

## Chapter VI

### 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 redemption. One goal of State and local oversight is to ensure that program responsibilities are entrusted to qualified, trustworthy employees. Another goal is to provide feedback on whether the employees follow procedures designed to prevent and detect fraud. A third goal is to detect evidence of possible fraud by participants that may have been accidentally or intentionally overlooked during routine operations. The fourth goal is to detect, investigate, and impose sanctions for fraud perpetrated by employees.

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. For example, identity documentation requirements prevent applicants from participating under false names, but they do not prevent employees from creating phantom participants. Furthermore, employees must often be given a certain degree of autonomy to maintain efficient operations, so the potential for abusing that autonomy is present. Supervisory employees and front-line staff who operate with little day-to-day supervision pose particular challenges in this regard. Last but not least, employee fraud can have substantial non-monetary costs, if it undermines the perceived legitimacy of the WIC Program.

The context for oversight depends on the organizational relationships among the State agency, the local agencies, and the clinics delivering WIC benefits and services. Where the local agencies are part of the State agency, State officials have direct control over local operations, although the State agency's WIC management team may need to work through another branch of the State agency that has line management authority over local operations.

On the other hand, where the State agency contracts with local governments or nonprofit agencies to operate the WIC Program, oversight is mediated through the contract, and local agencies may have more autonomy. Similarly, the way in which a local agency with multiple clinics exercises its management role will be shaped in part by whether those clinics are part of the local agency or subcontractors. An additional factor shaping the context for oversight is what other services local WIC agencies offer, because these other services are likely to have their own oversight structure that may have to be coordinated with WIC requirements.

This chapter discusses a variety of management and oversight mechanisms that can be used to prevent and detect fraud by WIC participants and employees. These tools 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. With respect to employee fraud, the focus is on the local level, although some of the controls discussed are also applicable at the State level.

## 6.1 Background

This section reviews the significant vulnerabilities to employee fraud in WIC operations and provides summary statistics on the prevalence of certain basic practices.

### *Vulnerabilities to Employee Fraud*

Any type of fraud initiated by a participant could involve the collusion of employees (e.g., ignoring evidence of excess income that would disqualify an applicant). Employee oversight therefore needs to prevent such collusion, through preventive measures such as screening and training, and to detect the collusion that does occur through measures such as observation and record reviews.

The types of fraud and abuse that may be independently perpetrated by employees include the following:

- creation of “phantom” participants to obtain benefits
- theft of blank food instruments from the agency inventory or personalized instruments intended for specific participants
- counterfeiting or alteration of food instruments
- theft of other WIC Program property, such as formula samples or equipment
- creation of phantom employees
- use of Program funds to purchase goods or services for personal use
- deliberate misrepresentation on financial or participation reports

The first three of these vulnerabilities involve the loss or diversion of benefit funds. The primary controls to prevent and detect these types of fraud have been discussed in preceding chapters; this chapter discusses the use of management controls to prevent and detect breakdowns in the primary controls. The next three vulnerabilities represent fraudulent use of funds for nutrition services and administration (NSA). Fraudulent reporting may occur when an official seeks to conceal other types of fraud, or when there are other reasons to avoid accountability (such as the potential loss of NSA funds if participation goals are not met).

### *Applicable Provisions of FNS Regulations*

WIC regulations establish a general responsibility for State and local agencies to maintain efficient and effective operations of the WIC Program. Specific oversight requirements include the following:

- The State agency must establish and disseminate a procedures manual for local operations.

- The State agency must periodically review local agency qualifications.
- Agreements with local agencies must ensure adequate staffing, compliance with non-discrimination provisions, proper accounting for Program funds, and documentation of certification criteria.
- The State agency must establish processes for civil rights complaints and fair hearings for participants subject to Program sanctions.
- State agency financial management systems must provide for disclosure of expenditures, internal control, records of expenditures, identification of obligated funds, and reconciliation of food instruments.
- Local agency financial management procedures must be consistent with Program regulations and guidelines, and expenditures must follow rules governing allowable costs.
- State agencies must establish management evaluation systems including monitoring of local agency operations, review of participation and financial reporting, development of corrective action plans to resolve deficiencies, monitoring of the implementation of corrective action plans, and on-site reviews of clinic operations.
- State agencies must evaluate the following areas of local agency operations: management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery.
- On-site reviews must be conducted in each local agency at least every 2 years, with site visits to at least 20 percent of clinics in each local agency (or one clinic, whichever is greater).
- State and local agencies must have regular independent audits.

