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Report to Congressional Committees

August 1999

FOOD ASSISTANCE

Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened

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This report examines fraud and abuse in the U.S. Department of Agriculture's Special Supplemental Nutrition Program for Women, Infants and Children (WIC). As part of our review, we collected information, through surveys and interviews, from USDA's Food and Nutrition Service and state and local WIC agencies on the extent of fraud and abuse in the program. Specifically, we (1) describe what is known about the amount of fraud and abuse in the program, including the levels of fraud and abuse being detected by the state and local agencies responsible for administering WIC, and (2) examine the efforts taken to prevent and detect fraud and abuse and barriers to these efforts. We are providing this report because of congressional concerns about the potential for fraud and abuse in the WIC program and the lack of reliable information on fraud and abuse in the program.

We are sending copies of this report to Senator Thad Cochran, Chairman, and Senator Herbert Kohl, Ranking Minority Member, Subcommittee on Agriculture, Rural Development, and Related Agencies, Senate Committee on Appropriations; Representative Joe Skeen, Chairman, and Representative Marcy Kaptur, Ranking Minority Member, Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, House Committee on Appropriations. We are also sending copies of this report to the Honorable Daniel R. Glickman, Secretary of Agriculture and the Honorable Jacob J. Lew, Director, Office of Management and Budget. We will also make copies available to others upon request.

If you have any questions about this report, please contact me at (202) 512-5138. Major contributors to the report are listed in appendix II.

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Executive Summary

Purpose

In recent years, the Congress has expressed increased concern about the vulnerability to fraud and abuse of the U.S. Department of Agriculture's (USDA) Special Supplemental Nutrition Program for Women, Infants and Children (WIC). The WIC program provides nutritious supplemental foods and nutrition education and assistance to lower-income pregnant, breast-feeding, and postpartum women; infants; and children to the age of 5, who are at nutritional risk. WIC is a discretionary grant program that serves as many individuals as the available funding permits. Therefore, actions taken to reduce losses resulting from fraudulent activities will make resources available to serve more eligible people. In 1999, the Congress appropriated $3.9 billion for WIC, which is expected to serve about 7.4 million participants in an average month.

Because of congressional concerns about the potential for fraud and abuse in the WIC program and because of the lack of reliable information about fraud and abuse, GAO (1) described what is known at the federal, state, and local levels about the amount of fraud and abuse in the program, including information on detected fraud and abuse, and (2) examined the efforts taken to prevent and detect fraud and abuse and barriers to these efforts.

This report is based on the results of a nationwide survey of state WIC agencies; a representative random sample of local WIC agencies; site visits conducted in five states accounting for about 42 percent of the total average monthly participation for fiscal year 1998; and discussions with agency officials. See appendix I for a more detailed discussion of the methodology used to conduct this work.

Background

WIC is a federally funded nutrition assistance program administered by USDA's Food and Nutrition Service. Food benefits are typically provided to participants in the form of vouchers that can be used to obtain approved foods at authorized retail outlets and food stores, commonly referred to as vendors. Vendors, participants, and employees can engage in a variety of fraudulent or abusive activities. For example, vendors could charge the WIC program more for a food item than the item's shelf price. Participants could have misrepresented facts affecting their eligibility, such as income, in order to receive program benefits. Finally, employees could obtain benefits for friends or family who are not eligible for the program.

WIC operates in the 50 states and the District of Columbia, through 33 Indian tribal organizations, and in Guam, the U.S. Virgin Islands, American Samoa, and the Commonwealth of Puerto Rico. These 88 government entities administer the program through about 1,846 local WIC agencies. These local agencies are public or private nonprofit health or human services agencies and serve participants through the clinics located in their service area. Although USDA sets the regulations for the WIC program and provides guidance, the states have flexibility in the policies and procedures they use. USDA's Office of the Inspector General has completed several reviews of WIC program operations at specific locations within the past 5 fiscal years; however it has not completed a comprehensive nationwide review of the program since 1988, when it examined the food benefit delivery system and vendor monitoring.

Results in Brief

USDA has no recent estimates on the overall levels of vendor, participant or employee fraud and abuse occurring in the WIC program. The Department has some current information on that portion of fraud and abuse detected by state agencies. In estimating the extent of WIC fraud and abuse, USDA has relied on two studies—completed in 1988 and 1991—that provide information on some types of vendor and participant fraud and abuse. USDA is updating these two studies and expects to have this information late in 2000 for vendors and late in 1999 for participants. Regarding fraud and abuse that has been detected, USDA collects information on an annual basis from state WIC agencies on vendors but not on participants or employees. While this information is limited, it is valuable because it helps USDA monitor states' efforts to detect vendor fraud and abuse. At the state and local levels, according to GAO's survey, agencies reported detecting higher levels of vendor fraud than of participant and employee fraud. The number of vendors identified as committing fraud or abuse in a 2-year period—October 1, 1996 through September 30, 1998—represents about 9 percent of all vendors in the WIC program as of September 30, 1998. In comparison, the number of participants identified as committing fraud or abuse of a serious nature during this 2-year period represented an estimated .14 percent of the average monthly number of participants in fiscal year 1998; the number reported as committing less serious offenses represented an estimated 1.64 percent of the average monthly number of participants. Very little employee fraud or abuse was reported. Information provided by state and local agencies on the amount of detected fraud and abuse does not present a complete picture of fraud and abuse in the program, partly because the level of detection efforts differ among both state and local agencies. In addition, regardless of detection efforts, some violations go undetected.

WIC agencies use a variety of strategies to prevent and detect vendor, participant, and employee fraud and abuse. Regarding vendors, states differ in the management procedures they use to control fraud and abuse, including the methods they use to limit the number of vendors they authorize to participate in WIC and the amount and type of vendor monitoring they perform. With respect to participants, state and local agencies use a variety of strategies, ranging from educating participants on program rules and regulations to using a computer system to verify that a participant is eligible on the basis of participation in another program, such as Medicaid. Concerning employees, strategies such as supervisory review and protection of food vouchers from theft are used by most local agencies; however only about half of the local agencies reported having a conflict-of-interest policy for WIC employees who are also WIC participants. Agency officials identified several barriers to preventing and detecting fraud and abuse. These barriers include a lack of (1) federal criteria to evaluate whether a state has authorized an appropriate number of vendors given the resources available to manage vendors, (2) information on participant fraud and abuse being detected, and (3) policies or procedures regarding potential employee conflict-of-interest situations. GAO is making several recommendations designed to overcome these barriers.

Principal Findings

USDA Does Not Have Overall Estimates of Fraud and Abuse

USDA is updating its two studies that provide information on vendor and participant fraud and abuse. It expects to have this updated information late in 2000 for vendors and late in 1999 for participants. USDA will use this information to estimate the overall levels of potential fraud and abuse in the program. While these two studies do not address all types of vendor and participant fraud and abuse, such as authorized vendors who redeem vouchers obtained from unauthorized vendors and individuals who participate but are ineligible on the basis of facts other than income, USDA will use this information to estimate the levels of potential fraud and abuse in the program associated with vendors overcharging the program and participation by individuals whose income level makes them ineligible for the program.

USDA Is Improving Information Collected on Detected Vendor Fraud and Abuse but Collects No Information on Detected Participant or Employee Fraud and Abuse

In the past, USDA collected aggregate information from state agencies on the amount of detected vendor fraud and abuse. Recently, it has developed a system for collecting profile data on all vendors participating in the WIC program, including information on vendors detected as having committed fraud or abuse. These data should enable USDA to develop basic information on the number and characteristics of individual vendors identified by state and local agencies as having committed fraud and abuse. USDA does not collect information from state or local agencies on participants or employees identified as having committed fraud and abuse. Furthermore, at the state agency level, 21 of the 51 agencies (the 50 states and the District of Columbia) reported that they do not maintain data on participant fraud and abuse.

State and Local Agencies Report Detecting Relatively More Vendor Than Participant or Employee Fraud and Abuse

For the 2-year period GAO examined, relatively more vendor than participant or employee fraud and abuse was identified by state and local agencies.

- Vendors. State agencies reported identifying about 3,771 vendors as having committed fraud or abuse. This number represents about 9 percent of all vendors in the program as of September 30, 1998. There was substantial variation in the number of vendors detected as having committed fraud or abuse among the states, ranging from 15 states reporting no detection to 6 states reporting 25 percent or more of their vendors detected. The levels detected may reflect, in part, the level of effort to detect fraud and abuse by the state agencies as well as the types of strategies the states use to monitor the program.
- Participants. Local agencies identified an estimated 7,074 participants as having committed one or more of seven types of serious fraud and abuse, such as exchanging food vouchers for cash. This number represents an estimated .14 percent of the average monthly participation in fiscal year 1998. In addition, local agencies identified an estimated 79,271 participants as having committed one or more of three types of less serious fraud and abuse, such as redeeming food vouchers outside of the authorized dates. This number represents about 1.64 percent of the average monthly participation in fiscal year 1998. Furthermore, an estimated 58 percent of the local agencies detected no incidences of serious participant fraud or abuse and an estimated 28 percent detected no incidences of less serious fraud or abuse. An estimated 22 percent of local agencies detected no fraud or abuse in either category, and an estimated 4 percent did not respond to the question. At the state level, 21 of the 51 state agencies reported that they do not maintain data on participant fraud and abuse.

Moreover, local agencies in the 21 states that reported not maintaining data on participant fraud and abuse were more likely to identify no participant fraud or abuse in the serious category.

- Employees. In GAO's survey, only 4 percent of local agencies identified any documented cases of employee fraud or abuse—an estimated 48 individuals nationwide for the 2-year period.

Agencies Vary in Their Efforts to Prevent and Detect Fraud and Abuse and Encounter Some Barriers

State and local agencies use a variety of strategies to prevent and detect fraud and abuse in the WIC program. In an effort to effectively manage a review of vendors, 42 of the 51 state agencies reported making some effort to limit the number of authorized vendors; 8 states reported not limiting the number of vendors; and one state, Mississippi, does not use the vendor distribution system. While all the states met the minimum federal requirement to monitor at least 10 percent of their vendors, they varied substantially in whether they conducted monitoring that was of a routine nature or was a more detailed investigation of vendor activities, such as compliance buys—when an undercover investigator poses as a participant and attempts to exchange WIC vouchers inappropriately, such as for nonapproved food or nonfood items. For example, while eight states reported that none of their vendors were subject to compliance buys, New York State reported that about 40 percent of its vendors were subject to compliance buys, and the District of Columbia reported that 94 percent of its vendors were subject to compliance buys. States also vary in the procedures they use to identify vendors they consider more likely to abuse the program—high-risk vendors.

To prevent and detect participant and employee fraud and abuse, state and local agencies use a variety of strategies. Almost all local WIC agencies take measures to educate participants on program rules and responsibilities and to protect food vouchers from theft or fraudulent alteration. The methods to implement strategies also vary. For example, while almost all states reported using computer systems to maintain participant data and identify participants in more than one WIC program, some states reported using these systems to verify an applicant's income eligibility for the WIC program on the basis of participation in another income-based program. Regarding employee fraud and abuse, many agencies require supervisory review of employee activities; however, not all agencies have policies to deal with a potential conflict-of-interest for employees who may also receive WIC benefits or who certify and issue benefits to the same individual.

Several barriers hamper agencies' efforts to prevent and detect fraud and abuse. Regarding vendors, USDA lacks clear and specific criteria to assess whether the number of vendors authorized by a state meet the regulatory requirements for both participant access and management. Criteria describing more specific considerations to be used in selecting vendors for participation in the program would assist state agencies in managing vendors. Without such criteria, some states may authorize more vendors than they can effectively manage with their available resources. For participants, USDA lacks reliable data because it does not require state and local agencies to report detected participant fraud and abuse—who is committing the fraud, how often, and what type—as well as the amount of program funds that are lost. This information is valuable for evaluating the effectiveness of agency efforts aimed at preventing and detecting participant fraud and abuse. Without these data, USDA and state agencies are hindered in their management of the program, including identifying the need for changes necessary to improving program integrity. Furthermore, it is possible that not collecting such information may send a message to some agency officials that preventing and detecting participant fraud and abuse is a low priority and thus damage the public's trust in the program. Regarding employees, USDA does not require agencies to have a policy on potential employee conflict-of-interest situations—employees who also participate in the program and may issue their own benefits and employees who certify an individual as eligible to receive benefits and issue benefits to the same individual. The lack of a policy may hinder the prevention and detection of employee fraud and abuse. Finally, state and local agencies reported that their staffing and funding resources are inadequate to prevent and detect fraud, and USDA officials reported that resource constraints at the federal level have limited their fraud prevention and detection efforts.

