



United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL





FNS Quality Control Process for SNAP Error Rate

Audit Report 27601-0002-41

What Were OIG's Objectives

Our objective was to determine if FNS and States have controls in place to ensure the integrity of SNAP error rate determination.

What OIG Reviewed

We audited the FNS and State QC processes used to determine SNAP error rates for fiscal years 2011 and 2012. We performed our audit from March 2013 to January 2015 at FNS' national and regional offices, and at State agencies in California, Connecticut, Florida, Maryland, Nebraska, Texas, Vermont, and Wisconsin.

What OIG Recommends

FNS should consider changing QC from a two-tier process reliant on State error rates to a one-tier process in which FNS or a third party reviews cases, and establish a timeline for making this change, if cost beneficial. FNS needs to reiterate policies regarding the proper use of error review committees, QC staff's variable treatment of error cases, and issue guidance to States on appropriate use of private consultants. FNS should amend and enforce policies to ensure error rates are accurate and determined in compliance with regulations.

OIG reviewed the quality control process that FNS and States use to determine SNAP error rates.

What OIG Found

The Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) is the nation's largest food assistance program. It allows eligible, low-income households to afford a more nutritious diet. Since fiscal year (FY) 2010, FNS' SNAP has served on average more than 45 million people per month and paid out more than \$71 billion annually in benefits.

States determine household eligibility for SNAP and calculate and issue benefits. FNS and State agencies' have quality control (QC) processes to review these determinations. States review a sample of their SNAP cases and FNS verifies a sub-sample of these. The results are used to calculate State error rates; the national error rate is a weighted average of State rates.

We found that States weakened the QC process by using third-party consultants and error review committees to mitigate individual QC-identified errors, rather than improving eligibility determinations; QC staffs also treated error cases non-uniformly. FNS' two-tier QC process is vulnerable to State abuse due to conflicting interests between (1) accurately reporting true error rates and incurring penalties or (2) mitigating errors and receiving a bonus for exceeding standards. Further, States' QC reviews did not meet SNAP regulatory requirements and Federal oversight of State QC was inadequate. Finally, FNS' Broad-Based Categorical Eligibility (BBCE) policy to determine eligibility was not consistent with SNAP regulations. Thus, FNS' QC process understated SNAP's error rate.

We accepted management decision on 10 recommendations; the remaining 9 are under review.



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



DATE: September 23, 2015

AUDIT
NUMBER: 27601-0002-41

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: FNS Quality Control Process for SNAP Error Rate

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we have accepted your management decision on Recommendations 1-7, 10, 13, and 15. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

Based on your written response, management decision has not been reached on Recommendations 8, 9, 11, 12, 14, and 16-19. The information needed to reach management decision on the recommendations is set forth in the OIG Position section following each recommendation. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

Your written response to the official draft report expressed concerns with some aspects of our report. Your concerns, along with our comments on your concerns, are listed below:

1. *Some of our findings were a result of a misunderstanding of SNAP Quality Control (QC) Policy.*

OIG Comment – We disagree. The audit team obtained a complete and thorough understanding of the SNAP QC process by interviewing key staff at FNS’ National Office (NO) and at all seven of FNS’ regional offices. A representative from the NO also participated in our interviews with the QC staff at five of the seven regional offices to ensure that our questions regarding the QC process were fully addressed by the regional offices’ QC staff. The audit team further enhanced its understanding of the SNAP QC process by reviewing 140 selected QC cases.

2. *At no point did the audit document other factors in a State that may have contributed to a reduction in the State’s error rate.*

OIG Comment – We disagree. OIG acknowledged in the first finding that “Although other factors may have contributed to the drop in the States’ error rates, actions taken based on recommendations of the outside consultants have an immediate and significant impact on the States’ error rates. Given that the significant drop in the States’ error rates did not generally occur until after they hired a consultant, we attributed the change in the error rates primarily to the consultant.” Furthermore, we found no evidence that training, improved eligibility systems, expanded data matching, etc., were the reasons for the immediate and significant drop in the error rates for the States we reviewed that hired an outside consultant.

3. *The report fails to prominently indicate in the summary and throughout the report that the reported conditions are based on a review of 80 cases out of 8,936 (less than 1 percent) and of 60 out of 3,167 cases (less than 2 percent).*

OIG Comment - We statistically (randomly) selected the cases we reviewed so that any conclusions drawn from the sample would be representative of the universe. Please see Exhibit D for further details on our sampling methodology. Furthermore, we expanded our sample to include other cases when warranted. For example, in the first finding, we found additional cases outside our original sample where States were submitting their active error cases to error review committees to mitigate the errors. In the fourth finding, we were able to base our finding on the entire universe of QC cases since the information that was needed to support the finding was contained in FNS’ QC database.

4. *OIG expanded the audit to encompass FNS policies that are outside the operations of the QC system.*

OIG Comment - We disagree with FNS’ contention that the policies OIG reviewed were outside the operations of the QC system. For example, FNS’ Broad Based Categorical Eligibility (BBCE) policy, which in our view does not comply with the Federal regulations, impacts the error rate because BBCE cases are not adequately reviewed

during the QC process. There is a false assumption that another program would have already assessed the SNAP recipient's eligibility for SNAP benefits. The SNAP recipient's eligibility would therefore not be assessed during the QC process, even though the recipient is clearly no longer eligible to receive SNAP benefits (e.g., the SNAP recipient's gross income exceeded the State's BBCE gross income limitation).

5. *Assertions were made without information that would allow FNS to adequately understand the issues presented or follow up on the concerns raised.*

OIG Comment - FNS noted in its response to the draft report that it would be helpful if OIG added an appendix to the report that individually identifies each case it reviewed, the determination of the Federal reviewer, OIG's observation, and an explanation of what OIG found wrong with FNS' review of the case. FNS also noted that States and State officials were referenced, but not identified in the report. Details such as these are generally not included in the report due to the sensitivity of the information or privacy concerns. However, we will provide this information to FNS separate from the report.

6. *Exhibit A presents the summary of monetary results in a manner that implies these costs represent underreported improper payments.*

OIG Comment - Exhibit A's summary of monetary results represents questioned costs that resulted from FNS' noncompliance with the SNAP regulations. Any increase in the error rate as a result of our reported findings equates to an understatement in the amount of improper payments reported in the SNAP program. We included the methodology for calculating the amounts presented in Exhibit A in footnotes within the corresponding findings in the report. If requested, we can provide additional information on the methodology used to calculate the monetary results separate from the audit report.

7. *FNS does not agree with the flowchart in Exhibit C comparing the allotment test that FNS currently uses described in FNS Handbook 310 versus the Federal regulations.*

OIG Comment - We disagree with FNS' contention that the allotment test described in *FNS Handbook 310* complies with the Federal regulations. In our view, the flowchart in Exhibit C illustrates a clear and distinct difference between the processes described in the *FNS Handbook 310* and the Federal regulations.

We are available to meet with you and your staff at your convenience to further discuss these matters. As was previously noted, we cannot provide the specific names and titles in the report due to privacy issues, but are willing to share this information with you separately.

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

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Background and Objectives

Background

The Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, was authorized initially by the Food Stamp Act of 1964.¹ SNAP was designed to increase the food purchasing power of eligible, low-income households and help them afford a more nutritious diet. It was reauthorized by the Agricultural Act of 2014² and is the nation's largest food and nutrition assistance program. Since fiscal year (FY) 2010, SNAP has served on average more than 45 million people per month and paid out more than \$71 billion annually in benefits.

SNAP is jointly administered by the Food and Nutrition Service (FNS) and State agencies. FNS is responsible for establishing regulations governing SNAP and ensuring that States implement them when administering the program. States are responsible for determining whether the recipient's household meets the program's eligibility requirements, calculating monthly benefits for qualified households, and issuing benefits. FNS and State agencies conduct independent quality control (QC) reviews to measure the accuracy of the States' eligibility and benefit determinations.

FNS and State QC reviews are performed to determine SNAP recipient eligibility for benefits at a given point in time and, if determined to be eligible, whether or not the recipient received the correct benefit amount. The reviews consist of an examination of recipients' households' non-financial and financial circumstances (e.g., household size, income, deductions, etc.), and they are conducted in accordance with standards established by the Food and Nutrition Act of 2008 and Federal regulations (taking into account any FNS-approved waivers or State options to deviate from specific provisions). QC reviews must also follow the FNS procedures outlined in the *Quality Control Review Handbook (FNS Handbook 310)* and FNS policy memoranda. These procedures include specific guidelines on how to review the QC cases, analyze the information, determine the error amounts, and report the findings.

Every year, States conduct QC reviews for a random sample of participating SNAP households and report all findings to FNS. FNS subsequently performs QC reviews for a sub-sample of the States' reviews to verify the States' findings. The results of both reviews (State and FNS) are combined to calculate the States' error rates. The national SNAP error rate is then determined by calculating the weighted average of all the States' error rates.

The SNAP error rate is an important measurement used for two primary purposes. First, it is the basis for awarding State bonuses for high payment accuracy and assessing State penalties for poor performance.³ Since 2004, FNS has awarded States over \$220 million in bonuses and assessed almost \$27 million in penalties. Second, it serves as the improper payment rate for

¹ Pub. L. No. 88-525, 78 Stat. 703. In 2008, the Food Stamp Act was renamed the Food and Nutrition Act of 2008. See Pub. L. No. 110-246, § 4001, 122 Stat. 1651, 1853.

² Agricultural Act of 2014, Pub. L. No. 113-79, 128 Stat. 649 (2014 Farm Bill).

³ Bonuses are awarded annually to States with the most improved error rates and the lowest error rates.

SNAP. The Improper Payments Elimination and Recovery Act of 2010,⁴ as well as Office of Management and Budget guidance,⁵ requires that high-risk Federal programs identify and measure improper payments, and develop annual reduction goals. Federal agencies use the improper payment rate for each program to identify the root causes of payment errors and implement corrective actions to better detect and prevent improper payments in subsequent years without compromising program access for beneficiaries and recipients entitled to payment.

Given the magnitude of SNAP, efficient and effective program administration is essential. In FY 2013, SNAP had the highest participation level (an average of 47.6 million participants per month) and the lowest SNAP error rate in the history of the program.⁶ FNS reported a national payment error rate of 3.2 percent, which represented more than \$2.4 billion in improper payments.⁷ FNS said,

[T]he 3.2 percent was the seventh year in a row that the SNAP error rate had been lower than the previous year, and the tenth year in a row that it was been below the 6 percent rate established in the Food and Nutrition Act of 2008 as the standard for State payment error rates. Over 99 percent of those receiving SNAP benefits were eligible, and payment accuracy was 96.8 percent, a historic high.⁸

FNS policies and QC procedures contributed to the trend of lower SNAP error rates during times of higher program participation. For example, in 2012, FNS raised its QC error tolerance threshold from \$25 to \$50 due, in part, to perceived benefits from a prior temporary increase Congress made pursuant to the American Recovery and Reinvestment Act of 2009,⁹ so only errors that exceeded \$50 were included in the SNAP error rate.¹⁰ FNS also implemented other policies to simplify program administration, which helped reduce the SNAP error rate. For example, there are several options available to States, such as simplified reporting, which allows for longer reporting periods, and Broad-Based Categorical Eligibility (BBCE), which eliminates the limitation on assets. Both policies reduce the potential number of errors.¹¹ GAO noted,

⁴ Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, 124 Stat. 2224.

⁵ OMB, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*, Memorandum M-11-04 (November 16, 2010).

⁶ In FY 2014, SNAP participation fell to 46.5 million participants. At the time of our report, the national error rate was not available for FY 2014.

⁷ The SNAP payment error rate represents overpayments and underpayments to program recipients.

⁸ SNAP Quality Control, <http://www.fns.usda.gov/snap/quality-control>, (last visited 2/24/2015)

⁹ In 2009, Congress had temporarily increased the error tolerance threshold from \$25 to \$50 through September 30, 2009. Pub. L. No. 111-5, § 101(b)(5), 123 Stat. 115, 120. The threshold automatically returned to \$25 on October 1, 2009. Effective January 3, 2012, FNS administratively raised the threshold to \$50 again. *See* 76 Fed. Reg. 67,315, 67,317 (Nov. 1, 2011) (direct final rule) (codified at 7 C.F.R. § 275.12(f)(2) (2013)).

¹⁰ In 2014, Congress statutorily established the error tolerance threshold, set a base threshold of \$37, and then allowed for the threshold to be adjusted each year by tying it to the thrifty food plan. *See* Agricultural Act of 2014, Pub. L. No. 113-79, § 4019, 128 Stat. 649, 798 (codified at 7 U.S.C. § 2025(c)(1)(A)(ii)). In 2015, FNS increased it to \$38 to account for inflation.

¹¹ Simplified reporting reduces the potential for errors by minimizing the number of income changes that SNAP recipients must report between certifications. This reduces the potential for errors associated with caseworker inaction and SNAP recipients not reporting changes. BBCE reduces the potential for errors by eliminating the need for State eligibility workers to verify SNAP applicants' assets.

however, that other aspects of the program, such as recipient-caused errors that historically accounted for one-third of all errors, remained difficult to prevent.¹²

Objectives

OIG's objectives were to determine whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP error rates were accurately determined, the appropriate actions were taken to reduce the error rates, and State officials corrected any identified errors in a timely manner.

¹² GAO-05-245, *States Have Made Progress Reducing Payment Errors, and Further Challenges Remain*, May 2005.

Section 1: SNAP QC Process

Finding 1: States Weakened the Integrity of the QC Process to Lower Error Rates

In all eight States we visited, we found that private consultants and/or State error review committees used methods to mitigate case errors found during the QC review process rather than report those cases to FNS as errors. FNS had not identified these conditions because it conducted limited reviews of the States' QC processes. In the past 10 years, FNS had conducted full reviews of the QC process at only 3 of the 8 States in our audit.^{13,14} Overall, the QC processes used by the States in our audit led us to question the reported error rates, which FNS used to calculate the national error rate.

FNS requires that the State QC system treat all reviewed cases consistently and “eliminate bias” that can be introduced through various sources, including “lack of objectivity on the part of the reviewer, inconsistent application of policy, and inappropriate involvement by error review committees in the review process.”¹⁵ If this is not done, “the resulting [error rate] will not be valid and will have little use in planning corrective actions.”¹⁶

Federal statute states that FNS shall “carry out a system that enhances payment accuracy and improves administration”¹⁷ In order to comply with this requirement, FNS established a QC system for measuring payment accuracy to help the States improve administration when planning corrective actions. This QC system is comprised of two separate reviews. Each State performs the initial review of SNAP throughout the year by drawing a random statistical sample. These SNAP cases are reviewed to determine if the recipient's benefit allotment is correct, according to SNAP policy. After these cases are completed, FNS takes a random subsample of them and performs its own review, which is intended to validate and strengthen the results of the States' QC reviews. This process of having the States and FNS review the cases is known as the “two-tiered” review.

We found that the States weakened the integrity of the QC process through a number of factors. The most significant factor was the States' use of third-party consultants and error review committees to examine error cases identified by the QC staffs. We also concluded that another factor, the inherent conflict of interest in allowing States to perform QC reviews of State

¹³ At one of the States in our audit, FNS found issues similar to ours; however, it did not follow up to ensure that the State took corrective action.

¹⁴ FNS also had conducted limited reviews of States' QC processes; however, we did not include these reviews since their scope was too narrow to identify the deficiencies discussed in this finding. For example, the more limited reviews would generally focus only on the States' case completion rate or sampling process.

¹⁵ *FNS Handbook 310*, Part 154 – Avoiding Bias.

¹⁶ A bias introduced during data collection leads to invalid statistical results. More specifically, data collection bias leads to non-sampling error, which is error not related to the sample size and sampling method. Non-sampling and sampling errors should be minimized as much as possible to provide valid statistical results. Any time sampling or non-sampling errors, or both, are introduced, the sample results are biased. Dan M. Guy et al., *Audit Sampling: An Introduction* 9-10, 33 (5th ed. 2002).

¹⁷ 7 U.S.C. § 2025(c)(1)(A).

operations, contributed to the lower error rates. In our view, any errors identified by the States would adversely affect them by either increasing the chances for penalties or reducing the chances for bonuses. The following sections provide details regarding our findings and conclusions:

Outside Consultants Used to Eliminate Identified Errors

FNS encourages States to take corrective actions on the root causes of errors that are identified, but the outside consultants hired by the States did not focus on the root causes of errors (i.e., mistakes made by State eligibility workers or recipients). Instead, the consultants trained the States' QC staff in techniques that took advantage of the subjectivity inherent in the QC review process. While FNS has guidance regarding the States' responsibility in avoiding bias in their QC process, it does not have guidance on the appropriate use of outside consultants.

We reviewed contracts describing the outside consultants' work for some of the States we reviewed, as well as reports the consultants issued to the States detailing recommendations for changes to the QC process that would result in lower error rates. The consultants' reports focused mostly on the QC workers and how they could mitigate errors, rather than on process improvements on the part of the eligibility workers whose work quality is the basis for the accuracy of the SNAP recipient's benefit amount. The consultants did not attempt to reduce SNAP payment errors by analyzing and addressing root causes of errors (i.e., mistakes made by State eligibility workers or recipients). Instead, the consultants focused on reducing State error rates by training QC staff that their function was to determine that sampled cases were "correct" by mitigating the errors found in the cases to reduce or eliminate the originally identified error.

