UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

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Before the

Subcommittee on Department Operations,
Oversight, Nutrition, and Forestry

Committee on Agriculture

U.S. House of Representatives

July 28, 2010

Good morning, Mr. Chairman, Ranking Member Fortenberry, and Members of the Subcommittee. Thank you for the opportunity to testify about the Office of Inspector General's (OIG) work on the Supplemental Nutrition Assistance Program (SNAP). My testimony today will provide background concerning SNAP, and then summarize a number of our most significant audits and investigations.

Overview of the Supplemental Nutrition Assistance Program

SNAP is USDA's largest program, both in terms of the dollars spent and the number of recipients who participate in the program. In fiscal year (FY) 2009, recipients redeemed close to $50 billion in benefits—up 45 percent from 2008. The latest available data show that in April 2010 more than 40 million people received $5.4 billion in SNAP benefits. SNAP is also an important part of the food safety net for Americans, especially during times of economic hardship. During the recent recession, SNAP participation increased by about 20,000 persons daily—the program helped feed one in eight Americans and one in four children.

In order to receive SNAP benefits, potential recipients may visit their local SNAP office to apply, or they may apply online in 25 States. As part of their application, they submit information regarding their income and resources[1] and, if they are determined to be eligible, they can begin receiving food assistance. SNAP recipients can receive up to $200 monthly, though the average benefit a recipient receives is about $125 per month.[2] Once new recipients are enrolled in the program, they can exchange their benefits at thousands of FNS-authorized retailers for breads and cereals; fruits and vegetables; meats, fish, and poultry; and dairy products. They cannot use SNAP benefits to buy alcohol, tobacco, or non-food merchandise such as household items.

To be eligible to become an authorized retailer in SNAP, a retailer must sell a variety of qualifying staple food items or 50 percent of its sales must be in a staple group such as meat or bakery items. After retailers apply to participate in SNAP, FNS then visits their store to determine if they meet the program's requirements. About 85 percent of all SNAP benefits are used at supermarkets and big-box stores, though they make up only 20 percent of all authorized

[1] Including cash in a bank account.
[2] FNS assumes that a household should be spending 30 percent of its income on food, so it therefore adjusts a recipient's maximum benefit based on his or her income. Our calculations are based on a one person household.

retailers. Many smaller stores also accept SNAP benefits, and FNS allows recipients to use their benefits at non-traditional authorized retailers, such as gas stations, convenience stores, and farmers' markets.

FNS administers SNAP in partnership with the States. While FNS develops overall program policies such as eligibility thresholds for recipients and reviews how programs are being run in individual States, the States themselves administer their own programs by determining if households meet SNAP eligibility requirements and by calculating and issuing monthly benefits to recipients. Not only does the Federal Government pay the full cost of the benefits, but it also shares with the States the administrative costs of the program. FNS officials see this approach as providing flexibility for administering SNAP—they acknowledge that each State is different and has unique needs that the States themselves best understand. OIG agrees that FNS' decentralized approach is flexible, but we note that with decentralization come potential control problems. Even preventing a recipient from receiving benefits from two States can be difficult when FNS does not gather all recipients' information from each State.

SNAP is still known as the "food stamp program" to many in the public, although it was officially renamed in 2008. FNS has also moved away from using paper food coupons to providing benefits through Electronic Benefits Transfer (EBT) systems. Under EBT systems, recipients receive a plastic card, similar to a bank card, which they may use at FNS-approved retailers to redeem their benefits. In addition to eliminating cumbersome paper food coupons, EBT creates an electronic record that makes it easier to identify trends that may indicate the potential misuse of SNAP benefits. As of July 2004, all 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam operated State-wide, city-wide, and territory-wide EBT systems to issue food assistance benefits.

OIG Oversight of SNAP

In providing oversight of the SNAP program, OIG employs a two-pronged approach involving audits and criminal investigations. OIG Investigations staff conducts criminal investigations into alleged fraud perpetrated against the program, while OIG Audit staff conducts reviews of SNAP intended to improve FNS' overall management controls for the program.

OIG Investigations

As long as USDA has been providing food assistance, there have been individuals who have sought to exploit the program for their own gain. In fact, the first retailer was caught abusing food stamps in October 1939, just a few months after the program started. As the Food Stamp Program (and later SNAP) evolved over the years, there have been high-profile cases of fraud against FNS. Concerns about food stamp abuse prompted movements to cut or reform the program in the 1980s and 1990s.

