

DEPARTMENT OF FINANCIAL SERVICES

DIVISION OF PUBLIC ASSISTANCE FRAUD

Operational Audit



CHIEF FINANCIAL OFFICER

Pursuant to Article IV, Sections 4(c) and 5(a) of the State Constitution, the Chief Financial Officer is an elected member of the Cabinet and serves as the chief fiscal officer of the State. Pursuant to Section 20.121(1), Florida Statutes, the Chief Financial Officer is the head of the Department of Financial Services. During the period of our audit the Honorable Jeff Atwater served as Chief Financial Officer.

The project team leader was Frank Belt, CPA, and the audit was supervised by Mary Stewart, CPA. Please address inquiries regarding this report to Lisa Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 412-2831.

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DEPARTMENT OF FINANCIAL SERVICES

Division of Public Assistance Fraud

SUMMARY

This operational audit of the Department of Financial Services focused on the activities of the Division of Public Assistance Fraud (Division). Our audit disclosed the following:

Finding No. 1: The Division had not established policies and procedures addressing the Division's operations and unique responsibilities or periodically analyzed its regional office investigative staffing needs. Additionally, the Division's investigative process could be enhanced by providing a staff training program specific to public assistance fraud investigations and by engaging individuals with training and experience in complex financial data analysis.

Finding No. 2: The Division had not established controls to ensure that referral data was completely, accurately, and timely recorded in the Automated Investigation Management System (AIMS) used by the Division to track and review referrals of potential public assistance fraud.

Finding No. 3: The Division's processes for the review and disposition of referrals of potential public assistance fraud need improvement to ensure that all referrals are properly considered for investigation.

Finding No. 4: The Division's investigative process needs enhancement. Specifically, the Division needs to employ data analysis tools and techniques and establish procedures and AIMS edit controls to ensure that appropriate documentation is maintained in the investigation files. Such documentation should include justification to support the termination of investigations and the closing of cases, especially when cases are closed due solely to Division manpower or workload issues.

Finding No. 5: The Division had not established appropriate controls to ensure that Supplemental Nutrition Assistance Program (SNAP) Electronic Benefits Transfer (EBT) cards were properly accounted for and used only for valid investigative purposes.

Finding No. 6: The Division did not comply with certain terms and conditions set forth in the United States Department of Agriculture Food and Nutrition Service agreement authorizing the Division to acquire SNAP EBT benefits for investigative purposes.

BACKGROUND

The State provides to eligible individuals and families various types of public assistance including, for example, food, prescription drugs, medical care, child care, and cash assistance. There are over 40 public assistance programs administered by ten State agencies.¹ During the period July 2010 through December 2011, expenditures for these programs totaled approximately \$45.8 billion. Pursuant to State law,² the Department of Financial Services (Department), Division of Public Assistance Fraud (Division),³ is responsible for investigating all public assistance provided to residents of the State or provided to others by the State. In order to perform its duties, the Division has access to a variety of data, including birth, employment, incarceration, and death records. According to Division records, during the period July 2011 through January 2013, Division expenditures totaled \$7,890,240. As a result of the Division's investigations, the Division reported the recovery of overpayments of financial assistance totaling

¹ Our report No. 2013-133, *Public Assistance Eligibility Determination Processes at Selected State Agencies*, identifies the State agencies and the public assistance programs administered by each agency.

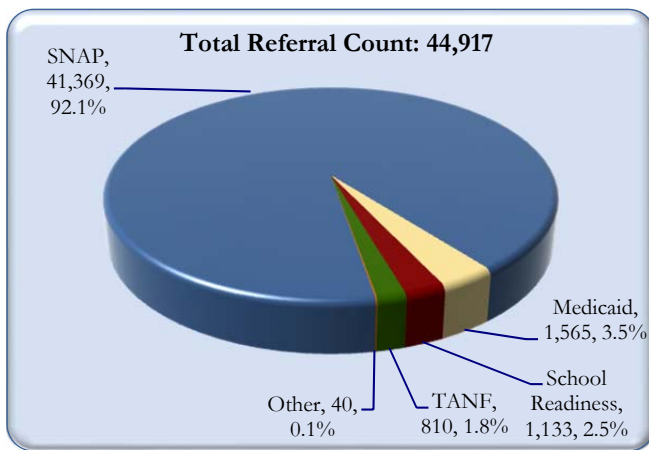
² Section 414.411(1), Florida Statutes.

³ Pursuant to Chapter 2010-144, Laws of Florida, effective January 1, 2011, activities relating to public assistance fraud were transferred from the Department of Law Enforcement to the Division of Public Assistance Fraud in the Department of Financial Services.

\$3,375,709. The Division’s costs were funded primarily through appropriations from the Federal Grants Trust Fund and the Insurance Regulatory Trust Fund.

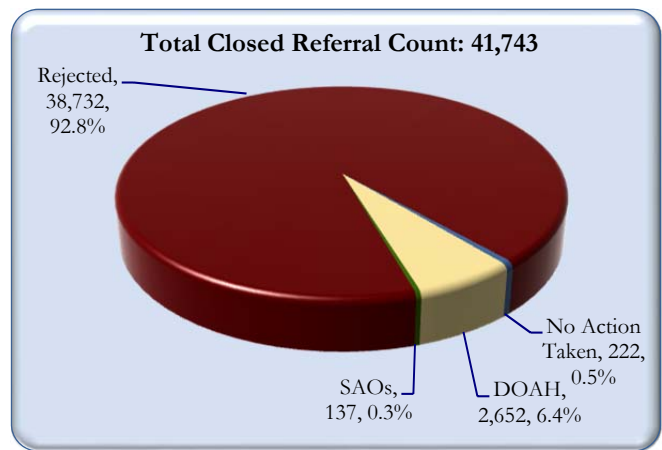
As of March 2013, the Division had 59 employees, including 42 investigators. Division investigators work in a non-sworn capacity and investigate referrals of potential fraud from various State and Federal agencies, local law enforcement agencies, and the public. As shown in **EXHIBIT A** of this report, the Division’s operations are decentralized into nine regions throughout the State. Each region has a regional office with staff tasked with reviewing referrals and performing fraud investigations within the designated region. As shown in Chart 1, according to Division records, the Division received 44,917 referrals during the period July 1, 2011, through January 31, 2013, the majority of which related to individuals receiving assistance through the Supplemental Nutrition Assistance Program (SNAP), the Medicaid Program, the School Readiness Program, and the Temporary Assistance for Needy Families (TANF) Program. During the same period, as shown in Chart 2, Division records show that the Division closed 41,743 of the 44,917 referrals, 38,732 (93 percent) of which were reviewed and rejected for reasons such as insufficient evidence. According to Division records, the Division opened and subsequently closed investigations for 3,011 of the 44,917 referrals during the period July 1, 2011, through January 31, 2013, with 2,789 referred to the Division of Administrative Hearings (DOAH) for administrative action or to the applicable State Attorney’s Office (SAO) for prosecution.

