Office of the State Inspector General

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Review of Managing the Fraud Risk in the Disaster Supplemental Nutrition Assistance Program (D-SNAP), Administered by the Department of Social Services

Case# 2016-1584

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I. Executive Summary

This review was initiated based upon allegations from multiple sources of possible fraud in the Disaster Supplemental Nutrition Assistance Program (D-SNAP) administered by the South Carolina Department of Social Services (SCDSS), which was implemented in response to the 10/3/2015 statewide flooding from Hurricane Joaquin. Shortly after SCDSS completed processing the 209,927 D-SNAP applications in mid-December 2015, media reports raised suspicions of fraud. Upstate media reported the impact of Hurricane Joaquin was much less than other parts of the State resulting in only 200 Federal Emergency Management Agency (FEMA) flood aid registrations in Greenville County, yet Greenville County had 12,772 D-SNAP disaster applications of which 10,388 (81%) were approved. Greenville County's D-SNAP applications appeared to be disproportionately 50 times greater than FEMA disaster relief requests.

The U.S. Department of Agriculture (USDA) approved the D-SNAP federally funded program for residents in 24 South Carolina counties presidentially declared major disaster areas to provide food relief for low income residents. SCDSS established sites in all 24 counties to receive and approve D-SNAP applications during the period of 10/27/2015 – 12/11/2015. The D-SNAP used two application and approval processes, which were:

- <u>Pre-Existing SNAP Beneficiaries</u>: SNAP beneficiaries living in the 24 counties used a highly streamlined process to either be automatically approved for increased benefits for one month or, in lesser impacted counties, required to certify in an affidavit a disaster related adverse event by checking a box without explanation of the disaster event (i.e., income loss, property damage, or disaster expenses) or dollar amount involved. Enhanced SNAP benefits averaging $165 were provided to 124,777 households totaling $20.7 million.

- <u>All Others – Not Currently Receiving SNAP Benefits</u>: Eligibility required residing in the 24 counties at the time of the event and meeting a dual test: 1) suffered losses from a disaster related event (i.e., income loss, property damage, or disaster expenses); and 2) met a monthly adjusted income limit (monthly income + cash resources – disaster expenses) during the disaster period (10/3/2015 – 11/2/2015). Federal guidelines "eased" verification of application data to reduce the administrative burden and reflect the difficulty of applicants accessing records in a time-sensitive crisis environment. As a result, only the applicant's identity required verification, while all other self-reported data (i.e., qualifying disaster event, income, and proof of county residence) did not require verification prior to approval. SCDSS received 209,927 D-SNAP applications, of which 179,588 households (86%) were approved resulting in an average $425 benefit totaling $76.5 million.

In total, 304,365 South Carolina households received $97.2 million in D-SNAP benefit assistance.

The USDA requires states providing D-SNAP to conduct a post-disaster comprehensive review, to include audit testing applications (500 maximum). SCDSS audited a 5% sample (9,029 applications) of the approved D-SNAP applications, which was 17 times more than federal guidelines required. SCDSS identified 1,207 cases of overpayment of D-SNAP benefits through a desk audit technique, which used records, telephone interviews, database checks, but no fieldwork. Of these 1,207 cases, 51 cases were classified as agency error due to incorrectly computing the benefit amount or misapplying policy; 859 were classified as client error caused by an unintentional misunderstanding or inadvertent errors; and 297 were determined to be Intentional Program Violation's (IPV) where the recipient provided false information with a deceitful intent to defraud. A review of the 297 IPV cases depicted 277 (93%) were caused by under-reported income; 7 (2%) were inaccurate household size; and 13 duplicate D-SNAP or SNAP payments (5%). There were no IPV cases caused by falsification of applicant's qualifying disaster event. The below table summarizes these 1,207 overpayment cases:

Overpayment Claims	**Cases**	**Amount**
Intentional Program Violations	297 (25%)	$ 142,055 (27%)
Client Errors	859 (71%)	$ 361,174 (69%)
Agency Errors	51 (4%)	$ 19,159 (4%)
Total Overpayment Claims	**1,207 (100%)**	**$ 522,388 (100%)**

Although the 9,029 case sample was not completely random due to stratifying based on fraud risk, the sample was sufficiently large to fairly extrapolate the sample's overpayment to the entire D-SNAP population. The estimated overpayments for D-SNAP's $76.5 million disbursed to 179,588 approved applicants was an estimated $10.4 million (13.6%), of which $7.6 million from client/agency errors (10.0%) and $2.8 million (3.6%) in estimated fraud.

