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# Methods To Prevent Fraud and Abuse Among Staff and Participants in the WIC Program

## Volume I, Final Report

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### Abstract

Methods used to detect and prevent fraud and abuse among staff or beneficiaries of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) are identified and assessed in this report. It is the first of two related reports. This report makes available a set of concepts and tools that WIC managers can use to enhance their approaches to preventing and detecting fraud. The report summarizes the relevant WIC regulations; it describes basic controls or practices widely used by State and local agencies to detect and prevent fraud and abuse; and it highlights enhanced controls or practices that can further improve the program's integrity. The study lays out a framework for identifying vulnerabilities and a series of options for addressing these vulnerabilities. The features of the State's WIC management information system are a particularly important factor shaping the options for fraud prevention and detection. (The other report is titled *Methods To Prevent Fraud and Abuse Among Staff and Participants in the WIC Program: Volume II, Site Visits.*)

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## Executive Summary

The Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA) contracted with the team of Applied Techno-Management Systems, Inc. (ATMS) and Abt Associates to identify and assess methods (i.e., controls or practices) that are used by various State or local agencies to detect and prevent fraud and abuse among staff or participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The WIC Program provides supplemental foods, nutrition education, and referrals to health and social services to specific categories of low-income women, infants, and children determined to be at nutritional risk. The WIC Program is administered by State Agencies under the guidance of USDA's Food and Nutrition Service (FNS). (State agencies include the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Territories, and 33 Indian Tribal Organizations.)

This final report presents the results of the research and makes available a set of concepts and tools for WIC Program managers to assess and enhance their approaches to preventing and detecting fraud. The report summarizes the relevant WIC Program regulations; it describes basic controls or practices widely used by State and local agencies to detect and prevent WIC program fraud and abuse; and it highlights enhanced controls or practices that can further improve the WIC Program's integrity. Regulatory requirements for eligibility certification and the food delivery system represent current requirements, not requirements that were in effect at the time of the site visits. The site visits were conducted when food delivery system regulations were in interim form. This revised final report reflects the substantive comments and inputs on the draft report provided by reviewers from ERS, FNS and the Expert Panel of State WIC directors assembled for this study. However, the views expressed in this document are primarily those of its authors.

Available data did not support quantitative cost-benefit or cost-effectiveness analysis, so the researchers focused on identifying and qualitatively assessing currently used methods of preventing and detecting fraud. The controls (or practices) used to meet the WIC Program regulations or requirements are divided into two categories: "basic" and "enhanced." Basic controls meet program requirements generally with the minimum commitment of resources. For this reason, many of these controls are widespread. In some cases, WIC Program requirements mandate specific controls, although State agencies may have some latitude in the details of implementation. Many of these basic controls (or practices) have been found by a number of State agencies to be insufficient to provide adequate assurances of program integrity. "Enhanced" controls go beyond what is required by the regulations, either by State policy or by local agency choice (under the authority of program regulations and State policy). Enhanced controls generally require more resources than basic controls but offer real improvements in the prevention or detection of fraud, based on the experience of the agencies that have developed them.

This document draws on several sources. The study began with comprehensive reviews of recent General Accounting Office (GAO) and FNS surveys of the efforts to prevent and detect fraud and abuse among WIC State and local agencies. The study team also reviewed documents developed by FNS working groups on income documentation and dual participation. To gain

first-hand, in-depth understanding of leading-edge fraud control practices, the study team conducted site visits to 8 selected State WIC agencies, 14 local agencies, and 2 Indian Tribal Organizations (ITOs) operating as State agencies. In these site visits, the team reviewed key areas of WIC operations, observed and assessed basic and enhanced fraud control practices, learned from the experiences of managers and staff, and gathered their insights about further improvements. The site visits began in July 2000 and ended in October 2000.

One of the significant challenges for the research was the limited scope of available information on the magnitude of WIC fraud that may be prevented or detected through the use of current or potential controls. The estimated rate of detected fraud is quite low (around .14 percent of participants during FY1997-1998, according to the best available source, the GAO survey). The only currently available source on the actual rate of participant fraud is a 1988 estimate from FNS that 5.8 percent of participants were above the income threshold. Neither of these sources provides estimates of the actual incidence of other types of participant fraud, such as dual participation and trafficking WIC benefits for cash. In addition, both sources predate WIC policies and regulations adopted in 1999 and 2000 to strengthen program integrity requirements.