In 2 States, we identified 23 instances (of 103 cases reviewed) where QC reviewers attempted to mitigate the errors they identified in the cases as recommended by the consultants. One common step QC reviewers took was to search for information that was not originally provided to the eligibility worker at the time of certification. The goal was to find an error that would offset the result of the identified error. This action is contrary to FNS policy, which states that QC reviewers cannot seek out information to offset identified errors by using information that was not reported at certification.¹⁸ In one instance, the QC reviewer identified an over issuance of benefits due to a higher verified net income than the amount reported to the eligibility worker at certification. In order to reduce this error, the QC reviewer worked with the recipient to identify prescription costs that were not originally reported to the eligibility worker. In another instance, the QC reviewer also looked for ways to adjust income to create a new error amount to offset the original error by adding household expenses that were not originally reported to the eligibility worker. In the notes obtained by OIG, State staff wrote that the QC reviewer

¹⁸ USDA FNS Policy Memorandum QC-09-01, *Consideration of Deductions Not Received at Certification* (November 5, 2008).

“tried to eliminate the error by using [additional expenses] that [were] not reported.”¹⁹ By taking the additional steps recommended by the consultants, QC reviewers were able to mitigate the errors in 13 of the 23 cases. Due to the QC reviewers’ actions, one of the States was able to reduce its reported error rate from 3.86 percent to 3.45 percent. We were unable to determine the impact on the other State’s error rate because the QC reviewers did not document the full extent of their mitigation efforts.

The consultant used in five of the States we reviewed recommended in her report to one State, “To promote and ultimately obtain a successful transition to a new review culture with a goal of arriving at a correct case disposition, QC reviewers should be commended for each review finding that confirms a correct case.” A major principle taught by the outside consultant is that QC reviewers should take a “proactive approach [to] not [be] satisfied that an error exists on a case until every opportunity to arrive at a correct case disposition has been explored.” In order to accomplish this approach, State QC reviewers apply extra levels of scrutiny to cases in which they identify an error that they would not apply to cases initially identified as not having an error.

If an error is initially identified, the QC reviewers and their supervisors attempt to mitigate the error through multiple varied methods suggested by the outside consultants. The simplest method is described as income averaging. Income averaging is done by requesting more pay checks than normal with the hope that the additional pay checks will shift the average income over that extended time period in the direction that eliminates or reduces the originally identified error. For example, in one error case, the consultant recommended that the State is “not restricted to the . . . checks that the [eligibility worker] used. . . . [W]e could look at the [previous two months’ checks] and see if we have enough fluctuation to bring the income down some.” After employing this method, the QC reviewer was able to reduce the error on the case from \$91 to \$74. While applying extra scrutiny to a case to ensure the determination made by the QC reviewer is correct is encouraged by FNS, applying extra scrutiny to an error case with the goal of finding a way to finalize the case without an error biases the sample results. A bias introduced during data collection leads to invalid statistical results.

Consultants taught many other methods designed to validate the correctness of a case. The use of these methods is prohibited when used on specific cases with the sole intention of reducing or eliminating errors, as described in the previous paragraph. FNS guidance also requires that the same policy must be applied to all cases consistently within the State, and not on an individual basis, to ensure every recipient is treated the same.²⁰ Such individualized treatment of error cases creates QC reviewer bias and invalidates the goal of statistically sampling SNAP cases to objectively represent the SNAP universe as a whole.

¹⁹ Only two of the eight States in our audit provided notes on the methods its QC reviewers used that the consultants had recommended. For those two States, the notes were not always consistent in documenting the full extent of the mitigation efforts.

²⁰ *FNS Handbook 310*, Part 154 – Avoiding Bias.

QC staff in three of the States we reviewed expressed opposition to the practices employed by the outside consultants and felt that some of the practices taught by the consultants were contrary to their understanding of a QC’s purpose. Officials in one State openly disagreed with the outside consultant’s recommendations for error mitigation, since they felt that the practice would be unallowable by FNS. A QC supervisor in another State expressed concern that the outside consultants inappropriately biased the QC review process.

We noted that those States that hired outside consultants tended to see an immediate and significant drop in reported error rates. The error rates for 7 of the 8 States in our audit dropped an average of 55 percent from the year before compared to the year after they hired a consultant.²¹ This drop in the error rate represents over \$413.5 million in improper payments²² (see Table 1 below).^{23,24}

Table 1 – Percentage Change in Selected States’ Error Rates after Hiring Outside Consultants

State	CT	NE	FL	WI	TX	MD	VT
Fiscal Year Consultant Was Hired	2004	2005	2007	2009	2010	2012	2014
Error Rate Prior to Consultant	8.77	5.60	8.59	7.38	6.90	6.06	9.66
Error Rate After Consultant	4.94	4.45	4.15	1.11	2.13	3.40	2.58 ²⁵
Change in Reported Error Rate	3.83	1.15	4.44	6.27	4.77	2.66	7.08
Percentage Decrease in Error Rate	44%	21%	52%	85%	69%	44%	73%

QC review officials in two of the States in our audit stated that they needed to hire an outside consultant as a way to keep up with other States already using outside consultants to reduce error rates. The SNAP Director at one of these States told us, “the bias in the QC process was an inevitable consequence of States competing against each other for

²¹ We did not include the State of California in this calculation because it did not hire an outside consultant, although some of its counties hired one. Comparing the partial effect of the consultant on the State’s error rate to the effect the consultant had on the seven other States in our sample would not be a direct comparison.

²² We calculated the over \$413.5 million by multiplying the change in the reported error rate by the total benefits paid in each State in the year it hired the consultant. Data for Vermont’s benefit issuance in 2014 have yet to be released, so the previous year’s benefit issuance was used in the calculation. The specific amounts for each State were as follows: Connecticut (\$7,565,413), Florida (\$62,166,831), Maryland (\$29,375,381), Nebraska (\$1,374,519), Texas (\$259,840,857), Vermont (\$10,623,835), and Wisconsin (\$42,634,189).

²³ The year to year change in the error rate averages 52 percent for the seven States when adjusted for changes in the national error rate.

²⁴ Although other factors may have contributed to the drop in the States’ error rates, actions taken based on recommendations of the outside consultants have an immediate and significant impact on the States’ error rates. Given that the significant drop in the States’ error rates did not generally occur until after they hired a consultant, we attributed the change in the error rates primarily to the consultant.

²⁵ This is not an official error rate. This error rate is comprised of State reported data that are subject to further review and revision by FNS. The official error rates have yet to be released by FNS for FY 2014.

bonus money.”²⁶ We determined four of the seven States presented above received bonuses totaling over \$15 million shortly after hiring an outside consultant, due to the significant reduction in error rates.²⁷ Each State we reviewed ultimately hired an outside consultant.²⁸

Error Review Committees Inappropriately Used to Eliminate Identified Errors

We found that seven of the eight States in our audit used error review committees, or a similar process, to review individual error cases in order to reduce or eliminate the errors identified by the QC reviewers before finalizing the results and transmitting them to FNS.²⁹ *FNS Handbook 310* states that the role of an error review committee is “primarily one of reviewing cases to assess for future corrective action planning, not to review individual error cases to assess the potential for reducing or eliminating errors in a sampled individual case.”³⁰ We determined the outside consultants promoted the use of error review committees in this manner to mitigate individual active error cases prior to submitting them to FNS. The website of one of the consultants presented a description of its services that conflicted with FNS’ guidance regarding the use of error review committees. The website stated the “consulting team will staff potential error cases with your QC review staff The goal is to attempt to mitigate all potential errors and immediately and rapidly reduce your State’s error rate.”

In its report to one of the States we reviewed, the outside consultant provided its view on the benefits of using error review committees to review and eliminate individual error cases. The report stated,

This important step should occur early in the error identification process, before it is even finalized, with the stated purpose of arriving at a correct case disposition which could mean overturning the error, reducing it by identifying offsetting variances, or recommending that the review be dropped if the *FNS Handbook 310* allows for a drop disposition.

This practice is contrary to FNS’ policy regarding error review committees in that they should be used “to assess for future corrective action planning, not to review individual error cases to assess the potential for reducing or eliminating errors in a sampled individual case.”³¹

In a contract with one State, the consultant stated its first task was to review potential QC error cases, thereby addressing the usefulness of error review committees.

²⁶ Bonus funds are awarded annually to States for most improved error rate and lowest error rate.

²⁷ The four States received the following bonus amounts: Florida (\$5,481,910), Maryland (\$1,674,189), Texas (\$6,243,012), and Wisconsin (\$1,894,828).

²⁸ As was previously noted, although the State of California did not hire an outside consultant, some of its counties hired one.

²⁹ The State of California QC review staff told us that error review committees were used to analyze cases only after QC results were finalized.

³⁰ *FNS Handbook 310*, Part 154 – Avoiding Bias.

³¹ *Id.*

Specifically, “the [consultant] will review the cases for an alternate disposition to the error citation. This team approach enhances our ability to mitigate errors.” The consultant stated that it also would participate in teleconferences with the State as part of the State’s error review committee “to discuss current potential error citations with the objective of identifying opportunities to reduce the dollar amount of the error or to arrive at a correct case disposition.” These statements all conflict with FNS guidance.

We were provided documentation by State officials from two of the States in our audit that described the mitigation work performed by error review committees on active error cases and the results of these mitigation activities on reported errors. One of the States submitted 53 active error cases to its error review committee in FY 2012 and was able to mitigate the errors on 16 of them. Due to the actions taken by the error review committee, the State was able to reduce its reported error rate from 3.45 percent to 2.91 percent. Similarly, the other State submitted 40 active error cases to its error review committee in FY 2011 and was able to mitigate the errors on 10 of them. Due to the actions taken by the error review committee, the State was able to reduce its reported error rate from 2.23 percent to 1.89 percent.

The documentation for one case in one of the States indicated the QC reviewer identified an over issuance of \$164. The case was submitted to the error review committee to investigate opportunities for reducing or eliminating the error amount. The outside consultant, participating as a member of the error review committee, reviewed the case and recommended that the State find an offsetting error by averaging child support income over a longer period of time than it normally would and “hav[e] a discussion with the [recipient] regarding the possibility of some expenses related to child-care” that were not reported to the eligibility worker. After acting on the consultant’s recommendations, the State was able to adjust its error determination on the case and reduce the reported error amount to \$84, an \$80 reduction. As was previously discussed, the method recommended by the consultant was contrary to FNS policy.

In October 2013, one of FNS’ regional offices issued a letter to its States reiterating the importance of integrity in the QC review process. The letter noted that the appropriateness of some error review committees’ activities was questioned and reiterated that the error review committee’s role is not to review individual error cases to assess the potential for reducing or eliminating errors reported to FNS. It further stated, “error review committees should incorporate and maintain procedures that minimize the likelihood of unacceptable bias being introduced in the QC review process.” The memo also noted, “if a State agency’s error rate becomes questionable due to the introduction of unacceptable bias, FNS has the authority to assign an error rate to a State agency.” One of the States we reviewed received the letter, but was still inappropriately using its error review committee to lower its error rates.

Conflict of Interest in the QC Process

FNS’ QC system is vulnerable to State abuse due to a conflict of interest between either accurately reporting the true error rate and incurring a penalty, or finding ways to

mitigate errors and receiving a bonus from FNS for exceeding error rate standards. In our view, this conflict of interest contributed to the States' decisions to use private consultants and error review committees to focus on mitigating individual errors identified by the QC review process, rather than methodologies that would improve the overall eligibility determination process.

In 1987, the National Academy Panel (Panel) performed a study that highlighted this inherent conflict of interest.³² The Panel described the system of having States perform QC reviews as “an inherent tension created by having State employees (QC reviewers) represent a Federal government interest that is potentially adverse to the State agency’s interest.” The Panel’s report recommended that FNS discontinue the use of State agencies in performing QC reviews and instead switch to a “one-tiered” review system where only FNS reviewed SNAP cases for QC purposes. The Panel’s report also stated that switching to a “one-tiered” system would “properly maintain accountability to those respective interests” between FNS and the State agencies. While the Panel’s report is almost 30 years old, it is our conclusion, based on our audit findings, that it is as relevant today as it was in 1987. Thus, in our view, FNS needs to discontinue the “two-tiered” system and implement a “one-tiered” system where FNS or an unaffiliated third party reviews cases for errors.

We discussed these issues with FNS national officials on January 26, 2015. FNS officials agreed that it was important to protect the integrity of the QC system and stated it had plans to review the States’ QC processes this year. FNS officials also stated it issued a memorandum reiterating its policy for ensuring the integrity of the QC process. The policy memorandum specifically addressed States’ use of error review committees, but was issued nearly 10 years ago.³³

To restore the integrity of the QC process and the validity of its reported error rates, FNS needs to analyze the costs and benefits of changing the QC process from a two-tier process (that relies on the States to make error determinations) to a one-tier process (where only FNS or an unaffiliated contracted third party reviews cases for errors). In light of this report’s findings, if determined cost beneficial, FNS needs to establish a timeline for implementing the change.

In the interim, FNS needs to enforce its policy of prohibiting States from using error review committees to reduce or eliminate errors. It also needs to issue guidance to States on the appropriate use of private consultants during the QC process, specifically excluding the use of these consultants to inappropriately advise States’ QC staff, to bias sample results, and to review selected active QC error cases to assess the potential for reducing or eliminating errors. FNS also needs to issue guidance to States that prohibits mitigating QC errors by inconsistently and incorrectly applying policy. Specifically, the guidance should promote consistency and prohibit (1) using different income averaging periods to manipulate income, (2) creating off-setting deductions, and (3) applying other techniques specifically designed to inappropriately reduce and/or eliminate QC errors.

³² National Research Council, *Rethinking Quality Control: A New System for the Food Stamp Program* 130-31 (Dennis P. Affholter & Fredrica D. Kramer eds., 1987).

³³ USDA FNS Policy Memorandum QC-05-01, *Integrity of the Quality Control Review Process* (August 1, 2005).

FNS also needs to evaluate the QC process administered at those States whose error rates significantly dropped after using error review committees and/or private consultants to ensure that the QC reviews were performed in compliance with FNS' QC review requirements. FNS does have management evaluation reviews that evaluate States' QC process, but these reviews have been both infrequent and ineffective in identifying and resolving the issues described in this finding. At a minimum, the reviews should determine whether States are treating sampled cases consistently during the QC process and not using error review committees and private consultants to mitigate errors on active QC cases. In addition, FNS needs to evaluate the QC process administered by all States, on a periodic basis, to ensure they comply with FNS' QC review requirements and that reviewer bias is absent from the QC process.

Recommendation 1

Perform an analysis of the cost/benefit of changing the quality control (QC) process from a two-tier process that relies on the States to make error determinations to a one-tier process where only FNS or an unaffiliated contracted third party reviews cases for errors. If determined cost beneficial, establish a timeline for implementing the change.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. However, the audit refers to the 1987 National Academy Panel study that recommended FNS adopt a one-tier QC system. The audit did not recognize that FNS commissioned an evaluation study done by the Urban Institute following the 1987 recommendation. That report found: 1) there was no strong evidence that the error rates would be any different under a one-tier QC system, 2) there was little evidence that there is a difference in the quality of the reviews between the one-tier and two-tier system, and 3) under comparison of equal sample size, a Federal one-tier system would cost the Federal government 16% more than the two-tiered system. After receiving the results of that study, no change was made by the Agency to institute a one-tier system. Nevertheless, we will pursue a reexamination of a one-tier QC alternative to the current two-tier system.

FNS provided an estimated completion date of September 30, 2016, for this action.

OIG Position

We accept FNS' management decision on this recommendation. Regarding the study conducted by the Urban Institute, it was completed in 1989, prior to the States' use of outside consultants. It would not have considered the impact of States' use of outside consultants and error review committees on the QC process discussed in this report.

Recommendation 2

Enforce FNS' policy prohibiting States from using error review committees to review selected active error cases to assess the potential for reducing or eliminating errors.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. As stated in the report, current FNS guidance addresses the use of error review committees and provides guidelines for the use of error review committees to prevent bias. FNS had already implemented a review process to evaluate the processes used by States to avoid bias and maintain the integrity of the Quality Control system. FNS advised OIG of this process in our discussion on January 26, 2015; however, it was not noted in the draft report. FNS conducted its first review in Virginia in April 2015 and its second review in Vermont in July 2015. Additional reviews are planned for the next year. Upon completion of the reviews, FNS will take appropriate action to enforce FNS policy if it is determined that a State is using an error review committee to reduce or eliminate potential errors.

FNS provided an estimated completion date of September 30, 2015, for this action.

OIG Position

We accept FNS' management decision on this recommendation. FNS did inform OIG on January 26, 2015, of its plans to review States' QC processes this year, which we noted in the final report.

Recommendation 3

Issue guidance to States on the appropriate use of private consultants during the QC process. The guidance should prohibit States from using private consultants to advise States' QC staff to review selected QC error cases that are still active in order to assess the potential for reducing or eliminating errors.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation on the condition that the guidance is specific to State's compliance with Federal regulations and policies. FNS has previously issued guidance to States with the expectation that they prevent unacceptable bias from affecting the results of Quality Control case reviews. We will reissue this guidance and provide technical assistance as necessary. The fact that private consultants may be involved in providing improper advice does not absolve the State of its responsibility in this area.

Therefore, our focus will remain on States implementing appropriate processes. In addition, FNS is requesting clarification from OIG as its determination of the legal authority the Federal government possesses to restrict State agencies from using private consultants.

FNS provided an estimated completion date of September 30, 2015, for this action.

OIG Position

We accept FNS' management decision on this recommendation. On July 21, 2015, we informed FNS officials that we were not recommending that FNS restrict State agencies from using private consultants. We recommended that FNS prohibit practices used by the private consultants that did not comply with Federal regulations and policies.

Recommendation 4

Issue guidance to States that prohibits QC reviewers from inconsistently and incorrectly applying policies in order to mitigate QC errors. The guidance should prohibit (1) using different income averaging periods to manipulate income, (2) creating off-setting deductions, and (3) applying other techniques specifically designed to inappropriately reduce and/or eliminate QC errors.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. FNS guidance and policies already provide guidelines on income averaging and deductions discovered during the QC review, and there is existing guidance on eliminating bias in the QC review process. We will revise and reissue this guidance to include discussion of the practices that the auditors encountered, and stipulate that mitigating errors is an inappropriate approach to doing the QC work. The revisions will make clear that States must follow their standard averaging rules and those rules are to be consistently applied to all cases. It will also stress the rules for allowances of deductions and when a reviewer is allowed to apply deductions relative to the actual circumstances of the case.

