

# Chapter I

## Introduction and Study Background

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 the USDA Food and Nutrition Service (FNS). (The 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 managers to assess for enhancing their own 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. This final report reflects the substantive comments and inputs 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.

Key items covered in the remainder of this chapter include: study background, overview of the WIC Program; study approach, WIC Program fraud and abuse levels and related issues, summary of study tasks, and the organization of the final report document.

### 1.1 Background

Since 1974, the WIC Program has been addressing the need to provide supplemental foods, nutrition education, and referrals to health care and other social services programs to low-income women (pregnant, breastfeeding, and postpartum), infants (up to age 1) and children (up to age 5). WIC participation is based upon eligibility criteria including income, categorical eligibility, residency, and nutritional risk. The U.S. Department of Agriculture (USDA) administers the WIC Program through State WIC agencies, which include the 50 States, the District of Columbia, U.S. territories, and 33 Indian Tribal Organizations (ITOs).

Over the last 27 years, the WIC Program has grown significantly—from \$10 million in 1974 to about \$4 billion in 2000, when it served about 7.2 million persons per month. Along with this dramatic growth in expenditures and number of persons served, there has been a growing concern in the U.S. Congress, the USDA, and the State agencies over the potential for fraud and abuse in the WIC Program by vendors, participants, or Program staff.

In this connection, when Congress passed the William F. Goodling Child Nutrition Reauthorization Act of 1998, it strengthened requirements for documentation of income, identity, and residency in the WIC certification process. The Goodling Act also required applicants to be physically present for WIC certification, and it mandated that State agencies develop systems for preventing individuals from participating at more than one site at a time. To implement these requirements, USDA issued a Final Policy Memorandum (#99-4) for strengthening integrity in the WIC certification process on February 24, 1999. There has been a series of subsequent regulatory changes to strengthen requirements concerning WIC accountability, efficiency, and integrity. These changes include an interim rule on certification integrity (published January 21, 2000), a final rule on certification integrity (published December 11, 2000), and a final rule on food delivery (published December 29, 2000).

The interviews conducted for the purposes of this report took place from July through October of 2000, prior to the publication of the final rules on certification integrity and food delivery. Although these regulations were not in effect at the time the site visits were conducted, they have been included in the report to ensure that the representation of program requirements is current. The fact that the regulations changed (generally to strengthen integrity requirements) did not alter the lessons learned from this study, except that some practices initially identified as enhanced controls later became program requirements.

As part of the ongoing government efforts to review and improve WIC integrity, the U.S. General Accounting Office (GAO) conducted surveys of WIC State agencies and WIC local agencies in November 1998. The surveys collected data from all 88 State WIC agencies (including territories and Indian Tribal Organizations) and a sample of 500 local WIC agencies. The GAO survey was conducted to review measures to detect and prevent fraud and abuse in the WIC Program among vendors, staff, and participants. The GAO survey report, titled "Food Assistance - Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened," was issued in August 1999. This report provided indicators of tools and methods used by various State and local WIC agencies to identify and prevent fraud and abuse. As indicated above, regulatory changes to strengthen program integrity occurred in 2000, so the GAO results reflect the program environment before these changes.

Table 1-1 provides an estimated number of serious and less serious types of fraud and abuse committed by participants during the GAO survey period of October 1996 through September 1998. These estimates are based on the number of incidents of detected fraud reported by the local agencies in GAO's sample. However, as the GAO study concluded, the information provided by the local agencies does not present a complete picture of fraud and abuse in the WIC Program, partly because agencies differ in the extent of data maintained on participant fraud. Furthermore, the level of detection efforts differs among both State and local agencies, so some agencies presumably detect a greater proportion of fraud than others. Even the agencies that devote the most resources to this challenge probably fail to detect some portion of the actual number of violations.

As indicated in the table, the serious types of fraud and abuse were committed by an estimated 7,074 participants (or 0.14 percent of the average monthly participation in fiscal year 1998),

compared with an estimated 79,271 participants committing less serious types of fraud and abuse (or about 1.64 percent). On the other hand, the GAO survey found that only 4 percent of the local agencies identified any documented cases of employee fraud and abuse; these cases involved 48 individual staffers nationwide for the 2-year period.