Chart 1
Referrals by Public Assistance Program
 For the Period July 1, 2011, Through January 31, 2013



Source: Division records.

Chart 2
Final Disposition of Closed Referrals
 For the Period July 1, 2011, Through January 31, 2013



Source: Division records.

Division staff utilized the Automated Investigation Management System (AIMS) to receive, track, and review referrals; store case background information; and assign and document investigations. AIMS electronically uploaded referrals from systems maintained by the Department of Children and Families (DCF) and the Department of Education, Office of Early Learning (OEL), on a weekly basis, while Division staff manually entered referrals from other sources. The Department of Law Enforcement (FDLE) administered AIMS until March 2013, when AIMS administration was transferred to the Department.

In connection with its statutorily assigned responsibilities for investigating public assistance fraud in Florida, the Division, as the designated State Law Enforcement Bureau (SLEB) for SNAP-related Electronic Benefits Transfer (EBT) card investigations, entered into an agreement with the United States Department of Agriculture Food and Nutrition Service (USDA-FNS). As the SLEB, the Division was responsible for maintaining secure controls over

EBT cards used in investigations and was authorized to create, fund, issue, and control the use of EBT cards in investigations of potential SNAP fraud.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Division Policies and Procedures and Staffing

As part of our audit, we evaluated the Division's organizational structure, staff qualifications and training, and procedures to determine whether the Division had established a framework that promotes the appropriate consideration and disposition of referrals, conduct of investigations, and identification of fraud. Among other things, such a framework should include written policies and procedures that prescribe the appropriate process for evaluating referrals and conducting investigations, an organizational structure whereby there is adequate supervision and oversight and staff are strategically assigned to best facilitate the conduct of investigations, and standards related to staff qualifications and training. We found that the Division had not established written policies and procedures, engaged individuals with training and experience in complex financial data analysis, developed a Division-specific staff training program, or analyzed the allocation of investigative staff among the regions. Specifically:

- *Policies and procedures.* Division management had not established written policies and procedures addressing the Division's operations and unique responsibilities. In response to our audit inquiry, Division management indicated that they considered the Department's policies sufficient for normal Division operations. Division management also stated that they were in the process of updating and revising an investigations manual that served as a technical guideline for investigators but had not been updated since at least 1999. According to Division management, staff availability had hindered the Division's ability to update the investigations manual. We reviewed the Department's policies and the investigations manual and noted that neither addressed the referral receipt and review process, AIMS documentation requirements, the use of data analysis techniques such as data mining,⁴ the criteria to be used by supervisors when reviewing completed investigations, or the process for forwarding fraud investigations to DOAH or the applicable SAO. Additionally, the Department's policies and the investigations manual did not address activities related to the Division's SLEB responsibilities.
- *Staff training.* The Division had not established a Division-specific training program or training plan outlining management's employee training vision and goals, nor had any Division-specific training been provided to Division employees since 2007. Division management indicated that training for new employees consisted of on-the-job training and that, for the eight regional office investigation managers (IMs), Division management relied upon the IMs' extensive prior work experience. Division management also indicated that limited staffing resources contributed to the lack of a comprehensive training program. Training specific to public assistance fraud investigations, including training in interview techniques, data analysis, and public assistance program rules and regulations, would enhance Division staff knowledge and could improve the effectiveness of the investigations conducted.
- *Staff qualifications.* State law⁵ authorizes the Division to employ persons having qualifications useful in the performance of investigations into potential public assistance fraud. Our review of Division personnel files, position descriptions, and Department hiring policies disclosed that the Division had established minimum qualifications for its investigators, including an educational requirement of a degree in the area of criminology, social science, or business. Our audit disclosed that all 42 of the investigators employed by the Division as of March 2013 met the minimum qualifications. However, effective public assistance fraud investigations, including SNAP trafficking investigations, often involve complex financial data analysis work and none of the investigators had a college degree or previous work experience with an emphasis on data analysis, accounting,

⁴ Data mining is the application of database technology and techniques, including statistical analysis and modeling, to uncover hidden patterns and subtle relationships in data, such as those that may exist when searching for potential fraudulent activity.

⁵ Section 414.411(2), Florida Statutes.

or statistics. Engaging individuals with training and experience in complex financial data analysis could enhance the Division’s investigative process.

- *Staff assignments.* The Division had not analyzed the appropriateness of the number of investigator positions assigned to each region. In response to our audit inquiry, Division management stated that the allocation of investigators to the regions was based on a staffing model developed when the Division was transformed into an investigative program at the FDLE. However, the Division had not reevaluated the allocation of investigators since staffing levels were reduced prior to the Division’s transfer from the FDLE to the Department in 2011. As shown in Table 1, our analysis of the referrals received by the Division between July 1, 2011, and January 31, 2013, disclosed that, by region, the average number of referrals per investigator ranged from 343 to 1,856. Our examination of Division records also disclosed that, as of March 31, 2013, 1,927 fraud investigation cases were pending assignment to an investigator and that, on average, the cases had been pending assignment for 299 days after the date the referrals were reviewed and accepted for investigation.

Table 1
Analysis of Assigned Investigators and Referrals Received
by Regional Office

Regional Office	Number of Investigators Assigned as of March 2013	Number of Referrals Received July 2011 Through January 2013	Average Number of Referrals per Investigator
Tampa	10	11,223	1,122
Miami	7	6,093	870
Orlando	7	7,975	1,139
Jacksonville	5	6,321	1,264
Broward	5	4,766	953
Palm Beach	3	2,305	768
Pensacola	3	1,474	491
Tallahassee	3	1,028	343
Fort Myers	2	3,711	1,856
Division Headquarters	-	21	-

Source: Division records.

The absence of established policies and procedures and a Division-specific training program, staff who lack complex financial data analysis training and experience, and the allocation of investigative staffing resources that is not based on a current documented needs analysis, by region, increases the risk of untimely investigations, inconsistent and inefficient investigative techniques and outcomes, inadequate documentation of investigations, and less effective data analysis. The absence of established policies and procedures may also have contributed to the deficiencies noted in finding Nos. 2 through 6 of this report.

Recommendation: We recommend that Division management establish policies and procedures that adequately address its operations and unique responsibilities and periodically analyze its regional office investigative staffing needs and, as appropriate, reassign staff. In addition, to enhance the Division’s investigative process, we recommend that the Division provide a training program specific to public assistance fraud investigations and consider engaging individuals with training and experience in complex financial data analysis.

