



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL



Detecting Potential SNAP Trafficking Using Data Analysis

Audit Report 27901-0002-13

OBJECTIVE

Our objective was to review SNAP retailer and participant data using analytical and geospatial software to attempt to identify potential fraud in the SNAP program.

REVIEWED

We reviewed 21 months of SNAP retailer and participant transaction data from October 2013 to June 2015. During this period there were 243,595 retailers.

RECOMMENDS

OIG recommends that FNS review information concerning retail owners whose Social Security Numbers match those of deceased people, as well as owners who may be under the age of 18 and take appropriate corrective action. FNS should also design controls to identify data that may indicate these types of problems. We also recommend that FNS finalize procedures to identify and reconcile ALERT and STARS data discrepancies.

OIG reviewed SNAP retailer and participant transaction data using analytical and geospatial software to attempt to identify potential fraud.

WHAT OIG FOUND

The Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) issues around \$70 billion in benefits annually. The Office of Inspector General (OIG) reviewed approximately 1.56 billion SNAP transactions representing approximately \$23 billion to identify potential fraud.

We found that 3,394 authorized SNAP retailers (retailers) used Social Security Numbers (SSN) that matched SSNs of deceased people. Additionally, 193 retailers listed owners who were not at least 18 years of age. While FNS did have some controls to edit or verify SNAP retail owner information, these controls were not adequate to ensure owner information accuracy. During the 21 month period, OIG reviewed 3,394 retailers who reported SSNs of at least one deceased person. These 3,394 retailers redeemed about \$2.6 billion in SNAP benefits. In addition, 193 retailers had at least one owner who reported a birthdate that indicated they were younger than 18. These 193 retailers redeemed \$41 million during the period under review.

FNS uses two information systems to administer SNAP—STARS and ALERT. Both systems should reflect the same monetary data. However, we found that, of the 243,595 retailers authorized during the period of our review, 241 retailers recorded different monthly transaction totals in the two systems. For the 21 months of data we compared, these discrepancies totaled about \$43 million.

FNS generally concurred with our recommendations and OIG was able to accept management decision for all 7 recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: January 5, 2017

AUDIT
NUMBER: 27901-0002-13

TO: Audrey Rowe
Administrator
Food and Nutrition Service

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

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Detecting Potential SNAP Trafficking Using Data Analysis

This report presents the results of the subject review. Your written response is included in its entirety at the end of the report. Your responses and the Office of Inspector General's (OIG) position are also incorporated into the relevant sections of the report. Based on your response, we have accepted management decision on all recommendations. No further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The United States Department of Agriculture (USDA) administers 15 nutrition assistance programs that form a national safety net against hunger. The Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, is the largest of these programs, issuing approximately \$70 billion in benefits in fiscal year (FY) 2015. SNAP provides food assistance and increases nutrition for the health and well-being of nearly 46 million low-income individuals each month.

SNAP is administered by the Food and Nutrition Service (FNS) through a Federal-State partnership in which the Federal Government pays the full cost of recipient benefits and shares the cost of administering the program with the States. States subsequently issue benefits to recipients. Recipients must purchase food from participating retailers with the benefits they receive. FNS approves retailers for SNAP participation. Retailers include, for example, grocery stores, supermarkets, meal services, and farmer's markets. Because of the program's size, it is critical for FNS to ensure that SNAP fraud is detected and prevented, and that the program is administered in accordance with the applicable laws, regulations, policies, and procedures.

SNAP recipients receive their program benefits through electronic benefits transfer (EBT). After enrolling in the program, recipients are issued an EBT card, much like a debit card. Once a month, each participating household receives a benefit allotment determined by family size, household income, and other related factors. Recipients use their benefits to pay for food items at participating retailers using this EBT card.