**Table 1–1—Estimated number of participants having committed fraud and abuse (October 1996 through September 1998)**

| Type of fraud and abuse                                       | Estimated no. of participants |
|---|-------------------------------|
| Serious fraud and abuse                                       |                               |
| Received multiple benefits                                    | 3,566                         |
| Exchanged food instruments for non-approved or non-food items | 2,049                         |
| Misrepresented income   |                               |
| Misrepresented other eligibility factors                      | 886                           |
| Exchanged food instruments for cash                           | 561                           |
| Gave away food instruments or food                            | 233                           |
| Claimed fictitious dependents                                 | 218                           |
| Total participants with one or more violations                | <u>122</u>                    |
|   | 7,074                         |
| Less serious fraud and abuse                                  |                               |
| Redeemed food instruments outside of authorized dates         | 59,810                        |
| Selected incorrect brands or quantities                       | 25,209                        |
| Verbally abusive  | <u>8,625</u>                  |
| Total participants with one or more violations                | 79,271                        |

Note: Some participants were identified as having committed more than one type of fraud or abuse.

Source: GAO’s analysis of local agency survey data.

GAO’s report provided two specific recommendations for improvements to the control of fraud and abuse by WIC participants and staff. First, GAO encouraged USDA, the State agencies, and the National Association of WIC Directors (NAWD) to develop a “cost-effective,” ongoing system for gathering the kinds of data on the incidence of fraud that GAO’s special survey collected. Second, GAO recommended that all State WIC agencies should have employee conflict-of-interest policies and procedures. (WIC regulations now require all State agencies to ensure that conflicts of interest do not exist between vendors and the State and local agencies overseeing them.)

In addition to the GAO survey data, USDA’s Food and Nutrition Service (FNS) has developed several databases or documents relevant to this study. A “Guide for Preventing and Detecting Employee Abuse” was developed in June 1998. Also, FNS recently conducted a “WIC Program Dual Participation Survey.” Further, an existing “National State WIC Agency Program Integrity Profile” (WICAPIP) developed by FNS during the past several years identifies State agencies that use methods to maintain staff and participant integrity in their WIC Programs. Other relevant documents developed by the FNS workgroups include: “Best Practices: A Guide to Preventing and Resolving Dual Participation in the WIC Program,” developed by Dual

Participation Program Integrity Workgroup, Southwest Region, August 1999; and “Best Practices Guide to WIC Income Documentation,” published in March 1998.

There are two kinds of breaches of WIC Program integrity by participants and staff: expenditures of benefit funds beyond the amount needed to provide authorized benefits to eligible persons, and diversion of benefits for unauthorized uses, either by eligible persons or by others. Participant fraud or abuse is an intentional activity or action taken by WIC participants to obtain benefits to which they are not entitled or to misuse the benefits they receive. Examples of such actions include: misrepresenting facts that determine eligibility; exchanging food vouchers for nonapproved items; selling or giving away food obtained with vouchers; participating at more than one local WIC agency simultaneously, thereby receiving multiple benefits; or verbally abusing WIC vendors and/or WIC employees. Staff fraud or abuse on the other hand, is an intentional or deliberate staff action that aids or abets the participants in fraudulent actions and/or directly and illegitimately benefits the Program staff by violating program regulations, policies, or procedures. Examples of such actions include misappropriating food instruments, altering food instruments, entering false or misleading information in case records, or creating fictitious or nonexistent participant files.

## **1.2 Overview of the WIC Program**

The WIC Program is designed to improve the health of low-income pregnant, breastfeeding, and non-breastfeeding postpartum women, infants, and children at nutritional risk. The Program provides States with annual cash grants for food, nutritional services, and administration. The State agencies distribute funds to local agencies. More than 2000 local agencies and 10,000 clinic sites certify the applicants, provide food instruments, offer nutrition education, and make referrals to health care providers and other services. The WIC Program operates in all 50 States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, and 33 Indian Tribal Organizations.