Given the importance of ensuring the integrity of SNAP, OIG devotes about 35 percent of its investigative resources to SNAP-related criminal investigations—this is our largest allocation of investigative resources. Our main focus is on fraud committed by retailers, primarily because FNS is responsible for directly reimbursing retailers while States are responsible for ensuring that individual recipients are eligible to receive benefits and that they use those benefits appropriately. Our investigations of retailers, however, often disclose individual recipients who have violated SNAP program requirements, and we work with the States and local prosecutors to respond to these violations. With few exceptions, our investigations yield tangible and direct benefits to the Government, including criminal prosecution, significant fines and penalties, restitution, and asset forfeiture. From FY 2008 to the first half FY 2010, as a result of SNAP investigations, OIG obtained 472 convictions and monetary results totaling $77.1 million. Detailed below are examples of the most significant types of SNAP-related misconduct that we investigate.

Trafficking in SNAP benefits

One of the most common abuses OIG investigates is the trafficking of benefits, which is essentially the illegal exchange of food assistance benefits for cash. In this scheme, retailers will pay recipients for their SNAP benefits; for instance, they might exchange $50 in cash for $100 in benefits. Some recipients prefer to sell their benefits in this way because they are then free to spend the cash however they like, while retailers profit after they have been reimbursed by USDA. This illegal exchange harms SNAP because it prevents FNS from accomplishing its main objective of feeding needy families.

Recent investigations of these sorts of schemes have resulted in significant positive outcomes for USDA and the Federal Government. In early 2008, the owner of a convenience store in St. Paul, Minnesota, was sentenced in Federal court to serve two years in prison, and was ordered to pay more than $750,000 in joint restitution[3] for exchanging almost $850,000 in SNAP benefits for cash—his employees also faced prison time and significant penalties.[4] Similarly, an OIG investigation in Miami, Florida, revealed that two storeowners illegally exchanged SNAP benefits for cash at an estimated loss to USDA of $3.3 million. In December 2008, a Federal court in the Southern District of Florida sentenced the storeowners to a total of 74 months of imprisonment and ordered them to pay $3.2 million in restitution.[5]

Abuse of EBT point of sale equipment

OIG has found that EBT systems provide an important oversight tool for our investigators and auditors; however, the point of sale devices used to electronically redeem benefits can also be abused by criminals intent on illegally profiting from SNAP. As part of our ongoing efforts to combat large-scale SNAP benefit trafficking in Chicago, Illinois, we found that a storeowner and clerk—who were not authorized by FNS to participate in the program—conspired with at least five other retailers to defraud the program of approximately $6.3 million. This scheme involved relocating point of sale devices from authorized stores to an unauthorized store where SNAP recipients would sell their benefits. The subjects of our investigation were ultimately indicted on wire fraud and criminal forfeiture charges, and were sentenced to serve a total of 83 months of imprisonment and pay $6.3 million in restitution.[6]

Funneling stolen SNAP funds outside the United States

Retailers who abuse SNAP sometimes funnel their illegal proceeds out of the United States. A joint investigation between OIG and the FBI identified a small Somali-owned

[3] This penalty was shared with the store's manager.
[4] KC-2748-0817.
[5] AT-2748-1952.
[6] CH-2747-0784.

store in Ypsilanti, Michigan, that was trafficking in SNAP and Women, Infants, and Children (WIC) benefits, and then transferring money overseas, generally to persons located in the Middle East and the Horn of Africa. The storeowners and employees pled guilty to over $750,000 in SNAP and WIC fraud. In May 2010, they were sentenced to spend a total of 48 months in prison and pay almost $2 million in restitution.[7]

Employee abuse of SNAP

On occasion, State employees take advantage of their positions and commit fraud against SNAP benefit programs—OIG continues to investigate and seek prosecution of such persons. For example, a caseworker with the Missouri Department of Social Services pled guilty and was sentenced for accepting bribes in exchange for authorizing ineligible persons to receive SNAP and other welfare benefits. This individual was sentenced to serve a year and a day in Federal prison, and was ordered to pay $2,058 in restitution.[8]

Retailers involved in other criminal activities related to SNAP trafficking

Individuals engaged in SNAP benefit fraud often participate in other criminal activities as well. For example, one investigation focused on gang activity, drug activity, fencing operations, and SNAP fraud in Greenville, North Carolina. The investigation resulted in the arrest and indictment of six individuals on Federal conspiracy charges for the interstate transportation of stolen property and theft of Government program funds. Four of these individuals pled guilty and were sentenced to prison terms of between 6 and 20 months.[9] Also as a result of our investigation, the three stores used to facilitate this illegal activity were taken over temporarily by the city and eventually closed permanently.[10]

[7] CH-2748-1450.
[8] KC-2741-0065.
[9] Legal action is pending against the fifth, and charges against the sixth were dropped.
[10] AT-2748-2015 and AT-2748-2016.

