Office of the Inspector General

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Review of Preventative Controls for Fraud, Waste, and Abuse in the Supplemental Nutrition Assistance Program (SNAP), Department of Social Services

Case # 2015-1210

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I. Executive Summary

This review of preventative controls for fraud, waste, and abuse in the Supplemental Nutrition Assistance Program (SNAP), administered by the Department of Social Services (DSS), was self-initiated by the State Inspector General (SIG) as part of a broader statewide review of preventative fraud, waste, and abuse management controls of major benefit programs in State agencies. The federal government's most recent national SNAP improper payment error rate was 3.4%. This represented an estimated $2.6 billion in improper payments nationally, which placed SNAP on the federal government's "high-error" program list. In Fiscal Year (FY) 2014, SNAP provided $1.2 billion in benefit payments to 395,000 South Carolina households (834,000 individuals), with a substantially more favorable payment error rate of 1.75% compared to the national average. Further, the nationwide average SNAP administrative cost was $27.73 monthly per household, and, again, South Carolina compared favorably at $14.38, which was the second lowest nationally.

Clearly, DSS has much to be proud of in its SNAP process and fraud, waste, and abuse controls. Nevertheless, over the past decade a trend has emerged led by seven states emphasizing an increased level of effort using increased preventative controls, primarily pre-certification investigations coupled with increased analytics and automation. South Carolina's preventative controls rely on manual procedures by eligibility workers operating a variety of data base programs to validate or analytically assess SNAP applications or recertifications. This has proven, with statistical sampling, to be 98.25% effective, yet the 1.75% payment error rate created an estimated $19 million in improper payments annually. Both the Government Accountability Office (GAO) audits and the SIG's small sampling of cases depicted errors that were largely preventable and more a function of an eligibility worker human error rather than sophisticated recipient fraud schemes. The direction to move to a higher level of effectiveness is through increased automation and analytics to literally approve applications with a minimum of DSS employee involvement, thus allowing eligibility workers and pre-certification investigators to devote their time to more closely examine applications "flagged" due to high risk indicators of fraud or errors.

This is not a criticism of DSS, but rather, just identifying the next logical step in a continuous improvement management process, which has proven to be effective in other states and consistent with federal guidance of preventative efforts being the most effective anti-fraud strategy. Actually, it is likely more effective to not be the first to pioneer a new strategy because later entrants can benefit from lessons learned to minimize waste and smooth out implementation.

Given DSS is currently implementing a major change initiative, this SNAP opportunity likely will not be a priority in the strategic plan queue. However, the states already having implemented these SNAP changes demonstrated a successful incremental approach of piloting to test and verify cost/effectiveness prior to a broader expansion. The DSS has already demonstrated a forward leaning approach by regionalizing its benefit integrity resources to standardize operations and increase personnel's capabilities. Thinking now on the future can identify opportunities to potentially blend this strategic idea into other DSS initiatives or be prepared to obtain Federal resources/grants as the federal government continues to push states to increase their fraud prevention efforts by using preventative controls through technology and pre-certification investigations.

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II. Background

A. Predicate

This review was self-initiated by the State Inspector General (SIG) as part of a broader statewide review of preventative fraud, waste, and abuse management controls on major benefit programs at state agencies. The Supplemental Nutrition Assistance Program (SNAP), administered by the Department of Social Services (DSS), provided $1.2 billion in benefit payments to 395,000 South Carolina households (834,000 individuals) in Fiscal Year (FY) 2014. Over the past 10 years there has been a paradigm shift away from paying benefits first, followed by chasing down fraud and abuse after the fact – a process known as "pay and chase." History has shown post benefit payment investigations required sizable resources, lengthy due process timeframes, and problematic ability to recoup fraud, waste, and abuse dollars. The new model emphasizes agency preventative management controls to stop fraud, abuse, and waste before it begins. In the case of SNAP, preventative controls were mainly in the area of validating the accuracy of enrollment application data to ensure the recipient qualifies for SNAP benefits.