FNS uses two main information systems to administer SNAP retailer participation at the national level. The Store Tracking and Redemption System (STARS) contains retailer information related to the redemption of SNAP benefits. STARS includes information pertaining to the retailer (e.g., type, location, risk level, status, etc.) and the owner (e.g., name, date of birth, Social Security Number (SSN), etc.). It also includes retailer benefit redemption data, which are loaded into STARS using a separate file sent to FNS by each State's EBT processor. These data are used to monitor and evaluate individual store activity. In FY 2014, STARS contained information on approximately \$67 billion in SNAP redemptions.¹ Federal and State program staff track, monitor, and assess retailers through STARS and can access data on the status of store redemptions, authorizations, and investigations for the approximately 260,000 average monthly retailers authorized to participate in SNAP.

The second information system, the Anti-fraud Locator using EBT Retailer Transactions (ALERT) system, receives and processes recipient transaction data. The ALERT system contains the monthly transaction records from EBT processors and tests for data patterns that may indicate fraudulent activity by retailers. Annually, ALERT receives and analyzes more than

¹ STARS only contains information on SNAP benefits that have been redeemed. Benefits that are not redeemed in the fiscal year they are issued are also not accounted for in STARS for that fiscal year.

a billion individual SNAP transactions from retailers and identifies retail firms with suspicious patterns of SNAP benefit redemptions. ALERT interfaces with STARS to gain access to SNAP retailer information and provides information to STARS identifying retailers that FNS should review.

Each State and U.S. territory—with the exception of Montana and Texas,² which process their SNAP EBT transactions in-house—hires a contractor, or EBT processor, to process, track and store EBT transactions. Each time an EBT card is used, an EBT processor stores transactional data within its system. Before authorizing a transaction, the EBT processor's system verifies that benefits are available and deducts the benefits from the recipient's account for each completed transaction. The EBT processors provide the SNAP transaction files to FNS, which then inputs these files into the ALERT system and archives the files on a periodic basis.

Objectives

The objective of this audit was to review fiscal year (FY) 2011 to June 2015 SNAP retailer and participant data using analytical and geospatial software to attempt to identify potential fraud in the SNAP program.

We obtained the FY 2011 to June 2015 SNAP redemption data by retailer but, due to volume, we only reviewed 21 months of the SNAP transaction data (October 2013 to June 2015).

We had no findings related to our work with geospatial analysis.

² According to FNS, as of May 23, 2016, Texas also uses a turnkey EBT system under contract to one of the EBT processors.

Section 1: FNS Needs to Strengthen Controls over its Data

Finding 1: FNS Needs to Improve the Accuracy of Store Owner Information

During our review of SNAP owner information, we found that some owners of authorized SNAP retailers (retailers) used SSNs entered in STARS that matched SSNs of currently deceased people.³ Additionally, 193 retailers who redeemed \$41 million during the review period listed at least one owner who was not at least 18 years of age, according to FNS data.⁴ During the course of our review, FNS stated that some birthdates were mistakenly entered by the owners, but more work needs to be done on others to verify the information. While FNS did have some controls to edit or verify retail owner information, these controls were not adequate to ensure that owner information was accurate. Without accurate owner information such as birth dates and SSNs, FNS has reduced assurance concerning the identity of retailers. Without this information, the program is vulnerable to persons wishing to abuse or misuse the program for personal gain. During the 21 month period, OIG reviewed 3,394 retailers who reported SSNs of at least one deceased person. These 3,394 retailers redeemed about \$2.6 billion in SNAP benefits.

Departmental regulations require all managers directing or controlling resources within USDA to establish, maintain, and improve internal controls for their assigned areas.⁵ These rules are extended to information systems. Managers are charged with establishing necessary system controls to ensure that data are accurate and complete.⁶

When retailers apply to redeem SNAP benefits, the owners (or corporate officers for corporations) are required to submit certain information, such as their birth date and SSN, to establish their identity and eligibility to redeem benefits. As part of our audit, OIG reviewed this owner information for about 281,000 retailers maintained in FNS' STARS database.⁷ We also obtained a copy of the Death Master File (DMF) from the Department of Commerce's National Technical Information Service. Using data analytics software, OIG matched the SSNs recorded in FNS' STARS data with the SSNs recorded in the Death Master File. We found that about 1,819 owners of about 3,394 retailers reported SSNs that matched SSNs on the Death Master File. SSNs for all of the listed owners for 346 retailers appeared on the Death Master File. When we compared the owners of retailers and the Death Master File, we found that some of the matches were based on SSN only. We concluded these instances were likely the result of a mistake in the entry of SSN. Others matched name, SSN, and birthdate exactly. Still others matched SSN and had very similar names and birthdates.

