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FOOD STAMP FRAUD AS A BUSINESS MODEL: USDA'S STRUGGLE TO POLICE STORE OWNERS

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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FOOD STAMP FRAUD AS A BUSINESS MODEL: USDA'S STRUGGLE TO POLICE STORE OWNERS

THURSDAY, MARCH 8, 2012

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The committee met, pursuant to call, at 9:30 a.m., in Room 2154, Rayburn House Office Building, Hon. Darrell E. Issa [chairman of the committee] presiding.

Present: Representatives Issa, Platts, Walberg, Meehan, DesJarlais, Gowdy, Farenthold, Cummings, Towns, Tierney, Connolly, Braley, and Speier.

Staff Present: Michael R. Bebeau, Majority Assistant Clerk; Robert Borden, Majority General Counsel; Molly Boyl, Majority Parliamentarian; Lawrence J. Brady, Majority Staff Director; Ashley H. Callen, Majority Counsel; John Cuaderes, Majority Deputy Staff Director; Gwen D'Luzansky, Majority Assistant Clerk; Jessica L. Donlon, Majority Counsel; Adam P. Fromm, Majority Director of Member Liaison and Floor Operations; Linda Good, Majority Chief Clerk; Frederick Hill, Majority Director of Communications; Christopher Hixon, Majority Deputy Chief Counsel, Mark D. Marin, Majority Senior Professional Staff Member; Noelle Turbitt, Majority Staff Assistant; Rebecca Watkins, Majority Legislative Policy Director; Beverly Britton Fraser, Minority Counsel; Kevin Corbin, Minority Deputy Clerk; Ashley Etienne, Minority Director of Communications; Jennifer Hoffman, Minority Press Secretary; Carla Hultberg, Minority Chief Clerk; Brian Quinn, Minority Counsel; Steven Rangel, Minority Senior Counsel; Dave Rapallo, Minority Staff Director; and Davida Walsh, Minority Counsel.

Chairman ISSA. The Committee will come to order.

The Oversight Committee exists to secure two fundamental principles: first, Americans have a right to know that the money Washington takes from them is well spent and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

I will now recognize myself for an opening statement and, pursuant to the mission statement, would ask that the video be played, since it reflects the watchdog in question.

[Video shown.]

Chairman ISSA. America deserves better.

Just yesterday, one of our witnesses penned an op-ed that depicted the improvement in this SNAP program, proudly stating how much better it was. It is not for us today to question whether or not the program has improved; the question is in a day in which, in a moment's notice, in a few keystrokes, I can look at a storefront anywhere in America, find out who, what, where owns that, or, in this case, that Scripps Howard could do a few public record searches available to the Department of Agriculture and find out what they were doing wrong from open source. We need to do better.

The hearing today is about children. The hearing today is about families. Ultimately, the food stamp program is about providing nutrition to people in need. Forty-two million people rely on the food stamp program. A few misuse the program. Our hearing today is not about the individuals who, out of desperation for drugs, alcohol, or just spending money, misuse food stamps; it is about America's responsibility, this Administration and this Congress's responsibility to make sure that the money or the benefit of the money gets to the people who are supposed to get it. It is not to buy alcohol, cigarettes, or drugs.

A relatively few storefronts around America represent a considerable amount of fraud. Understand that a small amount of stores does not mean there is a small amount of fraud. People who want to use or misuse, I should say, the resources provided to them by the taxpayer in the way of food stamps seek out stores who will cheat. It is not an accident that you find out that somewhere in the neighborhood an entity will trade you $100 in food stamps for $50 in cash so you can go score. That score is bad enough, but let's understand somewhere there is a family that relied on food that instead got nothing.

These companies and these individuals behind these companies need to be punished on a consistent basis. If in fact they are suspended, it needs to be for a period of time with an understanding of whether or not they are ever going to be able to sell again. If they are permanently excluded, then in fact permanent needs to mean permanent.

More importantly, in this day and age of the ability to research, if you only have 100 people to track this huge amount of potential waste, one can make the other 99 more effective. The scandal we are looking at today is important because we know that 100 people working for the Secretary in fact found people who were stealing from the taxpayers and stealing from families who need that food and need that benefit. One of those 100 assigned to do what whistleblowers have done for us in fact could have prevented many of these stores from being back in business. It is that simple.

We will hear today, as we often do, if we only had more resources. This Committee has no more resources to provide. In fact, you are going to have to do more for less. That is more oversight,

more accountability with less money available for that, and more need by people on the food stamp program.

Ultimately, we are going to hear testimony on both sides saying we are doing a better job, and we are going to hear people saying you are not doing well enough. Both can be true. America, in fact, expects both to be true. Continuous improvement, but in fact never satisfied that we have done enough.

With that, I recognize the Ranking Member for his opening statement.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I welcome today's opportunity to conduct oversight of the SNAP program, which has one of the most vital missions of any government program, and that is to prevent abject hunger in homes all across America. I am so glad that you said that this hearing, amongst other things, is about children.

Mr. Chairman, thank you for agreeing to invite the Minority's witness, Ms. Jennifer Hatcher of the Food Marketing Institute. Since this hearing is about store owners, I thought it was appropriate to invite them. Ms. Hatcher's organization represents 26,000 supermarkets and food stores across the Country that implement the SNAP program on a daily basis.

I also want to thank you for allowing our Minority witness to appear on the first panel with everyone else. You did not have to do that, but you did, and we are indeed grateful.

Let me start by emphasizing a very critical point. Nearly half of the beneficiaries of the SNAP program are poor, hungry children. SNAP currently serves 46 million Americans with incomes at or below 130 percent of the poverty level. According to USDA, 47 percent are under 18 years old. SNAP also serves millions of people who are elderly or have disabilities.

SNAP has never been more critical than it is today. The 2008 financial crisis drove more Americans into poverty than any other time since we started tracking this data. The collapse of Wall Street and the evisceration of trillions of dollars in household savings forced millions of Americans to turn to this critical safety net, and it has been there for them.

While the need for the SNAP program is at an all-time high, fraud within the program is at an all-time low. SNAP is one of the most efficiently run Federal programs, with one of the lowest fraud rates of any government benefits program. Fraud has declined from approximately 4 cents of every dollar expended in 1993 to only 1 cent of every dollar expended today.

But I agree that that is not good enough. The Majority appears to be basing today's hearing on recent press stories about certain store owners who have been disqualified from the program but allegedly regain entry in some way. Although this would be problematic if true, we have not seen evidence to support allegations that there is a pervasive weakness in the program or the magnitude of fraud in the program may be much greater than initially reported.

In fact, today we will hear just the opposite, that this press account has significant problems. The USDA has acted quickly to address the bad actors and the SNAP program continues to be an extremely well run program. Given the strong track record, I am con-

cerned that the true purpose of this hearing may be to discredit the entire program in order to justify draconian cuts.

Last year, every Republican member of this Committee voted to convert SNAP program into a block grant program and slash its funding by $127 billion over the next 10 years, a massive reduction of almost 20 percent.

Again, I go back to what you said a little bit earlier, Mr. Chairman, in part, this is about children.

This proposal was part of the plan proposed by Budget Committee Chairman Paul Ryan and adopted by the House Republicans last April. According to the Center on Budget, Policies and Priorities, this proposal will force up to 8 million men, women, and children to be cut from the program or will severely reduce the amount of food they can buy. Where are these children supposed to go if they are hungry?

I believe there is a compassion deficit here in Washington. Obviously, a dollar squandered in this program is a dollar that does not go to poorfamilies that desperately need food. But efforts to impose draconian cuts to this program will cause even greater harm to the very people who need the most help.

So while I strongly support efforts to make the program more effective and efficient, and I strongly support the fact that we must root out fraud, I will do everything in my power to oppose efforts to use these isolated examples to discredit and gut the entire program.

I look forward to a productive discussion today on ways to improve one of the most successful Federal programs to prevent poverty and hunger throughout these United States and with that, Mr. Chairman, I yield back.

Chairman ISSA. I thank the gentleman.

Members will have seven days to submit opening statements for the record.

We now recognize our first panel. Mr. Kevin Concannon is the Under Secretary for Food, Nutrition and Consumer Services at USDA. Prior to this service at the Department of Agriculture, he served as director of three different State government departments of health and human services, Maine, Oregon, and Iowa. Welcome.

Ms. Phyllis Fong is the USDA Inspector General and has served the Department for 10 years. She is also concurrently serving as the first Chairperson of the Council of Inspectors General on Integrity, Efficiency, and, in fact, in that role you may be aware that this Committee would like to pass on to that Council greater authority, including potentially subpoena authority. That remains one of our long-term goals if we can convince the Senate of the importance of investing in inspectors general.

Ms. Jennifer Hatcher is the Senior Vice President of Government and Public Affairs for the Food Marketing Institute. Prior to joining FMI, she served Chairman Spencer Bachus as his chief of staff.

Lastly, Ms. Faulkner is Inspector General of the Commonwealth of Pennsylvania. Prior to becoming Inspector General, Ms. Faulkner was a law partner at the Philadelphia office of Ballard Spahr LLP. She has had a lengthy career in public service as an Assistant U.S. Attorney, Deputy Attorney General of Pennsylvania, and Philadelphia public defender. That is a lot to pack in a short time.

If you would all rise. Pursuant to our Committee rules, all witnesses are to be sworn. Please raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

[Witnesses respond in the affirmative.]

Chairman ISSA. Let the record reflect all witnesses answered in the affirmative.

This Committee historically tends to have a soft gavel. As I informed the witnesses ahead of time, we have a vote on a district work period, last working day. I know my people; they will not return. So in order to not have you wait an hour for a relatively small period afterwards, if we have not concluded by the time of the vote, we will end at that point.

As a result, I will hold everyone on your side very close to the five minutes. I will hold my own people close to the five minutes not just for questions, but for your answers. So I ask all the members on the dais to please include time in your five minutes for both questions and a reasonable period for witnesses to answer.

With that, Mr. Secretary, you are recognized for five minutes.

WITNESS STATEMENTS

STATEMENT OF THE HONORABLE KEVIN CONCANNON

Mr. CONCANNON. Thank you for the opportunity to join you today, and let me thank Inspector General Fong, who is a strong and independent oversight agent at the USDA.

The mission of the Supplemental Nutrition Assistance Program, or SNAP, is to help low income people get the food they need while they get back on their feet, and it has never been more important in the lives of Americans than now. So strong administration and oversight, including accurate payments and proper use of benefits, are just as critical.

The focus of today's hearing is about USDA's oversight and management of the retailers that are authorized to redeem SNAP benefits across the United States. Particular emphasis is being given to recent news stories, the result of several months of intensive investigative journalism by a team of reporters at Scripps Howard news service that focused on retailers that had previously been disqualified from SNAP for trafficking. Trafficking is the sale or purchase of SNAP benefits for cash, an illegal activity punishable by disqualification, fines, and criminal prosecution.

While we recognize the importance of the issues raised by Scripps, I want to set the record straight about several facts. As with other leads we receive from the public, we took the information Scripps brought to our attention very seriously. We immediately began our own investigation into the stores that were referred to us. Our results suggest that the issues may not be as widespread as reported by Scripps, as many of the cases they raised have not proven to have integrity problems. Of the 36 owners Scripps referred to FNS as suspicious, our investigation found that over three-quarters had no connection to the disqualified owner or were not authorized at SNAP stores. The remaining quar-

ter have been either disqualified, charged, or withdrawn from SNAP. One is under criminal investigation by the OIG.

That said, we still believe broader action was needed. We increased security measures to keep out previously disqualified owners, including more robust review of applicants' public records and shorter time period authorizations for stores and locations with previous disqualifications.

Prior to these reports, FNS has been upgrading its electronic transaction data mining technology to better detect suspicious SNAP redemptions and we are preparing to post information regarding the owners of permanently disqualified stores to GSA's excluded party list system, a Federal list to protect other Federal agencies. We are also developing rules that will increase penalties for trafficking stores.

Combating fraud has long been a USDA priority over the last 15 years, and I believe the charts are rotating up here. You will see one of those charts reflects various initiatives we have taken over the years. We are not yet satisfied and USDA continues to work closely with our partners to fight trafficking. In fiscal year 2011, FNS reviewed over 15,000 stores, conducted nearly 5,000 undercover investigations, and sanctioned or punished 2,000 retailers.

While USDA has direct responsibility for overseeing SNAP retailers, our integrity work includes every aspect of SNAP administration. By overseeing and working closely with our partners, including State and local governments, USDA strives to ensure that scarce taxpayer resources are managed with integrity and accountability.

First, over the past decade we have made major improvements in SNAP payment accuracy. Over 98 percent of SNAP clients are indeed eligible and accuracy in 2010 reached 96 percent, a historic high. 2010 errors were less than billions than they would have been under the 2000 year rate.

Second, USDA also oversees and provides guidance to States to find and hold accountable recipients who commit fraud. USDA recently issued new policy to clarify that even the intent to sell benefits, for example, by offering a SNAP card on a social media site like Craig's List, can lead to disqualification.

Last year I wrote to all of the Nation's governors, individually, asking them to make SNAP integrity a priority. We have also engaged the retail community in this effort. I have personally met with State commissioners around the Country to enlist their support, including a greater focus on recipient trafficking and increased partnership with law enforcement.

To conclude, fraud is neither new nor static. While a vast majority of retailers and clients follow the rules, a few bad actors will always seek to exploit SNAP. But the program is too important for taxpayer investment, too great to tolerate fraud. As in cybersecurity, we must be vigilant and continuously update systems to find and thwart new fraud schemes. USDA will continue to crack down on violators. We welcome our partners' constructive engagement in this effort.

Thank you very much.

[Prepared statement of Mr. Concannon follows:]

For Release only by the
House Committee on Oversight and
Government Reform

FOOD, NUTRITION, AND CONSUMER SERVICES

**Statement of Kevin Concannon, Under Secretary for
Food, Nutrition, and Consumer Services
Before the House Committee on Oversight and Government Reform**

Thank you, Mr. Chairman, Ranking Member Cummings, and members of the Committee for the opportunity to present testimony on the U.S. Department of Agriculture's (USDA) administration of the Supplemental Nutrition Assistance Program (SNAP), including both ongoing and new strategies to combat waste, fraud and abuse in this critical program. I am happy to be joined by USDA's Inspector General Phyllis Fong. The Food and Nutrition Service works in tandem with Ms. Fong and her staff to ensure integrity in SNAP.

The mission of SNAP —to help low-income people get the nutritious food they need while they work to get back on their feet—has never been more important than it is today. Over 46 million low-income Americans count on SNAP to help them put healthy food on their families' tables every month. But to meet that mission effectively, we must earn and maintain the public's trust through the proper administration of the program—including accurate payments and appropriate use of benefits. So I am pleased to have the opportunity today to discuss with you USDA's ongoing efforts to strengthen integrity in SNAP.

The focus of today's hearing is about USDA's oversight and management of the retailers that are authorized by USDA to redeem SNAP benefits across the United States. Particular emphasis is being given to a recent story by Scripps Howard news service that focused on retailers that had been previously disqualified from SNAP for trafficking – the sale or purchase of SNAP benefits for cash, an illegal activity punishable by disqualification, fines, and criminal

prosecution. We greatly appreciate the issues that Scripps Howard news service brought to our attention. But I also want to set the record straight at the beginning of my testimony about some critical deficiencies in their investigation.

As with other leads and observations we receive from the public, we took this information very seriously. We began an immediate investigation into all of the stores that were brought to our attention and we have added further layers of security to our retailer oversight process. However, our research indicates that many of the cases identified by Scripps Howard do not involve improper activity. Indeed, of the 36 locations referred to FNS by Scripps Howard as suspicious, we have determined that 12 of the locations are not SNAP authorized stores, and 16 stores have been cleared as stores with no connection to the previous disqualified owner. Thus, over three quarters of the 36 locations identified do not have ongoing issues. Of the remaining stores, five stores have been charged with or disqualified for falsification; one has been charged with trafficking; one has been withdrawn for inactivity; and one is under criminal investigation by OIG.

It has been suggested by others that Scripps Howard's findings took little effort. In fact, the work of Scripps Howard was intensive and time-consuming. A team of staff did their own investigative work over a period of many months to develop their list of stores. We welcome that engagement. And as part of our ongoing efforts to improve program integrity, we treated our experience with Scripps Howard as an opportunity to make the Department better at fighting fraud, just as we would treat our interactions with OIG or any of our other partners that are committed to solving this problem. We have further strengthened our processes to prevent the authorization of previously disqualified owners, including a more robust review of public records

associated with the owner applicant and a shortened reauthorization time period requirement for retailers in locations that had been previously disqualified.

Retailer Integrity

Long before Scripps Howard's investigation, USDA was serious about combating fraud. The Department has been aggressively implementing a number of measures to reduce the prevalence of trafficking in SNAP from four cents on the dollar to one cent on the dollar over the last 15 years. But even one cent on the dollar is too much. USDA continues to work closely with our State and Federal partners to investigate and prosecute trafficking. The OIG reviews all cases and determines which will go forward for criminal investigation and prosecution. The remainder in which trafficking determinations are made result in administrative disqualification and potential fines by the Food and Nutrition Service (FNS). In FY 2011, FNS reviewed over 15,000 stores and conducted nearly 5000 undercover investigations. Over the last 10 years, 8300 retail stores were permanently disqualified through the administrative process due to trafficking.

In rare instances, retail store owners submit fraudulent applications to redeem SNAP benefits at a location where their authorization was previously revoked. Individuals who falsify information are charged, disqualified and may be liable for a $10,000 fine or imprisonment for as long as five years—or both.