***Data on Management and Oversight Practices***

Table 6–1 presents data from FNS and GAO sources on the prevalence of basic management and oversight practices to prevent and detect fraud in the WIC Program, as of 1998. These data indicate the following patterns:

- Widespread practices 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.
- Additional practices used by a third of agencies or more include: personality assessments or background checks for new hires; evaluations of more local agencies than required by FNS; unannounced visits to clinics by local supervisors; and fraud and abuse awareness training for local employees.

- About a third (32 percent) of State agencies report that disciplinary action has been taken against one or more employees for fraud.
- Statistical methods to detect employee fraud, such as reports identifying clinics with an unusually high rate of multiple births, are used in only 13 percent of State agencies.

**Table 6–1—Background statistics on management and oversight practices**

Management/oversight practice	Percent of State agencies (including ITOs)
Conflict-of-interest policy regarding employees as participants	70
Use of personality assessment or background check for new hires	35
Evaluations of more local agencies than required by FNS	35 <sup>a</sup>
Disciplinary action taken against employee for fraud	32
Use of a statistical method to detect employee fraud	13
	Percent of local agencies <sup>b</sup>
Supervisory reviews of local employee activities	93
Requirement for employees to report suspected employee fraud to State agency	69
Separation of duties between certification and issuance	68
Unannounced visits to clinics by local agency manager/supervisor	47
Fraud and abuse awareness training provided to employees	45

Sources: <sup>a</sup>U.S. General Accounting Office (GAO), *Food Assistance: Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened*, p. 42; percentage is for States only.

<sup>b</sup> GAO *ibid.*, p. 46; taken from a survey of 500 local agencies.

All other data: USDA, Food and Nutrition Service, *National State Agency Program Integrity Profile, 1998*. Responses were from 52 State agencies and 25 ITOs.

To the extent that the increased emphasis on program integrity in recent years has led State agencies to adopt more aggressive strategies, these figures may understate the current prevalence of some practices. Also, as discussed later in this chapter, State agencies that do not have formal statistical methods to detect employee fraud may use routine management reports for this purpose.

## 6.2 Overview of Management and Oversight Controls

The management and oversight controls available to State and local WIC agencies for preventing, detecting, and responding to fraud include the following:

- screening of applicants for employment
- conflict-of-interest disclosures
- employee training

- local agency supervision and quality assurance
- management evaluation systems
- financial audits
- investigations of employee fraud

Table 6–2 summarizes the requirements and basic and enhanced controls in these areas, identifying the key advantages of the enhanced controls and, where appropriate, important cautions or other considerations related to them. Where no specific requirement is indicated, the basic and enhanced controls are needed to fulfill the general responsibilities of the State and local agencies for the efficient and effective operation of the WIC Program in compliance with applicable laws and regulations. The remainder of the chapter discusses the basic and enhanced controls in more detail.

**Table 6–2—Requirements and controls for oversight of employees and local agencies**

Requirements and basic controls	Enhanced controls	Comments on enhanced controls
Basic control: Determine job applicants' qualifications through application forms, interviews, and reference checks	Use of centralized local agency personnel office to solicit and screen applications	Assures fairness and consistency in screening; provides available pool of applicants; may be required in public agencies; also feasible or mandatory in multi-purpose or multi-site local agencies
	Employees recruited from the community to be served by the clinic	Promotes communications with community and awareness of unusual behavior by participants; recruiting must be consistent with applicable laws and regulations
	Multiple staff participating in interviews with applicants	Improves reliability and reduces likelihood of bias compared with single interview; requires modest increase in staff time
	Informal/formal testing of job-related skills and ethics	Provides direct evidence of qualifications; requires staff time and procedures to assure objectivity; may be mandatory
	Criminal or motor vehicle record checks	May identify high-risk applicants, but adds cost and has uncertain predictive value; may be mandated by law or accreditation standards
Requirement: Ensure that no conflict of interest exists between local agency staff and vendors under their jurisdiction		
Basic control: Vendor disclosure of conflict of interest on application	Employee disclosure of financial relationship to vendor	Supplements vendor disclosure and detects under-reporting; requires regular process to obtain and review employee disclosures
Basic control: Policy preventing employees from certifying or issuing	Extension of policy to family of employees	Prevents collusion