Crimes committed by SNAP recipients

As I have mentioned, the preponderance of OIG's investigative work does not focus on recipients, although we occasionally investigate recipients who illegally exchange their benefits for cash. By sharing this information with the relevant State law enforcement agencies, we help States pursue prosecution or disqualify recipients from the program. We also sometimes investigate recipients who provide false information to receive benefits. As an example of this type of case, OIG found that a man living in Arlington, Virginia, failed to accurately report his income and therefore received thousands of dollars in SNAP, Medicaid, and other Federal assistance. He was sentenced to 60 days in prison and ordered to pay $97,865 in restitution to USDA, the U.S. Department of Housing and Urban Development, and the U.S. Department of Health and Human Services.[11]

In a similar vein, OIG continues to run Operation Talon, a law enforcement initiative made possible by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.[12] This Act includes a provision that individuals who are fleeing to avoid prosecution, custody, or confinement after conviction are ineligible to receive Federal program benefits, including SNAP benefits. The Act authorizes State social service agencies to provide addresses of SNAP recipients to any Federal, State or local law enforcement officer for official purposes. Operation Talon matches law enforcement agencies' outstanding felony fugitive files with the social service agencies' SNAP records. As a result, law enforcement officers are able to locate and apprehend fugitives who may also be illegally receiving SNAP benefits. As of September 20, 2009, Operation Talon has resulted in 14,645 arrests of fugitive felons wanted for a wide variety of offenses, including murder, arson, assault, burglary, motor vehicle theft, assorted drug charges, robbery, fraud, forgery, driving under the influence, extortion and blackmail, sex offenses, domestic violence, larceny, stolen property, and weapons violations. In the second half of FY 2009, OIG agents conducted Talon operations in 5 States, making a total of 264 arrests.

[11] HY-2749-0378.
[12] Public Law 104-193, August 22, 1996.

Criminal investigations of the sort described are OIG's "bread and butter" when it comes to overseeing SNAP. Through our collaborative efforts, we work cohesively to identify and resolve potential vulnerabilities in the processes that allow retailers to participate in the SNAP program. Such collaboration is often very fruitful, as when we worked with FNS and the Department of Justice to include language in the 2008 Farm Bill that would enable FNS to suspend, during an ongoing investigation, retailers involved in especially flagrant program abuse.

As we look to identify potential future problems, OIG notes that FNS has recently changed its process for certifying retailers to participate in SNAP, and now allows them to complete this certification process online. In the past, storeowners who wished to participate in SNAP were required to attend a training program which outlined program requirements and retailer responsibilities. Direct, face-to-face attendance also ensured that FNS verified the owners' identity and required the owners to certify that they understood the program's requirements. Since FNS now conducts these training programs online, storeowners do not certify in person that they understand how the program is designed to work. This development concerns OIG because some prosecutors have indicated reluctance to charge retailers with fraud when the retailers did not certify their understanding of program requirements face-to-face.

In another effort to prevent future problems, we are currently monitoring non-traditional retailers—such as gas stations, convenience stores, and farmers' markets—and their involvement in SNAP to help reduce the potential for illegal benefit trafficking.

OIG Audits

OIG performs audits of FNS' management controls that are designed to improve how the agency delivers benefits to recipients and oversees authorized retailers. Prior to the American Recovery and Reinvestment Act of 2009 (Recovery Act),[13] OIG had completed audits related to improving two of the automated systems FNS relies on to administer SNAP. One review found that the watch list FNS uses to monitor retailers could be improved to help in the detection of fraud by adding information such as the type of store.[14] Another review found that FNS needed to

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[13] Public Law 111-5, February 17, 2009.
[14] 27099-32-SF, "Food and Nutrition Service Food Stamp Program—ALERT Watch List," July 2006.

strengthen the information system it uses to store data on retailers who redeem SNAP benefits, including improving physical security and updating its contingency plan for its computer facility.[15] For both audits, OIG and FNS agreed on the necessary actions to correct these problems.

OIG has also been actively auditing FNS and State implementation of EBT systems. Most States have adequately implemented EBT, but one audit found that Colorado did not use available management reports to monitor its program for improper activity, and did not establish fraud detection units to assist in prosecuting benefit trafficking. FNS and OIG reached agreement on the actions necessary to correct these problems.[16]

When Congress passed the Recovery Act, it provided for a 13.6 percent increase in the maximum Thrifty Food Plan amount provided to SNAP recipients, which resulted in participating households of four receiving an increase of $80 in benefits monthly. The Recovery Act also required OIG to oversee how FNS uses the additional funds. The overall objectives of OIG's audit oversight of the Recovery Act monies have been to ensure that: (1) USDA Recovery Act-related programs are timely and effectively implemented; (2) proper internal control procedures are established; (3) program participants meet eligibility guidelines; (4) participants properly comply with program requirements; (5) agencies establish effective compliance operations; and (6) performance measures are properly established and supported to ascertain whether program objectives have been achieved.