FNS provided an estimated completion date of September 30, 2015, for this action.

OIG Position

We accept FNS' management decision on this recommendation.

Recommendation 5

Review the QC process administered at those States whose error rates significantly dropped after using error review committees and/or private consultants to ensure that the QC reviews were

performed in compliance with FNS' QC review requirements. At a minimum, the reviews should determine whether States are treating sampled cases consistently during the QC process and not mitigating errors on active QC cases.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. FNS already has an existing process to monitor and review integrity of State QC systems. FNS uses a data driven approach to identify states for review. FNS will continue to review QC processes in those States where the data indicates warranted attention.

FNS provided an estimated completion date of September 30, 2015, for this action.

OIG Position

We accept FNS' management decision on this recommendation.

Recommendation 6

Review the QC process administered at all States on a periodic basis to ensure compliance with FNS' QC review requirements and that reviewer bias is absent from the QC process.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. FNS already has QC management evaluation review modules. We will enhance these modules to put a greater focus on QC integrity using what we have learned through our reviews.

FNS provided an estimated completion date of September 30, 2016, for this action.³⁴

OIG Position

We accept FNS' management decision on this recommendation.

³⁴ FNS subsequently changed its estimated completion date from December 31, 2016, to September 30, 2016.

Recommendation 7

If inappropriate QC review practices are found at the selected States reviewed pursuant to Recommendations 5 and 6, correct the identified review deficiencies and adjust the States' error rates as appropriate.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. If determined that any State agency is using unacceptable QC review practices, FNS will take action based on regulatory and statutory authority.

OIG Position

We accept FNS' management decision on this recommendation.

Finding 2: QC Reviews Did Not Determine Payment Errors in Accordance with SNAP Regulations

QC reviewers did not correctly identify and calculate payment errors during their reviews of selected SNAP cases. These mistakes occurred because the QC reviewers used FNS guidance that was either inadequate or contrary to the Federal regulations. Specifically, FNS guidance did not ensure QC reviewers used verified information, correctly determined error amounts, or timely reported and acted upon QC information affecting SNAP recipient benefits. As a result, errors were inappropriately excluded from the SNAP error rate and SNAP recipients' future benefits were not adjusted within required timeframes.

Federal regulations require that QC reviewers determine whether SNAP households are eligible for benefits and, if eligible, whether the households are receiving the correct benefit amount.³⁵ Specifically, QC reviewers must (1) use verified information to calculate the SNAP recipient's benefit amount, (2) not apply the error tolerance threshold (currently \$38) when calculating the SNAP recipient's reportable error amount until all variances (including those permitted by SNAP policy) have been properly identified and accounted for, and (3) report all information determined to be incorrect during the QC review to the State agency for appropriate action. Federal regulations also require SNAP recipients to report certain changes in their financial circumstances depending on their designated reporting period and that State agencies act on those changes within specified timeframes.

We found that FNS' guidance did not ensure QC reviews met these requirements. A summary of each issue is below.

FNS' Guidance for Verifying Household Information Contrary to Federal Regulations

QC reviewers in the States we visited did not verify SNAP recipients' household information, as required. Rather, they relied on statements from the SNAP recipients, made assumptions, or used unrelated information in lieu of obtaining the required information for verification. SNAP regulations require QC reviews to "be based on an examination and verification of all elements of eligibility" (e.g., income and deductions).³⁶ The SNAP regulations further define verification as "the use of documentation or a contact with a third party to confirm the accuracy of statements or information."³⁷ However, *FNS Handbook 310*, which QC reviewers are required to use when conducting their QC reviews, provided guidance that did not comply with regulatory requirements. Consequently, QC reviewers were not obtaining the support they needed to verify the SNAP recipient's information. QC staff, at all eight States in our audit, stated that they were only required to follow the guidelines outlined in *FNS Handbook 310*. Specific examples of what we found are provided below.

³⁵ 7 C.F.R. § 275.12(a).

³⁶ *Id.*

³⁷ 7 C.F.R. § 273.2(f).

- *FNS Handbook 310* did not comply with the regulatory verification requirements because it did not require that QC reviewers obtain appropriate verification for some elements and allowed QC reviewers to “accept the household’s statement” as verification for other elements. For example, *FNS Handbook 310* described verifications that could be obtained for a SNAP recipient who stated he or she had no self-employment income;³⁸ however, it did not require that these verifications be obtained. Consequently, QC reviewers accepted the SNAP recipient’s statement without obtaining additional documentation or confirmation from a third party, as required by the Federal regulations. Additionally, *FNS Handbook 310* specifically allowed QC reviewers to accept a SNAP recipient’s statement for other elements (e.g., a recipient’s statement that they had no other earned income) as verification without obtaining additional documentation such as bank statements or confirmation from a third party, as required by the Federal regulations. In total, 24 of the 48 QC elements (or 50 percent) could be self-declared by a SNAP household without providing additional documentation or confirmation from a third party.³⁹
- *FNS Handbook 310* also did not comply with the regulatory verification requirements because it allowed QC reviewers to use a method referred to as “likely conclusion,” in which a QC reviewer assumes that a SNAP household’s circumstances had not changed since the information was last reported. For example, a QC review in our sample was completed by using the justification of “likely conclusion” to verify most of the elements (e.g., household composition, self-employment income, other earned income, shelter expense, etc.)—even though no interview was conducted with the SNAP recipient and no documentation or confirmation from a third party was obtained, as required by the Federal regulations. The QC reviewer “likely concluded” that the SNAP recipient’s information remained the same as originally reported because they found “no evidence to the contrary,” even though no verification was obtained. In total, we found that 43 of the 48 QC elements (or nearly 90 percent) could be based on the “likely conclusion” drawn by the QC reviewer.⁴⁰
- *FNS Handbook 310* did not ensure that the regulatory verification requirements were met. Although it outlined the minimum verification requirements for each element of eligibility, it did not mandate that they be followed. For example, *FNS Handbook 310* states, “participation in employment and training *may* be verified by contact with the appropriate operating Employment and Training [E&T] offices or by reports from the appropriate office” (emphasis added). However, we found QC reviewers did not

³⁸ The *FNS Handbook 310* explains,

If the household states that it received no earned income during the appropriate month, the reviewer shall further investigate household circumstances to ensure that the household did not have any earned income . . . Information obtained while verifying other elements of eligibility, with individuals such as relatives, school officials, landlord, etc., may show the participant is frequently absent from the home [which] may be an indication of the participant's employment.

³⁹ These elements include citizenship, job availability, acceptance of employment, and negative assertions for elements such as self-employment income, other earned income, veterans’ benefits, workers’ compensation, etc.

⁴⁰ The five elements where “likely conclusion” cannot be used are non-citizen status, Income Eligibility Verification System checks for employment, Department of Motor Vehicles for vehicles, social security number, and work requirements.

verify this element. Specifically, the reviewers did not verify SNAP recipients' participation in E&T programs as suggested in the *FNS Handbook 310*, but, rather, verified only that the SNAP recipients were coded correctly in the State systems (i.e., QC reviewers ensured mandatory E&T participants were coded as mandatory, exempt participants were coded as exempt, etc.).

FNS' Guidance for Identifying and Calculating Payment Errors Contrary to Federal Regulations

The process QC reviewers used to determine reportable errors did not comply with Federal regulations. We found that QC reviewers did not properly identify payment errors as required in the cases they reviewed because *FNS Handbook 310* directed the QC reviewers to perform an inappropriate allotment test to identify and calculate errors for inclusion in the SNAP error rate. Federal regulations require an error analysis that includes all variances, except those specifically excluded.⁴¹ The QC reviewer must determine whether changes in household circumstances were "reported by the participant and handled by the agency" correctly.⁴² After the variances have been determined, QC reviewers are required to apply FNS' error tolerance threshold (currently \$38) to the amount, so only variances that exceed the threshold are used to calculate the SNAP error rate.⁴³ The allotment test prescribed by *FNS Handbook 310*, however, was contrary to the regulations because it prematurely applied the error tolerance threshold, ending the QC review before all variances (including those permitted by SNAP policy) had been properly identified and accounted for by the QC reviewer.

As described below, the allotment test prescribed by *FNS Handbook 310* consisted of two comparisons referred to as Comparison I and Comparison II. See also Exhibit C for flowcharts comparing the allotment test QC reviewers used to determine reportable errors versus the process required by the Federal regulations.

- *FNS Handbook 310* requires QC reviewers to first complete Comparison I, which is a calculation of the SNAP recipient's allotment based on their current circumstances as of the review date. This allotment is then compared with the SNAP recipient's authorized allotment (i.e., the SNAP benefit amount they are currently receiving). The review is complete with no error cited if the amounts are the same or the difference is less than or equal to the error tolerance threshold (currently \$38). For example, a QC reviewer would cite no error if the reviewer determined that a SNAP recipient's allotment should be \$150 (based on their current circumstances as of the review date) and the SNAP recipient's authorized allotment was \$115, because the difference (\$35) was less than the error tolerance threshold. Since the error tolerance threshold was applied before QC determined whether participant changes (as indicated by a variance) were reported and the State agency handled them correctly,

⁴¹ 7 C.F.R. § 275.12(d)(1)-(2). Variances are differences in the SNAP recipient's income, expenses, or other elements found during the QC review. Those variances that are not required to be reported are excluded from the error determination process.

⁴² 7 C.F.R. § 275.12(a).

⁴³ 7 C.F.R. § 275.12(f)(2).

the Comparison I process was not compliant with the regulations. Nationally, in 2012, the QC reviewers inappropriately stopped their review after completing Comparison I because the variances fell below the error tolerance threshold for 12,146 of the 56,747 (or more than 20 percent) of the QC cases. We were unable to determine the reportable error amounts for these cases because the QC reviewers did not complete Comparison II. However, we found that when Comparison II was appropriately performed, more than 16 percent of QC cases resulted in reportable errors above the error tolerance threshold. The errors in these cases averaged \$153.⁴⁴

- *FNS Handbook 310* requires QC reviewers to complete Comparison II if Comparison I results in a difference greater than the error tolerance threshold. Comparison II is a calculation of the SNAP recipient's allotment based on their current circumstances as of the review date, excluding any differences that are allowed by policy. For example, a SNAP recipient's income may have changed since last certified, but that difference would be excluded if the SNAP recipient was not required to report the change. This calculated allotment is then compared with the SNAP recipient's authorized allotment, and the review is complete with no error cited if the difference is less than or equal to the error tolerance threshold. However, if the difference is greater than the error tolerance threshold, the QC reviewer must select the lesser error from the two comparisons as the final reported error amount. For example, if a QC reviewer determined that there was a difference in Comparison I of \$45, the reviewer would complete Comparison II. If the QC reviewer then determined there was a \$65 difference in Comparison II, the reviewer would select the lesser amount (\$45) as the final reported error amount, since both differences were greater than the error tolerance threshold. The Comparison II process was not compliant with the regulations because it required the QC reviewer to select the lesser of the two error amounts, which artificially lowered the error rate and is not allowed by FNS' regulations. In FY 2012, QC reviewers selected the lesser of the two error amounts in 1,299 of the 56,747 (or more than 2 percent) QC cases nationwide. The QC reviewers, by selecting the lesser of the two error amounts, understated SNAP's FY 2012 national error rate by at least 0.22 percent. That percentage equates to more than \$5.5 million in improper payments.⁴⁵

When questioned about the allotment test, QC staff at seven of the States in our audit stated that they were required to follow the guidelines outlined in *FNS Handbook 310*.

⁴⁴ The amounts cited here are based on our analysis of the FY 2012 nationwide QC cases recorded in FNS' Regional Office Quality Control Tracking System (ROQCTS). We found that 12,801 of the QC cases used Comparison II appropriately. These cases had a variance in Comparison I and Comparison II was performed and the results recorded. Of these cases, 2,076 (or more than 16 percent) had errors above the error tolerance threshold. The errors in these cases averaged \$153.

⁴⁵ The minimum additional error amount for these cases totaled at least \$1,299 since the Comparison II amount would have been at least \$1 greater in each case. Using the State reported amounts, we utilized FNS' methodology to determine the impact on the error rate. Considering that the error amount in each case was understated by at least \$1, the weighted average of each State's additional error amount was about 0.01 percent, which equated to an understated error rate of 0.22 percent [0.01 percent rounded divided by the FY 2012 error rate of 3.42 percent plus 0.01 for the additional error amount]. Using this information, we calculated the amount of improper payments to be \$5,568,534 (0.01 percent rounded multiplied by the \$74,619,344,626 in SNAP benefits for FY 2012).

However, for the process to be compliant with the Federal regulations, QC reviewers should have performed Comparison II any time a change in household circumstances was found in Comparison I, regardless of the error tolerance threshold. The QC reviewer should then have ensured that the difference was reported by the recipient and handled by the State agency correctly by completing Comparison II. FNS' error tolerance threshold should only be applied after this error determination process is complete.

FNS' Guidance on Identifying Recipient Reporting Errors Inadequate

QC reviewers had not properly identified SNAP recipient reporting errors, as required by the Federal regulations. This lack of identification occurred because *FNS Handbook 310* directed the reviewers to apply an "exclusionary timeframe" that was longer than the regulatory reporting requirements. The SNAP regulations require SNAP recipients to report certain changes (e.g., when their income exceeds the income limitation) within specific timeframes established by their State's reporting system.⁴⁶ The regulations also require State agencies to act on the reported information within specific timeframes.⁴⁷

Guidelines in *FNS Handbook 310* were contrary to the Federal regulations because the "exclusionary timeframe" did not differentiate between the SNAP recipient's required timeframe to report and the State's required timeframe to act. QC reviewers only identified SNAP recipient reporting errors and included them in the error determination if they occurred after the two timeframes were combined. During our review of sampled QC cases, we found five cases that included changes SNAP recipients were required to report.⁴⁸ In each case, the QC reviewers applied FNS' "exclusionary timeframe" and never separately assessed whether the SNAP recipients met their reporting requirements. For example, a SNAP recipient in our sampled QC cases exceeded the gross income limitation (130 percent of the FPL) in June, and was required to report the change between June 21st and July 10th under the simplified reporting rules.⁴⁹ However, the QC reviewer did not determine whether the SNAP recipient met this requirement. Rather, the QC reviewer excluded the change from the August review because the time period since the change occurred (2 months) was within FNS' "exclusionary timeframe" that included the State's time period to take action. Had the QC reviewer assessed the SNAP recipients' reporting requirements, they still would have applied the longer timeframe prescribed by *FNS Handbook 310* that did not comply with the Federal regulations, which could extend up to 4 months for simplified reporting households.

When questioned about it, QC staff at seven of the States in our audit stated they followed the guidelines outlined in *FNS Handbook 310*. We were unable to quantify this

⁴⁶ 7 C.F.R. § 273.12(a).

⁴⁷ 7 C.F.R. § 273.12(c).

⁴⁸ SNAP recipients are required to report certain information outside of their reporting periods based on the reporting rules. SNAP recipients subject to simplified reporting rules must report when their gross monthly income exceeds 130 percent of the Federal Poverty Level (FPL) (as long as they did not exceed the limitation at certification). SNAP recipients subject to change reporting rules must report changes in income under specific guidelines.

⁴⁹ The required reporting date is dependent on the exact date of the change, which was not included in the QC case file.

condition's impact on the error rate because the QC reviews did not document whether the SNAP recipient reporting requirements were met.

FNS' Guidance for Acting on QC Information Inadequate

We found that QC reviewers did not always report information identified during their reviews of SNAP cases as required by the Federal regulations because *FNS Handbook 310* did not provide guidance to do so. When QC reviewers did report information, States did not have a formal system to ensure SNAP recipients' benefits were adjusted accordingly within the required timeframes. The SNAP regulations require that all information verified as incorrect during a QC review of an active case "be reported to the State agency for appropriate action on an individual case basis[, which] includes information on all variances in elements of eligibility and basis of issuance in both error and nonerror cases."⁵⁰

In two of the States in our audit, QC reviewers did not always communicate to eligibility workers the changes they identified in the SNAP household's circumstances, such as income, household members, etc. In the remaining six States in our audit, QC reviewers made notes of changes they identified in the SNAP household's circumstances in the QC files; however, subsequent action was at the eligibility workers' discretion and it was not monitored. For example, our sampled QC cases included a SNAP recipient who had no income at the time of certification, but was receiving employment income as of the review date. This increase in income was not required to be reported under the simplified reporting rules and, consequently, did not result in a QC error. Nevertheless, QC was still required to report the change in the SNAP recipient's income to the eligibility worker and the State was required to act on the change within 1 to 2 months.⁵¹ In this case, the increased income should have decreased the SNAP recipient's future benefit amount by \$278 per month, had the information been communicated by the QC reviewer and acted upon by the State. However, the SNAP recipient continued to receive the excess benefit amount for the remainder of their certification period (8 months). We found at least 13 instances in the 45 cases we reviewed where SNAP recipients continued to receive incorrect benefit amounts, even though the QC information clearly showed the amounts were incorrect and should have been adjusted.⁵² QC staff at the eight States in our audit stated they were either not aware the information needed to be communicated, or it was not their responsibility to ensure the information was acted upon once it was communicated.

⁵⁰ 7 C.F.R. § 275.12(f).

⁵¹ State agencies that opt to act on all changes for simplified reporting households must issue a notice of adverse action to decrease benefits within 10 days from the date of the change, and the decrease in the benefit level must be effective no later than the allotment for the month following the month in which the notice of adverse action period has expired, provided a fair hearing and continuation of benefits have not been requested. Therefore, the required timeframe for States to act is dependent upon when the State became aware of the change.