The fraud risk of D-SNAP contained two components: 1) falsification of applicant's qualifying disaster event (i.e., income loss, property damage, or disaster expenses); and 2) inaccurate applicant income data causing an overpayment. The SCDSS properly followed the federal audit guidelines with robust audit testing income data of the sample cases, however the federal audit guidelines did not require meaningful audit testing an applicant's self-reported qualifying disaster event. Given the federal program's design that any disaster loss, no matter how small, triggered a full monthly D-SNAP benefit averaging $425, the lack of audit testing the qualifying event likely had an immaterial impact on discovering additional fraud. The federal guidelines not requiring verification of data beyond the applicant's identity led to weak, if any, narrative of the qualifying disaster event, thus applicants self-reported qualifying disaster events were essentially un-auditable. The "streamlined" D-SNAP federal guidelines, which SCDSS appropriately followed, required to operate in a crisis inherently created a low management control environment and correspondingly created a high risk for fraud.

SCDSS was also required by federal guidelines to audit all 259 D-SNAP applications filed by agency employees. Overpayments of D-SNAP benefits were identified in 50 cases (19%) totaling $25,409, of which 16 (6%) were IPV fraud cases. SCDSS having a higher level of access to the applicant and income records likely contributed to identifying a higher percentage of overpayment and IPV employee fraud cases than identified in the general population audit.

The SCDSS's D-SNAP implementation and post-disaster review/audit were compliant with federal guidelines, and exceeding guidelines in several areas; SCDSS's efforts should be commended for operating a successful D-SNAP. Any follow-up consideration on the unaudited 95% of approved D-SNAP applications containing an estimated $10.4 million in overpayments has to be measured against likely actual recoveries and the intentionally low management control environment applicants were placed in due to the crisis. For the future D-SNAP implementation planning, the SCDSS has the latitude to adjust the application process mandatory data (i.e., auditable narrative of disaster event) or verifications if the post-disaster environment permits, which would enhance fraud prevention and detection. Neither the federal nor state governments should apologize for the necessity of using a low management control environment to disburse needed funds to low income citizens for food in the aftermath of a crisis. However, this highlights the criticality of precisely defining the geographical boundaries of the major disaster, which is challenging during the "fog" immediately after the crisis event, to match "eased" verifications to actual crisis conditions. The State should be fully aware the low D-SNAP application management controls should not be relied upon to prevent applicants claiming a fraudulent qualifying disaster event in lesser hard hit disaster areas.

Table of Contents

ADMINISTRATIVE: SCDSS's comments on report located at Internet link: http://oig.sc.gov/Documents/DSS-Response.pdf.

II. Background

A. Predicate

This review was initiated by the State Inspector General (SIG) predicated upon allegations from media reporting and law enforcement of possible fraud related to the Disaster Supplemental Nutrition Assistance Program (D-SNAP) administered by the South Carolina Department of Social Services (SCDSS), which was implemented in response to the 10/3/2015 flooding by Hurricane Joaquin. The SCDSS requested and was approved by the United States Department of Agriculture Food and Nutrition Service (USDA-FNS) to implement a D-SNAP in 24 counties presidentially declared a "major disaster." Only households residing in the 24 counties on 10/3/2015 and suffered disaster related damage or disaster losses were potentially eligible for income based D-SNAP benefits.

Shortly after SCDSS completed its approval process for 209,927 D-SNAP applications in mid-December 2015, media reports raised suspicions of fraud. Upstate media reported the impact of Hurricane Joaquin was much less than other parts of the state resulting in only 200 Federal Emergency Management Agency (FEMA) flood aid registrations in Greenville County, yet Greenville County had 12,772 D-SNAP disaster applications of which 10,388 (81%) were approved (*see Appendix J*). Greenville County's D-SNAP applications appeared to be disproportionately 50 times greater than FEMA disaster relief requests. This disproportionate pattern was also evident in Spartanburg County with 7,113 approved applications and 200 FEMA disaster relief requests.

