TESTIMONY ON PROGRAM INTEGRITY FOR THE FOOD STAMP PROGRAM

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Chairman Jordan, Chairman Palmer, Ranking Members Raskin and Krishnamoorthi, and members of the committee, thank you for the privilege of testifying. I am Sam Adolphsen, a senior fellow at the Foundation for Government Accountability (FGA). FGA is a non-profit research organization that primarily focuses on health care and welfare reform at both the state and federal level.

Prior to joining FGA in 2017, I served for three years as the Chief Operating Officer of the Maine Department of Health and Human Services. In that role, I oversaw operations for Maine's welfare programs, including the Supplemental Nutrition Assistance Program. My duties included direct responsibility for the state's welfare fraud department and oversight of the audit division. Our department also worked directly with the state's Attorney General's office on welfare fraud.

The discussion about welfare fraud, and food stamp fraud specifically, raises questions among policymakers at all levels of government. Some policymakers argue that welfare fraud is only a small problem or even non-existent. One Maine legislator even called it a "victimless crime."[1]

Despite these claims, welfare fraud is alive and well. There are victims. Programs like food stamps are meant for the truly needy—seniors, poor children, and individuals with disabilities. Every dollar that is wasted or stolen is a dollar robbed from taxpayers that can't go to fund support for the truly needy. Welfare agencies must focus on fraud to ensure this does not happen.

Three key areas need to be addressed to better combat food stamp fraud:

- Program integrity: Regulations and administrative processes conflict with the intent and goals of the program
- Eligibility fraud: Households become eligible when they should not and stay eligible for longer than they should
- Trafficking fraud: Recipients, retailers, and drug dealers conspire to traffic food stamp benefits

One of the biggest challenges in this discussion is defining the term "fraud." Too often, these discussions center around just one small piece of the problem—large, criminal-level theft or trafficking. There is no question that trafficking is a major problem. But narrowing the fraud definition to only those cases that end in a criminal conviction dramatically understates the broad weaknesses in program integrity facing the food stamp program.

As a result, it is not uncommon to hear that food stamp fraud amounts to a few percentage points or less. But the truth is that nobody knows the true percentage. We just know that it is significant. The amount of fraud identified is directly related to the level of effort put forth to discover it. When states look for fraud, they will find it. When they do not, they will not.

In 2010, some individuals concluded that welfare fraud was non-existent in Maine, as just ten cases of criminal-level fraud were referred for prosecution that year.[2] The real story was that identified fraud cases were "non-existent" because no one was bothering to look for it.

When Governor LePage took office, he doubled the number of fraud investigators and instituted a new focus on program integrity.[3] In 2016, Maine referred 174 cases of criminal-level welfare fraud for prosecution.[4] That number continues to climb and typically only represents clear-cut criminal cases with more than $5,000 in theft.

Individuals on the ground also continue to identify fraud in welfare programs like food stamps as a major problem. The Fraud Unit at the Allen County Department of Job and Family Services, for example, has received honors from the Ohio Council on Welfare Fraud for three years in a row for its anti-fraud work.[5] With just six investigators for 5,800 households, its team discovered 255 intentional violations—representing four percent of all cases—on top of overpayments in 517 cases.[6] The director of that unit told the public that he knew there was more abuse than his office was catching, warning that the rate of misuse could be as high as 20 percent.[7]

It is clear that the amount of fraud identified is directly related to the level of effort put forward by the administering agencies. In 2016, for example, Kentucky—a state with 4.5 million residents—disqualified nearly 2,000 individuals from the food stamp program, including nearly 100 removed after criminal prosecution.[8] By comparison, Massachusetts—a state with 6.9 million residents—disqualified just 365 individuals, including just two as a result of prosecution.[9] Rhode Island disqualified just 19 individuals in 2016, while Montana disqualified 761—despite the fact that both states have nearly identical populations.[10] Likewise, Wisconsin disqualified nearly 2,000 individuals, while Washington state removed fewer than 200, despite the fact that Washington has 1.6 million more residents than Wisconsin.[11]

Do fraud levels vary so much that Washington state has fewer than one-tenth the number of fraud convictions as Kentucky, despite nearly twice its population? Obviously not. What varies is simply the level of effort put forward in finding and prosecuting such fraud. Even states that are national leaders in combatting welfare fraud are greatly limited by capacity and by regulations that hinder investigations.