⁵² We reviewed future allotments for QC cases in our sample that had information which should have affected the SNAP recipients' allotments. There was no direct correlation for many of the cases due to certification periods or adjustments that did not match the amounts identified in the QC information. Consequently, we only included examples that clearly showed the information had not been used to adjust the SNAP recipients' future benefits.

FNS needs to amend its QC policies and procedures (including *FNS Handbook 310*) to ensure that they are consistent with the SNAP regulations. Specifically, FNS needs to ensure that the QC reviewers obtain adequate verification, properly identify errors, and use the appropriate timeframes for both identifying and correcting errors. FNS also needs to implement policies to ensure QC information that affects SNAP recipients' benefits is reported and acted upon by States within required timeframes.

Recommendation 8

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to ensure QC reviewers base their conclusions on information verified through documentation or contacts with third parties who confirmed the accuracy of the information.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. "Likely conclusion" policy was implemented specifically to assist States in using reliable information to complete more cases, provide more accurate reporting to FNS, and prevent the bias that has been identified earlier in this report. Removing the use of likely conclusion would increase the number of dropped cases, jeopardize integrity, and may allow State agencies to use dropped cases to under report errors.

OIG Position

We do not accept management decision on this recommendation. As noted in the report, FNS' QC policies and procedures do not currently comply with the Federal regulatory verification requirements because they allow QC reviewers to make determinations based on unverified information. Rather, FNS' policies and procedures allowed State officials to rely on statements from SNAP recipients, assumptions, and the use of unrelated information in lieu of obtaining information for verification required by Federal regulations. To reach management decision on this recommendation, FNS needs to amend its QC policies and procedures to comply with the Federal regulations and provide an estimated completion date for this action.

Recommendation 9

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to limit the use of "likely conclusion."

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. As indicated in our response to Recommendation 8, removing the use of likely conclusion would increase the number of dropped cases, jeopardize integrity, and allow State agencies to use dropped cases to under report errors. We will strengthen language about the appropriate use of likely conclusion in FNS Handbook 310 to provide more structure on the use of this policy to States.

FNS provided an estimated completion date of September 30, 2016, for this action.

OIG Position

We do not accept management decision on this recommendation. We disagree with FNS' contention that limiting the use of likely conclusion would provide more inaccurate reporting to FNS, prevent the bias that had been discussed earlier in the report, or jeopardize the integrity of the QC process. In our view, it would likely have the opposite effect assuming that QC reviewers took the required steps to verify the circumstances surrounding each case. As noted in the report, a QC reviewer in one of the cases we reviewed used "likely conclusion" to verify most of the elements of the case (e.g., household composition, self-employment income, other earned income, shelter expense, etc.) even though no interview was conducted with the SNAP recipient and no documentation or confirmation from a third party was obtained by the reviewer, as required by the Federal regulations. To reach management decision on this recommendation, in addition to strengthening language about the appropriate use of likely conclusion in FNS Handbook 310 to provide more structure on the use of this policy to States, FNS needs to also specify those circumstances where it would be appropriate to use "likely conclusion" considering that the Federal regulations generally require that the State QC reviewer verify all information.

Recommendation 10

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to mandate that employment and training program participation be verified during the QC process.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. Under current review procedures, QC reviewers already check for non-compliance with Employment and Training (E&T) program requirements. We will review procedures to identify opportunities to strengthen the rules on how reviewers must verify compliance with E&T requirements.

FNS provided an estimated completion date of September 30, 2016, for this action.

OIG Position

We accept FNS' management decision on this recommendation.

Recommendation 11

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to require the error tolerance threshold not be applied when calculating the SNAP recipient's reportable error amount until all variances (including those permitted by SNAP policy) have been properly identified and accounted for during the QC process.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. We believe this finding may be a result of a misunderstanding of SNAP Quality Control policy. The current two-step process was developed to adequately account for statutory eligibility rules as well as regulatory policy flexibilities. The procedure proposed in this recommendation would eliminate a step in the current process and result in undue penalties on States as errors would be called in some instances where the State issued the correct amount of benefits following statutory rules.

OIG Position

We do not accept management decision on this recommendation. As discussed in the report, the Federal regulations provide a detailed description of the QC review process, which consists of a case record review, a field investigation, a variance identification, an error analysis, and the reporting of review findings. Per the regulations, the error tolerance threshold is only applied during the reporting of review findings after all variances have been properly identified and accounted for following the error analysis. Thus, FNS' current two-step process is not compliant with Federal regulations. To reach management decision on this recommendation, FNS needs to amend its QC policies and procedures to comply with the Federal regulations and provide an estimated completion date for this action.

Recommendation 12

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to require that (1) SNAP recipient reporting errors identified during the QC process are considered separately from the State agency's failure to act on the errors and (2) SNAP recipient reporting errors and State agency failure to act on the errors are individually assessed against their respective regulatory timeframes.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. We believe that the finding is based on a misunderstanding of SNAP policy.

Quality Control reviews each sampled case to ensure payment accuracy in the sample month. As long as the sample month benefits are reviewed, we find that considering the client's time to report separately from the State agency's time to act irrelevant. Furthermore, it would be difficult for reviewers to determine a clear timeline of who took what action in all cases. Reviewing the final benefit determination in the sample month is the issue. To determine a payment error based on reporting does not make sense. FNS believes we are appropriately measuring the certification requirement as established by regulations and changing the review procedures as suggested would unfairly bias the review process. Just as importantly, it has no impact on the benefit amount and, therefore, is irrelevant to improper payment assessment.

OIG Position

We do not accept management decision on this recommendation. According to *FNS Handbook 310*, the QC reviewer shall "determine whether a variance resulting from a change in the household's circumstances must be included or excluded from the error determination due to reporting and processing time considerations." OIG's recommendation is that the recipient reporting timeframe requirements and the processing timeframe requirements must be assessed separately to accurately measure whether the sample month variance is an error. If the State agency corrected a recipient reporting error prior to the sample month, there would be no variance and no impact on the benefit amount. However, when a variance is identified in the sample month, each timeframe must be assessed separately to ensure legitimate recipient reporting errors or the State agency's failure to timely act errors are included. Currently, the QC review does not accurately assess improper payments because variances due to legitimate recipient reporting errors are excluded from the error determination process based on a longer, combined timeframe. To reach management decision on this recommendation, FNS needs to amend its QC policies and procedures to separately assess whether recipient reporting and State agency time to act requirements were met and provide an estimated completion date for this action.

Recommendation 13

Implement QC policies and procedures to ensure the States report and act upon information obtained during the QC process affecting SNAP recipients' benefits within required timeframes.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation as we believe we already have an established policy to address this concern. It is current policy for States to follow up on the results of the review and, where appropriate, to establish claims when they should be established. We will reissue guidance and expand upon it to make clear that it is the responsibility of State staff to report to the eligibility worker that information has been uncovered by a Quality Control case review.

FNS provided an estimated completion date of September 30, 2016, for this action.

OIG Position

We accept FNS' management decision on this recommendation.

Finding 3: FNS' Review of States' QC Results Inadequate

The States' QC results in 27 of the 60 cases we reviewed were unsupported, questionable, and/or inaccurate. These results occurred because FNS did not ensure its reviewers conducted independent reviews of the States' QC cases. Specifically, FNS did not obtain and review SNAP participants' complete case files, or its reviewers did not adequately follow up on any identified discrepancies. The reviews were generally cursory, relying on the limited information the States provided. As a result, FNS lacked the assurance needed to validate the accuracy of States' reported error rates, which serve as the primary basis for determining SNAP's national error rate.

SNAP regulations require FNS regional offices to annually validate each State agency's payment error rate.⁵³ FNS procedures specify that Federal reviewers must conduct independent examinations of sub-sampled State QC cases sufficient to ensure (1) the integrity of State QC processes, (2) that SNAP regulations and policies have been properly applied, and (3) that SNAP case information is complete and accurate. FNS procedures direct Federal reviewers to verify the actual circumstances of each sub-sampled recipient and determine the accuracy of the State QC review using official documents, such as recipients' complete certification case files from State offices, State QC files, and any other Federal, State, or local records relevant to the review.⁵⁴

Each month, States statistically select a specified number of active cases (cases that were issued benefits in a given month) and perform a QC review of them. The States use *FNS Handbook 310* as a guide when verifying the accuracy of the States' SNAP eligibility determinations and the amount of benefits provided to recipients. From this information, the States determine payment errors and report those figures to FNS. FNS regional office QC staff conduct a second review to validate the States' QC results. To accomplish this action, FNS' QC reviewers (hereafter referred to as Federal reviewers) select a subsample of cases from each State's QC sample and re-review them to determine if the State properly completed its review of the sampled cases in accordance with *FNS Handbook 310*.⁵⁵ The Federal reviewers either agree or disagree with the State's QC determinations and discuss the results of their validation work with each State. FNS then adjusts the State's reported error rates upward or downward to reflect any problems it found with the State's reported results and ultimately to produce the official State error rate.

Federal Reviewers Did Not Conduct Independent Reviews of States' QC Cases

We found that none of the 60 cases we reviewed at FNS' 7 regional offices were subjected to a full, independent Federal review. Federal reviewers allowed States to submit partial case documentation rather than complete case files, and relied on States' conclusions regarding recipients' household circumstances (such as household composition, income and expenses, and program disqualifications) without obtaining the

⁵³ 7 C.F.R. § 275.3(c).

⁵⁴ *FNS Handbook 315*, Food Stamp Program: Federal Quality Control Validation Review Handbook.

⁵⁵ FNS annually subsamples about a third of States' QC cases and subjects them to a Federal review. For example, in FY 2011, FNS reviewed 20,022 of the 51,959 cases States subjected to a QC review.

documentation necessary to independently validate the accuracy of the State determinations.

FNS' independent validation of SNAP error rates is a critical oversight component of SNAP. *FNS Handbook 315* states,

Only an independent Federal reviewer's examination of official documents and statements issued by government agencies, businesses and persons apart from the State agency and the State reviewer (collateral contacts) can meet the objective of the Federal review to verify the actual circumstances of the household and determine the accuracy of the work performed by the State QC reviewer. Therefore, to the extent that the certification records contain official documents that verify a household's circumstances, these documents must be provided to the Federal reviewer, in addition to any notations that the State eligibility worker or State QC have made regarding such documents.

FNS Handbook 315 requires Federal reviewers to do additional work, such as requesting complete case file information from the State agency, under a number of circumstances, including: (1) a case review element cannot be fully evaluated on the basis of the information provided by the State; (2) the Federal reviewer cannot account for inconsistencies in information provided by the State; or (3) the State-provided QC information does not contain sufficient documentation to allow the Federal reviewer to independently validate the accuracy of the States' findings. FNS' Federal review process is its primary control to ensure program integrity and the proper stewardship of SNAP funds.

The information contained in complete case files allows reviewers to thoroughly assess and validate the recipient's circumstances to a degree not possible when only partial records are reviewed. For example, case records contain the names of all household members, dates of birth, social security numbers, individual household members' earned and unearned incomes by source, deductions, changes in household circumstances reported by the household and/or other agencies, immigration status, work registration, disqualification actions, employment and training, etc. Complete case files also document a SNAP recipient's benefit history and reported circumstances, so reviewers can readily identify questionable or contradictory information about the recipient's household composition, employment, income, expenses, etc., and follow up on them. Complete case file documentation also allows reviewers to identify recipient patterns of non-compliance that might make them ineligible for SNAP benefits.

In order for Federal QC reviews to be independent, they must be based on the review of complete case file information. Any Federal review based on incomplete information cannot be deemed an "independent" validation because Federal reviewers would, to some degree, have to rely on State assertions and conclusions. State QC reviews, in contrast to Federal reviews, are done using complete case file information for sampled recipients. It is generally understood that State QC can only be "independent" if State reviewers have access to, and review, complete case file information. Basing State QC conclusions on

limited information, such as what State eligibility workers choose to provide, would limit the scope and independence of the State QC process and raise questions about the accuracy of State QC determinations. Basing Federal reviews on what States provide places State agencies in the position of controlling what Federal reviewers see and do not see. It also places reliance on States to submit to the Federal reviewer documentation that, by its very nature, could be contrary to the States' interests. Without complete case file information, Federal reviewers cannot properly validate State QC results and ensure State payment errors have been accurately reported.

Federal Reviewers Did Not Identify States' QC Discrepancies

We determined that Federal reviewers did not adequately identify and address States' QC discrepancies evident in the limited documentation the States provided FNS. We analyzed the adequacy of FNS' Federal review procedures by statistically selecting 60 QC cases completed in FY 2011 by the 8 States in our audit that were submitted to FNS' 7 regional offices. We used the criteria specified in *FNS Handbooks 310 and 315* and individual case file information States provided to FNS to make case determinations independent from those made by FNS reviewers. We compared our determinations with those that FNS made and concluded that FNS' regional QC staff did not properly conduct 27 of the 60 cases we reviewed. Federal reviewers approved cases that did not contain sufficient information from States to support their conclusions, did not resolve questionable or inconsistent QC information, and contained incorrect State calculations and determinations.⁵⁶

Federal reviewers approved State cases that lacked documentation needed for independent determinations: FNS Handbook 315, Section 177, requires Federal reviewers to do additional work if State QC records do not contain sufficient documentation to allow the Federal reviewer to determine the accuracy of the State's QC findings. From our review of the 60 Federally-sub-sampled cases, we determined Federal reviewers agreed with 17 State cases (28 percent) that lacked sufficient documentation to support independent Federal validations of household circumstances relating to income, expenses, program disqualifications, and other information. For example, one State's QC reviewer reported that a recipient had rent and utility expenses. However, the State's QC reviewer relied on statements made by the client and her roommate to support these expenses, instead of obtaining the independent verification (i.e., rent receipts and utility bills) specified by FNS procedures. The Federal reviewer in turn relied on the same information as the State reviewer.

Federal reviewers approved State cases with conflicting or questionable information: FNS Handbook 315, Sections 173, 174, and 177, requires Federal reviewers to resolve conflicting information and perform additional work if they cannot account for inconsistencies in the case information provided by the State QC staff. Our review of the 60 Federally-sub-sampled cases disclosed that Federal

⁵⁶ The errors we identified were based on the limited information State QC sent to FNS. Had we conducted reviews with complete case file information, additional Federal review inadequacies might have been identified.

reviewers agreed with 8 State case determinations (13 percent) that had conflicting or questionable information about recipients’ rent expenses, income amounts, etc., that the Federal reviewers did not resolve by obtaining additional documentation. For example, one State QC reviewer reported there were no students in the household, even though the recipient’s application indicated that his daughter was attending a local college (college students are ineligible for SNAP benefits unless certain conditions apply). In another example, State QC reported that the client had no resources (i.e., income, savings, etc.) while also reporting that the client was paying rent and utility expenses. The State did not address or resolve in the documentation provided to FNS the questionable and conflicting information present in these two cases. The Federal reviewers agreed with both cases without requesting additional information from the State.

Federal reviewers agreed with State case determinations that were incorrect: FNS Handbook 315, Sections 130 and 173, requires Federal reviewers to ensure the completeness and accuracy of all information gathered to support QC conclusions and to validate the correct determination of the household’s eligibility and benefit levels. We found that in 10 of the 60 cases in our sample (17 percent), Federal reviewers agreed with incorrect State determinations regarding participant eligibility, program violations, and allotment calculations. For example, one State reported a participant’s income as \$1,751 per month. However, the case documentation the State provided to FNS indicated that the correct income amount was \$2,101 to \$2,251 per month because the recipient’s uncle gave her monthly cash assistance of \$350 to \$500, which was required to be included in the participant’s reported income. The State’s exclusion of the cash assistance potentially understated the reportable payment error amount by \$222. The Federal reviewer agreed with the State’s review of this case without correcting the income information. In another case, the State reported that the recipient was eligible for transitional SNAP benefits when they were, in fact, not eligible for such benefits because the participant failed to meet program reporting requirements. The Federal reviewer agreed with the State’s conclusion on the case, despite the State’s incorrect determination.

See Table 2 below for a summary of the discrepancies we found during our review of selected Federal reviewer QC cases.

Table 2 – Federal Reviewer Discrepancies

Reason Federal Review Was Inadequate	FNS Regional Office (‘X’ Denotes an OIG Determined Review Deficiency) ⁵⁷						
	SWRO	MPRO	SERO	MWRO	NERO	MARO	WRO
Did Not Obtain Sufficient Information to Support Independent Federal Decisions (17 of the 60 cases)							
Household Composition	X		X		X	X	
Work Requirements		X					

⁵⁷ Some of the 60 cases had more than one deficiency in a listed category.

Reason Federal Review Was Inadequate	FNS Regional Office (‘X’ Denotes an OIG Determined Review Deficiency) ⁵⁷						
	SWRO	MPRO	SERO	MWRO	NERO	MARO	WRO
Income	X		X		X	X	X
Shelter Expense	X		X		X	X	X
Other Household Expenses	X		X		X		X
Did Not Resolve Conflicting or Questionable Information (8 of the 60 cases)							
Household Rent Expense		X	X		X		
Household Income		X	X		X	X	
Student Status							X
Household Composition					X		
Did Not Address State QC Inaccuracies (10 of the 60 cases)							
Ineligible Household Not Disqualified			X		X		X
Incorrect CE Treatment ⁵⁸						X	
Submitted Documentation for Incorrect Household				X			
Used Incorrect Household Size					X		
Used Incorrect Household Income and/or Expense Amounts			X	X	X		X
Uncorrected Mathematical Error			X		X		

QC Environment and Lack of FNS Oversight Affected Adequacy of Federal Reviews

We determined the weaknesses in the Federal QC review process were due, in part, to the approach taken by the Federal QC review staff and by the absence of sufficient FNS national office oversight. QC supervisors in three regions told us Federal reviewers had to complete their reviews within certain timeframes, which could restrict them from conducting in-depth reviews. One of the QC supervisors also stated that regional management in her region expected QC staff to accept the State’s determination, as long as there was nothing already in the State’s QC file that proved it was wrong. In light of this direction, one of the QC supervisor’s QC reviewers told us that he only followed up with the State for additional information if he found a discrepancy in the State’s QC file that he considered blatant. Another QC supervisor stated that some Federal reviewers may be reluctant to question State QC conclusions because Federal reviewers in her region had less experience than their State QC counterparts. Based on these statements, we concluded that Federal reviewers generally agreed with State determinations as the first course of action, and they disagreed with State determinations only in rare instances. We found that Federal reviewers disagreed with only 104 of the 20,040 State cases they

⁵⁸ State QC incorrectly considered the household categorically eligible (CE) for SNAP benefits even though the household did not qualify for CE status.

reviewed in FY 2010. In FY 2011, Federal reviewers disagreed with only 129 of the 20,022 State cases they reviewed. The number of cases Federal reviewers disagreed with amounted to approximately one half of 1 percent of the total cases each year.