³ Based on data matching with the Death Master File.

⁴ OIG reviewed STARS retailer and redemption data from October 1, 2013 through June 30, 2015. This group included owners who may not have reached the age of 18 as of June 30, 2015.

⁵ DR1110-002, *Management's Responsibility for Internal Control* (June 17, 2013).

⁶ DM1110-002, *USDA Management Control Manual* (November 29, 2002).

⁷ About 260,000 retailers participate in program at any one time. However, stores are added to and removed from the program on a continuous basis. Thus, the 281,000 stores reviewed by OIG were authorized at some point during our review.

When OIG asked what controls FNS had to ensure that information entered by owners is accurate, FNS officials indicated that they require owners to submit copies of a photo ID and Social Security card. They stated that, based on the results of OIG's review, they will obtain their own copy of the Death Master File for review purposes.

We also reviewed birthdates recorded by FNS. According to FNS owner data, 176 owners of 193 retailers reported birthdates that indicated they were younger than 18 years old as of June, 30, 2015, the cutoff date for the data. Also, 61 of these 193 retailers listed no owners over 18, according to the data. USDA's regulation does not preclude a retailer from being owned by someone under the age of 18.⁸ In most States, however, persons under the age of 18 may be able to void or disaffirm a contract that they sign as a minor since minors do not have the legal capacity to enter into a contract. Therefore, an agreement entered into between FNS and a minor owned retailer may not be enforceable, depending on the specific facts and State law.

When we presented our results to FNS, officials stated that, for some of the instances cited above, the owners had erroneously entered the date of application instead of their date of birth. We asked FNS what controls were in place to verify the age of store owners. FNS stated that in 2011, they instituted a system flag in STARS to further review any store going through the application process if the date of birth indicated an owner under 18. However, they stated they did not have formal procedures for what action, if any, should be taken to secure FNS interests. FNS also stated that in January of 2015 they had instituted an edit check in STARS to ensure owners were at least 5 years old. OIG reviewed the application system and verified that this control rejected the input of dates less than 5 years from the current date. However, this edit check is not sufficient to ensure that FNS is not executing contracts with retailers who may be able to void the agreement at will.

Without accurate retail owner data such as birth dates and SSNs, FNS has little assurance that retailers are who they say they are. This could leave the program open to abuse by disqualified individuals and others wishing to hide their identity for possible fraudulent purposes. If indeed some of these retailers are wholly owned by deceased persons or persons under the age of 18, this situation could leave FNS with little recourse other than disqualification in the event that adverse action needs to be taken against a particular retailer.⁹ We concluded that FNS should improve controls in this area by checking SSNs against the Death Master File, and ensuring correct birthdates of owners are accurately reflected on the application. FNS should also ensure that its interests are protected in the event a minor owns a retail store.

⁸ 7 C.F.R. § 278.1.

⁹ We note that pursuing criminal prosecution, suspension and debarment, civil/criminal forfeiture, civil monetary penalties, and/or restitution against an authorized SNAP retailer (which are usually available remedies) with a deceased or minor owner may be more difficult for the Department and the United States.

Recommendation 1

Review the list of 1,819 owners on the Death Master File to verify the identity of these owners, and take necessary action to correct data that is incorrect, and remove any owners who are indeed no longer living.

Agency Response

FNS concurs with the recommendation. The week of August 8, 2016, after receiving OIG's initial findings, FNS contacted a subset of the 1,819 owners [i.e., those who came up as an "exact match or similar" in the OIG data set who were listed in STARS as the sole owner of record (147 authorized stores in total)].