There are many technical discussions about what can be done to prevent and catch fraud. Those discussions are both necessary and valid. But above all, the best way to prevent welfare fraud is simply to move able-bodied adults from welfare to work.

Program Integrity: Work Requirements Don't Function as Intended

Not all fraud and abuse in food stamps is facilitated by recipients or retailers. Program integrity issues also occur when state and federal bureaucrats disfigure the program in ways that do harm. The prime example of this is how work requirements in the program—meant to help lift individuals and families from dependency—have been waived and undermined through rules, regulations, guidance, and other agency actions.

ABAWD Work Requirement Waivers

Federal law requires that most able-bodied, childless adults work, train, or volunteer for at least 20 hours per week as a condition of eligibility to receive food stamps.[12] These requirements apply to non-pregnant adults who are mentally and physically fit for employment, who are between the ages of 18 and 50, and who have no dependent children or incapacitated family members.[13] Able-bodied adults who refuse to meet these requirements are limited to just three months of food stamp benefits every three years.[14]

When it was first implemented in the 1990s, this commonsense work requirement moved millions of able-bodied adults from welfare to work and spurred rapid economic growth.[15] Analyses of state-level implementation of the reform have reached similar conclusions. After Kansas implemented these work requirements, able-bodied adults went back to work in more than 600 different industries and their incomes more than doubled, on average.[16] Higher wages more than offset lost benefits, leading to greater economic activity and higher tax revenues.[17] When Maine implemented the same work requirements, it saw similar impressive results: incomes of former enrollees more than doubled and caseloads declined by 90 percent.[18]

But this progress has been undermined by federal loopholes that have allowed states to weaken and waive the requirements for millions of adults. When Congress passed the work requirements into law in 1996, it gave the Secretary of the United States Department of Agriculture (USDA) the authority to waive work requirements in areas that had unemployment rates above 10 percent or otherwise lacked job opportunities for these able-bodied adults.[19]

Despite the narrow parameters set forth by Congress, federal rulemaking led to a regulation that is far more expansive than intended, creating loopholes and gimmicks for states to continue waiving work requirements for millions of able-bodied adults, even during periods of record economic growth.[20] As a result, these commonsense requirements are waived wholly or partially in 33 states and the District of Columbia.[21]

Although these waivers were meant only for areas with extremely high unemployment, states have continued to seek—and receive—waivers during periods of record low unemployment and record high job openings.[22] At 4.1 percent, the nation's unemployment rate is near an all-time low.[23] More Americans are working today than at any point since the Bureau of Labor Statistics began tracking employment statistics, but that's still not enough: employers are searching desperately to fill a record-high six million open jobs.[24-26]

Despite today's strong economy, states have waived or exempted nearly three million able-bodied adults from work requirements altogether.[27] With no work requirement in place for the vast majority of able-bodied adults without dependents, nearly three in four do not work at all.[28]

Requirements meant to move able-bodied adults from welfare to work as quickly as possible have been undermined by regulations that threaten program integrity by creating loopholes and gimmicks that keep individuals trapped in dependency. Worse yet, the current regulation unlawfully strips the Secretary of his statutory authority to reject waiver requests that do not advance the program's purpose by providing that USDA will automatically approve waivers that meet certain criteria.[29] The regulatory criteria, however, does not reflect statutory language or Congressional intent, but instead creates new loopholes and gimmicks that allow states to waive work requirements for millions of able-bodied adults.[30]

Although the statute specifies that the waivers should only apply to areas with high unemployment that lack a sufficient number of jobs, regulatory loopholes allow states to waive work requirements in areas with record-low unemployment by combining and gerrymandering them with areas with somewhat higher unemployment rates.[31] These loopholes also allow states to use data from long ago, even when that data has no connection to current economic conditions.[32] If that weren't bad enough, the regulation creates an alternative waiver option even in areas with unemployment rates below 10 percent. Under this option, states can qualify for a waiver so long as their unemployment rates are 20 percent above the national average during a two-year period, no matter how low that rate is and no matter how many open jobs are available.[33]