B. Scope & Objectives

This review's scope and objectives were:

- Assess SNAP's preventative management controls for fraud, waste, and abuse;
- Identify SNAP preventative management control best practices; and
- Identify opportunities to improve SNAP management controls to cost/effectively mitigate risks of fraud, waste, and abuse.

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. SNAP Overview

SNAP benefits are intended for low income individuals who meet certain criteria including income, resources/assets, employment requirements, and immigrant status. In 2014, 46 million individuals nationally from 22 million households participated in SNAP and received just under $70 billion in benefits.

The SNAP Program operates under a partnership between individual states and the federal government. The federal government administers SNAP through its Department of Agriculture, which promulgates regulations and assures states' compliance by providing guidance and monitoring states' activity. In addition, the federal government funds 100% of the benefits and approximately 50% of each state's administrative costs. State responsibilities include: determining eligibility; calculating benefits; administering the day-to-day operations of the program; and funding 50% of the administrative cost. Eliminating fraud, waste, and abuse in SNAP is a joint responsibility with the states having the responsibility of detecting, investigating, and prosecuting recipient benefit fraud, while the federal government focuses on pursuing fraudulent activity by retailers.

Eligibility and benefit levels are determined on the basis of the household. Most applicants must meet both gross and net income tests. A household's gross income cannot exceed 130% of the federal income poverty guideline ($1,276 monthly for a one-person household; and $4,430 for an eight-person household). The household's net income, after allowable deductions, cannot exceed 100% of the federal income poverty guideline ($981 for a one-person household; and $3,408 for an eight-person household). Eligibility can automatically be obtained if the household is already approved for Supplemental Security Income (SSI) or Temporary Assistance for Needy Families (TANF). Additionally, all members of a household cannot have total countable resources/assets in excess exceed $2,250 ($3,250 if the household includes one or more disabled members or members age 60 or over).

Benefit amounts, referred to as allotments, are based on income and household size. The federal government provides a table of the maximum allotment for various household sizes (from $194 for a one-person household to $1,169 for an eight-person household). The table is based on "The Thrifty Food Plan" – a model-based, market basket of foods representing a nutritious diet at minimal cost. SNAP guidelines expect recipients to spend 30% of their net income on food and that amount is deducted from the table's maximum allotment to arrive at the benefit amount provided to the recipient. In FY 2014, South Carolina's average benefits were $123.40 per person and $260.56 per household, compared to the national averages of $125.48 per person and $264.88 per household.

Once approved, SNAP households must apply for recertification after varying periods of time. South Carolina utilizes a six month recertification period, except households where all members are either elderly or disabled with no earned income. Those are allowed a 24 month certification period.

III. DSS's SNAP Process

A. Application and Recertification

Virtually all SNAP applications and recertifications were completed online or via mailed in forms. DSS scanned mailed applications and they were combined with the online applications, which appeared to the initial DSS eligibility worker in an electronic queue. The eligibility worker verified the following: identity; residency; social security numbers; household composition; disability; alien eligibility; gross non-exempt income; shelter/utility expenses; medical expenses; the legal obligation for child support along with actual payments; work hours for able-bodied adults subject to a time limit; and any other factors determined to be questionable. Verifications were accomplished through documentation furnished by applicants and through confirming the accuracy of the information using a variety of electronic resources from private vendors and the state/federal government. An interview was required upon the initial application and annually thereafter, but, in most cases, the interview was by telephone.

If the eligibility worker approved the initial application or recertification, the DSS system calculated the benefit amount, and also allowed the worker to efficiently generate a notification letter mailed to the recipient. If more information was needed, the eligibility worker attempted to call the recipient, which if unsuccessful, a letter requesting the missing information was processed and mailed.

During FY 2015, DSS received 285,433 initial applications of which 173,482 (61%) were approved. Recertifications for 242,679 households yielded 205,174 (85%) approvals. The 149,456 denials of initial applications and recertifications were denied for the following reasons: failed to complete an interview (38.5%); failed to furnish information (32.6%); income exceeded the limits (19.1%); household composition (4.9%); drug convictions, fraud disqualifications, or undocumented aliens (1.2%); and voluntarily withdrawal (3.7%).