Recommendations

To enhance USDA's ability to improve program integrity and to encourage better fraud and abuse prevention and detection efforts among state and local WIC agencies, GAO recommends that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to take the following actions:

- Amend the regulations on vendor management to ensure that the states limit their authorized vendors to a number that they can effectively manage and issue guidance to the states on the specific criteria the Food and Nutrition Service will use to assess the states' compliance with the regulations and the actions a state would need to take if the Service determines that the state has authorized more vendors than it can effectively manage;

- Work with the state WIC agencies and the National Association of WIC Directors to develop and implement cost-effective strategies for the states to use in collecting and maintaining information on incidences of participant fraud and abuse, which would be periodically reported to the Food and Nutrition Service. Such information should include the nature of the fraud detected and the associated dollar losses; and
- Require state agencies to have a policy and procedures for addressing employee conflicts of interest.

Agency Comments and GAO's Evaluation

GAO provided USDA with a draft of this report for review and comment. USDA generally agreed with the information and recommendations contained in the draft report. However, USDA raised some questions about specific steps that would be necessary to implement two of the recommendations. Regarding the recommendation relating to strengthening vendor management, USDA noted that the intent of the recommendation could be achieved through a combination of regulatory change and the issuance of program guidance to the states. Concerning the recommendation to determine the costs and benefits of developing a national database on participant fraud and abuse, USDA noted that it could develop cost-effective strategies for collecting and maintaining such data by working with state WIC agencies and the National Association of WIC Directors. USDA believes this would achieve the desired result without a lengthy and costly formal cost-benefit study. GAO agrees that these modifications to the two recommendations would address the problems that GAO found and has revised the draft recommendations to reflect USDA's suggestions. USDA also provided GAO with a number of technical comments and clarifications that were incorporated into the report as appropriate.

Contents

Executive Summary		4
Chapter 1 Introduction		14
	WIC Administration and Funding	14
	WIC Eligibility and Certification	15
	Food Delivery Systems	16
	Vendor, Participant, and Employee Fraud and Abuse	17
	Program Requirements Related to the Prevention and Detection of Fraud and Abuse	18
	Objectives, Scope, and Methodology	20
Chapter 2 WIC Fraud and Abuse		22
	FNS Does Not Have Current Estimates of Program Fraud and Abuse and Collects Data From WIC Agencies on One Type of Detected Fraud and Abuse	23
	Agencies Detected Varying Levels of Vendor, Participant, and Employee Fraud and Abuse	25
Chapter 3 Agencies Vary in Their Efforts to Prevent and Detect Fraud and Abuse and Encounter Some Barriers		36
	States Differ in Efforts to Manage Vendors	36
	Agencies Vary in the Strategies Used to Prevent and Detect Participant Fraud and Abuse	41
	Agencies Use Several Strategies to Control Employee Fraud and Abuse	45
	Agencies Face Barriers to Preventing and Detecting Fraud and Abuse	47
	Conclusions	51
	Recommendations	52
	Agency Comments and Our Evaluation	52
Appendixes	Appendix I: Methodology and Analysis Used in the Mail Survey	54
	Appendix II: GAO Contacts and Staff Acknowledgments	57
Tables	Table 3.1: Methods States Used to Limit the Number of Vendors	37
	Table 3.2: Type of Sanctions the States Imposed and Percentage of Identified Vendors Receiving Sanctions	41
	Table 3.3: Strategies to Prevent and Detect Participant Fraud and Abuse and the Number of State Agencies and Estimated Percent of Local Agencies Using the Strategies	42

Table 3.4: Estimated Percent of Local Agencies Conducting Various Levels of Verification of Applicants' Participation in Other Income-Qualifying Programs 44
Table 3.5: Estimated Number of Participants Committing Serious and Less Serious Violations and the Sanctions They Received 45
Table 3.6: Strategies Used to Prevent and Detect Employee Fraud and Abuse and the Estimated Percent of Local Agencies Using the Strategies 46
Table 3.7: State and Local Agencies Identifying Less Than Adequate Staffing and Funding Levels for Preventing and Detecting Vendor, Participant, and Employee Fraud and Abuse 50
Table I.1: Sampling Errors and Confidence Intervals of Estimates of Fraud and Abuse from Information in the Local Agency Surveys 55

Figures

Figure 2.1: Levels of Detected Vendor Fraud and Abuse by State, October 1996 Through September 1998 26
Figure 2.2: Estimated Number of Participants Having Committed Various Types of Serious Fraud and Abuse, October 1996 Through September 1998 29
Figure 2.3: Percent of Local Agencies Identifying No Serious Participant Fraud and Abuse in the States That Do Not and Do Maintain Data on Participant Fraud and Abuse, October 1996 Through September 1998 32
Figure 2.4: Estimated Number of Participants Having Committed Less Serious Fraud and Abuse by Type, October 1996 Through September 1998 33

Abbreviations

EBT	electronic benefits transfer
FNS	Food and Nutrition Service
GAO	General Accounting Office
ITO	Indian tribal organizations
NSA	nutrition services and administration
USDA	U.S. Department of Agriculture
WIC	Special Supplemental Nutrition Program for Women, Infants and Children

Introduction

The Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is a federally funded nutrition assistance program that is designed to improve the health of lower-income pregnant, breast-feeding and postpartum women; infants; and children up to age 5, who are at nutritional risk. WIC provides participants with nutritious supplemental foods, nutrition education, and referrals to health care services. It was established in 1972 by Public Law 92-433 as an amendment to the Child Nutrition Act of 1966. USDA's Food and Nutrition Service (FNS) administers WIC through federal grants to state agencies. In 1999, the Congress appropriated $3.9 billion for the WIC program, which is expected to serve about 7.4 million participants in an average month.

In recent years, the Congress has expressed increased concern about the WIC program's vulnerability to fraud and abuse. In response to some of these concerns, the William F. Goodling Child Nutrition Reauthorization Act of 1998 (P.L. 105-336) (the Goodling Act), which reauthorized WIC and other child nutrition programs, contained provisions specifically aimed at improving the integrity of the WIC program. Because WIC is a discretionary grant program that serves as many individuals as the available funding permits, any actions that FNS, state, and local WIC agencies take to reduce losses from fraudulent activities make resources available to serve more eligible people.

WIC Administration and Funding

FNS' headquarters and seven regional offices administer the WIC program through a federal/state partnership in which FNS makes funds available in the form of grants to state agencies that, in turn, provide program benefits to participants through local WIC agencies. Each state agency is responsible for developing guidelines to ensure that WIC benefits are effectively delivered to eligible participants. WIC operates in all 50 states and the District of Columbia, through 33 Indian tribal organizations, and in the U.S. Virgin Islands, American Samoa, Guam, and the Commonwealth of Puerto Rico. These 88 government entities administer the program through 1,846 local WIC agencies. These local agencies are public or private nonprofit health or human service agencies; they can also be an Indian health service unit, a tribe, or an intertribal council. Local agencies serve participants directly or through one or more clinics located in their service area. Staff at local WIC agencies and clinics approve applicants for participation, distribute food benefits, and provide nutrition education to eligible individuals. Local WIC agencies vary in average monthly participation, serving from about 307,000 at the largest local agency to fewer than 35.

Grants to the states are divided into food grants and nutrition services and administration (NSA) grants. Food grants cover the costs of supplemental foods and are allocated to the states through a formula that is based on the number of individuals in each state who are eligible for WIC benefits. WIC foods are designed to supplement the participant's diet and are high in protein, calcium, iron, and vitamins A and C. These foods include milk, juice, eggs, cereal, peanut butter, dried beans, tuna fish, carrots, and infant formula. Specially prescribed infant formula is also available to meet unusual dietary or health-related conditions within parameters established in federal regulations. Each state designates the types and amounts of foods that local WIC agencies can prescribe to meet the nutritional needs of each participant.

The NSA grants are allocated to the states through a formula that is based on factors such as a state's number of projected program participants and a salary differential for state and local government employees by industry. NSA grants cover the costs of program administration, including start-up, monitoring, auditing, accountability for food delivery systems, nutrition education, breast-feeding promotion and support, outreach, certifying applicants, developing and printing food vouchers, and activities associated with detecting and preventing fraud and abuse.

In fiscal year 1998, total expenditures under food grants were about $2.8 billion, and NSA expenditures were about $1.1 billion. Nationally, in fiscal year 1998, expenditures for food benefits averaged about $31.75 per participant per month, and expenditures for activities covered under the NSA grant averaged about $12 per participant per month. Federal WIC appropriations totaled $3.9 billion in fiscal year 1998, up from $3.73 billion annually in fiscal years 1996 and 1997. The program is primarily funded by federal appropriations; some states supplement the federal grant with their own funds.

WIC Eligibility and Certification

State WIC agencies establish program eligibility criteria that are based on federal guidelines. To qualify for the program, WIC applicants must show evidence of health or nutritional risk, such as anemia, that is medically verified by a health professional.[1] In addition, participants must have

[1]Nutritional risk means detrimental or abnormal nutritional conditions detectable by biochemical or anthropometric measurements. Other nutritionally related conditions include dietary deficiencies that impair or endanger health.

incomes at or below 185 percent of the poverty guidelines that are established annually by the Department of Health and Human Services.[2]

For fiscal year 1998, a family of four, for example, could qualify for the WIC program with an income of $30,433 or less. State agencies are required to automatically accept as income-eligible those individuals who document their or a certain family member's participation in the Food Stamp Program, Medicaid, or Temporary Assistance for Needy Families Program.[3]

To be certified, applicants must reside within the jurisdiction of the state agency, and meet both the program's income and nutritional risk criteria. The Goodling Act increased certification requirements to include the physical presence of each applicant at the time of the certification in WIC and required that applicants provide documentation of household income and residency.[4] Once applicants are certified for participation, they return to the WIC agency periodically (ranging from 1 to 3 months, depending upon nutritional risk or other factors) to receive their food benefits and nutrition education.

Over the past 10 years, the number participating in the WIC program in an average month more than doubled, from 3.4 million in 1988 to 7.4 million in 1998. During this same period, the number of infants enrolled in the WIC program grew from about 27 percent of all infants born in the United States to about 47 percent.

Food Delivery Systems

The WIC food benefit, referred to as a food package, can be provided through retail purchase, home delivery, direct distribution, or any combination of these. Generally, participants receive their food benefits in the form of a check or a voucher (hereafter referred to as a voucher) that they use to purchase specific foods at authorized retail grocery stores, referred to as vendors. Only the vendors authorized by state agencies may redeem food vouchers in exchange for providing supplemental foods to participants. Vendors are authorized to participate in the program for a specified period of time—generally 1 to 2 years—and are subject to renewal by the state agency. By regulation, each state agency is permitted

[2]Poverty guidelines are established separately for Alaska and Hawaii.

[3]Participants may simultaneously participate in WIC and in the Food Stamp Program because WIC is a supplemental nutrition program and has separate income guidelines.

[4]The Goodling Act provides a waiver in specific situations for infants and children if the agency determines that the physical presence requirement would present an unreasonable hardship. In addition, in establishing income eligibility on the basis of participation in means-tested programs, the Goodling Act requires participants to present documentation of their current enrollment.

to authorize an appropriate number of vendors in order to ensure adequate participant access and effective management of the vendors. State agencies are permitted to establish criteria to limit the number of vendors that they authorize and are encouraged to consider the impact of authorization decisions on small businesses.[5] In providing supplemental foods to participants, vendors must accept vouchers only within the time period specified on the voucher and are authorized to provide only the foods specified on the voucher that is presented by the participant at the time of purchase. In addition, vendor prices for WIC foods cannot exceed current prices charged to other customers.

Vendor, Participant, and Employee Fraud and Abuse

Vendor fraud or abuse is an intentional or deliberate action taken to violate program regulations, policies, or procedures. Actions include, but are not limited to, accepting food vouchers for cash, which is known as trafficking, or providing credit toward the purchase of unauthorized items; giving cash or credit for returned food items that were purchased with food vouchers; altering food vouchers or accepting expired vouchers; charging more than the shelf price or exceeding the maximum price allowed by WIC; or charging for food that the participant does not receive.

Participant fraud or abuse is an activity or action by WIC participants taken to obtain benefits to which they are not entitled and/or to misuse the benefits they receive. Actions include misrepresenting facts that are used to determine eligibility (such as income, the age of children, or the existence of children); exchanging food vouchers for nonapproved items (such as cash, alcohol or tobacco products, or sundries); selling or giving away food obtained with vouchers; participating at more than one local WIC agency simultaneously, thereby receiving multiple benefits, also called dual participation; or verbally abusing WIC vendors and/or WIC employees.

Employee fraud or abuse is an intentional and deliberate action that violates program regulations, policies, or procedures. Actions include, but are not limited to, misappropriating food vouchers; altering food vouchers; entering false or misleading information in case records; or creating fictitious or nonexistent participant files.

[5]The Goodling Act requires that all states, in selecting a retail store for participation in the program, take into consideration the prices that the store charges for WIC foods compared with the prices that other stores charge for the foods, and establish procedures to ensure that vendors selected for participation do not subsequently raise prices to levels that would otherwise make the store ineligible.