As a result of this uncertainty, there is an important element of policy choice in determining the appropriate level of resources to devote to WIC fraud prevention and detection. This choice must address the fundamental mandate to establish an adequate set of controls to maintain the integrity of the Program. Each State agency is obliged to strike a balance between two kinds of error: missing fraud because of devoting too few resources to the problem, and overestimating the likely level of fraud and spending more on fraud control than is justified by the actual and potential savings. This policy choice depends on the available resources, the competing demands for those resources, and the influence of WIC Program stakeholders. For example, State agencies may need to consider whether to allocate a set of available resources to fraud prevention, outreach, nutrition education, or other program improvements.

Bearing these considerations in mind, the researchers focused on identifying and qualitatively assessing methods of preventing and detecting fraud that are currently in use. The rationales for these controls were critically examined. Their advantages and disadvantages were assessed through discussions with State and local WIC staff who have direct and often lengthy experience with the controls, and with staff in other States that have chosen not to implement the controls. The other principal challenge in the assessment of fraud controls was the difficulty of identifying their costs. WIC cost accounting procedures do not provide the level of detail necessary to estimate the costs of the controls, and an independent investigation of these costs was not within the scope of the present study.

As a result of such constraints on quantitative analysis, this report takes a qualitative approach to the assessment of costs and the comparison of these costs to the potential benefits of enhanced fraud controls. The first element of this approach is the distinction between “basic” and “enhanced” controls (or practices) to prevent and detect fraud. As described above, this distinction reflects the relationship between the strength of the controls and the resources required to implement and maintain them.

The enhanced controls identified in the study were determined by the researchers to be worthy of consideration for adoption by State agencies that do not already use them. This assessment is

based on several criteria. First, the enhanced controls have been used for an extended period by State agencies that are recognized as leaders by FNS and their peers. Second, the enhanced controls address known limitations of the basic controls, including documented cases of fraud and potentially serious areas of vulnerability. Third, the enhanced controls have proven operationally feasible and acceptable to stakeholders, including local staff and participants.

The continued use of the enhanced controls reflects the judgment of WIC Program managers that their actual and potential benefits justify the expenditure of resources and the non-monetary costs (e.g., participant burden) to maintain them. The policy and budget decisions of these managers incorporate operational feedback from State and local staff responsible for day-to-day program operations (including implementing and overseeing the fraud controls), as well as the Federal and State mandates for fraud control and other program objectives.

The selection of enhanced controls reflects both the choices of the State agencies visited for the study and the researchers' critical examination of the scope of the resources devoted to the enhanced controls, the underlying rationale for the controls, and the alternatives. For enhanced controls, the report identifies the nature of the resource requirements, the expected benefits for fraud prevention and detection, and the potential adverse impacts on program operations and participant burden.

The study results provide a set of tools for WIC program managers to assess and enhance their own approaches to preventing and detecting fraud. The study lays out a framework for identifying vulnerabilities and a series of options for addressing these vulnerabilities. The process described above produced a selective list of realistic options, with the recognition that the appropriateness of these options to a given State or local agency depends on many factors. The features of the State's WIC management information system (MIS) are a particularly important factor shaping the options for fraud prevention and detection. The information on the resources and infrastructure required and on the experience gained in using these options will help managers decide which options fit best into their own program environments.

In considering the potential use or adaptation of the enhanced controls identified in this report, each State agency needs to assess its own operational infrastructure, information systems, environment, and associated risks, current strategies, resources and mandates, so that it can determine the most appropriate enhancements. The report identifies important contextual factors for these assessments, such as information system requirements, WIC participant and local agency characteristics, and issues of operating scale. The report also differentiates between the enhancements that require major investment of staff time (or other resources) and those with more modest resource requirements. Where available, relevant data on the estimated incidence of fraud are referenced to help identify priority areas for action, albeit with the recognition of the limitations of these data and the importance of less quantifiable considerations of program integrity.

Not all of the enhanced controls are equally adaptable or practical for all State agencies. For example, controls associated with an online MIS operating in real-time are not readily adaptable by a State agency that is using daily or weekly data exchanges between local clinics and the State agency's database. With such issues in mind, the section below highlights options for State

agencies to choose from in seeking to enhance their controls beyond WIC requirements and basic controls.

The ensuing discussion highlights key vulnerabilities to participant and staff fraud, major WIC Program requirements governing fraud and abuse control, basic controls used currently by many State and ITO WIC agencies to meet these requirements, and enhanced controls that WIC agencies are encouraged to consider as ways to strengthen the Program's integrity.

### ***Certification Controls***

Many of the steps taken during the certification process provide opportunities for the prevention and detection of fraud and abuse. For this reason, it is essential that strong controls be in place. Although certification procedures are covered by WIC Program regulations, State agencies are provided with some discretion in how they meet these regulations.

The WIC certification process includes determinations of categorical eligibility and proof of identity, residency, income eligibility, and nutritional risk. Recent regulatory changes have strengthened the WIC Program requirements for the prevention and detection of fraud and abuse in the certification process. Key changes include new requirements for documentation of residency and income eligibility.