Requirements and basic controls	Enhanced controls	Comments on enhanced controls
benefits to themselves or their children as participants	<p>Requiring employees who participate in WIC to be certified by a supervisor or local director</p> <p>Limiting access to files of employee-participants</p> <p>Enhanced income documentation for employees</p>	<p>Prevents collusion, protect privacy, promote high standard of integrity</p> <p>Protects privacy and prevents manipulation of records; MIS restrictions require programming</p> <p>Provides a higher standard of integrity; requires more documentation and monitoring</p>
Basic control: Local agencies provide in-service and on-the-job training to meet State agency expectations	<p>State agency develops materials</p> <p>State agency organizes conferences or includes training in existing conferences</p> <p>State agency provides training on fraud prevention and detection at local agencies or at central facility</p>	<p>Promotes fraud control agenda and quality of training; least costly approach</p> <p>Promotes awareness and information-sharing; most efficient way to provide direct training</p> <p>Enhances consistency and depth of training, promotes fraud control agenda, responds to problems identified through management evaluation system; most costly alternative</p>
Basic control: Routine supervision of local personnel through observation, staff meetings and performance reviews	<p>Supervisors encouraged to make fraud awareness a priority</p> <p>Specialized supervision for clinical and support staff</p> <p>Unannounced visits to clinics by local agency managers</p>	<p>Need to balance with other priorities, may require increasing level of supervisory staffing</p> <p>Different background and focus needed for overseeing different jobs; difficult to provide in small agencies</p> <p>Discourages complacency and identifies problems faster; need to address potential impact on morale</p>
Basic control: Local supervisors monitor program activity reports and review participant records on ad hoc basis	<p>Regular review of records for participants certified at dispersed locations</p> <p>Periodic reviews of random sample of participant records with standard checklist</p> <p>Peer review of samples of case records</p> <p>Summarize and discuss patterns found in reviews of reports and records</p>	<p>Limited supervision of staff at dispersed locations increases risk of employee fraud in certification; increases or diverts supervisors' effort</p> <p>Systematic procedures increase reliability and comparability of results; small effort to develop and implement</p> <p>Promotes education, communication and empowerment; can be done in context of in-service training to minimize time away from participant service</p> <p>Provides feedback crucial to continuous improvement; small effort for supervisors</p>

Requirements and basic controls	Enhanced controls	Comments on enhanced controls
Requirement: State agency must set qualifications for local agencies, establish agreements, and periodically review agreements		
Basic control: State agency meets WIC requirement.	<p>Use of quantitative performance standards for corrective action and renewal of agreements</p> <p>Setting high standards for performance in fraud-related areas</p>	<p>Provides clear expectations and objective basis for action against underperforming agencies; requires quantitative performance data</p> <p>Promotes fraud awareness and attention to procedures; may require local agencies to devote extra resources to fraud prevention and detection</p>
Requirement: State agency must establish management evaluation system.		
Basic controls: State agency reviews mandatory reports on certification, issuance, redemption, and financial status	<p>Ad hoc capability to analyze suspicious or problematic patterns in MIS data</p> <p>Define and use regular fraud indicator reports</p>	<p>Routine reports may conceal more complex patterns of fraud; requires capability to query MIS data as well as staff time to analyze results</p> <p>Regular reports are a more efficient and reliable way to monitor known fraud indicators; requires MIS capability and processing time</p>
Requirement: Biannual comprehensive management evaluation review of local agencies including 20- percent sample of clinics		
Basic control: Conduct minimum required number of reviews of management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery.	<p>Annual reviews of local agencies or local agency self-reviews in years between State reviews</p> <p>Participant record reviews of statistically valid sample with standardized protocol</p> <p>Multi-disciplinary teams conduct reviews</p> <p>Computerized review protocols and report generation</p> <p>Specialized reviews on fraud prevention and detection procedures by program integrity staff</p>	<p>Annual cycle enhances attention to compliance and identifies problems more quickly; annual reviews by State agency double the effort for this function</p> <p>Ensures reliable, defensible, and objective results; requires sampling procedure and tabulation of results</p> <p>Applies perspectives of clinical and administrative experts; minimal impact on level of effort if work is divided among team members</p> <p>Facilitates analysis, cross-site comparisons, and prompt feedback, while reducing reporting effort; requires modest development effort and use of laptop computers</p> <p>Promotes communication and provides technical assistance before problems develop; requires specialized staff, and increases overall review costs</p>
Requirement: Develop corrective action plans to resolve deficiencies, monitor implementation of corrective action plans		

