



Thomas A. Schweich  
Missouri State Auditor

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## SOCIAL SERVICES

# Temporary Assistance for Needy Families Electronic Benefit Transfers

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December 2013  
Report No. 2013-143



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<http://auditor.mo.gov>



**Thomas A. Schweich**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Department of Social Services, Temporary Assistance for Needy Families, Electronic Benefits Transfers

### Background

The Temporary Assistance for Needy Families (TANF) program is a federal and state program to provide assistance to financially needy families with children. Approximately 40,000 Missouri households receive monthly TANF benefits, and more than 30,000 of these households also receive monthly Supplemental Nutrition Assistance Program (SNAP) benefits, also known as food stamps. Most recipients receive TANF and SNAP benefits directly on an electronic benefits transfer (EBT) card. With the EBT card, recipients can access TANF benefits by purchasing items via a point of sale (POS) terminal or by withdrawing cash at automated teller machines (ATM) or POS terminals. The EBT vendor does not charge for the first ATM withdrawal of the month but charges TANF recipients \$.85 per each subsequent ATM withdrawal that month and \$.85 per POS cash withdrawal only transaction. There are no restrictions in the state or federal regulations or statutes limiting the geographical use of TANF benefits, and the Department of Social Services (DSS) notes that there are many possible reasons a household may be using benefits in another state. The new federal Welfare Integrity and Data Improvement Act requires states, by February 22, 2014, to maintain practices and policies that prevent TANF assistance from being used in any EBT transaction at any liquor store, casino, gaming establishment or other inappropriate venues. States failing to meet this deadline could have their TANF block grants decreased by up to 5 percent. Since 1998, the Missouri Gaming Commission, at the request of DSS, has required Missouri casinos to block ATMs in their casinos from accepting EBT cards. In February 2013, the DSS - Family Support Division (FSD) notified TANF recipients of the new law and defined purchases of the following to be misuse of benefits: alcohol/liquor, tobacco items, lottery tickets, illegal drugs, controlled drugs without a valid prescription, and usages at adult-oriented entertainment businesses. In May 2013, the General Assembly passed legislation implementing the new federal law. State law restricts using public assistance benefits and EBT cards in locations marketed to adults, prohibits merchants from accepting TANF benefits for the purchase of alcoholic beverages, lottery tickets, or tobacco products, requires the DSS to establish and maintain a toll-free complaint line, and directs the DSS to study analytical modeling-based methods of detecting fraud and report to the General Assembly and governor by December 1, 2013.

### Inappropriate EBT Transactions

EBT transactions at out-of-state locations totaled \$3,383,989 from about 9,300 cases during the year ended June 30, 2012. We identified 366 cases for which some or all of the TANF benefits were accessed exclusively out-of-state over periods exceeding 90 days, with transactions totaling about \$461,000. Extended out-of-state usage could indicate the recipient no longer maintains a Missouri residence. About 68 percent of all out-of-state transactions occurred in bordering states, many of them in cities near the Missouri border. We identified 107 cases with only bordering state

transactions, totaling \$147,000, occurring over a period more than 90 days. We noted 249 cases, totaling \$302,000, with EBT transactions occurring exclusively at locations in non-bordering states for more than 90 consecutive days. For 67 of the 249 cases, the duration of the consecutive transactions, totaling nearly \$129,000, was 180 days or more. One case accessed benefits totaling \$4,276 over a 274 day period in Texas, one case accessed benefits totaling \$1,972 over 338 days in California, and one case accessed benefits totaling \$1,191 over 153 days in the Virgin Islands. Our analysis also identified 1,615 cases, with transactions totaling \$261,055, at locations with names suggesting the merchant may sell products or services (liquor, tobacco, gambling, etc.) that would, under new state and federal restrictions, be inappropriate locations to access TANF benefits.

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DSS Review of EBT Transactions

The FSD and DSS-Division of Legal Services (DLS) began an investigation in September 2012 for inappropriate out-of-state transactions using records of TANF EBT transactions during the year ended June 30, 2012. The DSS identified 1,300 cases (of 9,300 that had at least one out-of-state transaction), with about 10,000 transactions, for further review. As of April 30, 2013, of the 1,300 cases referred, the FSD indicated (i) 12 cases closed as a result of the investigation and 154 cases closed for failure of the recipient to provide information, (ii) establishment of claims for overpayment for 19 cases, totaling \$25,200, with establishment of claims for another 52 cases in progress, (iii) reviews not yet completed for 147 cases, and (iv) no claim or case closure needed on 916 cases. The EBT vendor makes various monthly reports available to the DSS, but DLS and FSD officials said that those reports could not be effectively used to identify inappropriate transactions. In January 2013, the DSS began meeting with the EBT vendor to discuss possible changes to the reporting process to provide the DSS with data better suited for detecting inappropriate transactions.

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Efforts to Restrict TANF Access

As of June 2013, the DSS had initiated limited merchant awareness activities regarding the new requirements prohibiting certain usages of TANF benefits. As of June 2012, other states had laws restricting the usage of TANF benefits. For example, five states prohibit TANF cash from being used for certain items like alcohol, seven states have disabled TANF EBT access at ATMs and/or POS terminals at certain businesses like casinos, and two states prohibit merchants from accepting TANF EBT cards for certain items like alcohol or by prohibiting non-SNAP authorized businesses to participate in the TANF EBT program. A GAO report noted significant challenges to enforcing restrictions on TANF access, including: (i) transaction data lacks a code identifying the nature of the retailer's business, (ii) some POS terminals have common identification numbers so blocking one may block others too, (iii) blocking EBT transactions requires removing the state's Bank Identification Number from each individual ATM, (iv) information about transaction locations is often incomplete and inaccurate, and (v) tracking what individuals buy with TANF benefits either by EBT transactions at POS terminals or with cash withdrawn from POS terminals or ATMs is difficult.

Because of the limited objective of this review, no overall rating is provided.