The vulnerabilities inherent in the certification process include fraud and abuse by participants and staff, acting alone or in collusion. The certification process is vulnerable to participants' falsifying application information, receiving benefits after eligibility has ended, or receiving benefits at more than one clinic for the same period of time. Staff can create phantom participants to generate food instruments or may knowingly certify an applicant who is not eligible for WIC.

Selected highlights of the relevant WIC Program requirements (7 CFR 246.7) are provided below. Following each is a brief discussion of the basic controls that most State agencies use to meet these requirements and the enhanced controls that some State agencies use to further strengthen these processes. (A more detailed discussion is in Chapter II.)

#### **Requirement: Agencies must check a participant's proof of identity at each certification.**

There is no basic control identified that most State agencies are using in addition to the requirement. However, as an enhanced control for this requirement, some agencies require that staff photocopy the document provided as proof of identity. Use of this enhanced control reduces the likelihood that staff will create phantom cases and aids in the investigation of potential staff fraud in relation to phantom cases. The amount of staff time required to do this depends on what documentation is copied and how the clinic is set up. The cost of employing this control varies depending on the availability of photocopy machines in clinics. Another consideration is the issue of the space the photocopy machine will occupy.

#### **Requirement: If applicable, obtain documentation of adjunct income eligibility from Medicaid, TANF, or Food Stamps.**

As a basic control, most State agencies screen for adjunct or automatic income eligibility instead of obtaining household income information, as this saves time if the applicant is automatically



income eligible. Because the applicant's current income eligibility status may have changed since the documentation was printed, some State agencies further strengthen this process through use of enhanced controls designed to verify the current eligibility status. These enhanced controls include: 1) calling a toll free number or using computerized access to the adjunct program's database to verify current eligibility; 2) developing a Memorandum of Agreement or Understanding that allows WIC staff to make queries of adjunct programs. These enhanced controls require additional time from WIC staff as well as the staff of other programs to perform verifications, and a one-time investment of State administrative or legal staff time to draft these documents and obtain the signature of authorized program representatives. Further, the adjunct program must have the technology available and may expect WIC to share the cost of providing this information. Verification of adjunct income eligibility is particularly important as it takes the place of obtaining direct documentation of household income.

**Requirement: Documentation of household income must be provided by those not adjunctively income eligible except under specific circumstances; the type of documentation provided must either be recorded on the certification form or a copy of the documentation must be placed in the participant's file.**

Most WIC agencies record income and household size information in the MIS and indicate the type of documentation on the certification form, as a basic control. As an enhanced control, some State agencies photocopy the income documentation provided by applicants. This procedure requires additional time, storage space, and access to a copier, but it aids in future inquiries and prevents staff from falsifying income data. Another enhanced control used by some State agencies is the review of income documentation by two different staff: clerical staff record documentation and perform calculations, and a Competent Professional Authority (CPA) reviews the calculations and makes the eligibility determination. This control requires the involvement of two staff instead of one, but the more time-consuming computations can be performed by clerical staff instead of CPAs.

**Requirement: Determine household income and record it on a "clear and simple" form provided or approved by the State agency.**

As a basic control, most State agencies ask the applicant to report the amount of their current household income. As an enhanced control, some State agencies train staff to probe for alternate or additional sources of income, and may use an income-screening clerk who is specially trained to perform this function. Use of probes requires additional staff time, and may slow clinic flow. Use of an income- screening clerk may pose a problem for smaller clinics, but ensures separation of duties.

**Requirement: Applicants must provide proof of residency via official documentation or correspondence, except in specific cases. The type of documentation must either be recorded on the certification form or a copy of the documentation must be placed in the participant's file.**

As an enhanced control, some State agencies send pre-formatted appointment letters to applicants who have scheduled appointments. These letters can be used to assist staff in validating an applicant's address or can raise suspicion if the letter is returned to the agency by the postal service because that person does not reside at that address. This control requires additional use of clerical staff time and the cost of paper and postage.

**Requirements: State Agencies must take actions to identify suspected cases of dual participation within and between local agencies, with follow-up within 120 days of detection. State agencies must enter into agreements with bordering States, and with ITOs and agencies operating the Commodity Supplemental Food Program (CSFP) within their service area, for prevention and detection of dual participation.**

As a basic control, most State agencies generate and review a dual participation report on a quarterly or monthly basis. An enhanced control is to increase this to a weekly or daily basis. Other enhanced controls include: 1) Real-time check for dual participation with mandatory override if match is found; 2) Computerized matches with other States, CSFP, and ITOs using standardized data formats; 3) Computerized check in real time or via frequent match where CSFP is present. Use of these enhanced controls minimizes the amount of time elapsed before dual participation is detected and investigated. Computerized matches with other programs are preferable because manual checks overlap, are time-consuming and error-prone. These controls require an investment of staff time, programming of the MIS, and in the case of checks across programs, the ability of the MIS to exchange data with the other program's MIS.