Other Key Areas of Oversight

Fighting retailer fraud is just one part of USDA's strategy to eliminate waste, fraud and abuse. Besides our efforts to improve program integrity among SNAP retailers, USDA is also engaged with various partners, including State and county governments, law enforcement bureaus, our Inspector General, and Congress, to maintain program integrity among recipients. USDA welcomes the constructive engagement of any of our partners in this endeavor.

While SNAP is operated by State governments, the Federal Government pays the full cost of SNAP benefits, more than $65 billion for FY 2011, as well as approximately half of the expenses incurred by the States to administer the program – a substantial national investment. USDA's Food, Nutrition and Consumer Services works in concert with the Department's Office of Inspector General (OIG) – our independent agent for strong oversight – and in partnership with the States that operated the program and others, on behalf of American taxpayers to protect the Federal investment in SNAP, to make sure the program is targeted towards those families who need it most, to make sure that the benefits are used as intended. I would like to describe two other key areas of oversight and some of our accomplishments in these areas.

Improper Payments: First, USDA takes seriously its responsibility to make sure that only those families who are actually eligible for the program participate and that the correct amount of benefits is provided to them. Over the past decade, USDA, along with our State partners, has made major strides to improve the accuracy of SNAP's eligibility determination and benefit payment systems. Over 98 percent of those receiving SNAP benefits are eligible, and the FY 2010 payment accuracy rate was over 96 percent—a historic high[1]. This is one of the highest payment accuracy rates in all of the Federal government. In fact, the payment error rate is less than half what it was 10 years ago, which has resulted in a reduction of $3.3 billion in improper payments in 2010. Reducing errors saves valuable resources because it eliminates waste resulting from avoidable mistakes.

Recipient Fraud: When potential recipients sign up for the program, clients are advised of their legal responsibilities as beneficiaries of taxpayer funded resources, and thus have an affirmative obligation to share in the responsibility of ensuring that SNAP benefits are managed

[1] The FY 2010 SNAP error rate is reported in USDA's FY 2011 Performance and Accountability Report (Appendix B, "Improper Payment Sampling Results" table under "Results Reported in FY 2011".

appropriately, which the overwhelming majority of them do. And while it occurs relatively infrequently, some recipients have committed fraud by purposely misrepresenting their circumstances in the certification process, or by misusing their benefits. These types of program fraud can undermine public confidence in government and jeopardize the ability of SNAP to serve the tens of millions of struggling families who need it the most. USDA works through our State partners to investigate recipient fraud and hold accountable those who defraud the program. Recipients who commit fraud are subject to disqualification. Additionally, those who receive overpayments must repay the overissuance to make good on any losses to the program. And USDA recently issued new policy to clarify that the *intent* to sell benefits, for example, by offering a SNAP card for sale on a social media site such as Craigslist, is a violation that can lead to disqualification from the Program.

Ongoing and New Strategies

We are proud of our success in reducing improper payments and trafficking, but we must be ever diligent in our work to ensure the cornerstone of our nation's safety net is administered with integrity. For this reason, we continue to explore new strategies that ensure accountability in a program that serves 46 million Americans with almost $65 billion in benefits. We understand that continuous attention is required.

In a redoubling of our efforts with State agencies, USDA has been hosting anti-fraud conferences around the country over the past year, discussing with our State partners the opportunities, best practices, and policy needs that will help us protect the Federal investment in SNAP and make sure the program is targeted toward those families who need it the most. Last June, I sent letters to all State Commissioners expressing the importance of addressing client integrity issues and extending FNS' commitment to work with them. Last November, I wrote to

the Governors in all the States asking for them to make SNAP integrity a priority and enclosing recent policy guidance that provides additional tools to fight recipient fraud including ways to use data provided by FNS to investigate potential fraud. We have also engaged the retailer community to urge them to make integrity a priority. On February 1, 2012, we launched a new Web site as a one-stop portal to raise awareness of the issue of SNAP fraud and provide a direct avenue to report suspicious activities. Our OIG maintains a SNAP fraud hotline which we promote in order to give citizens a direct means to report fraud. And I have personally met with State Commissioners around the country to enlist their support and detail specific actions States can take to improve integrity in the program, including a greater focus on recipient trafficking and the establishment of memoranda of understanding with State Law Enforcement Bureaus (SLEBs) to complement our available resources.

Equally important, my own agency is continuing to strengthen our processes when it comes to retailer integrity. Beyond those items I mentioned earlier, and as a part of our efforts to strengthen our fraud detection capabilities, we are upgrading our electronic transactions data mining system, to implement state-of-the-art technology that will help detect suspicious SNAP redemption activity across the country. We have updated policies and procedures to enhance our fight against bad actors. We are implementing a protocol to use the Excluded Parties List System (EPLS) to notify other government agencies of SNAP retail store owners that have been permanently disqualified from the Program. Along with this, we are modifying our own policies to require staff to consult the EPLS prior to authorizing a store in a high risk area. And the Department is developing a forthcoming rule that will increase the penalties for owners that engage in trafficking.

Additionally, FNS is improving the process by which we authorize and oversee retailer participation in SNAP to maximize resources, gain efficiency and improve our efforts to fight fraud and ensure integrity. We will implement a single cohesive, centralized retailer management business structure that consolidates all retailer management functions under our National office.

One other area where USDA is actively engaged in promoting awareness of specific kinds of fraud relates to multiple replacement requests by households of their EBT cards. There are legitimate reasons for replacing cards—they wear out, become damaged, or are lost. But frequent replacement requests by a single household can be a trigger for further analysis, possibly indicative of those that have been selling their cards. FNS sent policy guidance to States in October of 2011 stating our concern and expectations that States review their card replacement data and take appropriate action to determine the reason behind a household's request for an excessive numbers of replacement cards. If it is determined that the reason is legitimate, the State has an opportunity to educate the client on how to manage their card. But if not, it suggests that further analysis by the State is warranted as fraud may be taking place. Beyond issuing that guidance, we are working with States to develop new approaches and policies that can improve their efforts to manage excessive card replacements. The Department is also thoroughly reviewing what more we can do within the law to prevent fraud stemming from excessive card replacements.

Conclusion

Fraud is neither a new nor a static concept. While the vast majority of SNAP retailers and participants abide by the rules, we know that where there is a will to commit malfeasance, bad actors will try to find new ways to exploit the program. We therefore must remain constantly

vigilant and continuously update our systems to identify and thwart new fraud efforts. The Department will continue to make improvements that keep us ahead of the curve and protect taxpayers' investment in this critical nutrition lifeline. We will continue to crack down on individuals who violate the program and misuse taxpayer dollars. And we will continue to welcome information from, and promote constructive dialogue with our partners, including the Inspector General, State and local officials, and others investigating fraud about how best to ensure that SNAP is managed with integrity and accountability.

I know the critical importance of these programs to the lives of millions of low-income people across our country, and their reflection of America's commitment to ensure that, whatever other hardships they face, our people should not have to experience hunger.

Thank you and I would be happy to take your questions.

Chairman ISSA. Thank you.
Ms. Fong?

STATEMENT OF THE HONORABLE PHYLLIS K. FONG

Ms. FONG. Thank you, Mr. Chairman, Ranking Member Cummings, and members of the Committee. At the outset, I want to express my appreciation to you, Mr. Chairman, and to many of the distinguished members of this Committee for your support of the Federal IG community over the past several years. You have a noteworthy record of bipartisan support for IG contributions and you have demonstrated time and again through legislation, hearings, and speeches your interest in our work. So on behalf of the entire community, I want to thank all of you for your support.

Today you have invited me to testify about USDA IG's work to protect the integrity of the SNAP program. To put this in context, the IG office at USDA is responsible for providing oversight to all USDA programs, which currently number over 300. Of course, SNAP is the largest program in our portfolio, with over $70 billion, and it has drawn much of our attention over the past few years.

In the last two years alone we have devoted almost half of our investigative resources to addressing SNAP fraud, with measurable results. We currently have over 900 cases open. Over 600 of these cases involve retailers in some way. My written statement provides some examples of our most significant cases involving disqualified retailers.

But I want to emphasize, more than the cases that we do, that the core problems in this program are not new, namely, there will always be people willing to commit fraud and to traffic in SNAP benefits, even though the specific schemes themselves may take different forms. So we, as an IG office, have been working on these issues with FNS, our partners, and with State and local agencies for many years to address these issues, and I can assure you that we have cases right now going on in every region of the Country and our agents are continually adjusting their work to deal with new schemes as they arise.

While it is important to investigate, prosecute, and bring to justice wrongdoers, these actions alone will not fix the problem. It is critical that we also focus our efforts on looking at how retailers bypass the system that we have put in place to control access and to try and figure out what can be done to improve the program for the future.

To this end, we have issued several audits over the past few years with recommendations for corrective actions. We have been working with FNS and our partners at USDA to address these issues. In particular, we recommend that retailer applicants need to have clean backgrounds, with no history of criminal or illegal activity. There needs to be a way to do that. We also believe that USDA should make better use of suspension and debarment appropriately to ensure that disqualified retailers do not participate in government programs in the future.

So, to conclude, we strongly believe that retailer integrity is a critical component of ensuring an effective SNAP program that delivers nutritious food to people who need it. In our experience, unscrupulous retailers are at the heart of most of the trafficking

schemes that we have seen. So we look forward to continuing our work with FNS, with our State and local partners to address this fraud where it occurs and improve the integrity of this very important program.

Thank you for your interest, and we look forward to addressing your questions.

[Prepared statement of Ms. Fong follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

STATEMENT OF THE HONORABLE PHYLLIS K. FONG

INSPECTOR GENERAL

Before the

Committee on Oversight and Government Reform

U.S. House of Representatives

March 8, 2012

Good morning, Chairman Issa, Ranking Member Cummings, and Members of the Committee. Thank you for the opportunity to testify about our office's work to protect the integrity of the Supplemental Nutrition Assistance Program (SNAP).

SNAP is the Department of Agriculture's (USDA) largest program, both in terms of participants and budget, which at present totals $75 billion annually. In my testimony today, I will highlight the work of the Office of Inspector General (OIG) to help the Food and Nutrition Service (FNS) oversee SNAP and protect the program from individuals and businesses seeking to exploit it.

While it is ultimately FNS' responsibility to take administrative action against bad actors and keep such persons from reentering the program, OIG devotes considerable resources to helping FNS ensure the integrity of SNAP as part of our mission to promote the economy, efficiency, and effectiveness of USDA programs and operations. So far this fiscal year, we have directed 48 percent of our investigative resources to the program. In the last 5 years, we have completed 779 SNAP investigations that have resulted in 1,356 indictments, 944 convictions, and 792 sanctions against individuals and businesses.[1] During that time, our monetary results have totaled more than $186 million.[2]

OIG also conducts audits designed to ascertain if programs like SNAP are functioning as intended, if allocated funds are reaching intended recipients, and if funds are achieving their intended purposes. When we find problems, we provide recommendations to help the agency better fulfill its mission. By responding to our recommendations and taking administrative

[1] We refer to investigations conducted from fiscal year (FY) 2007 through February 29, 2012.
[2] Investigation monetary results come from recoveries, court-ordered fines, restitutions, administrative penalties, and asset forfeitures.

action against those we prosecute, FNS can help ensure that every Federal dollar spent on SNAP is spent wisely.

Investigations of Disqualified SNAP Retailers

When FNS determines that a retailer is abusing the program, the agency places it on the disqualified vendor list which, in theory, should prevent that retailer from reentering the program. While FNS is active in disqualifying abusive retailers from the program, some disqualified retailers have found ways around this particular control.

Our investigations have shown that one of the most common ways a disqualified retailer can circumvent FNS' efforts to keep them out of the program is by enlisting a "straw owner," often a family member, acquaintance, or employee, as the alleged owner. By reapplying to the program using the name of this "straw owner," the disqualified retailer sets up the business again and continues criminal activities. A recent news article drew attention to an OIG case that exposed such a scheme in Hartford, Connecticut.[3] In that case, a store owner was deported after being convicted of food stamp trafficking fraud. A few years later, however, he illegally reentered the United States and opened several stores using other individuals' names. The false owners of these stores signed their names on FNS documents to obtain authorization to accept SNAP benefits, but the owner, his wife, and his brother actually operated these stores and used them to defraud the Government of about $2 million. As a result of our investigation, the store owner and his brother were ordered to pay restitution and serve a total of 78 months of incarceration.

[3] A February 20, 2012 *Scripps Howard News Service* article reported on retailers who had been removed from SNAP but managed to reenter the program and continue their fraudulent activity.

One of our investigations has even shown that a group of criminals in Florida voluntarily withdrew their store from SNAP in order to avoid detection for trafficking. The group then resubmitted an application with a different name and ownership, and continued defrauding SNAP at the same location. They executed this scheme successfully three times. On their fourth try, OIG investigative efforts led to their prosecution, and FNS removed them from the program. Our investigation disclosed that this group trafficked approximately $6.2 million in benefits. Between March and May 2010, four defendants pled guilty to wire fraud and SNAP fraud, and were each sentenced to prison terms ranging from 8 to 48 months along with restitution orders ranging from about $350,000 to $2.2 million.

When we identify schemes of this sort, OIG works with FNS so that agency officials can evaluate their program and seek ways to strengthen it. Presently, we are working with FNS to better address straw ownership and other fraudulent schemes affecting SNAP.

Audits of SNAP Retailers

While our investigations highlight how dishonest individuals take advantage of the system to defraud the Government, OIG audits have reviewed FNS' system to authorize retailers and made recommendations to prevent proven bad actors from reentering SNAP and committing additional fraud.

In 2008, for example, we found that FNS does not verify SNAP retailers' criminal records and therefore cannot comply with its own requirement to deny SNAP authorization to any retailer with a criminal history (i.e., embezzlement, theft, forgery, etc.) reflecting on the business

integrity of the owner.[4] We recommended that FNS begin reviewing retailers' criminal records, but FNS concluded that our recommendation would need a regulatory change and may not be cost beneficial. We accepted this decision on the condition that FNS continue to seek other options to better ensure the integrity of retailers applying to participate in the program. In response to our second recommendation for FNS to improve the retailer authorization process so that it would enable the successful prosecution of SNAP traffickers, FNS generally agreed.

FNS is also not making use of one of the most powerful tools available to keep bad actors away, not only from SNAP, but from other Federal programs they might exploit. "Suspension and debarment" is a legal tool that Federal agencies can use to protect programs from repeat abusers and ensure that the Government does business only with responsible parties. If FNS took steps to debar retailers with a proven record of dishonesty, those individuals would be prevented from abusing other Federal programs.

However, in a recent audit, we determined that FNS did not debar any of the 615 wholesalers and retailers convicted in relation to 208 OIG cases, even though a conviction is adequate grounds for debarment.[5] While we contend that FNS should consider disqualified SNAP retailers for suspension or debarment, it is not FNS' policy to do so. FNS asserts that it can exclude retailers under the Food Stamp Act, that disqualified retailers are unlikely to pursue other business with the Federal Government, and that debarring these individuals is costly. Rather than issuing a blanket rule that would exclude disqualified retailers from being suspended or debarred, FNS should consider suspension and debarment on a case-by-case basis. By doing

[4] Audit 27601-0015-At, *Food Stamp Program Retailer Authorization and Store Visits* (September 28, 2008).
[5] Audit 50601-0014-At, *Effectiveness and Enforcement of Suspension and Debarment Regulations in the U.S. Department of Agriculture* (August 16, 2010).

so, FNS can help protect the entire Government by preventing convicted program abusers from entering into transactions with other agencies.

SNAP Vulnerabilities beyond Disqualified Retailers

OIG has focused significant work on disqualified retailers who reenter the program and continue to exploit it. We are, however, responsible for providing broad oversight for the entire program, and we have found fraud and program inefficiencies in other aspects of SNAP as well.

In terms of fraud, we have seen many types of trafficking in SNAP benefits. By giving a recipient $50 in cash for $100 in benefits, an unscrupulous retailer can make a significant profit; recipients, of course, are then able to spend the cash however they like. In some cases, recipients have exchanged benefits for drugs, weapons, and other contraband. When trafficking occurs unchecked, families do not receive the intended nutritional assistance, and unscrupulous retailers profit at the expense of the American public.

OIG also has been looking at recipients who misrepresent themselves to receive benefits. Recently, OIG has conducted a series of audits of 10 States to assess how they used participant databases to identify potentially fraudulent recipients, and we have completed work in 5 States.[6] Our analysis of the databases that States check as part of their role in ensuring recipient eligibility revealed that a total of 8,594 recipients in the 5 States were receiving potential improper payments. Some of these recipients were using the social security numbers of

[6] The 10 States are Alabama, Florida, Kansas, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New York, and Texas. We have issued reports for Alabama, Florida, Kansas, Louisiana, and Mississippi. Audit 27002-0004-13, *Analysis of Alabama's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data* (January 31, 2012); Audit 27002-0002-13, *Analysis of Florida's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data* (November 29, 2011); Audit 27002-0001-13, *Analysis of Kansas' Supplemental Nutrition Assistance Program (SNAP) Eligibility Data* (November 23, 2011); Audit 27002-0003-13, *Analysis of Louisiana's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data* (January 31, 2012); and Audit 27002-0005-13, *Analysis of Mississippi's Supplemental Nutrition Assistance Program (SNAP) Eligibility Data* (January 31, 2012).

deceased individuals, or otherwise invalid social security numbers, while others were receiving benefits in more than one State. In total, we estimate that these recipients could be receiving about $1.1 million a month.

In our reports, we have recommended that FNS require State agencies to ensure they use a national database to perform death matches and social security number verifications, and that they perform checks to make sure information is entered correctly. Generally, FNS has agreed with our recommendations and is taking corrective action.