The USDA-FNS requires states providing D-SNAP to conduct a post-disaster comprehensive review, to include individual application audit testing (500 maximum). The SCDSS's audit tested 5% of D-SNAP applications totaling 9,029, which was 17 times the federal requirement. Given the SCDSS's tremendous audit efforts, the SIG review focused on providing assurance the SCDSS D-SNAP implementation and review/audit followed federal guidelines, particularly the fraud preventative controls; understanding the fraud risk through SCDSS's audit of individual cases; and identifying opportunities to further address any residual risk/suspected fraud not addressed through the SCDSS application audit.

B. Scope & Objectives

This review's scope and objectives were:

- Assess SCDSS's D-SNAP implementation for compliance with federal guidelines, with emphasis on fraud preventative controls;

- Assess the SCDSS's post-disaster review and audit methodology for compliance with federal guidelines, with emphasis on understanding the fraud risks and resolution strategies; and

- Identify residual risk/suspected fraud not addressed through the SCDSS review and available opportunities to address.

Reviews by the SIG are conducted in accordance with professional standards set forth by the Association of Inspectors General, often referred to as the "Green Book."

C. D-SNAP Overview

After a major disaster, a state can apply for D-SNAP to the USDA-FNS, which provides temporary food assistance for low income households in disaster areas. The state's application should include a damage assessment describing the geographical boundaries of the affected populated areas (counties and specific zip codes); effect upon commercial channels of food; and estimated total households affected. The USDA-FNS can then approve a request, which is followed by assuring a state's compliance by providing regulations, guidance, and monitoring a state's D-SNAP implementation. The federal government funds 100% of the benefits and approximately 50% of a state's administrative costs. A key principal in the federal regulations and guidance impacting the fraud risk is application verification rules are "eased" during a disaster. This is done to reduce administrative burdens and reflect the difficulty of households and eligibility workers may not have access to usual verification resources.

III. D-SNAP Implementation

Twenty four counties were approved for D-SNAP benefits for low income households. These counties were: Bamberg; Berkeley; Calhoun; Charleston; Clarendon; Colleton; Darlington; Dorchester; Fairfield; Florence; Georgetown; Greenville; Greenwood; Horry; Kershaw; Lee; Lexington; Marion; Newberry; Orangeburg; Richland; Spartanburg; Sumter; and Williamsburg.

Benefits were distributed through two approval mechanisms. First, current SNAP beneficiaries received benefits through a highly streamlined process. SNAP beneficiaries in the 10 hardest hit counties automatically had their monthly SNAP allotment increased to the maximum benefit based on household size regardless of the household's established SNAP income level. SNAP beneficiaries in the next 10 hardest hit counties living within specifically identified hard hit zip codes also automatically received an increase to the maximum SNAP benefit. The residual SNAP beneficiaries living outside of the identified zip codes in the remaining four counties, had to file an Affidavit of Loss to receive an increase to the maximum allotment (*see Appendix C*). This affidavit required the SNAP beneficiary certify by checking a box of either a loss of income; unreimbursed disaster related expenses; or inaccessible liquid resources (rarely used). No explanation of disaster event or dollar amount involved were required.

The second benefit distribution method was for all others not currently receiving SNAP benefits, also known as D-SNAP beneficiaries. To be eligible, a household must have resided in the identified disaster area at the time of the event, experienced a qualifying disaster event (i.e., income loss, property damage, or disaster expenses) and purchased or planned to purchase food during the benefit period. Households meeting the qualifying disaster event criteria were then measured against the D-SNAP disaster adjusted monthly income limits (monthly income + cash resources – disaster expenses) in order to determine eligibility.

The D-SNAP implementation strategy emphasized providing potential applicants, as well as SCDSS D-SNAP workers, widespread information on fraud awareness and fraud admonishments prior to filing an application as a fraud deterrent. The SCDSS implemented a number of preventative fraud controls prior to accepting applications, which included:

- SCDSS notified the general public through a variety of communication channels of the application site locations and operating hours; D-SNAP eligibility and verification requirements; fraud control measures; civil and criminal penalties for fraud; and the proper use of D-SNAP benefits.