**Requirement: Certification periods are to be established in accordance with specified time frames.**

As a basic control, participants are terminated at the end of the certification period if they are not recertified. Some State agencies use, as an enhanced control, an MIS that automatically initiates termination and prevents further issuance of food instruments at the end of the certification period. Although use of this control requires programming of the MIS to perform this function, it reduces loss by preventing the receipt of benefits past the time of eligibility due to accidental or intentional oversight by staff.

**Requirement: Obtain height or length and weight data at certification. Data are recorded on the certification form.**

As a basic control, most State agencies record these data in the MIS. As an enhanced control, some State agencies have programmed the MIS to check for abnormal values. The MIS can also obtain or verify an infant's birth weight and length from birth records, if the WIC agency has authorized access and automated birth records. Use of these enhanced controls requires that the MIS be programmed to perform these functions.

**Requirement: Bloodwork data (not required of infants less than 9 months of age) and anthropometric measurements may be accepted from an outside healthcare provider, but must reflect the participant's category, conform to anemia schedules for infants, and reflect the date taken. Anthropometric measurements must have been taken no more than 60 days prior to certification.**

As a basic control, most State agencies address this requirement by keeping a copy of the data provided by the participant's healthcare provider. As an enhanced control, some State agencies require that the data include the healthcare provider's signature, address, phone number, and clinic name; those data provide the information needed to verify the authenticity of the information if deemed necessary. To further strengthen this process, the provider's name and address information are recorded in the MIS. This way, the MIS can identify high-volume and out-of-area sources of referral data for monitoring. These enhanced controls require an

investment of staff time to enter and analyze or verify data and require that the MIS be programmed to perform this function.

**Requirement: State agencies must provide a list of approved foods and their quantities to local agencies. Competent Professional Authorities (CPAs) must assign food prescription based on standards for participant category and individual assessment of nutritional risk.**

As a basic control, the CPA refers to the State Agency's food prescription standards and enters quantities of prescribed foods on the certification form or MIS. As an enhanced control, some State agencies program their MIS to define basic and modified packages and assign a default package based on the participant's category and risk codes. While use of these controls requires programming of the MIS to perform these functions, they also prevent staff from over-issuing food packages, and promote consistency and appropriate tailoring.

### ***Benefit Issuance Controls***

WIC benefits are generally issued to participants in the form of paper instruments that specify the items in a monthly food package. The benefit issuance process includes the handling, production, and distribution of food instruments. Two types of food instruments are typically used: WIC checks are processed like regular checks through the banking system; and WIC vouchers are sent directly to the State agency for redemption.

Major vulnerabilities in the benefit issuance process include: lost or stolen food instruments; receipt of excessive benefit; issuance of duplicate benefits; issuance to the wrong person through error or deliberate fraud; and alteration or counterfeiting.

Selected highlights of the relevant WIC Program requirements (7 CFR 246.12) are provided below. Following each is a brief discussion of the basic controls that most State agencies use to meet these requirements and the enhanced controls that some State agencies use to further strengthen these processes. (A more detailed discussion is in Chapter III.)

**Requirement: Uniform procedures for issuing food instruments.**

As a basic control, State agencies establish a policy on which staff can issue food instruments, as well as where and how they should be produced and issued. To further strengthen this basic control, some State agencies make use of the following enhanced controls to meet the above requirement:

- 1) Require separation of duties for receipt of stock, assignment of food package, printing and issuance, voids, and other issuance procedures;
- 2) State agency authorizes specific staff to issue benefits after verifying training.

Separation of duties can be difficult to maintain in small offices or during staff shortages. Allowing only certain staff to issue benefits requires that controls be programmed into the MIS and places limitations on the use of staff. State agencies need to weigh these concerns against the added security against staff fraud and abuse provided by these controls.

**Requirements: List authorized foods on food instrument; issue only prescribed benefits to certified participants.**

As basic controls, most State agencies use a computerized system to maintain certification data and print food instruments, and verify the participant's certification status before issuing benefits. Some State agencies make use of the following enhanced controls to meet the above requirements:

- 1) printing food instruments on demand at clinics using participant data from the MIS;
- 2) providing the capacity to flag participant records and place holds preventing issuance through the MIS.