On December 1, 2011, we presented the early results of this work to the Subcommittee on Department Operations, Oversight, and Credit of the House Agriculture Committee. Based on the feedback we received, we expanded the scope of our audit work to include evaluating whether the States and FNS are using available data analysis tools effectively, and identifying and evaluating the integrity of amounts reported for recipient and retailer fraud.

We have also completed an audit of the Anti-Fraud Locator EBT Retailer Transactions (ALERT) system, which FNS uses to track SNAP recipient transactions for signs of fraud, waste, and abuse.[7] Although FNS compiles a "watch list" of stores with suspicious transactions, we found that FNS did not have the information it needed to determine if stores on the list were violating requirements. Further, the agency was not categorizing stores to maximize its ability to identify patterns of fraud. We recommended that FNS enhance the system to provide additional data, and develop plans to better compare stores. FNS agreed with our recommendations.

Our ongoing work includes looking at FNS' methodologies for determining its rate of SNAP trafficking (which it estimates at 1 percent) and its rate of improper payments (estimated at about

[7] Audit 27099-0032-SF, *ALERT Watch List* (July 28, 2006).

3.8 percent). We are also looking at whether FNS has data related to the level of recipient fraud in the program, which the agency does not report. Finally, OIG is planning to revisit issues related to how FNS screens new retailer applications to prevent proven bad actors from entering SNAP; our auditors are currently evaluating how to best approach this issue so that we can provide timely results to FNS.

Conclusion

This concludes my written testimony. Thank you again for inviting me to testify today before the Committee. I would be pleased to address any questions you may have.

Chairman ISSA. Thank you.
Ms. Hatcher?

STATEMENT OF JENNIFER HATCHER

Ms. HATCHER. Good morning, Mr. Chairman and members of the Committee. On behalf of the Food Marketing Institute and the families served by the 25,000 stores operated by our members, I want to thank you for the opportunity to testify today. My name is Jennifer Hatcher and I am Senior Vice President for Government and Public Affairs at FMI. For the past 13 years, through the transition from paper food stamps to electronic benefits transferred, and now the new program named SNAP, I have worked on these issues.

SNAP EBT is a positive example of a public-private partnership that works, and that adds efficiency and reduces fraud for all stakeholders in the program. Supermarket retailers are proud of our partnership with USDA and the State agencies to deliver safe, healthy, and affordable foods to customers in need of assistance. Unfortunately, the number of customers in need is higher today than it has ever been. In large part due to the conversion to electronic delivery of benefits rather than paper food stamps, a significant portion of the fraud has been removed from the system.

Many supermarkets remember vividly situations where paper food stamps were being sold by criminals in front of the store. Paper stamps provided anonymity for the perpetrators of these illegal transactions. EBT ties any fraudulent activity to a particular transaction, customer, and store location. This has taken the criminal element out of our store parking lots.

Electronic delivery has also provided State agencies with a better mechanism to compare transaction activity and look for duplication across State lines, particularly with States that share a common border. Some States have employed mathematicians to electronically identify potentially fraudulent patterns of sales.

EBT has also improved efficiency and cut down on the potential for human clerical error. SNAP EBT transactions are protected by a user's personal identification number, PIN, so that they are much more secure than paper or even credit cards.

FMI members take the responsibility as authorized food stores for the delivery of these benefits very seriously. Being an authorized SNAP retailer is part of their identity and their reputations in their communities, which is very important for them to protect. After reviewing the Scripps report and the associated list of disqualified retailers, we found no FMI members on the list, and agree that those who impugn the integrity of the program should be removed.

Fighting fraud before it happens is critical, and I thought I would share some of the steps our supermarket members take to prevent fraudulent activity in their stores.

First, and most important, is training. FMI member companies conduct onsite and offsite training for both their associates and their managers in the rules and regulations that govern SNAP transactions. There is a 76-page manual on the website that we consult on a daily basis for all of the rules and regulations governing the program. There is also a 25-page guide for retailers and

a 17-minute training video in multiple languages that can be utilized for these purposes. Several of our members have also set up their own internal audits to ensure they are in compliance and that each of their transactions is in compliance.

The vast majority of our members utilize computer systems that allow them to program via UPC code eligible and ineligible food items, and then lock the point of sale purchase system should someone attempt to purchase an ineligible item with SNAP benefits.

FMI also publishes and sends to our members on a regular basis the names and contact information of the USDA FNS regional offices and the State administrators for SNAP EBT. Both FMI and our members make the USDA fraud hotline number available to their associates and managers through each of these training materials.

There is one more issue that I feel I need to raise in the context of this hearing, and that is the extreme concentration of benefits issuance at the first month in a number of States. There are a number of issues that spreading the issuance of SNAP benefits across the entirety of the month, instead of just on the first day, could help accomplish, and we think a reduction in fraud may be an additional positive result of this change.

Thank you for inviting FMI to share our thoughts on identifying and reducing fraud in the SNAP program. Our industry is committed to ensuring a pleasant and efficient shopping experience for all our customers and we welcome the opportunity to work with the Committee and the Department to move towards additional efficiencies in the SNAP program. Thank you.

[Prepared statement of Ms. Hatcher follows:]

Testimony of Jennifer Hatcher
Senior Vice President, Government and Public Affairs
Food Marketing Institute

Before the House Oversight and Government Reform Committee
Food Stamp Fraud as a Business Model: USDA's Struggle to Police Store Owners"

Thursday, March 8, 2012

2345 Crystal Drive, Suite 800, Arlington, VA 22202-4801 T 202.452.8444 F 202.429.4519 www.fmi.org

Good Morning Mr. Chairman and Members of the Committee,

On behalf of the Food Marketing Institute[i] and the families served by the 25,000 stores operated by our retail and wholesale members, I want to thank you for the opportunity to testify today on preventing fraud in the Supplemental Nutrition Assistance Program (SNAP).

My name is Jennifer Hatcher and I am Senior Vice President of Government and Public Affairs at the Food Marketing Institute (FMI). I have served as the primary staff contact for FMI's members and our Electronic Payments Systems Committee for the past 13 years through the transition from paper Food Stamps to electronic benefits transfer (EBT) cards and now the new program name, SNAP.

SNAP EBT is a positive example of a public-private partnership that works and that adds efficiency and reduces fraud for all stakeholders in the program – the state agencies, the retailers and the customers. Supermarket retailers are proud of our partnership with USDA and the state agencies to deliver safe, healthy and affordable foods to customers in need of assistance.

Unfortunately, the number of customers in need of assistance is higher today than it has ever been. In large part due to the conversion to electronic delivery of benefits rather than paper Food Stamps, a significant portion of the fraud has been removed from the system. Many supermarkets remember vividly situations where paper Food Stamps were being sold by criminals in front of the store. Paper stamps provided anonymity for the perpetrators of these illegal transactions. EBT ties any fraudulent activity to a particular transaction, customer and store location. This has taken the criminal element out of store parking lots.

Electronic delivery has also provided state agencies with a better mechanism to compare transaction activity and look for duplication across state lines, particularly within states that share a common border. Some states have employed mathematicians to electronically identify potentially fraudulent patterns of sales with computer programs analyzing literally millions of transactions. EBT has also improved efficiency and cut down on the potential for human clerical error. SNAP EBT transactions are protected by a user's personal identification number (PIN) so they are much more secure than paper or even credit cards, which do not require this added level of identification.

FMI members take their responsibility as authorized food retailers for the delivery of SNAP benefits very seriously. Being an authorized SNAP retailer is part of their identity and reputation in the community, which is very important for them to protect. After reviewing the Scripps report and the associated list of disqualified retailers, we found no FMI members on the list and agree that those who impugn the integrity of the program should be removed.

Fighting fraud before it happens is critical and I thought I would share some of the steps our supermarket members take to prevent fraudulent activity in their stores.

First and most important is training. FMI member companies conduct on-site and off-site training for both associates and managers in the rules and regulations that govern SNAP transactions. There is a 76 page manual produced by USDA and made available on their web site that we consult frequently. There is also a 28 page guide for retailers and a 17 minute training video that can be utilized. Both are available in several languages and are available free on the web site. Several of our members have set up their own internal audit to insure they are in compliance and that each of their transactions is in compliance. The vast majority of our members utilize computer systems that allow them to program via UPC code eligible food items and ineligible items and then lock the point of sale purchase system should someone attempt to purchase an ineligible item with SNAP benefits. FMI also publishes and sends to our members on a regular basis, the names and contact information of the USDA FNS regional offices and the state administrators for SNAP EBT. Both FMI and our members make the USDA fraud hotline number available to their associates and managers through each of these training materials.

Benefits Distribution

There is one more issue I feel I need to raise in the context of this hearing and that is the extreme concentration of benefits issuance at the first of the month in a number of states. There are a number of issues that spreading the issuance of SNAP benefits across the entirety of the month could help accomplish, and a reduction in fraud may be an additional positive result of this change. If all SNAP customers were issued benefits on the first day of the month as some states continue to do, stores would have three significant problems: 1. Managing inventory for widely purchased perishable products 2. Labor issues like being able to hire full time instead of part time employees, and 3. Enabling a more positive customer experience by not having massive crowds and congestion on the first day of issuance in a month.

To address this issue, many states issue benefits over staggered days on the first 7-10 days of the month based on the case number, a digit of the user's social security number, a card number or by other means. All but ten states stagger benefits issuance, and the staggering of benefits distribution is helpful to retailers to spread inventory needs over a series of days. We encourage states to provide enhanced staggered issuance of benefits over the entirely of the month by looking at the last two digits of a case number or other identifier. Benefits in states such as Missouri and New Mexico are made available throughout a period of around 20 days every month, as opposed to just the first 7 -10 days or one day as some states still maintain. This allows for a fresher product for SNAP participants, helps address retailers' inventory concerns and helps to spread hours over a more standard timeframe. A chart detailing the current benefit distribution schedule by state is attached.

Thank you for inviting FMI to share our thoughts on identifying and reducing fraud in the SNAP program. Our industry is committed to ensuring a pleasant and efficient

shopping experience for all our customers, and we welcome the opportunity to work with the Committee and the Department to move toward additional efficiencies in the SNAP program. I would be pleased to try to answer any questions you may have.

Thank you.

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[i] Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its nearly 1,250 food retail and wholesale member companies in the United States and around the world. FMI's U.S. members operate more than 25,000 retail food stores and almost 22,000 pharmacies with a combined annual sales volume of nearly $650 billion. FMI's retail membership is composed of large multi-store chains, regional firms and independent operators. Its international membership includes 126 companies from more than 65 countries. FMI's nearly 330 associate members include the supplier partners of its retail and wholesale members.

State-by-State Monthly SNAP Benefit Issuance Schedule

State	Day(s) of SNAP Benefit Distribution
Alabama	When a person is accepted into the SNAP program they are issued a case number. From this case number an issuance date is determined by computer. This date will range from the 4th of the month to the 18th. The monthly issuance is transferred to the card on the first of the month, but is not made available to the person until the issuance date. Any leftover balance carried on the card at the end of the month is rolled over to the following month.
Alaska*	The main SNAP issuance is all on the first day of the month. Smaller supplemental issuances for new applicants and late recertifications occur daily throughout the month.
Arizona	SNAP benefits are distributed over the first 13 days of the month by the first letter of the recipients' last name as such: 1st: A, B; 2nd: C&D; 3rd: E&F; 4th: G,H; et cetera. Cash is distributed on the first day of the month for all.
Arkansas	Arkansans receive their benefits on the 4th, 5th, 8th, 9th, 10th, 11th, 12th or 13th of each month.
California	California is different in that each county distributes SNAP to those who qualify. There is not one date in which SNAP are issued. The principal payments go out to all those who qualify between the 1-10 of the month. Others (i.e. new applicants) get paid throughout the month depending on when they were accepted.
Colorado	Food Stamp benefits are distributed on the first ten days of the month by the recipient's last digit of their social security number.
Connecticut	Food Stamp benefits and cash are distributed on the first three days of the month, by the first letter of the recipient's last name.
Delaware	Benefits are made available over 7 days, beginning with the 5th day of every month, based on the first letter of the client's last name.
Florida	Benefits are available the 1st to the 15th of every month, based on the 9th and 8th digits of the Florida case number, read backwards, dropping the 10th digit.
Georgia	Benefits are made available from the 5th to the 14th of every month, based on the last digit of the client's case number.
Hawaii	Benefits are made available on the 3rd and the 5th of every month, based on the first letter of the client's last name.
Idaho*	Benefits are made available on the first day of every month. (Prior to August 2009, benefits were distributed on five consecutive days at the beginning of each month.)
Illinois	SNAP benefits are made available on the 1st, 3rd, 4th, 7th, 8th, 10th, 11th, 14th, 17th, 19th, 21st, and 23rd of every month, based on a combination of the type of case and the case name.
Indiana	Benefits are made available on the first ten calendar days each month, based

	on the first letter of the recipient's last name.
Iowa	Benefits are made available over the first 10 calendar days of every month, based on the first letter of the client's last name.
Kansas	Benefits are made available over the first 10 calendar days of every month, based on the first letter of the client's last name.
Kentucky	Benefits are made available over the first 10 calendar days of every month, based on the last digit of the client's SSN.
Louisiana	Benefits are made available between the 5th and the 14th of every month, based on the last digit of the client's SSN.
Maine	Benefits are available the 10th to the 14th of every month based on the last digit of the recipient's birth day.
Maryland	Benefits are distributed the 6th thru the 15th
Massachusetts	Distribution is based on the last digit of each recipient's social security number and distributed over the first 14 days of the month.
Michigan	Benefits had been distributed from the 3rd day of the month through the 10th. Beginning January 1, 2011, the new distribution system will move every group back one day a month until full implementation is completed in Nov. 2011. From there on and moving forward, food stamp benefits will be distributed from the 3rd of the month to the 22 of every month.
Minnesota	Benefits are staggered over 10 calendar days, beginning on the 4th through the 13th of every month, without regard to weekends or holidays.
Mississippi	Benefits are made available from the 5th to the 19th of every month, based on the last two digits of the client's case number.
Missouri	Benefits are made available over the first 22 days of every month, based on the client's birth month and last name.
Montana	Benefits are distributed by the last number of the recipient's case number, from the 2nd to the 6th of every month.
Nebraska	Nebraska distributes food stamp benefits to individuals during the first 5 calendar days of the month. The day of distribution is based on the last digit of the social security number.
Nevada*	In Nevada, food stamp benefits are issued on the first day of each month.
New Hampshire*	New Hampshire benefits are available on the 5th of every month.
New Jersey	The monthly Food Stamp allotment is available over the first 5 days of the month. The day is based on the number in the 7th position of their case number. Some of the cases still received their benefits based on the assignment at the time the county was converted to EBT. The chart below identifies the days benefits are available. Cases that were active during each county conversion were staggered (identified in 2nd position of EBT status – AG/P07) into two days as follows: If the 7th position of Case number was 1, 2, 3, 4, or 5, then day = 1. If the 7th position of Case number was 6, 7, 8, 9, or 0 then day = 2. Thereafter, new/reopen case benefits are staggered across five days as follows: If 7th pos = 1 or 2, then day = 1; if 7th pos = 3 or 4, then day = 2; if 7th pos = 5 or 6, then day = 3; if 7th pos = 7 or 8, then day = 4; if 7th pos = 9 or 0, then day = 5.
New Mexico	Benefits are made available over 20 days every month, based on the last two

	digits of the SSN.
New York	The process is twofold as follows: New York City- recipients receive their SNAP benefits within the first 10 business days of the month, according to the last digit of their case number, **not including** Sundays or holidays; the remainder of New York State - recipients receive their benefits within the first 10 days of the month, also according to the last digit of their case number, **including** Sundays and holidays.
North Carolina	As of March 2011, the state finalized a plan to expand its current 10-day distribution schedule to a 19-day SNAP schedule effective July 1, 2011. Current Schedule through June 12, 2011: If the last SSN digit is: 1, 2, 3, 4, 5, 6, 7, 8, 9, 0; benefits are available on: 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th. Schedule beginning July 3: If the last SSN digit is: 1, 2, 3, 4, 5, 6, 7, 8, 9, 0; benefits are available on: 3rd, 5th, 7th, 9th, 11th, 13t,h 15th, 17th, 19th, 21st.
North Dakota*	Benefits are made available on the first day of every month.
Ohio	Distribution is a staggered schedule between the first and tenth days of the month.
Oklahoma	On April 1, 2011, the state expanded from a one day distribution date on the first of each month to three distribution dates. On the first of each month there is an approximate 40% distribution, on the 5th of the month there is an approximate 30% distribution and on the 10th is a 30% distribution.
Oregon	Food Stamp benefits are distributed on the first nine days of the month as such: social security numbers ending with "0" or "1" distribute on the 1st day of the month, numbers ending with a "2" are distributed on the 2nd day of the month and so on.
Pennsylvania	Benefits are made available over the first 10 business days of every month. Specifically, here is county disbursement:

Adams 5	Allegheny 1-10	Armstrong 4
Beaver 3	Bedford 2	Berks 4, 9
Blair 1-10	Bradford 8	Bucks 1-10
Butler 2	Cambria 1-10	Cameron 7
Carbon 3	Centre 5, 7	Chester 1-10
Clarion 5	Clearfield 6, 10	Clinton 4, 9
Columbia 3	Crawford 8	Cumberland 1, 7
Dauphin 1-10		Delaware 1-10
Elk 4	Erie 1-10	Fayette 1-10
Forest 8	Franklin 1, 7	Fulton 4
Greene 2	Huntingdon 6	Indiana 10
Jefferson 6, 10	Juniata 4	Lackawanna 1, 7
Lancaster 1-10	Lawrence 4, 9	Lebanon 6
Lehigh 1-10	Luzerne 6, 10	Lycoming 4, 9
McKean 6	Mercer 1, 7	Mifflin 5
	Monroe 4	Montgomery 1-10
Montour 7	Northampton 1-10	Northumberland 9
Perry 4	Philadelphia 1-10	Pike 6

	Potter 3	Schuylkill 1-10	Snyder 3
	Somerset 9	Sullivan 7	Susquehanna 9
	Tioga 2	Union 8	Venango 4
	Warren 2	Washington 5, 7	Wayne 9
	Westmoreland 6, 8	Wyoming 8	York 1-10
Rhode Island*	Benefits are made available on the first day of every month.		
South Carolina	Benefits are made available from the 1st to the 10th of every month, based on the last digit of the SNAP case number.		
South Dakota*	Benefits are made available on the 10th day of every month.		
Tennessee	Benefits are made available on the first ten days of the month, based on the last two digits of the head of house hold's SSN.		
Texas	Benefits are made available over the first 15 days of the month, based on the last digit of the client's SNAP case number.		
Utah	Benefits are made available on the 5th, 11th, or 15th of every month, based on the first letter of the client's last name: A - G available on the 5th; H - O available on the 11th; P - Z available on the 15th.		
Vermont*	Vermont benefits are available on the first of every month.		
Virginia*	All recipients are paid on the 1st of the month.		
Washington	EBT benefits availability is staggered over the first 10 days of the month based on the last digit of the households' assistance unit number. Weekends and holidays do not affect the schedule.		
West Virginia	Benefits are made available over the first nine days of every month, based on the first letter of the client's last name.		
Wisconsin	Benefits are made available over the first 15 days of every month, based on the eighth digit of the client's SSN.		
Wyoming	Food Stamp benefits are distributed on the first four days of the month as such: last names beginning with "A" to "D" distribute on the first day; names beginning with "E" to "K" on the 2nd day; "L" to "R" on the third and "S" to "Z" on the fourth.		