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# Department of Social Services

## Temporary Assistance for Needy Families - Electronic Benefit Transfers

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# **THOMAS A. SCHWEICH**

## **Missouri State Auditor**

Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
Brian Kinkade, Acting Director  
Department of Social Services  
and  
Alyson Campbell, Director  
Family Support Division  
and  
Joel Anderson, Director  
Division of Legal Services  
Jefferson City, Missouri

We have audited certain operations of the Department of Social Services - Family Support Division and the Division of Legal Services related to the Temporary Assistance for Needy Families (TANF) program. In recent years, news outlets have reported on TANF recipients accessing their TANF benefits via Electronic Benefit Transfer (EBT) cards at vacation, gambling, and other locations that appear inappropriate or questionable considering the assistance is intended to benefit the children in financially needy families. Also, a new federal law was enacted in 2012 requiring the states, by February 2014, to implement policies and practices to prevent TANF assistance from being used in any EBT transaction in any liquor store, gambling establishment, or other inappropriate locations. The objectives of our audit were to:

1. Determine the extent to which TANF benefits were accessed in locations that may be inappropriate or questionable based on restrictions in place during the year ended June 30, 2012, or would be inappropriate under the new federal and state laws.
2. Evaluate the department's internal controls to prevent and detect TANF recipients violating the state residency requirements and inappropriate EBT transactions.
3. Evaluate the department's efforts to implement policies and practices in order to comply with the requirements of the new federal and state laws.

For the areas audited, we determined (1) a relatively small number of EBT transactions were made in locations that may represent usage in violation of department rules or state law or represent usage that would not be allowable under the new federal and state laws; (2) the department has not established policies for routine review of EBT transactions, required the EBT vendor provide the department with EBT data that can be searched and sorted efficiently, or completed its special review of EBT transactions during the year ended June 30, 2012; and (3) the department has some existing controls that help detect TANF recipients who have become ineligible for benefits and restrict usage of EBT cards at Missouri casinos, but the department has not determined what additional policies and practices are needed to comply with the new federal and state laws.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.



Thomas A. Schweich  
State Auditor

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## Department of Social Services

# Temporary Assistance for Needy Families - Electronic Benefit Transfers

## Introduction

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### **Background**

The Temporary Assistance for Needy Families (TANF) program is a federal and state program to provide assistance to financially needy families with children. The U.S. Department of Health and Human Services (DHHS) provides TANF funding to the states by block grant. The states administer the program and distribute TANF cash assistance benefits to eligible families. The Missouri TANF program is administered by the Department of Social Services (DSS) - Family Support Division (FSD) with the assistance of the Division of Legal Services (DLS) and other DSS divisions.

The FSD accepts applications, determines recipient eligibility, sets the amount of the monthly benefit, and monitors to ensure recipients are meeting program requirements. The DLS investigates allegations of public benefit fraud and misuse. The DLS also receives monthly reports of EBT transactions data and performs some limited reviews of the data.

To be eligible for TANF benefits, federal law requires a needy family must contain, at a minimum, a minor child living with a parent or caretaker relative, or a pregnant woman. Financial eligibility guidelines are established by the states. The Missouri state plan, which must be approved by the federal government, outlines the various requirements for participation in the TANF program. State law requires the recipient of TANF assistance be a Missouri resident and a U.S. citizen or qualified alien. State law requires TANF benefits to be used for the benefit of the child or children in the household. Under DSS regulation, the FSD does not provide assistance for a minor child who has been, or is expected by a parent or other caretaker relative, to be absent from the home for a period exceeding 90 consecutive days. DSS regulations also require the benefit amount be based on financial need, subject to monthly maximums based on family size. For example, the maximum monthly benefit amount for a family of four in Missouri is \$342. According to federal regulations, TANF recipients are generally precluded from receiving assistance for more than 60 total months, whether consecutive or not. According to the DSS, TANF recipients, on average, receive assistance for about 23 months.

In Missouri, about 81 percent of the TANF cash assistance is federally funded. The remaining 19 percent of assistance is state funded and provides benefits to households that either do not meet the requirements for federal funding or meet the requirements for federal funding, but the DSS has decided to provide benefits to the recipients with state funds. Examples of state-funded benefit recipients include 2 parent and teen parent households, certain households that have received TANF benefits for more than 60 months, and certain households with a child under the age of 12 months. State-funded benefits to these groups are part of the state maintenance of effort requirements.



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On average about 40,000 Missouri households are receiving TANF benefits monthly and the average monthly TANF benefits per household in Missouri is about \$240. Typically, more than 30,000 of these Missouri households also receive monthly benefits for the federal Supplemental Nutrition Assistance Program (SNAP), also known as food stamps.

TANF recipients may choose to receive the benefits on an electronic benefit transfer (EBT) card or have the benefits directly deposited to a bank account. About 98 percent of recipients receive benefits via EBT card. If the household is also eligible for SNAP benefits, both SNAP and TANF benefits are loaded on the same EBT card. With the EBT card, the recipient can access TANF benefits by purchasing items via a point of sale (POS) terminal at the merchant's location or by withdrawing cash at automated teller machines (ATMs) or POS terminals. The purchases or cash withdrawals from the EBT are limited to the amount of unexpended benefits provided to the recipient. SNAP benefits can be accessed only by making purchases of allowable products at authorized SNAP vendors.

The DSS contracts with a vendor for EBT transaction processing. TANF recipients may be assessed fees for using the EBT card. The DSS's EBT vendor charges no fees for the first ATM withdrawal of the month per recipient or for POS transactions involving purchases only or purchases with cash back. The EBT vendor charges each TANF recipient \$.85 per ATM withdrawal after the first ATM withdrawal of the month and \$.85 per POS cash withdrawal only transaction. TANF recipients may also pay surcharges to ATM owners or to the merchant during POS cash withdrawal transactions for use of the service.