B. Benefits Integrity Program Investigations

The Benefit Integrity Program (BI) assured the integrity of SNAP through investigations to ascertain if eligibility and benefits were correctly determined according to federal and state regulations. DSS undertook a major change in its SNAP integrity efforts by regionalizing SNAP investigations in May, 2014, where previously investigations were conducted by county offices. Four regional offices were created and staffed consisting of 16 to 20 benefit integrity claims specialists and two supervisors per region.

Case referrals to BI emanate from four sources: DSS eligibility workers (54.2%); internal DSS assurance reviews (19.9%); public complaints (14.5%); and other (11.4%). During FY 2015, case referrals totaled 12,798 with 6,840 sustained (55%) and 5,558 (45%) unfounded. Of the 6,840 sustained cases, 3,189 (47%) were determined to be Intentional Program Violations (IPV), where the recipient provided false information with deceitful intent. Since the regional effort began in May, 2014, case volume has increased; FY 2016 increased 35% from FY 2015.

Fifteen closed BI investigations from the previous twelve months were selected and reviewed by the SIG for quality and timeliness of investigations, which were determined to be adequate. All but one case was sustained and overpayments were determined totaling $61,858, which ranged from $150 to $22,947 per case. Three cases were classified as agency error; seven were classified as inadvertent client error; and four were determined to be intentional program violations resulting in disqualifications of the individuals involved. Interestingly, the errors in these 14 sustained investigations should, in the SIG's view, have been identified by the initial eligibility worker or at least identified as a "red flag" to be pursued with additional follow-up as illustrated by these examples:

- The applicant answered affirmatively she had a felony drug conviction (a disqualification), and did so on three subsequent recertifications, yet her benefits continued to be approved.

- Five cases depicted financially questionable situations raising "red flags" without further investigation, such as expenses equaling or exceeding reported income.

These two examples denote two types of errors: obvious errors an eligibility worker had the capability to identify; and errors an eligibility worker could not determine from initially provided data but there were questionable financial situations raising "red flags" warranting further review. Managers and eligibility workers noted differing directives over the years on how to address "red flag" suspicions. Some prior managers gave directives to not question applicants on "red flag" type situations and just approve. Currently, eligibility workers are instructed to follow up on "red flags," but eligibility workers' capabilities, time, and ability to address using desk audit techniques inhibit fully resolving many "red flags."

The BI case results were used as a feedback mechanism to the eligibility workers, which then triggered mandatory performance improvement plans for underperforming eligibility workers. This has helped address inconsistency with eligibility workers.

C. Adjudication Process for Sustained Investigative Determinations

Sustained determinations fall into three categories: client error; agency error; or intentional program violation (IPV). IPVs result in disqualification from SNAP participation. In cases involving an IPV, states had the option to follow an administrative process or refer the case for prosecution through the courts. The administrative process involved an Administrative Disqualification Hearing (ADH) before an impartial hearing officer whose job was to determine if there was an intent to defraud. The amount of any overpayment was not an issue in the hearing, only whether or not there was an intent to fraudulently obtain benefits. An individual may elect to waive their right to an ADH and be disqualified from SNAP participation. Decisions to prosecute through the court system varied from state to state depending on state laws and the availability of prosecutorial resources.

In FY 2015, DSS scheduled 1,210 ADHs resulting in 591 upheld determinations, 7 reversed determinations, with 612 participants waiving their rights to an ADH. DSS reported 60 referrals for prosecution resulting in 60 convictions. DSS generally referred cases for prosecution involving overpayment amounts exceeding $2,500.

D. Debt Collection Analysis

DSS reported a balance of $61 million in claims established from overpayment of SNAP benefits at December 31, 2015. During calendar year 2015, $13.9 million in new claims were established and collections totaled $12.2 million. Several means of collection were used with the vast majority (90%) coming through recoupments or offsets against continuing SNAP benefits or income tax refunds. A breakdown of the 2015 collections is as follows:

Cash or Equivalents	$ 870,387
Return of EBT Card Balances	6,223
Collection through Federal Tax Offsets	3,164,361
Recoupment/Offsets Continuing Benefits	7,926,878
Expungements	110,766
Claims Written Off	134,473
TOTAL	$ 12,213,088

DSS wrote off claims in three circumstances: claim amounts were less than $25; all adult members of a household were deceased; and no adult member of a household could be located. Otherwise, DSS continued collection attempts indefinitely, and a current accounts receivable aging report included amounts from as far back as FY 2006, but 80% of the current balance was from the last five years.