Of the nearly 1,200 counties, towns, cities, and other jurisdictions where work requirements are currently waived, just 42 have unemployment rates above 10 percent.[34] Nearly 650 of these jurisdictions have unemployment rates at or below five percent and more than 500 have unemployment rates at or below what the Federal Reserve considers full employment.[35] The waived jurisdictions have unemployment rates as low as zero percent—meaning work requirements are waived in areas with literally no unemployment.[36] Despite claims that these areas are facing severe job shortages, the 33 states currently waiving the work requirement have more than a combined 3.3 million job openings posted online.[37]

Although most states with waivers rely on these gimmicks, California and Illinois are two prime examples of how states abuse the waiver process.

- California: Despite a record low unemployment rate, California received a statewide waiver of the work requirement for 2018.[38-39] This means that California waives the requirement for all of its nearly 850,000 able-bodied adults without dependents on food stamps.[40] In December 2017, 30 of the state's 58 counties had unemployment rates at or below five percent, with 21 of them having unemployment rates at or below four percent.[41] Some waived counties had unemployment rates as low as 2.1 percent, while just three counties had unemployment rates above the 10 percent statutory threshold to qualify for a waiver.[42] In order to secure its waiver, California used unemployment data from as far back as January 2014, combined counties with low unemployment rates together with counties with somewhat higher unemployment rates, and claimed it lacked sufficient jobs due to an unemployment rate that was 20 percent above the national average between 2014 and 2015.[43-44] But California isn't lacking in job opportunities. One database of open jobs posted on internet job boards, corporate boards, and other job websites found that California employers have nearly 560,000 open jobs posted online.[45]

- Illinois: Despite a near-record low unemployment rate, Illinois waives the work requirement in all but one county.[46-47] This means that Illinois waives the requirement for 337,000 of its 346,000 able-bodied adults without dependents on food stamps.[48] In December 2017, 72 of the state's 102 counties had unemployment rates at or below five percent, with 21 of them having unemployment rates at or below four percent.[49] Some waived counties had unemployment rates as low as 2.6 percent—lower rates than in the single non-waived county—while none had unemployment rates above the 10 percent statutory threshold to qualify for a waiver.[50] In order to secure its waiver, Illinois used unemployment data from as far back as April 2015, combined counties with low unemployment rates together with counties with somewhat higher unemployment rates, and claimed it lacked sufficient jobs due to an unemployment rate that was 20 percent above the national average between April 2015 and March 2017.[51-52] But Illinois isn't lacking in job opportunities. One database of open jobs found that Illinois employers have more than 187,000 open jobs posted online.[53]

Congress never intended for the waivers to be used this way. These waivers threaten program integrity and trap millions of able-bodied adults in dependency and despair. The Trump administration, to its credit, has begun the rulemaking process to address some of these abuses.[54] But until these loopholes are closed, state bureaucrats will continue to game the system.

Carryover Exemptions

Federal law provides states with discretionary individual-level exemptions for able-bodied adults who would otherwise be subject to work requirements. The statute provides that the exemptions "in effect during the fiscal year" cannot "exceed 15 percent" of the able-bodied adults who are ineligible for food stamps due to not meeting the work requirement.[55] Although the language of the statute is clear that the exemptions cannot exceed this threshold, current regulations have inappropriately interpreted this language to mean that states earn new exemptions worth 15 percent of those able-bodied adults each year, with the ability to carry over unused exemptions year after year.[56]

This carryover policy goes beyond the scope of the statute. In fact, an audit by the Office of Inspector General at the U.S. Department of Agriculture raised concerns about the carryover policy going beyond the scope of the law, noting that the auditors disagree with Food and Nutrition Service's "process of carrying over unused 15 percent exemptions indefinitely."[57]