Finding No. 2: Referral Data Input Controls

Data input controls are necessary to ensure the completeness, accuracy, and timeliness of data entered into a computer application, whether the data is entered manually or via an automated process. As previously noted, according to Division records, during the period July 2011 through January 2013, the Division received 44,917 referrals. The Division entered the referral data into AIMS using both manual and automated processes. The majority of the referrals were electronically received from the DCF and the OEL and uploaded into AIMS. For example, during the period July 2011 through January 2013, the DCF and the OEL submitted 44,255 (98.5 percent) of the total referrals received by the Division. The remaining referrals were received from Florida residents, local law enforcement agencies, Federal agencies, and other State agencies via calls made to both the Statewide toll-free public assistance fraud hotline and to the Division's regional offices, e-mails, or online submissions. The IMs received and were to manually enter these referrals into AIMS.

For data entered via an automated process, data input controls include, but are not limited to, periodic reconciliations between independent systems with the same input data to help ensure that data entered into a system is accurate, complete, and valid. In response to our audit inquiry, Division management indicated that the Division had not developed a mechanism to reconcile the counts of referrals submitted by the DCF and the OEL to the counts of referrals recorded in AIMS.

In the absence of Division-performed reconciliations, we attempted to match the referrals submitted electronically by the DCF and the OEL, as reflected in DCF and OEL records, to the referrals recorded in AIMS for the period July 1, 2011, through January 31, 2013. We identified 3,779 DCF referrals (8.2 percent of the referrals recorded in DCF records) and 30 OEL referrals (2.6 percent of the referrals recorded in OEL records) that were not recorded in AIMS. We selected 30 of the unmatched DCF referrals and 5 of the unmatched OEL referrals for further examination and noted that the Division had merged 16 (11 DCF and 5 OEL referrals) of the 35 selected unmatched referrals with existing referrals; however, the Division was unable to locate the other 19 DCF referrals in AIMS.

For manually entered data, data input controls include, but are not limited to, procedures to compare source documents to input processing. We noted that the Division had not established such procedures and did not maintain source documentation for all the referrals received via telephone, e-mail, or online submissions that were required to be manually entered into AIMS.

As the Division did not always maintain source documentation for the referrals manually entered by the IMs, to evaluate whether AIMS records of the referrals received via calls to the hotline and the regional offices appeared reasonably complete, we analyzed the number of referrals reported as received from sources other than the DCF and the OEL at the various Division locations. Our analysis showed significant variances by region in the number of referrals manually entered into AIMS. For example, as shown in Table 2, during the period July 2011 through January 2013, the Orlando regional office reported 96 referrals from sources other than the DCF and the OEL while the Jacksonville regional office only reported the receipt of 2 such referrals.

Table 2
Referrals Received From Sources
Other than the DCF and the OEL
For the Period July 1, 2011, Through January 31, 2013

Location Receiving Referrals	Number of Referrals Received
Division Headquarters	144
Orlando	96
Tallahassee	88
Broward	38
Tampa	28
Miami	11
Pensacola	10
Palm Beach	8
Jacksonville	2
Fort Myers	-
Total	<u>425</u>

Source: AIMS.

Absent the establishment of effective data input controls, including documented procedures for the periodic reconciliation of the referrals submitted by the DCF and the OEL to those recorded in AIMS and for the comparison of source documents to manual input processing, Division management has limited assurance that all referrals have been properly entered into AIMS and made available for review.

Recommendation: We recommend that Division management establish effective data input controls to ensure that referral data is completely, accurately, and timely recorded in AIMS. Such controls should include documented procedures for the periodic reconciliation of referrals submitted by the DCF and the OEL to those recorded in AIMS and for the comparison of source documents to manual input processing.

Finding No. 3: Processing of Referrals

Division IMs were responsible for reviewing referrals, determining whether each referral should be investigated or rejected and, if rejected, documenting in AIMS the reason why. We evaluated the Division’s processing of referrals and found that the Division’s current practices could be strengthened to better ensure that referrals are subjected to a proper review and that the disposition of each referral is appropriately documented. Specifically:

- *Establishment of referral evaluation criteria.* The Division had not established uniform criteria, such as a minimum overpayment amount, to be considered by the IMs when determining whether a fraud referral should be investigated or rejected. While Division management indicated that referrals were often rejected when the anticipated overpayment was small, Division management could not provide a specific overpayment threshold amount that the IMs had been directed to use. Additionally, it did not appear that the IMs consistently applied a particular minimum overpayment amount when determining whether to investigate or reject referrals. Our analysis of the 2,789 cases forwarded by the Division to DOAH or the applicable SAO, during the period July 2011 through January 2013, disclosed that 1,167 (42.1 percent) of the applicable referrals had overpayments totaling less than \$500, and 190 of those cases had overpayments totaling \$100 or less.

To establish a criterion related to a minimum overpayment amount, one of the factors to consider would be the average cost of a fraud investigation. In response to our audit inquiry, Division management stated that a

unit cost for fraud investigations had not been computed because, while AIMS tracked costs by case, AIMS could not generate a report summarizing the costs for all investigations.

- *Referral information and review process.* The Division had not developed guidelines, for use by State agencies and other entities making referrals, outlining the information required to be submitted for each referral or what an agency could do to resubmit a referral rejected by the Division. In response to our audit inquiry, Division management indicated that memoranda of agreement between the Division and various State agencies described the process for referring instances of potential fraud. However, our review of the memoranda found that the memoranda did not provide specific details related to the process for making referrals. For example, the memoranda did not specify what information, such as an estimated overpayment amount, was required to be included with the referral or how long an agency had to submit a referral after a potential fraud had occurred. Additionally, our audit procedures disclosed that sufficient edit checks had not been established in AIMS to facilitate the identification of referrals with missing information or when the statute of limitations applied. As a result, the Division IMs had to manually screen and reject deficient and untimely referrals.

Our review of Division records disclosed that, during the period July 2011 through January 2013, the Division rejected 38,732 (86.2 percent) of the 44,917 referrals received. In response to our audit inquiry, Division management stated that referrals are frequently rejected due to insufficient evidence, statute of limitation issues, or insufficient anticipated overpayments to warrant a criminal referral.⁶ However, according to AIMS records, the Division had coded over 99 percent of the rejected referrals as rejected due to insufficient evidence. We examined documentation associated with 60 referrals rejected for insufficient evidence and noted 8 instances in which the documentation appeared to indicate that there was sufficient information to open an investigation and the referral file did not indicate the reason for rejecting the referral without investigation. For example, one referral rejected for insufficient evidence included documented statements made by the alleged fraudster admitting to creating receipts and forging employment verification forms in order to qualify for OEL School Readiness Program benefits. In response to our audit inquiry, Division management provided an explanation for rejecting this referral, noting that certain dates were incorrect or missing and that an overpayment amount had not been included. However, these reasons were not documented in the referral file and had not been communicated to the OEL so that the referral could be resubmitted with the appropriate information.

