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Office of Inspector General







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Office of Inspector General  
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AUDIT  
NUMBER: 27002-0001-DA

TO: Audrey Rowe  
Administrator  
Food and Nutrition Service

ATTN: Mark Porter  
Acting Director  
Office of Internal Control, Audits and Investigations

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Analysis of Supplemental Nutrition Assistance Program (SNAP)  
Anti-Fraud Locator EBT Retailer Transactions (ALERT) Database

The report presents the results of our audit of the Anti-Fraud Locator EBT (electronic benefits transfer) Retailer Transactions (ALERT) database. The response from the Food and Nutrition Service (FNS) is included in its entirety in an exhibit in this report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

Attachment

cc: (w/attachment)  
Director, Planning and Accountability Division, OCFO



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# **Analysis of Supplemental Nutrition Assistance Program ALERT Database – 27002-0001-DA**

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## **Executive Summary**

In order to fulfill the Department of Agriculture’s mission to form a national safety net against hunger, the Supplemental Nutrition Assistance Program (SNAP), formerly called the Food Stamp Program, provides monthly food assistance and nutrition for low-income individuals. The Food and Nutrition Service (FNS) administers SNAP through a Federal-State partnership in which the Federal Government pays the full cost of recipient benefits and shares the cost of administering the program with the States. To search for signs of fraud, waste, and abuse within the program, FNS tracks SNAP recipient transactions, or electronic benefits transfer (EBT) transactions, using the Anti-Fraud Locator EBT Retailer Transactions (ALERT) system. In order to determine which States might be at high-risk for fraud, we requested complete EBT transaction files used to populate FNS’ ALERT system for all 53 States and territories from August 2009 to April 2011. When we received the files, we found that while most files were present, they were incomplete and disorganized.

Specifically, of the 19,345 files from 53 States and territories, FNS was unaware that 75 files from 18 States were missing. We also found duplicate files, and different files with the same names. This occurred because although FNS backs up its EBT transaction files regularly, the agency did not have processes in place to check for missing data or to consistently manage multiple versions of files. Because of this, gathering all the files took almost three months. After working with FNS, we noted that FNS has already begun to address weaknesses in its archival process; with strengthened controls, FNS can further improve its backup data management. FNS’ archive files are used to repopulate the ALERT database in emergency situations and are used for investigation and audit purposes; it is therefore crucial that the data they contain are accessible at all times.

## **Recommendation Summary**

In this report, we issued two recommendations to strengthen controls. We recommended that FNS establish documented procedures to comprehensively check for missing files prior to archival, and establish standard naming and organization conventions to differentiate the most recent and accurate data.

## **Agency Response**

FNS concurs with the recommendations and has begun taking steps to strengthen system controls. By June 30, 2012, FNS plans to complete ALERT system redesigns, system upgrades, data storage and archival processes documentation, and establish a process for standardized file naming.

## **OIG Position**

We concur with the agency's response and have reached management decision for the two recommendations in this report.

# Background & Objectives

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## Background

In order to fulfill the Department of Agriculture’s mission to provide a national safety net against hunger, the Supplemental Nutrition Assistance Program (SNAP), formerly called the Food Stamp Program, provides monthly food assistance and nutrition for low-income individuals. SNAP helps low-income families buy nutritious foods by providing them with benefits that can be redeemed at FNS-authorized stores.<sup>1</sup> The Food and Nutrition Service (FNS) administers SNAP through a Federal-State partnership in which the Federal Government pays the full cost of recipient benefits and shares the cost of administering the program with the States.

FNS replaced paper benefits with EBT cards, which recipients use like bank cards to purchase food. Each State hires a contractor, or EBT processor, to process and store EBT transactions. Each time an EBT card is used, EBT processors store transactional data within their system. Before authorizing a transaction, the EBT processor’s system verifies that benefits are available and deducts the benefits from the recipient’s account for each completed transaction.

In order to ensure that critical fraud-detection data are reliable and available, Federal regulation requires that State agencies maintain issuance, inventory, reconciliation, and other accountability records for a period of 3 years, though this period may be extended at the written request of FNS.<sup>2</sup> The State often delegates this responsibility to the EBT processors. EBT processors store transaction information—such as the store’s identification number, the store’s location, and sales data—in EBT transaction files and transfer them to FNS on a monthly basis.<sup>3</sup> FNS then inputs these files into ALERT and archives the files to DVDs monthly.