We also concluded that FNS oversight of the Federal review process, although a national priority, was ineffective because national officials identified Federal review weaknesses, but did not take sufficient action to correct them. In 2009, the FNS national office developed procedures for evaluating the effectiveness of Federal QC reviews, known as “QC to QC” reviews. In the QC to QC process, FNS national office QC specialists select a sample of Federally-reviewed SNAP cases to determine if the Federal reviews are conducted in accordance with FNS policy. FNS national officials have conducted QC to QC reviews in each of the FNS regional offices annually since 2009, and concluded that the Federal reviews were ineffective, in varying degrees. For example, in FYs 2012 and 2013, FNS management determined that between 21 and 60 percent of the State cases they examined had been incorrectly validated by FNS staff (see Table 3 below).

Table 3 – Percentage of Federal Reviews FNS’ National Office Determined Were Inadequate

QC to QC Reviews of FNS Regional Offices FYs 2012-2013						
SWRO	MPRO	SERO	MWRO	NERO	MARO	WRO
25%	34%	21%	24%	42%	60%	46%

Although FNS identified Federal review deficiencies similar to those we found, FNS officials did not take the necessary steps to ensure that regional office QC staff improved the effectiveness of their Federal reviews. FNS national officials sent letters to the regional offices containing their findings from the QC to QC reviews and discussed their findings with the regional offices by telephone to determine their actions to address them. However, FNS national officials did not require regional offices to institute formal corrective actions to address the findings in their reviews. FNS national officials viewed the QC to QC reviews as a training tool, which they expected the regions to use to provide additional training to their staff to address the reported deficiencies. In the letters sent to the regions, they were asked to provide the FNS national office written information outlining their plan to address training; however, we saw no evidence that the regions provided it. We concluded that a more formal process was needed to ensure that regions took the necessary actions to improve the effectiveness of Federal reviews. Without a corrective action plan that is assessed and monitored by the FNS national office, the agency lacks the assurance it needs that regions are taking the appropriate actions to improve the effectiveness of Federal reviews of States’ QC cases.

The increase in SNAP participation and spending in recent years has focused attention on the importance of ensuring FNS has strong controls in place for detecting and addressing incorrect payments. The lack of strong oversight controls, in the form of inadequate Federal QC reviews, has serious implications for the accuracy and reliability of SNAP’s reported payment errors and error rate. By not ensuring that each State agency is performing its SNAP reviews objectively

and in conformance with FNS requirements, FNS national officials lack assurance that SNAP is operating with the integrity needed to properly account for significant disbursements of Federal funds.

FNS' Federal review procedures in *FNS Handbook 315* do not specifically require Federal reviewers to obtain complete case records when conducting QC reviews. To ensure Federal QC reviews are done in a comprehensive, independent manner, FNS needs to modify *FNS Handbook 315* to require that Federal reviewers obtain the necessary information from the SNAP recipients' case files to determine the accuracy of the States' results and then to adequately follow up on all discrepancies. FNS' review of complete case information is the only way Federal reviewers can reach independent conclusions about SNAP payment accuracy and resulting error rates. FNS should also modify the QC to QC review process to require the development of regional office corrective action plans that are assessed and monitored by FNS management.

Recommendation 14

Modify *FNS Handbook 315* to require Federal reviewers to (1) obtain the necessary information from the SNAP recipients' case files to conduct a thorough and independent review to determine the accuracy of the States' results and (2) adequately follow up on all discrepancies.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. Current FNS policy requires that Federal reviewers review information and documents relevant to the case. As written, OIG's recommendation goes beyond current policy to require a specific way in which information must be accessed. FNS submitted to OIG suggested revisions to the wording of this recommendation that focus on the thoroughness of the review. Our suggested language states "Modify *FNS Handbook 315* and related procedures to (1) make the Federal re-review an independent review of the facts of the case and (2) require adequate follow up on discrepancies."

With the increasing modernization of the Program, there are no longer paper case files in most States. We have struggled with the issue of how to adequately review in light of the complexities brought about by the States' computerization of their records. We will continue to examine this issue to determine a more appropriate approach to having access to the information that the auditors think would be in the case files, and ensure that Federal reviewers have all of the information and documents necessary to conduct a thorough and independent review of the facts of each case.

OIG Position

We do not accept management decision on this recommendation. OIG did not accept FNS' suggested change to the recommendation because *FNS Handbook 315* already requires that the

Federal reviewers conduct an independent review of the States' results. As noted in the report, *FNS Handbook 315* states that "Only an independent examination by the Federal reviewer of official documents and statements issued by government agencies, businesses and persons apart from the State agency and the State reviewer (collateral contacts) can meet the objective of the Federal review to verify the actual circumstances of the household and determine the accuracy of the work performed by the State QC reviewer." Despite the current requirement for an independent review, OIG found that the Federal review process did not adequately validate the accuracy and completeness of the State QC reviews because it relied on information States chose to provide to FNS, and because Federal reviewers relied on State assertions and determinations without independently validating the accuracy of those assertions and determinations. OIG concluded that reliance on State provided documents and on State provided conclusions eliminated the possibility for independent Federal reviews, and that the Federal re-review process can only be independent if Federal reviewers obtain complete case information and reach independent conclusions about the accuracy of SNAP cases based on the complete case information. *FNS Handbook 315* currently requires that States make all case information available to the Federal reviewers. To reach management decision on this recommendation, FNS needs to specify the revisions that it plans to make to the *FNS Handbook 315* and related procedures to ensure that the Federal re-reviews are conducted independently as required, the necessary information is obtained from the SNAP recipients' case files in order to conduct a thorough and independent review of the States' results, and that all discrepancies determined during the re-reviews are adequately followed up on. FNS needs to also provide an estimated completion date for this action.

Recommendation 15

Modify the QC to QC review process to require the development of regional office corrective action plans that are assessed and monitored by FNS management.

Agency Response

In its August 31, 2015, response FNS stated:

FNS concurs with this recommendation. We will design and establish a corrective action system for the QC of QC process.

FNS provided an estimated completion date of September 30, 2016, for this action.

OIG Position

We accept FNS' management decision on this recommendation.

Section 2: Payment Accuracy

Finding 4: SNAP Households' Eligibility Questionable Under BBCE

States did not assess the eligibility of more than 15 million SNAP households in FY 2012 under the traditional SNAP eligibility requirements because of their Broad Based Categorical Eligibility (BBCE) status. States allowed these BBCE households to qualify for SNAP benefits based on these households' receipt of information about other State benefit programs. Their eligibility also was not assessed during the QC process used to determine the SNAP error rate. This lack of assessment occurred because FNS established its BBCE policy without ensuring that the other State programs used to confer eligibility met all regulatory requirements regarding State-funding percentages, program purposes, and participant gross monthly income levels. FNS also incorrectly decided to treat BBCE cases the same as other categorically eligible (CE) cases during the QC process. In FY 2012, we found more than 6.4 percent of BBCE QC households received SNAP benefits, even though they exceeded the statutory gross and net income limitations. Further, SNAP's FY 2012 national error rate was understated by more than 6.5 percent (or nearly 0.24 percentage points) because BBCE SNAP recipients' eligibility was not assessed during the QC process. This rate equates to more than \$178 million in improper payments. Considering that more than 15 million households (roughly two thirds of the 22.3 million SNAP households in FY 2012) are eligible due to their BBCE status, and with total SNAP benefits averaging over \$71 billion annually since FY 2010, the amount overpaid to SNAP recipients nationwide due to FNS' BBCE policy is likely substantial.⁵⁹

Federal regulations state that Categorical Eligibility (CE) can be conferred (with FNS approval) to "any household . . . in which all members receive or are authorized to receive non-cash or in-kind services from a program that is less than 50 percent funded . . . under Title IV-A and that is designed to further purposes three and four⁶⁰ of the TANF [Temporary Aid for Needy Families] block grant . . . and requires participants to have a gross monthly income at or below 200 percent of the Federal poverty level."⁶¹ *FNS Handbook 310* states that the QC reviewer need not review those elements of eligibility superseded by categorical eligibility (e.g., resources, gross and net income limits, etc.). According to a 2011 FNS policy memorandum, "the verifications for resources, gross and net income . . . for BBCE households are the responsibility of the [Temporary Aid for Needy Families] TANF program. They are TANF verifications, even if they are listed in State SNAP manuals and should not be verified by SNAP QC."⁶²

Historically, CE enabled recipients who had previously met the eligibility requirements for other comparable programs to be automatically eligible for SNAP. This eliminated the need for States to determine the recipients' eligibility twice. Under CE, the expectation was that another

⁵⁹ A Congressional Budget Office report in 2012 estimated the total cost of BBCE to be roughly between \$11.5 billion and \$11.8 billion over the next 10 years.

⁶⁰ Purpose three is to "prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies." 42 U.S.C. § 601(a). Purpose four is to "encourage the formation and maintenance of two-parent families." *Id.*

⁶¹ 7 C.F.R. § 273.2(j)(2)(ii)(B).

⁶² USDA FNS Policy Memorandum, *Questions and Answers on Broad-Based Categorical Eligibility* (January 31, 2011).

Federally-funded program already assessed and verified certain information about the SNAP applicant's eligibility for financial assistance (e.g., gross and net income, value of resources, citizenship, residency, etc.). In 2009, FNS expanded CE to BBCE, which allowed States to confer eligibility to SNAP applicants based solely on applicants receipt of information (e.g., a brochure, a website address, or a phone number) that described other State programs' services, as long as the applicants' gross incomes were less than 200 percent of the Federal poverty level (FPL). In 2012, FNS estimated that over 15 million SNAP households (approximately 68 percent of all SNAP households) were considered categorically eligible for benefits, based on their receipt of information that referred to other State programs.⁶³ We determined, however, that FNS' BBCE policy did not meet SNAP regulatory requirements regarding State-funding percentages, program purposes, and participant gross monthly income levels. Also, the policy inappropriately excluded ineligible BBCE cases from the SNAP error rate analysis during the QC process. The following sections provide details regarding our findings:

Impact on SNAP Eligibility

We found that the TANF programs referenced in the brochures did not separately assess or determine the applicants' eligibility, and we found no evidence at the eight visited States that those States determined whether the SNAP applicants or their household members were eligible or actually participated in any of these programs. Furthermore, these programs did not meet the regulatory requirements needed to confer SNAP eligibility (e.g., they did not have gross income limitations or meet the required TANF purposes).⁶⁴ Under BBCE, State SNAP eligibility workers assessed the SNAP applicants based on more lenient State-established BBCE requirements, which varied by State, but included gross income limitations that were up to 70 percentage points higher than those for SNAP, and had no net income or asset limitations.⁶⁵

Specific examples of what OIG found are described below.

- One State conferred BBCE on all SNAP applicants that met its State-established BBCE limitations (200 percent of the FPL for gross income, and no net income or asset limits) by having a family planning brochure available. The programs referenced in the brochure did not have any financial eligibility requirements. Additionally, State officials provided the brochure only at the request of SNAP applicants. Consequently, SNAP applicants in that State may not have received the

⁶³ FNS did not track its BBCE households. Consequently, it estimated the number of BBCE households based on the type of assistance received. Those households that received non-cash services or benefits were generally considered BBCE.

⁶⁴ 7 C.F.R. § 273.2(j)(2)(ii)(B).

⁶⁵ SNAP eligibility requirements include a net income limitation of 100 percent of the FPL, a gross income limitation of 130 percent of the FPL, and an asset limitation of \$2,000 (with certain exceptions). As of FY 2013, 43 States, including the District of Columbia and two territories, implemented BBCE with varying gross income and asset requirements. Of these, 29 (more than 67 percent) implemented gross income limitations that ranged from 160 to 200 percent of the FPL. Conversely, only 7 of these States (16 percent) had limits on net income and only 5 of these States (11 percent) had limits on assets. The limit on assets for the five States ranged from \$5,000 to \$25,000.

information that was used to confer eligibility for SNAP unless they specifically requested the information.⁶⁶

- Another State conferred BBCE on all SNAP applicants that met its State-established BBCE limitations (185 percent of the FPL for gross income, and no net income or asset limits) by providing them with a brochure for social services. The brochure referenced many programs that did not have financial eligibility requirements or meet the required TANF purposes. Additionally, the State only mailed the brochure to applicants after it conferred their eligibility for SNAP. Consequently, the State determined the SNAP applicants to be “categorically eligible” for benefits based on a brochure that the applicants had not yet received.
- A third State conferred BBCE on all SNAP applicants that met its State-established BBCE limitations (130 percent and 100 percent of the FPL for gross and net income respectively, and no asset limit)⁶⁷ by providing them with a brochure for the State’s family planning services. The services referenced in the brochure did not have any financial eligibility requirements, but they were restricted to individuals that were of child-bearing age, not sterile, and not pregnant. Consequently, many of the State’s SNAP applicants did not benefit from the information or were not even eligible for the services described in the brochure that was used to confer their eligibility for SNAP. For example, in 2 of the 4 BBCE cases (50 percent) we reviewed at the State, none of the SNAP household members were eligible for the family planning services cited in the brochure because they were young children, ages 5 and below.

We concluded that providing the contact information for another State program can be a service for BBCE purposes, as long as each member of a SNAP applicant’s household actually receives or is authorized to receive such services. Further, we concluded that BBCE cannot be extended to a SNAP household unless all household members are receiving or are authorized to receive services from a program that meets the specific purpose, income level, and other requirements of SNAP regulations.⁶⁸ Consequently, FNS’ BBCE policy did not comply with SNAP regulations because it did not ensure that SNAP applicants received or were authorized to receive services and the services came from a program that met the regulatory requirements (i.e., State-funding percentages, program purposes, and participant gross monthly income levels).

In FY 2012, FNS estimated that more than 91 percent of all SNAP households were CE, and that nearly 75 percent of these households (or more than 15 million) were BBCE. Officials from all of the eight States we visited acknowledged that almost all SNAP recipients were either CE or BBCE and, therefore, few recipients had to meet SNAP’s statutory income and asset limitations.⁶⁹ We analyzed FNS’ QC data from FY 2012, and

⁶⁶ We could not determine from the cases we reviewed whether the applicant actually requested or received a brochure. The State only documented in the applicant’s case file that their status was BBCE.

⁶⁷ These limitations were in effect at the time of our audit; however, the State has since raised its BBCE gross income limitation to 200 percent of the FPL.

⁶⁸ 7 C.F.R. § 273.2(j)(2)(ii)(B).

⁶⁹ 7 U.S.C. § 2014(c), (g).

found that 2,286 (or 6 percent) of the 35,582 BBCE QC cases exceeded SNAP's statutory gross and net income limitations. These recipients received \$241,655, or nearly 3 percent of the SNAP benefits issued in the QC sample month for these cases.⁷⁰ In addition, this number could be much larger if the effect of the elimination of the statutory SNAP asset limitation was known. FNS does not currently obtain asset information for those households that are BBCE, so we were unable to determine whether these households exceeded the statutory limitation. Under FNS' BBCE policy, SNAP applicants' assets are not considered in most States when determining their eligibility for benefits.

Impact on SNAP Error Rate

FNS and States conduct QC reviews of a sample of SNAP households to determine the national error rate for SNAP. The QC reviews are intended to assess whether SNAP recipients were eligible for benefits and received the correct amount. FNS' procedures, however, directed QC reviewers to not assess the eligibility of BBCE SNAP recipients because FNS treated these cases as it treated other CE cases that had eligibility assessed and verified by another program.

FNS' QC procedures for BBCE were inappropriate because, unlike other CE cases, SNAP was the only program that would have assessed the applicants' eligibility under BBCE; no other program would have verified the households' financial information in accordance with regulatory requirements. As previously discussed, State SNAP eligibility workers conferred BBCE on SNAP applicants and determined whether applicants met the State-established BBCE limitations. The State SNAP eligibility workers processed BBCE applications as they processed any other SNAP applications (except applicants were subjected to more lenient requirements), and no other program was involved in the process.