We also noted that only three codes had been established in AIMS to describe the reason a referral was rejected: 1) insufficient evidence, 2) statute of limitations, and 3) DCF reconstructed case file (code not in use since the DCF implemented electronic case files). Therefore, although Division management also indicated that the Division rejects approximately 60 percent of the referrals received due to workload issues rather than due to errors or omissions in the referral documentation, because of the limited coding in AIMS, most of the referrals rejected due to Division workload issues are coded with the rejection code of insufficient evidence.

Absent the establishment of criteria for the consistent evaluation of referrals, the development and communication of guidelines for referring agencies, and documentation of the reasons for rejecting referrals, the Division cannot demonstrate that referrals of potential fraud are properly considered for investigation or rejected. Additionally, the establishment of automated controls in AIMS to identify missing referral information and when the statute of limitations applies would enhance the efficiency of the Division's referral review process.

Recommendation: We recommend that Division management strengthen Division practices for processing referrals to ensure that referrals of potential fraud are properly considered for investigation. Specifically, Division management should:

- **Establish criteria, including a minimum overpayment amount, for IM use in determining whether a fraud referral should be investigated or rejected.**

⁶ Section 414.39(5)(b), Florida Statutes, provides that, if the value of the public assistance or identification wrongfully received, retained, misappropriated, sought, or used is of an aggregate value of \$200 or more in any 12 consecutive months, such person commits a felony of the third degree. However, according to Division personnel, some SAO will not accept a criminal case with an aggregate value below the thresholds set by the individual SAO.

- **Develop and communicate to referring agencies guidelines outlining the information required to be submitted for each referral and how an agency can resubmit a rejected referral.**
- **Modify AIMS to provide more detailed reason codes for rejecting referrals, including a code to indicate when a referral is rejected due to Division workload issues, and generate reports that would allow for the calculation of the average cost of a fraud investigation.**
- **Establish automated controls in AIMS to facilitate the identification of missing referral information and when the statute of limitations applies.**

Finding No. 4: Investigative Process

As previously noted, each regional office was tasked with performing fraud investigations in its designated region. The Division opened and completed 3,011 investigations during the period July 2011 through January 2013, of which 2,789 were referred to either DOAH or the applicable SAO. The Division terminated the remaining 222 investigations due to a variety of reasons, including lack of evidence and lack of intent to defraud. Our review of the Division's methods for identifying and conducting investigations of potential fraud disclosed areas in which improvements to the investigative process were needed. Specifically, we noted that:

- *Data analysis.* The Division had not employed effective data analysis tools and techniques that are critical to the detection and investigation of fraud. For example, data mining, which uses database technology and techniques, including statistical analysis and modeling, may uncover hidden patterns and subtle relationships in data, such as those that may exist for potential fraudulent activity. The Division reported⁷ that it utilized data analysis and computer matching techniques to generate fraud investigations; however, our audit disclosed that no Division Headquarters staff had been designated to perform data analysis and, in response to our survey of the eight regional IMs, two IMs indicated they did not perform any data mining or computer matching techniques to generate fraud investigations. Also, our review of Division records disclosed that, during the period July 2011 through January 2013, the Division internally generated 322 investigations; however, all 322 investigations were generated as a result of other investigations and not data analysis or computer matching techniques. The lack of data analysis limits the Division's ability to identify potential large-scale fraud.
- *AIMS fraud investigation information.* Investigators did not always input into AIMS all the investigative information that could be maintained and tracked by AIMS and AIMS did not have sufficient edit controls to ensure that pertinent information was included. Our examination of 25 investigation case files maintained in AIMS and closed during the period July 2011 through January 2013 identified 2 case files with blank or incomplete case summary screens. The data missing from the screens included, for example, a summary of the suspected fraud, the expected duration of the case, the systems the investigator should access as part of the investigation, and the supervisor's approval to access another agency's information technology systems. In response to our audit inquiry, Division management indicated that not all fields available in AIMS were required to be completed. However, absent AIMS edit controls and Division policies and procedures, as discussed in finding No. 1, it was not clear what information was required to be included in the AIMS investigation case files.
- *Termination of fraud investigations.* The Division maintained fraud investigation cases in AIMS with an open status until: closed or terminated by the investigation manager, DOAH completed an administrative action, or the applicable SAO concluded a criminal prosecution. Our examination of 25 investigation case files closed during the period July 2011 through January 2013 disclosed three instances, related to 1 OEL case, 1 TANF case, and 1 SNAP case, where the Division did not document the reason for terminating the investigation. In the OEL and TANF cases, Division management indicated that the cases were closed inadvertently when an incorrect status was recorded in AIMS. The OEL case had an estimated overpayment of \$3,596 and related to a recipient who had allegedly failed to report that she was married and did not include her spouse's income

⁷ Department of Financial Services *Long-Range Program Plan 2012-2017*.

when applying for benefits. The TANF case also related to unreported income and had an estimated overpayment of less than \$200. The SNAP case appeared to be an instance of identity theft, but there was no documentation indicating that the Division had notified the DCF so that benefits could be stopped.

In response to our audit inquiry regarding reasons for terminating cases, Division management indicated that “cases selected for assignment are periodically reviewed and based on manpower issues, the cases may be returned to DCF because there are simply too few resources to address the number of cases with potential criminal violations.” The lack of detailed documentation to support the reason for terminating an investigation and closing a case, particularly when a case is not referred to DOAH or to the applicable SAO, limits Division management’s ability to demonstrate that each case was given adequate consideration and that appropriate conclusions and dispositions were made. Additionally, by not documenting when cases are closed due to manpower or workload issues, the Division’s ability to evaluate and demonstrate the impact of any workload issues on the Division’s fraud investigation responsibilities is diminished.

Recommendation: We recommend that Division management enhance the Division’s investigative process by employing appropriate data analysis tools and techniques and establishing procedures and AIMS edit controls to ensure that appropriate documentation is maintained in the investigation files. Such documentation should include justification to support the termination of investigations and the closing of cases, especially when cases are closed due solely to Division manpower or workload issues. We also recommend that Division management reevaluate the practice of closing investigations due solely to workload issues.