Program Requirements Related to the Prevention and Detection of Fraud and Abuse

Program regulations contain several provisions relating to the prevention and detection of vendor fraud and abuse. The regulations require that state agencies conduct on-site monitoring visits of their vendors to, among other things, survey the types and levels of abuse and errors, if any, among participating food vendors and to take corrective action, as appropriate. States are required to monitor a representative sample of at least 10 percent of their authorized food vendors annually. On-site monitoring visits may include an examination of cashier check out procedures and a review to determine whether supplemental program foods are available and whether WIC-approved food prices are clearly marked and do not exceed agreed-upon limits. More in-depth investigations—compliance buys, trafficking buys, and inventory audits—are also used. Compliance buys occur when an undercover investigator poses as a participant and attempts to exchange WIC vouchers inappropriately, such as for nonapproved food or nonfood items. Trafficking buys occur when an undercover investigator attempts a more flagrant misuse of vouchers usually attempting to exchange them for cash but also for firearms, ammunition, explosives, or controlled substances (drugs). Inventory audits are sometimes performed to check that the store's inventory is adequate and supports the quantities of WIC foods reported as sold. Regulations also require states to have a system in place to identify problematic or high-risk vendors and to conduct on-site monitoring and further investigation—such as compliance buys—as appropriate.

FNS regulations specify the types of sanctions that agencies can impose on vendors identified as committing fraud or abuse.[6] Sanctions include warning letters, monetary fines or penalties, and disqualification from the program for up to 3 years. Recent regulatory changes have strengthened vendor sanctions. The Goodling Act requires state agencies to permanently disqualify vendors convicted of trafficking in food vouchers or selling firearms, ammunition, explosives, or controlled substances in exchange for food vouchers. An exception to the rule can be made when disqualification would cause hardship to participants or when the owner had, at the time of the violation, an effective policy and program in effect to prevent these violations and was not aware of or did not approve of the violation. When a state agency permits a vendor to continue to participate instead of disqualifying the vendor, the state agency must impose a civil monetary penalty. In addition, FNS has recently issued regulations that mandate uniform sanctions for the most serious offenses, increase the maximum time for vendor disqualification, other than those permanently

[6]State statutes may impose sanctions for program violations in addition to those mandated by federal regulations. In addition, federal regulations require that state agencies disqualify a WIC vendor who has been disqualified from the Food Stamp Program.

disqualified from the program, to 6 years, and provide for use as program income the funds obtained from civil monetary penalties and fines. All violations require a pattern of incidences to warrant a mandatory sanction, except the violations for vendors convicted of trafficking or the illegal sale of alcoholic beverages or tobacco products, which only require one incidence to warrant a mandatory sanction.

Regarding participant fraud and abuse, regulations require the states to ensure that participants meet program eligibility requirements for medical or nutritional risk, residency, and income, and are in a category served by the WIC program (pregnant, postpartum, breast-feeding women, infants, and children to 5 years). Regarding income eligibility, the Goodling Act added the requirement that all participants provide documentation of household income or participation in certain public assistance programs, including Food Stamps, Medicaid, and Temporary Assistance for Needy Families.[7] States, however, are not required to verify the documentation presented. The Goodling Act also requires that all applicants be physically present at each certification determination but waives that requirement for certain situations in which compliance would pose a barrier to participation.

FNS regulations specify the sanctions that can be imposed on participants identified as committing fraud or abuse. Sanctions include oral warnings, written letters of warning, and disqualification from WIC for up to 3 months.

Regarding employee fraud, FNS regulations require state agencies to establish an on-going management evaluation system that includes at least reviewing local agencies' financial and participation reports, developing corrective action plans to resolve program deficiencies, monitoring the implementation of the corrective action plans, performing on-site visits, and monitoring local agency operations. Monitoring of local agencies includes evaluating management, certification, nutrition education, accountability, financial management systems, and food delivery systems. The monitoring reviews must be conducted at least once every 2 years and include on-site reviews of a minimum of 20 percent of the local agency's clinics.

State agencies are also responsible for controlling and accounting for supplemental foods and food vouchers. State agencies must reconcile food

[7]This income documentation requirement can be waived for applicants for whom documentation is not available and for those (such as homeless persons) for whom it would present a barrier to participation.

vouchers—redeemed, lost, stolen, expired, and voided. The only conflict-of-interest requirement in the regulations is that state agencies must ensure that no conflict of interest exists between any local agency and the food vendor or vendors within the local agency's jurisdiction.[8]

We have recently issued reports and presented testimony on several aspects of FNS' WIC program, however, this is the first report dealing with the prevention and detection of vendor, participant, and employee fraud and abuse in the program.[9] USDA's Office of Inspector General has completed reviews of prevention and detection of fraud and abuse in the WIC program at specific locations within the past 5 fiscal years, however, it has not completed a comprehensive review of the program since 1988, when it examined the food benefit delivery system and vendor monitoring.

Objectives, Scope, and Methodology

Because of congressional concerns about the potential for fraud and abuse in the WIC program and the lack of reliable information on this issue, we (1) described what is known about the amount of fraud and abuse in the program, including the levels of fraud and abuse being detected by the state and local agencies responsible for administering WIC, and (2) examined the efforts taken to prevent and detect fraud and abuse and barriers to these efforts.

To obtain information on the extent of fraud and abuse in the program, agency efforts to prevent and detect fraud and abuse, and barriers to implementing strategies to prevent and detect fraud and abuse, we conducted a mail survey of all state WIC agencies, including Indian tribal organizations and U.S. Territories. Using a similar survey, we surveyed a random sample of 500 local WIC agencies from a nationwide list of about 1,846 local agencies provided to us by FNS. Our survey asked the directors of state and local agencies to provide information on (1) the number and types of vendor, participant, and employee fraud and abuse; (2) the number and types of sanctions given to offenders, and (3) strategies used to prevent and detect fraud and abuse. We also asked directors to provide information on agency activities during the application process and on

[8]There is a general provision in the WIC regulations identifying penalties for individuals identified as committing fraud. This provision would include WIC employees.

[9]Food Assistance: Information on WIC Sole-Source Rebates and Infant Formula Prices (GAO/RCED-98-146, May 11, 1998); Food Assistance: WIC Program Issues (GAO/T-RCED-98-125, Mar. 17, 1998); Food Assistance: Information on Selected Aspects of WIC (GAO/T-RCED-98-128, Mar. 17, 1998); Food Assistance: Working Women's Access to WIC Benefits (GAO/RCED-98-19, Oct. 16, 1997); Food Assistance: A Variety of Practices May Lower the Costs of WIC (GAO/RCED-97-225, Sept. 17, 1997); and WIC: States Had a Variety of Reasons for Not Spending Program Funds (GAO/RCED-97-166, June 12, 1997).

factors that limit them from implementing additional fraud prevention and detection strategies.

For state agencies, we received survey responses from all 50 states and the District of Columbia, and 29 of the 37 Indian tribal organizations and U.S. Territories. For local agencies, we received survey responses from 458 of the 500 local agencies in our sample; this gave us a response rate of 91.6 percent. We used the responses to the survey of local agencies to develop overall results that are representative of those that would be obtained from the 1,691 local agencies that would have responded had we mailed the survey to all local agencies. As with all sample surveys, our statistical estimates based on data obtained from our local agency survey contain a sampling error—the potential error that arises from not collecting data from all local agencies. Unless otherwise indicated, all reported estimates based on our local survey have a sampling error of no more than 5 percentage points if the estimate is represented in terms of a percent. Sampling errors are reported in appendix I.

To better understand activities, problems, and limitations affecting agency efforts to identify fraud and abuse, we interviewed staff at the agencies for five states—California, Florida, Illinois, New York, and Texas. We judgmentally selected these agencies to include states with high levels of participation and to provide geographic diversity. These five states account for about 42 percent of the total average monthly participation in WIC for fiscal year 1998. We also interviewed officials at 14 local WIC agencies in the following locations: Irwindale, Sacramento, San Diego, and San Marcos, in California; Dania and Miami, in Florida; Chicago and Springfield, in Illinois; Albany and Saratoga Springs, in New York; and Austin, Dallas, and San Antonio, in Texas. We interviewed officials in FNS headquarters as well as in regional offices in Atlanta, Chicago, Dallas, and San Francisco to obtain information on overall program operations, policies, and guidance. For additional perspective, we interviewed an assistant attorney general in Illinois, the state director in Pennsylvania, and the executive directors at the Center on Budget and Policy Priorities and the National Association of WIC Directors.[10]

We conducted our work from April 1998 through July 1999 in accordance with generally accepted government auditing standards. GAO contacts and staff acknowledgements are listed in appendix II.

[10]The Center on Budget and Policy Priorities is an independent nonprofit research and analysis organization located in Washington, D.C. The National Association of WIC Directors is a voluntary membership organization of state and local WIC directors, WIC nutrition coordinators, and members of corporate organizations that provide leadership to the WIC community.

WIC Fraud and Abuse

FNS has no recent estimates on the overall level of fraud and abuse occurring in the WIC program but does have some information on vendor fraud and abuse detected by state agencies. For estimating the extent of fraud and abuse, FNS has relied on information from two studies, completed in 1988 and 1991.[11] These studies, which are currently being updated, provide information on the extent to which vendors overcharge the program and the extent to which individuals are participating in the program who are not eligible for it on the basis of their income. Regarding fraud and abuse that has been detected, FNS collects data on vendor fraud and abuse identified by state agencies but does not collect data on participant or employee fraud and abuse detected by state and local agencies. FNS has collected aggregate information from states on vendor fraud and abuse in the past and has recently taken steps to build a database of all WIC vendors that will include information on fraud and abuse.

State agencies maintain information on detected vendor fraud and abuse, but only 30 of the 51 state agencies reported that they maintain data on detected participant fraud and abuse.[12] Local agency directors, however, were able to provide information on participant fraud and abuse detected at their agencies. State and local agencies provided information on employee fraud and abuse. Regarding the fraud and abuse being detected by state and local agencies, the level of vendor fraud and abuse reported by state agencies was higher than the levels of participant and employee fraud and abuse identified by local agencies. Specifically, state agencies reported that a total of 3,771 vendors were identified as having committed various types of fraud or abuse during the 2-year period covered by our survey—fiscal year 1997 and fiscal year 1998.[13] This number represents about 9 percent of the WIC authorized vendors nationwide as of September 30, 1998.[14]

[11]WIC Income Verification Study, 1988, Final Report; WIC Vendor Issues Study, 1991, Final Report.

[12]In this report, we are presenting data reported by the 51 geographic state agencies (50 states and the District of Columbia) separately from the Indian tribal organizations and U.S. Territories (ITO/Territories). Seventeen of the 29 ITO/Territories that responded to our survey reported that they maintain data on detected participant fraud and abuse.

[13]We are not reporting vendor data for ITO/Territories because our survey did not separate out ITO/Territories that use other state agencies' vendors.

[14]As of Sept. 30, 1998, about 43,000 vendors were authorized to participate in the WIC program in the 51 states, as reported by state agencies.

According to our survey of local agencies, during the 2-year period, an estimated 7,074[15] participants were identified as having committed fraud or abuse in one of seven categories of serious fraud and abuse, such as exchanging food vouchers for cash. This number represents about .14 percent of the average monthly number of participants at local agencies in fiscal year 1998.[16] For three types of less serious fraud and abuse, such as redeeming food vouchers outside of the authorized dates on the vouchers, our survey found the number of participants identified as having committed such offenses to be an estimated 79,271, which represents about 1.64 percent of the average monthly number of participants at local agencies in fiscal year 1998. Concerning employee fraud and abuse, about 4 percent of local agencies suspected fraud and abuse, but an estimated 48 employees nationwide were identified as having committed fraud or abuse.

FNS Does Not Have Current Estimates of Program Fraud and Abuse and Collects Data From WIC Agencies on One Type of Detected Fraud and Abuse

FNS does not have systems in place to generate annual or biennial estimates on the levels of vendor, participant or employee fraud and abuse; however, it does collect data from state agencies on vendor fraud and abuse. For its estimates of fraud and abuse occurring in the program, FNS has relied on information provided by two studies, a 1991 vendor study and a 1988 participant study. FNS is currently updating these studies.

According to the 1991 vendor study, overcharging by an estimated 22 percent of vendors nationwide resulted in overcharges that amounted to an estimated 1.9 percent of the total dollar value of WIC food vouchers redeemed in 1991. This represented about $39.5 million of an estimated $2.09 billion in retail redemptions that year.[17] This study also found that .6 percent of the vendors undercharged for a 1991 redemption value of $11.9 million. The participant study found that an estimated 5.7 percent of WIC participants nationwide were not eligible for the benefits they received on the basis of their income. Food benefits provided to these income-ineligible participants were estimated to represent 5.8 percent or

[15]See app. I for confidence intervals of our estimates.