FNS sent a letter to these 147 retailers advising that the owner Social Security Number (SSN) and other personally identifiable information match those of an individual listed as deceased according to records from the Social Security Administration. The stores were advised to contact the Agency within 10 calendar days following receipt of the letter; failure to do so would result in FNS withdrawal of the firm's authorization to redeem SNAP benefits.

As a result of this action:

- 122 stores were withdrawn on September 27, 2016.
- Seven stores were withdrawn for other reasons prior to the withdrawal action on September 27, 2016.
- 18 stores responded and FNS is in the process of updating STARS as appropriate. For example, in many instances the spouse of the deceased owner is currently operating the store, in which case FNS is obtaining documentation from the spouse and updating STARS with the spouse's information.

FNS plans to contact the remaining firms (where there was a match to the SSA DMF but the firm has other owners who were not on the DMF) during the course of fiscal year 2017. Updated ownership documentation will be requested and STARS will be updated as appropriate. Each owner has been tagged as a DMF match in STARS so that FNS can pull reports on the status of each match to ensure completion of all 1,819.

Estimated Completion Date: September 30, 2017

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Design and implement a control to identify owners whose information matches that of deceased persons, and correct or update this information as needed.

Agency Response

FNS concurs with the recommendation; however, it should be noted that the OIG match was done using SSN. FNS does not currently have the authority to match SSNs in this manner and for this purpose. FNS' authority to use SSNs is limited by the Social Security Act to maintaining a list of previously sanctioned or convicted retailers under Sections 12 and 15 of the Food and Nutrition Act and to match applicant retailers to that list so that previously disqualified owners who reapply are appropriately flagged.

However, FNS will attempt to perform a "fuzzy" match with the other data we have available such as first, middle and last name, and date of birth. FNS proposes to begin this work in fiscal year 2018 after we have addressed the existing matches provided by OIG as described in our response to Recommendation 1. FNS will track of the number of actual matches versus false hits resulting from the "fuzzy" match and will determine whether the return-on-investment is sufficient to continue this alternate practice.

Note that FNS recognizes the value in conducting a DMF match on an on-going basis. As such, should FNS be granted future authority to use SSN for matching purposes, FNS will match to the SSA DMF using SSN on an on-going basis.

Phase One Estimated Completion Date: September 30, 2017 (taking action on all 1,819 owners identified by OIG in Recommendation 1 is top priority)

Phase Two Estimated Completion Date: September 30, 2018 (FNS needs to ensure Recommendation 1 is addressed before redirecting resources to Recommendation 2)

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Review the list of 176 owners with reported birthdates making them under the age of 18. Take steps to ensure that FNS has correct birthdates. For the 61 retailers which reported no owner over the age of 18, ensure that FNS has correct birthdates on file, and has binding agreements with these owners that allow it to take legal action.

Agency Response

FNS concurs with the recommendation. FNS will review documentation provided at authorization/reauthorization for each of these 176 owners and correct any STARS data entry errors. Any that are not data entry errors will be contacted to determine whether there are other owners of the store that should be added to STARS. Any store where the sole owner is under the age of 18 will be withdrawn pending a review of the age of majority in that particular State.

Estimated Completion Date: September 30, 2017

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Design and implement a control that identifies owners under the age of 18, and correct or update this information as needed.

Agency Response

FNS concurs with the recommendation. In January 2015, FNS instituted an edit check in the Online Store Application (OSA) to ensure that owners met a minimum age requirement. On October 7, 2016, FNS modified OSA to such that the edit check triggers at 16 years of age. Since the initial edit check was put in place in January 2015, only three owners were entered that were younger than 18 (all were 17 at the time of authorization).

The STARS system also flags for review any store going through the application process where the date of birth indicates an owner is under 18. This warning indicator was put in place in 2011 and FNS plans to re-educate STARS users on the policy of how to proceed when this flag is generated.