By fiscal year 2017, states had accumulated 6.4 million exemptions, which were worth nearly $1.1 billion in taxpayer-funded benefits.[58] Under the statute, Food and Nutrition Service should have capped these exemptions at approximately 1.3 million, worth roughly $220 million.[59]

Permitting states to carry over these exemptions from year to year has allowed them to bank the exemptions over time and then use far more exemptions in a given year than authorized by the statute. Ohio, for example, earned only 75,000 exemptions in 2016.[60] Because it had accumulated a stockpile of exemptions, however, it was able to use 391,152 exemptions in 2016—far more than authorized by the statute.[61]

This carryover abuse—permitted by regulatory guidance—evades federal law and weakens program integrity.

Exempting 50-year-old Able-Bodied Adults

Federal law automatically exempts able-bodied adults from the ABAWD work requirement if they are "over 50 years of age."[62] Separate requirements for work registration apply to able-bodied adults who are "over the age of 15."[63] But Food and Nutrition Service has interpreted the word "over" in these two provisions in different and conflicting ways.[64]

In the regulations concerning work registration, the agency interpreted "over the age of 15" to mean 16 years old or older, consistent with the plain meaning and common understanding of the term.[65] But the agency interpreted "over" in a completely different way when it comes to the exemption for adults "over 50 years of age," which it interprets to mean 50 years old or older.[66] Auditors from the Office of Inspector General at the U.S. Department of Agriculture have warned that these conflicting interpretations of the same word "do not seem reasonable."[67] Indeed, Food and Nutrition Service officials admitted to auditors that they "made a conscious decision to interpret the statute in this manner" to reduce the number of able-bodied adults subject to the requirements "for the benefit of the SNAP recipients."[68]

According to federal data, few of these able-bodied adults are currently working, despite having no disabilities keeping them from meaningful employment and no dependent children in the home.[69] More than 69 percent of able-bodied 50-year-old childless adults do not work at all, while just five percent work full-time.[70] Based on state experiences with work requirements for other able-bodied adults, expanding the work requirement to 50-year-old childless adults, consistent with the statute, would move tens of thousands of able-bodied adults from welfare to work and save taxpayers up to $350 million per year.[71]

General Work Requirement for Other Able-Bodied Adults

Although the ABAWD work requirement only applies to able-bodied adults between the ages of 18 and 49 who have no children, another provision of federal law requires a broader group of able-bodied adults to meet certain work registration requirements.[72] These requirements apply to all able-bodied adults under the age of 60 who do not have young children, including middle-aged childless adults and able-bodied parents who have only school-aged children.[73-74] Although this requirement is less stringent than the ABAWD requirement, it is meant to be an integral component of the program by ensuring able-bodied adults are putting forth effort towards independence.

But the number of able-bodied adults who are supposed to be subject to this requirement has been rapidly growing since 2000 and most of these adults do not work at all.[75-76] This data calls into question the effectiveness and integrity of the requirement. While sanctions are supposed to be in place for those adults who quit a job, reduce hours at work, turn down an offer of employment, fail to register on a job bank or something similar, FNS has reported that they have no reporting on this data from the states.[77]

It is unclear whether this provision is actually enforced at the state level. Although this "requirement" is often cited as a work requirement in the program, there are serious questions about whether the requirement is being appropriately enforced by states, with rare exceptions in states like Texas and Wisconsin.[78-79]

Eligibility Fraud

A primary way that waste, fraud, and abuse occur in food stamps is through eligibility fraud. This happens when someone enrolls in the program when they are not actually eligible or stays on the program after they are no longer eligible.

One of the key ways eligibility fraud is committed is when an applicant lies about their household composition, income, residency, or another factor. A clear example of this is a recent case in Maine, where a woman was indicted on three felony charges after defrauding taxpayers of more than $250,000 in TANF, Medicaid, and food stamp benefits by lying about whether her husband lived with her and failing to report his income.[80]

Sadly, this fraud could have been caught much sooner than it was. The vulnerabilities in the eligibility process that contribute to cases of food stamp fraud are not unique to one state. They show up in cases around the country. Fortunately, there are key ways these flaws can be addressed.