WIC is not an entitlement program, and funding is primarily from annual discretionary appropriations by Congress for food purchases and for nutritional services and administration (NSA). Some States supplement the Federal grants with their own funds. In fiscal year 2000, WIC served an average 7.2 million persons per month, of whom 50 percent were children, 26 percent infants, and 24 percent women. An estimated 47 percent of all babies born in the United States are served by WIC (based on data from 1998). Since its inception in 1974, funding for WIC has expanded from \$10.4 million to about \$4.02 billion in 2000, including \$2.96 billion for food costs and \$1.06 billion for NSA costs.

The WIC Program offers three types of benefits to participants: supplemental food, nutrition education, and referrals to health and other social services. WIC participants are certified to receive benefits for periods of 6-12 months. Most WIC participants receive monthly food instruments that allow them to purchase, at authorized vendors, a food package designed to supplement their diet. The food instruments, which are issued at 1-, 2-, or 3-month intervals, are not denominated in dollar amounts but rather in quantities of specific foods. The foods specified are high in protein, calcium, iron, and vitamins A and C, nutrients frequently lacking in the diets

of WIC's target population. The food package cost varies by State and by nutrient needs of the recipients. The U.S. average monthly food package cost for all participants was \$33.00 in 2000 (reflecting the net cost after manufacturer rebates for infant formula and other foods).

### **1.3 Study Approach**

In furtherance of efforts to control Program fraud and abuse, USDA's Economic Research Service (ERS) contracted with the team of ATMS, Inc., and Abt Associates to identify and assess methods used by various State or local agencies to detect and prevent fraud and abuse among WIC staff and participants. The study was intended to identify enhanced controls to prevent staff and participant fraud and to make information on these controls available to all State and local agencies for use in managing their WIC Programs. This study specifically focuses on Program staff and participant fraud/abuse. Vendor fraud and abuse was not part of the mandate for the study.

In brief, our approach to addressing these objectives and meeting ERS requirements consisted of the following components:

- Review and integration of data from existing GAO and FNS surveys of State and local WIC agencies into a systematic description of current fraud control strategies.
- Site visits to 8 State agencies, 2 Indian Tribal Organizations (ITOs), and 14 local agencies. These agencies were selected to represent relatively innovative or well-regarded fraud control systems. The project team conducted reviews of procedures, computerized applications and databases, and non-computerized records; and the team collected data on the use, effectiveness, and results of these controls. The focus during the site visits was to characterize the principal operational and monitoring activities currently used by these agencies to prevent and detect fraud by participants and staff.
- Identification of existing methods and descriptive analysis of the patterns in the use of controls against participant and staff fraud among State and local agencies.
- A qualitative assessment of the effectiveness, resource requirements, and operational feasibility of current and proposed controls.
- Synthesis of the data and assessments to develop a compendium of strategies, approaches, and tools or techniques currently in use and that offer practical means to enhance the prevention and detection of WIC fraud and abuse. The compendium, as presented in this report, can be used by State and local agencies to support their efforts for fraud and abuse detection and prevention.

In this report, we document the cumulative results of the study conducted for ERS. We believe the enhanced controls to be worthy of consideration by State agencies to strengthen their methods of preventing and detecting fraud and abuse among WIC Program participants and staff. These enhanced controls were identified through the review of current practices and the site

visits. Our assessment of the feasibility and effectiveness of these practices is based primarily on the experiences of the State and local agencies we visited, as reflected by the professional judgments and opinions of key Program administrators and managers. As discussed later in this chapter, the available data were inadequate to support valid quantitative analysis of the costs and benefits of fraud controls, so we assessed them in a qualitative framework.

The authors recognize that the practicality and the extent of use of the enhanced controls depend on a number of key factors, such as the availability of State and local agency resources, the operating environment in the agencies, and the existence of necessary support systems and infrastructure to implement them. The features of the State's WIC management information system (MIS) constitute a particularly important factor shaping the options for fraud prevention and detection. Although the focus of this report was on the costs and benefits to the WIC Program of implementing certain controls, the effects of the implementation of stronger controls on participants were a potential concern by the staff members we interviewed.