On-demand printing requires an on-site computer, printer and food instrument stock, but eliminates the vulnerability associated with having preprinted instruments on hand in the clinic, and eliminates the need to void food instruments for no-shows. The capability to place holds on issuance requires programming of the MIS, on-site access, and additional time of authorized staff to remove the hold, but it provides agencies with the benefit of ensuring that eligibility problems or complaints are resolved before additional benefits are issued.

**Requirement: Assure security of food instruments including locked storage.**

As a basic control, most agencies respond to this requirement by using secure methods of shipment and storage of food instruments, and through use of a bill of lading to verify the receipt of shipments. As enhanced controls, some agencies meet the above requirement in several ways.

- 1) One way is through storage of stock/instruments in a locked cabinet or safe in a locked room. This provides double security, thereby reducing the risk of unauthorized access, but requires additional locks.
- 2) Electronic transmission of shipping information (enhanced control) prevents tampering with the bill of lading, but requires that the MIS be programmed with this capability.
- 3) Requiring activation of preprinted serial numbers before food instruments can be printed (enhanced control) prevents use of stock that is lost or stolen from shipments or inventory. This control also requires that the MIS be programmed with this capability.

- 4) Assignment of a limited range of serial numbers to each site provides control over the number of food instruments that each site can print, but requires that staff track what numbers are assigned to which agency.

**Requirement: Unique serial number for each food instrument.**

Most State agencies meet this requirement (basic control) through use of a preprinted serial number on food instrument stock. Staff must key in this serial number to the MIS before printing food instruments.

Some State agencies use the following enhanced controls to strengthen WIC Program integrity:

- 1) printing a duplicate serial number (as identified in the MIS) on each food instrument;
- 2) scanning the serial number on the food instrument to synchronize with the MIS;
- 3) using unnumbered blank stock and printing all information including the serial number at the time of issuance.

All of these options reduce the risk of a mismatch between the actual serial number and the record in the MIS. However, scanning requires the use of software and a hand-held scanner at the issuance site. While printing the serial number on blank checks eliminates the need for tracking stock at the item level, it requires the use of special ink, a laser printer, and additional MIS programming.

**Requirements: Verify identity before issuance, obtain signature of participant, parent, or proxy indicating receipt of benefits.**

As a basic control, most WIC agencies issue each participating family a WIC ID folder, which the participant or parent/guardian signs. To enhance the security of the ID, some State agencies issue each WIC family a serialized, tamper-resistant ID card, while others issue a tamper-resistant WIC ID to each adult participant or parent/guardian and other individuals or proxies who are authorized to apply for and receive services on behalf of the participant. Either of these enhanced controls helps prevent use of unauthorized or counterfeit IDs; both require additional resources.

The basic procedure for documenting receipt of food instruments is a signature log with the serial numbers of food instruments. As enhanced controls, some State agencies require the participant to sign each food instrument, and the local office retains a copy of each food instrument as the receipt. This method provides clearer proof of receipt for each instrument. For issuance of preprinted or manual vouchers, an enhanced control is the use of a master log plus a receipt form for each participant record, so that documentation is available at the clinic level when the master record is not available. Both of these enhanced controls consume more staff time and paper than the basic controls.

**Requirements: Account for disposition of all food instruments through perpetual inventory, monthly physical inventory of food instruments or stock, and reconciliation.**

As a basic control, most State agencies record voided food instruments on the signature log, maintain manual inventory records for bulk food instrument stock, maintain issuance records in the MIS, perform monthly reconciliations, and report and investigate discrepancies. Some agencies make use of one or more of the following enhanced controls to meet the above requirement.

- 1) Daily reporting and reconciliation of issuances, voids, and inventory at issuance sites ensures timely detection of errors or theft, but requires additional effort and the automation of these activities.
- 2) Weekly reports on participants who do not pick up food instruments ensure timely identification of no-shows for follow-up or investigation, but require additional effort and the automation of this activity.
- 3) End-of-month site-level and State-level summary reports of issuances, voids, and changes in inventory enable State officials to monitor patterns of activity and indicators of potential fraud, but require additional time to review and investigate discrepancies.

### ***Transaction and Redemption Controls***

WIC participants typically obtain their supplemental foods by transacting their food instruments at an authorized vendor. The vendor records the purchase price on the food instruments and submits them for redemption to a bank or the WIC agency. Because there is no direct involvement of WIC staff in the process of transacting food instruments for WIC-approved foods, this process is particularly vulnerable to fraud and abuse.

Some of the controls used to prevent fraud and abuse in the transaction and redemption processes focus primarily on participants and staff, while other controls focus on vendors. The assessment for this report was mainly concerned with participant and staff fraud, but the vendor controls also were reviewed because of the potential roles of vendors in preventing or facilitating participant fraud.