Requirements and basic controls	Enhanced controls	Comments on enhanced controls
Basic control: Comply with requirement	Use of quantitative standards to set thresholds for corrective action  Followup visits to monitor progress in implementing corrective action	Provides objective and clear standards with automatic consequences; requires quantitative data  Provides opportunity for technical assistance and encouragement; requires State agency staff time
Requirement: Regular organization-wide financial audits of local agencies		
Basic control: Regular financial audits validate financial and participation reports, review documentation and financial controls	In-depth review of issuance documentation  Comparison of payroll with time sheets  Review of purchase justification and approvals	Provides scrutiny of key area of financial vulnerability; requires auditor training/related experience  Provides check on main element of administrative cost; can be done on sample basis for large agencies  Assures that purchases are allowable and properly authorized; can be done on sample basis for large agencies
Requirement: Process to receive and investigate complaints of employee fraud		
Investigate evidence of employee fraud reported by complaint forms submitted to the State or local director, or a toll-free number at the State agency	Secure channel for complaints against employees  Specialized staff in WIC integrity unit or internal auditors conduct employee investigations  Use of data warehouse to identify or confirm suspicious activity  Cooperation of police and prosecutors enlisted for criminal cases  Clear guidelines for sanctions against employee fraud and abuse  Feedback to managers and staff on lessons learned	Assures confidentiality and integrity of complaint process; may require extra telephone line  Assures objectivity and capability to gather needed evidence; requires specialized staff  Provides less visible, more efficient scrutiny than manual review of files; may require substantial MIS development and data storage  Requires early effort to establish relationship; assures legal resources are available  Ensures proportionate, effective, defensible response to different types of fraud and abuse  Emphasizes priority of fraud control by reviewing successful investigations and sanctions; can disseminate information via newsletters or bulletins

### 6.3 Personnel Management Practices

Personnel management practices useful in promoting program integrity include: specifying qualifications for key positions, screening applicants for employment, addressing potential conflicts of interest, and training employees. These are important elements in local agencies' fraud-control strategies because of the importance of employee integrity. Clinic personnel must



be entrusted to make sure that applicants are eligible, to issue benefits accurately and securely, to safeguard other program assets, and to maintain the confidentiality and integrity of participant records. The integrity of employees is perhaps more critical in small clinic settings than elsewhere, because employees have broader duties and sometimes operate in dispersed locations with less supervision. Moreover, employees committed to program integrity can strengthen fraud control systems and procedures through the application of judgment, experience, and access to community information sources.

In the WIC Program, personnel management procedures must fit with the realities of WIC Program administration. Funding constraints may make it difficult to offer competitive salaries and therefore limit the pool of potential applicants. Where the job market is strong, turnover among clerical employees can be high. Clinics in rural areas sometimes have difficulty attracting nutritionists and other professionals, particularly when the caseload is too small to support a full-time position. These challenges are offset, however, by the attractiveness of the Program's goals, which elicit a high degree of commitment from employees.

### ***Screening of Applicants for Employment***

When hiring new staff, local agencies need to screen applicants to determine their qualifications, suitability, and integrity. The hiring process and, therefore, the available screening mechanisms depend in part on the nature and structure of the local agency. If a State or county agency operates the local WIC Program, civil service procedures typically govern the process, and applicants receive some screening from a centralized personnel office. Large nonprofit organizations also tend to have formalized application procedures administered by centralized personnel offices, although the personnel office may have minimal involvement until after applicants have been screened and recommended for employment by the local WIC director.

The involvement of a centralized personnel office entails some additional costs, but it can help to assure an available pool of applicants and a fair, consistent hiring process. Small organizations may have less formal hiring processes, but they are more likely to have strong informal networks of communication available both to recruit good candidates and to identify potentially risky applicants.

Both program integrity and customer service can be enhanced by recruiting employees from the community to be served by the clinic, particularly when the community is an ethnic or linguistic minority. From the perspective of program integrity, this practice promotes communications with the community, not only because staff members speak the community's language but also because they are part of the social network. Familiarity with community norms helps staff identify unusual behavior by participants and promotes cultural sensitivity. Recruiting from a specific community must be conducted in a manner consistent with applicable laws and regulations, to protect the civil rights of actual and potential applicants.

The basic tools for screening applicants are: review of application forms and other documentation provided by applicants, interviews with applicants, and reference checks to verify prior employment and work performance. Applications and related documentation are necessary and help to screen out clearly unqualified applicants, but these sources alone are not likely to

identify integrity risks. Reference checks can be helpful if the source is candid, but many employers provide only the most basic information about their ex-employees. Nevertheless, the requirement to provide references may deter some potential job applicants with poor work histories.

Thus, interviews with applicants are a critical source of information. Local WIC agencies can use several techniques to enhance the effectiveness of the interview process:

- Involve multiple employees in the interview process, including both supervisors and peers, to provide different perspectives.
- Observe the applicant's performance of simulated tasks involving job skills (e.g., greeting participants or filing records).
- Probe the applicant's ethical standards by asking for responses to hypothetical problems (e.g., observing a co-worker napping on the job).

These techniques may modestly increase the level of effort devoted to the interview process, but the one-time cost is likely to be offset by the ongoing payoff of more dependable employees.