In analyzing the accounts receivable data, the SIG observed the amount of claims established per benefits paid had tripled since 2006. DSS suggested its increased integrity efforts have resulted in the identification of more potential claims for investigation.

Although SNAP benefits were entirely funded by federal dollars, the states were allowed to retain percentages of certain SNAP overpayment collections: 35% of SNAP collections resulting from IPV determinations or fraud; and 20% of collections resulting from inadvertent household errors, commonly referred to as client errors. In South Carolina a state proviso allowed DSS to retain the collections and dictated a portion be distributed to the local county offices for emergency and program operations. DSS reported the FY 2015 retained collections totaled $1.7 million with half applied to the cost of the regional Benefit Integrity effort, and the other half disbursed to the county DSS offices under the Project "Fighting Abuse Investigative Recoupment" (FAIR) Program. Project FAIR provided a flexible source of funds under the discretion of county directors to fund client services or needs.

E. Quality Control Review

The federal government required states to perform annual Quality Control (QC) reviews of their SNAP eligibility and benefit determinations. States were required to review both active cases (benefits currently being paid) and negative cases (denial, suspension or termination of benefits). The QC reviews measured the validity of SNAP cases to determine each state's SNAP Program payment error rate, as well as the national payment error rate – a weighted average of the states' rates. The national payment error rate was 3.4% for FY 2013, which represented an estimated $2.6 billion in improper payments. Due to the large dollar amount of possible improper payments, the Federal Office of Management and Budget placed SNAP on its list of high-error programs.

The DSS's FY 2013 QC review resulted in a 1.75% payment error rate, which was validated by the federal government through testing of DSS's QC review. The 1.75% error rate extrapolated to $21.6 million in overpayments and $2.6 million in underpayments for net overpayment of $19 million. Errors were categorized as: non-financial variances (household composition; work requirements; and citizenship); income variances; resource/assets variances; and deduction variances. The majority of errors were income related (63%), followed by non-financial variances (23%), and deduction variances (14%). Errors were attributed to either agency errors (69%) or client errors (31%). Most of the errors were determined from the desk audit (50%), followed by the household interview (30%), with the remaining discovered from collateral contacts (20%). DSS received a $1.6 million Federal bonus for the most improved error rate for negative cases for FY 2013.

F. Administrative Costs

The federal government provided approximately 50% of the states' administrative costs. Administrative costs varied among states due to a number of factors including participation levels, types of issuance systems, degree of automation, and level of fraud control.

The nationwide average administrative cost was $27.73 monthly per household. South Carolina had the second lowest administrative cost at $14.38 monthly per household, while Florida had the lowest at $7.78. The U. S. Virgin Islands, with the lowest number of households (12,478), had the highest cost of $76.56, followed by California at $67.22.

G. Summary Analysis

In a data rich environment, the core metric for success in management controls for fraud, waste, and abuse, which includes both preventative and post controls, was a state's payment error rate. The national payment error rate was 3.4%, and South Carolina's 1.75% rate compared favorably, and was the 14th best nationally. Through statistical sampling, DSS's efforts were 98.25% effective, yet the 1.75% error rate created an estimated $19 million in improper payments annually. Both the Government Accountability Office (GAO) audits and the SIG's small sampling of cases depicted errors that were largely preventable and more a function of an eligibility worker's human error or a lack of capacity to follow-up on logical "red flags," rather than due to sophisticated recipient fraud schemes. Also noteworthy, DSS's monthly administrative cost per household of $14.38 compared favorably to the nationwide average $27.73, and was next to the lowest in the nation.