[16]The estimates of .14 percent for serious offenses and 1.64 percent for less serious offenses are provided to put the estimated number of participants identified as having committed fraud or abuse into perspective. These estimates use the number of participants reported as having committed fraud or abuse during the 2-year period (fiscal years 1997 and 1998) as a numerator and the average monthly participation for fiscal year 1998 as a denominator. Our estimates would have been lower if we had collected information on the number of participants reported as committing fraud or abuse in only one fiscal year. The confidence intervals for these two estimates are reported in app. I. ITO/Territories reported less fraud and abuse in both categories.

[17]This amount was annualized on the basis of redemptions in June and July of 1991.

$84 million out of the total of $1.5 billion in food benefits provided in 1988. While these studies provide valuable information about vendor and participant fraud and abuse in the program, they did not determine the extent to which vendor overcharges and participation by income-ineligible individuals were due to fraud and abuse or to inadvertent errors. Moreover, neither study provided complete estimates of all the fraud and abuse occurring in their respective areas. For example, the vendor study did not address trafficking, and the participant study did not address areas of ineligibility other than income.

For vendors, FNS is conducting a study designed to, among other things, estimate the levels of vendor fraud and abuse. As in the 1991 study, the estimates will be based on investigations, in this case involving more than 4,500 compliance buys—when undercover agents attempt to exchange WIC vouchers for nonapproved or nonfood items—from a statistically representative sample of approximately 1,500 vendors throughout the contiguous United States. Like the previous study, this new effort will provide FNS with valuable information about fraud and abuse in the program, but will not provide a complete picture of fraud and abuse because it excludes, for example, information on authorized vendors who redeem vouchers obtained from unauthorized vendors. FNS expects to issue the study late in 2000.

FNS is also updating its 1988 participant study to estimate, among other things, the number of ineligible participants. This study is designed to (1) develop a national estimate of the number of participants who are ineligible to receive WIC benefits because of their income and (2) identify the cost of the food benefits provided to the individuals who are not income-eligible for the program. Like the previous study, this new effort will not provide a complete picture of fraud and abuse because it excludes, for example, information on the misuse of WIC benefits or those who receive multiple benefits. In addition, this new effort will not determine whether benefits issued incorrectly to individual participants occurred as a result of fraud and abuse or inadvertent error. FNS anticipates that this study will be issued late in 1999.

Regarding detected fraud and abuse, FNS recognizes the value of maintaining some information on vendor fraud and abuse in order to monitor states' detection efforts and, therefore, collects such information from the state agencies. In the past, FNS collected only aggregate information on vendor fraud and abuse from the states. FNS has recently begun to create a new database of information on individual WIC vendors from state agency data, including information on detected fraud and abuse. This database should enable FNS to develop information on the number and characteristics of individual vendors identified by state and local agencies involved in fraud and abuse. FNS plans to issue its first report with information contained in the new database in the fall of 1999. FNS does not collect information on incidences of detected participant and employee fraud and abuse from state agencies.

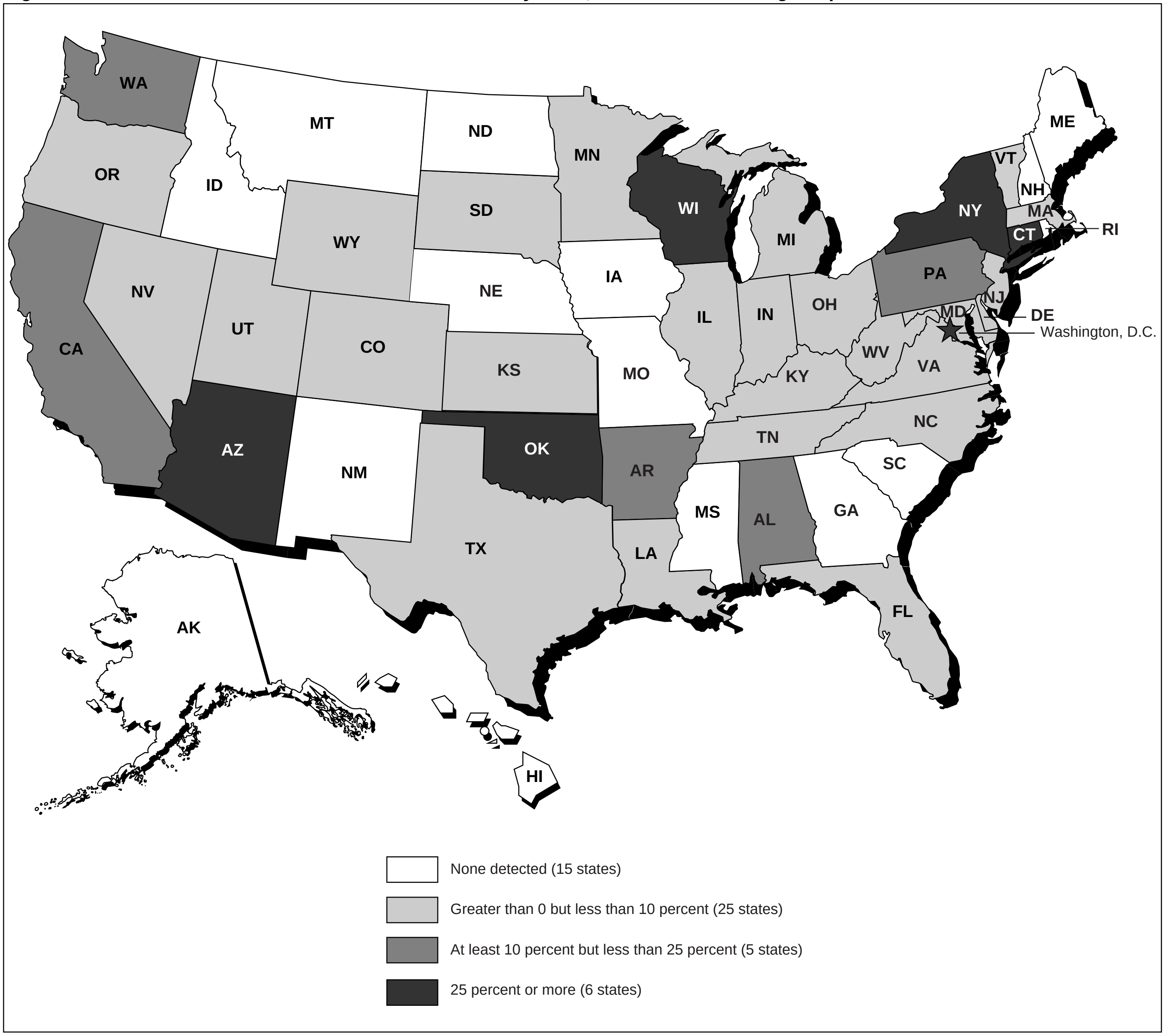
Agencies Detected Varying Levels of Vendor, Participant, and Employee Fraud and Abuse

Nationwide, the relative level of detected vendor fraud and abuse was substantially higher than the level of detected participant or employee fraud and abuse, according to our analysis of state and local WIC agencies' responses to our surveys. Regarding vendor fraud and abuse, the amount reported by the states varied considerably. For participants, local agencies also identified varying levels of fraud and abuse. We relied on local agency data to identify participant fraud and abuse because 21 of the 51 state agencies reported that they do not maintain data on participant fraud and abuse. Regarding employee fraud and abuse, local agencies identified few confirmed incidences. Information provided by state and local agencies on the amount of detected vendor, participant, and employee fraud and abuse does not present a complete picture of fraud and abuse in the program, partly because the level of detection efforts differ among both state and local agencies. In addition, regardless of detection efforts, some violations go undetected.

Detected Levels of Vendor Fraud and Abuse

Nationwide, state WIC directors identified 3,771 vendors as having committed fraud or abuse during the 2-year period we surveyed—fiscal year 1997 through fiscal year 1998. This number represents about 9 percent of all vendors participating in the program as of September 30, 1998. The variation in the number of vendors detected among states was substantial, ranging from 15 states reporting no vendors detected to a high of six states reporting 25 percent or more vendors detected as having committed fraud and abuse. Moreover, the District of Columbia, with 31 vendors, reported that 23 vendors committed fraud or abuse. Figure 2.1 shows the variation by state in the number of vendors reported as having committed fraud or abuse during the 2-year period, expressed as a percentage of vendors participating in the program as of September 30, 1998.

Figure 2.1: Levels of Detected Vendor Fraud and Abuse by State, October 1996 Through September 1998



(Figure notes on next page)

Note: For the 15 states reporting no vendor fraud or abuse detected, eight states—Alaska, Iowa, Idaho, Maine, North Dakota, Nebraska, New Mexico, and South Carolina—did not suspect or become aware of any vendor fraud or abuse, five states—Hawaii, Missouri, Montana, New Hampshire, and Rhode Island—suspected vendor fraud or abuse but did not confirm any incidences, Georgia suspected vendor fraud or abuse but was unable to confirm the fraud or abuse at the time of our survey, and Mississippi does not use the vendor distribution system.

Source: GAO's analysis of survey data from state agencies.

The types of vendor fraud and abuse can vary dramatically, ranging from relatively minor violations such as allowing product substitutions—for example, large eggs for medium eggs or 2-percent milk for whole milk—to major violations, such as exchanging vouchers for cash. Therefore, comparing the level of detected vendor fraud and abuse among states may not accurately reflect the nature of the violation or the extent to which program integrity is being impaired. Some serious vendor fraud and abuse violations reported by agency officials included the following:

- At a Los Angeles convenience store, undercover investigators purchased nonfood items, including diapers and cigarettes, using WIC vouchers. The vendor also purchased food vouchers for cash from the investigators.
- During compliance buys in Chicago, vendors paid investigators as little as 10 cents on the dollar for WIC vouchers, while other investigators were allowed to buy prohibited items, including alcoholic beverages, with their vouchers.
- In another Chicago case, undercover agents found that a family, through their retail stores, bought WIC vouchers from participants for cash and set up false corporations to redeem the vouchers. The redeemed value of the WIC vouchers involved totaled more than $580,000 over a 7-month period.
- In Texas, employees of a large grocery chain were identified as altering already-redeemed food vouchers by increasing their redeemed value. The resulting overcharges to the program totaled over $6,800. State employees uncovered this situation when they were entering data from the vouchers into the computer system for redemption and reconciliation.

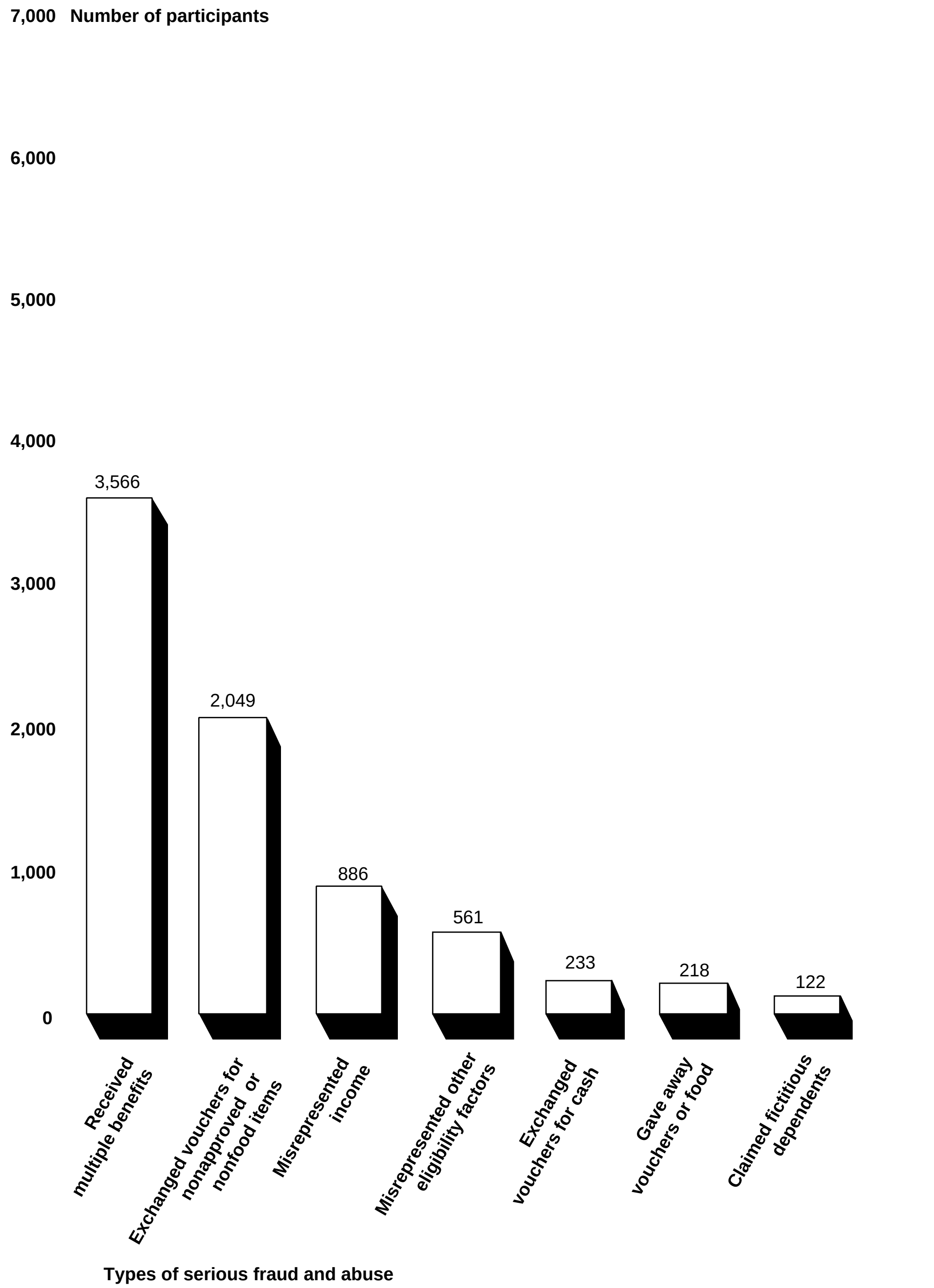
Detected Levels of Participant Fraud and Abuse