Finding No. 5: Accounting for EBT Cards

To assist with SNAP trafficking investigations, during the period October 1, 2011, through February 28, 2013, the Division issued to Federal, State, and local law enforcement agencies (LLEA), 197 EBT cards with SNAP benefits totaling \$112,779. The Division utilized the SLEB module in AIMS to control and track the issuance and use of the EBT cards, along with a spreadsheet to track the issued and activated EBT cards with the related benefit amounts for each Federal fiscal year. The DCF’s EBT contractor issued the cards to the Division, added Division-authorized SNAP benefits to the cards, and electronically uploaded EBT card transaction data nightly into AIMS.

Our review of the Division’s controls over the EBT cards disclosed that the Division had not established appropriate controls to ensure that the EBT cards were used only for valid investigative purposes at authorized locations. Specifically:

- *Separation of employee duties.* Division staff were responsible for receiving EBT card requests from the LLEA and the USDA, obtaining and maintaining custody over the EBT cards, issuing and activating the EBT cards, entering EBT card profiles in the EBT contractor’s system, and authorizing the benefit amounts to be added to activated EBT cards. To help minimize the possibility of errors and fraud, these responsibilities should be appropriately separated between Division staff. Our audit tests disclosed that the same Division employee was responsible for all EBT card activities except for the initial activation of the EBT cards and the creation of EBT card profiles in the EBT contractor’s system. Specifically, this employee was responsible for controlling the EBT cards and authorizing the benefit amounts to be added to the cards. Additionally, we noted that, although another employee was responsible for creating EBT card profiles and activating the EBT cards, that employee did not require or maintain documentation supporting the Division supervisor’s approval.
- *Monitoring EBT card activity.* As the SLEB, the Division was responsible for monitoring EBT card activity, including expenditure transactions. In response to our audit inquiry, Division management indicated that no monitoring of EBT card activity had occurred during the period July 2011 through January 2013. We analyzed expenditure transactions related to charges made using Division-issued EBT cards during the period July 2011 through January 2013 and found that 67 percent of the charges, totaling \$4,047, were incurred at vendor locations that were not specifically authorized for the related investigations. While some charges may

have been appropriate, such as those incurred during undercover investigations of retailers or for training purposes, without sufficient monitoring, Division management's assurance that transactions made using Division-issued EBT cards were appropriate is reduced.

- *Periodic inventory of EBT Cards.* The Division stored undistributed EBT cards and some returned cards from completed investigations in a locked safe in the Division Headquarters' office. The Division stored other returned cards in a locked room. To effectively maintain custody of the EBT cards, Division controls should provide for a periodic inventory of all EBT cards, including undistributed and returned cards. In response to our audit inquiry, Division management indicated that periodic EBT card inventories were not performed. In April 2013, we conducted a physical inventory of the 104 EBT cards in the Division's possession and compared the inventory results to the EBT card records maintained in AIMS and on Division spreadsheets. We identified 6 EBT cards in the Division's possession that were not listed in AIMS and also noted 2 EBT card numbers that were incorrectly recorded in AIMS. When EBT card information is not properly entered in AIMS, any transaction data related to the card will not be uploaded to AIMS from the EBT contractor's system and, therefore, the data will not be readily available for monitoring and reporting purposes.
- *Disposal of returned cards.* Controls over EBT cards should provide for the proper safeguarding and disposal of cards returned by the LLEA. The Division established guidelines, effective September 1, 2012,⁸ instructing the LLEA to return issued EBT cards within 30 days of the completion of an investigation. However, the Division had not established any procedures or guidelines addressing the Division's handling and disposal of the EBT cards returned by the LLEA. As part of our audit, we reviewed Division records for 12 EBT cards issued during the period January 2010 through March 2012,⁹ and reflected in Division records as deactivated, expunged, or having no activity during the previous 12-month period to determine whether adequate documentation existed to support the return or disposal of the cards. The Division was unable to provide such support for 9 of the 12 EBT cards and none of the 9 cards were in the Division's possession.

Absent appropriate separation of duties and effective controls over the storage, handling, and disposal of EBT cards, Division management's assurance that EBT cards are used only for authorized investigative purposes is reduced.

Recommendation: We recommend that Division management establish appropriate controls over the SNAP EBT cards. Such controls should include, but not be limited to, an appropriate separation of duties for EBT card activities, periodic inventories of EBT cards, monitoring of EBT card usage, and appropriate documentation to support EBT card return and disposal.

Finding No. 6: USDA-FNS SLEB Agreement

The Division executed an agreement, effective January 1, 2011, with the USDA-FNS that set forth the terms and conditions related to the Division's designation as Florida's SLEB. Our inquiry of Division management and review of Division records disclosed that the Division did not adhere to certain terms and conditions of the USDA-FNS agreement designed to ensure the appropriate use of and accountability for EBT cards with SNAP benefits issued for investigative purposes. Specifically:

- The USDA-FNS agreement required the Division to submit written requests to the USDA-FNS documenting the amount of EBT benefits requested, a description of the planned investigative activities (including dates and locations), and the LLEA that would be using the benefits. While Division management indicated that the Division sent written requests to the USDA-FNS for approval to investigate specific retail stores, the documentation provided by the Division did not appear to include the amount of EBT benefits requested or the planned investigative activity dates.

⁸ Prior to September 1, 2012, the Division had not provided any formal guidance to the LLEA regarding the return of issued cards.

⁹ As of the beginning of our audit field work in March 2013, no cards issued by the Division on or after the September 1, 2012, effective date of the guidelines were due to be returned.

- The USDA-FNS agreement specified that all cash and other property acquired with EBT benefits for investigations was the property of the United States Government and should be returned to the USDA-FNS. However, the agreement also provided that, upon meeting certain terms enumerated in the agreement, the SLEB was allowed to dispose of property acquired with EBT benefits through donation to nonprofit charities, destruction, or sale. Pursuant to terms contained in Division agreements with the LLEA during the period July 2011 through February 2013, if approved by the Division in advance, the LLEA could dispose of acquired property through charitable donation. However, in response to our audit inquiry, the Division was unable to provide records, such as receipts, to support the appropriate disposal of such property by the LLEA.
- The USDA-FNS agreement required the LLEA to submit reports to the Division documenting the usage of EBT benefits during the course of an investigation, including the date EBT benefits were used, the name of the agent who used the EBT benefits, the card number and total value of benefits used in each transaction, the amount of cash or a description of the consideration received in exchange for the EBT benefits, and the name of the person or entity who accepted EBT benefits in exchange for cash or other consideration. Our review of Division records disclosed that, while some of this information was available in AIMS, the name of the agent using the benefits, the name of the person or entity accepting the benefits for cash or other consideration, and a description of the cash or consideration received in exchange for benefits had not been provided to the Division by the LLEA.
- The USDA-FNS agreement required the Division to submit a written report to the USDA-FNS within 10 days upon discovery of the loss or theft of an EBT card. Our review of Division records disclosed that 20 EBT cards had been reported as lost or stolen by an LLEA during the period October 1, 2011, through February 28, 2013. In response to our audit inquiry, Division management indicated that the Division did not notify the USDA-FNS of all 20 cards. Additionally, the Division did not maintain documentation of the date the LLEA notified the Division of the loss or theft and, as a result, could not demonstrate that the lost or stolen EBT cards had been promptly deactivated and any remaining balance timely removed. According to the agreement, the Division is responsible for reimbursing the USDA-FNS for the value of any EBT card charges resulting from the failure to timely report a card as lost or stolen.