### Out-of-state use of benefits

A DSS report entitled *Food Stamps and Temporary Assistance for Needy Families (TANF) Overview of Programs*,<sup>1</sup> includes the following information regarding out-of-state usage of TANF benefits:

"There are no restrictions in the state or federal regulations or statutes limiting the geographical use of Temporary Assistance benefits. EBT cards must be accessible. There are possible reasons a household may be using benefits in another state: more convenient and/or cost effective to shop in a bordering state; military families receiving benefits in Missouri are transferred to another state; natural disasters, domestic violence, divorce, etc. displace people, making it necessary to seek shelter from out-of-state family members or friends; families move to find employment

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<sup>1</sup> *Food Stamps and Temporary Assistance for Needy Families (TANF) Overview of Programs*, March 2013, <<http://www.dss.mo.gov/fsd/fstamp/pdf/food-stamp-tanf-overview.pdf>>, accessed on June 6, 2013.



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opportunities; seeking medical care or in-home care from family members; or providing temporary care for aging parents or sick family members."

### New federal law

In February 2012, Congress passed the Welfare Integrity and Data Improvement Act (part of the Middle Class Tax Relief and Job Creation Act of 2012). The Act requires states, by February 22, 2014, to maintain practices and policies that prevent TANF assistance from being used in any EBT transaction at any liquor store, casino, gambling casino, gaming establishment, or adult entertainment venue in which performers disrobe or perform in an unclothed state. States that fail to meet this deadline could see their TANF block grants decreased by up to 5 percent.

The Act defines liquor store as any retail establishment which sells exclusively, or primarily, intoxicating liquor and excludes a grocery store which sells both intoxicating liquor and groceries including staple foods. The Act states that the terms casino, gambling casino, and gaming establishment do not include (I) a grocery store which sells groceries including such staple foods and which also offers, or is located within the same building or complex as, casino, gambling, or gaming activities; or (II) any other establishment that offers casino, gambling, or gaming activities incidental to the principal purpose of the business. As of October 2013, the DHHS has not issued regulations or implementation guidance to the states about the new law.

### Existing restrictions

Prior to enactment of the new federal law, various DSS policies and procedures were already in place to help prevent and detect inappropriate usage of TANF benefits by Missouri households. Upon application, FSD eligibility specialists notify applicants TANF assistance is intended for the benefit of the children and misusing benefits includes frequently spending the benefits primarily for the recipient's use rather than for the child's necessities. Recipients are required to report to FSD any changes in address, temporary absences out of state, and other changes that may affect eligibility for TANF benefits. The FSD shares information about TANF applicants and benefits with other states to help prevent recipients from receiving TANF assistance in more than one state. FSD eligibility specialists conduct redeterminations of eligibility for each TANF case at least once annually. These redeterminations require the recipient to provide current information about address, household composition, assets, income, etc. Failure to supply the information leads to closure of the case.

For recipients found to be misusing TANF assistance, the FSD may designate an alternate payee to receive the TANF benefits. The FSD may receive information about changes in the recipient's address or other factors affecting eligibility through matches with federal databases, the Missouri Work Assistance vendor (who assists TANF recipients with job search



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activities), and other sources. The FSD and the DLS investigate complaints and allegations of TANF fraud. The FSD and the DLS may establish claims for overpaid benefits and refer cases to the Attorney General's office and/or local prosecutors. Since about 1998, the Missouri Gaming Commission, at the request of the DSS, has required Missouri casinos to block ATMs in their casinos from accepting EBT cards. Those ATMs are periodically tested by members of the Missouri State Highway Patrol to ensure the EBT cards are being blocked.

### New DSS restrictions

In February 2013, the FSD issued a notice to then current TANF recipients describing the requirements of the 2012 federal law, including what constitutes misuse of TANF benefits and the actions the DSS could take if misuse is identified. The FSD also established additional guidance for FSD staff when instances of misuse are suspected. The FSD defined purchases of the following to be misuse of benefits: beer/wine; other alcohol/liquor; cigarettes/cigars; smokeless tobacco/chew; other tobacco items; scratch-off lottery tickets; Powerball, Lotto, or other lottery drawing tickets; illegal drugs, controlled drugs without a valid prescription; and usage at certain other inappropriate locations.

### New state law

In May 2013, the General Assembly passed Senate Bill 251, which created Section 208.024, RSMo. The Governor signed this legislation on July 8, 2013 with the law becoming effective August 28, 2013. The legislation implements the requirements of the new federal law discussed above. The legislation will place the following restrictions on the use of public assistance benefit and EBT cards:

- Eligible recipients of TANF benefits shall not use such funds in any EBT transaction at any prohibited location noted in federal law or in any place or for any item that is primarily marketed for or used by adults age 18 or older and/or is not in the best interests of the child or household. An eligible recipient of TANF assistance who makes a purchase in violation of this section shall reimburse the DSS for such purchase.
- An individual, store owner or proprietor of an establishment shall not accept TANF cash assistance funds held on electronic benefit transfer cards for the purchase of alcoholic beverages, lottery tickets, or tobacco products, or for use in any EBT transaction at any prohibited location noted in federal law, or in any place or for any item that is primarily marketed for or used by adults age 18 or older and/or is not in the best interests of the child or household.
- The DSS shall establish and maintain a statewide toll-free telephone service to receive complaints of suspected public assistance fraud.



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- The DSS shall study analytical modeling-based methods of detecting fraud and issue a report to the general assembly and governor by December 1, 2013, relating to the benefits and limitations of such a model, experiences in other states using such a model, and estimated costs for implementation.

## Scope and Methodology

We analyzed the TANF EBT cash transaction records for the year ended June 30, 2012. We reviewed the procedures used and the results of the department's review of those same transactions. We also reviewed TANF laws and regulations, DSS policies and procedures, and held discussions with DSS officials. In addition, we gathered information on other states' restrictions on the use of TANF EBT cards and benefits.

### EBT Transaction data

Our audit focused on TANF EBT cash transaction records for the year ended June 30, 2012, which were previously obtained by DSS from its EBT vendor and also reviewed by the DSS as noted in MAR finding number 2. Our primary objectives were to identify instances of extended out-of-state usage that could indicate the recipient was no longer a Missouri resident and the degree to which TANF benefits were being accessed at locations that, under the new law, would be prohibited. These records included the TANF EBT transaction data for both out-of-state and in-state EBT transactions. These transactions only included ATM and POS transactions in which the TANF recipient received some or all benefits in cash. The data did not include POS purchase-only transactions. The data also did not include any activity for TANF recipients who had their benefits directly deposited to their bank account.