- Even though the only application requirement with mandatory verification was proof of identity, SCDSS informed the public to be prepared to provide the following: proof of address; proof of income; proof of the value of unreimbursed damages incurred as a direct result of the storm; and proof of loss; or inaccessibility of income.

- SCDSS took the following measures to prevent employee fraud and to adhere to implementation procedures: used separation of duties for certification and issuance; used special authorization procedures for employees applying for disaster benefits; used Benefit Integrity/Recipient Claims Workers to take SCDSS employee D-SNAP applications; and conducted a Quality Control review of all employee D-SNAP applications.

SCDSS implemented D-SNAP over a six week period from 10/27/2015 to 12/11/2015. During this six week period, SCDSS set up an application site in each of the 24 counties for several days. This six week period ensured SCDSS had adequate staff to accept applications at each county site.

The D-SNAP application and approval process contained six steps:

- Step 1 – Complete D-SNAP Application: Applicants were required to apply in person and complete a simple D-SNAP application Form 3456 (*see Appendix D*). An applicant's household must have lived in the identified disaster area at the time of the disaster; been adversely affected by the disaster (i.e., income loss, property damage, or disaster expenses); and met the D-SNAP income eligibility criteria.

- Step 2 – Interview: SCDSS certification workers conducted an interview with the head of household or a responsible household member to verify information presented on the application. Verifying the identity of the applicant was mandatory through documentation or witnesses, while all other data was attempted to be verified through records in applicant's possession, if possible, but not required.

- Step 3 – Verification: After the interview, a separate SCDSS employee reviewed the form to verify the form was completed for 1) identity (mandatory verification); 2) residence was in the defined disaster area; 3) claimed a qualifying disaster loss event; and 4) household composition listed.

- Step 4 – Certification of Income Eligibility: The SCDSS worker computed the eligibility adjusted income (net income between October 3rd and November 2nd + liquid assets - disaster related expenses) to determine eligibility. If eligible, the benefit amount was identified on a chart based on adjusted income and household size (*see Appendix E*). The maximum allotment for household sizes varied from $194 for a one-person household to $1,169 for an eight-person household.

- Step 5 – Screen for Duplicates: The application was taken to "keying" centers around the state and entered into a database to identify either duplicate D-SNAP participant entries or applicant was currently receiving SNAP benefits. If either occurred, the application was denied to eliminate a duplicate payment of benefits. The denied applications were reviewed on-site by a Quality Control reviewer.

- Step 6 – Benefits Posted to the Household's Account: If no duplicate benefit payments were identified, the D-SNAP benefit would be electronically placed on the client's electronic benefits transfer (EBT) card provided during the application process. This one time D-SNAP payment on the EBT card had to be used to purchase food.

During the six week period, SCDSS received 209,927 D-SNAP applications, of which 179,588 households (86%) were approved for $76.5 million in benefits. An additional $20.7 million in enhanced SNAP benefits were disbursed to 124,777 SNAP households. In total, 304,365 South Carolina households received $97.2 million in D-SNAP and SNAP benefit assistance related to Hurricane Joaquin.

The approval rates varied among the 24 counties as follows: 2 counties 70% - 79%; 17 counties 80% - 89%; and 5 counties 90% - 94%. The denied D-SNAP applications totaled 29,494 (14%), which were denied based on the following reasons: failed to complete an interview; failed to furnish information; income exceeded the limits; household composition; duplicate participation - household already receiving SNAP benefits; or voluntary withdrawal.

IV. Post-Disaster Review

The USDA requires the state to conduct a comprehensive post-disaster review. This review is composed of four parts: overview of the D-SNAP operation implemented; audit a sample of individual cases; conduct an error analysis; and identify potential improvements. The SCDSS post-disaster report was submitted to USDA (*see Appendix F*), which was accepted and confirmed that SCDSS operated a successful D-SNAP (*see Appendix H*).

The SIG's review of the D-SNAP operation summarized in the previous section of this report was within federal guidelines. SCDSS's procedures serving as deterrents to both applicant fraud and employee wrongdoing were also within guidelines, to include exceeding requirements in several areas.