- **Simplified reporting** allows households on food stamps to go long stretches without reporting any changes in income or other eligibility factors.[81] Currently, 49 states and the District of Columbia have adopted this new standard, which requires enrollees to report changes only when their income rises above the program's federal eligibility line or during periodic reporting periods.[82] This new process replaced "change reporting," which required individuals to report changes to income and other eligibility factors within 10 days.[83] Because individuals on food stamps are accustomed to infrequent or no reporting requirements, they often fail to report information that affects their eligibility even when they are required to, leading to higher overpayments and wrongful eligibility. This structure allows households to go for months or even more than a year in some cases without reporting changes that may affect eligibility. Congress can and should fix this by requiring most households—particularly those containing able-bodied adults—to report all changes to income, assets, and household composition within 10 days.

- **Longer certification periods** have been combined with simplified reporting to allow enrollees to go without having to report potential changes that may affect eligibility. Certification periods of six or 12 months, for example, mean that enrollees are only required to engage with the agency once or twice a year for recertification.[84] In 2016, 71 percent of cases were certified for 12 months or longer, while just two percent of cases were certified for less than six months.[85] After this long period of ongoing eligibility, all that is required is to reply to the agency saying there has been no change, typically on a pre-populated form sent to the household. Congress should address this by reducing the certification period for households with unstable circumstances or zero income.

- **Broad-based categorical eligibility** is now the basis for eligibility for most food stamp enrollment.[86] This eligibility door effectively waives the asset test and allows those with higher incomes and wealth—including millionaires—to become eligible for food stamps simply by being eligible to receive a TANF-funded brochure.[87-88] Along with making higher-income individuals eligible for the program, this policy also waives the requirement that applicants report—and states check—the value of non-exempt assets. Not only does this increase enrollment and crowd out resources for the truly needy, it also makes it easier to hide signs of additional, unreported income or other workers in the household that have gone unreported, as caseworkers no longer have access to bank account statements. Congress should address this problem by requiring states to check asset information, giving them a critical tool to catch unreported income or conflicting household composition information.

- **Verification of income, residency, and household composition** is often ignored or done without the use of timely and relevant data. In the regulatory-required rush to issue benefits, verification of income or other information reported by applicants often goes unverified. When it is verified, the bare minimum is often done and phone calls to employers or data checks are ignored. Once an individual is eligible, the lengthy certification period and lack of reporting requirement lets earned income go unchecked again until recertification, where the process is repeated. Interim checks are rarely done, and when they are, they are not routine, but based only on an irregularity that might surface. To compound these problems, the data that is used by most states to verify information is outdated and ineffective. Congress could address this by requiring states to use all available data, implement stronger verification processes up front, and run data checks quarterly or monthly. States can access third-party data that provides best known addresses, income sources, assets, and other relevant information. This data should be deployed to verify applications. States should also run this data quarterly—at a minimum—to search for cases with a high risk of being ineligible.

- **Face-to-face interviews** are generally waived in most states and home visits are effectively non-existent. Unfortunately, this eliminates any opportunity to observe unreported income earners in the household. While the food stamp program was originally designed for most cases to have a personal interview conducted prior to eligibility, that practice has been regulated and waived out of existence. Waiving this requirement might make sense for those cases where a physical appearance in the office is difficult or impossible—including cases involving frail seniors or individuals with disabilities—but there is virtually no justification for the broad waiving of this practice for able-bodied adults. Congress could help address this by once again requiring face-to-face interviews for able-bodied adults applying for food stamps. These adults are already expected to engage with the agency for work program purposes and should be required—at a minimum—to visit the agency before being granted the benefit.