On a quarterly basis, FNS will be reviewing stores where this flag is generated to ensure established policy is being appropriately followed.

Estimated Completion Date: Re-education/re-training to be completed by June 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Develop policies and procedures for the handling of retailers that are owned by minors. These procedures should include language that ensures FNS' interests are protected in the event that corrective action is needed.

Agency Response

FNS concurs with the recommendation. In 2009, all FNS retailer operations staff was informed that, though the age of majority can vary from state to state, the vast majority of states use 18 as the standard. They were also informed that there are rare instances in which someone may be

declared a legal adult by the court at a younger age, like 16. Further, at the age of majority, a person can legally sign a contract and be held to it.

When a retailer applicant is under 18 years of age, FNS staff is directed to check with the State in which the store is located to definitively determine the age of majority.

FNS will review the standard operating procedures to ensure they are clear on this process and update if needed. FNS also intends to reiterate instructions in this area and provide training as noted in recommendation 4.

Estimated Completion Date: Re-education/re-training and any SOP updates to be completed by June 30, 2017.

OIG Position

We accept management decision for this recommendation.

Finding 2: STARS and ALERT Redemption Data Have Unexplained Discrepancies

FNS uses two main information systems to administer and monitor SNAP. STARS tracks and administers retailers who are authorized to redeem SNAP benefits and contains summary information about each retailer's redemption history. ALERT scans individual transactions by retailer to identify use patterns indicative of fraud. The two systems should reflect the same monetary data in different ways for different purposes. However, we found that, of the 243,595 retailers with redemptions in ALERT and STARS during the months of October 2013 to June 2015, 241 retailers were recorded as having different monthly transaction totals in the two systems. Each of these retailers had at least one month where these amounts differed by more than 25 percent and at least \$5,000.¹⁰ For these 241 retailers, more transactions were recorded in STARS than ALERT. When we asked FNS officials about these discrepancies, they stated that they were in the process of forming a group to investigate the problem. Unless FNS implements controls to reconcile these data, SNAP transactions may not be reviewed for fraud as FNS intends and redemption information STARS users¹¹ rely on may be inaccurate and could hamper the agency's ability to properly administer SNAP and investigate and remedy potential problems. For the 21 months of data we compared, these discrepancies totaled approximately \$43 million.

Managers directing or controlling resources within the Department are responsible for establishing, maintaining, evaluating, improving, and reporting on controls for their assigned areas. This applies to information systems, to include accuracy, completeness, and validity of all applications.¹² Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations, or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations.¹³

During our audit, we compared monthly benefit redemption data stored in STARS to monthly transaction data stored in ALERT.¹⁴ Our analysis showed that nearly 97.5 percent of the time STARS and ALERT totals differed by less than 5 percent. However, we found 241 retailers whose ALERT transactions and STARS redemptions varied materially.¹⁵

Specifically, these 241 retailers had data in STARS that were greater than the data in ALERT. When we asked FNS officials about what we had found, they reviewed our results and stated that in many of these cases ALERT was rejecting these transactions. ALERT scans the transactions before they are uploaded to identify inconsistencies. They stated that ALERT checks the retailer

¹⁰ The differences are stated as a percent of the system with the larger amount. We considered discrepancies of this magnitude to be material.

¹¹ STARS users include FNS program personnel, FNS investigators, and OIG investigators.

¹² DM1110-002, *USDA Management Control Manual* (November 29, 2002).

¹³ OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).

¹⁴ In order to determine the redemption amounts, monthly transaction data only included approved transactions.

¹⁵ For our review purposes, we set this materiality level at a difference of 25 percent (roughly a one week's worth of data) and a total difference of at least \$5,000. This threshold was set to remove small retailers with few transactions, and insignificant monthly differences in either dollars or percentage, to ensure that they were not included in our results.

state code against what is recorded in STARS. If these State codes do not match, these transactions are rejected and maintained in a separate section of ALERT, along with the reason for the rejection.