Current as of May 13, 2011; Elizabeth Tansing; Food Marketing Institute

Notes:

- States with asterisks are those that only distribute benefits on one day a month. There are nine that still do so.
- There is no limit on the number of days for stagger. The only condition in regulation is that no single household's issuance should exceed 40 days *between* issuances.
- Benefit recipients may only be issued their benefits one time a month, or within 40 days. The USDA regulation on issuance may be viewed here: http://www.fns.usda.gov/snap/rules/regulations/pdfs/041210.pdf

Chairman ISSA. Thank you.
Ms. Faulkner?

STATEMENT OF THE HONORABLE KENYA MANN FAULKNER

Ms. FAULKNER. Thank you. Good morning, Chairman Issa and Honorable Members of the Committee on Oversight and Government Reform. I would like to thank you for the opportunity to address this Committee on the Pennsylvania Office of Inspector General's proactive and progressive steps it takes to deter and combat fraud in the Supplemental Nutrition Assistance Program, or, as we refer to it, SNAP.

Let me first say that Pennsylvania Governor Tom Corbett believes it is important for Pennsylvania to provide health and human services such as SNAP to its truly deserving citizens. Individuals who engage in fraud take away those limited resources from the neediest of Pennsylvanians.

As Inspector General, it is the mission of my office to uncover fraud, waste, and abuse within SNAP to hold those individuals who have committed fraud within the program accountable for their actions, and to recover overpaid tax dollars. The Office of Inspector General conducts its mission to combat SNAP fraud by operating several fraud investigative programs within its Bureau of Fraud Prevention and Prosecution. These programs are the Field Investigation, Fraud Investigation, and SNAP Trafficking programs. These programs are operated in coordination with the Pennsylvania Department of Public Welfare, which we refer to as DPW, which administers the Supplemental SNAP Assistance Program.

The Office of Inspector General's approach to combating fraud begins with the application for SNAP benefits. Through our field investigation program, when DPW refers an application or re-application for SNAP benefits and suspects fraud or receives inconsistent or incomplete information, it refers the application to my office, the Office of Inspector General. The OIG investigates all applicant circumstances and provides DPW with its findings. Based on these findings DPW may deny benefits or approve benefits at a reduced amount. This same referral process exists for active recipients of SNAP benefits where DPW becomes aware of circumstances in a recipient's ongoing case.

This proactive approach to combating SNAP fraud before benefits are authorized or investigating ongoing cases to ensure that only those entitled to benefits are actually receiving them is a critical function of my office.

As a best business practice, there is greater efficiency in denying or reducing incorrectly authorized benefits versus attempting to collect overpayment benefits. In fiscal year 2010–2011, the OIG conducted approximately 22,308 field investigations where SNAP benefits were involved. The cost the taxpayers avoided based on the OIG's investigations where SNAP benefits were either denied, closed, or reduced was a little over $19 million.

Not all fraud, however, can be prevented by the OIG's Field Investigation program. When DPW becomes aware of circumstances which affect a recipient's past benefits, it will calculate an overpayment of SNAP benefits and refer that overpayment to my office, the OIG, for investigation.

The OIG and its Fraud Investigation program conducts investigations on overpaid SNAP benefits and determines if the overpayment was due to the recipient's willful intent to defraud the program. Investigations where the OIG is able to substantiate that fraud occurred either criminally prosecuted or adjudicated through an administrative hearing. Court or administrative findings of intentional program violations include orders to fully repay restitution to the Commonwealth or carry a program disqualification for the defendants.

The OIG follows Federal regulations in the progressive disqualification penalties for intentional program violations, with the first violation carrying a 12-month disqualification period. In the fiscal year 2010–2011 for SNAP overpayment claims, the OIG conducted approximately 3,335 investigations which involved SNAP benefits. The OIG filed 613 criminal complaints for a total restitution of a little over $1.4 million.

The OIG disqualified 822 defendants as a result of its criminal charges, which resulted in a little over $1.6 million in cost savings from preventing further program participation. The OIG filed 180 administrative hearings with a total restitution amount of $322,463. The OIG disqualified 172 defendants as a result of its civil proceedings, which resulted in approximately $496,000 in cost savings from preventing further program participation, which includes figures from SNAP trafficking program.

In addition to efforts to combat SNAP fraud at the application stage or through prosecuting overpayments, the OIG focuses on fraud which is occurring through recipients who sell or exchange their SNAP benefits to negotiate them into cash services, credit, or anything other than food, which is defined as SNAP trafficking in my agency. The practice of SNAP trafficking is actively pursued in Pennsylvania and has been done so for many years in Pennsylvania to maintain the integrity of SNAP benefit distribution by ensuring the credibility of the vendors and the recipients. The OIG operates a small but dedicated unit to operate its SNAP Trafficking program and works integrally with the USDA and the Nutrition Service, the USDA Office of Inspector General, as well, and local district attorneys to identify store owners and recipients who engage in SNAP trafficking.

This active participation between the USDA and OIG is a chief reason why Pennsylvania has success in targeting SNAP trafficking. The USDA is responsible for disqualifying individual store and store owners, and filing criminal charges against them for engaging in SNAP trafficking. But, as you know, it takes the active participation of recipients of SNAP benefits for SNAP trafficking to occur. The OIG's responsibility in its partnership with USDA is to actively pursue the recipients who trafficking their benefits and hold them accountable for their actions, including criminal prosecution, obtaining repayment of illegal transacted benefits, and disqualification from the program.

[Prepared statement of Ms. Faulkner follows:]

Pennsylvania's Efforts to combat fraud in the Supplemental Nutrition Assistance Program

Testimony of
Kenya Mann Faulkner
Inspector General
Commonwealth of Pennsylvania
Office of Inspector General

Committee on Oversight and Government Reform
March 8, 2012

Members of the committee, thank you for the opportunity to provide testimony on behalf of the Commonwealth of Pennsylvania, Office of Inspector General.

The Office of Inspector General (OIG) has as one of its core missions to combat fraud, waste, abuse, and misuse within Commonwealth-administered federal and state governmental benefit programs. The Supplemental Nutrition Assistance Program (SNAP) is one of the many benefit programs administered by the Pennsylvania Department of Public Welfare (Department) for which the OIG has jurisdiction to oversee its appropriate receipt and use by recipients of welfare benefits.

The Commonwealth of Pennsylvania divides the responsibility for administering the SNAP between the Department and the OIG as separate agencies, with the responsibility for approving applicants for SNAP, administering ongoing benefits, developing program standards, and calculating overpaid SNAP benefits resting with the Department. The OIG has as its responsibility to investigate instances of suspected fraud from the application stage through investigating overpaid benefits and to hold those individuals responsible either criminally or civilly. It does this through several fraud control programs: The Field Investigation, Fraud Investigation, and SNAP Trafficking Programs. In addition, the OIG operates a bureau which conducts programmatic reviews of Department programs, which can include SNAP.

This written testimony will speak to the OIG's fraud control efforts with specific regard for SNAP, but it is nevertheless difficult to speak to its efforts without first identifying the program integrity measures the Department takes to ensure SNAP benefits are appropriately distributed. It is also important to discuss the integral collaborative partnership the OIG has with the Department and its ongoing efforts to ensure SNAP, as well as all other program benefits, are distributed appropriately.

Department of Public Welfare

SNAP Authorization

The Department is responsible to take applications for SNAP benefits, review information and authorize applicants for benefits. The Department renews recipients in the program through annual re-applications and acts on all reported changes which affect ongoing benefits. The

Department will act on information, either through reported changes, Department verifications, or information received by the OIG to reduce/close (stop) benefits and will calculate an overpayment claim if the information indicates one occurred.

The Department engages in many fraud control measures at application and for ongoing recipients of SNAP. Specifically, the Department uses the Income Eligibility Verification System matches to ensure applicants are providing true, correct, and complete information such as employment and past criminal history. The Department also verifies applicants' identifying information, such as Social Security Number, to ensure benefits are authorized appropriately.

If during the application stage, during an ongoing case, or at reapplication the Department finds reason to suspect fraud, or has inconsistent or incomplete information, it will make an investigative referral to the OIG. The OIG will investigate the circumstances of the investigative referral and inform the Department of its findings. The Department also refers all established overpayments to the OIG for review, possible investigation, and collection activities.

Program Integrity Measures

The Department embarked on an exhaustive, comprehensive, and enterprise-wide Program Integrity Initiative to identify the processes/controls, policies, technology, performance measures, and organizational structures currently in place to identify, eradicate, and monitor fraud, waste, and abuse. The result of this innovative initiative is a complex strategic plan that is being implemented. Key priorities for 2012 include:

- Increased recoveries of overpayments
- Improved quality control processes
- Tighter application intake controls
- Streamlined fraud referral processes
- Enhanced provider accountability
- Focused program integrity performance measures to drive decision making
- Implementing information technology solutions that will target front-end detection.

Additionally, the Department is creating Program Integrity Intake Units to handle high-risk client applications. These units in the County Assistance Offices will be dedicated to reviewing high-risk applicants prior to eligibility determination. When new applicants are flagged for these high-risk criteria, staff will refer the case to the Program Integrity Intake Units. The units will investigate the application and take action as necessary prior to establishing eligibility. The units will make referrals of suspected fraud or contradictory or incomplete information to the OIG.

The Department developed and implemented an internal process to monitor Electronic Benefit Transfer (EBT) card usage. Specifically, the Department directed staff to identify suspicious EBT card usage patterns, such as out-of-state transactions, with the intention of developing a strategic plan that includes policies and procedures for reviewing EBT-related reports on a consistent basis and utilizing trend analysis to identify high-risk areas that require further review and/or referrals to the OIG.

Like other state health and human services agencies, the Department is vulnerable to fraud through EBT card replacement. In a September to December 2010 study, the Department found:

- DPW issued nearly 150,000 replacement cards
- Approximately 30,000 recipients were issued their 10th or greater replacement card
- Approximately 8,100 recipients were issued their 20th or greater replacement card
- One recipient received his or her 88th replacement card

The Department currently deducts $2.50 per replacement card from the recipient's EBT card balance. 7 C.F.R. Part 274.12(g)(5)(v) limits states to charging recipients only the cost to produce cards. The Department would like to partner with the United States Department of Agriculture – Food and Nutrition Service to increase the fee for habitual offenders and charge it directly to the recipient rather than deducting it from the card balance. This effort would require a policy change by the federal government or a waiver of the current policy.

The Department and the OIG have an ongoing relationship with respect to program and fraud control processes. In 2011, the OIG appointed a Special Assistant to the Inspector General to act as a liaison between the OIG and Department for mutual affairs. The Special Assistant works directly with the Department on all of the Department's Program Integrity Initiatives, lending it the perspective gained from the OIG's fraud investigations.

Office of Inspector General

As mentioned above, the OIG operates several fraud control programs with respect to SNAP which involve its Bureau of Fraud Prevention and Prosecution (BFPP). The office of Special Assistant to the Inspector General on DPW Affairs is also vital to the OIG's overall scope of operations and commitment to combating fraud in the SNAP.

The OIG is not only responsible to conduct investigations concerning fraud in the SNAP, but it is also the state agency which collects all overpaid Department monies, regardless of fraudulent intent. Pursuant to federal regulation 7 CFR § 273.18, Claims Against Households, all overpaid SNAP benefits, no matter if the overpayment is due to client error or administrative error, must be collected. OIG follows the federal regulations to collect this civil federal debt, to include pursuing payment of delinquent claims through the United States Treasury Department's Treasury Offset Program, which intercepts federal payments such as tax returns or Social Security Administration payments to pay off delinquent SNAP debt. In Fiscal Year 2010-2011, the OIG civilly collected $6,847,254 in overpaid SNAP benefits.

Bureau of Fraud Prevention and Prosecution

BFPP investigates SNAP fraud along with all other forms of public welfare fraud such as cash, medical, and subsidized child care assistance. Often SNAP fraud investigations are combined with other forms of assistance as the recipient received multiple benefits simultaneously. Its referrals come from the Department, the federal government, and the community through tips and complaints.

BFPP's Policy Division is also responsible to write and maintain the SNAP Claim Management Plan which is the document it provides to the USDA/FNS on how the SNAP overpayment claim process operates in Pennsylvania, from the establishment of the overpayment to collection of overpaid benefits.

BFPP's main investigative programs are the Field Investigation, Fraud Investigation, and SNAP Trafficking Programs:

Field Investigation Program

The objective of the Field Investigation Program is to conduct investigations of applicants and recipients of welfare benefits to verify circumstances which may affect benefit authorization or retention of ongoing benefits at their current level.

- OIG Welfare Fraud Investigators (Investigators) receive referrals from Income Maintenance Caseworkers at the Department's County Assistance Offices and District Offices. Investigators also receive tip complaints from the public. Investigators may self-generate referrals if they witness welfare fraud in the community.

- The Investigators' primary goal is to address the circumstance for the referral or tip, which could be anything from questionable household composition or unreported employment, to questionable residency.

- Investigators complete their investigations and submit their findings back to the referring caseworker or, if a tip or self-generated referral, to the caseworker managing the caseload of the recipient. Based on the Investigators' findings, the Department will take the appropriate action on the application or the ongoing caseload, to include denying the application or closing authorized benefits, reducing the amount of authorized benefits, or taking no further action.

- Based on the results of the determination by the Department, if there is a negative impact to benefit authorization or ongoing retention, BFPP will calculate an amount of cost avoidance based on the specific benefits being applied for or that a recipient is receiving, which were either denied/closed or reduced.

- For State Fiscal Year 2010-2011, BFPP:
  - Conducted 22,308 Field Investigations where SNAP benefits were involved.
  - Total cost avoidance for the program was $19,121,447.

Fraud Investigation Program

The objective of the Fraud Investigation Program is to investigate overpaid welfare benefits and determine if the cause of the overpayment was the recipient's willful intent to defraud the program or their failure to report a material fact. Caseworkers calculate the overpayment claims and forward to BFPP either electronically or manually. BFPP Claims Investigation Agents (Agents) review these overpayments and identify ones for further investigation.

The Fraud Investigation Program is broken down into two sub-components with respect to SNAP benefits: The Prosecution Program and the Administrative Disqualification Hearing Program.

- **Prosecution Program**

  - The Agents will receive overpayments electronically from the OIG's Avoidance and Recovery System (OARS), review all overpayment claims, and assign certain overpayment claims based on their review for further investigation. The Agent's primary responsibility is to investigate the basis for the overpayment claim and gather all necessary evidence to substantiate the three elements of welfare fraud.

    - The three elements of welfare fraud are:
      - A recipient's knowledge of their responsibility to report changes which affect their benefits,
      - Receipt of welfare benefits, and
      - A willful false statement or failure to report a material fact.

    - All welfare fraud charges, including SNAP, are filed under Pennsylvania Statute 62 § 481. Failure to Report. Federal regulation 7 CFR § 273.16 stipulates program disqualification for those who plead or are found guilty for SNAP fraud.

  - The Agent, upon completion of his or her investigation, will draft a private criminal complaint, affidavit, and report of investigation and submit the file to the supervisor for review and either approval, denial, or direction for further investigation. Upon approval, the Agent will schedule a meeting with the respective county district attorney's office to present the case and gain the district attorney's office approval. Once approved by the district attorney's office, the Agent will file the charges with the local magisterial district justice office that has appropriate jurisdiction and proceed to a preliminary hearing.

  - Possible results aside from a guilty plea or a found guilty verdict are commonly the Accelerated Rehabilitative Disposition program, or a settlement which dismisses charges with satisfaction of restitution and agreement for program disqualification. For all dispositions aside from a guilty plea or a found guilty verdict, the defendant is required to sign a Disqualification Consent Agreement, which upon approval from the court for deferred adjudication or dismissal agreement, will allow the OIG to impose a program disqualification on the individual.