Local agencies can use a variety of additional controls to enhance the integrity of the hiring process, including the following options:

- Applicants' job-related skills (such as data entry) can be formally tested in civil service examinations or similar procedures.
- Checks can be performed by the local agency or a service provider to determine if an applicant has a criminal record or a history of motor vehicle violations.
- Applicants can be tested for use of illegal drugs.

These mechanisms must be legally permissible and defensible as nondiscriminatory grounds for rejecting applicants. They also entail extra time and, potentially, financial costs to the local agency, although the costs can be minimized by limiting these measures to the final candidates after more basic screening has been completed. Large public or private organizations are more likely to have the resources to make use of these screening procedures; some are required to do so by law or by accreditation bodies. Anecdotal evidence from WIC agencies suggests that few applicants are identified as high-risk by background checks or drug tests, but the deterrent effect is hard to quantify.

### ***Conflict of Interest***

WIC employees may have a variety of relationships that could conflict with their duties and ethical responsibilities as Program representatives. Potential conflicts of interest include:

- employees with personal or financial interests in stores serving as WIC vendors
- employees as WIC participants

- employees' friends or relatives as WIC participants.

When an employee has an ownership share of a store redeeming WIC benefits (or otherwise has an interest in such a store), there are two potential risks. The employee may assist the vendor in perpetrating or concealing fraud, or the vendor may assist the employee to redeem stolen benefits. Because of these risks, a basic control is for vendors to report any business relationships with WIC employees. Another basic control is to minimize the role of local WIC employees in vendor authorization and monitoring. An enhanced control is to require all WIC employees to submit a statement regarding any conflict of interest with a WIC vendor, preferably on an annual basis.

As noted earlier in this chapter, most State agencies have policies regarding the participation of employees in the WIC Program. At a minimum, these policies prohibit employees from certifying themselves (or their children) or issuing their own benefits.

A common challenge for many local agencies arises when participants are relatives or friends of employees. The separation of duties may reduce the risk of fraud in such instances, but additional checks are needed. The basic control is for the employee to disclose any such relationship to a supervisor. If possible, having the relative or friend receive services from another staff member will further reduce the risk of fraud.

Other enhanced controls to prevent fraud and abuse when employees are participants include:

- requiring employees who participate in WIC to have their eligibility determined by a supervisor or local director
- placing special restrictions on access to the electronic and physical files of employee-participants, so that only supervisors can view or change these records
- requiring employees to report income more frequently than other participants (even monthly)
- keeping copies of income documentation for employee-participants even if such documentation is not maintained for other participants.

These enhanced controls have several advantages. They prevent collusion among front-line staff in certifying each other or manipulating records to facilitate fraud, and they promote a higher standard of integrity for the certification of employee-participants. At the same time, restrictions on access to employees' certification records provide greater assurances of confidentiality. These restrictions do increase supervision costs, however, and MIS restrictions require programming, but the costs are modest relative to the potential monetary and non-monetary costs of employee fraud.

### ***Employee Training***

Employee training is a vital way of ensuring that sound procedures for WIC fraud prevention and detection are followed. Effective training can enhance the capability of employees to serve as the “eyes and ears” of the Program, both on the job and in the community. Turnover is common among line employees, particularly clerical and paraprofessional positions, so training for new employees is regularly needed. When new procedures are introduced, all employees need to be trained to follow the procedures and to cope with problems that may arise.

Training also helps promote continual improvement in program integrity and quality. WIC agencies can promote the retention of experienced, trustworthy employees by offering training to assume increased responsibilities, such as training for clerical staff to be certified as nutrition assistants. WIC agencies use a variety of training models:

- As a basic practice, State agencies establish expectations for local agencies, and the local agencies train their employees in-house.
- At the local level, training can be done as part of staff meetings, on the job, or in more structured classroom settings.
- Many State agencies develop training materials for local agency use.
- Many State agencies also hold conferences for local agencies. In addition to presentations by State agency personnel, these conferences may include peer-to-peer discussions of challenges and best practices.
- Some State agencies go further and directly provide training for local agency employees, either at a centralized location or on-site at local agencies.
- A few State agencies operate training facilities on their own or through contracts with other organizations. These facilities are particularly useful for more extensive, structured training, such as preparing employees for certification as paraprofessionals.
- Where clinics are operated directly by the State agency, all training is an internal function directed by the agency’s management.

Greater State agency involvement in training offers several advantages. The more active the State agency’s role, the more consistent the training will be. The State agency has more control over the agenda for training if it creates materials or, better yet, provides the training. If the State agency commits its resources to training, it heightens the importance of the training. For the dissemination of new policies or new MIS capabilities, State agency officials may be the only ones qualified to provide the training, at least when training local agency managers or trainers. A more active role in training does, of course, entail a cost to the State agency that must be balanced with other program needs.