For example, one retailer had 99 percent of its transactions rejected by ALERT. While STARS reflected that the retailer was redeeming \$224,000 in benefits monthly, ALERT showed that only \$2,200 in benefits had been transacted. This retailer's store type required that ALERT's scans be conducted on its transactions to identify patterns consistent with fraud. Because this problem was never addressed, 99 percent, or approximately \$222,000 of this retailer's transactions, went unscanned.

STARS and ALERT are used by FNS program personnel, FNS investigators, and OIG investigators to administer, identify, investigate, and remedy problem stores. By allowing significant discrepancies between STARS and ALERT to go uncorrected, FNS cannot ensure it is maintaining effective control over the monitoring of retailers' redemptions. Further, incorrect information provided to investigators could hamper their ability to prosecute suspects. Specifically, by allowing retailers' transactions to go unaccounted for in ALERT, transactions that should be identified as suspicious could go undetected. By allowing retailers' transactions to go unaccounted for in STARS, redemption information that could be used for retailer investigations is not available and provides inaccurate information to STARS users. The discrepancies identified totaled \$43 million in redeemed benefits.

Recommendation 6

Finalize procedures (systematic process) to identify ALERT and STARS data discrepancies and determine what discrepancies are significant.

Agency Response

FNS concurs with the recommendation. Procedures have been established and are currently being documented.

Estimated Completion Date: January 31, 2017

OIG Position

We accept management decision for this recommendation.

Recommendation 7

Implement controls to periodically identify, reconcile and correct significant discrepancies in the data maintained in STARS and ALERT.

Agency Response

FNS concurs with the recommendation. Procedures have been established and are currently being documented.

Estimated Completion Date: January 31, 2017

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted an audit of FNS's SNAP retailer and participant transaction data. Our audit work began in July 2015 at FNS' Headquarters in Alexandria, Virginia, and concluded in June 2016. Field work was conducted by the Data Analysis and Special Projects division located in Kansas City, Missouri.

To accomplish our objectives, we reviewed pertinent SNAP transactions from STARS and ALERT. Specifically, we obtained and analyzed STARS transaction and retailer data from October 2010 through June 2015.

We obtained program regulations, policies, and procedures to identify key personnel and control processes. We interviewed program officials and reviewed pertinent records related to the data to identify areas for review, and identify known fraud schemes. We also interviewed OIG investigators in order to gain program insight.

We analyzed approximately \$321 billion in STARS retailer redemption information from October 2010 through June 2015. From ALERT, we obtained approximately 4.7 billion transactions spanning 21 months from October 2013 to June 2015, totaling approximately \$128 billion.¹⁶ Our ALERT data range was narrowed due to the sheer volume of the data. We primarily analyzed retailer types¹⁷ that FNS considers to be most at-risk and subsequently monitors in ALERT. This sub-universe contained approximately 1.56 billion transactions representing approximately \$23 billion.

We compared FNS' owner information with the Death Master File as of November 2015, which contains identities for approximately 96 million deceased individuals. In addition, we tested whether owners had reached the age of 18. Finally, we reconciled approved ALERT transactions against STARS redemptions described above in order to determine if the two systems were accurately and consistently recording redemption and transaction information for all retailers.

We assessed the reliability of retailer and participant transaction data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted the 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹⁶ The record counts and control totals for the files obtained from FNS reflect all transactions, including canceling, rejected, and balance inquiry transactions.

¹⁷ FNS classifies stores or "store types" based on their size and the range of eligible food stuffs they market.