  - Disqualifications for successful prosecutions are based on the number of program violations the defendant has. The penalties increase with the number of violations. Disqualification penalties are only imposed on defendants to the criminal matter and will not affect benefits received by other household members.

- For SNAP, the disqualification penalty steps are 12 months for the first, 24 months for the second, and permanently for the third. There are circumstances for increased penalties, such as falsifying identity to obtain Food Stamps in two states, which carries a 10 year disqualification for the first violation. The OIG follows federal regulation 7 CFR § 273.16 for appropriate disqualification of individuals from the SNAP.

- All defendants, regardless of the outcome of a court proceeding, are responsible for full repayment of the overpaid monies and the OIG will not negotiate an overpayment amount in pursuit of disposing the criminal case.

- In State Fiscal Year 2010-2011, BFPP:
  - Conducted 3,335 overpayment claim investigations.
  - Filed 613 criminal complaints which involved SNAP benefits.
  - Asserted a total restitution amount of $1,496,245.
  - Disqualified 822 individuals as a result of its program which resulted in $1,645,566 in cost savings from preventing further program participation.

- A few examples of criminal prosecution cases are below:
  - Schuylkill County investigation uncovered a recipient who fraudulently received more than $42,900 in child care and SNAP benefits. The defendant failed to report that the father of her children resided within her residence and that he was employed. The defendant pleaded guilty, was sentenced to 48 months probation, ordered to pay court costs, fines, and full restitution, and was disqualified from the programs.

  - Berks County investigation uncovered a recipient who fraudulently received more than $5,450 in SNAP benefits by failing to report the receipt of child support from the Berks County Domestic Relations Office. The defendant was sentenced to two years probation, 24 hours community service, ordered to pay full restitution and fines, and was disqualified from the program.

  - Lehigh County investigation uncovered a recipient who fraudulently received more than $5,800 in cash assistance and SNAP benefits by failing to report employment and income. The defendant was sentenced to one year probation, ordered to pay full restitution and costs, and was disqualified from the programs.

  - Northampton County investigation uncovered a recipient who fraudulently received more than $6,350 in SNAP benefits by failing to report a mandatory household member's employment and income. The defendant was sentenced to 23 months probation, ordered to pay full restitution, costs, and fines, and was disqualified from the program.

  - Dauphin County investigation uncovered a recipient who fraudulently received more than $19,200 in SNAP and subsidized childcare benefits by

misrepresenting household composition. The defendant was sentenced to 48 months probation, ordered to pay full restitution, costs, and fines, and was disqualified from the programs.

- **Administrative Disqualification Hearing (ADH) Program**

  - The ADH Program is a civil hearing process for overpayment claims which meet the three elements of welfare fraud and are investigated identically to a criminal case, but are decided for a number of reasons to be processed civilly rather than criminally.

  - ADH's are heard before an Administrative Law Judge with the Department's Bureau of Hearings and Appeals. The ADH is a formal process similar to a criminal court hearing. The results of the ADH are binding to both parties. A hearing decision for the Commonwealth will include repayment of the overpayment and program disqualification pursuant to applicable federal regulations.

  - In State Fiscal Year 2010-2011, BFPP:
    - Conducted 180 ADH investigations which involved SNAP.
    - Received 172 waivers of the ADH.
    - Asserted a total restitution amount of $322,463.
    - Disqualified 172 individuals as a result of its program which resulted in $496,477 in cost savings from preventing further program participation (amount includes cost savings from SNAP Trafficking disqualifications).

- **SNAP Trafficking Program**

  - BFPP provides investigative services to the U. S. Department of Agriculture – Food and Nutrition Services (FNS) and to the USDA – Office of Inspector General (USDA-OIG), by conducting SNAP Trafficking investigations. SNAP Trafficking occurs when SNAP benefits are fraudulently exchanged for cash, services, credit or anything other than food. Clients access their SNAP benefits via an Electronic Benefits Transfer (EBT) Card, which is similar to a bank debit card. BFPP staff review transaction logs of suspected stores and interview clients who used their EBT card in that store to attempt to get corroborating evidence of trafficking.

  - **FNS – PA-OIG relationship**

    - FNS provides the PA-OIG with various reports identifying potential SNAP trafficking activity. These reports include the Anti-Fraud Locator EBT Retailer Transactions (ALERT) Report, showing suspicious EBT card transactions; FNS charge letter, detailing allegations of SNAP trafficking against a SNAP retailer; Store Survey Report; Store Redemption History Report, showing redemption history of a particular store; Competing Store Survey, showing annual food sales comparisons with other stores in the same geographic area; and when appropriate, the retailer's signed voluntary

disqualification from SNAP. These FNS reports are based on the following parameters:

- Excessive number of transactions ending in the same cents value.
- Consecutive transactions conducted within unreasonably short time frames.
- Multiple transactions involving the same recipient account.
- Unreasonable depletion of food stamp benefit balances of $100 or more.
- Unreasonably large SNAP benefit transactions for the store size.
- Admittance statements from recipients, if applicable.

- BFPP staff review the various FNS reports and SNAP benefit transcripts to select potential Intentional Program Violation (IPV) cases for further investigation. Transactions not specifically made for food form the basis of the BFPP's IPV claim.

- Clients who are found, through an Administrative Disqualification Hearing, signed waiver, or court disposition, to have trafficked their SNAP benefits must repay those benefits and are disqualified from receiving SNAP benefits.

- Stores are disqualified by FNS as a result of their proactive data monitoring of suspicious EBT card transactions, tip allegations referred to them from the OIG's Welfare Tip Line, or collaborative efforts involving mass recipient interviews to obtain voluntary admissions of trafficking when confronted with suspicious card activity.

- With an increased focus on integrity of services and programs, FNS has ramped up the referral of stores for review and investigation, which will lead to a greater number of investigations by BFPP and increased cost savings in this program. Currently, BFPP has approximately 200 stores referred by FNS for review and investigation which involve numerous potential recipients who have trafficked their SNAP benefits.

- **USDA-OIG – PA-OIG relationship**

  - The USDA-OIG provides the PA-OIG with documentation following the successful investigation and prosecution of a retailer for trafficking. These documents may include the retailer's sworn statement admitting to serious violations of SNAP; court documentation verifying the retailer was convicted in United States District Court of SNAP Trafficking; the retailer's guilty plea, if appropriate; the retailer's sentencing sheet.

  - Clients identified by the USDA-OIG of having used their EBT card fraudulently during retailer investigations and subsequent prosecutions are

reviewed by BFPP and either sent to an Administrative Disqualification Hearing, criminal prosecution, or no claim is established.

- Recently, the USDA-OIG been working with PA-OIG to develop a new project with the USDA-OIG to specifically identify recipients who may have trafficked in stores where the owner has been prosecuted for trafficking. The project intent is to have the USDA-OIG provide a list of recipients to BFPP who would then investigate and seek statements from the recipients who trafficked at the identified store. Under the proposed project, BFPP would provide a list of recipients who admitted to trafficking at the store to the USDA-OIG who would potentially use the recipients as cooperating witnesses to build a stronger case for federal prosecution of store owner. BFPP would, in turn, receive details of the federal prosecution from the USDA-OIG to use in state prosecution or Administrative Disqualification Hearings of those recipients.

- In Fiscal Year 2010-2011, BFPP:
  - Conducted 584 trafficking investigations.
  - Scheduled 158 ADH's for trafficking, with total restitution asserted of $258,375.
  - Received 77 waivers of the ADH.
  - Asserted a total restitution amount of $117,809.
  - Disqualified 77 individuals as a result of its program which resulted in $496,477 in cost savings from preventing further program participation (amount includes cost savings from normal SNAP ADH disqualifications).

- A few examples of SNAP Trafficking Program investigations are as follows:
  - BFPP received numerous tips regarding a store trafficking SNAP benefits. The tips were forwarded to the FNS for review and the store was subsequently permanently disqualified from the SNAP effective March 17, 2011 for trafficking. BFPP received the recipient transactional data and is currently pursuing Administrative Disqualifications on those individuals believed to have trafficked their SNAP benefits. As of February 2012, five recipients have been disqualified from the SNAP for trafficking their SNAP benefits at this store and has scheduled another thirteen recipients for Administrative Disqualification Hearings.

  - A deli and grocery store was permanently disqualified from the SNAP on April 26, 2010. As of February 2012, fourteen recipients were disqualified from the SNAP for trafficking their SNAP benefits at this store.

Chairman ISSA. Thank you.

I will now recognize myself for five minutes.

Ms. Faulkner, a lot of what you were talking about, of course, are people who receive the benefit and abuse it. That represents a large part of the State's role, is to make sure that the food, we still use the term stamps, but that SNAP program funds get to the ultimate recipient, which is usually family members, is that correct?

Ms. FAULKNER. That is correct.

Chairman ISSA. Now, in your enforcement, the fact that these are basically credit cards that are digitally monitored and that you can track, that has dramatically made your job more accurate, hasn't it, than the old days of paper?

Ms. FAULKNER. Yes, it has.

Chairman ISSA. Well, that begs the question, I think, well, Ms. Hatcher, I have been at the grocery store when I have seen the exclusion of unauthorized materials, where every grocery store I have gone to has the software where they simply say, yes, that is fine you have just credited $35, but you still owe us $6.50 for the cigarettes, or whatever. That is great. Do 100 percent of your members have that? And if not, why not?

Ms. HATCHER. A hundred percent of our members that have electronic point-of-sale systems would have some ability to download that, and we are increasing that number. I would have to get back with you on the exact number, percentage of stores, but it is over 90 percent for sure.

Chairman ISSA. That is excellent.

Well, Mr. Concannon, every grocery store I go to these days is electronic. Not every liquor store I go to is electronic. One of the basic questions is, if you cannot reduce fraud to an acceptable level, to make your IG happy, if you will, is it that important that every liquor store, and I use the term liquor store very specifically, because sometimes people want to call themselves convenience stores. But we all know, as the ratio gets close to your minimum food to cigarettes and alcohol, your fraud level goes up. No question at all; it is well understood. Is that one of the areas in which the test must be higher and the tolerance for any slippage must be lower?

Mr. CONCANNON. I appreciate the question, Mr. Chair, and to the point you make, stores, by Federal requirement in the Farm bill, must provide a certain number of foods in the food group, and it is what we refer to as the depth of stock requirements. I am very interested, I know Secretary Vilsack is as well, in increasing the obligation on stores that have more foods than those minimums that currently meet it for stores that maybe their real interest is in selling tobacco or selling alcohol to folks. They can't buy that with their SNAP card, but it is encouraging people to come into those locations.

Chairman ISSA. I appreciate that.

Now, both your op-ed, which I would ask unanimous consent be placed in the record, without objection, and your statement quite frankly give a fairly rosy picture, and in the case of your comments on Scripps Howard it was a little bit like the Ranking Member's thanking us for the hearing and then saying we want to starve the children implications in everything Republicans do in the budget.

Scripps Howard exposed, at least in some cases, fraud you were not aware of, is that correct?

Mr. CONCANNON. Yes, they did, in a very small number of cases. And I want to correct the record because the Scripps Howard piece mistakenly made the notion——

Chairman ISSA. No, I appreciate that, and you said that in your op-ed, you've said it in your opening statement.

Mr. CONCANNON.—stores are taken out of the program, not the physical location——

Chairman ISSA. Right. My time is limited.

Mr. CONCANNON. Okay.

Chairman ISSA. And you were invited here not to be mistreated, but you were invited here because we are concerned and we really don't want to have our whistleblower bashed, even if there was 1 percent accuracy; and there appears to be far more than 1 percent accuracy.

Here is the question I have for you, and it is the only question I am going to make today, and I think Ms. Fong will particularly appreciate it. The rest of government uses permanent exclusion and debarment fairly aggressively. It is not an easy task, but it guarantees that those who have cheated the American people as vendors are not just removed for a period of time from your program, but in fact are removed from eligibility government-wide. Why do you not use it broadly, and will you begin using debarment, or do you believe you don't have the authority to?

Mr. CONCANNON. There are many compelling reasons why we do not currently use it. We are able to take stores, we have taken stores out this very week for simply trafficking or for misleading us in their application, falsification. We don't have to hold hearings. During the pendency of that, we give stores 10 days to respond to us. We take them out. If we use debarment, we have to go through a whole extended hearing process.

Now, as well, when we take these stores out, most of the stores we are talking about are small stores; they rarely interact with other parts of government. They don't have pharmacies, they are not stores that government doesn't buy liquor from liquor stores, to use the earlier reference point. It is far more efficient for us to do this.

Now, I will say this. We have completed requirements with the General Services Administration to allow our agency to now start filing excluded parties listing, which means once that company is on that list, they can't do business with any part of the Federal Government. This is a more efficient way to do it, and in the meantime we can take bad actors out.

Chairman ISSA. Ms. Fong, my time has expired, but it looks like you have at least a partial answer beyond that.

Ms. FONG. Thank you. We feel very strongly that USDA, as a whole, needs to do a better job with suspension and debarment. We believe that there may be some room here to work with FNS to really get the best possible system in place, and I think excluded parties program disqualification and suspension and debarment are all necessary remedies to be looked at, and we feel strongly about that.

Chairman ISSA. Thank you.

The Ranking Member is recognized for five minutes.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Let me make it very clear that if there is one dime of money that is not going where it is supposed to go, there is nobody I think in this room, and particularly not on this side of the aisle or the other, that would stand for that. I want an even higher standard than the 1 percent. I want zero. At the same time, though, I want to make sure that we have balance in this whole process when we have taken $127 billion out of a program. We want to make sure that the people who need the program are taking advantage of and have an opportunity to get the funds that they need.

Now, Secretary Concannon, I want to thank you for your testimony, and again going back to what I just said, House Republicans have cut $127 billion out of this program. That means that they would eliminate food assistance to some 8 million people, according to the Center on Budget and Policies. Mr. Concannon, according to your agency's data, nearly half of the SNAP beneficiaries are under the age of 18, is that right?

Mr. CONCANNON. Correct, sir.

Mr. CUMMINGS. And I want to go back for a moment because there is something that the Chairman didn't give you a chance to answer, but I think I know what you were trying to get to. Sometimes you have a store that is disbarred. This goes with the owner, is that right?

Mr. CONCANNON. That is correct, sir.

Mr. CUMMINGS. So it is sort of like, when I was practicing law, if somebody, say, for example, had a liquor license and they were a bad actor, they then sold it or whatever, then the new person comes in and that's a new situation, is that right?

Mr. CONCANNON. Correct.

Mr. CUMMINGS. So some of the Scripps article was about folks who had been taken out, but then the store was owned by somebody else, and then that came under a whole new situation, is that right?

Mr. CONCANNON. Correct. Some of those articles that were referenced to me suggested that, again, the location and the owner were one and the same when they came back in. We have 231,000 locations in the United States authorized for this. The majority of them are small stores, and that is invariably where these problems occur, in small stores. And of that 231,000 over the years, we have taken out permanently some 8,300 stores over a 10-year period. And in about just over 1,200 locations of that 8300 different owners came and are operating the program.

So it is not the same as saying that same person came back, but in fairness to Scripps Howard, they found a small number in that 36 that I showed here earlier that had slipped back into the program by falsifying their applications, and we have strengthened, on the basis of working just in the past two months, strengthened the requirements for a variety of vetted pieces of information that will assure usw that there is no connection whatsoever to a prior owner.

Mr. CUMMINGS. Now, let me give you some interesting information. My good friend, Senator DeMint down in South Carolina, introduced legislation to cut SNAP benefits provided under the Re-

covery Act. The Pennsylvania Governor, Tom Corbett, announced a plan to disqualify anyone under the age of 60 who has more than $2,000 in savings and assets, which would prevent families from working towards self-sufficiency. The mayor of Philadelphia called this proposal "one of the most mean-spirited and asinine proposals to come out of Harrisburg in decades." Other States have pursued similar proposals. In Georgia a bill was introduced to require beneficiaries to obtain mandatory "personal growth" activities.

Now, Mr. Concannon, do you know what these personal growth activities are and do you know how they would be implemented on a national level or the State level?

Mr. CONCANNON. I am unfamiliar with that. I have seen references to that in the media, but I am unfamiliar with the specifics of the bill.

Mr. CUMMINGS. Now, we all know that there will be instances of fraud and we all agree that we need to be vigilant to prevent fraud before it happens and prosecute it in all of these cases. But according to your data fraud rates in this program have been going down, not up, is that right?

Mr. CONCANNON. That is correct.

Mr. CUMMINGS. Do you concur with that, Ms. Fong, they have been going down?

Ms. FONG. We are aware of FNS's studies that say that. We have not personally assessed those studies, and we plan to do some work on that.

Mr. CUMMINGS. Okay.

Now, Mr. Concannon, they have dropped to an all-time low record of less than 1 percent, is that right?

Mr. CONCANNON. Correct, sir.

Mr. CUMMINGS. All right.

I know the Chairman got about a minute and a half longer, but——

Chairman ISSA. [Remarks made off microphone.]

Mr. CUMMINGS. Would you just answer that?

Mr. CONCANNON. We have been working very closely with States across the Country both to reduce what is called the improper payment level, meaning individuals get more than they should or less than they should. That is less than 4 percent, what was traditionally an 8 percent number.

In the case of trafficking, as was mentioned earlier I think by the Chair, in the era of paper coupons was much more widespread. The electronic benefit card has considerably brought that down. That and other work with States. One percent was the last study we did. We are going to do another study later this year to update that on trafficking. But it is 1 percent. It is one of the best records among Federal programs.

Mr. CUMMINGS. But that is not good enough for you, is it?

Mr. CONCANNON. It is not. I am not satisfied with that, even.