The DSS reported TANF assistance benefits paid to recipients during the year ended June 30, 2012 totaled about \$118.3 million. We estimated about \$22 million in TANF benefits were either direct deposited or used for a POS purchase-only transaction and were not included in the EBT transaction data analyzed.

The data provided to us contained the case number, date, time, source (ATM or POS), transaction type, amount, a location address and a location name for each transaction. The data included no information on the specific products or services acquired. The data did not separately indicate the amount of the ATM or POS fee, if any, imposed by the ATM service provider or merchant.

The data contained 817,463 transactions totaling \$96,085,132 on 65,149 cases. Totals expended by source and transaction type were as follows:



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Source	Type	Total Expended	Number of Transactions
ATM	Cash withdrawal	\$ 72,139,951	544,210
POS	Purchase with cash back	17,820,669	263,256
POS	Cash withdrawal	6,124,512	36,997
Total		\$ 96,085,132	817,463

ATM and POS cash withdrawal transactions indicate cash was withdrawn at an ATM or POS terminal. POS purchase-with-cash-back transactions indicate products were purchased at the POS terminal and some portion of the transaction amount was withdrawn in cash. In addition to the transactions summarized above, the data included separate records for the EBT transaction fee of \$.85 imposed by the state's EBT vendor, totaling \$194,670 on 229,092 transactions. The EBT vendor fee was imposed on each POS cash withdrawal transaction and on approximately 35 percent of the ATM cash withdrawal transactions.

At the time these EBT transactions occurred, the only restrictions in place on the use of TANF benefits were that the benefits were to be used for the benefit of the children, EBT transactions were blocked at Missouri casinos, and recipients were required to report absences or planned absences of the child from the household and or from the state of 60 days for some types of absences and 90 days or more for all types of absences.

#### Inappropriate transactions

To identify possible transactions in liquor stores, tobacco related venues, gambling and gaming venues, and other inappropriate locations, we conducted keyword searches on the location names in the data. We excluded the names of Missouri SNAP-authorized vendors from our search. While SNAP-authorized vendors may sell alcohol and tobacco products, they also sell food products authorized under the SNAP program and the purchase of those food products would be allowable uses of TANF benefits. We did not attempt to identify SNAP-authorized vendors in other states for exclusion. We used general keywords like "liquor," "beer," "spirits," "lounge," "pub," "tavern," "tobacco," "smoke," "cigar," "casino," "treasure," "gaming," "bingo," "fantasy," etc. For certain vendor names, we also reviewed Internet websites and telephone directories to help ascertain the vendor's business purpose and identify additional keyword search phrases. We also viewed various Internet websites for the names of gambling establishments or other inappropriate venues in various cities around the country that we then utilized in our name searches on the entire dataset. Additionally, we utilized the *Casino City's Pocket Gaming Directory*<sup>2</sup> for names of gambling

<sup>2</sup> *Casino City's Pocket Gaming Directory*, 2012-2013 Edition, Casino City Press, Newton, Massachusetts.



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establishments throughout the country. We also searched the data for transactions at the names and locations of Missouri casinos and of the locations of licensed bingo halls and operators obtained from the Missouri Gaming Commission.

To identify instances where TANF recipients may have moved away from Missouri or had extended stays outside the state exceeding the 90 day limit allowed by DSS regulation, we analyzed the data for recipients with consecutive transactions covering a 91 day period or longer that all occurred out of state.

#### Limitations in data review

Our work identified transactions that would likely be prohibited under current DSS regulations and the new restrictions required by federal and state laws. However, further investigation of each case would be needed to determine whether the recipient had violated DSS regulations or misused TANF benefits. We noted certain limitations with the transaction data, such as:

- Transaction data only included the total amount of the cash withdrawal or purchase with cash back. It cannot be determined where the withdrawn cash was actually used or what was eventually purchased. For example, cash could be obtained from ATMs or POS devices in banks or other appropriate businesses, but ultimately be used to make purchases of inappropriate products or services in other locations. Once the benefits are converted to cash, tracking usage is virtually impossible.
- The locations identified by keyword search on the location name appear to be vendors of predominantly alcohol, tobacco, gambling, or other inappropriate products or services. However, other vendors of similar goods and services likely exist but cannot be identified using keyword search techniques because the name may be unrelated to those products or services.
- About 287,000 transactions totaling about \$44.4 million listed a location name indicating the transaction was at an ATM owned by a bank, financial services business, or an ATM service provider. These ATMs could have been physically located at those banks, etc. or could have been located in other vendor establishments. These records were not amenable to keyword searches for inappropriate vendor transactions.
- The location address in the data may not necessarily reflect the physical location of the ATM or POS device. For instance, one location address for an ATM was listed at 1235 Page, St. Louis, Missouri. There were 530 transactions totaling nearly \$55,300 reported at that location. No such address could be located using Internet mapping. We were able to identify the likely ATM address was 1235 North Grand, St. Louis,



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Missouri. In addition, there were 44,907 transactions in which the location name and the location address were substantially the same and no identifiable physical location was reported such as a location name of ABC Convenience Store and a location address of ABC Convenience Store #1234.

- We noted over 600 instances in which the state identified with the transaction was obviously incorrect. For instance, two liquor vendors listed as being in another state were physically located in Missouri and a bingo establishment listed as being in Missouri was actually located in Oklahoma. We corrected the state name in identifiable situations.
- The transaction data included the date of the transaction. Since unexpended benefits remain available for up to one year until used, the underlying benefit may have been provided to the recipient up to one year prior to the transaction.

Additionally, as noted above, our analyses excluded POS purchase-only transactions. Had we reviewed those transactions, additional instances of possible inappropriate transactions may have been noted.

## Other

Our methodology included the following additional procedures:

- Reviewing relevant written policies and procedures, statutes, and regulations.
- Interviewing various personnel of the FSD and DLS.
- Reviewing the FSD and DLS summaries and worksheets related to the DSS special review of the TANF EBT transactions.
- Reviewing data recorded on the DSS's Family Assistance Management Information System for certain cases as necessary.
- Reviewing a U.S. Government Accountability Office (GAO) report<sup>3</sup> on TANF restrictions in other states and other reports or publications relevant to this audit.