The heart of assessing and understanding the fraud risk emanated from SCDSS's audit of individual cases. Existing SNAP beneficiaries receiving increased benefits from D-SNAP (124,777) were not audited inasmuch as they were pre-qualified through the SNAP approval process. Further, many SNAP beneficiaries were not required to provide any documentation on a qualifying disaster event, and those required to have a qualifying disaster event only certified by checking a box on an affidavit without providing a narrative or dollar loss amount.

Only those applications from non-SNAP beneficiaries (209,927) were audited through sample testing of applications. Further, federal guidelines required SCDSS to conduct a 100% audit of all SCDSS employees approved for D-SNAP benefits.

A. Audit of D-SNAP Applications

The USDA post-disaster review required a state to conduct a random sample audit of at least 0.5% of new D-SNAP applications, up to a maximum of 500 applications. SCDSS decided to increase its sample size to 5%, or 17 times the required sample size. This equated to a sample of 9,029 applications from the total 179,588 approved applications in the 24 counties. SCDSS decided to stratify the population based on fraud risk, such as increasing the proportional sample size in the four counties suffering the least disaster damage impact given the likelihood of a higher fraud risk.

SCDSS developed a "Phase I" desk audit program checklist, which combined telephone interview questions with income verification database checks to determine if the benefit was appropriately approved and accurately calculated. The audit program emphasized collection of financial data and household composition to determine if the applicant's adjusted income qualified for the D-SNAP benefit. The audit program, which was a desk audit and not a field audit, did not attempt to verify applicant's qualifying disaster event of either income loss; damage to home; incurred disaster related expenses; or inaccessible to liquid assets (rarely used) (*see Appendix G*).

Of the 9,029 clients, 4,905 (55%) could not be contacted via phone or subsequent mailings to their residences requesting contact with SCDSS. Still, even without a personal contact, SCDSS could still run income verification database checks to assist in "flagging" an application for indicators of an overpayment or fraud. Further, whether a client was interviewed or not, the audit program did not attempt to verify the applicant's disaster event, so the lack of a client interview did not impact this fraud risk. However, it was considered unusual that no phone number was on 2,231 applications (25%) and 3,123 applications (35%) failed to even check a mandatory box for the qualifying disaster event.

As a result of the "Phase I" desk audit, 1,597 approved applications (18%) were identified to contain questionable information or indicated possible fraud. These suspected overpayment cases were referred to SCDSS's Benefit Integrity Unit (BI) for further research, known as "Phase II," by more experienced personnel to determine if the claim referral was valid. Additional database checks were used to identify missing information, as well as additional effort to contact or re-contact the client.

Of the 1,597 case referrals to BI, 1,207 (75%) sustained the client received an overpayment and 390 (25%) were determined unfounded. Of the 1,207 sustained cases, 297 were determined to be Intentional Program Violation's (IPV) where the recipient provided false information with the deceitful intent to defraud; 51 cases were classified as agency error due to the agency incorrectly computing the benefit amount or misapplying policy; and 859 were classified as client error caused by an unintentional misunderstanding or inadvertent error. The below table sets forth the sustained overpayment cases:

Overpayment Claims	Cases	Amount
Intentional Program Violations	297 (25%)	$ 142,055 (27%)
Client Errors	859 (71%)	$ 361,174 (69%)
Agency Errors	51 (4%)	$ 19,159 (4%)
Total Overpayment Claims	**1,207 (100%)**	**$ 522,388 (100%)**

The 1,207 sustained overpayment cases was a 13.3% application error rate, with individual county error rates ranging from 9% to 18% (*see Appendix B*). The average overpayment was $432 per case, which ranged from $122 to $1,022.

A review of the 297 IPV cases depicted 277 (93%) caused by under-reported income; 7 (2%) showed inaccurate household size; and 13 duplicate D-SNAP or SNAP payments (5%). There were no IPV cases caused by falsification of applicant's qualifying disaster event (*see Appendix I*).

