvantages of doing so.<sup>45</sup> We also interviewed FNS officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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<sup>45</sup> FNS, Office of Analysis, Nutrition, and Evaluation Study, *Feasibility Study of Capturing Food Data at Checkout*, September 1999. This study determined the feasibility of collecting bar-code data on products purchased with SNAP benefits and linking those data with demographic information about the SNAP household.

## Abbreviations

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ALERT	Anti-Fraud Locator using Electronic Benefits Transfer Retailer Transactions
CFR	Code of Federal Regulations
DMF	Death Master File
EBT	Electronic Benefits Transfer
eDRS	Electronic Disqualified Recipient System
FNS	Food and Nutrition Services
FY	Fiscal Year
GA	General Assistance
HHS	Department of Health and Human Services
IPIA	Improper Payment Information Act
NAC	National Accuracy Clearinghouse
OIG	Office of Inspector General
OMB	Office of Management and Budget
PARIS	Public Assistance Reporting Information
PL	Public Law
RIB	Retailer Investigations Branch
SAR	State Activity Report
SLEB	State Law Enforcement Bureau
SNAP	Supplemental Nutrition Assistance Program
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number
STARS	Store Tracking and Redemptions System
SVES	State Verification Exchange System
TANF	Temporary Assistance for Needy Families
USDA	United States Department of Agriculture

## **Exhibit A: List of OIG SNAP Audit Reports**

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- 27703-02-HY (1) - State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program—Use of EBT Management Reports, July 2010.
- 27703-02-HY (2) - State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program—Use of EBT Management Reports, September 2010.
- 27703-1-KC - Supplemental Nutrition Assistance Program Benefits and the Thrifty Food Plan, December 2009.
- 27501-02-HY - Application Control Review of the Food and Nutrition Service’s Store Tracking and Redemption System II, March 2008.
- 27099-32-SF - ALERT Watch List, July 2006.
- 27002-0001-DA - Analysis of SNAP ALERT, December 2011.
- 27002-0001-13 - Analysis of Kansas’ SNAP Eligibility Data, November 2011.
- 27002-0002-13 - Analysis of Florida’s SNAP Eligibility Data, November 2011.
- 27002-0003-13 - Analysis of Louisiana’s SNAP Eligibility Data, January 2012.
- 27002-0004-13 - Analysis of Alabama’s SNAP Eligibility Data, January 2012.
- 27002-0005-13 - Analysis of Mississippi’s SNAP Eligibility Data, January 2012.
- 27002-0006-13 - Analysis of Texas’ SNAP Eligibility Data, March 2012.
- 27002-0007-13 - Analysis of Missouri’s SNAP Eligibility Data, March 2012.
- 27002-0008-13 - Analysis of Massachusetts’ SNAP Eligibility Data, April 2012.
- 27002-0009-13 - Analysis of New Jersey’s SNAP Eligibility Data, April 2012.
- 27002-0010-13 - Analysis of New York’s SNAP Eligibility Data, June 2012.



**USDA'S  
FOOD AND NUTRITION SERVICE'S  
RESPONSE TO AUDIT REPORT**







**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

3101 Park  
Center Drive  
Room 712

Alexandria, VA  
22302-1500

DATE: September 24, 2012

AUDIT  
NUMBER: 27002-0011-13

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

FROM: /s/ <Jessica Shahin> (for): Audrey Rowe  
Administrator

SUBJECT: Analysis of FNS' Supplemental Nutrition Assistance Program (SNAP)  
Fraud Prevention and Detection Efforts

This letter responds to the official draft report for audit report number 27002-0011-13, Analysis of FNS' Supplemental Nutrition Assistance Program (SNAP) Fraud Prevention and Detection Efforts. Specifically, the Food and Nutrition Service (FNS) is responding to the nine recommendations in the report.

**Recommendation 1:**

Ensure States have internal controls in place to prevent SSN input errors and invalid SSNs in State agency systems.

**FNS Response:**

FNS agrees with this recommendation. FNS takes program integrity very seriously. Any errors are of concern; however, FNS notes that the findings in this report constitute 0.20 percent of the caseload suggesting that while current processes can always be improved, they are, in fact, working. Pursuant to the critical importance of integrity to ensure that people in need receive nutrition assistance to which they are entitled, FNS is actively engaged in a dialogue with our regional offices and with States regarding policies and technical assistance tools that can strengthen integrity to an even greater extent.