To meet these objectives, OIG has initiated four audits in the SNAP area. We have also established a reporting process for expeditiously notifying agency managers of problems identified in our audits. The products of this expedited reporting process are known as FAST reports.

One of our Recovery Act audits reviewed the Thrifty Food Plan (TFP), which FNS uses to establish the maximum SNAP benefits families can receive. Essentially, TFP incorporates food

[15] 27501-02-HY, "Application Control Review of the Food and Nutrition Service's Store Tracking and Redemption System II," March 2008.
[16] 27099-68-HY, "Electronic Benefits Transfer System, State of Colorado," June 2008.

consumption data, food price data, and dietary guidelines to establish “market baskets”—a selection of foods that reflects current dietary recommendations. Our review of this plan found no reportable concerns with the data inputs, constraints, and modeling used in developing TFP. We also found that the Recovery Act legislative increase in SNAP benefits was not related to an update or an adjustment of TFP.[17]

Also as part of our Recovery Act audit work, OIG evaluated how well FNS is monitoring State fraud detection units to ensure that they can effectively prevent fraud, waste, and abuse. We found that neither State we visited—New Jersey and Florida—had developed a fully effective fraud detection unit, and that FNS had not conducted periodic reviews of the States’ fraud detection efforts to verify their effectiveness. According to FNS, such reviews were not necessary because information collected by States for the annual State Activity Report was sufficient for agency officials to ensure that States were devoting sufficient resources to their fraud detection efforts. Since FNS’ assessment of State fraud detection activities could be limited by the accuracy of the State-reported information, OIG recommended in a FAST report that FNS identify and implement a process for periodically and independently assessing the States’ fraud detection units. FNS and OIG are working to reach agreement on this recommendation.[18]

Another audit found that FNS was not being fully transparent concerning the costs associated with the Recovery Act and SNAP. The agency did not timely report on its Recovery Act website that the estimated cost of the additional Recovery SNAP benefits would increase from $19.8 billion to $48 billion—FNS did not update its website until January 2010, even though the revised figure was determined in June 2009. In our FAST report, we recommended that USDA work with the Office of Management and Budget and the Recovery Accountability and Transparency Board to establish a process for consistently and timely reporting changes in budget estimates for all USDA programs that received Recovery Act funding. USDA officials generally agreed with this recommendation.[19]

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[17] 27703-01-KC, “SNAP Benefits and the Thrifty Food Plan,” December 2009.
[18] 27703-02-HY (1), “State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program,” July 2010.
[19] 27703-02-AT (1), “Recovery Act Impacts on the Supplemental Nutritional Assistance Program,” March 2010.

OIG is also initiating a review of FNS' compliance with the Improper Payments Improvement Act of 2002.[20] Like other executive agencies, FNS is required to identify any of its programs that are susceptible to improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. The Office of Management and Budget has determined that several of FNS' largest programs—including SNAP and the National School Lunch Program—are at high risk of improper payments. Executive Order 13520 requires Inspectors General to assess the level of risk associated with such programs, determine the extent of oversight warranted, and provide the agency head a report with recommendations for modifying the agency's methodology, improper payment reduction plans, program access, and participation plans.[21]

In FY 2009, FNS reported improper payments totaling $3.86 billion, including $1.7 billion within SNAP, or a 5 percent improper payment rate. To reduce SNAP's rate of improper payment, FNS intends to require States that have high improper payment rates to develop a quality control corrective action plan addressing their deficiencies. Our review will determine if FNS' steps to decrease these improper payments are reasonable.

On July 22, 2010, President Obama signed into law the Improper Payments Elimination and Recovery Act.[22] This legislation focuses more attention on improving management controls and recovering identified improper payments. It also requires Inspectors General to perform an annual compliance review to ensure that agencies are in compliance with the Act. We anticipate that our future compliance reviews of FNS will assist the agency in its efforts to decrease its rate of improper payments.

This concludes my written statement. I want to again thank the Chair and the Subcommittee for the opportunity to testify today. We welcome any questions you may have.

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[20] Public Law 107-300, November 26, 2002.
[21] Executive Order No. 13,520, 74 *Federal Register* 62,201, November 25, 2009.
[22] Public Law 111-204, July 22, 2010.