Abbreviations

ALERT.....	Anti-fraud Locator using EBT Retailer Transactions
DMF.....	Death Master File
EBT.....	electronic benefits transfer
FNS.....	Food and Nutrition Service
FY.....	fiscal year
OIG.....	Office of Inspector General
SNAP.....	Supplemental Nutrition Assistance Program
SSN.....	Social Security Number
STARS.....	Store Tracking and Redemption System
USDA.....	United States Department of Agriculture

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



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
Center Drive
Room 712

Alexandria, VA
22302-1500

DATE: December 15, 2016

AUDIT
NUMBER: 27901-0002-13

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: Audrey Rowe /s/
Administrator
Food and Nutrition Service

SUBJECT: Detecting Potential SNAP Trafficking Using Data Analysis

This letter responds to the official draft report for audit number 27901-0002-13, Detecting Potential SNAP Trafficking Using Data Analysis. Specifically, the Food and Nutrition Service (FNS) is responding to the seven recommendations in the report.

Rooting out waste, fraud and abuse is a top Agency priority. Most recipients and retailers play by the rules. FNS is responsible for monitoring retailers and holding those who commit fraud accountable. FNS uses a system called ALERT to closely monitor the 7 million electronic SNAP transactions that happen each day. ALERT identifies suspicious stores for analysis and investigation, targets high risk areas and allows USDA to quickly implement fraud detection scans as new schemes are identified.

In FY 2015, FNS reviewed transaction records of more than 17,000 stores and conducted over 7,000 investigations. More than 1,900 stores were permanently disqualified for trafficking or falsifying an application and over 700 stores were sanctioned for other violations such as the sale of ineligible items. The 2,693 stores sanctioned in FY 2015 represent a 36 percent increase from 5 years ago.

The SNAP trafficking rate has decreased from 3.5 percent to 1.5 percent over the last 16 years. In the last 10 years, 11,317 retail stores have been permanently disqualified for trafficking.

FNS has also strengthened its procedures to prevent the authorization of retailers who attempt to circumvent the rules. FNS examines records such as business licenses, articles of incorporation, tax returns, leases, and financial institution affirmations to validate ownership before authorization. The results of this audit will help FNS to further strengthen these critical procedures.

OIG Recommendation 1:

Review the list of 1,819 owners on the Death Master File (DMF) to verify the identity of these owners and take necessary action to correct data that is incorrect and remove any owners who are indeed no longer living.

FNS Response:

FNS concurs with the recommendation. The week of August 8, 2016, after receiving OIG's initial findings, FNS contacted a subset of the 1,819 owners [i.e., those who came up as an "exact match or similar" in the OIG data set who were listed in STARS as the sole owner of record (147 authorized stores in total)].

FNS sent a letter to these 147 retailers advising that the owner Social Security Number (SSN) and other personally identifiable information match those of an individual listed as deceased according to records from the Social Security Administration. The stores were advised to contact the Agency within 10 calendar days following receipt of the letter; failure to do so would result in FNS withdrawal of the firm's authorization to redeem SNAP benefits.

As a result of this action:

- 122 stores were withdrawn on September 27, 2016.
- Seven stores were withdrawn for other reasons prior to the withdrawal action on September 27, 2016.
- 18 stores responded and FNS is in the process of updating STARS as appropriate. For example, in many instances the spouse of the deceased owner is currently operating the store, in which case FNS is obtaining documentation from the spouse and updating STARS with the spouse's information.

FNS plans to contact the remaining firms (where there was a match to the SSA DMF but the firm has other owners who were not on the DMF) during the course of fiscal year 2017. Updated ownership documentation will be requested and STARS will be updated as appropriate. Each owner has been tagged as a DMF match in STARS so that FNS can pull reports on the status of each match to ensure completion of all 1,819.

Estimated Completion Date: September 30, 2017

OIG Recommendation 2:

Design and implement a control to identify owners whose information matches that of deceased persons, and correct or update this information as needed.

FNS Response:

FNS concurs with the recommendation; however it should be noted that the OIG match was done using SSN. FNS does not currently have the authority to match SSNs in this

manner and for this purpose. FNS' authority to use SSNs is limited by the Social Security Act to maintaining a list of previously sanctioned or convicted retailers under Sections 12 and 15 of the Food and Nutrition Act and to match applicant retailers to that list so that previously disqualified owners who reapply are appropriately flagged.