The GAO survey of local agencies found that many, but not most, local agencies emphasize fraud awareness in their training for employees. This type of training complements the more basic training in specific procedures that are intended to prevent or detect fraud. Where employees do not frequently encounter signs of attempted fraud, training that explicitly promotes fraud awareness can be especially helpful to put them on their guard and encourage them to report suspicious situations. Training focused on the types of fraud that may occur is helpful to focus employees on the questions to ask and the signs to look for.

#### **6.4 Local Agency Supervision and Quality Assurance**

Supervision within the local agency is the first line of oversight to assure that employees follow procedures designed to maintain program integrity and to detect evidence of possible employee fraud. As indicated by the GAO survey, nearly all local agencies provide this type of supervision. Common mechanisms for supervisor oversight and feedback include: reviewing daily and monthly reports on certification, issuance, and other activities; verifying inventories of food instruments and other valuable items; reviewing procedures and issues in regular staff meetings; observing employees in the performance of their duties; providing one-on-one guidance; and reviewing employees' job performance.

One of the challenges for State and local WIC managers is to ensure that fraud control is an explicit priority for clinic supervisors. These officials have responsibility for promoting the broad array of program goals, including not only fraud control but also accurate nutritional assessment, effective nutrition education, high-quality customer service, and efficient use of program resources. Particularly when clinic supervisors' training and careers focus on nutrition and customer service, they may need to be reminded periodically of the need to include fraud issues in their oversight. Another solution feasible in larger agencies is to have two specialized lines of supervision: one for nutritionists, focused on clinical standards, and the other for support staff, more focused on administrative procedures and accountability for benefits.

Regularly scheduled reviews of participant records and other documentation provide an enhanced control to ensure the integrity and quality of clinic operations. An effective review requires a comprehensive checklist to determine the completeness, accuracy and appropriateness of certification, issuance, nutrition education, and other services. These reviews can be conducted in a variety of ways:

- Local agency supervisors who work with a dispersed staff (i.e., satellite sites without regular on-site supervision) can perform a record review on participant records as files return to a central storage location.
- The clinic director or a designated supervisor can review a random sample of records each month, examining the documentation of certification, nutrition education and other and participant services.
- Record reviews can be conducted by peers on a rotating basis, both as a quality control and as a way of promoting communication and empowerment.

- In a multi-site agency, an itinerant supervisor or designated quality management reviewer can make periodic visits to each site to observe operations and review records. Unannounced visits are more effective at identifying lapses in documentation and file maintenance. A portion of these reviews can be conducted using on-line data in the MIS.

An important element in a record review system is followup. Both individual workers and the entire staff need to have feedback on issues identified through reviews. Summarizing the patterns found in record reviews and site visits requires a modest additional effort on the part of supervisors, but the potential payoff in process improvement is substantial. Electronic mail and other automation tools can facilitate this process.

## **6.5 State Agency Oversight**

All State WIC agencies are responsible for setting qualifications for local agencies, selecting local agencies, periodically reviewing their qualifications, and maintaining management evaluation systems. These oversight mechanisms are intended to assure that local agencies are financially viable, adequately staffed and equipped, in compliance with Federal and State requirements, and providing effective, efficient services. State agency oversight helps to ensure that required fraud controls are in place and to identify breakdowns in these controls.

### ***Local Agency Selection and Review of Qualifications***

As a basic control, consistent with WIC requirements, State agencies establish procedures and criteria for selecting local agencies, and they periodically review the qualifications of the local agencies. The selection and review processes need to address many program requirements, including the agency's history of performance and integrity in administering WIC and other programs. If the State agency delegates some responsibility for policy and procedures to local agencies, the State agency needs to review these procedures to make sure they are adequate and up to date.

The periodic review of qualifications provides an enhanced control if it is based on clear and quantifiable performance standards, drawing on the results of management evaluation reviews and other inputs. Key areas for performance standards related to fraud include: accuracy in determining income eligibility, complete documentation with necessary signatures for certifications, signatures obtained for benefits issued, accurate inventory records for food instruments and formula, and conflict-of-interest statements signed by employees. Performance standards are most effective if they are incorporated in local agency agreements and applied when agreements are due for renewal. Quantified performance standards, such as a certain minimum percentage of issuances with proper signatures, establish clear expectations, but they require quantitative data from operational reports or standardized on-site reviews.

