



## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

Date: March 17, 2009

To: Representative Marty Seifert

From: Jim Nobles  
Legislative Auditor

Cecile Ferkul, CPA, CISA  
Deputy Legislative Auditor  
Financial Audit Division

Subject: Electronic Public Assistance Benefits Used Outside of Minnesota

In August 2008, you raised concerns about the use of public assistance electronic benefit cards outside the state of Minnesota. You suggested that their use outside the state to obtain food and cash assistance might indicate misuse of public funds and requested that the Office of the Legislative Auditor (OLA) address the issue.

We agreed to incorporate your concerns into our next regularly scheduled audit of the state's administration of federal funds, which includes programs that provide food and cash assistance to eligible participants. That audit has been completed, and audit reports will be issued on March 26, 2009. Since the report on public assistance programs<sup>1</sup> will not contain a finding on out-of-state electronic transactions, we are reporting the results of our review in this memorandum.

### Background

In fiscal year 2008, the Minnesota Department of Human Services used its electronic benefit system to deliver all food assistance<sup>2</sup> and approximately 79 percent of cash assistance to recipients. The electronic benefit system allows program recipients to access their food and cash assistance through a department-issued debit card.

County human service offices review the initial application and determine eligibility for the state's public assistance programs. Counties verify eligibility for food and cash assistance programs based on a number of elements, including a recipient's income, assets, existing expenses, housing status, number of dependants, documentation of children's school

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<sup>1</sup> Office of the Legislative Auditor's Financial Audit Division Report 09-10, *Department of Human Services*, issued March 26, 2009.

<sup>2</sup> Previously known as the Food Stamp Program; as of October 2008, it is now called the Supplemental Nutrition Assistance Program (SNAP).

attendance, criminal record, citizenship status, and intention to remain a permanent resident of Minnesota. Counties regularly monitor recipients' ongoing eligibility.

Table 1 shows the amounts of electronic benefits used for food and cash assistance programs for fiscal year 2008.

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Table 1  
 Electronic Benefits  
 Fiscal Year 2008

<u>Program</u>	<u>Total Electronic Benefits</u>	<u>Electronic Benefits used in Minnesota</u>	<u>Electronic Benefits used Out-of-State</u>
Food Assistance	\$316,193,593	\$308,910,150	\$ 7,283,443
Cash Assistance	<u>182,350,964</u>	<u>179,382,164</u>	<u>2,968,800</u>
Totals	<u>\$498,544,557</u>	<u>\$488,292,314</u>	<u>\$10,252,243</u>

Source: Data obtained from the Department of Human Services through its Transition Support Services' Issuance Administration Supervisor.

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Table 2 provides more information about where recipients used out-of-state electronic benefits in fiscal year 2008.

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Table 2  
 Electronic Benefits used Out-of-State  
 By State  
 Fiscal Year 2008

<u>State</u>	<u>Food Assistance Electronic Benefits</u>	<u>Cash Assistance Electronic Benefits</u>	<u>Total Electronic Benefits used Out-of-State</u>
Wisconsin	\$1,859,883	\$611,896	\$2,471,779
North Dakota	1,710,046	562,409	2,272,455
Illinois	821,158	495,637	1,316,795
South Dakota	404,634	120,145	524,779
Iowa	384,944	113,185	498,129
Other States	<u>2,102,778</u>	<u>1,065,528</u>	<u>3,168,306</u>
Total Out-of-State Electronic Benefits	<u>\$7,283,443</u>	<u>\$2,968,800</u>	<u>\$10,252,243</u>

Source: Data obtained from the Department of Human Services through its Transition Support Services' Issuance Administration Supervisor.

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The federal government fully funds the \$7,283,442 paid for food assistance benefits used outside the state. The federal government's share of funding for electronic benefits provided to

recipients for cash assistance programs varies by program. The department estimates that the state funded about \$1.2 million, or about 40 percent, of the out-of-state cash assistance benefits paid in fiscal year 2008.

## **Objective, Scope, and Methodology**

We designed our review to answer the following questions:

1. Do federal requirements, state statutes, or policies prohibit a recipient from using electronic benefits outside of the state?
2. Did a recipient's use of electronic benefits outside of the state indicate an increased risk of fraud?
3. What internal controls has the Department of Human Services established to prevent and/or detect fraudulent electronic benefit usage outside of the state?