WIC food delivery regulations establish a number of requirements for agencies: education of participants on proper use of food instruments, pricing of food packages, identification of overcharging, vendor identification on food instruments, compliance buys, and entering the purchase price on food instruments. Additional regulations related to transacting and redeeming food instruments pertain to vendors: authorization to transact and redeem food instruments, transacting for WIC-approved foods only, pricing limits, vendor training, and shelf price records.

Minor violations in this area include participants' transacting food instruments out of the specified period or for the wrong size or brand of WIC food. Major types of participant fraud include: transaction of food instruments by an unauthorized person, exchanging food instruments or supplemental food items for cash, and exchanging food instruments for alcohol or tobacco. The major types of fraud and abuse entail gross, intentional misuse of food instruments, resulting in the diversion of benefits to uses other than the purchase of supplemental food. Major vendor violations, other than the involvement in participant fraud and abuse, include overcharging, charging for items not received by participants, and altering the purchase price on food

instruments after the sale. The principal risk of WIC staff involvement in transaction and redemption fraud is that staff may transact unclaimed, unauthorized, or voided food instruments with the cooperation or collusion of a vendor, but this risk is mainly addressed through issuance controls.

Selected highlights of the relevant WIC Program requirements (7 CFR 246.12) are provided below. Following each is a brief discussion of the basic controls that most State agencies use to meet these requirements and the enhanced controls that some State agencies use to further strengthen these processes. (For more detail, see Chapter IV.)

**Requirement: State agencies must educate participants about the proper use of food instruments.**

As a basic control, most State agencies respond to this requirement by providing participants with a list of authorized foods and instructions for transacting food instruments. To further strengthen the basic controls, some State agencies make use of one or more of the following enhanced controls to meet this requirement:

- 1) brochure with pictures of authorized foods;
- 2) instructional video or live instruction;
- 3) use of samples of authorized foods in instruction;
- 4) use of a quiz to assess participants' level of understanding.

Use of these enhanced controls entails additional cost, but the agency can reduce the amount of staff time required through use of group instruction. Use of a quiz to ascertain participants' level of understanding reduces the amount of time needed for counseling of participants who improperly transact food instruments.

**Requirement: Participants must sign food instruments at the time of transaction as proof of correct charge and authorized transaction.**

As a basic control for ensuring transaction by an authorized person, most State agencies provide a WIC ID folder that must be signed by the participant and any authorized representatives. Some State agencies make use of the following enhanced controls to meet this requirement:

- 1) provide each authorized shopper with a WIC ID card bearing his or her signature;
- 2) participant or authorized representative must sign food instruments at issuance as well as transaction.

Use of these enhanced controls may require a slight increase in cost and staff time, but can provide a higher level of security for transaction of food instruments.

**Requirement: State agencies establish procedures designed to control participant violations.**

As a basic control for controlling participant violations, most State agencies establish a process of some sort for the reporting of fraud and abuse. Some State agencies make use of the following enhanced controls to meet this requirement:

- 1) provide a toll free number to register complaints;
- 2) provide a complaint form for use by staff receiving reports of fraud.

Use of these enhanced controls provides staff, participants, and vendors with a vehicle for reporting fraudulent activity or expressing concerns about fraud and abuse.

Key vendor integrity practices include: review of vendor qualifications; vendor training on proper procedures and fraud prevention; setting a maximum value for each food instrument based on current price information; monitoring of vendor redemption patterns and the types of errors on food instruments submitted for redemption; identification of high-risk vendors through statistical analysis and other tools; and compliance buys and inventory audits to determine whether vendors are violating program rules and to provide evidence for vendor sanctions. Chapter IV provides a more detailed discussion of these requirements and controls, and how they affect program integrity in reference to the prevention and detection of participant and staff fraud and abuse.

### ***Participant Investigation and Sanctioning Controls***

When a case of possible fraud or abuse by a participant is identified, WIC staff investigate to determine whether a violation has occurred and what sanction or other action is appropriate in response. Each State agency must balance the need to deter fraud and abuse with the cost and likely benefits of attempting to recover improperly obtained benefits from participants, in addition to focusing on the goal of meeting participants' nutritional needs.

State agencies use different types of staff at the State and local levels for this function. Some State agencies have staff who are solely responsible for investigation of fraud and abuse. State agencies may work with law enforcement officials on participant fraud cases.

Cases of participant fraud and abuse may have different levels of severity. Minor abuses include buying the wrong size or brand of food or verbal abuse of vendors. Major types of fraud and abuse include misreporting or concealing income, intentional dual participation, and exchanging food instruments for cash, (trafficking). The key difference is that major violations entail the fraudulent receipt of benefits or the diversion of benefits from the purchase of supplemental food items to other uses. The most serious violations, which warrant criminal investigations and prosecution, are blatant and extensive acts of fraud or abuse perpetrated by participants, sometimes in collusion with staff or vendors. The sanctions applied in each of these categories are designed to be consistent with the severity and intent of the fraud and abuse that may have occurred.