It should be noted the $522,388 overpayments from the 5% sample have the potential of being recovered. SCDSS process for recouping D-SNAP funds for cases resulting in an overpayment claims was comparable to the process used for regular SNAP clients. BI would contact the recipient to attempt to arrange a payment agreement. For clients currently receiving SNAP benefits, the amount owed for the D-SNAP claim would be recouped from their current benefits. For clients not currently receiving SNAP benefits, the client would be required to pay the D-SNAP claim in full or sign a repayment agreement. For clients that did not pay the overpayment in full or make arrangements to make monthly payments, the debt was sent to the U.S. Department of Treasury Offset Program (TOP) where the debt would be paid through tax intercept.

B. Estimated Total D-SNAP Overpayments

Although the 9,029 case sample was not completely random due to stratifying based on fraud risk, it was sufficiently large to fairly extrapolate the sample's overpayment to the entire D-SNAP population. Based on this 5% sample, the estimated overpayments for D-SNAP's $76.5 million disbursed to 179,588 approved applicants was an estimated $10.4 million (13.6%), of which $7.6 million from client/agency errors (10.0%) and $2.8 million (3.6%) in estimated fraud. The below table crosswalks the sample data to the estimated population overpayments:

Overpayment Claims	5% Sample Overpayment Cases	5% Sample Overpayment Amount	Estimated Population Overpayment Cases	Estimated Population Overpayment Amount
Intentional Program Violations	297 (25%)	$ 142,055 (27%)	5,916 (25%)	$2,829,808 (27%)
Client Errors	859 (71%)	$ 361,174 (69%)	17,111 (71%)	$7,194,701 (69%)
Agency Errors	51 (4%)	$ 19,159 (4%)	1,015 (4%)	$381,653 (4%)
Total Overpayment Claims	**1207 (100%)**	**$ 522,388 (100%)**	**24,042 (100%)**	**$10,406,162 (100%)**

C. Audit of 100% of the SCDSS Employees' D-SNAP Applications

SCDSS approved 259 D-SNAP applications filed by agency employees. Per federal requirements, SCDSS conducted a 100% audit of these employee applications. Using the same D-SNAP methodology, Phase I review identified 121 approved applications containing questionable information or indicated possible fraud. These cases were referred to BI who conducted additional investigation in Phase II. Of the 121 case referrals to Phase II, 50 sustained the employee received an overpayment and 71 were determined unfounded. These 50 sustained overpayment cases totaling $25,409 are set forth in the below table:

Overpayment Claims	Cases	Amount
Intentional Program Violations	16 (32%)	$9,127 (36%)
Client Errors	31 (62%)	$15,259 (60%)
Agency Errors	3 (6%)	$1,023 (4%)
Total Overpayment Claims	**50 (100%)**	**$25,409 (100%)**

As with the general population sample, the overpayments were caused by under-reporting income; there were not overpayments caused by a fraudulent qualifying disaster event. The average overpayment was $508 with a range from $163 to $771. In accordance with SCDSS policy, the employee was required to repay the amount of benefits received incorrectly resulting from an agency error or inadvertent employee error. The SCDSS employees committing an IPV were referred to SCDSS's Division of Investigation (DOI) to pursue potential administrative or criminal charges.

In summary, a review of the 259 SCDSS employees receiving D-SNAP benefits identified 50 overpayment cases (19%), of which 16 (6%) were IPV fraud cases. SCDSS having a higher level of access to the applicant and income records likely contributed to identifying a higher percentage of overpayment and IPV employee fraud cases than in the general population audit (*see Appendix I*).

D. Analysis of D-SNAP Fraud Risk & Mitigation

D-SNAP federal guidelines, which SCDSS followed, required to operate in a crisis inherently created a low management control environment and correspondingly created a high risk for fraud. The fraud risk of D-SNAP contained two components: 1) falsification of applicant's qualifying disaster event (i.e., income loss, property damage, or disaster expenses); and 2) inaccurate applicant income data causing an overpayment. The SCDSS properly followed the federal audit guidelines with robust audit testing income data of the sample cases, however the federal audit guidelines did not require meaningful audit testing an applicant's self-reported qualifying disaster event. Given the federal program's design that any disaster loss, no matter how small, triggered a full monthly D-SNAP benefit averaging $425, the lack of audit testing the qualifying event likely had an immaterial impact on discovering additional fraud. The federal guidelines not requiring verification of data beyond the applicant's identity led to weak, if any, narrative of the qualifying disaster event, thus applicants self-reported qualifying disaster events were essentially un-auditable.