#### **1.4 Summary of Study Tasks**

A number of tasks performed by the ATMS/Abt Associates team for this study are briefly summarized in the following paragraphs.

##### ***A. Establishment of a Panel of Experts***

We established an expert panel, in coordination with ERS, FNS, and NAWD management, consisting of knowledgeable State and ITO WIC Directors and FNS staff, to provide their insights on fraud and abuse detection and prevention efforts.

##### ***B. Selection of State, Local, and ITO WIC Agencies for Site Visits***

We developed criteria and selected State, local, and ITO WIC agencies for site visits to collect data. Relevant data from prior GAO and FNS surveys were used to select relatively strong State and ITO WIC agencies, to ensure that the selected agencies would collectively provide the requisite information. The scope of the GAO and FNS data also helped define the data collection requirements during the site visits.

We selected eight State and two ITO agencies, in coordination with ERS as well as the FNS Headquarters and Regional Offices, for site visits and associated data collection. As discussed in detail in the Site Selection Report, the selection of these State and ITO agencies was based on the following considerations:

- Representative State size (large, medium, small)
- Adequate geographical and regional representation
- Relevant laws and policies
- Availability of data related to fraud and abuse
- Existence of controls to mitigate participant and staff fraud and abuse
- Enforcement actions and impacts

- Management assessment of the effectiveness and feasibility of controls
- Range/degree of challenges faced by the agency
- Interest and willingness to participate in the study

The agencies selected for site visits were: Arizona, California, Choctaw Nation ITO, Illinois, Kansas, Massachusetts, Navajo Nation ITO, Tennessee, Texas, and Virginia.

The participating States and ITO agencies have numerous effective strategies for fighting. They are a diverse group in terms of their size, location, and sophistication of MIS development. This diversity allowed the study team to explore the better practices, including how agencies deal with resource limitations.

The selection of the local agencies within each State was coordinated over a period of time with each State WIC agency using criteria similar to those used for State selection. Two local agencies were selected for site visits and data collection in each of the States with the exception of Tennessee and Arizona (where a single local agency was selected). Thus, a total of 14 local agencies were visited to review and study WIC Program implementation and operations. The ITO visits included both central administration and local clinic operations.

In the Site Selection Report, we also reviewed the GAO and FNS survey data to identify the data we hoped to acquire during the site visits. The GAO and FNS surveys provided a broad nationwide profile of the current practices to prevent and detect fraud/abuse by WIC participants and staff.

The GAO survey was conducted in response to concerns about the level of fraud and abuse in the WIC Program, coupled with the need to update the studies upon which USDA had relied for data on fraud and abuse. This study is a good source of information concerning the types of fraud and abuse that are occurring, the basic preventive measures being taken by agencies, and the sanctions employed. The study provides statistical information about those items, but provides few details of how the controls operate. Moreover, the data were collected in 1998, before the implementation of the new WIC regulations concerning documentation of income eligibility, identity, residence, physical presence, and prevention of dual participation.

The National State Agency Program Integrity Profile, which was compiled by FNS in 1998, contains statistical information about the practices and policies of 77 State agencies and ITOs. This includes basic information on the presence of policies geared toward preventing fraud and abuse by vendors, staff, and participants. This information is largely quantitative in nature and offers no interpretation of the numbers. The WIC Program Dual Participation Survey Summary, conducted by FNS in 1998, provides statistical information about methods employed by State agencies to prevent and identify fraud and abuse, as well as types of actions with which agencies respond when fraud and abuse are identified. FNS also produced a document presenting model policies and procedures to prevent, detect, and resolve dual participation. The Site Selection Report is provided in Part II, Appendix A of this Report.

### ***C. Data Collection and Analysis***

Efforts under this task included three components: completion of the review of the FNS and GAO data, site visits to the selected State and local agencies, and analysis and summarization of the site visit data. The site visits for data collection efforts were conducted during the period July 2000 through October 2000. The primary goal of these visits was to identify, review, and document effective current practices for WIC Program monitoring activities and controls to detect and prevent fraud/abuse by Program participants and staff.