These procedures focused on current policies and practices and also those policies and practices in place during the year ended June 30, 2012.

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<sup>3</sup> *TANF ELECTRONIC BENEFIT CARDS, Some States Are Restricting Certain TANF Transactions, but Challenges Remain*, report number GAO-12-535, U.S. Government Accountability Office, Issued June 2012.

Department of Social Services  
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 Management Advisory Report - State Auditor's Findings

**1. Inappropriate EBT Transactions**

Missouri TANF recipients used Electronic Benefit Transfer (EBT) cards to access over \$3.4 million in benefits in out-of-state locations during the year ended June 30, 2012. We identified 366 cases for which some or all of the TANF benefits were accessed exclusively out of state over periods exceeding 90 days. Extended out-of-state usage for these cases totaled about \$461,000. While some recipients may use benefits in neighboring states for shopping convenience, extended usage in other states may indicate the recipient no longer maintains a Missouri residence. In addition, we identified 1,615 cases with over \$261,000 in transactions occurring in businesses that appear to be an alcohol, tobacco, gaming, or other inappropriate establishment.

Out-of-state activity

EBT transactions at out-of-state locations totaled \$3,383,989 or about 3.5 percent of the \$96.1 million of EBT cash transactions during the year ended June 30, 2012. There were about 9,300 cases that had at least one out-of-state transaction. Many cases had both border and non-border state activity.

Bordering state transactions

Transactions in bordering states totaled \$2,294,738 or about 68 percent of all out-of-state transactions. The following table lists the total amount of transactions in those states and the percentage of transactions in the state as a percentage of all border state transactions:

State	Total Transactions	Percentage
Arkansas	\$ 342,355	15
Iowa	89,032	4
Illinois	663,305	29
Kansas	918,536	40
Kentucky	29,113	1
Nebraska	37,156	2
Oklahoma	112,488	5
Tennessee	102,753	4
Total	\$ 2,294,738	100

About 6,800 cases, or about 10 percent of total cases, had one or more transactions in bordering states. Much of the activity in the bordering states occurred in cities near the border with Missouri. For example, about 53 percent of total Illinois transactions occurred in 8 Illinois cities near Missouri: Cahokia, Granite City, Quincy, Belleville, East St. Louis, Collinsville, Alton, and Fairview Heights. About 75 percent of total Kansas transactions occurred in 8 Kansas cities near the Missouri border: Kansas City, Overland Park, Roeland Park, Olathe, Pittsburg, Lenexa, Shawnee Mission, and Prairie Village. It appears most of the border state transactions likely represent instances where the TANF recipient maintained Missouri residency.



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Extended usage in  
bordering states

We identified 107 cases with only bordering state transactions totaling about \$147,000 over a period exceeding 90 days. In addition, we noted 10 cases had exclusively out-of-state transactions in both bordering and non-bordering states totaling about \$12,000 over a period exceeding 90 days. We noted a few of these cases only had out-of-state transactions for periods exceeding 90 days in cities that were not close to the border such as Chicago, Illinois; Oklahoma City, Oklahoma; and Nashville, Tennessee. Extended usage in border states may indicate the recipient no longer meets the Missouri residency requirement, especially if not in close proximity to the border. The DSS special review discussed in MAR finding number 2 included 15 of these cases. We provided the results of our analysis to the DSS. The DSS should investigate the remaining 102 cases to close cases and establish claims as necessary.

Extended usage in non-  
bordering states

We noted 249 cases with transaction activity totaling nearly \$302,000 where EBT transactions occurred exclusively at locations in non-bordering states for more than 90 consecutive days. For 67 of the 249 cases, the duration of the consecutive transactions, totaling nearly \$129,000, was 180 days or more. Extended usage in non-border states likely indicates the recipient no longer meets the Missouri residency requirement.

The case with the largest total amount of non-bordering state transactions, accessed benefits totaling \$4,276 over a 274 day period in the state of Texas. The case with the longest duration of consecutive days accessed benefits totaling \$1,972 over 338 days in the state of California. One case had transactions totaling \$1,191 over a period of 153 days in the Virgin Islands.

The DSS special review discussed in MAR finding number 2 included 143 of the 249 cases. We provided the results of our analysis to the DSS. The DSS should investigate the remaining 106 cases to close cases and establish claims as necessary.

Inappropriate locations

Our analysis identified transactions at locations with names suggesting the merchant may sell products or services (liquor, tobacco, gambling, or adult entertainment) that would, under new state and federal restrictions, be inappropriate locations to access TANF benefits. These transactions totaled \$261,055 or less than 0.3 percent of total TANF EBT cash transactions reviewed, and involved 1,615 unique cases or 2 percent of total cases. Eighteen cases had transactions at more than one type of inappropriate location. Most of the transactions at these locations were for location names involving alcohol within Missouri.

Alcohol

Transactions at location names that appeared to be primarily liquor establishments totaled \$204,198 on 1,334 cases. This total includes 1,265 cases with transactions totaling \$195,723 occurring only in Missouri, 63



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cases with transactions totaling \$7,426 occurring only out of state, and 6 cases with transactions totaling \$1,049 at both Missouri and out-of-state locations. We excluded Missouri liquor vendors who were also SNAP authorized vendors because those vendors also sell food products on a continuous basis and the new federal regulations exclude grocery stores that sell both intoxicating liquor and groceries including staple foods.

One recipient had 20 transactions, totaling \$2,925, at one of these locations in Missouri. This recipient received TANF benefits during the year ended June 30, 2012, totaling \$3,504 and the case was closed voluntarily by the recipient in January 2013. The DSS special review discussed in MAR finding number 2 included 32 of the 1,334 cases.

Tobacco

Transactions at locations that appeared to be tobacco establishments totaled \$34,357 on 148 cases. Transactions at Missouri tobacco establishments totaled \$31,097 for 128 cases while transactions at out-of-state tobacco establishments totaled \$3,260 for 20 cases. We excluded tobacco vendors that were included in the data for liquor establishments above and tobacco vendors in Missouri that were SNAP authorized vendors. One case had 19 transactions totaling \$1,068 at tobacco establishments. The DSS special review discussed in MAR finding number 2 included 5 of the 148 cases.