Even though the falsification of applicant's qualifying disaster event risk can't be further mitigated or addressed, there is potential to address the inaccurate applicant income data causing an overpayment risk. This risk was estimated at $10.4 million in overpayments in the unaudited 95% of approved D-SNAP applications. However, any follow-up consideration has to be measured against likely actual recoveries and the intentionally low management control environment applicants were placed in due to the crisis.

V. Way Forward

The SCDSS's D-SNAP implementation and post-disaster review/audit were compliant with federal guidelines, and exceeding guidelines in several areas; SCDSS's efforts should be commended for operating a successful D-SNAP (*see Appendix H*). Neither the federal nor state governments should apologize for the necessity of using a low management control environment to disburse needed funds to low income citizens for food in the aftermath of a crisis. However, to further mitigate the risk of fraud for future D-SNAP implementation planning, the SCDSS should consider the following:

- SCDSS has the latitude to adjust the application process mandatory data (i.e., auditable narrative of disaster event) or verification requirements if the post-disaster environment permits. The federal guidelines note each disaster is uniquely different and the availability of verification will likely vary depending on the circumstances. Heightened application justifications and verifications will deter fraud if the disaster circumstances and state administrative capacity allows.

- Given the low management control environment for D-SNAP applications during a crisis, it highlights the criticality of precisely defining the geographical boundaries of the major disaster. This is certainly challenging during the "fog" immediately after the crisis event, but the justification for the "eased" verifications directly correlates with actual crisis conditions. The State should be fully aware the low D-SNAP application management controls should not be relied upon to prevent applicants claiming a fraudulent qualifying disaster event in lesser hard hit approved disaster areas. This may have been the case in Greenville and Spartanburg Counties, which clearly had proportionately less disaster damage than other disaster declared counties as indicated by FEMA reporting (*see Appendix A*).

Findings & Recommendations

Finding #1: The SCDSS D-SNAP implementation and post-disaster review/audit were compliant with federal guidelines.

Finding #2: The "streamlined" D-SNAP federal guidelines, particularly the "eased" application verifications, required to operate in a crisis inherently created a low management control environment and correspondingly created a high risk for fraud.

> **Recommendation #2a:** The SCDSS should consider for future D-SNAP implementations adjusting the application process mandatory data (i.e., auditable narrative of disaster event) or verifications if the post-disaster environment permits.
>
> **Recommendation #2b:** The SCDSS should consider for future D-SNAP implementations the criticality of precisely defining the geographical boundaries of the disaster to better justify using the D-SNAP's low management control environment in approving disaster relief, as well as the State should be fully aware D-SNAP's lesser disaster management controls provide nominal protection to prevent applicants claiming a fraudulent qualifying disaster event in lesser hard hit areas.

Finding #3: The federal D-SNAP audit guidelines adequately tested for the risk of inaccurate applicant income data causing an overpayment, but the "eased" application verification guidelines created conditions making assessing the risk of applicants falsifying a qualifying disaster event un-auditable.

Finding #4: The 170,559 unaudited approved D-SNAP applications representing $72.2 million in D-SNAP benefits paid contain an estimated $10.4 million in overpayments; consideration for additional auditing to recover has to be measured against likely actual recoveries and the intentionally low management control environment applicants were placed in due to the crisis.

List of Appendices

A. FEMA Registrants by County

B. D-SNAP Cases Reviewed and Overpayment Cases Identified by SCDSS

C. SCDSS D-SNAP Affidavit of Loss Form

D. SCDSS D-SNAP Application

E. USDA Disaster Allotments and Eligibility Standards

F. SCDSS D-SNAP Post-Disaster Review Report

G. SCDSS D-SNAP Post-Disaster Review Follow-up Questions

H. USDA Closure Approval Letter – Successful D-SNAP

I. SCDSS D-SNAP Post-Disaster Review Intentional Program Violations

J. Newspaper Article, "Concerns Raised About Flood Related Food Stamp Applications," dated 12/23/2015, Greenville News