### ***Reports for Monitoring Clinic Operations***

MIS reports provide important tools for State agencies to monitor clinic operations. At a minimum, a State agency can usually monitor trends in certification, issuance, and redemption for each local agency and, for multi-site agencies, for each clinic through routine aggregate statistics generated by the MIS or through financial and participant reports submitted by the local

agencies. These basic reports can be used to identify unusual changes in operations that may signal either weakness in the process or employee fraud. For example, if a local agency has a sharp rise in the percentage of participants who are infants, the State would want to look closely at the agency's certification procedures and documentation. Other basic data sources for monitoring include orders for food instrument stock and food instrument reconciliation reports.

MIS reporting can be enhanced in two ways. Some State agencies use ad hoc reporting capabilities to examine patterns in the MIS data that are difficult to find in routine reports. These ad hoc queries are based on suspicion that a particular type of fraud is occurring. For example, if the State agency gets a tip that someone in a large local agency is creating phantom cases, the State might do an ad hoc query to identify participants who are always seen by the same employee, normally a rare occurrence for low-risk cases. Other State agencies identify potential fraud indicators and establish regular reports to identify instances when these indicators are present.

A wide variety of potential indicators of employee fraud can be developed through ad hoc or routine reports that identify abnormal levels of or changes in clinic-level statistics. The following are illustrative examples:

- ratio of infants to women and children participants
- number of multiple births
- proportion of participants with medical data from the same external source
- proportion of participants reporting zero income or obtaining waiver for income documentation
- proportion of participants picking up and redeeming food instruments
- proportion of participants redeeming food instruments outside their area
- proportion of participants redeeming food instruments at the same vendor.

If the capability to do ad hoc queries or to generate fraud indicator reports is built into the MIS, the ongoing cost of generating and reviewing reports is quite modest. Current technologies allow non-programmers with a small amount of training to produce such reports. Some older MIS may require substantial modification, such as the creation of a data warehouse, to permit ad hoc queries.

### ***Management Evaluation Reviews***

All State agencies are required to conduct management evaluation reviews of each local agency every 2 years, with on-site reviews of at least 20 percent of individual clinics. The mandatory topics include: staffing, certification, nutrition education, civil rights, accountability for benefits, financial management systems, and food delivery systems. The methods for these reviews

include: inspection of facilities and procedural manuals, observation of operations, and record reviews. The review typically concludes with an exit conference to present findings to the local agency management. If deficiencies are found, the State and local agency must establish a corrective action plan, and the State agency must follow up to monitor implementation.

Most State agencies take the basic approach of meeting the minimum requirements for management evaluation reviews. About 35 percent of State agencies conduct more than the required number of reviews, according to the GAO.<sup>8</sup> This practice increases the resources devoted to reviews, but these State agencies have determined that more frequent monitoring is worth the cost.

Additional practices to enhance the effectiveness of management evaluation reviews as a fraud control tool include:

- Requiring local agencies to perform self-assessments in the years when they do not have State reviews.
- Reviewing statistically valid samples of case records and performance indicators via the MIS prior to the on-site review, to identify problem areas.
- Limiting the amount of advance notice before conducting on-site reviews (e.g., 30 days) to minimize the amount of time for local staff to “tidy up” incomplete records.
- Reviewing all on-site documentation for a statistically valid sample of food instruments, from appointment records to certification records to issuance records.
- Reviewing inventory records and issuance reconciliation reports used by local personnel.
- Reviewing personnel records to make sure that staff are qualified and properly screened, and that payroll expenses are substantiated.
- Reviewing controls on property and expenditures to make sure that Program funds and other assets are adequately safeguarded.
- Using quantitative performance standards in reviews, such as expecting 100 percent of issuances to be documented by a signature, to make findings more objective and to set automatic thresholds for corrective action.
- Using multi-disciplinary teams to conduct reviews, including expertise in issuance, certification, and fiscal management.

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<sup>8</sup>U.S. General Accounting Office (GAO), *Food Assistance: Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened*.



- Using computerized protocols to assemble and summarize the results of reviews while on-site.
- Conducting compliance visits shortly after the completion of the review and subsequently as needed to check on the implementation of corrective actions.
- Communicating problems found in management evaluation reviews to all local agencies, both as an educational tool and as an incentive to maximize compliance.
- Imposing clear, graduated sanctions for serious non-compliance, ranging from warnings and increased monitoring to probation and termination of local agencies.

Many of these enhancements entail little or no ongoing financial cost to the State agency. Quite a few require some effort to develop procedures, forms, and documentation, but these tools can be shared among State agencies to reduce development costs. The cost of associated computer applications will depend on the desired functionality and the existing environment.

Management evaluation systems in many State agencies also include participant surveys. The data collected in these surveys typically include items on accessibility and quality of services, quality and variety of authorized foods, and participant satisfaction. Although participant surveys are unlikely to identify any fraud issues, an abnormally high rate of non-response might be a basis for investigating the possibility of poorly documented or phantom participants.