According to our survey of local agencies, the estimated number of participants detected as having committed serious types of fraud and abuse was substantially lower than the number identified as having committed less serious types of fraud and abuse. In addition, an estimated 58 percent of the local agencies detected no incidences of serious fraud or abuse and an estimated 28 percent detected no incidences of less serious fraud or abuse. An estimated 22 percent of local agencies detected no fraud or abuse in any category and 4 percent did not respond to the question. We relied on our survey of local agencies for information on participant fraud and abuse because 21 of the 51 state WIC agencies reported that they did not maintain data on participant fraud and abuse. In analyzing the participant fraud and abuse identified by local agencies, we found variation among local agencies in the amount detected. Local agencies in the 21 states that reported not maintaining data on participant fraud and abuse were more likely to identify no fraud or abuse in the serious categories than in the 30 states that reported maintaining such data.

The number of participants identified by local agencies as having committed fraud or abuse in one or more of seven serious categories, such as misrepresenting their income, during the 2-year period covered by our survey was an estimated 7,074. This number represents about .14 percent of the average monthly number of participants in fiscal year 1998.

Working from a list of seven serious types of fraud and abuse categories contained in our local agency survey, participants receiving multiple benefits—obtaining two sets of food vouchers for the same time period—was the most frequently identified offense. Figure 2.2 shows the number of participants identified as having committed serious fraud and abuse, by category, during the 2-year period.

Figure 2.2: Estimated Number of Participants Having Committed Various Types of Serious Fraud and Abuse, October 1996 Through September 1998



(Figure notes on next page)

Note: Some participants were identified as having committed more than one type of serious fraud or abuse. The levels of detected fraud for the multiple benefits category and the misrepresented income categories were significantly higher than those of the three least frequent categories. All other differences among categories were not statistically significant. See app. I for confidence intervals for these estimates.

Source: GAO's analysis of survey data from the local agencies.

During our site visits, agency officials further explained these types of serious fraud and abuse and provided the following examples:

Multiple benefits. Participants who receive multiple benefits obtain two sets of vouchers for the same time period. For example, one local agency official in Texas told us that a participant who was enrolled in and receiving benefits from two clinics within the state was discovered by a WIC employee when the participant presented her identification card issued at one clinic to officials at the other clinic. The participant was subsequently counseled about program rules and removed from the program at one local agency but continued to receive benefits at the other agency.

Exchanging vouchers for nonapproved or nonfood items. Participants commit fraud when they purchase nonapproved or nonfood items with vouchers. For example, a participant attempted to exchange vouchers for alcohol, according to an agency director in Maryland. When the director became aware of this attempt, she sent the participant a warning letter.

Misrepresentation of income. Participants commit fraud by understating their income so that it falls within WIC guidelines, thus meeting the WIC income eligibility requirement. This happens, for example, when an applicant reports only her income and does not report the income of her spouse or other adults considered part of the household unit.

Misrepresentation of eligibility status. Participants commit fraud by misrepresenting factors affecting their eligibility status, such as their residency, pregnancy status, or exact number of qualifying dependents.

Exchanging vouchers for cash. Participants commit fraud by exchanging WIC vouchers for cash. For example, according to an agency director in New York State, a participant completed the voucher by filling in an amount greater than the amount of the purchases and asked for and received the difference in cash.

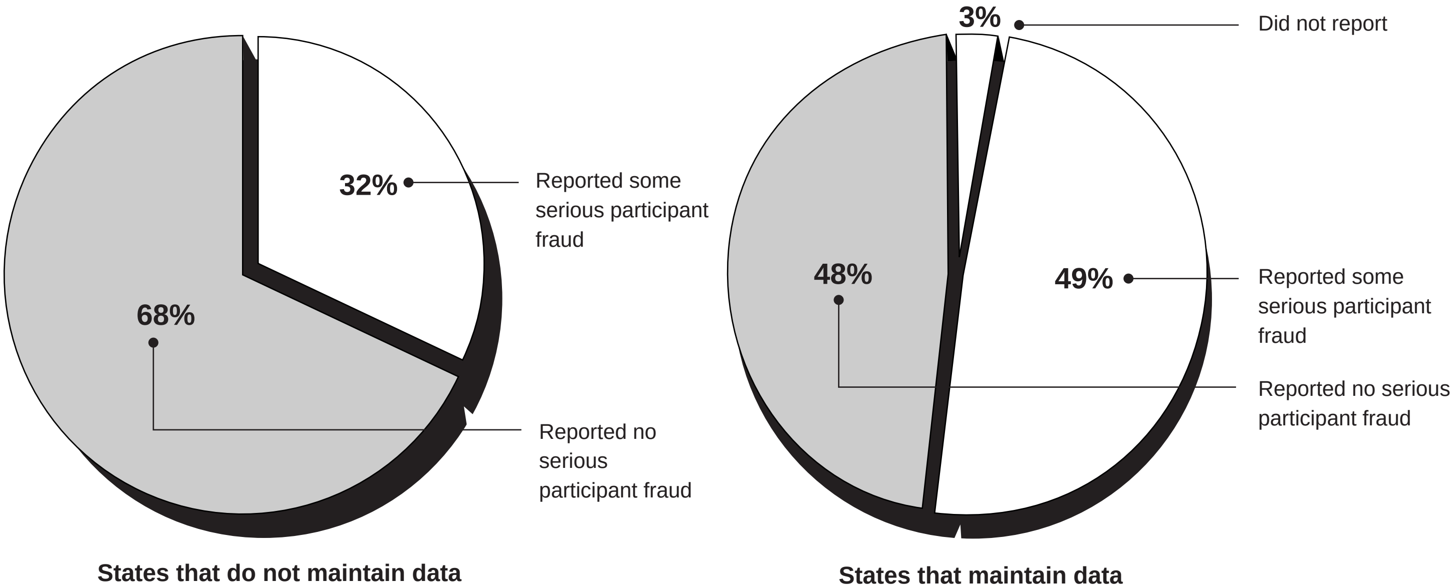
Giving away food vouchers or WIC food. In some instances, participants have committed program fraud by giving away food vouchers or the WIC food. For example, a local agency director in California told of a participant who exchanged her WIC vouchers for car rides.

Claiming fictitious dependents. In a few instances, participants have been known to create fictitious dependents in order to be eligible for the WIC program or to obtain more WIC benefits than they would otherwise be entitled to. In one instance, a couple in the Los Angeles area created 60 sets of twins in order to obtain infant formula, the highest-priced WIC food item. The Goodling Act addresses this by requiring the physical presence of each individual seeking certification for participation in the program.

The amount of fraud and abuse identified by local agencies varied. An estimated 58 percent of local agencies identified no participants committing serious fraud and abuse, while for an estimated 4 percent of the agencies, the number of participants identified represented over 1 percent of their average monthly number of participants in fiscal year 1998.

According to our analysis of participant data, local agencies in the 21 state agencies that reported not maintaining data were more likely to detect no serious participant fraud and abuse. Figure 2.3 shows the percentages of local agencies that identified no serious incidences of fraud and abuse in the 21 states that reported that they do not maintain data and in the 30 states that reported they do maintain data.

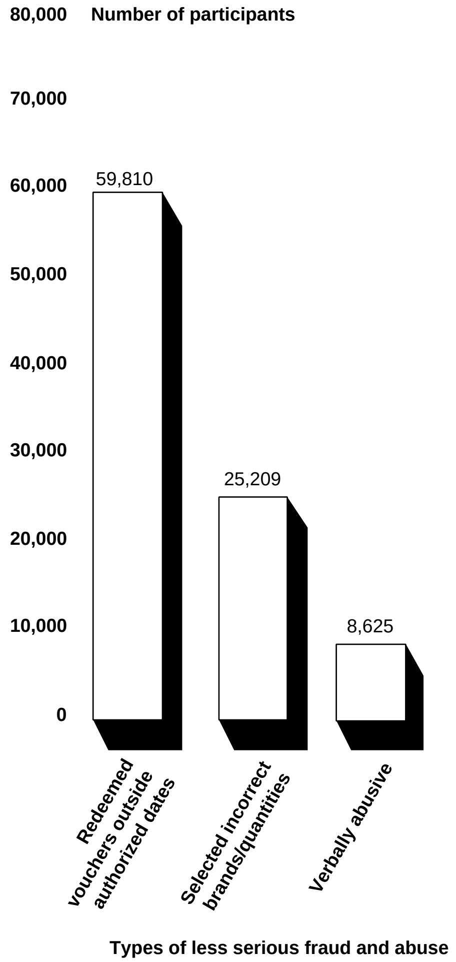
Figure 2.3: Percent of Local Agencies Identifying No Serious Participant Fraud and Abuse in the States That Do Not and Do Maintain Data on Participant Fraud and Abuse, October 1996 Through September 1998



Source: GAO's analysis of survey data from state and local agencies.

We also asked local agencies to identify less serious types of participant fraud and abuse. The number of participants identified as having committed fraud or abuse in one or more of three less serious categories was an estimated 79,271. This number represents about 1.64 percent of the average monthly number of participants in fiscal year 1998. The type of less serious offenses most commonly identified by local agencies was redeeming food vouchers outside the authorized dates. Figure 2.4 shows the number of participants identified as having committed each type of less serious fraud and abuse listed in our survey in the 2-year period.

Figure 2.4: Estimated Number of Participants Having Committed Less Serious Fraud and Abuse by Type, October 1996 Through September 1998



Note: Some participants were identified as having committed more than one type of less serious fraud or abuse. The level of detected abuse for redeeming vouchers outside the authorized dates was significantly higher than for the other two categories, which were not significantly different from one another. See app. I for confidence intervals for these estimates.

Source: GAO's analysis of survey data from local agencies.

During our site visits, agency officials further explained these types of less serious participant fraud and abuse and provided the following examples:

Redeemed vouchers outside authorized dates. This type of abuse involves participants who use vouchers either before or after the valid “use by” dates printed on the vouchers. Vouchers are generally dated for a 30-day period and valid use requires redemption within that period. At a local agency in California, the director told us of a case in which a participant altered the expiration date on an expired voucher so that she could purchase items after the voucher had expired. At another agency in Kansas, a director reported 25 incidences of participants who cashed their vouchers outside of the authorized dates.

Selected incorrect brands or incorrect quantities. There are a variety of ways in which this abuse can occur. For example, a participant may choose a larger size of juice than permitted, such as a 64-ounce bottle instead of a 46-ounce bottle.

Committed verbal abuse. Agency directors also reported that some participants were verbally abusive to either WIC vendors or local agency staff—a program abuse.

A larger percentage of local agencies identified incidences of fraud and abuse in the less serious category than in the serious category—67 percent and 40 percent respectively. An estimated 74 percent of the local agencies identified some type of participant fraud or abuse. As with the serious category, there was variation among agencies in the amounts of less serious fraud and abuse identified. An estimated 28 percent of local agencies identified no participants as having committed less serious fraud and abuse, while for an estimated 10 percent of the agencies, the number of participants identified represented more than 5 percent of their average monthly number of participants in fiscal year 1998.

Agency officials also identified about 2,902 participants who committed other types of fraud and abuse that were not specifically mentioned in the lists provided in our survey. Some of these types could be considered serious fraud and abuse, while others could be considered less serious. One of the serious types specified by some local agencies we visited was selling or returning infant formula for cash.

There are relatively few documented cases nationwide of selling or returning infant formula to stores for cash, but local WIC directors told us that this activity was of concern because it suggests a serious health risk to infants and because the high cost of formula can make the activity attractive to some participants. A Texas director told us of a participant who advertised a case of infant formula for sale in a local newspaper. After the director contacted the participant to advise her that selling WIC formula was against program rules, the participant returned the unneeded formula to the clinic. According to FNS officials, a one-month supply of WIC formula can have a retail value of almost $100.