State agencies are provided significant latitude in how they investigate. A number of WIC regulations, however, govern the sanctioning process. Within the parameters of these regulations, State agencies have discretion to establish sanctions for participant fraud and abuse. The severity of such sanctions depends on how the agency balances program integrity with the nutritional mission of the program.



Selected highlights of the relevant WIC requirements are provided below (7 CRF 246, including: 246.7, 246.9, 246.12 and 246.23). Following each is a brief discussion of the basic controls that most State agencies use to meet these requirements and the enhanced controls that some State agencies use to further strengthen these processes. (For more details, see Chapter V.)

**Requirement: State agencies must establish sanctions for participant abuse of the WIC program.**

As a basic control, complaints and discrepancies identified by reports receive follow-up by WIC staff. Some State agencies make use of the following enhanced controls to meet this requirement:

- 1) use of specialized WIC or non-WIC staff trained in investigating fraud and abuse;
- 2) analysis of MIS data to identify patterns of suspicious behavior.

Use of specialized staff entails the cost of hiring staff with appropriate backgrounds or diversion of the time of WIC staff with appropriate backgrounds to perform investigations. MIS analysis entails both additional staff time and the cost of programming the MIS to perform appropriate analysis. The benefit to the WIC Program is that these investments increase the efficiency and effectiveness of investigations.

**Requirement: Mandatory 1-year disqualification for claims totaling \$100 or more, claims from intentional dual participation, or any second or subsequent claim. Mandatory written notice of disqualification and right of appeal.**

There are no basic controls identified beyond what is required by WIC Program regulations. Some State agencies send disqualification letters by certified mail or hand-delivery as an enhanced control. This practice requires a minimal increase of cost for postage or investment of staff time if delivering in person, but provides proof that the participant actually received the letter. As another enhanced control, some State agencies provide the option of the use of a proxy to obtain benefits for an infant or child when the parent has committed fraud and abuse. Use of this enhanced control prevents the loss of benefits to infants and children who are innocent of the offense. It requires the same amount of staff time, and represents no additional cost to the WIC Program.

**Requirement: State agencies must initiate a claim for any benefits improperly obtained or disposed of by participants. Agencies must inform the participant in writing of the reasons for the claim, the value of the benefits to be repaid, and of their right to a fair hearing.**

There are no basic controls identified beyond what is required by WIC Program regulations. Automation of claims requests and collections procedures, as well as use of collection agencies when feasible, are enhanced controls used by some State agencies. Automation reduces labor costs, promotes consistency and facilitates accountability, but requires the programming of the MIS to perform this function. For the use of a collection agency, the amount involved must be sufficient to make its use worthwhile. For both enhanced controls, the cost to the WIC Program may be funded from the amount recovered.

**Requirement: Referral of instances of criminal fraud to police or prosecutors where appropriate.**

There are no basic controls identified beyond what is required by WIC Program regulations. As an enhanced control, some State agencies use specialized WIC agency or law enforcement staff

to conduct criminal fraud investigations. This approach requires additional use of staff time for investigations, or hiring of specialized staff if the needs of the State agency require such action. Justification for the additional expense lies in the fact that prosecution of criminal cases requires more varied methods and a higher standard of documentation.

### ***Controls for Oversight of Employees and Local Agencies***

State and local WIC agencies use a variety of oversight mechanisms to prevent and detect fraud by participants and employees, in addition to the controls integral to operational procedures for certification, issuance, and transaction. These include: hiring and training of employees, internal quality assurance procedures at the local level, management evaluations and reviews by State WIC personnel, and third-party audits. Oversight by local and State officials is particularly important to the prevention and detection of employee fraud, in part because the controls built into operational processes tend to focus more on participant fraud. Furthermore, employees must often be given a certain degree of autonomy to maintain efficient operations, so the potential for abusing that autonomy is present. Current widespread practices by the WIC agencies in this area include: conflict-of-interest policies regarding WIC employees as participants, review of employee activities by local supervisors, reporting of suspected employee fraud to the State agency, and separation of duties between certification and issuance.

The nature of oversight depends on the organizational structures and relationships among the State agency, the local agencies, and the clinics delivering WIC benefits and services. An additional factor shaping the context for oversight is what other services local WIC agencies offer.

Certain types of fraud initiated by a participant also could involve the collusion of employees. Employee oversight therefore needs to prevent such collusion, through preventive measures such as screening and training, and to detect any collusion that does occur through measures such as observation and record reviews.