- **Duplicative enrollment** occurs when an individual receives food stamps in two or more states. Although the federal government set up the Public Assistance Reporting Information System, or PARIS, to help catch instances of individuals receiving welfare benefits in multiple states, participation in PARIS is limited and the system's effectiveness is inconsistent.[89] Many states do not use the system at all for food stamps and the information is often incomplete.[90] Worse yet, the system generally only flags individuals receiving food stamps in multiple states after the fraud has occurred.[91] Congress could address this by expanding the National Accuracy Clearinghouse—a five-state pilot system that immediately notifies participating states when someone already on food stamps in one states applies in another—to all states. The U.S. Department of Agriculture estimates that this would save taxpayers more than $1 billion over the next decade and significantly reduce the number of people fraudulently collecting benefits in multiple states.[92]

These are not the only factors in eligibility fraud, but they are significant. Because these problems are often disguised as "state options" or "policy choices," they are often ignored or overlooked in discussions concerning program integrity and welfare fraud. But these eligibility vulnerabilities and loopholes must be fixed if agencies are to stop food stamp fraud before it starts or as quickly as possible.

Trafficking Fraud

The most commonly discussed type of food stamp fraud involves trafficking benefits. This occurs when an enrollee sells their food stamp benefits to other individuals or retailers in exchange for cash, drugs, or other non-approved goods. According to the U.S. Department of Agriculture, more than $1 billion in food stamp benefits are trafficked each year, diverting resources meant for the truly needy.[93]

Connection to the Drug Crisis

Perhaps the worst part of having such gaping vulnerabilities in eligibility is that those who wish to commit trafficking fraud can easily gain access to the program and linger there. Trafficking has a deeper criminal component as well, which often connects to bad actors outside of the food stamp universe.

One of the most alarming and relevant areas surrounding trafficking fraud is that Electronic Benefit Transfer (EBT) cards have become a commodity in the drug trade.[94] There are many examples of this connection, but most follow a clear pattern: when law enforcement make a major drug bust, they turn up drugs, guns, and cash—plus EBT cards that don't belong to the drug dealer.[95] Trading EBT cards for drugs is so prevalent that one Maine Drug Enforcement agent testified that "it is common practice for drug dealers to take custody of a drug user's EBT card either as direct payment or in lieu of immediate payment."[96]

This is not limited to just Maine. A few recent examples across the country of the connection between food stamps and illegal drug trafficking include:

- **Alabama:** In March 2017, law enforcement officers arrested a trespasser who turned out to be a felon previously convicted of manslaughter.[97] He had in his possession two guns, illegal drugs, $6,800 in cash, and four EBT cards that belonged to other people.[98]

- **Washington:** In March 2017, police officers in Spokane, Washington stopped a vehicle at 1:00 a.m. and reportedly found the driver with meth, heroin, and a "number of EBT cards" that they believed he was "receiving in exchange for drugs."[99]

- **Missouri:** In January 2017, a Missouri woman pleaded guilty to exchanging meth and cash for EBT cards.[100] Investigators found four EBT cards alongside 100 grams of meth in her bedroom.[101]

These unfortunate cases have repeated themselves in states around the country.

Governor LePage, DHHS Commissioner Mary Mayhew, and I requested a meeting several years ago with President Obama's FNS leadership, including current FNS officials Jessica Shaheen and Bonnie Brathwaite, to discuss how easy it was for SNAP cards to be traded for drugs. We relayed the concerns from law enforcement that they were routinely pulling people over with multiple EBT cards who would recite the line that they were "grocery shopping" for the person on the card.

At the time, we were told by FNS officials that if someone had the card and the associated PIN number, there was little they could do about it. While the officials acknowledged it might trafficking, they insisted anyone holding the card and the PIN must be considered legitimate until fraud was proven. That complacent attitude has hindered progress in fighting this problem. The Obama-era obsession with unfettered access to the program with no restrictions, despite increasing numbers of able-bodied adults and fraudsters, has helped fuel the drug crisis.

More controls are needed on SNAP EBT cards, and they are needed immediately. There are several simple controls that will help prevent the use of SNAP cards for drugs.

1) *Require someone possessing or using the EBT card to be authorized with the agency*

The Obama administration made it clear that if someone was holding an EBT card, had the PIN, and claimed they were shopping for the person whose name appeared on the card, FNS believed it was legitimate. This belief is not only mistaken, but it has provided endless cover for trafficking.