Absent compliance with all the terms and conditions of the agreement with the USDA-FNS, the Division cannot demonstrate that it properly performed its SLEB responsibilities and ensured accountability for SNAP benefits issued for investigative purposes.

Recommendation: We recommend that Division management take appropriate steps to ensure compliance with all the terms and conditions of the USDA-FNS agreement and that documentation to demonstrate the Division's compliance be maintained.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2013 through June 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the Division of Public Assistance Fraud (Division). The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Obtained an understanding of relevant legal requirements, including applicable laws, regulations, agreements, and contracts and the controls established by the Division to reasonably ensure compliance.
- Reviewed personnel files for the 42 Division investigators to determine whether the investigators possessed the required qualifications and had received appropriate training to facilitate the detection of potential fraud and the performance of investigations.
- Obtained an understanding of the Division's organization to evaluate the appropriateness of regional office staffing levels.
- Obtained an understanding of the receipt, review, investigation, and resolution processes for referrals of potential fraud and evaluated whether the Division had established appropriate fraud reporting mechanisms to meet referring agency needs.
- Analyzed AIMS data to determine whether referrals received during the period July 1, 2011, through January 31, 2013, were reviewed in a timely and consistent manner.

- Examined the records of 20 referrals maintained in AIMS and received from sources other than the DCF and the OEL during the period July 1, 2011, through January 31, 2013, to determine whether the referrals had been adequately tracked, reviewed, and resolved.
- Examined the records for 60 referrals rejected by the Division for insufficient evidence during the period July 1, 2011, through January 31, 2013, to determine whether the Division adequately documented the reason for rejecting the referrals.
- Analyzed Division data related to 2,789 cases forwarded to DOAH or the applicable SAO during the period July 1, 2011, through January 31, 2013, to identify any trends or similarities in the cases, such as the amount of overpayments.
- Compared referral records as submitted by the DCF and the OEL to the Division during the period July 1, 2011, through January 31, 2013, to the referral records recorded in AIMS for the same time period to determine the completeness of AIMS records. Selected and reviewed records for 35 referrals, including 30 submitted by the DCF and 5 submitted by the OEL, that were not recorded in AIMS and inquired of Division staff as to why each of the referrals was not in AIMS.
- Determined through inquiry with Division management whether the Division had established policies and procedures related to its investigative processes.
- Evaluated the efficiency of selected controls over the Division's processes for identifying and investigating potential fraud.
- Determined through inquiry with Division management whether the Division performed data analyses, including data mining, to identify potential public assistance fraud.
- Examined the records of 25 investigation case files closed during the period July 2011 through January 2013 to evaluate whether the investigations were properly completed and adequately documented prior to final disposition.
- Examined the Department's Long-Range Program Plans for the 2010-11, 2011-12, and 2012-13 fiscal years, to determine whether established performance measures adequately and accurately reflected the Division's investigations of potential public assistance fraud.
- Examined the records for 60 investigation case files closed during the period July 2011 through January 2013 to determine whether the Division followed good business practices for the investigation and management of public assistance fraud cases.
- Evaluated the Division's compliance with the SLEB agreement and the Division's performance related to its SLEB responsibilities by examining documentation of requests to the USDA-FNS for investigations, evidence of donations of acquired property, SNAP EBT card usage reports submitted to the USDA-FNS, and copies of reports to the USDA-FNS of the theft or loss of SNAP EBT cards.
- Determined through analysis and inquiry with Division management whether the Division had established policies and procedures to effectively ensure that SNAP EBT cards were used only for valid investigative purposes.
- Examined documentation for 80 SNAP EBT card expenditure transactions, totaling \$6,010, made during the period July 2011 through January 2013 to determine if purchases were made only at authorized locations and, if not, documentation was available to support the appropriateness of the cards' use for investigative purposes.
- Examined documentation for 21 SNAP EBT card expenditure transactions, associated with 5 EBT cards and totaling \$1,732, made during the period July 2011 through January 2013 to determine whether the purchases were adequately supported.
- Performed a physical inventory in April 2013 of 104 SNAP EBT cards in the Division's possession and compared the results with Division records to determine whether AIMS and other Division records accurately reflected the current information related to the cards.

- Selected 25 SNAP EBT cards observed during the physical inventory but not recorded on the Division’s spreadsheet to determine whether the cards were properly excluded from the Division’s list of cards with funded benefits during the period October 2011 through February 2013.
- Reviewed Division records for 20 SNAP EBT cards, including the records for 12 cards not involved in an active investigation, to determine whether the request, issuance, use, and, if applicable, return and disposal of the cards was adequately documented.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

In a response letter dated February 11, 2014, the Chief Financial Officer provided responses to our audit findings and recommendations. The letter is included as **EXHIBIT B**.