Major types of fraud and abuse that may be independently perpetrated by employees include: creation of phantom participants to obtain benefits, theft of blank food instruments either from the agency's inventory or from food instruments intended for specific participants, counterfeiting or alteration of food instruments, theft of other WIC Program property, use of program funds to purchase goods or services for personal use, and deliberate misrepresentation on financial or participation reports.

WIC Program regulations establish requirements for management and oversight in a number of areas, including: procedure manuals for local operations; periodic review of local agency qualifications; mandatory provisions of agreements with local agencies regarding staffing, non-discrimination, accounting, and certification criteria; financial management systems; allowable costs; management evaluation systems; and independent audits.

Selected highlights of the relevant WIC Program requirements are provided below (see 7 CFR 246.19 and 7 CFR 246.20). Following each is a brief discussion of the basic controls that most State agencies use to meet these requirements and the enhanced controls that some agencies use to further strengthen these processes. (For more detail see Chapter VI.)

**Requirement: Ensure that no conflict of interest exists between State or local agency staff and vendors under their jurisdiction.**

As a basic control, most State agencies respond to this requirement by requiring vendors to disclose any conflict of interest on their applications for WIC authorization. An enhanced control is to require agency employees to disclose any financial relationship with a WIC vendor.

Another basic control in the area of conflict of interest is the widespread policy preventing employees from certifying or issuing benefits to themselves or their children as participants. Some agencies use the following enhanced controls in this area:

- 1) extend this policy to include the family of employees;
- 2) require employees who participate in WIC to be certified by a supervisor or local director;
- 3) limit access to files of employee participants;
- 4) require enhanced income documentation, such as monthly reporting, for employee participants.

Use of these enhanced controls is beneficial to agencies, as they prevent collusion, protect privacy, promote a high standard of integrity, and prevent manipulation of records. However, the MIS restrictions require programming.

At the local agency level, employee training, supervision, and monitoring are important basic controls to ensure that employees meet program requirements, including those intended to prevent and detect fraud. In the area of employee training, some State agencies enhance the process by developing training materials, organizing conferences for local staff, or directly providing training at local agency sites or centralized training facilities. These enhanced controls promote fraud control as a priority and enhance the consistency and depth of training, but as the State Agency's role increases, so does the cost. Within local agencies, supervision and monitoring are enhanced by approaches to supervision that increase the focus on potential sources of fraud and by systematic, periodic reviews of participant records, including summary and discussion of patterns found in these reviews. Some enhancements in supervision require only procedural changes, while others require commitment of additional supervisory time and staff time to quality control.

**Requirement: The State agency must establish a management evaluation system.**

As a basic control, most State agencies review mandatory reports on certification, issuance, redemption and financial status. As an enhanced control, some State agencies use an ad hoc capability to analyze suspicious or problematic patterns in the MIS data, or define and use regular fraud indicator reports. Ad hoc analysis may reveal more complex patterns of fraud but requires the capability to query MIS data and staff time to analyze the results. Regular fraud indicator reports are a more efficient and reliable way to monitor known fraud indicators, but require that the MIS be programmed with this capability and that staff have the time to review and follow up on the reports.

**Requirement: Biennial management evaluation review of local agencies, including 20 percent sample of clinics.**

As a basic control, most State agencies conduct the minimum required number of reviews of management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery. Some agencies step this up through use of enhanced controls such as:

- 1) annual reviews of local agencies or local agency self-reviews in years between State agency reviews;
- 2) participant record reviews of a statistically valid sample with standardized protocol.

An annual cycle enhances attention to compliance and identifies problems more quickly, but annual reviews by the State agency double the effort for this function. Systematic reviews of participants' records ensure reliable, defensible, and objective results, but require the use of a sampling procedures and the tabulation of results.

**Requirement: Process to receive and investigate complaints of employee fraud.**

As a basic control, most State agencies investigate evidence of employee fraud reported by complaint forms submitted to the State or local director, or through use of a toll-free number at the State agency. Some State agencies make use of various enhanced controls.

- 1) Providing a secure channel for complaints against employees assures the confidentiality and integrity of the complaint process, but may require an extra telephone line.
- 2) Use of specialized staff from the WIC integrity unit or internal auditors to conduct employee investigations, assures the objectivity and capability needed to gather evidence, but requires the investment in specialized staff.
- 3) Use of a data warehouse to identify or confirm suspicious activity is less visible and more efficient than a manual review of files, but may require substantial MIS development and data storage.
- 4) Provide feedback to managers and staff on the lessons learned from successful investigations of employee fraud. Existing newsletters or bulletins can be used to provide this feedback at minimal cost.