Gambling

Transactions at location names that appeared to be gambling or bingo establishments totaled \$21,399 on 135 cases. Transactions at out-of-state casino and bingo locations totaled \$17,846 on 114 cases. Transactions at Missouri bingo locations totaled \$2,678 on 18 cases. Another case had both Missouri and out-of-state bingo transactions totaling \$205. Additionally, 2 cases had ATM transactions totaling \$670 at one Missouri casino location. We could not determine whether the ATM was inside the casino or at a business adjacent to the casino. One recipient had 26 transactions totaling \$1,478 at tribal casinos or bingo halls in Oklahoma. This person received TANF benefits during the year ended June 30, 2012 totaling \$4,347 and the case was still active as of April 2013. The case was not included in the DSS special review noted in MAR finding number 2. The DSS review included 12 of the 135 cases.

Adult entertainment

Transactions at location names that appeared to be adult entertainment establishments totaled \$1,101 on 16 cases. Transactions totaling \$523 on 6 cases occurred at Missouri locations. Transactions totaling \$578 on 10 other cases occurred at out-of-state locations. The largest case total involved 1 recipient with 2 transactions totaling \$146 at a Missouri location. This person received TANF benefits during the year ended June 30, 2012 totaling \$405 and the case was closed by the FSD in December 2012 when the child left the household. The DSS special review discussed in MAR finding number 2 did not include this case. The DSS review included 1 of the 16 cases.



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## Summary

We provided the results of our analysis of inappropriate transactions to the DSS. The DSS special review included 50 of the cases identified in this finding, including 3 cases with more than one type of inappropriate transaction. The count of unique cases not included in the DSS special review totaled 1,565 cases.

Missouri TANF recipients accessed just over \$261,000 in benefits at locations that, under new federal and state laws, would be prohibited. It is likely that additional similar transactions occurred. However, limitations in the EBT transaction data prevented further identification of inappropriate activity. While the extent of inappropriate usage seems relatively small, any usage at inappropriate locations should be cause for concern as that usage may indicate that benefits are not being used for the intended purposes.

The DSS should consider reviewing the 1,565 cases not already included in the DSS review of EBT transactions noted in MAR finding number 2. Although the number of questionable cases and amounts noted is relatively small, the results suggest more needs to be done to detect and prevent improper usage.

## Recommendation

The DSS should consider reviewing the additional cases identified above for possible violations of residency or temporary absence regulations and misuse of TANF benefits.

## Auditee's Response

*The DSS reviewed TANF EBT transaction data for fiscal year 2012 for inappropriate out-of-state transactions and selected 1,300 cases for further review. The DSS has completed its review of the 1,300 cases (see response to 2.1). The DSS does not consider an additional review of the transactions from fiscal year 2012 to be an effective use of limited resources. Instead, the DSS will review a regular sample of future transactions for extended out-of-state usage, and also perform routine reviews of current transactions to monitor compliance with the new state law that went into effect on August 28, 2013.*

## Auditor's Comment

Findings over the TANF program included in the past three State of Missouri Single Audit reports noted the failure to ensure compliance with various program requirements and to sanction recipients benefits when required, resulting in questioned costs and exposing the state to significant penalties from the federal granting agency. Due to normal caseload turnover, some of the cases identified in our review have likely already closed. The department should at least identify which of the 1,565 cases are still actively receiving benefits and review activity on those cases to determine if any sanctions, recoupments, or other actions are warranted.



## 2. DSS Review of EBT Transactions

The FSD and the DLS have not finished the review of cases with possible inappropriate transactions during the year ended June 30, 2012. The DSS has not routinely performed similar reviews and the DSS has not developed policies and procedures regarding the nature, timing, and extent of future reviews.

### 2.1 Special review of cases with out-of-state transactions

The FSD closed 12 cases and established claims totaling \$25,200 in 19 cases as a result of its review of EBT transaction data for the year ended June 30, 2012. The FSD reported 147 cases were still under review and claims were being developed for 52 cases as of April 30, 2013.

The FSD and the DLS began a review in September 2012 for inappropriate out-of-state transactions using the records of TANF EBT transactions during the year ended June 30, 2012. The FSD and the DLS began their review after a news reporter requested records of out-of-state activity under the Missouri Sunshine Law. Those records were obtained from the DSS's EBT vendor and the FSD and the DLS also used those records for their review. The DSS limited its initial review to the 9,300 cases that had at least one out-of-state transaction. The FSD and DLS staff focused on location names that suggested vacation destinations and/or gambling, alcohol, and tobacco vendors. They also considered extended usage in both border and non-border states that might indicate the recipient had moved from the state. DSS officials indicated the FSD and the DLS initially contacted over 2,900 recipients by phone.

The DSS analysis identified 1,300 of the 9,300 cases for further review. The decision to limit the review to 1,300 cases, with about 10,000 transactions, was based upon expectations of the number of staff and time available to conduct the case reviews and the number and size of the transactions on the cases. For many of the cases, the DLS staff attempted to contact the recipients for information about the purpose, extent, and funding for the travel and made other inquiries as necessary about the status of the household members and other relevant matters. The DLS provided the FSD with the information obtained from the recipients and referred all the cases to the FSD for determination of any policy violation. Of these cases, about 200 cases were also identified during our review of transactions discussed in MAR finding number 1. Many of the 1,300 cases had already closed for other reasons before the DSS began its review.

Of the 1,300 cases referred, the FSD indicated the following review results as of April 30, 2013:

- Closure of 12 cases as a result of the review and an additional 154 cases for failure of the recipient to respond to questions or provide requested documentation or other reasons that may have been prompted by the review.



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- Establishment of claims for overpayment of TANF benefits totaling about \$25,200 for 19 cases for Missouri benefits received in violation of the residency or temporary absence requirements. The establishment of claims for 52 additional cases was in progress.
- Review of 147 cases had not yet been completed.
- No claim or case closure was needed on 916 cases.