IV. SNAP Best Practices for Fraud, Waste, and Abuse

A. Trend Towards Pre-Certification Investigations

Clearly, DSS has much to be proud of in its SNAP process and fraud, waste, and abuse controls. Nevertheless, over the past decade a trend has emerged led by seven states emphasizing a higher level of effort using preventative controls, primarily pre-certification investigations coupled with increased analytics and automation.

Based on the federal government's annual *SNAP State Activity Report,* pre-certification investigations have been increasing over the past decade. In the most recent report (FY 2014), most of the pre-certification investigations were conducted by seven states with the remaining states conducting only a few or none, as is the case with South Carolina and 19 other states. These seven states were New York, Pennsylvania, Florida, Michigan, Minnesota, California, and Washington, where pre-certification investigations averaged 75% of all investigations.

The GAO determined preventative efforts to be the most efficient and effective anti-fraud strategy. The most recent GAO *SNAP Performance Audit* (2014) reported states were still experiencing difficulties in using some of the fraud detection tools. Stretched resources contributed to the states' inability to fully utilize the tools, and some tools had not proven to be very successful, such as monitoring social media sites to detect benefit trafficking. Some states suggested the federal incentive structure should be redesigned to better support their fraud prevention efforts, noting the current structure was directed entirely toward collecting overpayments. It was noted the incentive structure could not be changed without federal legislative approval but, in the short-term, the federal government planned to offer grants to states to assist with preventative fraud detection efforts.

B. States Implementing a Pre-Certification Strategy

1. Pennsylvania

The Pennsylvania Department of Human Services (PA-DHS) handled SNAP processing, but the Pennsylvania Inspector General's Office (PA-OIG) conducted all investigations. Pennsylvania has committed to the strategy of pre-certification investigation by deploying 70 investigators throughout the state. Cases were referred by PA-DHS eligibility workers based on suspicious information potentially in error or fraudulent. Each investigator handled from 40 to 60 investigations per month, and 50% of the investigations resulted in a sustained determination. That percentage of sustained determinations has remained consistent as more investigators were added through the years.

Other than the common online tools, the investigators did not use any special databases or services, but did fieldwork, such as talked to neighbors and checked school records. The applicant was rarely contacted. The investigations operated on a five day turnaround to provide the PA-DHS eligibility worker their findings, who then made the final decision on approving or denying benefit applications.

The PA-OIG also had 40 post-certification investigators who handled IPV cases and referrals for prosecution. The PA-OIG investigative efforts had a positive cost/benefit of $87 million last year, which represented $13 saved for every $1 spent on investigations.

2. Michigan

The Office of the Inspector General, Michigan Department of Health and Human Services (MI-OIG), provided investigative efforts for many benefit programs, to include 872,000 SNAP households. The MI-OIG's emphasis on pre-certification investigations started in 2000 with a pilot in one county, where benefit workers referred applicants based on "red flag" indicators to the investigators prior to awarding benefits (*see Appendix A*). The pilot was so successful it has now been expanded to every Michigan County. The MI-OIG now has 100 investigators located throughout the state performing pre-certification investigations.

During FY 2014, the MI-OIG conducted 44,097 investigations; 36,441 pre-certification (83%) and 7,656 post-certification (17%). Pre-certification investigations required a 10 day maximum turnaround time and yielded a 55% positive determination rate. Savings generated by preventing the payment of ineligible benefits grew from $30.3 million in FY 2011 to $93.6 million in FY 2014 as the number of pre-certification investigators increased. The program was currently identifying $261 of potential fraud for every hour of investigative effort.

Pre-certification investigations were supported with increased analytical tools. The MI-OIG used a number of similar online verification tools as DSS, but also contracted for other private sector databases and verification tools, such as:

- An application providing a recipient's exact latitude and longitude each time the recipient accesses the Michigan Health and Human Services website. A number of investigative reports were generated, such as flagging multiple recipients emanating from the same location.

- A private sector data base with enhanced capabilities, with the particular benefit of including the date and source of data to better assess the value of the information.

- An application used for keyword searches of social media sites helps assess recipient information and relationships.

3. Florida

The review identified Florida as perhaps the state with the most developed preventative fraud, waste, and abuse capabilities. Florida has combined automation and analytics with pre-certification investigations for maximum benefit.