In our data collection and analysis efforts, we focused on the vulnerabilities to fraud/abuse in the certification, issuance, and redemption processes by participants and Program staff. The data collection and analysis work under this task focused on the following major areas and questions:

- What documentation of income or adjunct income eligibility do local agencies obtain?
- How do local agencies verify or validate documentation provided by applicants?
- What kinds of proof of residency do local agencies accept? What independent checks on residency do they perform?
- What checks on dual participation within the state and across States do they perform?
- What identity verification or other controls are used to prevent and detect phantom cases (benefits issued to non-existent participants)?
- Do local agencies require reporting of changes in eligibility? What are the requirements, and how are they enforced? Do agencies obtain independent information on continuing eligibility (e.g., through periodic data matches with Medicaid or other programs)?
- What procedures, computer system features, and security measures are used to prevent and detect fraud and abuse in the issuance process?
- What actions do State and local agencies take to follow up on possible Program recipient or staff involvement in vendor fraud?
- What procedures in recruiting, hiring, training, and managing staff do State and local agencies use to prevent and detect participant and staff fraud? What kinds of staff behavior or performance indicators are used to trigger audits or investigations, and how are these inquiries conducted?
- What evidence or information, if any, is available from WIC administrative records to document the cost and effectiveness of controls on participant and staff fraud?
- What are the legal, regulatory, and/or operational challenges or constraints to wider implementation of current or promising controls?



At the State level, the data collection efforts drew on the inputs and perspectives of key staff regarding program operations, use of management and information systems, data on fraud/abuse practices and investigations, and value of current and planned enforcement actions. These visits also provided us with access to relevant data, documentation and technical expertise needed to understand and assess the utility of automated systems for fraud/abuse detection and prevention. In addition, available data or opinions on the costs and effectiveness of controls were assessed during these visits.

The local agency site visits provided the opportunity to understand and evaluate how the controls operate at the “street-level.” In the WIC Program, the diversity of organizations serving as local agencies makes their perspective particularly important, even though it is difficult to generalize. For this study, the data collection in local WIC agencies included interviews with agency managers and line workers, observation of interviews and use of automated applications, and reviews of documentation used to prevent and detect fraud.

Specifically, the data collection effort during the site visits was aimed at the following objectives:

- Obtain detailed information on procedures or systems through interviews, observation, and review of documentation.
- Understand how controls are implemented and the steps taken to make sure that they are sustainable and efficient.
- Collect and review records of control-related activity and outcomes.
- Understand the context that gives rise to fraud and that has made it possible (or challenging) to implement the controls where they have been successful, so that recommendations for other State agencies can address the conditions that may favor or impede implementation elsewhere.
- Review sensitive issues of how controls fit into WIC agencies’ mission, culture, and political environment.
- Review and assess current or proposed controls by asking State and local agency staff to critique them on the basis of their knowledge and experience.

The site visits included a combination of semi-structured interviews, review of documentation, and observation of key procedures or computer applications. To the extent possible (within the limits of time, security requirements, and confidentiality restrictions), the data collectors also obtained copies of relevant documentation for computer systems, procedures, and also other useful documents such as consent forms and notices to participants.

For each State and ITO agency visited, we prepared a Site Visit Summary Report that provides the following:

- Background information covering agency organization/staffing and program operations overview
- Overview of program operations and processes with a particular focus on program monitoring activities and controls related to major program functions and activities, and
- Summary of site visit results highlighting key practices and their perceived effectiveness in program administration for fraud/abuse control.

These summary reports are provided in Part II, Appendix B of this report.

### **1.5 Approach to Evaluating the Potential Benefits and Costs of Controls**

The ideal criterion for identifying best practices for fraud prevention and detection would be that the benefits of the practice (from cost avoidance or recovery of funds) exceed the costs (including administrative expenses and adverse impacts on participants). As discussed below, such a cost-benefit analysis was not feasible within the structure and resources of the study, and indeed would be extremely difficult and costly to accomplish, given both the challenges of measuring the costs and the uncertainty about the benefits (particularly those of preventive measures). The second-best approach would be a formal cost-effectiveness analysis comparing the costs of methods that accomplish similar outcomes. This approach, too, was not feasible because of the lack of cost data and also because of the lack of information on the relevant outcomes.