The FSD should complete the review of the remaining 147 cases to determine if the cases should be closed and or claims established and establish claims as needed on the 52 cases with pending claims.

## 2.2 Policies and procedures and previous DSS reviews

The DSS has not developed policies and procedures regarding the nature, timing, and extent of reviews of TANF EBT transaction data, and the DSS did not previously require the EBT vendor provide the transaction data in a format that could be searched and sorted efficiently.

As part of its contract with the DSS, the EBT vendor makes available to the DSS various monthly reports of EBT transactions. According to DLS and FSD officials, those reports could not be effectively used to identify extended out-of-state usage or inappropriate transactions. For example, the vendor provides a monthly report of out-of-state transactions by case, but the data has both TANF and SNAP transactions. In addition, the monthly report totals about 3,000 pages, is not searchable, and can only be downloaded in 50 page increments. In order to find cases with extended out-of-state usage, DSS staff must manually locate the transactions for specific cases in multiple monthly reports.

DSS officials indicated they did not perform any in-depth review of the EBT transaction data due to the above limitations, the time intensive nature of the work, and lack of available staff. DSS officials indicated reviews of EBT transactions generally consisted of a monthly scan of the reports by two DLS investigators, who have many additional responsibilities.

In January 2013, the DSS began meeting with the EBT vendor to discuss possible changes to the monthly reporting process to provide the DSS with data better suited for reviewing for extended out-of-state activity or inappropriate EBT usage.

To help ensure TANF recipients meet residency requirements and benefits are being used appropriately, the DSS should develop policies and procedures to periodically review the EBT transaction data. In developing these procedures, the DSS should consider the cost effectiveness of the procedures and the results of its special review of fiscal year 2012 transactions. In addition, the DSS should require the EBT vendor provide



useful reports of EBT transaction data to allow for effective and efficient reviews, or if more cost effective, obtain the raw data and compile the necessary reports in-house.

## Recommendations

The DSS should:

- 2.1 Complete the special review, closing cases and establishing claims as appropriate.
- 2.2 Develop policies and procedures governing the nature, timing, and extent of reviews of transaction data for inappropriate usage of TANF funds and require the EBT vendor provide transaction data routinely that can be effectively and efficiently reviewed.

## Auditee's Response

- 2.1 *The DSS has finished reviewing all 1,300 cases from the special review. As of October 23, 2013, 36 claims were processed resulting in accounts receivable of \$47,887. The remainder of the 1,300 cases do not require a claim.*
- 2.2 *The DSS is in discussion with the Office of Administration's Information Technology Services Division (OA ITSD) about the development of an electronic system to help identify potential inappropriate usage of TANF funds, as well as, extended out-of-state usage. This system will receive EBT transaction data regularly and provide a more uniform and efficient process to identify cases for review of inappropriate usage. Until this system is in operation, the DSS is receiving data from the EBT vendor and performing routine manual reviews of transactions to monitor compliance with the state law that went into effect on August 28, 2013. The DSS is also continuing discussions with the EBT vendor on ways to block TANF EBT transactions at inappropriate locations.*

## 3. Efforts to Restrict TANF Access

The DSS has not determined the policies and practices necessary to implement the restrictions on EBT access required under new federal and state laws. Other states have adopted similar restrictions but significant challenges exist to effective enforcement and implementation of those or other restrictions.

The FSD has modified policies to make recipients aware of the new requirements prohibiting usage of TANF benefits for alcohol, gambling, or other inappropriate transactions. In addition, an FSD official indicated various options are being considered for restricting TANF access at certain vendors. As of June 2013, the DSS has initiated some limited merchant awareness activities. The official indicated the DHHS has not provided guidance to the states on how to implement the new federal law and the



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FSD is awaiting that guidance before making decisions about new policies and practices to restrict TANF access.

As of June 2012, other states had existing laws that placed restrictions on the usage of TANF benefits. According to a GAO report<sup>4</sup> on EBT restrictions in the 10 states receiving the most TANF funding:

- Five states (Massachusetts, Michigan, Pennsylvania, Texas, and Washington) have state laws prohibiting TANF recipients from using TANF benefits for certain items like alcohol and other items.
- Seven states (California, Michigan, Pennsylvania, Washington, Texas, New York, and Illinois) have disabled TANF EBT access at ATMs and/or POS terminals at certain businesses like casinos. Under state law, ATMs are not allowed in liquor stores in Pennsylvania or New York.
- Two states (Massachusetts and Texas) place restrictions on the merchants by not allowing merchants to accept TANF EBT cards for purchases of certain items like alcohol or by not allowing non-SNAP authorized businesses or entertainment businesses to participate in the TANF EBT program.

The GAO report also noted significant challenges to enforcing restrictions on TANF access such as:

- Identifying transaction locations (ATMs and businesses) that should be prohibited is difficult because the transaction data lacks a code identifying the nature of the retailer's business and the location in the transaction data may be the address of the ATM corporate owner rather than the physical location of the ATM.
- POS terminals sometimes have common identification numbers making it difficult to block EBT transactions at certain terminals without affecting other terminals.
- Blocking EBT transactions requires the state's Bank Identification Number to be removed from each individual ATM.
- The EBT transaction data about transaction locations is often not complete and accurate.

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<sup>4</sup> *TANF ELECTRONIC BENEFIT CARDS, Some States Are Restricting Certain TANF Transactions, but Challenges Remain*, report number GAO-12-535, U.S. Government Accountability Office, Issued June 2012.



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- Tracking or controlling what individuals buy with TANF benefits either by EBT transactions at POS terminals or with cash withdrawn from POS terminals or ATMs is difficult.

A report from the E-Government Payments Council<sup>5</sup> in January 2012 based on a survey of agencies in all states responsible for managing the EBT programs also identified challenges in restricting TANF access. In the report the surveyed agencies cited problems to implementing blocking laws including monitoring compliance with the law, understanding the various categories of merchants and keeping track of the ATMs at which recipients access their benefits.