In 2005, Florida embarked on the development of a public assistance "self-service customer portal" where recipients can apply and renew benefits, update information, and make certain requests such as for replacement electronic benefit cards (EBT). While the applicant entered the required information, an automated process queried various verification resources in the background to validate the applicant's identity and information furnished. If all required information was validated within set parameters, the client's application or recertification was approved and the customer notified while online without involving an eligibility worker. If there was missing information or the automated verification process determined the client's information was outside of set parameters, the case was put into a queue for an eligibility worker to review with specific instructions to resolve the issues identified. It took many years to fully develop this system, but it has resulted in increased customer convenience and cost savings from closing down entire eligibility processing centers. This certainly contributed to Florida having nationally the lowest SNAP administrative cost of $7.78 monthly per household ($ 27.73 average nationally).

Florida's initiatives expanded as a result of its Legislature creating "The Medicaid and Public Assistance Task Force" to increase program effectiveness and develop initiatives to prevent, detect, and prosecute Medicaid and other public assistance fraud. The Task Force commissioned a study to estimate the amount of fraud in SNAP benefit applications *(See Appendix B)*. The study determined a 7.5% incidence of fraud in their sample with 75% of the incidences resulting from non-reporting or under-reporting of income. At the time, 32% of Florida's investigations were pre-certification, yet these investigations had positive results in 87% of cases as compared to 13% for post-certification cases. The study's recommendations included a focus on computer comparisons of recipient income and increasing the number of pre-certification investigations to move away from the post-certification "pay-and-chase" system.

Florida has 65 pre-certification investigators located throughout the state. Cases were developed from direct referrals from its "self-service customer portal" and eligibility workers' requests based on suspicions of false or inaccurate information. The investigators had ten days to perform an investigation and reach a determination. Florida's pre-certification investigations prevented the payment of $25-30 million in fraudulent benefits annually.

V. Conclusion

The DSS SNAP payment error rate was 1.75%, which was 45% better than the national payment error rate of 3.4% and ranked 14th best nationally. Also relevant, DSS's administrative cost was $14.38 monthly per household, and, again, favorably compared to the national average of $27.73 and ranked second lowest nationally. However, it is not too soon for DSS to look to the future to plan for a higher level of cost/effectiveness by increasing preventative fraud controls through automation and analytics coupled with pre-certification investigations. This is not a criticism, but rather the next logical step in a continuous improvement management process. Actually, it is likely more effective to not be the first to pioneer a new strategy because later entrants can benefit from lessons learned to minimize waste and smooth out implementation.

Given DSS is currently implementing a major change initiative, this SNAP opportunity likely should not be a priority in the strategic planning queue. However, the states already having implemented these SNAP changes demonstrated a successful incremental approach of piloting to test and verify cost/effectiveness prior to a broader expansion. The DSS has already demonstrated a forward leaning approach by regionalizing its benefit integrity resources to standardize operations, increase integrity, and increase personnel capabilities. Thinking now on the future can identify opportunities to potentially blend this strategic idea into other DSS initiatives or be prepared to obtain Federal resources/grants as the federal government continues to push states to become more proactive using preventative controls through technology and pre-certification investigations.

VI. Findings & Recommendations

Finding #1: DSS controls to prevent fraud, waste, and abuse were substantially better than the national average as depicted by a 1.75% payment error rate compared to the 3.4% national rate.

Finding #2: DSS controls to prevent fraud, waste, and abuse have an opportunity to improve with a long-term strategy emphasizing automation and analytics coupled with pre-certification investigations.

> **Recommendation #1a:** DSS should consider piloting pre-certification investigations using existing regional benefit integrity staff currently conducting post-certification investigations.
>
> **Recommendation #1b:** DSS should consider fixing responsibility with one manager as a collateral duty to learn from other states using automation and analytics with pre-certification best practices and work this initiative into DSS's long-term strategic plans.

ADMINISTRATIVE NOTE:

DSS's comments on report located at link: http://oig.sc.gov/Documents/DSS_Response_to_Snap_Review.pdf