In particular, we were impeded by the lack of data on the underlying rate of fraud (such as the error rate in determining income eligibility) and the variation in fraud under different fraud prevention and detection strategies. As mentioned earlier, the available information was quite limited in scope. One perspective was provided by the GAO survey of local WIC agencies, which found a very low level of detected participant fraud. The GAO estimated that about 0.14 percent of participants had committed serious violations within a 2-year period. The level of detected staff fraud was even lower—an estimated 48 individuals nationwide out of the estimated total 18,000 employees for the 2-year period covered by the GAO survey. Only 4 percent of local agencies identified any documented cases of employee fraud or abuse.

These figures represent a lower bound in the actual incidence of fraud, which includes both detected and undetected fraud. The proportion of actual fraud detected is, of course, related to the intensiveness and effectiveness of the effort expended on detection. A low incidence of detected fraud would be taken by some observers to indicate that fraud is actually rare, and therefore existing controls are adequate. More skeptical observers would assert that the same data could just as easily reflect weak fraud detection mechanisms in need of substantial improvement.

Available data on the actual incidence of fraud are very limited. A 1988 FNS study estimated that about 5.8 percent of WIC benefits were issued to participants who were not income-eligible, more than 30 times the detected rate of all serious fraud. This study was conducted over a decade ago. Since then, the WIC Program has dramatically expanded, potentially increasing the

likelihood of fraud, but State and local agencies have adopted many new controls for preventing and detecting fraud. FNS is expected to release the results of a new study of income eligibility in the near future, and these results may help WIC officials assess the scope and nature of underreporting of income. Neither the past study nor the new one provides data on the actual incidence of other types of fraud, such as dual participation and trafficking WIC benefits for cash.

Moreover, the case for enhancing controls on WIC fraud and abuse is not just one of saving funds by reducing current levels of actual fraud. There is an unknown amount of potential fraud that does not occur under current controls but could occur if these controls were not present, or if perpetrators of fraud sought new opportunities. The need to prevent this potential fraud is not quantifiable, but it is real and important. Moreover, taxpayers and their representatives expect an adequate set of controls to maintain the integrity of the Program. When cases of egregious fraud or abuse have come to light, particularly those involving Program staff, they have generated considerable public concern, even if the available data suggest that such abuses are rare.

Thus, there is an important element of policy choice in determining the appropriate level of resources to devote to fraud prevention and detection, in addition to considerations of costs and financial savings. Each State agency is obliged to strike a balance between missing fraud because of devoting too little resources to the problem and overestimating the likely level of fraud and spending more on fraud control than is actually saved. 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, we focused on identifying and assessing currently used methods of preventing and detecting fraud. The rationales for these controls were examined. Their advantages and disadvantages were assessed through discussions with State and local WIC staff and with staff in other States that have chosen not implemented such controls. In these discussions, State and local staff also communicated the nature of their mandates for fraud control and the policy considerations that have shaped their choices about the commitment of resources.

The other principal challenge in assessing fraud controls was the difficulty of identifying their costs. Most of the controls presented in this report are not discrete activities but instead are embedded in operational procedures and information technology used for a variety of purposes. WIC cost-accounting procedures do not provide the level of detail that would be necessary to estimate the costs of controls; indeed, an accounting system that did provide this level of detail would be very costly to operate. An independent investigation of these costs was not within the scope of our study, but a focused investigation of the cost of specific controls could provide worthwhile information for USDA and State WIC agencies.