**Estimated Completion Date: September 30, 2013**

**Recommendation 2:**

Designate a comprehensive, national database containing information on deceased individuals, and require States to check that system periodically and take appropriate action based on the results.

**FNS Response:**

The use of the Social Security Administration's (SSA) Death Master File is required by public law and was implemented through agency directive in 2000. The final regulation which codifies the current policy for the use of this database by States was published on August 13, 2012. The SSA Death Master File is the database that has been designated for use by States and by the administering Agency's own guidance; however, the information must still be verified before taking any adverse action against the household. FNS also issued a policy memo on November 15, 2011 reminding States of this requirement.

The nature of the death match process inherently results in a lag time between an individual's date of death and the date benefits are terminated or adjusted. This lag is the result of a sequence of actions that begins after the date of death and must all be completed before the benefits are terminated.

**Completion Date: August 13, 2012**

**Recommendation 3:**

Continue with efforts to develop and implement the pilot system that will allow the five participating southern States to check for dual participation within this group of States and report the progress of the pilot program to OIG annually. Report the resulting determination on a permanent, nationwide system to OIG upon completion of the pilot.

**FNS Response:**

FNS agrees with this recommendation. FNS has awarded a grant through the Office of Management and Budget (OMB) Partnership Fund for Program Integrity. This grant is funding the development of a pilot clearinghouse database with information from five participating States (Florida, Mississippi, Georgia, Alabama and Louisiana) for detecting duplicate participation in SNAP and disaster SNAP (D-SNAP) across State boundaries. FNS will continue with efforts to develop and implement the National Accuracy Clearinghouse (NAC) project in FY 2013, which includes developing and deploying the system.

**Estimated Completion Date: September 30, 2013**

**Recommendation 4:**

Develop a comprehensive list of Federal databases States can use to check participant information that FNS considers to be verified.

**FNS Response:**

FNS agrees with the recommendation. FNS believes that it is vital that States ensure that information is accurate before taking an adverse action. There are numerous databases used by States to determine SNAP eligibility. The use of these databases for State workers is important; however, allowing workers to take action on information that is not accurate would serve as a disservice to clients who are wrongfully denied or terminated and to the workers who will have to do more work to reopen cases. FNS issued guidance in 2000 to all States in the Questions and Answers on the Noncitizen Eligibility and Certification Provisions Final Rule (November 21, 2000). This guidance provides details for States on how to determine if a database is considered verified upon receipt. The guidance is clear that in order to be considered verified upon receipt, the data must come from the primary source of the information and that the data is not questionable.

**Estimated Completion Date: March 31, 2013**

**Recommendation 5:**

Require States to implement edit checks that would prevent duplicative accounts within the same State.

**FNS Response:**

FNS agrees with this recommendation. Per SNAP regulations at 7 CFR 272.4(e)(1), each State agency shall establish a system to assure that no individual participates more than once in a month, in more than one jurisdiction, or in more than one household within the State. FNS further encourages States to have processes in place to check data with neighboring States to prevent duplicate participation across State lines. On November 15, 2011, FNS issued a policy memorandum to all States which clearly expressed the expectation that States routinely perform these checks for duplicate participation as required by regulation, in order to ensure that only those who are eligible receive SNAP benefits, per federal regulations at 7 CFR 272.4(e)(1). The Public Assistance Reporting Information System (PARIS) is available to States as an additional tool to identify interstate duplicate participation but it is not mandatory for States to use PARIS. Some States have expressed concerns that the information in PARIS is not timely.

Furthermore, in March 2012, FNS awarded a grant through the OMB Partnership Fund to the National Accuracy Clearinghouse to test the feasibility of establishing a single database for five States to perform real-time edit checks to prevent duplicate participation. The project is currently in procurement and a feasibility report is expected in 2014.

**Completion Date: November 15, 2011**

**Recommendation 6:**

Improve the information in eDRS so that States have comprehensive resources to draw from when they identify individuals disqualified from receiving SNAP benefits.