To answer these questions, we reviewed applicable federal regulations and Minnesota statutes. We interviewed staff in the following divisions of the Department of Human Services: Fraud Prevention Control and Treasury Offset, County Operations Reviews and Program Integrity, Minnesota Family Investment Program/Policy Section, and the Transition Support Systems Division. We also conducted interviews with fraud prevention and investigation staff at Hennepin, Ramsey, and Sibley counties.

Our review examined electronic benefits provided during fiscal year 2008 and the department's internal controls at the time of our audit fieldwork. We completed our fieldwork in February 2009.

## **Conclusions**

For the questions addressed in the review, we reached the following conclusions:

1. Federal and state laws and regulations do not restrict a recipient of public assistance from using those benefits outside of the state. In addition, the Food Stamp Act of 1977 (as amended) requires that recipients be able to use food assistance in any state, regardless of the state of issuance.<sup>3</sup> The federal government tracks the use of food assistance through a national database, reducing the risk of recipients receiving double benefits.
2. Use of cash assistance outside of the state may indicate that the recipient is no longer a resident and is fraudulently obtaining benefits. State statute requires that a recipient of

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<sup>3</sup> Food Stamp Act of 1977, Section 7 (k).

federal or state cash assistance programs must meet a 30-day residency requirement<sup>4</sup> and intend to remain in Minnesota.

3. The Minnesota Department of Human Services and the counties have established the following internal controls over electronic public assistance benefit payments, including those used outside the state:
  - County human service financial workers and fraud investigators use two reports created by the Department of Human Services' Program Assessment and Integrity Division to identify and monitor recipients' out-of-state use of electronic benefits. A monthly report shows all out-of-state electronic benefit transactions for recipients for each county. The second report identifies benefit recipients who have had three consecutive months of out-of-state electronic benefit transactions. Generally, the counties perform detailed transaction monitoring on a case-by-case basis.
  - County fraud investigators generally use the second report as a starting point for an investigation to determine whether the recipient had not maintained a Minnesota residency, a likely indicator of fraud. The county fraud investigators typically perform inquiries and follow-up activities that include consultation with a recipient's case worker, contacting landlords, neighbors, or family members of the benefit recipient, and requesting residency confirmation letters. These investigations sometimes result in a termination of benefits due to nonresidency, but often the recipient is able to provide evidence to support the out-of-state use, such as visiting a relative.
  - The Department of Human Services primarily monitors recipients' use of food and cash assistance payments through its Program Assessment and Integrity Division. This division provides training and administrative oversight to county fraud investigation programs. The department also monitors the performance of the county fraud investigators by periodically summarizing their fraud investigation activity. Reports generated by this analysis identify the benefit program, the type of fraud activity (an out-of-state use of electronic benefits would indicate a possible residence-related fraud), the county attorney's activities, and the case outcomes (including number of convictions by benefit program, fraud activity, and fraud amounts).
  - Recently, for six months in fiscal year 2008, the department monitored county use of the report that identifies recipients who used electronic benefits out-of-state for three consecutive months. The department found that counties accessed the report over 2,000 times.

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<sup>4</sup> *Minnesota Statutes* 2008, 256D.02, General Assistance Residency Requirement; *Minnesota Statutes* 2008, 256J.12, MN Family Investment Program Residency Requirement.

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- The department also maintains a fraud information hotline. The department's Program Assessment and Integrity Division reviews the calls and refers them to the county fraud investigators for investigation.

Finally, the department has proposed the following improvements in its monitoring of electronic benefit usage:

- The department included in its 2010/2011 budget request a proposal to reorganize the fraud investigation responsibilities. The department believes that by reorganizing investigations from county control to direct state control, they can increase the average number of completed investigations each month from 17 to 28 per investigator.
- The department included in its 2010/2011 budget request a proposal to allow it to comply with a federal mandate to provide data about benefit recipients to the Public Assistance Reporting Information System. Similar to the existing federal database for the food assistance program, this system will allow all states to reduce the opportunity for a fraudulent recipient to obtain benefits from more than one state. Federal law<sup>5</sup> requires that by October 1, 2009, states use this system when determining Medical Assistance eligibility as a condition to receiving federal matching funds. The system will provide data matching and information exchange for recipients of food assistance, Temporary Assistance for Needy Families (cash benefits), and Medical Assistance benefits between states to reduce the risk of individuals receiving double benefits.

Please let us know if we can be of further assistance.

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<sup>5</sup> Qualifying Program Supplemental Funding Act of 2008 (P.L. 110-379).