FNS' QC procedures also allowed BBCE SNAP recipients to continue receiving benefits after it became known that they were no longer eligible to participate in the program. For example, during our review of sampled QC cases, we found a SNAP recipient's gross income was 460 percent of the Federal Poverty Level (FPL) during the QC review month. The recipient was allowed to continue in the program, even though the recipient's gross income exceeded the State's BBCE gross income limitation by nearly 150 percent (the State's limitation was 185 percent of the FPL). In another case, we

⁷⁰ The amount cited here is based on our analysis of the QC cases nationwide from FY 2012 recorded in ROQCTS. As was previously noted, FNS does not track its BBCE cases; however, we concluded that households in ROQCTS were likely BBCE if they received no cash assistance from authorized programs in States that implemented FNS' BBCE policy. Our analysis is similar to an analysis performed by GAO in its 2012 report (GAO-12-670, *Improved Oversight of State Eligibility Expansions Needed*, July 2012). Our estimate of BBCE households is also consistent with FNS' 2012 estimate. For these BBCE households, we determined from ROQCTS that 2,157 had gross incomes above 130 percent of the FPL (the SNAP statutory gross income limitation) and an additional 129 households had net incomes above 100 percent of the FPL (the SNAP statutory net income limitation). BBCE households that exceeded the statutory limitations would not have been eligible for benefits without their BBCE status. The 2,286 households received nearly 3 percent of the SNAP benefits issued for the FY 2012 BBCE QC cases (the households received \$241,655 in benefits which, when divided by the \$8,768,239 in benefits provided to FY 2012 BBCE QC cases, equals nearly 3 percent).

found that a SNAP recipient's gross income was 238 percent of the FPL during the QC review month. The SNAP recipient was allowed to continue in the program, even though the recipient's gross income exceeded the State's BBCE gross income limitation by nearly 20 percent (the State's limitation was 200 percent of the FLP). In both cases, QC determined there was no error and no claim was established to recover the amounts.

FNS' QC procedures for BBCE significantly understated the SNAP error rate since BBCE recipients' eligibility was not assessed during the QC reviews. In FY 2012, we found 405 BBCE SNAP households exceeded the States' BBCE gross or net income limitations. Had these households' eligibility been assessed, it would likely have resulted in the identification of additional errors and increased the national SNAP error rate by more than 6.5 percent, or nearly 0.24 percentage points, which equates to more than \$178 million of improper payments.⁷¹ This number could be significantly higher if information regarding the households' assets was maintained and known by FNS.⁷²

In 2010, a Presidential Memorandum⁷³ emphasized the importance of preventing payment errors and protecting public funds against fraud, waste, and abuse. It stated that "In those cases where data available to agencies clearly shows that a potential recipient of a Federal payment is ineligible for it, subsequent payment to that recipient is unacceptable." Contrary to guidance in the memorandum, FNS' QC procedures advised that BBCE households would "never [be] ineligible regardless of income," and that QC reviews did "not identify any eligibility errors" for these households.⁷⁴ FNS did not require QC reviewers to identify eligibility errors for BBCE households, even if the SNAP recipients were required to report changes that made them no longer eligible

⁷¹ The amount cited here is based on our analysis of the nationwide QC data from FY 2012 recorded in ROQCTS. As was previously noted, FNS does not track its BBCE cases; however, we concluded that households in ROQCTS were likely BBCE if they received no cash assistance from authorized programs in States that implemented FNS' BBCE policy. Our analysis is similar to that performed by GAO in its 2012 report (GAO-12-670, *Improved Oversight of State Eligibility Expansions Needed*, July 2012). Our estimate of BBCE households is also consistent with FNS' 2012 estimate. For these BBCE households, we determined that 405 exceeded their State's BBCE gross or net income limitations and were no longer eligible for SNAP benefits. To determine the additional error amount for these 405 ineligible households, we calculated the difference between their State-reported monthly allotments and the State-reported error amounts already identified and reported by the States during the QC process. Using the State reported amounts, we utilized FNS' methodology to determine the impact on the error rate. We calculated the weighted average of each State's additional error amount, which equaled nearly 0.24 percent. We concluded that the SNAP error rate was understated by more than 6.5 percent (0.24 percent rounded and then divided by the FY 2012 SNAP error rate of 3.42 percent plus 0.24 for the additional errors identified. This equates to \$178,237,675 in improper payments (0.24 percent multiplied by \$74,619,344,626 in FY 2012 SNAP benefits). In our calculation, we used the State-reported information in ROQCTS that does not reflect the results of the Federal re-reviews discussed in Finding 3; however, the effect of the re-reviews has historically been small and increased the State-reported error rates. As was previously discussed, the results of both reviews (State and FNS) are combined to calculate the States' error rates.

⁷² Five States have BBCE asset limitations; however, QC does not obtain information regarding assets for CE households so the State-established BBCE asset limitations are not verified.

⁷³ Presidential Memorandum, *Enhancing Payment Accuracy Through A "Do Not Pay List"* (June 18, 2010), published at 75 Fed. Reg. 35,953 (June 23, 2010).

⁷⁴ FNS emails addressing "National office response – BBCE Q&As" and "National Office Response BBCE question" sent to FNS personnel on April 15, 2011, and July 6, 2011, respectively.

(though FNS does not currently require all BBCE SNAP recipients to report when they exceed the State's BBCE gross income limitation).⁷⁵

In order to ensure that CE is appropriately conferred on SNAP applicants, FNS needs to obtain from the Office of the General Counsel (OGC) a legal opinion on whether its current BBCE policy complies with the Federal regulation requiring that all SNAP household members must receive, or be authorized to receive services from another program that meets SNAP regulatory requirements regarding State-funding percentages, program purposes, and participant gross monthly income levels. FNS also needs to amend its QC procedures to ensure BBCE recipients' eligibility for SNAP benefits is fully assessed during the QC review process and any QC errors are included in the error rate.

Recommendation 16

Obtain from the Office of the General Counsel (OGC) a legal opinion on whether FNS' BBCE policy complies with the Federal regulation requiring that all SNAP household members must receive, or be authorized to receive, services from another program that meets SNAP regulatory requirements (i.e., State-funding percentages, program purposes, and participant gross monthly income levels).

Agency Response

In its August 31, 2015, response FNS stated:

FNS will consult with its Office of the General Counsel and senior policy officials and consider the appropriateness of obtaining a legal opinion on whether FNS's BBCE policy complies with Federal regulations requiring that all SNAP household members must receive, or be authorized to receive, services from another program that meets SNAP regulatory requirements.

FNS provided an estimated completion date of September 30, 2016, for this action.

OIG Position

We do not accept management decision on this recommendation. To reach management FNS needs to obtain an independent legal opinion from OGC.

⁷⁵ Under simplified reporting rules, SNAP recipients must report when their gross income exceeds 130 percent of the FPL (the gross income limitation). Since BBCE allows SNAP applicants to have higher gross incomes than what is traditionally allowed, applicants' gross income may be above 130 percent of the FPL at the time of certification. FNS does not require these SNAP recipients to report when their income increases above the State-established BBCE income limitation. In a 2009 policy memorandum, FNS stated,

[C]ategorically eligible households with gross income over the gross income limit have no reporting requirements until they recertify or file a periodic report, whichever comes first We would expect, however, that the TANF program used to confer categorical eligibility would require households to report when their income exceeds the income threshold for the TANF program.

USDA FNS Policy Memorandum, *Categorical Eligibility Questions and Answers* (December 15, 2009).

Recommendation 17

Amend FNS' QC procedures to state that BBCE recipients' eligibility for SNAP benefits must be fully assessed during the QC review process and that any errors identified during the QC review be included in the error rate.

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. We believe that the finding is based on a misunderstanding of SNAP policy.

Current review procedures align with the BBCE policy. The program that confers BBCE is a separate program. It is not in the scope of SNAP Quality Control to review this program.

OIG Position

We do not accept management decision on this recommendation. As noted in the report, we found that there was no other program that actually assessed the BBCE recipient's eligibility for SNAP benefits. To reach management decision on this recommendation, FNS needs to amend its QC procedures to require that BBCE recipients' eligibility for SNAP benefits be fully assessed during the QC review process and that any errors identified during the QC review be included in the error rate. FNS needs to also provide an estimated completion date for this action.

Finding 5: Inaccurate Conversion Factors Used to Determine SNAP Recipients' Monthly Income

SNAP recipients whose weekly and biweekly income amounts were converted to monthly income amounts received more benefits than they were entitled to in five of the eight States in our audit. This oversight occurred because FNS' regulations, used by the States, included inaccurate conversion factors. The regulations listed the conversion factors as 4.3 for weekly income and 2.15 for biweekly income. The conversion factors should have been 4.33 for weekly and 2.17 for biweekly income. If conversion factors are increased, then monthly income increases would tend to decrease the level of SNAP benefits. Considering that since FY 2010, on average, over 45 million people received monthly SNAP benefits totaling over \$71 billion annually, the amount overpaid to SNAP recipients nationwide due to the inaccurate conversion factors is likely substantial.

FNS regulations direct State agencies to convert household incomes to a monthly amount by using conversion factors: a multiplier of 4.3 for weekly income and a multiplier of 2.15 for biweekly income.⁷⁶ The five States all used these conversion factors to determine monthly income for SNAP recipients.⁷⁷ However, we determined the conversion factors listed in FNS' regulations were inaccurate. The factors should have been 4.33 for weekly income and 2.17 for biweekly income.

FNS' conversion factors enabled SNAP recipients paid on a weekly and bi-weekly basis to receive more SNAP benefits than those recipients paid on a monthly basis. For example, if a household earned \$12,000 annually and it was paid monthly, the eligibility worker would determine the household's benefit allotment based on its monthly income of \$1,000. However, if the same household was paid on a biweekly or weekly basis, the eligibility worker would convert the income using FNS' conversion factors, which would result in a monthly income of \$922.30, a difference of \$77.70.⁷⁸ Generally, when calculating a SNAP recipient's benefit amount, the lower his or her monthly income, the greater the benefit. However, if the eligibility worker converted the SNAP recipient's income using the more accurate conversion factors (4.33 for weekly income and 2.17 for biweekly income), the resulting monthly income would more accurately reflect the SNAP recipient's actual monthly income of \$1,000 (\$999⁷⁹ for the weekly conversion and \$1,001⁸⁰ for the biweekly conversion). Consequently, we concluded the weekly

⁷⁶ 7 C.F.R. § 273.10(c)(2).

⁷⁷ The remaining three States in our audit elected to use their own conversion factors that they established for their other public assistance programs, which Federal regulations allowed. One of the States used the same conversion factors that we determined were more accurate, another State used conversion factors similar to the ones that we determined were more accurate, and the remaining State used conversion factors that were less accurate than those listed in FNS' regulations.

⁷⁸ To calculate the monthly income of \$922.30 for households paid biweekly, we took the annual income of \$12,000, divided it by 26 biweekly pay periods, and multiplied it by 2.15. Similarly, to calculate the monthly income of \$922.30 for households paid weekly, we took the annual income of \$12,000, divided it by 52 weekly pay periods, and multiplied it by 4.3.

⁷⁹ To calculate the monthly income of \$999 for households paid weekly, we took the annual income of \$12,000, divided it by 52 weekly pay periods, and multiplied it by 4.33.

⁸⁰ To calculate the monthly income of \$1001 for households paid biweekly, we took the annual income of \$12,000, divided it by 26 biweekly pay periods, and multiplied it by 2.17.

conversion factors of 4.33 and 2.17 (carried out 2 decimal places) would eliminate the inequity between those SNAP recipients paid monthly versus those paid on a weekly or bi-weekly basis.

We determined the conversion factors cited in the regulations were inaccurate when checking QC reviewers' calculations of SNAP recipients' monthly income for the QC cases we reviewed at the five States. When checking the accuracy of the conversion factors, we calculated the weekly conversion factor to be 4.33 (52 weeks divided by 12 months), as opposed to 4.3, and the bi-weekly conversion factor to be 2.17 (26 biweekly periods divided by 12 months), as opposed to 2.15. Although the difference between the conversion factors appears insignificant, its cumulative effect on overall program dollars is substantial. For example, in one of the QC cases we reviewed, the SNAP recipient's monthly benefit should have been \$6 less than was calculated by the eligibility worker had the more accurate conversion factors been used. SNAP recipients in other QC cases we reviewed received monthly overpayments ranging from \$1 to \$3.

On January 26, 2015, we questioned FNS national officials about the conversion factors cited in the regulations. They informed us that the agency had not reviewed the conversion factors since they were included in the regulations in 1978. Thus, they were unaware that the conversion numbers cited in the regulations were inaccurate, and would not comment on the factors until they had time to review them.

To ensure all SNAP recipients receive the appropriate benefit amount and the Federal Government does not incur unnecessary overpayments, FNS needs to amend the SNAP regulations to specify the accurate weekly and biweekly income conversion factors. FNS also needs to notify all States of the accurate conversion factors to use in calculating SNAP recipients' monthly income.

Recommendation 18

Amend the SNAP regulations to specify the accurate weekly and biweekly income conversion factors (4.33 for individuals paid weekly and 2.17 for individuals paid biweekly).

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. We believe that the finding is based on a misunderstanding of SNAP policy.

OIG states in the narrative regarding this finding that "inaccurate conversion factors were used to determine SNAP recipient's monthly income." The draft report states, "SNAP recipients ... received more benefits than they were entitled" when the conversion factors were applied.

The use of these conversion factors is an option to States. As provided by 7 CFR 273.10(c)(2):

Whenever a full month's income is anticipated but is received on a weekly or biweekly basis, the State agency shall convert the income to a monthly amount by multiplying weekly amounts by 4.3 and biweekly amounts by 2.15, use the State Agency's PA conversion standard, or use the exact monthly figure if it can be anticipated for each month of the certification period.

Note that the policy allows States to apply the State Agency's public assistance (PA) conversion standard. This means the State may use TANF conversion standards of 4.333 for weekly or 2.167 for monthly income.

Thus, a State that utilizes one of these three methods is ensuring that the SNAP recipient receives the correct benefit to which they are entitled.

It may be helpful to read more about the history behind this policy.

These conversion factors are long-standing policy. They appear in the US House Committee on Agriculture's Report which recommended passage of the Food Stamp Act of 1977. The 862-page report is the result of two and one-half years of work by the Committee to analyze the growth and cost of the program, determine the nature and extent of administrative problems, and recommend actions for the future of the program.

The report provides, "The eligibility worker should convert income received ... to a monthly figure by use of a multiplier in the following manner: (1) Weekly income—multiply by 4.3 or 4 1/3. (2) Biweekly income—multiply by 2.15 or 2 1/5."

FNS codified these conversion factors through rulemaking, including a Notice of Proposed Rulemaking published on May 2, 1978 and a Final Rule published on October 17, 1978. Between the Proposed Rulemaking and the Final Rulemaking, the Department made an important addition.

The Preamble of the Final Rule describes comments received regarding determining income: "Nearly 500 comments were received on this portion of the regulations. ... State and local agencies were frequently concerned with the use of the proposed multipliers for converting income received on a weekly (4.3) or biweekly (2.15) basis. Some recommended using 4.333 and 2.167 to conform to the AFDC factors for weekly and biweekly income conversions."

To address this, "The final rules permit State agencies to use the public assistance conversion factors for multiplying weekly or biweekly income to obtain monthly income. State agencies may also use the exact monthly figure if it can be obtained for the entire certification period."

Thus, States may use the more precise conversion factors from their TANF programs, or they may use the 4.3 and 2.15 multipliers, or they may use the actual income if it can be anticipated. All three methods are "accurate" and would result in the household receiving the benefits to which they are entitled.

OIG Position

We do not accept FNS' management decision on this recommendation. It is OIG's position that for those States that choose to use FNS' conversion factors, which was the majority of the States we reviewed, that the conversion factors be as accurate as possible in order to eliminate the inequality in the SNAP benefits received by those with monthly incomes. As was noted in the report, FNS' conversion factors enabled SNAP recipients paid on a weekly and bi-weekly basis to receive more SNAP benefits than those recipients paid on a monthly basis. To reach management decision on this recommendation, FNS needs to amend the SNAP regulations to specify the accurate weekly and biweekly income conversion factors (4.33 for individuals paid weekly and 2.17 for individuals paid biweekly) and provide an estimated completion date for this action.

Recommendation 19

Notify the States of the accurate conversion factors to use to calculate SNAP recipients' monthly income (4.33 for individuals paid on a weekly basis, and 2.17 for individuals paid on a biweekly basis).

Agency Response

In its August 31, 2015, response FNS stated:

FNS does not concur with this recommendation. Please refer to FNS's response to Recommendation 18.

OIG Position

We do not accept management decision on this recommendation. To reach management decision, FNS needs to notify the States of the accurate conversion factors to use to calculate SNAP recipients' monthly income (4.33 for individuals paid on a weekly basis, and 2.17 for individuals paid on a biweekly basis) and provide an estimated completion date for this action.

Scope and Methodology

We conducted an audit of the QC process that FNS and States used to determine the SNAP error rates. To accomplish our objectives, we performed fieldwork at FNS' national office and all seven of its regional offices (see Exhibit B). We also performed fieldwork at the State agencies responsible for administering SNAP in the following eight States: California,⁸¹ Connecticut, Florida, Maryland, Nebraska, Texas, Vermont, and Wisconsin. We non-statistically selected at least one State from each FNS region, based primarily on the amount of SNAP benefits and reported error rate.⁸² We performed our audit work from March 2013 through January 2015.

For the 8 States, we statistically selected 80 of the State-completed 8,936 QC cases in FY 2011. We evaluated whether the States' QC reviewers adequately reviewed those cases and drew the appropriate conclusions. We also statistically selected 60 of the 3,167 QC cases that were reviewed by both the States and FNS in FY 2011. We evaluated whether FNS' QC reviewers adequately reviewed the cases to validate both the conclusions reached by the States' QC reviewers and the States' reported error rates. In total, we reviewed 140 statistically selected QC cases from FY 2011 for the eight States. See Exhibit D for further details on our sampling methodology.

In developing the findings for this report, we also performed the following steps and procedures:

At the FNS National Office (see Exhibit B), we:

- reviewed the pertinent laws and regulations governing the QC review processes for SNAP and the current policies and procedures FNS established as guidance for SNAP and the QC reviews; and
- interviewed key personnel to gain an understanding about SNAP, the QC processes, SNAP information systems, and National Office oversight.

At the FNS regional offices (see Exhibit B), we:

- reviewed supplemental guidance issued for the QC review processes;
- interviewed key personnel to gain an understanding about SNAP, the FNS regional office QC review processes, regional office oversight of State activities, and SNAP information systems capabilities and internal controls;

⁸¹ The State of California does not perform QC reviews for all of its counties, but instead allows certain counties to perform their own reviews. To adequately cover the QC process in California, we non-statistically selected two of its counties that conducted their own QC reviews. The two counties selected were Fresno County and Los Angeles County. The two counties were selected based on the amount of program benefits and reported error rate.