It is true that some enrollees may need assistance shopping for food from another person to whom the card was not issued. But these circumstances are rarer than suggested and households can and should be required to register additional users of the card—limited to two individuals—with the administering state agency. This policy change would bring the food stamp program in line with other programs, including WIC.

2) *Require cooperation with a fraud investigator*

When investigating cases of food stamp fraud—including charges of trafficking for drugs—state fraud investigators often need to engage with enrollees to discuss questions around their case. Currently, enrollees can sidestep this process by ignoring the fraud investigator completely, facing no penalty whatsoever. Nothing compels the enrollee to cooperate with the investigator. States should be allowed to require individuals flagged for potential fraud to meet with state fraud investigators as a condition of ongoing eligibility to ensure that program resources are being distributed appropriately.

3) Restrict the number of automatic replacement EBT cards

Current regulations allow states to withhold the fourth replacement EBT card in a 12-month period until the enrollee making the request provides an explanation for the lost card. This is important because multiple replacement cards is often an indicator of trafficking. Some states have expressed a desire to further limit the automatic replacement of EBT cards to combat fraud. In 2017, FNS began providing states with more flexibility and has granted waivers in this area to help reduce trafficking. To streamline this important anti-fraud measure, states should be allowed more authority to restrict the issuance of replacement EBT cards without a waiver.

SNAP Retailer Fraud

One of the chief ways that food stamp benefits are trafficked is when an approved retailer accepts benefits from an enrollee in exchange for cash. Typically, retailers committing fraud in this way will give enrollees 50 cents on the dollar for the trafficked benefits, ringing up a false sale in order to make this look like a real transaction. According to the U.S. Department of Agriculture, nearly 12 percent of all approved retailers engage in trafficking, including one in four small grocery stores and one in five convenience stores.[102]

While USDA does dedicate some time and focus to this area, there are hundreds of thousands of participating retailers across the country. The volume of retailers far exceeds the capacity of USDA officials to properly monitor those retailers. States also assist in investigating stores but have no authority to sanction or remove offending stores.

This problem is larger than the data shows, as several recent cases from across the country highlight.

Portland, Maine – Ahram Market

In Maine, we discovered one such case of this fraud through an analysis of EBT card spending data. Specifically, we saw that there were many transactions at Ahram Market in Portland, Maine, that were very high dollar, typically more than $300 each. We knew that Ahram Market was a small retailer, with only one cash register and no grocery carts, making even an occasional $300 purchase unlikely.

The data analysis also showed that Ahram Market has steadily increased the amount of total EBT transactions they processed over a short period. The total volume of sales grew quickly to more than $1 million dollars. This amount was disproportionate to the size of the store. For scale, they were doing the same amount in total transactions as a major chain grocery store nearby that had 18 cash registers.

The Maine Department of Health and Human Services packaged this case and took it the USDA OIG and the FBI to request a joint investigation. The subsequent investigation turned up food stamp and other fraud on a massive scale. Ali Daham, the owner of the store, had developed an elaborate scam to turn food stamps into cash and hundreds of food stamp enrollees participated in his scheme. The market also worked with many of these same individuals—right in the store—to file fraudulent tax returns in order to get back cash from the earned income tax credit. Daham pleaded guilty to his $1.4 million fraud scheme and faces up to 20 years in prison.[103]

Birmingham, Alabama – Convenience Stores

In 2015, law enforcement officials conducted Operation T-Bone, an investigation that resulted in 242 arrest warrants for 17 individuals at 11 convenience stores in Birmingham, Alabama.[104] The investigation revealed that the stores were buying EBT cards for roughly 50 cents on the dollar and then using the food stamp benefits to buy food in bulk to later re-sell at their own stores.[105] At least some of the profits in the Birmingham fraud cases were wired to Yemen.[106] At the time of the arrest, Deputy Attorney General Cynthia Raulston said that this problem was so "enormous" and "pervasive" that law enforcement "had to cut off the number [they] were going to prosecute," because the fraud was "everywhere."[107]