EXHIBIT A DIVISION REGIONAL OFFICES

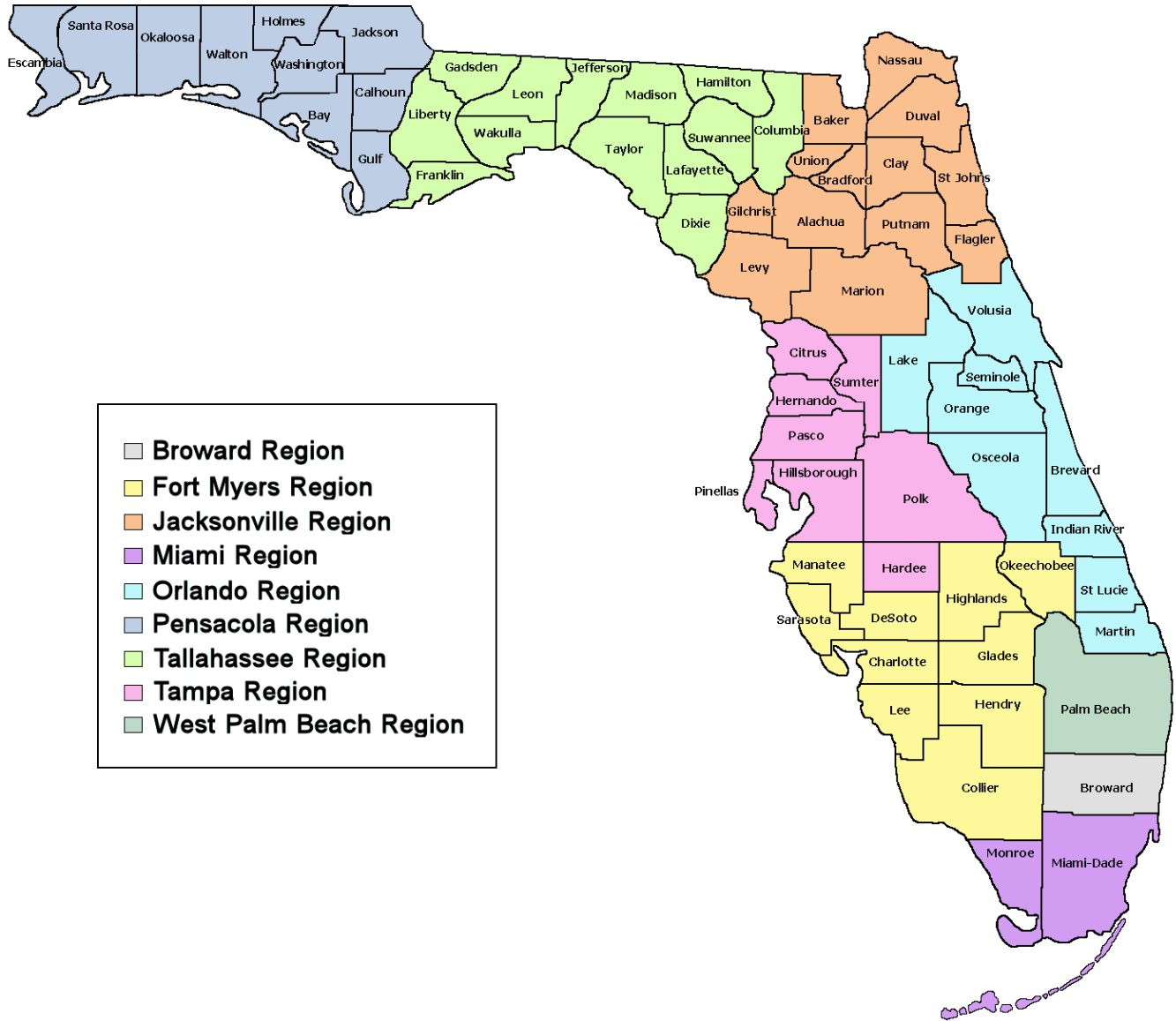


EXHIBIT B
MANAGEMENT'S RESPONSE



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

February 11, 2014

Mr. David W. Martin
Auditor General
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, the enclosed response is provided for the preliminary and tentative audit findings included in the Auditor General's operational audit of the *Department of Financial Services, Division of Public Assistance Fraud*.

If you have any questions concerning this response, please contact Teresa Michael, Interim Inspector General, at (850) 413-4970.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Atwater".

Jeff Atwater

JA:rlg

Enclosure

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 1: Division Policies and Procedures and Staffing

The Division had not established policies and procedures addressing the Division's operations and unique responsibilities or periodically analyzed its regional office investigative staffing needs. Additionally, the Division's investigative process could be enhanced by providing a staff training program specific to public assistance fraud investigations and by engaging individuals with training and experience in complex financial data analysis.

Recommendation:

We recommend that Division management establish policies and procedures that adequately address its operations and unique responsibilities and periodically analyze its regional office investigative staffing needs and, as appropriate, reassign staff. In addition, to enhance the Division's investigative process, we recommend that the Division provide a training program specific to public assistance fraud investigations and consider engaging individuals with training and experience in complex financial data analysis.

Response: Concur.

TRAINING: The Division training program has been developed through the efforts of the repurposed supervisor position designated as Chief of PAF Operations. A Division training directive was issued on October 18, 2013 mandating a minimum of 20 hours of annual in-service training for investigative staff; 8 hours of skill enhancement training annually for administrative staff; 24 hours of training for first-year Financial Crime Investigators; and 8 hours of leadership and management training for supervisors.

PROCEDURES: The Division's Investigations and Operational Procedures Manual is currently being rewritten using repurposed manpower and is about 75% complete. In advance of its completion, Technical Bulletins were posted to standardize specific investigative activities across the state. These bulletins are sent via email to all Division staff and then posted to the Division's SharePoint site.

DIVISION POLICIES: The Division updated certain policies and those policies have been approved by DFS management. The policies will be posted on the Division's SharePoint site before the end of the second quarter of calendar year 2014. Additional policies will be developed, staffed for approval and added to the SharePoint site as needed.

STAFFING QUALIFICATIONS: Public assistance fraud investigations referred to the Division seldom involve a complex scheme or require a financial analysis. Division management is skeptical that individuals with the recommended advanced technical skills or degrees would apply for a position offering an \$11.82 hourly wage. However, on future vacancy announcements, these will be listed as desired skills for recruitment.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

STAFFING ANALYSIS: Whenever a vacancy occurs within the Division, an analysis of need is done. When determining where best to employ our limited resources, many data elements are considered such as current trends, recipient populations, suspected fraud reporting, span of control, coverage density, and availability of infrastructure to support new investigative resources.

The Division will document the basis of our staff allocation annually.

Expected Completion Date for Corrective Action: December 31, 2014

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

Finding No. 2: Referral Data Input Controls

The Division had not established controls to ensure that referral data was completely, accurately, and timely recorded in the Automated Investigation Management System (AIMS) used by the Division to track and review referrals of potential public assistance fraud.

Recommendation:

We recommend that Division management establish effective data input controls to ensure that referral data is completely, accurately, and timely recorded in AIMS. Such controls should include documented procedures for the periodic reconciliation of referrals submitted by the DCF and the OEL to those recorded in AIMS and for the comparison of source documents to manual input processing.

Response: Concur.

Procedures will be developed in conjunction with the Department's Division of Information Systems (DIS) and our partner agencies with which we receive and transmit referral data. Those procedures will be implemented to address the recommendation.

Written procedures were developed concerning documenting citizen or other agency complaints. These procedures are included within the Division's Investigations and Operational Procedures Manual that is being updated as noted in the response to Finding No. 1.