⁸² We selected a mix of large, medium, and small States based on the level of SNAP funding. For example, we classified a State as small if it issued less than \$700 million in SNAP benefits, medium if it issued between \$700 million and \$2 billion in SNAP benefits, and large if it issued more than \$2 billion in SNAP benefits. We ultimately selected two small States (Connecticut and Vermont), three medium States (Maryland, Nebraska, and Wisconsin), and three large States (California, Florida, and Texas).

- obtained QC data for FYs 2011 and 2012 from ROQCTS and analyzed the data's reliability and integrity;⁸³ and
- reviewed a statistical sample of FY 2011 QC case files subjected to FNS QC reviews to evaluate the accuracy and consistency of the QC review assessments and determinations.

At selected State offices (see Exhibit B), we:

- reviewed State manuals and guidance issued for administration of SNAP and the QC review processes;
- interviewed personnel to gain an understanding about SNAP, the State office QC review processes, State office oversight, and SNAP information systems capabilities and internal controls;
- obtained QC data for FYs 2011 and 2012 from ROQCTS, which included information fed directly from the State SNAP QCS, and analyzed the data's reliability and integrity;⁸⁴ and
- reviewed a statistical sample of FY 2011 QC case files subjected to State-only QC reviews for seven of the eight selected States to evaluate the accuracy and consistency of the QC review assessments and determinations.

At selected county offices (see Exhibit B), we:

- reviewed county manuals and guidance issued for administration of SNAP and the QC review processes;
- interviewed key personnel to gain an understanding about SNAP, the county office QC review processes, county office oversight, and SNAP information systems capabilities and internal controls; and
- reviewed the statistical sample of FY 2011 QC case files subjected to county QC reviews for one of the selected counties in California to evaluate the accuracy and consistency of the QC review assessments and determinations.

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

⁸³ To determine the data's reliability and integrity, we compared the information in the QC case files for our sampled QC cases to the information in ROQCTS.

⁸⁴ *Id.*

Abbreviations

BBCE	Broad Based Categorical Eligibility
CE	Categorical Eligibility
C.F.R.	Code of Federal Regulations
E&T.....	Employment and Training
FNS	Food and Nutrition Service
FPL.....	Federal Poverty Level
FY	Fiscal Year
GAO	Government Accountability Office
MARO.....	Mid-Atlantic Regional Office
MPRO	Mountain Plains Regional Office
MWRO.....	Midwest Regional Office
NERO.....	Northeast Regional Office
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
QC	Quality Control
ROQCTS.....	Regional Office Quality Control Tracking System
SERO	Southeast Regional Office
SNAP	Supplemental Nutrition Assistance Program
SNAP QCS.....	SNAP Quality Control System
SWRO.....	Southwest Regional Office
TANF	Temporary Aid for Needy Families
U.S.C.....	United States Code
WRO	Western Regional Office

Exhibit A: Summary of Monetary Results

This exhibit lists findings and recommendations that had a monetary result, and includes the type and amount of the monetary result.

Finding	Recommendation	Description	Amount	Category
2	11	QC Reviews Not Conducted In Accordance with SNAP Regulations	\$5,568,534	Questioned Costs, No Recovery
4	16	FNS' BBCE Policy Does Not Comply With SNAP Regulations	\$241,655	Questioned Costs, No Recovery
4	17	FNS' BBCE Policy Understates SNAP Error Rate	\$178,237,675	Questioned Costs, No Recovery
TOTAL MONETARY RESULTS			\$184,047,864	

Exhibit B: Audit Sites Visited

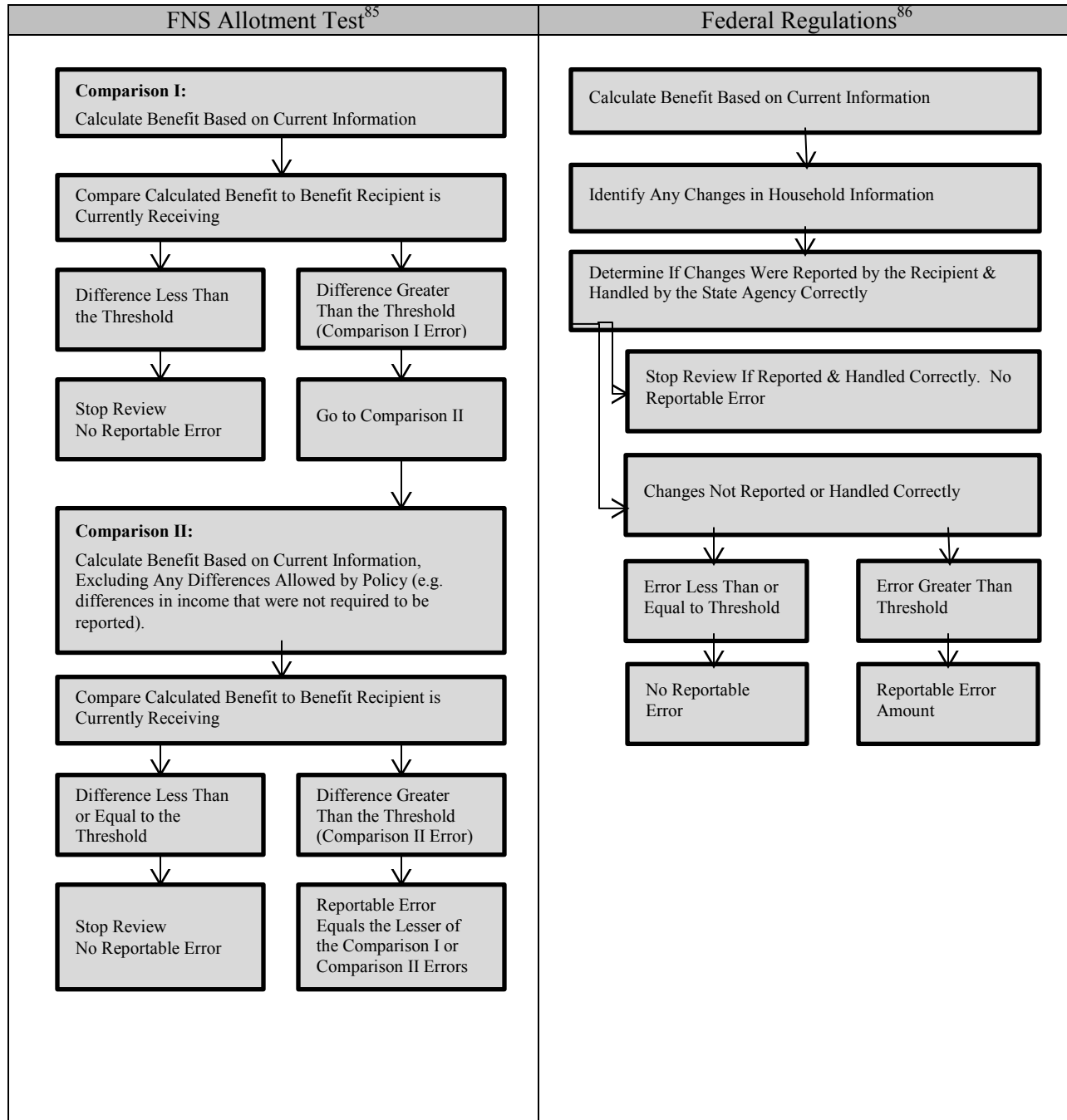
This exhibit shows the name and location of all sites visited, including FNS offices and State and county offices responsible for the QC reviews.

AUDIT SITE	LOCATION
FNS National Office	Alexandria, VA
FNS Southwest Regional Office <u>State Office</u> Texas Health and Human Services Commission	Dallas, TX Austin, TX
FNS Southeast Regional Office <u>State Office</u> Florida Department of Children and Families	Atlanta, GA Tallahassee, FL
FNS Western Regional Office <u>State Office</u> California Department of Social Services <u>County Offices</u> County of Los Angeles Department of Public Social Services County of Fresno Department of Social Services	San Francisco, CA Sacramento, CA City of Industry, CA Fresno, CA
FNS Midwest Regional Office <u>State Office</u> Wisconsin Department of Health Services	Chicago, IL Madison, WI
FNS Northeast Regional Office <u>State Offices</u> Connecticut Department of Social Services Vermont Agency of Human Services at Department for Children and Families	Boston, MA Hartford, CT Essex Junction, VT
FNS Mid-Atlantic Regional Office <u>State Office</u> Maryland Family Investment Administration at Department of Human Resources	Robbinsville, NJ Baltimore, MD

FNS Mountain Plains Regional Office	Denver, CO
<u>State Office</u> Nebraska Department of Health and Human Services	Lincoln, NE

Exhibit C: FNS Allotment Test Flowchart

This exhibit compares the allotment test QC reviewers currently use to determine errors versus the process the Federal regulations require for determining errors.



⁸⁵ FNS Handbook 310.

⁸⁶ 7 CFR 275.12.

Exhibit D: Sampling Methodology

This exhibit shows our sampling methodology for those SNAP QC cases statistically selected for review. It also shows our sampling methodology for those States non-statistically selected for review.

Objective

The objective was to determine whether FNS and the State agencies responsible for administering SNAP have adequate controls in place to ensure that SNAP payment error rates were accurately determined and reported, the appropriate actions were taken to reduce the error rates, and errors were timely corrected when detected. We used non-statistical and statistical sampling⁸⁷ to ensure objectivity of our audit results, but no projections were made.

Audit Universe⁸⁸

In FY 2011, FNS and the States performed a QC review on a total of 57,892 SNAP cases. Due to resource and time constraints, we did not include all States in our audit universe. We focused on eight States for review - California, Connecticut, Florida, Maryland, Nebraska, Texas, Vermont, and Wisconsin. With this selection of States, we had a sample of 3 large States, 2 medium States, and 3 small States; 3 States with poor error rates, 3 States with average error rates, and 2 States with good error rates; States that received bonuses totaling \$49,152,378 or were assessed sanctions totaling \$6,877,547; and 2 States that were able to improve error rates through various corrective actions. Overall, the 8 States issued benefits of \$22,058,243,249 (30 percent) of the \$74,620,790,688 in nationwide benefits issued in FY 2012.

Additional considerations in our State selections were selecting a State from each FNS region and two from the FNS Northeast Region because of the consistently high error rates of the States within that region. In selecting the eight States, the audit team not only wanted to obtain a sample of States throughout the country, but also States with a variety of SNAP error rate characteristics. We selected States of various sizes in terms of benefits paid out to recipients (States that paid out more than \$2 billion in 2012 are considered large, States that paid out between \$700 million and \$2 billion in 2012 are considered medium, and States that paid out less than \$700 million in 2012 are considered small), as well as States that had displayed an ability to have low error rates, States that had struggled to achieve low error rates, and States that had received bonuses or had been assessed sanctions.

In summary, our total audit universe consists of the 8 States mentioned above, and a total of 8,936 QC reviews in FY 2011. The State only or the State and FNS reviewed these cases.

⁸⁷ Also referred to as random or probability sampling.

⁸⁸ All data used for this sample was from the most recent available information. Benefit information was available through FY 2012, while error rate, bonuses and sanctions, and QC case information was available through FY 2011.

Sample Design

Of the 8,936 cases total, we selected 140 for review. The State and FNS reviewed 60, and the State only reviewed 80.

We chose to use a stratified sample design because we wanted to be able to make separate projections if projections were made. We used two strata – stratum 1 consisted of cases reviewed by the State and FNS, and stratum 2 of cases reviewed by the State only. Within each stratum, we selected a simple random sample of cases. The sampling probability of selection is equal for each case within each stratum. A summary of the strata counts is presented in table 1 below.

Table 1. Stratified sample design counts

Strata	Universe counts - number of cases	Sample counts - number of cases
Stratum I: Cases reviewed by both the State and FNS	3,167	60
Stratum II: Cases reviewed by the State only	5,769	80
Total	8,936	140

Results

We are not using this statistical sample to make projections to the universe of cases. We decided to omit projections in this report because of our internal requirements for precision on statistical estimates, combined with our sample size, as it relates to our findings. Additionally, some of our findings are relevant to cases outside of our sample, as opposed to the original universe we worked with. We did not have a way to predict this before the sample development stage. Hence, the audit report presents actual findings only.

**USDA'S
FNS
RESPONSE TO AUDIT REPORT**



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
Center Drive
Room 712

Alexandria, VA
22302-1500

DATE: August 31, 2015

AUDIT
NUMBER: 27601-0002-41

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

FROM: /s/ <Yvette S. Jackson> (for): Audrey Rowe
Administrator
Food and Nutrition Service

SUBJECT: FNS: Quality Control Process for SNAP Error Rate

This letter responds to the Office of Inspector General (OIG) official draft report for audit report number 27601-0002-41, FNS: Quality Control Process for SNAP Error Rates. Specifically, the Food and Nutrition Service (FNS) is responding to the content, recommendations and Exhibits in the audit report.

FNS Response to the Introduction section of the audit report, “What OIG Found”:

The Quality Control system is an integral component of FNS’s responsibility to effectively administer the Program to ensure that families and communities receive critical nutrition assistance while practicing strong public stewardship. FNS takes its role very seriously to preserve the integrity of the system. Thus, while we would like to express our appreciation for the audit of the Quality Control system, as a number of the recommendations are helpful and identify areas for needed improvement, we also have some concerns with the report.

First and foremost, FNS is concerned about the expansion of the audit to encompass FNS policies that are outside of the operations of the Quality Control system. It is under FNS purview to establish policy. The recommendations of the audit reveal that there was not full understanding or acknowledgement of the complexities of SNAP certification and Quality Control policy which have their basis in statute and regulation. Some assertions are made without information that would allow us to adequately understand the issues or follow up on the concerns raised. For example, the report states, “We were provided documentation by State officials from two of the States in our audit that described the mitigation work performed by error review committees on active error cases and the results of these mitigation activities on reported errors”.¹ However, throughout the report, references are made to unidentified State officials or undocumented conversations, seemingly alleging that this activity is consistent among all eight States reviewed, even though documentation was obtained from two of the eight States. As a result, portions of

¹ Reference is found in Section 1, page 10, of the report.

the OIG audit may be misleading by making it appear that errors are being underreported when, in fact, actions being taken are mostly in accordance with current policy and regulations.

Additionally, several references are made throughout the report that are attributed to a single State official in one State, implying that this individual has knowledge of or is speaking on behalf of other States. Furthermore, FNS is concerned that the report fails to prominently indicate in the summary that these conclusions are based on a review of 80 cases out of the 8,936 cases completed in these eight States in FY 2011. Instead, this information is contained at the end of the report in the scope and methodology section. This represents less than one percent of all cases reviewed in the eight States selected; however, the report draws conclusions indicating the allegations are widespread. Similarly, the second finding also concludes that federal reviews are inadequate, but does not note until later in the report that this conclusion is based on a review of 60 out of 3,167 cases, or less than two percent. We believe some articulation of the scope of these observed problems would be helpful to readers of the audit report.

Your report referred to a limited number of cases where you found the review process did not identify shortcomings in the verification, but then failed to provide any specific information to aid the Agency in understanding your viewpoint on the inadequacies of the review of these cases. As this is an important part of the business which we conduct on an ongoing basis, it would have been helpful if you in some way followed the process we use to document cases where we have disagreed. For example, add an appendix to the report that individually identifies each case reviewed, the determination of the federal re-reviewer, your observation, and then explain what is incorrect with the review, disposition or findings of the case. This would allow FNS to further review your conclusions from individual cases in order to identify trends or training opportunities to strengthen the federal re-review process.

We are also very concerned about the summary of monetary results presented in Exhibit A of this report. The information is presented in a manner that implies these costs represent underreported improper payments, which is not the case. In addition, additional monetary estimates are provided within the context of the report implying that States underreported improper payments by attributing the entire reduction in a State's payment error rate to alleged activities cited in the report.² However, at no point did the audit document other factors in a State that may have contributed to a reduction in the State's error rate. State agencies have made significant investments over the years in policy training for staff, improved eligibility systems, and expanded data matching, examples of activities implemented to prevent errors before they occur. In fact, the largest estimate provided in Exhibit A is based on incorrect assertion that FNS's Broad Based Categorical Eligibility Policy understates the SNAP error rate. It is not clear to FNS the basis for this allegation as eligibility determinations are made in accordance with FNS's statutory authority. Furthermore, FNS could not replicate the monetary estimates provided and find any transparent reference to the methodology used to develop them. FNS is

² For example, the reference on page 9 to an alleged estimated value of \$413.5 million in improper payments from Table 1.

requesting that the methodology used to develop these estimates, including a list of assumptions that were made, be shared with the Agency for review and be prominently noted in the report so as not to inadvertently mislead the audience.

FNS responses to the report's recommendations:**Recommendation 1:**

Perform an analysis of the cost/benefit of changing the quality control (QC) process from a two-tier process that relies on the States to make error determinations to a one-tier process where only FNS or an unaffiliated contracted third party reviews cases for errors. If determined cost beneficial, establish a timeline for implementing the change.

FNS Response:

FNS concurs with this recommendation. However, the audit refers to the 1987 National Academy Panel study that recommended FNS adopt a one-tier QC system. The audit did not recognize that FNS commissioned an evaluation study done by the Urban Institute following the 1987 recommendation. That report found: 1) there was no strong evidence that the error rates would be any different under a one-tier QC system, 2) there was little evidence that there is a difference in the quality of the reviews between the one-tier and two-tier system, and 3) under comparison of equal sample size, a Federal one-tier system would cost the Federal government 16% more than the two-tiered system. After receiving the results of that study, no change was made by the Agency to institute a one-tier system. Nevertheless, we will pursue a reexamination of a one-tier QC alternative to the current two-tier system.