Milwaukee, Wisconsin – Quick N EZ Super Market

Owners of a Quick N EZ market in Milwaukee were busted in 2016 after trafficking more than $1.2 million in welfare benefits.[108] Enrollees sold their EBT cards to Quick N EZ for a discounted cash price and the store then cleared the cards of their face value.[109] The owners were caught after their store's massive redemption patterns were identified, including redemptions that far exceeded food inventory.[110]

Wocester, Massachussetts - J&W Aseda Plaza

According to the Department of Justice, Vida Causey—the owner of J&W Aseda Plaza—trafficked more than $3.6 million in food stamp benefits between 2010 and 2014.[111] Causey purchased the benefits for roughly 50 cents on the dollar, withdrew the full face value of the benefits, and laundered the money through a MoneyGram service.[112]

These are just a few large examples of what is a much larger problem. Five key changes would be instrumental in helping to combat SNAP retailer fraud.

1) Allow states to sanction offending SNAP retailers

Current rules require USDA to penalize and disqualify offending retailers, but USDA has very limited resources in this area and cannot handle the volume of investigations or sanctions necessary to protect program integrity. State partners—who already assist in investigations into fraudulent retailers—should be authorized not only to investigate, but also remove offending vendors from program participation. The same due process would be followed, but the lag in removing offending stores would be resolved.

2) A credible allegation of fraud should trigger a freeze on retailer authorization

In the Medicaid program, a state health care fraud agency can make the determination that there is a "credible allegation of fraud" and remove a provider from active Medicaid payment status. A food stamp retailer, however, can continue to operate until all investigations—and often even criminal trials—are completely adjudicated. In the case of Ahram Market, the store continued to operate for months after the FBI investigation had concluded there was massive fraud. Offending

SNAP retailers should be shut down immediately upon a credible allegation of fraud unless the investigation choose to leave the retailer operating for purposes of an investigation.

3) States should be required to review EBT transaction data more aggressively

Many states do not have sufficient processes in place to review and analyze EBT transaction data. This data is often the key to finding retailer trafficking cases. States should be required to produce standardized regular reports of transaction review processes and follow-up actions.

4) Do not allow retailer owners to redeem personal benefits in their own stores

A recipient of food stamp benefits may also be the owner of a business that operates an authorized retail store. While there is no discrimination against a person applying for food stamps based on anything except standard eligibility criteria, and owning a retail food store should not disqualify someone from participation in the program, there must be proper controls to ensure that potential conflict does not lead to fraud. A food stamp enrollee who is also an authorized retailer should not be allowed to redeem personal benefits in their own establishments. This occurred at the Ahram Market and is a common problem among fraud cases.

5) Reallocate resources to better fund fraud detection and investigation activities

At all levels of food stamp program oversight, there are too few resources. It is encouraging that FNS has announced a new dedicated office of program integrity to help in this area. At the state level, funding for fraud investigators can be difficult to find. Current rules provide that states can retain 35 percent of funds collected from intentional program violations for use on investigations. But this revenue is unpredictable and insufficient. As a result, many states are woefully understaffed and do not have the correct data or technology tools in place. States should be allowed to retain 50 percent of intentional program violation collections. Additionally, states should have the flexibility to use funds currently designated for SNAP-ED for fraud investigations staff and activities. Congress should also end the $48 million in annual "bonus" payments to states and reallocate it for anti-fraud efforts.

It is difficult to know the exact level of fraud that exists in food stamps because it is only identified when state and federal agencies search for it, investigate it, and prosecute it. When states focus on fraud, they quickly discover that fraud not only exists, but it is rampant. Sadly, too few states dedicate time and resources to finding, investigating, and prosecuting fraud.

Much of the fraud can be prevented by changing the laws, regulations, and practices that have created vulnerabilities within the food stamp program. By making key policy changes, the program can be improved in the areas of program integrity, eligibility fraud, and trafficking fraud to protect the program for the truly needy and protect taxpayers from being scammed. But one of the best ways to prevent welfare fraud is to get able-bodied adults off welfare in the first place, moving them into jobs and onto the path to self-sufficiency.

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