Detected Level of Employee Fraud and Abuse

The number of employees identified by local agencies as suspected of having committed and actually having committed fraud or abuse during the 2-year period our survey covered were very small, about 78 and 48 respectively. The low number of actual cases of identified employee fraud or abuse can be explained, in part, because on some occasions when an employee is suspected of fraud, he or she quits, and agency staff are unable to document the incidence. We did not collect survey information on the types of employee fraud and abuse committed. However, in our discussions with agency officials, the lack of separation of duties was cited as a problem. For example, at one local agency in Illinois, a clinic supervisor had access to the computer system and participant records as well as the printer system to issue or print vouchers. The supervisor created hundreds of fictitious participant records and printed food vouchers for each participant on a day when she was not scheduled to work. She then sold these food vouchers to local vendors for a portion of their stated value.

Agencies Vary in Their Efforts to Prevent and Detect Fraud and Abuse and Encounter Some Barriers

State and local WIC agencies vary in their efforts to control vendor, participant, and employee fraud and abuse, as the flexibility provided by WIC regulations allows. Regarding vendors, states differ in their management procedures, including the methods they use to limit the number of vendors authorized to participate in the WIC program and the amount and type of monitoring they perform. With respect to participants, state and local WIC agencies vary in their efforts to ensure that only eligible individuals receive benefits and that the benefits are used as intended. For employees, WIC agencies differ in the extent of conflict-of-interest controls they have in place to prevent and detect employee fraud and abuse.

While federal, state, and local WIC agencies have undertaken a number of activities to prevent and detect the different types of fraud and abuse, several barriers that can inhibit their success were identified. These barriers are a lack of (1) criteria to assess whether the states have authorized an appropriate number of vendors; (2) information on the number and characteristics of participants who have committed fraud; (3) policies or procedures regarding potential employee conflict-of-interest situations; and (4) resources to devote to fraud control efforts.

States Differ in Efforts to Manage Vendors

The management of vendors—the authorization, types and extent of monitoring, identification of high-risk vendors, and sanctions imposed on violators—varied among the states. As allowed by federal regulations, state agencies can choose the methods they use to ensure that they are effectively managing WIC vendors. The practices they choose to use and their levels of effort vary considerably. Recent legislation imposes new vendor monitoring requirements in some of these areas and could produce greater uniformity. In addition, recent changes in FNS regulations should increase uniformity in sanctioning vendors by mandating maximum uniform sanctions for the most serious offenses and increasing the maximum time for disqualifying vendors from the program.

States Vary in Methods Used to Limit the Number of Authorized Vendors

FNS regulations require that states relying on the retail distribution of WIC food benefits authorize an appropriate number of vendors that can be effectively managed while ensuring adequate access for participants. Of the 51 state WIC agencies, 42 reported making some effort to limit or contain the number of authorized vendors.[18] Eight states reported that they do not limit the number of vendors, and one state, Mississippi,

[18]In order to avoid double-counting vendors, we are not reporting vendor data for ITO/Territories because our survey did not separate those ITO/Territories that use the vendors of other state agencies.

distributes WIC products through state-operated centers. Table 3.1 shows the various methods states used to limit the number of vendors.

Table 3.1: Methods States Used to Limit the Number of Vendors

Method used	Number of states using method
Vendor food prices cannot exceed limits set by the state[a]	26
Ratio of the number of participants to vendors[b]	12
Competitive bidding for vendor slots[c]	5
Absolute or fixed number of vendors	4
Other vendor ratios	3
Other methods[d]	19

Notes: Some states reported using more than one method.

[a]State sets maximum allowable food prices that vendors can charge the WIC program.

[b]The number of WIC participants per vendor in an area predetermined by a state agency.

[c]States determine the number and appropriate distribution (location) of WIC vendors. Vendors compete for the authorized slots.

[d]Other methods reported include having vendors (1) meet minimum stock requirements, (2) keep prices charged the program within 10 percent of the lowest priced store in the community, (3) not sell gas or alcohol, (4) be conveniently located, and (5) maintain their stores in good condition. Requiring a demonstrated need for a store in an area was also reported.

Source: GAO's analysis of survey data from state agencies.

States' efforts to limit the number of vendors can vary, depending in part on the method used and, in some cases, the strictness of the selection criteria imposed within the method. For example, when competitive bidding is used, a predetermined number of vendor slots are available, and vendors submit their prices for WIC foods to bid on those slots—the lowest bidders become the authorized vendors. By limiting vendor food prices to an amount pre-set by the state agency, the strictness of the selection criteria may limit the number of vendors who participate. For example, if the state restricts the food prices to an amount that is below the general market rate, fewer vendors may be willing to participate than if it restricts the food prices to an amount nearer the general market rate.

The methods a state chooses to deliver foods can also account for variation in the number of vendors authorized. For example, Vermont and parts of Ohio use dairies to deliver WIC foods directly to participants' homes and have few authorized vendors. In Chicago, many small vendors selling primarily alcohol and tobacco have been replaced by 15 food centers operated through a partnership between the state WIC agency and Catholic Charities of the Archdiocese of Chicago. These food centers distribute WIC products in exchange for special WIC food vouchers that have no monetary value and that cannot be used at other WIC vendors. Other factors can affect states' efforts to limit the number of vendors as well, such as population density—lower density areas may require fewer participants per vendor.

These factors, as well as the methods used, can result in considerable variation in the number of participants per authorized WIC vendor. Our survey found the ratio of participants to vendors varied among the states. For example, North Dakota reported 57 participants per vendor, the District of Columbia reported 535 participants per vendor, and Vermont reported 709 participants per vendor.

States Vary in Vendor Monitoring but Meet the 10-Percent Requirement

To manage and control vendors, FNS requires the states to conduct on-site monitoring of a sample of at least 10 percent of their vendors each year. These routine monitoring visits may include such activities as reviewing cashier checkout procedures, examining the availability and prices of supplemental program foods, and insuring that WIC products are clearly identified, as well as providing vendor education and training. The states use a variety of types of vendor visits to satisfy FNS' required 10-percent sample of vendors monitored. For example, one state uses the initial visit to a retail store—made to approve the store as a WIC vendor. Another state counts technical assistance visits towards satisfying this requirement. When further investigation is indicated, monitoring visits may also include compliance buys. According to our analyses of fiscal year 1998 monitoring activity reported by the states, all the states conducted on-site monitoring for at least 10 percent of their vendors. On a nationwide basis, the states reported that at least 40 percent of all vendors were subjected to monitoring visits and about 12 percent were subjected to compliance buys during that year. Some vendors were also subject to trafficking buys.

The type of vendor monitoring activity varies by state. Some states reported that most of their monitoring consisted of routine visits while others noted that most monitoring consisted of compliance buys. The percentage of vendors subjected to compliance buys in fiscal year 1998 varied substantially among the states. For example, while eight states reported that none of their vendors were subjected to compliance buys, New York State reported that about 40 percent of its vendors were subjected to them, and the District of Columbia reported that 94 percent were subjected to them. The differences we identified may not mean that the states conducting more intensive monitoring have more problematic vendors; it could mean that these states devote more resources to this type of investigation.

The states we visited varied in the number of compliance buys conducted and in the way they were conducted. In 1998, for example, Florida reported relying on volunteers from the local agencies' staff to conduct compliance buys at 15 of its about 2,000 authorized vendors. Florida put a moratorium on compliance buys early in 1998, thereby limiting the number of vendors subject to such buys, because of concerns about the safety of the volunteers. In Illinois, which contracts with a private investigative firm to conduct compliance buys, 76 of almost 1,800 vendors were subject to such buys. New York used state agency employees to conduct compliance buys at about 1,700 of its over 4,200 vendors in 1998.

Most States Use Systematic Methods for Identifying High-Risk Vendors

As part of a state's vendor monitoring, FNS regulations require the state agency to design and implement a system to identify high-risk vendors. The regulations state that the criteria for identifying high-risk vendors may include such considerations as the level and severity of suspected vendor overcharges to the program and participant complaints. Forty-eight of the 50 states that use vendors reported that they use certain types of indicators to identify high-risk vendors, and 43 of these states reported using a statistical method.[19] While our survey did not ask the states to identify the high-risk criteria that they were using, we discussed the criteria with agency officials interviewed during our site visits. The types of indicators they reported using ranged from objective indicators, such as the volume of WIC foods sold, to subjective indicators, such as association with another store known to abuse the program. Because of this variation, a vendor considered high-risk in one state may not be identified as high-risk in another state.

Monitoring high-risk vendors is a prudent method for detecting fraud and abuse. At the time of our review, FNS regulations required that the states investigate high-risk vendors as appropriate. However, they were silent on defining the appropriate number of identified high-risk vendors that were to be monitored. Thus, a state could have been in compliance without monitoring any high-risk vendors if it determined that no monitoring was

[19]Hawaii and Idaho reported not using such indicators during the period covered by our survey because they were in the process of redesigning high-risk criteria. Hawaii's redesign was part of its installation of a statewide computer system, and Idaho's redesign was part of an update of its computer system.

appropriate. Furthermore, had a state determined that it was appropriate to monitor a high-risk vendor, the regulations did not specify the type of monitoring required. The Goodling Act should reduce the flexibility in the regulations on high-risk vendors by requiring the states to conduct compliance-buy investigations of all vendors so identified. On June 16, 1999, FNS issued proposed rules that would require state agencies to conduct annual compliance buys or inventory audits on all high-risk vendors, up to the 10 percent minimum of all authorized vendors. If less than 10 percent of the vendor population is identified as high-risk, state agencies must make up the difference by conducting compliance buys or inventory audits on vendors selected at random. This would replace the current requirement to monitor a representative sample of 10 percent of all vendors.

FNS' proposed rules, issued on June 16, 1999, are intended to make vendor management more consistent across states. The proposal acknowledges that there is significant variation in agencies' practices for managing vendors and that differences in state systems have resulted in the inconsistent treatment of vendors across and within state agencies. It also acknowledges that this inconsistency has resulted in unacceptable levels of vendor fraud and program noncompliance. If implemented, these rules would reduce some of the variation we found among the states in terms of the number of vendors authorized, vendor monitoring, and the identification of high-risk vendors. The proposed rules clearly emphasize the need to limit the number of vendors to ensure effective program oversight and would require state agencies to establish criteria to limit the number of vendors authorized. Although the proposal does not specify the criteria that state agencies should use when limiting vendor numbers, it does require that when developing such criteria, state agencies consider the participant-to-vendor ratios. The proposal does not identify the criteria FNS would use to assess whether the states have authorized more vendors than they can effectively manage.

States Impose a Variety of Sanctions on Abusive Vendors

FNS regulations provide the states with latitude in choosing the type of sanctions imposed on vendors detected as committing fraud and abuse. The states reported imposing sanctions that ranged from warning letters for less serious offenses to disqualification for the most serious offenses. More than half of the vendors committing fraud and abuse during the 2-year period our survey covered received a warning letter only. Table 3.2 shows the percent of vendors who violated program rules and the sanctions they received.

Table 3.2: Type of Sanctions the States Imposed and Percentage of Identified Vendors Receiving Sanctions

Type of sanction	Percent of vendors receiving sanction
Warning letter only	58
Temporary disqualification or suspension from the WIC program	25
Monetary fine or penalty	21
Sanction points[a]	9
Other	4
No warning letter or other sanction	2

Note: The total does not add to 100 percent because some vendors could have received more than one sanction during the 2-year period.

[a] Vendors are assessed sanction points for offenses such as allowing the purchase of a similar but not WIC-approved food or accepting the return of food purchased with WIC vouchers for cash or credit towards another purchase. Accumulation of a specified number of points can adversely affect the renewal of the vendor's contract and, in extreme situations, can subject the vendor to a 1-year disqualification.

Source: GAO's analysis of survey data from state agencies.

The Goodling Act strengthened WIC sanctions by requiring that vendors convicted of trafficking and other serious violations be permanently disqualified. FNS issued regulations in March 1999 that mandate uniform sanctions across state agencies for the most serious vendor violations and increase the maximum period for disqualification, other than those permanently disqualified, to 6 years. The implementation of these mandatory sanctions is intended to curb vendor fraud and abuse in the WIC program. In instances where vendor disqualification would impose undue hardship on participants, states must assess a civil monetary penalty in lieu of disqualification. FNS' March 1999 regulations further specify that all civil monetary penalties and fines must be used as program income by the state agency.

Agencies Vary in the Strategies Used to Prevent and Detect Participant Fraud and Abuse

State and local agencies vary in the strategies they use to ensure that only eligible individuals receive WIC benefits and that they use the benefits appropriately. Table 3.3 shows the strategies included in our survey and the number of state agencies and the estimated percent of local agencies using each strategy. Some strategies, such as educating participants on program rules and regulations, were used by many state and local agencies, while others, such as using computer systems to verify eligibility on the basis of participation in other income-eligible programs, were used by fewer state and local agencies.