Estimated completion date – September 30, 2016

Recommendation 2:

Enforce FNS' policy prohibiting States from using error review committees to review selected active error cases to assess the potential for reducing or eliminating errors.

FNS Response:

FNS concurs with this recommendation. As stated in the report, current FNS guidance addresses the use of error review committees and provides guidelines for the use of error review committees to prevent bias. FNS had already implemented a review process to evaluate the processes used by States to avoid bias and maintain the integrity of the Quality Control system. FNS advised OIG of this process in our discussion on January 26, 2015; however, it was not noted in the report. FNS conducted its first review in Virginia in April 2015 and its second review in Vermont in July 2015. Additional reviews are planned for the next year. Upon completion of the reviews, FNS will take appropriate action to enforce FNS policy if it is determined that a State is using an error review committee to reduce or eliminate potential errors.

Estimated completion date – September 30, 2015

Recommendation 3:

Issue guidance to States on the appropriate use of private consultants during the QC process. The guidance should prohibit States from using private consultants to advise States' QC staff to review selected QC error cases that are still active in order to assess the potential for reducing or eliminating errors.

FNS Response:

FNS concurs with this recommendation on the condition that the guidance is specific to State's compliance with federal regulations and policies. FNS has previously issued guidance to States with the expectation that they prevent unacceptable bias from affecting the results of Quality Control case reviews. We will reissue this guidance and provide technical assistance as necessary. The fact that private consultants may be involved in providing improper advice does not absolve the State of its responsibility in this area. Therefore, our focus will remain on States implementing appropriate processes. In addition, FNS is requesting clarification from OIG as its determination of the legal authority the federal government possesses to restrict State agencies from using private consultants.

Estimated completion date – September 30, 2015

Recommendation 4:

Issue guidance to States that prohibits QC reviewers from inconsistently and incorrectly applying policies in order to mitigate QC errors. The guidance should prohibit (1) using different income averaging periods to manipulate income, (2) creating off-setting deductions, and (3) applying other techniques specifically designed to inappropriately reduce and/or eliminate QC errors.

FNS Response:

FNS concurs with this recommendation. FNS guidance and policies already provide guidelines on income averaging and deductions discovered during the QC review, and there is existing guidance on eliminating bias in the QC review process. We will revise and reissue this guidance to include discussion of the practices that the auditors encountered, and stipulate that mitigating errors is an inappropriate approach to doing the QC work. The revisions will make clear that States must follow their standard averaging rules and those rules are to be consistently applied to all cases. It will also stress the rules for allowances of deductions and when a reviewer is allowed to apply deductions relative to the actual circumstances of the case.

Estimated completion date – September 30, 2015

Recommendation 5:

Review the QC process administered at those States whose error rates significantly dropped after using error review committees and/or private consultants to ensure that the QC reviews were performed in compliance with FNS' QC review requirements. At a minimum, the reviews should

determine whether States are treating sampled cases consistently during the QC process and not mitigating errors on active QC cases.

FNS Response:

FNS concurs with this recommendation. FNS already has an existing process to monitor and review integrity of State QC systems. FNS uses a data driven approach to identify states for review. FNS will continue to review QC processes in those States where the data indicates warranted attention.

Estimated completion date – September 30, 2015

Recommendation 6:

Review the QC process administered at all States on a periodic basis to ensure compliance with FNS' QC review requirements and that reviewer bias is absent from the QC process.

FNS Response:

FNS concurs with this recommendation. FNS already has QC management evaluation review modules. We will enhance these modules to put a greater focus on QC integrity using what we have learned through our reviews.

Estimated completion date – December 31, 2016

Recommendation 7:

If inappropriate QC review practices are found at the selected States reviewed pursuant to Recommendations 5 and 6, correct the identified review deficiencies and adjust the States' error rates as appropriate.

FNS Response:

FNS concurs with this recommendation. If determined that any State Agency is using unacceptable QC review practices, FNS will take action based on regulatory and statutory authority.

Recommendation 8:

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to ensure QC reviewers base their conclusions on information verified through documentation or contacts with third parties who confirmed the accuracy of the information.

FNS Response:

FNS does not concur with this recommendation. "Likely conclusion" policy was implemented specifically to assist States in using reliable information to complete more cases, provide more

accurate reporting to FNS, and prevent the bias that has been identified earlier in this report. Removing the use of likely conclusion would increase the number of dropped cases, jeopardize integrity, and may allow State Agencies to use dropped cases to under report errors.

Recommendation 9:

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to limit the use of “likely conclusion.”

FNS Response:

FNS does not concur with this recommendation. As indicated in our response to Recommendation 8, removing the use of likely conclusion would increase the number of dropped cases, jeopardize integrity, and allow State Agencies to use dropped cases to under report errors. We will strengthen language about the appropriate use of likely conclusion in FNS Handbook 310 to provide more structure on the use of this policy to States.

Estimated completion date – September 30, 2016

Recommendation 10:

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to mandate that employment and training program participation be verified during the QC process.

FNS Response:

FNS does not concur with this recommendation. Under current review procedures, QC reviewers already check for non-compliance with Employment and Training (E&T) program requirements. We will review procedures to identify opportunities to strengthen the rules on how reviewers must verify compliance with E&T requirements.

Estimated completion date – September 30, 2016

Recommendation 11:

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to require the error tolerance threshold not be applied when calculating the SNAP recipient’s reportable error amount until all variances (including those permitted by SNAP policy) have been properly identified and accounted for during the QC process.

FNS Response:

FNS does not concur with this recommendation. We believe this finding may be a result of a misunderstanding of SNAP Quality Control policy. The current two-step process was developed to adequately account for statutory eligibility rules as well as regulatory policy flexibilities. The procedure proposed in this recommendation would eliminate a step in the current process and

result in undue penalties on States as errors would be called in some instances where the State issued the correct amount of benefits following statutory rules.

Recommendation 12:

Amend FNS QC policies and procedures (including *FNS Handbook 310*) to require that (1) SNAP recipient reporting errors identified during the QC process are considered separately from the State agency's failure to act on the errors and (2) SNAP recipient reporting errors and State agency failure to act on the errors are individually assessed against their respective regulatory timeframes.

FNS Response:

FNS does not concur with this recommendation. We believe that the finding is based on a misunderstanding of SNAP policy.

Quality Control reviews each sampled case to ensure payment accuracy in the sample month. As long as the sample month benefits are reviewed, we find that considering the client's time to report separately from the State Agency's time to act irrelevant. Furthermore, it would be difficult for reviewers to determine a clear timeline of who took what action in all cases. Reviewing the final benefit determination in the sample month is the issue. To determine a payment error based on reporting does not make sense. FNS believes we are appropriately measuring the certification requirement as established by regulations and changing the review procedures as suggested would unfairly bias the review process. Just as importantly, it has no impact on the benefit amount and, therefore, is irrelevant to improper payment assessment.

Recommendation 13:

Implement QC policies and procedures to ensure the States report and act upon information obtained during the QC process affecting SNAP recipients' benefits within required timeframes.

FNS Response:

FNS does not concur with this recommendation as we believe we already have an established policy to address this concern. It is current policy for States to follow up on the results of the review and, where appropriate, to establish claims when they should be established. We will reissue guidance and expand upon it to make clear that it is the responsibility of State staff to report to the eligibility worker that information has been uncovered by a Quality Control case review.

Estimated completion date – September 30, 2016

Recommendation 14:

Modify *FNS Handbook 315* to require Federal reviewers to (1) obtain the necessary information from the SNAP recipients' case files to conduct a thorough and independent review to determine the accuracy of the States' results and (2) adequately follow up on all discrepancies.

FNS Response:

FNS does not concur with this recommendation. Current FNS policy requires that Federal reviewers review information and documents relevant to the case. As written, OIG's recommendation goes beyond current policy to require a specific way in which information must be accessed. FNS submitted to OIG suggested revisions to the wording of this recommendation that focus on the thoroughness of the review. Our suggested language states "Modify *FNS Handbook 315* and related procedures to (1) make the Federal re-review an independent review of the facts of the case and (2) require adequate follow up on discrepancies."

With the increasing modernization of the Program, there are no longer paper case files in most States. We have struggled with the issue of how to adequately review in light of the complexities brought about by the States' computerization of their records. We will continue to examine this issue to determine a more appropriate approach to having access to the information that the auditors think would be in the case files, and ensure that Federal reviewers have all of the information and documents necessary to conduct a thorough and independent review of the facts of each case.

Recommendation 15:

Modify the QC to QC review process to require the development of regional office corrective action plans that are assessed and monitored by FNS management.

FNS Response:

FNS concurs with this recommendation. We will design and establish a corrective action system for the QC of QC process.

Estimated completion date – September 30, 2016

Recommendation 16:

Obtain from the Office of the General Counsel (OGC) a legal opinion on whether FNS' BBCE policy complies with the Federal regulation requiring that all SNAP household members must receive, or be authorized to receive, services from another program that meets SNAP regulatory requirements (i.e., State-funding percentages, program purposes, and participant gross monthly income levels).

FNS Response:

FNS will consult with its Office of General Counsel and senior policy officials and consider the appropriateness of obtaining a legal opinion on whether FNS's BBCE policy complies with Federal regulations requiring that all SNAP household members must receive, or be authorized to receive, services from another program that meets SNAP regulatory requirements.

Estimated completion date – September 30, 2016

Recommendation 17

Amend FNS' QC procedures to state that BBCE recipients' eligibility for SNAP benefits must be fully assessed during the QC review process and that any errors identified during the QC review be included in the error rate.

FNS Response:

FNS does not concur with this recommendation. We believe that the finding is based on a misunderstanding of SNAP policy.

Current review procedures align with the BBCE policy. The program that confers BBCE is a separate program. It is not in the scope of SNAP Quality Control to review this program.

Recommendation 18:

Amend the SNAP regulations to specify the correct weekly and biweekly income conversion factors (4.33 for individuals paid weekly and 2.17 for individuals paid biweekly).

FNS Response:

FNS does not concur with this recommendation. We believe that the finding is based on a misunderstanding of SNAP policy.

OIG states in the narrative regarding this finding that "inaccurate conversion factors were used to determine SNAP recipient's monthly income." The draft report states, "SNAP recipients ... received more benefits than they were entitled" when the conversion factors were applied.

The use of these conversion factors is an option to States. As provided by 7 CFR 273.10(c)(2):

Whenever a full month's income is anticipated but is received on a weekly or biweekly basis, the State agency shall convert the income to a monthly amount by multiplying weekly amounts by 4.3 and biweekly amounts by 2.15, use the State Agency's PA conversion standard, or use the exact monthly figure if it can be anticipated for each month of the certification period.

Note that the policy allows States to apply the State Agency's public assistance (PA) conversion standard. This means the State may use TANF conversion standards of 4.333 for weekly or 2.167 for monthly income.

Thus, a State that utilizes one of these three methods is ensuring that the SNAP recipient receives the correct benefit to which they are entitled.

It may be helpful to read more about the history behind this policy.

These conversion factors are long-standing policy. They appear in the US House Committee on Agriculture's Report which recommended passage of the Food Stamp Act of 1977. The 862-page report is the result of two and one-half years of work by the Committee to analyze the growth and cost of the program, determine the nature and extent of administrative problems, and recommend actions for the future of the program.

The report provides, "The eligibility worker should convert income received ... to a monthly figure by use of a multiplier in the following manner: (1) Weekly income—multiply by 4.3 or 4 1/3. (2) Biweekly income—multiply by 2.15 or 2 1/5."

FNS codified these conversion factors through rulemaking, including a Notice of Proposed Rulemaking published on May 2, 1978 and a Final Rule published on October 17, 1978. Between the Proposed Rulemaking and the Final Rulemaking, the Department made an important addition.

The Preamble of the Final Rule describes comments received regarding determining income: "Nearly 500 comments were received on this portion of the regulations. ... State and local agencies were frequently concerned with the use of the proposed multipliers for converting income received on a weekly (4.3) or biweekly (2.15) basis. Some recommended using 4.333 and 2.167 to conform to the AFDC factors for weekly and biweekly income conversions."

To address this, "The final rules permit State agencies to use the public assistance conversion factors for multiplying weekly or biweekly income to obtain monthly income. State agencies may also use the exact monthly figure if it can be obtained for the entire certification period."

Thus, States may use the more precise conversion factors from their TANF programs, or they may use the 4.3 and 2.15 multipliers, or they may use the actual income if it can be anticipated. All three methods are "accurate" and would result in the household receiving the benefits to which they are entitled.

Recommendation 19:

Notify the States of the correct conversion factors to use to calculate SNAP recipients' monthly income (4.33 for individuals paid on a weekly basis, and 2.17 for individuals paid on a biweekly basis).

FNS Response:

FNS does not concur with this recommendation. Please refer to FNS's response to Recommendation 18.

FNS Response to Attachments:

FNS has provided responses to the chart from the audit report, Exhibit A.

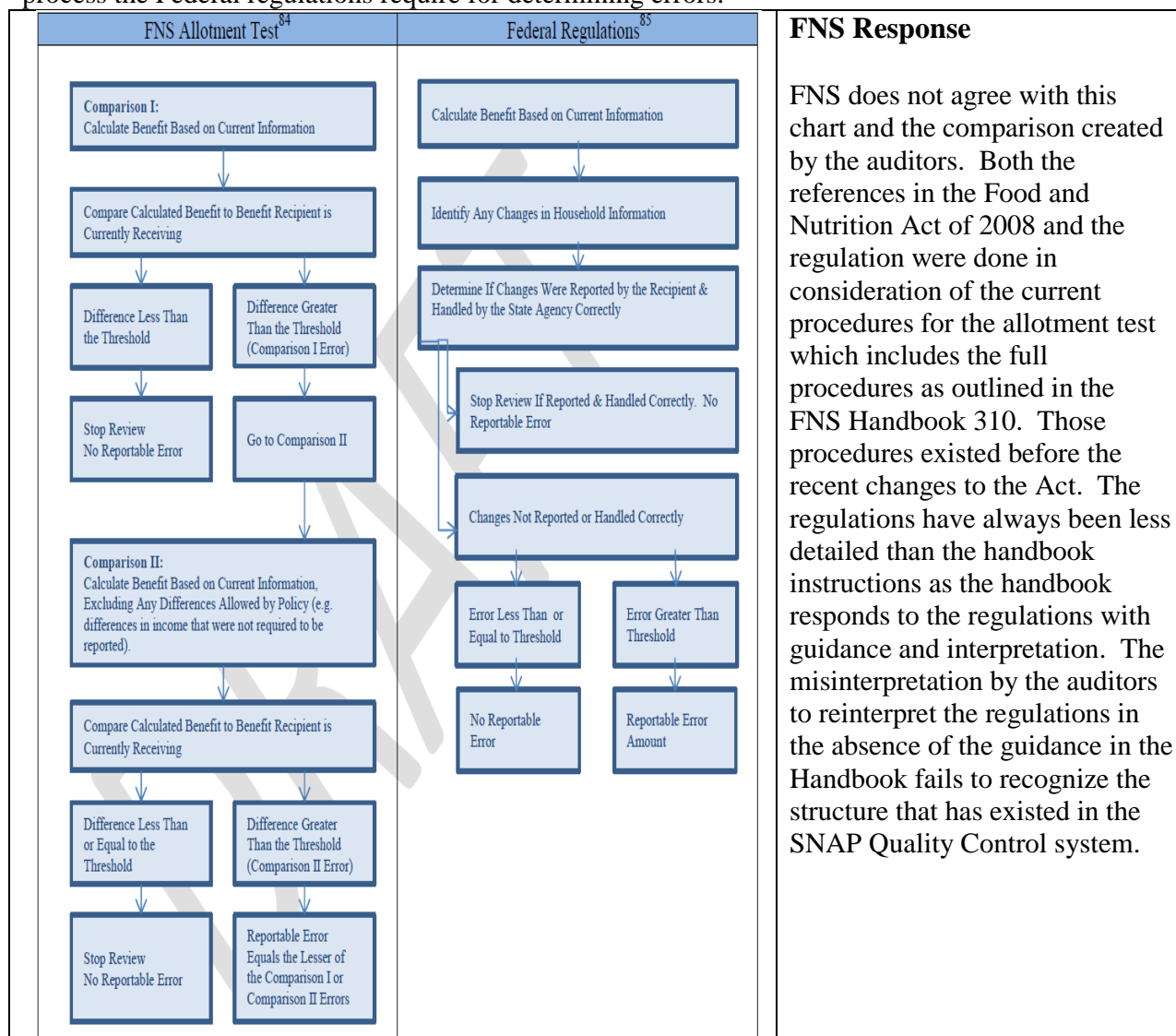
Exhibit A – Summary of Monetary Results

Finding No.	Recommendation	Description	Amount	Category	FNS Response
2	11	QC reviews Not Conducted In Accordance with SNAP Regulations	\$5,568,534	Questioned Costs, No Recovery	FNS does not concur with the calculation. We believe the current process appropriately measures based upon existing policy. FNS is also not clear on the methodology used as we could not replicate this estimate.
4	16	FNS' BBCE Policy Does Not Comply With SNAP Regulations	\$241,655	Questioned Costs, No Recovery	FNS does not concur with this calculation as we believe these identified cases are done following SNAP BBCE policy. FNS is also not clear on the methodology used as we could not replicate this estimate.
4	17	FNS' BBCE Understates SNAP Error Rate	\$178,237,675	Questioned Costs, No Recovery	FNS does not concur with this calculation as we believe these identified cases are done based upon the SNAP BBCE policy. FNS is also not clear on the methodology used as we could not replicate this estimate.

FNS has provided responses to the chart from the audit report, Exhibit C.

Exhibit C – FNS Allotment Test Flowchart

This exhibit compares the allotment test QC reviewers currently use to determine errors versus the process the Federal regulations require for determining errors.



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