#### ***Other On-Site Reviews of Local Agency Operations***

Some State agencies supplement their mandatory WIC management evaluations with other types of reviews. State health departments may conduct clinical quality assurance reviews for local health centers that offer WIC and other health care programs. These reviews are similar in structure to the WIC management evaluation reviews, but they focus more on clinical practices, safety, and staff credentials.

A recent innovation is for State agency fraud investigation staff to conduct reviews dealing specifically with fraud prevention and detection practices. These reviews can be offered to local management as a diagnostic tool to identify needs for improvement through training, reorganization, or other interventions. If handled in a supportive, collegial way, this process can also open up communications between local and State staff. This enhancement is feasible when the State agency has designated staff responsible for fraud investigation, as discussed in the preceding chapter.

#### ***Audits of Local Agencies***

In addition to management evaluation reviews, local agencies are also subject to mandatory financial audits, which can identify problems with the control of food instruments, payrolls, purchases, and property, or with the completeness and accuracy of financial and participation reports. Depending on the organizational structure of the State and local agencies, these audits may be conducted by the State agency's internal auditors, the State government's general auditor, or independent auditors retained by the local agency. Useful practices in local agency audits include: reviewing issuance records and reconciliation reports, reviewing employee timesheets against payroll records, and reviewing approvals and justifications for purchases with

WIC funds. These practices may entail a modest increase in audit costs, but they can substantially strengthen both the audits' ability to detect fraud and their deterrent effects.

## **6.6 Investigations of Employee Fraud**

Although available evidence suggests that employee fraud is rare, WIC agencies need to be prepared to review and investigate evidence of employee fraud. This evidence may come from a complaint by a participant, vendor, or co-worker; from review of monitoring reports; or from evidence developed in a management evaluation review or audit.

The most basic approach is to use the same channels and procedures as are used for reporting and investigating fraud by participants: standard complaint forms submitted to the local or State agency director or calls to a toll-free number at the State agency. There are some problems with this approach:

- Participants, vendors, or fellow staff may be reluctant to make a report if they are concerned about possible retaliation by the person suspected of fraud.
- Lack of security may compromise the investigation by providing early warning to the employee.
- Employees who routinely take complaints may be unfamiliar with the special procedures needed to gather evidence for termination of employees or criminal prosecution.
- If the standard complaint procedure calls for the local agency director to review the complaint, it may be difficult for the director to be objective when a complaint involves an employee. In the case of an ITO, the local director is the State agency director, so this issue poses a particularly acute challenge.

For these reasons, some State agencies have developed the following measures to enhance the process of investigating allegations of employee fraud:

- Establishing a separate toll-free number covered by trusted staff for secure reporting of employee fraud by fellow employees
- Assigning responsibility for employee fraud investigations to specialized staff, such as a WIC integrity unit or the State agency's internal auditors
- Establishing agreements with police and prosecutors to conduct criminal investigations and prosecutions.

These enhancements require additional resources, but they are likely to have a substantial impact on the ability to investigate and prosecute employee fraud. If a State agency has established a specialized internal investigative staff or a relationship with outside investigators for

investigating participant fraud, these resources will be available for dealing with employee fraud as well.

The methods for investigating employee fraud vary according to the nature of the fraud. Available tools include: review of participant records on the MIS and in agency files; review of inventory records and other documentation of food instrument usage; analysis of user activity data on the MIS (e.g., was a worker's log-in code used when the worker was absent?); and one-to-one reconciliation of issuances. Use of some of these tools can be quite labor-intensive, but the seriousness of employee fraud is likely to justify the effort.

An MIS that provides a comprehensive audit trail of each worker's activity facilitates investigations by minimizing the intrusiveness of the investigation. An MIS with ad hoc reporting capabilities enables the systematic analysis of patterns of activity. A data warehouse further enhances investigative capabilities, because such resources provide access to more data than would normally be kept in a production database.

State agencies need clear and consistently applied policies regarding punitive action against employees found to have abused or defrauded the WIC Program. The available options are: counseling, probation, termination, and prosecution. The State's policies need to provide a clear basis for determining which action is appropriate for a given instance of fraud or abuse. At the same time, policies need to provide the flexibility to address unique circumstances. States also need to recognize the limitations on their ability to impose sanctions. Employees suspected of fraud may resign before being terminated, or prosecutors may not have the resources to undertake the prosecution of employee fraud cases.

Lastly, State agencies need to have mechanisms to learn from instances of employee fraud. Effective State agencies use these experiences to revise procedures, to develop new or enhanced monitoring tools, and to educate managers and staff members about the problems identified.