Mr. CUMMINGS. Very well. Thank you.

Chairman ISSA. The gentleman from Tennessee, Mr. DesJarlais, is recognized for five minutes.

Mr. DESJARLAIS. Thank you, Mr. Chairman, and thank you all for being here today. I think that this is one thing that we can agree on on both sides of the aisle. We don't want to see hungry

children. We don't want to see hungry people. We live in a Country that is fortunate enough to be able to share and help these people, and it is unfortunate that here in Congress it is so common for Democrats and Republicans to make accusations against one another when really we agree that, on all these programs that are designed to help people, we want to do the very best we can to make sure that those in need are the ones getting the help.

So if we can tone down the political rhetoric and look at how we can do the very best we can to make sure that not a single calorie is taken away from those in need, then we can get a lot further than arguing and making accusations. I know that is the case in Medicare, it is the case in Medicaid, it is Social Security disability. So often one side accuses the other of trying to go over the top, but oftentimes that is for political reasons. And these aren't Democrat issues or Republican issues; these are people issues. So again I appreciate you being here today.

Ms. Fong, if we are going to try to do the very best, whether it is 1 percent, 5 percent, a half a percent, we need to find out what the problems are and how to solve them, so can you tell me what is the most typical kind of fraud that you see in the food stamp program?

Ms. FONG. Well, we have a number of schemes that we see. Most of them focus on trafficking, which is a situation where a recipient goes to a retailer and tries to cash in the card for money, in which case both parties come away feeling that they have gotten a good bargain. There are numbers of ways that this happens. We have seen different schemes over the years where retailers and recipients get very creative about shopping the card, as it were.

Mr. DESJARLAIS. Okay. Do people who illegally traffic food stamps, do they tend to be people that also try to commit fraud in other government assistance programs like Section 8 housing or Medicaid?

Ms. FONG. I don't believe we have any data on that, although I will say that we do, on occasion, joint investigations with other government agencies such as HHS, which manages the Medicaid-Medicare program, and sometimes there will be recipients who are involved in all of those programs.

Mr. DESJARLAIS. How much money could a store owner who traffics in food stamps likely make illegally?

Ms. FONG. Well, I think you would want to look at it on sort of a per benefit basis. It can range. There are some very small retailers who, in the context of their business, will make thousands of dollars. There may be other larger retailers or smaller ones who engage in multiple transactions who can benefit by hundreds of thousands of dollars or even millions. And some of our investigative results will show restitution sentences that can range from hundreds of thousands to millions.

Mr. DESJARLAIS. Okay. Just so we kind of know if there are citizen watchdogs and people out there that are looking for this type problem, can you give us an example of the most elaborate scam involving store owners that your office has investigated?

Ms. FONG. Well, I think we certainly have a number of cases going on. Most recently we have seen situations where there have been runners employed who will take cards from recipients and

take them to many different retailers and swipe those cards to get benefits, and there will be maybe a group of retailers who work together to do this. So there are some very complicated schemes there.

Mr. DESJARLAIS. Ms. Faulkner, you probably also have seen this type of thing. Could you share maybe what one of the most egregious fraud cases that you are aware of? And then when that happens, do you frequently see children deprived when their guardians engage in SNAP fraud?

Ms. FAULKNER. I think any time there is fraud, children are involved, especially when it relates to the SNAP program. But what I would like to share with you is one of the more sophisticated trends, and I think Inspector General Fong touched upon it. In a program such as SNAP, a recipient will go to a restaurant or a bar, and this is not a place where they would accept EBT cards, but they would go there and the restaurant or bar would go to a grocery store and buy, say, $200 worth of groceries for the bar or restaurant, and then they would give the recipient half, 75 percent, something off of the EBT card. And really it cuts out, you never really see the bar or restaurant transaction; what you see is the recipient using to buy $200 worth of groceries at this particular grocery store.

That is a little hard to track, and being stricter on the retailers will help this problem because you cut out that restaurant that is being used to get the money. So we see that in Pennsylvania sometimes.

Mr. DESJARLAIS. Well, I see time has expired, but thank you all for what you to do make sure that those people in need get the food that they need.

I yield back.

Mr. GOWDY. [Presiding] The Chair thanks the gentleman from Tennessee and recognizes the gentlelady from California, Ms. Speier.

Ms. SPEIER. Thank you, Mr. Chairman.

I want to compliment the Chair of this Committee in recognizing the important function we have to look at government programs and evaluate the fraud.

Having said that, I want to compliment everyone on the panel. I think you have a 98 percent grade, and a 98 percent grade is something we should be applauding. A 1 percent fraud rate is just remarkable, and I am very impressed by what you are doing.

Here is my question. Are we spending more with the budgets for fraud detection and the IG than we are generating in restitution or repayments? Yes, Inspector General Fong?

Ms. FONG. I would be happy to comment on that. I will say that our budget in the IG's office is around $85 million a year, and we bring in, on average, $14 or $15 for every dollar that is appropriated to us.

Ms. SPEIER. Okay, so you are valuable in what you are doing.

Here is my concern. There has been a recommendation, I think by the IG, that you review retailer applications for criminal records. Makes a lot of sense. Why aren't you doing it?

Mr. CONCANNON. Thank you very much. We have received that recommendation that we rely upon something called the NCIC, the

National Crime Information Center, data. I was a former State director and I used that system through the State police in the States that I was in. One has to be a law enforcement agency in order to access those data; we can't do it as the FNS. The OIG, if it had the resources, it could possibly do so, but we are not allowed to. You have to be a law enforcement agency to get into that database.

Ms. SPEIER. All right, I understand what you are saying, Under Secretary.

So this is to General Fong, then. How would you suggest we review the criminal records, then? What do we need to do in order to accomplish that? And will it give us enough bang for the buck? If we invest in doing that, will we save a significant amount so that it would be worth our while to do it?

Ms. FONG. That is a very complex question, and the Under Secretary is absolutely right, we have been back and forth on this issue as to the best way to get criminal background information. I think right now the application form has been revised to require certification under penalty of criminal prosecution, and I think that is a very good move. I think we can continue our discussions on this. Right now we do not have the authority as the IG's office to run these kinds of NCIC checks for a program purpose, so we will need to do some further consultation.

Ms. SPEIER. Well, we are able, I know, in California to do background checks for childcare providers, so I can't believe that the Federal Government, as talented as it is, cannot find a way to create a means by which this background check can take place. So I would encourage the Committee to pursue this and find a way to achieve that.

The other issue that I wanted to draw attention to was this issue of suspension and debarment. As I understand it, there were 615 wholesalers and retailers convicted, but none of them have been suspended or debarred, and the rationale for not doing this is that it is costly. Well, democracy is costly. I don't think we can use the argument that it is costly. If we have evidence of convictions and these retailers have violated the laws and we don't debar them, then shame on us.

Anyone want to respond to that?

Mr. CONCANNON. If I can try to answer that. The preamble to the new departmental regulations on debarment excludes the SNAP and WIC program transactions because of statutory language that provides for comprehensive statutory disqualifications. In everyday English let me say that we rely upon our taking owners of stores and corporate groups out of the program, and as I mentioned earlier in my testimony, we have been negotiating with the General Services Administration to have these folks listed on a listing that they operate where people who are permanently barred from doing work with the government, they cannot. They will now be listed on this list that goes to all Federal agencies.

So in our view we will achieve what debarment is intended to, but it will allow us to take them out without extended due process hearings that drag this out on and on, and allow people to stay in the program during that time.

Ms. SPEIER. All right, my time has expired. Thank you, Mr. Chairman.

Mr. GOWDY. I thank the gentlelady from California.

The Chair would now recognize the gentleman from Pennsylvania, former United States Attorney, Mr. Meehan.

Mr. MEEHAN. Thank you, Mr. Chairman. You sit well in that seat.

I am very appreciative of all of the panel for the work that you do, the significantly important work that you do, and I want to attach myself to the comments of Dr. DesJarlais earlier in our shared interest, first, and most importantly, in delivering these services appropriately to those most in need. So to the extent that we are able to effectively root out the fraud, more is available for those purposes.

Ms. Faulkner, I noticed there was some testimony, I did want to correct the record to the best of my understanding. There was some testimony today about the Pennsylvania administration's guidelines with regard to points at which there would be determinations of eligibility, and I know that there was an original proposal, but to the best of my understanding, there was also some collaboration on the part of the governor's office and that they have made a significant change with regard to that guideline so that it is far more realistic in terms of—is that accurate?

Ms. FAULKNER. Yes. What I would like to say is that everyone has been referring to the asset test.

Mr. MEEHAN. Correct.

Ms. FAULKNER. Which was always in place in Pennsylvania until 2008. But the asset test is apples and oranges. We are talking about fraud and the asset test is something different. But, yes, the governor reinstated and increased the threshold to $9,000 and to $5,500. So it has been increased. It was always in place and, really, it is apples and oranges from fraud to what we are talking about here today.

Mr. MEEHAN. I just wanted to make sure that that was clear.

I want to express my deep appreciation. In a very short time you have really developed quite a reputation for the very good work that you are doing in that office.

Ms. FAULKNER. Thank you.

Mr. MEEHAN. And I am particularly interested in the work that relates to this concept that between 8 and 15 percent of the fraud is associated with trafficking. It would seem to me that this is a choke point that we would really be able to work on. Now, are there some things that you do that you see characteristics that take place when there is trafficking that help you to identify those that may be the most suspect?

Ms. FAULKNER. What we have been doing in Pennsylvania is we have a dedicated unit. We have the Fraud, but we have OSC, which is really just a unit that focuses on SNAP. And what we find in Pennsylvania is that that has been growing, the fraud hasn't been reducing.

So we have worked with Federal and local DA's offices to try to reduce what is going on with the retailers and the recipients, and what we find is that once the Federal Government determines who the stores are, we then come in and tell them who the recipients

are in order to close the loop, because the recipient is the one who really starts the ball rolling in this.

Mr. MEEHAN. It would seem to suggest, if you are seeing an increase, then that is sort of contrary to some of the important progress that we have been able to make through the electronic process. But you have given testimony earlier that creative criminals can always find ways around a system, so are you looking for patterns and other kinds of things that help us get to those? I am really particularly interested in the retailers, because they are the ones that are facilitating the ability.

Ms. FAULKNER. I am sorry to interrupt. One of the things we did notice with the retailers is that they would have whole dollar amounts; you would go to the store and see $100 used. And that was one of the things that they used to determine whether this could be some type of fraud. So we do follow that. People going to the same stores all the time. Those are just indicators; they are not always determinative.

But we look at those things to see if trafficking is occurring there. And we have, like I said, a small unit in the office right now, a supervisor and three people working on this entirely. We are hoping to expand it more. That is what we see in Pennsylvania, that there is a need to investigate this more. I can't talk about the Federal Government or other States, but in Pennsylvania we see a need to——

Mr. MEEHAN. Do States work with other States so that while you are looking at patterns within your own State, are you able to check with New Jersey or Delaware or Maryland in any way to determine whether you are matching your efforts to see if there are patterns that exist among some of the same individuals?

Ms. FAULKNER. Well, I think the concern is—I did reach out to New Jersey. They handle their SNAPs differently. Every State is different. So while I have personally done some reaching out, I have not been able to connect in sort of determining whether there are patterns in States.

Mr. MEEHAN. Well, thank you. As a former prosecutor, I am sort of quite surprised by the concept that we aren't able to take the very simple information that is contained in the NCIC, one of the fundamental databases that we use oftentimes. I would really appreciate the work of you individuals to help us identify what we can do. I would be delighted to work with the gentlelady from California to assist you in those efforts.

If we can facilitate the basis to do what seems like a very common sense thing, I would ask your assistance in following up in submitting to us whatever recommendations you have that would make it easier, and I once again applaud the work of each of you for the efforts that you do. Thank you.

Mr. GOWDY. I thank the former distinguished U.S. attorney from Pennsylvania, Mr. Meehan, and now would recognize the gentleman from New York, Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me begin with you, Mr. Concannon. Can you explain to me what kind of quality control system the SNAP program uses to ensure that only people who are truly eligible for SNAP are actually receiving it? What do you have in place to detect it?

Mr. CONCANNON. Thank you very much. As was mentioned at the outset, I was the State Health and Human Services Director for 25 years in three States, and of all of the Federal and State benefit programs that are administered, the Food and Nutrition Service, long preceding my time here, puts a particular emphasis on what is referred to as the quality control error rate, meaning people need to be eligible for the program, so they have to demonstrate, in fact, their eligibility by virtue of pay stubs or other sources of information.

We also have to make sure that when I present myself, I am who I say I am. And that QC program, that error rate has gone from historically up in the 8 to 9 percent range down to below 4 percent, and that has been achieved by encouraging States to use multiple databases. So, for example, in the States that I worked in, when somebody would come in and apply, Mr. Concannon would check against the Labor Department, we check against IRS, we can check against the child support program list for new hires every State has to maintain.

Social Security has something called the Social Security list; the U.S. Department of Health and Human Services has another list, the acronym of which is PARIS; and now some 47 States rely on that database alone. Back in 2000, only 16 States used it. And the Office of Inspector General, among others, has urged us to make sure that States make use of these particular databases. So there are a variety of ways to assure, one, I am who I am and that when I report my income it is that which is truly income that is coming into my household.

Mr. TOWNS. Let me ask you this. How does the SNAP error rate compare to other Federal programs?

Mr. CONCANNON. I believe, I haven't really tracked them lately, but I can tell you that I think it is one of the best among Federal, State benefit programs. And I know that at a State level, governors' offices, I know this very directly, pay careful attention when the QC error rate is made known to each State. We do this individually. We punish the States that fall below a certain minimum around QC error rates and we reward States who do an outstanding job in that regard.

Mr. TOWNS. Let me ask Ms. Fong, I think it was you that mentioned the amount of indictments. My question to you would be what is the conviction rate? You know, sometimes we read about indictments and that is all we hear, and sometimes people get all excited because there was an indictment, but there is no conviction. So what is your conviction rate?

Ms. FONG. I would be happy to provide that for the record, but my recollection of the data is that we have a very high conviction rate. It is a significant percentage of our indictments.

Mr. TOWNS. The reason I raise this question, I was sort of thinking in terms of the question that the gentlewoman from California raised in terms of your budget versus the amount of money that you bring in, because I was just wondering about that other piece, which is not a part of your budget, that would also be a certain amount; I'm not sure how much. So I was just sort of looking to see in terms of the profit involved here based on your budget, based on the amount that you are actually retrieving.

Ms. FONG. I am just retrieving some data here. Just to give you a general sense of it, in the last few years our monetary results in SNAP alone have been almost $30 million. And I think I should just make sure that I provide that for the record, but our conviction rate is close to 50 percent.

Mr. TOWNS. Right. And the reason I ask this, you know, I don't view this Committee as one of those "I gotcha" committees; I view it as a committee that is working to save the Government money and to make certain that people that are supposed to get service, that they get service, and that we have an obligation and responsibility on this side of the aisle to work with you to try to make certain that that happens.

And I want you to know that is my reason for being on it for, like, 30 years. That is my purpose, and I hope my purpose never changes.

Thank you very much, Mr. Chairman.

Mr. CUMMINGS. Would the gentleman yield?

Mr. TOWNS. I would be delighted to yield.

Mr. CUMMINGS. Just real quick.

Mr. Concannon, you said punish the States that have bad error rates. How do you punish them?

Mr. CONCANNON. We have sanctioned States or punished them both by we can recover, we can penalize them financially. We send them letters, warning letters saying basically you are falling below a certain threshold. Now, our goal, obviously, is to get that error rate down so that we provide technical assistance and training, but we put them on notice, and over a period of five or so years I think we have sanctioned some 17 States. I will make sure I verify that, but that is what I recall.

I know we take, it can be a financial penalty. We do pay attention to the performance of States because we know it affects the very consumers that members have been asking about here this morning.

Mr. GOWDY. I thank the gentleman.

When this Committee was looking at Medicare and Medicaid fraud, I distinctly remember the hearing because there was outrage, appropriate outrage that the entities that had engaged in the fraud were still doing business with the government. I think the gentleman to my right expressed very appropriate outrage.

So my question, Ms. Fong, is the same as Mr. Cummings' was then. When you have recidivists, repeat offenders, what do we need to change about the debarment process so that that is the default, instead of disqualification? Because disqualification is an insufficient penalty, to me, for recidivist offenders.

Ms. FONG. I believe that the government suspension and debarment process is an effective process, and USDA has implemented regulations and, as a whole, the Department could do a better job of implementing that. I think that there are concerns, as the Under Secretary has expressed, about timeliness and length of time.

I think we need to engage in those discussions because my understanding is that if you have somebody convicted of a criminal felony, that disqualification, while it may be effective vis-a-vis the food stamp program, it is not really as effective for other government programs. And if you have a criminal conviction, it should be

a pretty quick process, because the conviction, in and of itself, is sufficient evidence to proceed, so it should not take a long time to do this, maybe a month, two months.

Mr. GOWDY. Well, let me say this. I distinctly remember spending four days in a courtroom prosecuting a lady for disturbing a school, and I spent three days in a courtroom prosecuting someone for throwing an iced tea cup at a DEA agent. So resources and time should not be the only barometer by which we decide whether a case should be prosecuted or not, or else we would never prosecute petty crimes. So whatever needs to be changed in the process, I hope you will give all of us that have expressed an interest in it a list so we can put a little more teeth into the punishments when people systemically defraud the Government.

I want to move to the gentlelady from California and Mr. Meehan's point about NCIC. You know, NCIC has arrests that don't result in convictions; it has pardons, it has expungements; it has other information that law enforcement may have an interest in seeing, but they are not convictions.