Table 3.3: Strategies to Prevent and Detect Participant Fraud and Abuse and the Number of State Agencies and Estimated Percent of Local Agencies Using the Strategies

Strategy	Number of states (51 total)	Estimated percent of local agencies
Educate participants on program rules and fraud and abuse	51	95
Use a computer system to maintain participant data	50	89
Use a computer system to identify dual participation within state	49	73
Use a computer system to print food vouchers	47	85
Use complaint forms for vendors and/or others to report participant fraud or abuse	44	79
Share and receive fraud and abuse prevention information and strategies with other WIC state agencies, other government agencies, and/or interest groups	36	67
Provide fraud and abuse awareness training for WIC staff	36	44
Require documentation of income beyond self-declaration by applicant	35	70
Require documentation of applicant's residence	26	45
Maintain an 800 number hot-line or other publicized phone number for reporting fraud or abuse	23	[a]
Perform more local agency evaluations than required	18	[a]
Use a computer system to verify adjunct eligibility[b]	16	50
Contact other states when participants move into the state	12	[a]

[a]Local agencies were not asked to provide information on these strategies.

[b]Eligibility based on applicant's participation in another, income-qualifying program.

Source: GAO's analysis of survey data from state and local agencies.

Every state agency and an estimated 95 percent of the local agencies reported using the strategy of educating participants on program rules and fraud and abuse. However, they differed in the methods used to educate participants. During our visits, officials told us that such methods include having the participant read and sign a program statement and giving each new participant a pamphlet explaining participant responsibilities.

Regarding the strategy of requiring income documentation to establish an applicant's income eligibility for WIC, 14 states and an estimated 29 percent of local agencies did not require applicants to provide proof of income. The Goodling Act mandates that all state and local agencies require applicants to present documentation of income; FNS implemented this requirement in February 1999. Nevertheless, the manner in which this requirement is implemented may continue to differ. Agencies that have historically required income documentation have varied in the procedures they follow when documentation is not provided at the time of application. For example, in Texas, agency officials told us that they require evidence of income without exception. If an applicant is homeless or has no income, a statement to this effect is required from someone, such as a member of the clergy or a social worker. In contrast, in Illinois, if the individual does not have documentation at the time of initial application, the state will allow a 30-day waiver; thus an applicant can be certified and receive benefits for the first month and be required to bring in evidence for the second month of participation. Such variation is likely to continue.

Differences in implementation occur in the use of other strategies as well. While almost all states use a computer system to determine whether an applicant is already participating in the WIC program at another location, thereby receiving multiple benefits for the same time period, a practice known as dual participation, they varied in how they used their systems. For example, California's computer system provides real-time information on participation at the time of application, thereby immediately preventing duplicate enrollment. In contrast, in Texas, after an applicant is certified and issued benefits, the system checks participant files, and, if there is duplication, the local agency is notified the next day. When dual participation is detected, any corrective action or sanction would typically occur the next time that the participant came in to pick up benefits. Texas officials explained that there were too few instances of dual participation to incur the costs associated with improving the timeliness of the information.

In addition, we identified some states that check for dual participation beyond their borders. In our survey, 16 of the 51 state agencies reported that they have written agreements or working arrangements with other state agencies to check for dual participation between the states.

We also identified differences in implementation when an applicant presents documentation of participation in one of the means-tested programs—Food Stamps, Medicaid, or Temporary Assistance for Needy Families. By participating in one of these programs, the applicant automatically meets the WIC income eligibility requirements. Nationwide, for the agencies that provided estimates, about 58 percent of their participants, on average, were income-eligible on the basis of their participation in another means-tested program.

While FNS regulations do not require WIC agencies to verify an applicant's documentation of participation in another income-qualifying program, our survey found that local agencies verify about 31 percent of this information, on average. In verifying this information, local agencies take such steps as checking computer systems or telephoning service providers to verify program participation. In some states, verification can also be done by an automated check of Medicaid participation. For example, in California, agency staff use the statewide WIC computer system, which accesses the state's automated Medicaid database, to verify an applicant's status in Medicaid; in New York State, this verification is accomplished by scanning the applicant's Medicaid card. On the other hand, Florida officials told us that the card scan system of verification was used sparingly because each time the card is scanned there is a 28-cent cost to the local agency. As shown in table 3.4, the percentage of such verification in fiscal year 1998 varied among agencies, with an estimated 45 percent conducting no verification.

Table 3.4: Estimated Percent of Local Agencies Conducting Various Levels of Verification of Applicants' Participation in Other Income-Qualifying Programs

Level of verification	Estimated percent of local agencies
None verified	45
Less than 10 percent verified	6
10 to 50 percent verified	13
More than 50 but less than 100 percent verified	12
100 percent verified	14
Did not respond to question	9

Note: The total does not add to 100 percent due to rounding of numbers.

Source: GAO's analysis of survey data from local agencies.

Once individuals are certified as eligible and are participating in the WIC program, local agencies can become aware of suspected fraud from several sources, including vendors, other participants, or the general public. Agency officials told us that, generally, they first discuss the suspected situation with the participant. Depending upon the participant's response or the severity of the situation, other methods may be used. In responding to a survey question about how they handle these suspected cases, an estimated 30 percent of local agencies said they deal with the situations themselves without contacting the state agency, while other local agencies refer some situations to the state agency or handle the situations jointly. Some of this variation may be explained by the fact that some states, such as California and New York, have a separate unit for dealing with suspected participant fraud and abuse.

WIC agencies can impose various sanctions when a participant is identified as having committed fraud or abuse. Of the approximately 7,074 participants identified as committing serious fraud and abuse in the 2-year period we reviewed, about 1,787 received suspensions or temporary disqualification from the program. Serious types of fraud and abuse include dual participation, exchanging vouchers for nonapproved or nonfood items, or misrepresenting income. The estimated 79,271 participants committing less serious violations were most frequently given an oral warning or counseling about program rules. The less serious types of fraud include redeeming vouchers outside of the authorized dates and selecting incorrect brands or quantities. Table 3.5 shows the estimated number of participants committing serious and less serious violations and the sanctions they received.

Table 3.5: Estimated Number of Participants Committing Serious and Less Serious Violations and the Sanctions They Received

Sanction	Estimated number of participants committing serious violations	Estimated number of participants committing less serious violations
Oral warning or counseling about program rules	5,121	57,547
Written letter of warning	2,282	19,379
Suspension or temporary disqualification for 1 to 3 months	1,787	336
Other	428	694
No sanction	33	[a]

Note: The total number of sanctions administered exceeds the total number of participants who committed fraud and abuse, in part because participants may receive more than one sanction.

[a]We were unable to develop a reliable estimate.

Source: GAO's analysis of survey data from local agencies.

Agencies Use Several Strategies to Control Employee Fraud and Abuse

State and local WIC agencies employ over 18,000 individuals to manage and deliver WIC benefits. FNS regulations that aid in preventing and detecting employee fraud require the security and accountability of vouchers, including providing physical security during transporting, receiving, and issuing them. State agencies are also responsible for reconciling the vouchers and ensuring that there is no conflict-of-interest between local agencies and vendors. In addition to these activities, agency officials use a variety of strategies to prevent and detect employee fraud and abuse, according to their responses to a list we provided in our survey. Table 3.6

shows the strategies agencies use and the percent of local agencies using them.

Table 3.6: Strategies Used to Prevent and Detect Employee Fraud and Abuse and the Estimated Percent of Local Agencies Using the Strategies

Strategy	Estimated percent of local agencies using strategy
Take measures to protect food vouchers and/or blank food voucher stock from theft or fraudulent alteration	96
Supervisor's review of employee activities at local agencies/clinics	93
Require that local agency/clinic staff report suspected employee fraud or abuse to the state	69
Separate duties within the certification process so that the employee certifying does not issue food vouchers	68
Share and receive information about strategies with other agencies, such as other local or state WIC agencies, other government agencies, and/or interest groups	60
Have a policy for conflict-of-interest for WIC participants who are also employed by the WIC program	52
Make unannounced visits to clinics[a]	47
Provide fraud and abuse awareness training for local agency/clinic staff	45
Use a statistical method to detect employee fraud	7

[a]Unannounced visits by supervisor or other agency management.

Source: GAO's analysis of survey data from local agencies.

As shown in the table, almost all local agencies had policies in place to protect food vouchers. In addition, at some agencies we visited the agency's management reviews included physical security and program integrity.[20] Most local agencies also used supervisor's review of employees' activities. However, other policies that would enhance prevention and detection are not as widely used. Two of these policies relate to conflict-of-interest—when employees who participate in the WIC program might certify their own eligibility and issue their own benefits, and when there is no separation of duties so that an employee can certify and issue benefits to the same individual. For example, an estimated 45 percent of the local agencies do not have conflict-of-interest policies for employees who also receive WIC benefits, which could result in a situation in which employees certify themselves as eligible to participate and issue their own WIC benefits. Furthermore, an estimated 30 percent of the local agencies do

[20]Local agencies not taking measures to protect vouchers from theft would include those in Mississippi, where the voucher system is not used, and those in Vermont, where voucher stock is housed at a separate state agency and not accessible to local WIC/Health Department staff.

not separate duties within the certification process. In this case, employees could certify and issue WIC benefits to relatives and friends. While these situations in and of themselves may not compromise program integrity, they present the appearance of impropriety. WIC agency officials told us that duties are not always separated because, for example, some clinics have too few employees to do so. However, even in these situations, prudent precautions can be taken. For instance, one agency uses a separate agency number for issuing WIC benefits to employee participants and another agency requires a supervisor's signature when, because staffing levels are low, an employee is going to both certify and issue benefits to the same individual. FNS regulations do not require WIC agencies to have policies on conflict-of-interest for employee-participants or for separation of duties.

In addition to the strategies we identified in our survey, we asked WIC agency officials about other activities they were using. One activity reported by FNS' Southwest Region was a federal/state project in which WIC officials worked together to design a guide for preventing and detecting employee abuse. This guide outlines a series of suggested actions aimed at the prevention and detection of employee abuse and has been adopted by several states in the region. For example, it sets a minimum expectation that agencies establish a policy relating to conflict-of-interest. It also outlines practices related to separation of duties, including practices to be followed in clinics with few employees.

Agencies Face Barriers to Preventing and Detecting Fraud and Abuse

Agency officials identified several barriers that can inhibit their efforts to prevent and detect fraud and abuse. These barriers are a lack of (1) federal criteria to evaluate whether a state has authorized an appropriate number of vendors, (2) information on detected participant fraud and abuse, (3) a policy or procedures on potential employee conflict-of-interest situations, and, (4) insufficient resources to devote to fraud detection and control efforts.

Regulations Lack Specific Criteria to Assess Whether States Have Authorized an Appropriate Number of Vendors

FNS regulations require that the states authorize an appropriate number and distribution of vendors to ensure adequate participant access and effective review of its authorized vendors. However, FNS regulations currently lack criteria for evaluating whether states have authorized an appropriate number of vendors. The regulations also do not provide the states with clear and specific criteria to use in determining whether the number of vendors is at a manageable level and appropriate for the resources states have available for vendor management. In vendor regulations proposed in 1990, FNS recognized the need to establish criteria to ensure that the states effectively and efficiently use program resources. In addition, in its proposed regulations, FNS recognized that if a state authorized more vendors than necessary its resources might not be sufficient to ensure the effective oversight of vendors, thus increasing the opportunities for fraud and abuse or forcing curtailment of other critical state and local agency activities. These regulations were never made final. FNS' recently proposed rules reemphasize the need to limit the number of vendors, and while calling for the states to establish criteria to use in limiting the number of vendors authorized, the proposal does not specify any criteria. According to some state officials, the lack of criteria for determining what constitutes an appropriate number of vendors has hindered efforts to place limits on vendors in the face of political pressures arising, in part from the retail community.

Monitoring is a critical aspect of effective vendor management and is resource-intensive because of the numerous tasks that must be performed. These tasks include making on-site visits to vendors, analyzing the data obtained as well as information on vendors' redemptions, and determining the need for and conducting more intensive compliance-buy investigations. In our survey, state agency officials were asked how easy or difficult it is for them to monitor their vendors. Regarding the required routine on-site monitoring of at least 10 percent of authorized vendors each year, four state agencies responded that it was somewhat difficult to conduct this monitoring. However, with respect to conducting the more resource-intensive compliance buys, 22 state agencies responded that it was somewhat or very difficult. Moreover, 24 state agencies reported that it was somewhat or very difficult to design and implement a system to identify high-risk vendors—which may require compliance-buy investigations. State agencies will face further challenges in allocating resources to manage vendors under the Goodling Act's mandate that compliance buys be conducted at all high-risk vendors.