Expected Completion Date for Corrective Action: December 31, 2014

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

Finding No. 3: Processing of Referrals

The Division's processes for the review and disposition of referrals of potential public assistance fraud need improvement to ensure that all referrals are properly considered for investigation.

Recommendation:

We recommend that Division management strengthen Division practices for processing referrals to ensure that referrals of potential fraud are properly considered for investigation. Specifically, Division management should:

- Establish criteria, including a minimum overpayment amount, for IM use in determining whether a fraud referral should be investigated or rejected.
- Develop and communicate to referring agencies guidelines outlining the information required to be submitted for each referral and how an agency can resubmit a rejected referral.
- Modify AIMS to provide more detailed reason codes for rejecting referrals, including a code to indicate when a referral is rejected due to Division workload issues, and generate reports that would allow for the calculation of the average cost of a fraud investigation.
- Establish automated controls in AIMS to facilitate the identification of missing referral information and when the statute of limitations applies.

Response: Concur.

ESTABLISHMENT OF REFERRAL EVALUATION CRITERIA: The Division is implementing a structured review process called Pro-ACT, a quarterly in-depth review of critical performance data to identify the most productive practices in the State. Management believes this program will improve our performance and our 888% average return on investment this year. Data culled for Pro-ACT will be used to develop evaluation criteria for referrals that help managers select the largest potential dollars per investigation. That should result in an increase in the over the \$12.58 million dollars of fraud the Division identified for recovery in calendar year 2013 and reinforce the practice of assigning the largest potential cases for investigation first.

REFERRAL INFORMATION AND REVIEW PROCESS: Where lacking, additional criteria will be documented in writing and provided to the agencies, with additional criteria to be included in Memoranda of Agreement at renewal. We have ongoing exchanges with the Department of Children and Families (DCF) and Office of Early Learning (OEL) to refine the referral criteria. These exchanges occur almost daily with DCF and every few weeks with OEL. They are in the form of telephone conversations, monthly meetings, and written communications to constantly refine the referral and review processes.

MODIFYING AIMS: We are currently in the process of updating and expanding the codes used in AIMS when screening out a suspected fraud allegation. New codes must be developed by contract information technology programmers and written into the AIM program as an enhancement. As part of the enhancement schedule, we will include the need to better identify

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

to referring agencies what referral information is missing. The ability to do that with DPAF staff resources does not currently exist.

Expected Completion Date for Corrective Action: December 31, 2014

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

Finding No. 4: Investigative Process

The Division's investigative process needs enhancement. Specifically, the Division needs to employ data analysis tools and techniques and establish procedures and AIMS edit controls to ensure that appropriate documentation is maintained in the investigation files. Such documentation should include justification to support the termination of investigations and the closing of cases, especially when cases are closed due solely to Division manpower or workload issues.

Recommendation:

We recommend that Division management enhance the Division's investigative process by employing appropriate data analysis tools and techniques and establishing procedures and AIMS edit controls to ensure that appropriate documentation is maintained in the investigation files. Such documentation should include justification to support the termination of investigations and the closing of cases, especially when cases are closed due solely to Division manpower or workload issues. We also recommend that Division management reevaluate the practice of closing investigations due solely to workload issues.

Response: Concur.

DATA ANALYSIS: Division management welcomes any opportunity to enhance its investigative process. Currently, however, the Division lacks the staff resources to perform this function and implementing it would require reclassifying an occupied administrative position that is not qualified to perform data analyses. Until such time that reclassifying an administrative position becomes feasible, management will seek an alternative solution to this recommendation.

AIMS FRAUD INVESTIGATION INFORMATION. The procedures for the Division are being updated and the mandatory information for case completion in AIMS will be identified in our Investigations and Operational Procedures Manual. Coordination will be made with DIS programmers to determine the edits needed to prevent cases from being closed without a summary report.

TERMINATION OF FRAUD INVESTIGATIONS: Only supervisors can close a case in AIMS. When pending assignments exceed a level that can be completed by authorized staff resources, managers are directed to reduce their pending assignments, most always beginning with the oldest cases on hand. Terminating these assignments in a timely manner allows DCF to compute claims and improves their ability to collect over-issued benefit amounts. Division management will continue to work with DCF to refine referral criteria to reduce instances of assignments terminated due to workload issues.

Expected Completion Date for Corrective Action: December 31, 2014

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

Finding No. 5: Accounting for EBT Cards

The Division had not established appropriate controls to ensure that Supplemental Nutrition Assistance Program (SNAP) Electronic Benefits Transfer (EBT) cards were properly accounted for and used only for valid investigative purposes.

Recommendation:

We recommend that Division management establish appropriate controls over the SNAP EBT cards. Such controls should include, but not be limited to, an appropriate separation of duties for EBT card activities, periodic inventories of EBT cards, monitoring of EBT card usage, and appropriate documentation to support EBT card return and disposal.

Response: Concur.

SEPARATION OF DUTIES: The deficiency in this area was corrected. Three different parties have three separate duties: create, fund and handle/store.

MONITORING EBT CARD ACTIVITY: This deficiency will be corrected as a new State Law Enforcement Bureau (SLEB) Assistant Coordinator is established. Until the position is filled, the monitoring will be done quarterly. Once the new assistant is in place, monitoring will occur monthly. All monitoring will be documented.

PERIODIC INVENTORY OF EBT CARDS: EBT cards (now in the custody of the third party that handles/stores returned cards) will be inventoried quarterly as part of the Division's Line Inspection program that was implemented on January 1, 2014.

DISPOSAL OF RETURNED CARDS: New procedures will be established for the operation of the SLEB program that requires cards to be destroyed upon return from a Local Law Enforcement Agency (LLEA). The disposal will be witnessed by an impartial person outside of the Division and documented.

Expected Completion Date for Corrective Action: September 30, 2014

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

DEPARTMENT OF FINANCIAL SERVICES
DIVISION OF PUBLIC ASSISTANCE FRAUD
OPERATIONAL AUDIT

Finding No. 6: USDA-FNS SLEB Agreement

The Division did not comply with certain terms and conditions set forth in the United States Department of Agriculture (USDA) Food and Nutrition Service (FNS) agreement authorizing the Division to acquire SNAP EBT benefits for investigative purposes.

Recommendation:

We recommend that Division management take appropriate steps to ensure compliance with all the terms and conditions of the USDA-FNS agreement and that documentation to demonstrate the Division's compliance be maintained.

Response: Concur.

The Division will continue meeting the specified requirements and expectations of the FNS in the execution of its responsibilities as the SLEB. Division management will also continue to work with and encourage the USDA-FNS to update the SLEB Agreement consistent with its current program expectations and documentation requirements.

Expected Completion Date for Corrective Action: April 30, 2014