**FNS Response:**

FNS recently awarded a task order to the eDRS contractor to enhance the system which will further improve the options available to minimize burden on the States. FNS has a number of enhancements planned for the task order which will last through FY 2013. FNS plans to create a web service to allow State systems to exchange data with eDRS in real-time. This would allow an eligibility worker to check eDRS without leaving their State eligibility system. FNS is also working on enhanced security and auditing features to improve the integrity of data in the system and FNS' ability to track down errors. Finally, FNS also plans on making technology upgrades to the system. These upgrades must be completed before FNS can consider additional enhancements, such as being able to upload documents in the system.

**Estimated Completion Date: September 30, 2013**

**Recommendation 7:**

Define and communicate a standard set of fraud detection and prevention tools to be used by all States for fraud detection and prevention, such as required EBT reports.

**FNS Response:**

FNS continues to emphasize to States in meetings and other forums the importance of working with their EBT processors to determine the best data available to help with fraud detection. Often it is not the pre-packaged canned reports, but other ad-hoc or specially developed reports that will be most helpful. States often have internal reports and data mining tools that are also extremely useful in fraud detection efforts. Most States now require data warehouses and use those for internal fraud analysis rather than paper reports. FNS encourages electronic fraud analysis methods and continues to work with the States to re-design their approach, based on our 15 years of experience using the ALERT system, to develop more effective methods for client fraud detection. At OIG's request, FNS agreed that, by March 31, 2012, it would send States a formal communication stressing the importance of working with their EBT processors on methods of fraud detection. A letter was sent out on March 30, 2012 encouraging States to:

- Include contract language that allows the State to set parameters to focus on the more egregious problems and require the contractor to change parameters upon request at no cost;

- Re-organize and re-sort the content to identify higher value fraud cases as opposed to the current categorization method that typically relies on case number, FNS retailer number, date, or time;
- Add new reports to address issues like high volume card replacements;
- Expand their data warehouse functionality to allow analysis or reports to cover client activity over multiple months; and
- Require standard and ad hoc data warehouse analysis tools for State fraud investigators.

OIG accepted FNS' management decision, and this task was completed by March 31, 2012, as agreed.

In the past year, FNS took other efforts with States to address fraud detection and prevention. On October 14, 2011, FNS issued a policy memo stating FNS' expectation that States will use the results of FNS retailer disqualification actions to investigate and penalize recipients for trafficking. The policy memo provided guidance regarding the use of data that FNS provides to States documenting retailer disqualifications as a potent source of evidence in recipient trafficking cases. FNS shares information with States regarding retail stores found guilty of trafficking SNAP benefits and therefore permanently disqualified from participation in SNAP. FNS provides States with copies of letters notifying retailers of their disqualification from SNAP and the data/evidence supporting the disqualification. The data and other information FNS shares with States contain household transactions that FNS has determined meet patterns indicative of trafficking. FNS expects States to use this information to determine which recipient cases need further investigation.

Management Evaluation (ME) targets for FY 2012 include recipient integrity issues, particularly State fraud unit activities including use of EBT and other appropriate data to identify potential recipient fraud.

FNS sent a letter to all State SNAP commissioners on June 21, 2011, reiterating the critical importance of integrity, encouraging all State to be even more active and vigilant in this area, including the use of available data.

**Completion Date: March 31, 2012**

**Recommendation 8:**

Determine and document the feasibility of creating a uniform methodology for States to calculate and report a national participant fraud rate.

**FNS Response:**

FNS agrees with this recommendation. State agencies currently report activity to FNS using Form-366B, which provides uniform rules for collecting pre and post certification

fraud investigations, disqualifications, hearings, prosecutions, and claims. In FY 2013, FNS will initiate a review to determine and document the feasibility to create a uniform methodology for States to calculate a fraud rate based on the data currently available, as well as to identify any gaps or limitations imposed by State systems, data integrity, or resources necessary to establish an accurate and reasonable national participant fraud rate.

**Estimated Completion Date: September 30, 2013**

**Recommendation 9:**

Determine and document the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate.

**FNS Response:**

FNS agrees with this recommendation. The current estimation methodology is based on investigations and monitoring of a sample of stores most likely to traffic, adjusted to reflect the full population of redemptions at authorized stores. Although this methodology makes maximum use of all available data and resources and offers a conservative and practical approach, it has known limitations. Therefore, in FY 2013, FNS will initiate a study for determining and documenting the feasibility of using the redemption practices of a nationwide random sample of SNAP retailers for calculating a national trafficking rate.

**Estimated Completion Date: September 30, 2013**

Informational copies of this report have been distributed to:

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