Information is Lacking on Participant Fraud

FNS does not collect information on the number and characteristics of participants who engage in fraud and abuse. Regarding state agencies, 21 of the 51 states reported that they do not maintain these data. Lacking such information, FNS is not able to assess the extent of participant fraud and abuse, evaluate state and local agencies' efforts to control it, or identify the changes needed to improve program integrity.

A number of agency officials reported that they lack adequate information on how to identify situations that are at high-risk for participant fraud and abuse. Such information could be useful to WIC agencies in identifying high-risk situations and in improving their knowledge of fraud detection strategies. In our survey, 20 of the 51 state agencies and an estimated 43 percent of local agency directors reported that information on identifying these situations was less than adequate. During a site visit, one agency director told us that information on identifying high-risk situations would help her and her staff know what to watch for and what to do when a potential fraud situation arises. Agency officials also provided information on their overall knowledge of strategies for detecting participant fraud, with officials in 21 of the 51 state agencies and officials in an estimated 47 percent of local agencies identifying a less-than-adequate level of overall knowledge.

Regulations Do Not Address Potential Conflicts of Interest for Employees

Agency officials cited a lack of a policy or procedures for potential conflicts-of-interest situations for employees that may hinder the prevention and detection of employee fraud and abuse. Regarding employee-participants, 12 of the 51 state agencies surveyed reported that they do not have a conflict-of-interest policy for employee-participants to ensure that employee-participants do not certify or issue benefits to themselves; an estimated 45 percent of the local agencies lacked such a policy. Regarding separation of duties, eight of the state agencies surveyed reported that they do not separate duties within the certification process so that the employee certifying eligibility does not issue vouchers; an estimated 30 percent of the local agencies similarly do not separate duties.

Inadequate Resources

Many state and some local agency officials identified staffing and funding resources as hindering additional efforts to prevent and detect fraud and abuse in the program. For example, as shown in table 3.7, inadequate staffing and funding resources were identified by almost half of the states and about one-quarter of local agencies as adversely affecting their efforts.

Table 3.7: State and Local Agencies Identifying Less Than Adequate Staffing and Funding Levels for Preventing and Detecting Vendor, Participant, and Employee Fraud and Abuse

	Number of 51 state agencies reporting inadequate resources	Estimated percent of local agencies identifying inadequate resources
Resources for vendor fraud and abuse prevention and detection		
Number of staff	22	[a]
Funding	24	[a]
Resources for participant fraud and abuse prevention and detection		
Number of staff	24	27
Funding	25	38
Resources for employee fraud and abuse prevention and detection		
Number of staff	24	16
Funding	22	27

[a]Local agencies were not asked to identify resources to prevent or detect vendor fraud and abuse.

Source: GAO's analysis of survey data from state and local agencies.

During our site visits, some local agency officials told us that workload demands—certifying applicants; delivering client services, such as health care referrals and nutrition education; and meeting other program requirements, such as voter registration—often left little or no time to follow up on suspected cases of fraud and abuse. For example, one official said that taking time to check on individuals suspected of providing incomplete documentation of income would detract from time spent providing services to other clients. Some state agency directors also shared this view.

Similarly, according to FNS officials, the management of the WIC program, which includes fraud and abuse prevention and detection, is hindered by a lack of resources. FNS WIC officials pointed out that FNS' staffing resources for managing the program have decreased, while participation has increased. In recent years, because of resource constraints, the results of FNS management evaluations of state and local agencies, which can address various fraud prevention issues, have not been summarized and shared among FNS regions. In addition, resource constraints are adversely affecting the agency's ability to implement the electronic benefits transfer (EBT) system, according to FNS officials.[21] The use of such a system could

[21]EBT is a system that allows participants to electronically transfer their benefits to a vendor account to pay for WIC foods.

improve efforts to prevent and detect vendor and participant fraud and abuse. Finally, in developing and implementing a WIC vendor database, to include data on vendor fraud and abuse activities, FNS has been hindered by lack of resources. This system was developed and implemented by FNS without additional resources.

Conclusions

Although FNS regulations require that state agencies authorize an appropriate number and distribution of vendors in order to ensure that participants have adequate access and that state agencies can effectively review vendors, they do not provide criteria for making such an assessment. If states approve more vendors than they can effectively manage, the integrity of the vendor delivery system could be compromised, and fraud and abuse may go undetected. Regulations and guidance describing more specific considerations to be used in limiting the number of vendors participating in the program would assist state agencies in this effort. Such considerations could also be used to assist FNS in its responsibility to evaluate whether the states are effectively and efficiently managing reviews of their vendors. FNS' June 16, 1999 proposed rules would require that state agencies establish criteria to limit the number of vendors authorized, but they do not specify the criteria to be used. The proposal does not identify criteria FNS would use to assess if states authorize more vendors than they can effectively manage.

State and local WIC agencies vary considerably in the strategies they use to prevent and detect program fraud and abuse, which increases the complexities involved in managing the program and improving program integrity. Given these conditions, reliable data on detected participant fraud and abuse—who is committing the fraud and how often, what types of fraud are being committed, and how much program funding is lost—are important in evaluating the effectiveness of agency efforts aimed at preventing and detecting participant fraud and abuse. FNS does not require state and local WIC agencies to report information on participant fraud and abuse. While there would be costs associated with collecting such information, the absence of these data hinders FNS' and state agencies' ability to manage the program, including identifying the changes needed to improving program integrity. Furthermore, it is possible that not collecting such information may send a message to some agency officials that preventing and detecting participant fraud and abuse is a low priority and thus damage the public's trust in the program.

Finally, regarding employee fraud and abuse, neither FNS' regulations nor policies address conflicts of interest that develop when an employee is responsible for both certifying eligibility and issuing benefits or when an employee is also a WIC participant. Internal controls in these areas are necessary to minimize employee fraud and abuse and to emphasize program integrity.

Recommendations

To enhance USDA's ability to improve program integrity and encourage better efforts to prevent and detect fraud and abuse by state and local WIC agencies, we recommend that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to take the following actions:

- Amend the regulations on vendor management to ensure that the states limit their authorized vendors to a number they can effectively manage and issue guidance to the states on the specific criteria FNS will use to assess their compliance with the regulations and the actions they would need to take if FNS determines that they have authorized more vendors than they can effectively manage;
- Work with the state WIC agencies and the National Association of WIC Directors to develop and implement cost-effective strategies for the states to use in collecting and maintaining information on cases of participant fraud and abuse, which would be periodically reported to FNS. Such information should include the nature of the fraud detected and the associated dollar losses; and,
- Require state agencies to have a policy and procedures for addressing potential employee conflicts of interest.

Agency Comments and Our Evaluation

We provided the Food and Nutrition Service with copies of a draft of this report for review and comment. We met with agency officials, including the Associate Administrator for FNS and the Associate Deputy Administrator, Special Nutrition Programs. FNS generally agreed with the report's findings and recommendations. However, the officials raised some questions about the specific steps that would be necessary to implement two of our proposed recommendations. Concerning the recommendation that FNS strengthen its vendor management regulations, FNS officials commented that the intent of the recommendation could be achieved through a combination of regulatory change and the issuance of program guidance to the states. We agreed and revised our recommendation accordingly. With respect to the recommendation that FNS determine the costs and benefits of developing a national database of information on participant fraud, FNS officials commented that by working with state WIC agencies and the National Association of WIC Directors they could develop cost-effective strategies to collect and maintain data on participant fraud and abuse at the state and national levels without carrying out, what they believed would be, a lengthy and costly formal cost-benefit study. It was not our intent that the agency carry out a lengthy cost-benefit study. We revised our recommendation to have FNS work with the states to implement cost-effective strategies.

The agency officials also stated that they believed the information contained in the report would help to highlight the fundamental responsibility that state and local WIC agencies have in preventing and detecting fraud and abuse on a day-to-day basis.

Methodology and Analysis Used in the Mail Survey

In developing the questionnaires for our mail survey, we conducted pretests of our state survey at five state WIC agencies managing the Special Supplemental Program for Women, Infants and Children (WIC) and one Indian tribal organization, and of our local survey with directors of local WIC agencies in five states and the District of Columbia. GAO staff visited local WIC agencies to conduct each pretest consisted of a visit to a local WIC agency by GAO staff. During these visits, we attempted to simulate the actual survey experience by asking agency directors and staff to fill out the survey. We interviewed the director and staff to ensure that (1) the questions were readable and clear, (2) the terms were precise, (3) the survey did not place an undue burden on local agency directors, and (4) the survey appeared to be independent and unbiased in its point of view. We also obtained a review of our surveys from managers at FNS.

In order to maximize the response to our surveys, we mailed a pre-notification letter to all of the agencies in the survey about 1 week before we mailed the survey. We also sent a reminder letter to nonrespondents about 4 weeks after the initial mailing survey and a replacement survey for those who had not responded after about 8 weeks. After reviewing all of the survey responses, we contacted agencies by telephone to clarify answers for selected questions.

For local agencies, since we used a sample (called a probability sample) of 500 of the 1,846 local WIC agencies to develop our estimates—each estimate has a measurable precision, or sampling error, which may be expressed as a plus/minus figure. A sampling error indicates how closely we can reproduce from a sample the results that we would obtain if we were to take a complete count of the universe using the same measurement methods. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case, 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedure we used would produce a confidence interval containing the universe value we are estimating. Table I.1 lists the sampling errors and confidence intervals for selected information about fraud and abuse categories from the local agency survey.

Table I.1: Sampling Errors and Confidence Intervals of Estimates of Fraud and Abuse From Information in the Local Agency Surveys

	Estimate	Sampling error	Confidence interval From	Confidence interval To
Chapter 2				
Participants reported as committing fraud in one or more of seven serious categories represented as a percentage of the average monthly participation in fiscal year 1998[a] (page 23)	0.141%	0.067	0.074%	0.208%
Number of participants reported as committing fraud in one or more of seven categories of serious fraud (page 23)	7,074	3,231	3,843	10,305
Number of participants reported as receiving multiple benefits – dual participation (page 29)	3,566	2,494	1,072	6,060
Number of participants reported exchanging vouchers for nonapproved or nonfood items (page 29)	2,049	1,888	161	3,937
Number of participants reported as misrepresenting their income (page 29)	886	420	466	1,306
Number of participants reported as misrepresenting facts affecting eligibility, other than income (page 29)	561	433	128	994
Number of participants reported exchanging vouchers for cash (page 29)	233	120	113	353
Number of participants reported giving away vouchers or food (page 29)	218	163	55	381
Number of participants reported claiming phantom or nonexistent dependents (page 29)	122	112	10	234
Participants reported as committing fraud in one or more of three less serious categories represented as a percentage of the average monthly participation in fiscal year 1998[a] (page 23)	1.643%	0.7644	0.8786%	2.4074%
Number of participants reported as committing fraud in one or more of three categories of less serious fraud (page 23)	79,271	36,840	42,431	116,111
Number of participants reported redeeming food vouchers outside the authorized dates on the vouchers (page 33)	59,810	26,965	32,845	86,775
Number of participants reported selecting incorrect brands or quantities of food (page 33)	25,209	25,074	135	50,283
Number of participants reported as being verbally abusive to WIC vendors and/or WIC employees (page 33)	8,625	4,283	4,342	12,908
Number of participants reported as committing other types of fraud or abuse (page 34)	2,902	1,644	1,258	4,546
Number of employees who work in the WIC program who were suspected of fraud or abuse (page 35)	78	14	64	92
Number of employees who work in the WIC program who actually committed fraud or abuse (page 35)	48	21	27	69
Chapter 3				
Number of participants reported as receiving an oral warning or counseling about program rules for serious violations (page 45)	5,121	3,125	1,996	8,246
Number of participants reported as receiving a written letter of warning for serious violations (page 45)	2,282	1,726	556	4,008

(continued)

	Estimate	Sampling error	Confidence interval	
			From	To
Number of participants reported as receiving a suspension or temporary disqualification from WIC for serious violations (page 45)	1,787	1,455	332	3,242
Number of participants reported as receiving some other sanction for serious violations (page 45)	428	310	118	738
Number of participants reported as receiving no sanction for serious violations (page 45)	33	28	5	61
Number of participants reported as receiving an oral warning or counseling about program rules for less serious violations (page 45)	57,547	32,673	24,874	90,220
Number of participants reported as receiving a written letter of warning for less serious violations (page 45)	19,379	5,827	13,552	25,206
Number of participants reported as receiving a suspension or temporary disqualification from WIC for less serious violations (page 45)	336	298	38	634
Number of participants reported as receiving some other sanction for less serious violations (page 45)	694	601	93	1295
Number of participants reported as receiving no sanction for less serious violations (page 45)	[b]	[b]	[b]	[b]

[a]The sampling error may be too low because of high variability in the numerator of the estimated percentages.

[b]We were unable to develop a reliable estimate.

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