But the remedy is very easy, because schools do it and churches do it and after-school programs do it: just have one NCIC-trained operator on site and then redact the non-convictions. The notion that we can't do background checks on people who want to do business with the Government, people do them all the time for schools, churches. Everyone does it.

So redact the information. Go to a law enforcement agency that does track convictions; go to the clerk of court's office. There is a way to get that information other than NCIC. And if there needs to be an exception to NCIC for government agencies that are looking at fraud, I can't speak for the gentleman from Maryland, but I would be happy to do that, and I don't think law enforcement would resist it one bit.

Ms. Fong, you mentioned a 50 percent conviction rate. I would have been run out of office if I had a 50 percent conviction rate, and I don't think Mr. Cummings would have been hired as often as he was hired if he had one. That strikes me as a low conviction rate. Is it because you are negotiating a civil punishment instead of a criminal punishment? Does the statute need to be changed? What needs to be done so we don't swing and miss half the time?

Ms. FONG. Let me take a look at that data, because I want to make sure that I get you the right percentage, and I will provide that for the record. And when we do that, we will also provide you with our insights on that.

Mr. GOWDY. All right. And my final question for you is this: If I wrote the numbers down right, you said there are 900 cases, 600 of which are against retailers. I think your energies and efforts should be directed towards retailers, but not to the total exclusion of individuals who are providing a market, if you will, for this kind of fraud. So what do your numbers look like on prosecuting individuals who either sell their cards for cash or otherwise engage in fraudulent activity?

Ms. FONG. Let me just generally address the approach that we take on law enforcement. We focus our efforts on the retailers because when we go to the U.S. attorney's offices for Federal prosecu-

tions, they have certain thresholds for prosecution which involve dollar amounts, et cetera.

So the dollar amounts tend to be on the retailer side, which are much higher. When it appears that there are recipients involved, as there usually are, we partner with the State prosecutors because those tend to be violations of State and local laws. So our most effective approaches are when we do joint work, where we take the retailers to the Federal prosecutors, the State prosecutors work on the individual recipients, and we can approach all of those as a global kind of approach.

Mr. GOWDY. That sounds like a perfect marriage. And you are going to need witnesses against the retailers, and sometimes the recipients make very good witnesses.

With that, the gentleman from Massachusetts, Mr. Tierney.

Mr. TIERNEY. Thank you very much, Mr. Chairman. This is exactly the type of oversight that we need to be doing on programs. If we are going to have programs where everybody agrees that we need to reduce hunger and that we agree that fraud can't be allowed, if we are going to have the public support behind it, then I think this is a good thing for this Committee to be doing on that basis.

In my district, the 6th District of Massachusetts, we have a lot of tremendous groups working very, very hard to try to reduce hunger on that. The have seen a 40 percent increase in people accessing soup kitchens and pantries. With the economy the way it is, it has been very, very difficult for them. Massachusetts is the only State that I am aware of that actually has a line item for this type of issue under the Massachusetts Emergency Food Assistance Program, but they have sort of level budgeted.

So all of my folks that are working real hard on this, when they see a proposal or a 20 percent cut in the SNAP program, it is panic, because they want to make sure that fraud isn't an issue as well, but they want to make sure that they have the resources. When I hear the numbers of 4 percent down to as low as 1 percent on fraud, but 20 percent cut in the budget, I understand why they are looking that way.

We have over 15,000 people in our district that benefit from these programs. I guess 35 percent of them have a household member over 60; 41-plus percent have a household member under 18. So we are talking seniors and children, so it is important that we get this right.

Julie Fontaine, who does our Open Door program up there covers Amesbury to Beverly, they serve about 5,400 individuals, about 2,200 families, basically. But then we have Haven for Hunger, Bootstraps. We have a lot of people working very hard on that.

So we need to know that we are focusing and this is a situation on fraud that we need to do.

But I do make the note, Mr. Chairman, this Committee has a broader portfolio. On the subcommittee on which I sit, we have been looking at contracts in Afghanistan, and I just know that on food service I have asked the subcommittee chairman to have a hearing on that. We just recently had a situation where the Defense Logistics Agency thought that they were overpaying the food

distributor in Afghanistan $787 billion and have asked for that money back. That is serious, serious money.

So we need to do it on this program and I am impressed, Mr. Concannon, that you are continually working on this and your numbers are keeping it down, and we need to do it right across the board on that because we can't allow it to happen.

The focus here, what I am hearing, is you think you have it down well below 4 percent, maybe as low as 1 percent, is that correct?

Mr. CONCANNON. Correct.

Mr. TIERNEY. And you are trying to get all the new permutations of how people might do fraud. Do you have a new website?

Mr. CONCANNON. We have a new website we started up a month ago and later this spring we will be promulgating regulations that increase the financial penalties. When a store is taken out of the program and it is sold to a new owner, I have been interested in increasing the financial penalties so people don't just say, well, it was the cost of doing business; I will flip the store. So we continue to add layers.

Mr. TIERNEY. You also had an issue with Facebook and Craig's List and those issues. How did you attack that?

Mr. CONCANNON. We did. We notified—and that is what the inspector general was talking about, new types of fraud. That is an example. We have had several examples that way recently and we have written to Craig's List, some of the other social media sites, but we have also amended our regulations so even the simple intent, the expressed intent to sell your benefits constitute a violation. We consider that trafficking; you will be out of the program.

Mr. TIERNEY. And you have tried to increase some of the fines for falsifying information, things of that nature?

Mr. CONCANNON. We have indeed. We have strengthened, again, the requirements and look for a variety, require a variety of, for example, tax—these are particularly from stores to the earlier comments that were made—on looking for additional corroborating information beyond what we have traditionally sought, and especially so in locations where we have had prior issues.

These kinds of issues of trafficking and fraud tend to congregate in the same location, so we want those spots get moved up on our high-risk profiles, but we also want to make sure that we are exhausting every available source of information to us.

Mr. TIERNEY. And I think the acting chairman's comments on the debarment issue, that contractor in Afghanistan that was overcharging $787 million, they are still operating on a single course contract; they don't even have to compete for the contract and they are still in business, so I know that your efforts at debarring people is important to this Committee, both sides of the aisle, and moving forward on that. I hope that you do proceed.

But I am hearing from Pat Baker, who does our Mass. law reform, tells me you are doing a very good job, and they are adamant to work with you on that. But people are clever and they keep coming up with different ways.

One of the ones that they have noticed recently crosses the border between abuse or people who abuse the system. They are finding that some women who are supporting their children on this are being threatened and sometimes even physically attacked by people

to get them to turn over their electronic card. Are you addressing that issue at all? Has anybody come across that? Because apparently it is more prevalent.

Mr. CONCANNON. That would be the kind of incident where we have a number of partnerships with what we call State law enforcement bureaus as well, and we would definitely want to know about that because that absolutely is the worst kind of extortion. So we would want to work closely as Inspector General Faulkner mentioned, we work very closely with State agencies in a variety of things, but that would be horrific. We would be happy to pursue that.

Mr. TIERNEY. Good. Well, thank you all. I think it is important that do.

Thank you, Mr. Chairman.

Mr. GOWDY. I thank the gentleman from Massachusetts and I apologize to the gentleman from Virginia and the gentleman from Texas because I got the order out of whack. So I would now recognize the gentleman from Virginia, as I should have, and then the gentleman from Texas.

Mr. CONNOLLY. Mr. Chairman, thank you. No need for an apology. I know the pressure sitting in that chair.

[Laughter.]

Mr. CONNOLLY. But you are always gracious and I thank you.

Mr. Concannon, I am old enough to remember some groundbreaking books like Nick Katz's Let Them Eat Promises and Michael Harrington's The Other America, and the groundbreaking work done by the United States Congress, especially by then Senator George McGovern on a bipartisan basis with then Senator Bob Dole to establish the food stamp program to address a pervasive problem of hunger and malnutrition in the United States. Has the food stamp program in fact successfully addressed the issue of hunger and malnutrition in the United States?

Mr. CONCANNON. I believe the food stamp program has been one of the most effective line efforts to reduce hunger in the Country, and it also has reduced poverty. We know even the Census Bureau, in the last year, pointed out that last year alone 4 million additional Americans would have sunk below the poverty line absent the food stamp program.

As has been mentioned here today, almost half, 47 percent of the beneficiaries of food stamps are children; another 8 percent are senior citizens over 60; about 20 percent of the households have a person with disabilities. And increasingly these days the food stamp program is serving households in which 41 percent of the household members live in a household where one of the adults is earning, that is, is in the workforce.

And I refer to that group of beneficiaries as often the new faces of SNAP. These are folks who have been displaced in this difficult economy. They may not be getting as many hours at their work, so it is really important that the SNAP program be responsive.

Across the Country, SNAP is now serving 72 percent of the eligibles in the Country, and that has been moving upwards from in the mid-50s, then the mid-60s, now 72 percent; and we are serving more than 90 percent of the eligible children across the Country. There are a few States that are still far below the rest of the Coun-

try that we continue to dialogue with and work closely with, but the program really is responding as it should to the needs of folks in this Country. It is the most inclusive of both State and Federal feeding programs.

Mr. CONNOLLY. So if I understand your testimony, in the 40-plus years since we started this program, it has in fact achieved its desired result in reducing hunger and malnutrition in rural and parts of urban America, as well as reducing the poverty rate in the United States.

Mr. CONCANNON. Yes, indeed. A measure that the Federal Government uses that we publish reports on annually is food insecurity, and we have data that points to the impacts of the food stamp program, as it is still known in 20-something States.

Mr. CONNOLLY. And what percentage of food stamp recipients are children?

Mr. CONCANNON. Forty-seven percent.

Mr. CONNOLLY. Forty-seven percent. And that translates into how many people?

Mr. CONCANNON. Well, there are 46 million people, so in round figures it is somewhere around 21 or 22 million.

Mr. CONNOLLY. Children.

It is too bad the title of this hearing is Food Stamp Fraud as a Business Model: USDA's Struggle to Police Store Owners, because it seems to suggest or one could infer from that title that we have already prejudged the case and apparently fraud is rampant, and it kind of begs the question of the purpose and original mission of this program, and whether it, in fact, has achieved that mission, some fraud that has to be stamped out notwithstanding.

But let me ask you a question. Given that title, what percentage of SNAP funds were improperly issued last year? This Committee, the subcommittee I sit on, has looked at improper payments. What percentage of the total program has been classified as improper payments?

Mr. CONCANNON. Last year we achieved record low. We and States—I should point out we work closely, all of our benefits are extended through States and we achieved an improper payment rate of 3.81 percent. About 3 percent of that was overpayments and just under 1 percent of that was underpayments, meaning the beneficiary, based on his or her income or household income, 3 percent of them received more than they should have; less than 1 percent received less. This is part of our quality control effort.

Mr. CONNOLLY. And of that total—I am sorry, we are running——

Mr. CONCANNON. Okay.

Mr. CONNOLLY. Mr. Chairman, your pitch hitter, Mr. Chairman, offered to give one extra minute, I think.

Chairman ISSA. [Presiding] He is so much kinder than I would be.

[Laughter.]

Mr. CONNOLLY. I lucked out, Mr. Chairman, that is right. So I would ask the Chair to honor that request.

But 3.8 percent, roughly, of improper payments, so all of that was not fraud?

Mr. CONCANNON. Correct.

Mr. CONNOLLY. What percentage of fraud again?

Mr. CONCANNON. The fraud figure that we have is 1 percent.

Mr. CONNOLLY. And have we reduced improper payments over the last decade or is that going up?

Mr. CONCANNON. We have considerably—that is one of the charts that I think we handed out. We have reduced it considerably over the past decade and continue to focus on it, as well as reducing fraud in the program also.

Mr. CONNOLLY. So it is good that this Committee is having this hearing to absolutely highlight there are still problems, and our goal should always be to get it to zero. But let's not overstate the problems and let's not lose sight of the mission, especially at budget time, when some people might be thinking of $100 billion cut in the program.

Ms. Fong, you mentioned to us that you still think that Mr. Concannon's operation still could do a better job of debarment and suspension, correct?

Ms. FONG. That is correct.

Mr. CONNOLLY. Mr. Concannon, could you address that in my final question?

Mr. CONCANNON. Well, as I mentioned——

Chairman ISSA. In your second overrun minute.

Mr. CONNOLLY. I am sorry, Mr. Chairman.

Chairman ISSA. Go ahead, please.

Mr. CONCANNON. Thank you. Well, I mentioned earlier that we believe that the approach that we take of moving people out of the program immediately is a more effective way and to most of the beneficiaries, the stores, I should say, that we are concerned with don't do other business with the Federal Government. But even to cover that we have been working with the General Services Administration to have these stores or companies put on the excluded parties list system, which will prevent them from being able to participate with other government programs.

Now, we are also continuing to have dialogue with the Office of the Attorney General to see if there are ways we can do both. Our desire—we don't have an aversion to the debarment process; it is that it slows it down, and we like the authority we have right now. When we find that a store has misled us about their business relationships or where they have been debarred before, we can take them out of the program. We send them a letter, we give them 10 days; they are out. I don't have to give them more hearings, I don't have to give them more due process; they are gone.

Mr. CONNOLLY. Mr. Chairman, I thank you for your consideration.

Chairman ISSA. Of course. And because I know you want full disclosure, Ms. Faulkner, I think you had something to say on those questions too.

Ms. FAULKNER. I wanted to talk about what my SNAP trafficking program has found in the fiscal year 2010–2011. We conducted 584 just SNAP trafficking investigations. We scheduled 158 administrative hearings with a total restitution we received back of over $250,000. We disqualified 77 recipients of SNAP benefits who committed trafficking violations, which really gave us a cost savings of close to $500,000. And that is with the limited staff that we have.

So in Pennsylvania, as I stated earlier, we are seeing more fraud, we are, and that we have little staff. We hope to get a little bit more, but that was our 2010–2011 alone, and we don't expect it to go down.

Chairman ISSA. I know Ms. Fong has previously said that you don't necessarily concur with those figures independently at this point, and I would only ask that since the Secretary said that they are going to redo them again, I would hope that we could expect them to be mutually agreed to by metrics that then you could essentially concur with.

Ms. FONG. Yes. We have some work planned for this year to take a look at the methodology and those numbers.

Chairman ISSA. Thank you.

We now go to the gentleman from Texas, Mr. Farenthold.

Mr. FARENTHOLD. Thank you, Mr. Chairman.

I would like to deal with something that I hear about from my constituents, and that is the stretching of actually items that qualify under the program. For instance, I received a photograph from a constituent of a sign outside of a place that prepares pizzas to order, they just don't cook them. So apparently it qualifies under the letter of the law, but certainly I wouldn't think under the spirit of the law.

The sign out there says Accepts the Lone Star Card, which in Texas is our method for doing that. You also see an instance of grocery stores and convenience stores also offering quite a few hot food items that I would think would not qualify under the program.

I guess I will address this to Ms. Fong. What are you all seeing with respect to that and what can we do to combat that?

Ms. FONG. We, as far as I know, have not received any allegations along those lines that would indicate fraud or criminal activity. I would defer to the Under Secretary because I think it is really a policy question.

Mr. FARENTHOLD. All right. Mr. Secretary?

Mr. CONCANNON. I would be happy to try to answer it. To the second part of your question, when you look at, first of all, consumers in the program cannot buy hot foods, period. They can buy frozen foods, and there are pizza chains that have been admitted into the program over time. I mentioned earlier in my testimony one of the definitions of who is eligible for the program in terms of the 231,000 providers is set in the statute through the Farm Bill, and it requires a minimum number of certain food groups, it is that we refer to as the depth of stock requirement; and I would like to see that strengthened because——

Mr. FARENTHOLD. Let me follow up on that maybe with Ms. Hatcher, because we have the technology now in place through UPC codes that we can actually determine what items are qualified and don't qualify, and I guess, if you wanted to get into a Big Brother scenario, could actually probably link up who is buying what. And with the cost of UPC readers $20, $30 to hook up to a PC, I can't imagine any store being too small to implement it. Do you see some technological solutions to these problems?

I will let you answer it and then I will come back to the Under Secretary.

Ms. HATCHER. Sure. Well, I guess the question about hot foods, that one is already taken care of now because our members, and we educate them very clearly, hot foods are not eligible, and we code in anything that is a hot food item as ineligible in the store. Then I think his question on the pizza thing, it would depend exactly. If it is a frozen pizza in the frozen section, then it would be eligible; if it is a heated pizza that is in the deli area, it would not be eligible.

Mr. FARENTHOLD. It just strikes me a made to order pizza cooked or not cooked is stretching it.

Mr. Under Secretary, I guess my question to you is do you see a technological solution? Again, another complaint that I hear consistently from constituents is people will go in and buy highly processed food with low nutritional value. I don't want to get into the business of dictating what people do and don't eat, but to some degree our money, our rules. I mean, what do you see as an optimum situation there?

Mr. CONCANNON. Unfortunately, on the processed food question, I am not talking about those mini carrots that come from larger carrots, I am talking about processed food that has too much sodium and too many trans fats and so on, all of us, unfortunately, as Americans eat more processed food than any Country in the world.

So we are trying, through another part that I have responsibility for, the Center for Nutrition Policy, to encourage Americans to eat healthier, more fruits and vegetables, My Plate, it is a very simple but I think a very effective icon. And we are also encouraging access to farmer's markets for, in your case, Lone Star beneficiaries to try to nudge them, direct them to buying healthier, often locally grown foods.

But I still remain very interested in increasing the requirement for these small stores to have better choices of fresh fruit, healthier foods for people, rather than just the overabundance of processed food.

Mr. FARENTHOLD. All right, I see my time has expired. Thank you very much.

Chairman ISSA. I thank the gentleman. All time has expired.