However, FNS will attempt to perform a "fuzzy" match with the other data we have available such as first, middle and last name, and date of birth. FNS proposes to begin this work in fiscal year 2018 after we have addressed the existing matches provided by OIG as described in our response to recommendation 1. FNS will track of the number of actual matches versus false hits resulting from the "fuzzy" match and will determine whether the return-on-investment is sufficient to continue this alternate practice.

Note that FNS recognizes the value in conducting a DMF match on an on-going basis. As such, should FNS be granted future authority to use SSN for matching purposes, FNS will match to the SSA DMF using SSN on an on-going basis.

Phase One Estimated Completion Date: September 30, 2017 (taking action on all 1,819 owners identified by OIG in recommendation 1 is top priority)

Phase Two Estimated Completion Date: September 30, 2018 (FNS needs to ensure recommendation 1 is addressed before re-directing resources to recommendation 2)

OIG Recommendation 3:

Review the list of 176 owners with reported birthdates making them under the age of 18. Take steps to ensure that FNS has correct birthdates. For the 61 retailers which reported no owner over the age of 18, ensure that FNS has correct birthdates on file, and has binding agreements with these owners that allow it to take legal action.

FNS Response:

FNS concurs with the recommendation. FNS will review documentation provided at authorization/reauthorization for each of these 176 owners and correct any STARS data entry errors. Any that are not data entry errors will be contacted to determine whether there are other owners of the store that should be added to STARS. Any store where the sole owner is under the age of 18 will be withdrawn pending a review of the age of majority in that particular State.

Estimated Completion Date: September 30, 2017

OIG Recommendation 4:

Design and implement a control that identifies owners under the age of 18, and correct or update this information as needed.

FNS Response:

FNS concurs with the recommendation. In January 2015 FNS instituted an edit check in the Online Store Application (OSA) to ensure that owners met a minimum age requirement. On October 7, 2016, FNS modified OSA to such that the edit check triggers at 16 years of age. Since the initial edit check was put in place in January 2015, only three owners were entered that were younger than 18 (all were 17 at the time of authorization).

The STARS system also flags for review any store going through the application process where the date of birth indicates an owner is under 18. This warning indicator was put in place in 2011 and FNS plans to re-educate STARS users on the policy of how to proceed when this flag is generated.

On a quarterly basis, FNS will be reviewing stores where this flag is generated to ensure established policy is being appropriately followed.

Estimated Completion Date: Re-education/re-training to be completed by June 30, 2017.

OIG Recommendation 5:

Develop policies and procedures for the handling of retailers that are owned by minors. These procedures should include language that ensures FNS' interests are protected in the event that corrective action is needed.

FNS Response:

FNS concurs with the recommendation. In 2009, all FNS retailer operations staff was informed that, though the age of majority can vary from state to state, the vast majority of states use 18 as the standard. They were also informed that there are rare instances in which someone may be declared a legal adult by the court at a younger age, like 16. Further, at the age of majority, a person can legally sign a contract and be held to it.

When a retailer applicant is under 18 years of age, FNS staff is directed to check with the State in which the store is located to definitively determine the age of majority.

FNS will review the standard operating procedures to ensure they are clear on this process and update if needed. FNS also intends to reiterate instructions in this area and provide training as noted in recommendation 4.

Estimated Completion Date: Re-education/re-training and any SOP updates to be completed by June 30, 2017.

OIG Recommendation 6:

Finalize procedures (systematic process) to identify ALERT and STARS data discrepancies and determine what discrepancies are significant.

FNS Response:

FNS concurs with the recommendation. Procedures have been established and are currently being documented.

Estimated Completion Date: January 31, 2017

OIG Recommendation 7:

Implement controls to periodically identify, reconcile and correct significant discrepancies in the data maintained in STARS and ALERT.

FNS Response:

FNS concurs with the recommendation. Procedures have been established and are currently being documented.

Estimated Completion Date: January 31, 2017

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