The new federal law requires the state to have policies and practices restricting EBT transactions in place by February 2014 or risk up to a 5 percent penalty. In addition, the new state law places further restrictions on how TANF benefits may be used and locations where EBT transactions are prohibited. The DSS should determine the additional policies and practices necessary to comply with the new laws.

One such measure would be to periodically perform a review of EBT transactions such as discussed in MAR finding numbers 1 and 2 in order to identify potential instances in which TANF recipients and merchants may have violated the restrictions on the use and access for TANF EBT benefits. The DSS could also work with other state agency licensing authorities such as the Department of Public Safety - Division of Alcohol and Tobacco Control; the Missouri Gaming Commission; the Missouri Lottery Commission; and the Department of Insurance, Financial Institutions and Professional Registration - Division of Professional Registration - Office of Tattooing, Body Piercing and Branding to identify business entities that would likely be a prohibited location or sell prohibited items.

## Recommendation

The DSS should determine policies and practices necessary to comply with the provisions of the new federal and state laws, which limit the use or acceptance of EBT benefits in certain locations or for prohibited items.

## Auditee's Response

*The DSS is continuing to develop measures to limit the use or acceptance of EBT benefits in certain locations. The DSS has already taken the following actions to inform staff of the new requirements and notify all TANF applicants and participants of the appropriate usage of TANF benefits, and what constitutes inappropriate usage.*

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<sup>5</sup> Restricting Access to TANF Funds at Specific Merchant Locations, E-Government Payments Council, <<http://www.efta.org/currentissues/BLOCKI~1.PDF>>, accessed on February 21, 2013.



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- *Income Maintenance (IM) Memo IM-24 was issued on February 28, 2013, to inform staff of the federal law requiring states to prevent TANF EBT transactions at casinos, liquor stores, and adult entertainment establishments. A poster addressing the proper use and what constitutes misuse of TANF benefits was provided for FSD offices to display in their lobby.*
- *The "Important Information About EBT Transactions (IM-3EBT)" form was implemented on May 7, 2013. This form contains information regarding the federal law restrictions and that TANF benefits must be used for the benefit of the child or children. The form is signed by TANF applicants/participants at application and face-to-face contact for reviews and is discussed during phone contact.*
- *Memo IM-65 was issued on July 17, 2013, to inform staff of increases in penalties for TANF fraud passed by Senate Bill 251 (SB 251), effective August 28, 2013, and stressed the importance of informing TANF applicants/participants of their rights and responsibilities under the TANF program, including the appropriate use of TANF benefits.*
- *Memo IM-69 was issued on July 26, 2013, with revisions to the IM-3EBT form relating to the new state law, SB 251. Additionally, the "Misuse of TANF" poster was revised to include the new state law.*
- *A one-time notice was mailed to all active TANF payees on August 12, 2013, informing them of restrictions on TANF EBT card use and penalties for misuse of EBT funds.*
- *Memo IM-67 was issued on August 14, 2013, to inform staff of the one-time notice that was mailed to all active TANF payees on August 12, 2013. The memo reminded staff to review the IM-3EBT form with applicants and participants and that the form must be signed by TANF applicants during the in-person application interview.*
- *Memo IM-78 was issued on August 23, 2013, to inform staff of policy manual revisions that incorporate the requirements of SB 251. This memo informed staff that TANF participants who make an EBT purchase in violation of the law must reimburse the DSS for such purchases through the claims process. It also informed staff to refer retailer violations to the DLS Investigation Unit.*
- *Memo IM-90 was issued on October 1, 2013, to inform staff of changes to the claims process for TANF purchases that are restricted or occur at an unauthorized location and to provide a user guide to assist in the processing of such claims.*



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*The DSS has taken the following action to raise retailer awareness of the restrictions on EBT transactions under the new law:*

- *On July 31, 2013, FSD staff met with representatives of associations for the Missouri Retailers, the Missouri Grocers, and Missouri Petroleum and Convenience Stores to share information about SB 251.*
- *On August 22, 2013, DSS staff added information on the TANF restrictions and provided links to the "Prohibited Purchase Poster" and "Prohibited Location Poster" on the EBT website at:  
[www.dss.mo.gov/fsd/fstamp/ebt/retailer.htm](http://www.dss.mo.gov/fsd/fstamp/ebt/retailer.htm).*
- *On September 5, 2013, FSD staff shared information with representatives of the Missouri Retailers, the Missouri Grocers, and Missouri Petroleum and Convenience Stores associations that they could share with the associations' members including a link to SB 251.*

*Additionally, the DSS continues to research analytical modeling-based methods of detecting fraud and will issue a report to the Missouri General Assembly by December 1, 2013.*

*The DSS is in discussion with the OA ITSD about the development of an electronic system to help identify potential inappropriate usage of TANF funds as well as extended out-of-state usage. This system will receive EBT transaction data regularly and provide a more uniform and efficient process to identify cases for review of inappropriate usage. Until this system is in operation, the DSS is receiving data from the EBT vendor and performing routine manual reviews of transactions to monitor compliance with the state law that went into effect on August 28, 2013. The DSS is also continuing discussions with the EBT vendor on ways to block TANF EBT transactions at inappropriate locations.*

*Although FSD has established policies to comply with the provision of the new federal law, the federal government has not yet issued final regulations or guidance to implement the law. Thus, it may be necessary for the FSD to revise these policies after the federal regulations and guidance are issued.*

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The Department of Social Services (DSS) was constitutionally established in 1974 to secure the general health and welfare of the people and promote improved health and other social services to the citizens of the state. Among the DSS's 4 program divisions is the Family Support Division (FSD). The FSD is responsible for administration of the Temporary Assistance for Needy Families program, Supplemental Nutrition Assistance Program, and other programs. The FSD consists of approximately 3,200 employees located in offices in every county in the state and the city of St. Louis. The Division of Legal Services (DLS) provides comprehensive legal support to all programs and support divisions in DSS. The Investigation Section of the DLS investigates fraud and abuse committed by public assistance recipients; operates and manages the Claims Accounting Restitution System; conducts criminal, personnel, and internal investigations; and takes actions to collect monies owed to the DSS. As of October 2013, the Investigations Section had about 30 employees.