I want to thank our panel of witnesses. I think this was informative. Contrary to what might have been perceived, this was a limited hearing, limited to businesses who in fact defraud the government and deny our children, that 22 million or more children, the receipt of the actual food rather than trading 50 for 100.

Our intention is to allow for at least five days for members who are not able to get here for questions to supplement by asking all of you questions. Would you agree to respond to them if you get them in writing?

Mr. CONCANNON. Certainly.

Chairman ISSA. I want to thank you. I also would like to ask unanimous consent that any witness who thinks of something that you didn't say that wants to supplement their own record be allowed to do so. Without objection, so ordered.

We stand adjourned.

[Whereupon, at 11:08 a.m., the committee was adjourned.]

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Opening Statement

Rep. Elijah E. Cummings, Ranking Member
Hearing on "Food Stamp Fraud as a Business Model: USDA's Struggle to Police Store Owners"

March 8, 2012

Thank you, Mr. Chairman. I welcome today's opportunity to conduct oversight of the SNAP program, which has one of the most vital missions of any government program: to prevent abject hunger in homes across America.

Mr. Chairman, thank you for agreeing to invite the minority's witness, Ms. Jennifer Hatcher of the Food Marketing Institute. Since this hearing is about store owners, I thought it was appropriate to invite them. Ms. Hatcher's organization represents 26,000 supermarkets and food stores across the country that implement the SNAP program on a daily basis.

I also want to thank you for allowing our minority witness to appear on the first panel with everyone else. You did not have to do that, but you did, and I am truly grateful.

Let me start by emphasizing a critical point: nearly half of the beneficiaries of the SNAP program are poor, hungry children. SNAP currently serves 46 million Americans with incomes at or below 130% of the poverty level. According to USDA, 47% are under 18 years old. SNAP also serves millions of people who are elderly or have disabilities.

SNAP has never been more critical than it is today. The 2008 financial crisis drove more Americans into poverty than at any other time since we started tracking this data. The collapse of Wall Street and the evisceration of trillions of dollars in household savings forced millions of Americans to turn to this critical safety net, and it has been there for them.

While the need for the SNAP program is at an historic high, fraud within the program is at an all-time low. SNAP is one of the most efficiently run federal programs with one of the lowest fraud rates of any government benefits program. Fraud has declined from approximately 4 cents of every dollar expended in 1993 to only 1 cent of every dollar expended today.

The majority appears to be basing today's hearing on a recent press story about certain store owners who have been disqualified from the program, but allegedly regained entry in some way. Although this would be problematic if true, we have not seen evidence to support

allegations that there is a "pervasive weakness" in the program or that the "magnitude of fraud in the program may be much greater than initially reported."

In fact, today we will hear just the opposite: that this press account has significant problems, that USDA has acted quickly to address bad actors, and that the SNAP program continues to be an extremely well run program.

Given this strong track record, I am concerned that the true purpose of this hearing may be to discredit the entire program in order to justify draconian cuts. Last year, every Republican member of this Committee voted to convert the SNAP program into a block grant program and slash its funding by $127 billion over the next ten years, a massive reduction of almost 20%.

This proposal was part of the plan proposed by Budget Committee Chairman Paul Ryan and adopted by House Republicans last April. According to the Center on Budget Policies and Priorities, this proposal will force up to 8 million men, women, and children—*children*—to be cut from the program or will severely reduce the amount of food they can buy. Where are these children supposed to go if they are hungry?

I believe there is a compassion deficit here in Washington. Obviously, a dollar squandered in this program is a dollar that does not go to poor families that desperately need food, but efforts to impose draconian cuts to this program will cause even greater harm to the very people who need the most help.

So while I strongly support efforts to make the program more effective and efficient, I will do everything in my power to oppose efforts to use these isolated examples to discredit and gut the entire program.

I look forward to a productive discussion today on ways to improve one of the most successful federal programs to prevent poverty and hunger throughout America.

Statement of Congressman Gerald E. Connolly
March 8th, 2012

Last week this Committee held a hearing on GAO's report about duplicative federal programs and wasteful tax expenditures, precisely one year after the Committee held the same hearing on the previous year's GAO report. In the intervening year we did not hold a single hearing to address any of GAO's substantive recommendation, a record which drew the rebuke of Republican Senator Tom Coburn. What is our encore to that performance? We are holding a hearing on food stamps, implying falsely that the SNAP program is either expensive or wasteful. Yet again, Mr. Chairman, this committee is wasting an opportunity to advance the critical work of making government work more efficiently—a hallmark of our oversight mandate—in favor of an ideologically-motivated attack on a successful program to relieve hunger among our neighbors.

Since by definition food stamp recipients are very poor, it is not surprising that whatever savings could be extracted from food stamp oversight would be meager. Indeed, total improper payments for food stamps through SNAP are some $13.2 million per year (3.8%), according to testimony from today's hearing, and the large majority of those are inaccurate payments, not payments obtained through fraud. By comparison, the failure to manage oil and gas leases on federal lands costs $1.81 *billion* per year, according to GAO's testimony last week. Oil company tax loopholes cost even more, $37 billion annually just for the five largest international oil companies. The Congressional Research Service estimates that large corporations steal $100 billion per year from taxpayers through the use of offshore tax havens similar to the one that allowed Mitt Romney to pay a mere 15% tax rate. Sadly, it goes without saying that this Committee has not followed up on GAO's recommendations to reduce giveaways to large oil companies which happen to be among the most profitable companies on earth. Nor has this Committee held a single hearing on data center consolidation and cloud computing, despite laudable efforts by the Administration to eliminate or consolidate more than 800 federal data centers. GAO recommended we pursue data center consolidation, but this Committee has been missing in action even though we have sole jurisdiction over this issue.

This hearing makes a mockery of the Committee's interest in oversight and cost savings. There is no evidence of wide spread food stamp fraud, nor is there data to suggest that the Department of Agriculture (USDA) fails to investigate potential fraud aggressively. Improper payments at SNAP have declined recently, reaching a record low in Fiscal Year 2010. USDA has reduced improper payments by more than 50% over the last ten years, saving $3.3 billion in 2010 alone. The testimony presented by USDA suggests that the agency and its Inspector General have a comprehensive and proactive program to avoid fraud and, where it does occur, prosecute it. In fact, most evidence suggests that SNAP is a highly efficient program that provides critical benefits to the most vulnerable Americans. It ensures 46 million citizens, some 15% of the

population, has enough to eat. According to Census Bureau data, SNAP kept five million Americans out of poverty during the recession which followed the 2008 financial crisis.

The benefits of SNAP are not limited to its 46 million recipients. Moody's estimates that each dollar of benefits distributed through SNAP generates $1.72 in economic activity, a very large multiplier which contributes to economic growth. The Congressional Budget Office estimates that SNAP is one of the top two tax or spending tools to promote economic growth, measured by return on federal investment.

No doubt the majority will claim that it supports legitimate SNAP recipients and only wants to focus on fraud. Yet the absence of widespread fraud and the tiny potential savings from SNAP belie this purported interest in oversight. This hearing simply is another attack on America's working class, just like the hearings and markups in this Committee which were designed to slash public employee pensions and mandate layoffs of Postal Service employees. Sadly, if anti-public employee zealots in public office had not been successful in their efforts to curtail local, state, and federal employment, our national unemployment would now stand at less than 7% and our economy would be growing substantially faster.

Scripps Investigation Unveils Food Stamp Fraud

10News Partnered With Scripps Howard News Service In Investigation Into Food Stamp Fraud

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The federal government each year bans about 1,000 retailers found to have engaged in fraud from ever accepting food stamps again.
But scores of these retailers disobey the permanent prohibitions and continue to shortchange complicit customers and unwitting taxpayers.

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Public records suggest that these prohibited businesspeople are brazen enough to reapply to deal in food stamps -- sometimes from the same location at which they were caught committing fraud.
While the U.S. Department of Agriculture has won applause for its efforts to police the $75 billion-a-year food-stamp program that assists 46.2 million Americans, it has had difficulty screening out rogue retailers.
A Scripps Howard News Service investigation has found records indicating that dozens of individuals who had been banned as food-stamp vendors nonetheless remained in the business in New York; Los Angeles; Phoenix; San Diego; Tulsa, Okla.; West Palm Beach, Fla.; Baltimore and other communities across the country.
Case in point: The Foods Mart convenience store in Baltimore's gritty Remington neighborhood. In December, Scripps identified one of the store's owners, using Maryland corporation records and city business filings, as Nasir Pervaiz -- who was permanently barred in January 2011 by the USDA.
Upon learning of Scripps' discovery, the USDA opened an investigation and notified the storeowners that they would face a hearing, agency officials said. As of mid-February, the store was no longer taking food stamps, a visit there showed.
The SHNS method of flagging suspect merchants involved comparing data from hundreds of current liquor, food and health licenses, state corporate filings and city business records with a list of stores that the USDA has permanently disqualified.
USDA officials said the agency has not fully employed that technique in the past. But, in response to the Scripps investigation, the officials said they will now search more of the same records and will broadly expand the number of vendor applications that they closely review.
In addition, the USDA's investigative arm, the inspector general's office, says it has begun a criminal examination of one of the suspect storeowners identified by Scripps.

And Kevin Concannon, USDA undersecretary of the Food and Nutrition Service, which oversees the food stamp program, said another merchant identified by Scripps is "going to be taken out of the program."
Concannon told Scripps in a written statement that his agency "abhors" fraud: "Rogue stores and their owners should be punished -- out of the program permanently -- and prosecuted criminally where possible."
A rough average of 125 storeowners are convicted of food-stamp trafficking each year, according to data from the USDA's Inspector General's office, which investigates the crime. Punishment can include prison sentences and fines, court records show.
The toll of trafficking for taxpayers: $330 million in 2008 alone, the most recent USDA accounting shows.
At last count, 231,000 retailers nationwide were approved to participate in the Supplemental Nutrition Assistance Program, the food-stamp program's formal name. Over the past decade the USDA has expelled an average of 830 retailers for trafficking each year, though the agency is picking up the pace. In fiscal year 2011, it disqualified more than 1,200 stores, and is on track to bust 1,400 stores this fiscal year.
In the trafficking scheme, retailers encourage food-stamp recipients to trade their benefits for cash or ineligible merchandise -- particularly alcohol or tobacco -- at an exchange rate favoring the store.
Recipients swipe their benefits cards and punch in a PIN number, just as with a debit card. The electronic data is zapped to the government or a bank administering the program on its behalf. The merchant takes full payment for the transaction's stated price and pockets the difference -- as much as $50,000 a month, according to the 2009 federal indictment of a south Florida ring.
In many of the nation's poorest neighborhoods, owners and employees of the plentiful mom-and-pop convenience and liquor stores say they face constant pressure from their clientele to game the system.
"Every next customer comes in and asks me to give them cigarettes and cash" using their food stamps, said Yasmin Bibi, who said she manages the Foods Mart in Baltimore. "When we say 'no,' they yell at us."
The Scripps investigation centered on a USDA list, obtained through the Freedom of Information Act, of the 4,600 retailers from January 2006 through last July who have been permanently disqualified from accepting food stamps. Once disqualified, a retailer "is forever barred from participating in the program," USDA spokeswoman Susan Acker wrote in an email.
But nearly a third of those retail sites -- 1,492 -- continue to accept food stamps, Scripps found in comparing the disqualifications with a list of all USDA-approved SNAP vendors.
Some of those retail sites have entirely new owners, making them eligible to re-enter the food-stamp program. But Scripps found many sites that had the same disqualified owners.
For instance, after Horseshoe Liquor & Market, in the San Diego suburb of Spring Valley, Calif., was permanently disqualified last February, a store at the same location got USDA's approval to take food stamps, agency records show.
But liquor records from the California Department of Alcoholic Beverage Control show that Aziz Audish has been the "primary owner" from June 2010 to the present.
Responding to questions about the store's ownership, the USDA said Scripps had identified "anomalies." Audish confirmed to a reporter that he is the owner of the store, but said he is licensed to accept food stamps because of an ownership change. He did not deny the USDA had disqualified him.
The USDA would not disclose the names of any barred owners, citing their privacy rights. So Scripps unearthed ownership and management stakes by cross-referencing the addresses of disqualified retail sites against state and local business records and alcohol licenses.
Some sites have been busted for trafficking repeatedly. Scripps' analysis identified 137 locations at which merchants had been disqualified as many as four times.
One, a store in Miami's poor Overtown neighborhood, was approved -- and disqualified -- under four names between 2003 and 2006 before its operators were charged with stealing $1.2 million, a 2009 federal indictment and the USDA data show.
Likewise, four businesses run successively out of a bodega in Hartford, Conn., were permanently disqualified while owned by the same illegal immigrant, who was convicted of recruiting "straw" owners and making $1.6 million from food stamp trafficking, the Justice Department said in June.
Despite that bust, uneven oversight continues.

In Tulsa, for example, Bill's Quick Stop owner Nabeel Sheikh was busted for food-stamp trafficking in 2008, the USDA said. Later, the USDA readmitted the store to the program on the condition that Sheikh wouldn't be employed there, the USDA said.

Tulsa city records show the new owner of the store is F & U Zakir, LLC. But city health department documents in November 2011 list Sheikh as "manager." Reached at the store this month, Sheikh denied owning the store or working there, and said he was there "just filling in."

Based on Scripps' findings, the USDA says it is investigating the store.

In some cases, the actual ownership of a store -- and its connection to a former owner who has been banned -- can be obscured by layers of corporate filings.

In Fort Pierce, Fla., for instance, USDA records show the owner of Express Food Market was permanently disqualified from accepting food stamps in April 2009. Even so, the store remains open and has USDA approval to take food stamps.

But, according to state alcohol licenses, the store was owned from 2007 to 2011 -- both before and after the disqualification -- by an entity called "Express Food Mart #555, Inc." That corporation was controlled by Manzoorul Haq, according to state corporate records.

In 2011, the liquor license was transferred to -- and continues to be held by -- "Takdir Grocery, Inc.," according to the Florida Department of Business and Professional Regulation filings. And the only corporate officer listed for Takdir is Manzoorul Haq.

Neither Haq, nor anyone else at the store, would speak on-the-record to a reporter.

When asked to comment on this case, USDA officials said they would require the store's owner to prove that ownership has actually changed.

(With reporting by Scripps reporters at KJRH in Tulsa, Okla.; KGTV in San Diego; KNXV in Phoenix; KMGH in Denver; WPTV in West Palm Beach, Fla.; WCPO in Cincinnati; and Scripps Treasure Coast (Fla.) Newspapers. SHNS researcher Pninit Cohen contributed to this story.)

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Concannon: USDA Cracking Down on SNAP Fraud

By Kevin Concannon
Special to Roll Call
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Today, 46 million Americans in need get help putting nutritious food on the table through the Supplemental Nutrition Assistance Program. About half of those receiving benefits are children, an additional 8 percent are age 60 or older and 20 percent of SNAP households contain a person with disabilities.

With the recent economic downturn, many individuals and families turned to SNAP for the first time in their lives.

SNAP is the nation's first line of defense against hunger. But hand in hand with this mission is our responsibility to ensure program integrity. While fraud is a relatively limited problem in SNAP — the trafficking rate is down to 1 cent on the dollar from 4 cents in the 1990s — no level of fraud is tolerated. Americans expect and deserve a government that ensures their hard-earned tax dollars are managed wisely.

One of the first actions the Obama administration undertook in 2009 was establishing the Campaign to Cut Waste, rooting out fraud and abuse in federal programs including SNAP, commonly known as food stamps. We have made significant progress identifying and eliminating fraudulent retailers from SNAP.

In 2011, our surveillance and investigations to find bad actors and remove them from the program continued full steam ahead. We reviewed more than 15,000 stores and permanently disqualified more than 1,200 for program violations. The fiscal 2012 first-quarter results built on that success: placing sanctions, through fines or temporary disqualifications, on more than 225 stores found violating program rules and permanently disqualifying more than 350 stores for trafficking SNAP benefits.

The USDA recently advanced that strategy even further by strengthening anti-fraud efforts in the retailer application process. A small number of previously disqualified owners have managed to find their way back into the program by falsifying information in their applications. To prevent such actions, the USDA has applied new measures to toughen the program, including:

• Increasing documentation requirements for high-risk stores applying to redeem SNAP benefits to better verify their identity and assure their business integrity.

• Verifying high-risk stores to confirm application information. Store owners found to have falsified information with the intent to hide ownership or past violations will be charged, disqualified and may be liable for a $10,000 fine or imprisonment for as long as five years, or both.

• Continuing to notify state departments and federal agency partners about violators to better protect our public programs. This includes information on program recipients with suspicious transactions at stores known to be trafficking.

In addition, the USDA is improving the ability to detect suspicious patterns of activity by using state-of-the-art technology to analyze how and where people are using their SNAP benefits all across the country.

As is required in cybersecurity, we must stay vigilant to remain ahead of the curve in fighting SNAP fraud. While the vast majority of participants and retailers abide by the rules, a few bad actors are always looking for ways to exploit the program. So we work on continually updating our anti-fraud efforts.

Our next generation retailer monitoring system, currently under development with plans to launch later this year, will make us even better at identifying potential fraud.

The USDA will soon publish a proposed rule strengthening sanctions and penalties for retailers who commit SNAP fraud, and our new Fighting SNAP Fraud website (www.fns.usda.gov/fightingsnapfraud) helps raise awareness of the issues and provides a direct portal to report suspicious activities.

Our ultimate goal is to eliminate fraud, and we will continue to crack down on individuals who violate the program and misuse taxpayer dollars. Americans deserve nothing less.

Kevin Concannon is undersecretary for food, nutrition and consumer services at the Department of Agriculture.

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