There are several intrinsic challenges to compiling estimates of the costs and expected impacts of fraud controls likely to meet cost-effectiveness tests in most States:

1. Any valid estimation of the costs of fraud controls and their potential impacts must take into account the State agency's overall operational environment and specific scenarios and arrangements under which individual controls, or combinations of controls, are to operate. Synergistic effects of likely combinations of controls have to be considered in the overall agency context.
2. The nature and extent of resource requirements to maintain a specific control are likely to vary significantly from one agency to another depending on the nature and sophistication of the existing support systems, staff resources, procedures, and other relevant infrastructure.
3. The resource requirements for the initial implementation of a particular control depend on a number of key variables, such as the nature of the management and information systems in place, the changes required to the existing systems and practices, the extent of development or enhancements to be done, the technical and management staff resources available and their skill levels, and the degree of operational flexibility or adaptability at a given agency.

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 that the controls (or practices) to prevent and detect fraud are divided into two categories: basic and enhanced.

Basic controls meet WIC requirements with the minimum commitment of resources. For this reason, many of these controls are widespread. In some cases, program requirements mandate specific controls, although State agencies may have some latitude in the details of implementation.

Many of the 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 require more resources than basic controls but offer real improvements in the prevention or detection of fraud, based on the experience of the State agencies that have developed them. Enhanced controls may complement or replace the basic controls, depending on the nature of the controls and the requirements.

We determined that the enhanced controls are worthy of consideration for adoption by State agencies that do not already use them. This assessment is based on several criteria. First, we identified enhanced controls that had been used for an extended period by State agencies that were recognized as leaders by FNS and their peers. Second, we focused on those enhanced controls that address known limitations of the basic controls, including documented cases of

fraud and potentially serious areas of vulnerability. Third, we determined that the enhanced controls have proven operationally feasible and acceptable to stakeholders, including local staff and participants.

The continued use of these enhanced controls reflects the judgment of WIC Program managers that their benefits justify the expenditure of resources 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. Much of the knowledge about fraud in the WIC Program is gained through investigations of suspected fraud, which highlight the vulnerabilities of the Program and the strategies and motivations of those who seek to abuse it. This evidence is admittedly anecdotal, but WIC agencies refine their approaches through the accumulation and interpretation of this evidence into a collective body of knowledge.

Some agencies may, of course, make the choice to spend resources on fraud control where the evidence of effectiveness is weak, but in the long run, the managers or staff responsible for using these resources will likely recognize that the resources can be better spent in other ways. In particular, local agencies are likely to question fraud control measures that do not appear useful, because local staff are daily exposed to participants' desires for better service and reduced burden of participation.

We examined the scope of the resources devoted to the enhanced controls, the underlying rationale for the controls, and the alternatives. Where the resource requirements were more substantial (such as the cost of on-line checks for dual participation), we identified and highlighted the arguments for the controls and their principal alternatives. We probed where the justification for undertaking certain efforts seemed weak. This assessment was qualitative, but the comparisons among the diverse study sites provided useful perspectives.

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 those 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 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 infrastructure, information systems, associated risks, current strategies, resources, and mandates. 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.

## **1.6 Organization of this Report**

This report is organized into Part I and Part II.

Part I presents a summary of basic and enhanced practices for the prevention and detection of fraud and abuse by WIC Program participants and staff, for each of the major program functional areas, including: certification, benefit issuance, redemption, participant investigations and sanctions, and oversight of employees and local agencies.

Chapters II, III, and IV discuss fraud prevention and detection in three major program functions: certification; benefit issuance; and transaction and redemption of benefits. Chapter V considers the approaches to investigating participant fraud, imposing sanctions, and recovering benefits obtained through fraud. Chapter VI presents the ways that local agency management and State agency oversight can ensure compliance with participant fraud controls and also prevent and detect staff fraud.

In considering the methods for preventing and detecting WIC fraud and abuse, each chapter identifies relevant WIC regulations and other requirements that provide the underlying mandate for program officials. Background information on the types of vulnerabilities to fraud and abuse is provided for each program function. Basic and enhanced controls are summarized and discussed in detail. Resource requirements for the enhanced controls are identified and compared with the potential benefits of these controls.

Part II provides a detailed report on the selection of sites for data collection (Appendix A), and site visit summaries documenting the program operations as well as the WIC fraud prevention and detection practices in each of the eight State and two ITO agencies visited (Appendix B).