ALERT includes processes that are used to analyze EBT transactions contained in the EBT transaction files to uncover patterns indicative of fraud—such as high volumes of transactions in a short period of time. These processes are executed for each State. Once ALERT has searched each store for these patterns, ALERT assigns each store a score which reflects the likelihood that the store is engaged in fraud, with those stores showing suspicious patterns ranking highest. FNS officials consider ALERT to be a highly valuable tool for identifying potential retailer fraud. FNS, State agencies, the Office of Inspector General (OIG), and other entities use ALERT to identify potentially fraudulent activities committed by retailers and recipients.

## Objectives

We conducted this audit to review FNS’ management of SNAP EBT transaction files and to determine if the SNAP EBT transaction files obtained from FNS were complete.

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<sup>1</sup> “Stores” and “retailers” include grocery stores, supermarkets, meal services, farmer’s markets, etc. Although we use the terms “store” and “retailer” in this report, we extend this term to other types of organizations, such as wholesalers, meal services, and group living arrangements. As stated in 7 CFR § 278.1(a), FNS approves retailers and stores for SNAP participation.

<sup>2</sup> 7 C.F.R. §272.1(f)

<sup>3</sup> 7 C.F.R. §274.4 (b)(2)

## **Section 1: ALERT File Control Management Needs Strengthening**

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### **Finding 1: FNS needs documented procedures for its file control management**

We found that while FNS' data archival management system is largely successful in storing data files, files were occasionally missing, and were generally incomplete and disorganized. When working with FNS to resolve this issue, we found that FNS had not implemented a system to check that all files were available during archival or to effectively manage duplicate files or file names. Because FNS staff was unable to consistently organize, manage, or backup EBT files, when we requested a full set of EBT transaction files from FNS, it took the agency nearly three months to provide us with complete records. Quick, reliable access to archival files is necessary should the ALERT system go down, or in cases of audits or investigations, when the data become critical in the search for fraud, waste, and abuse.

Under Office of Management and Budget (OMB) A-123, Federal agencies are required to have a clear, organized strategy with well-defined documentation processes that contain an audit trail and verifiable results, and specify document retention periods.<sup>4</sup> Additional controls, such as checks, should be designed to ensure that transactions are properly authorized and processed accurately, and that the data are valid and complete. To ensure secure, reliable records, FNS' internal policy states that the agency will archive files received from EBT processors onto DVDs and place them in an on-site file cabinet.<sup>5</sup> The National Institute of Standards and Technology (NIST) also states that information system security policies should generally include organizational standards that specify uniform procedures and ensure the availability of resources through recovery and backups.<sup>6</sup>

We found that though FNS archived EBT transaction files at the required intervals, not all files were located on the DVDs. For instance, when we requested the complete set of files for the year—19,345 files from 53 States and territories—FNS was unaware that 75 files from 18 States were not provided. FNS was able to provide 56 of the missing 75 files but was unable to locate the remaining 19 files. OIG acknowledges that this is a low error rate; however, we also noted that FNS could further improve its archival process by taking two relatively simple steps—performing manual checks to identify missing files and formalizing its naming and organization conventions.

We found that the primary cause of missing files is that FNS' data management system does not inform FNS of all missing files prior to archival and does not take additional measures, such as manually verifying that all files are present. We found that manual checks remedy this problem. During three months of repeated OIG requests and manual checks, FNS showed continual progress and was ultimately able to provide OIG with a complete set of EBT transaction files. Independent of our review, FNS has taken steps to address additional backup issues. Recently,

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<sup>4</sup> OMB Circular A-123, Management's Responsibility for Internal Control, December 2004, Section I.A.

<sup>5</sup> System Security Plan for Anti-Fraud Locator using EBT Retailer Transaction (ALERT) Application, March 9, 2011.

<sup>6</sup> NIST Special Publication 800-42, Guideline on Network Security Testing, October 2003, Section 3.11.

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FNS purchased a large external hard drive for easy access to files for future data requests and automated various manual processes to reduce human error. We encourage FNS to also develop guidance for staff to check that all EBT transaction files are archived.

As we collected files, we determined that FNS' archival process could also be improved with the adoption of uniform naming conventions and organization standards. For example, FNS seemed unfamiliar with its backup organization system; for instance, FNS stated that it found missing files in a short-term backup system that had previously been unknown to them.<sup>7</sup> We also found files from multiple States and days with the same name and size, but different creation dates. We also noted that there were several files with incorrect or misleading names, making it difficult to determine which files contained the correct information. This occurred because FNS does not have a system—such as standard naming conventions or a specified location to store the correct files—to differentiate the most recent and accurate data. While such an organization system or standards is not required, we believe that implementing a standard organization would help FNS ensure data integrity and maintain auditable records.

Once we identified these issues, we worked with FNS officials to formulate a plan to resolve them. FNS agreed to document and modify its processes to ensure the integrity of its files, and stated that our file request helped the agency discover internal control areas needing improvement. OIG acknowledges that FNS has already taken important steps towards eliminating these problems, and recommends that the agency take the following additional steps to complete the process.

## **Recommendation 1**

Establish a documented procedure to comprehensively check for missing files prior to archival.

## **Agency Response**

FNS concurred with this recommendation and plans to eliminate the identified problems by June 30, 2012. FNS will complete ALERT system redesigns, which include system upgrades and data storage and archival processes documentation.

## **OIG Position**

We concur with the agency's response for the recommendation and have reached management decision.

## **Recommendation 2**

Establish standard naming and organization conventions to differentiate the most recent and accurate data.

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<sup>7</sup> The system short term backup is kept for a limited timeframe and should not be relied on as a primary backup.

## **Agency Response**

FNS concurred with this recommendation. FNS will develop standard file naming conventions for the ALERT file archiving process and improve EBT file management documentation during the redesign of the ALERT system. FNS will complete the ALERT system redesign by June 30, 2012.

## **OIG Position**

We concur with the agency's response for the recommendation and have reached management decision.

## Scope and Methodology

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Our review focused on obtaining all EBT transaction files used to populate ALERT from all 53 States and territories so we could analyze SNAP database data for anomalies and signs of fraud, waste, and abuse. We conducted fieldwork at the FNS national office located in Alexandria, Virginia, from June 2010 through July 2011.

We selected the timeframe of August 1, 2009 to July 31, 2010 because, at the time of our audit, it was the latest full year of information available. Because we had concerns regarding FNS' management of EBT transaction files, we expanded our scope to April 2011. To obtain and evaluate all EBT transaction files we:

- Reviewed public laws, FNS regulations, policies, procedures, and other controls governing the administration of data used to populate ALERT;
- Reviewed reports that resulted from reviews relative to SNAP, Federal Manager's Financial Integrity Report for fiscal year 2010, and Government Accountability Office reports;
- Analyzed records, reports, correspondence, and other documents pertinent to ALERT; and
- Interviewed officials from the FNS National office to identify controls for administering ALERT and assess overall management of EBT transaction files.

We conducted this review 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.

## Abbreviations

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ALERT .....	Anti-Fraud Locator EBT Retailer Transactions
EBT .....	electronic benefits transfer
FNS .....	Food and Nutrition Service
NIST .....	National Institute of Standards and Technology
OMB .....	Office of Management and Budget
OIG .....	Office of Inspector General
SNAP .....	Supplemental Nutrition Assistance Program
USDA.....	Department of Agriculture

**USDA'S  
FOOD AND NUTRITION SERVICE'S  
RESPONSE TO AUDIT REPORT**



**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

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DATE: November 3, 2011

AUDIT  
NUMBER: 27002-01-DA

TO: Gil H. Harden  
Assistant Inspector General for Audit

FROM: Audrey Rowe /S/  
Administrator  
Food and Nutrition Service

SUBJECT: Analysis of Supplemental Nutrition Assistance Program ALERT Database

This letter responds to the official draft report for audit report number 27002-01-DA, Analysis of Supplemental Nutrition Assistance Program ALERT Database. Specifically, the Food and Nutrition Service (FNS) is responding to the two recommendations within the report.

**OIG Recommendation 1:**

Establish a documented procedure to comprehensively check for missing files prior to archival.

**Food and Nutrition Service Response:**

FNS concurs with the stated recommendation and has already begun taking the necessary steps to eliminate the problems noted in the report. FNS is currently redesigning the ALERT system, which includes upgrades and documentation of the data storage and archival processes. This recommendation will be addressed with the delivery of the ALERT system, currently scheduled for June 2012.

**Estimated Completion Date: June 30, 2012**

**OIG Recommendation 2:**

Establish standard naming and organization conventions to differentiate the most recent and accurate data.

**Food and Nutrition Service Response:**

FNS concurs with the stated recommendation and will continue the work already done towards developing a standard naming convention, process for archiving ALERT files and

will also improve how our file management system is documented. This recommendation will be addressed with the delivery of the ALERT system, currently scheduled for June 2012.

**Estimated Completion Date: June 30, 2012**

Informational copies of this report have been distributed to:

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