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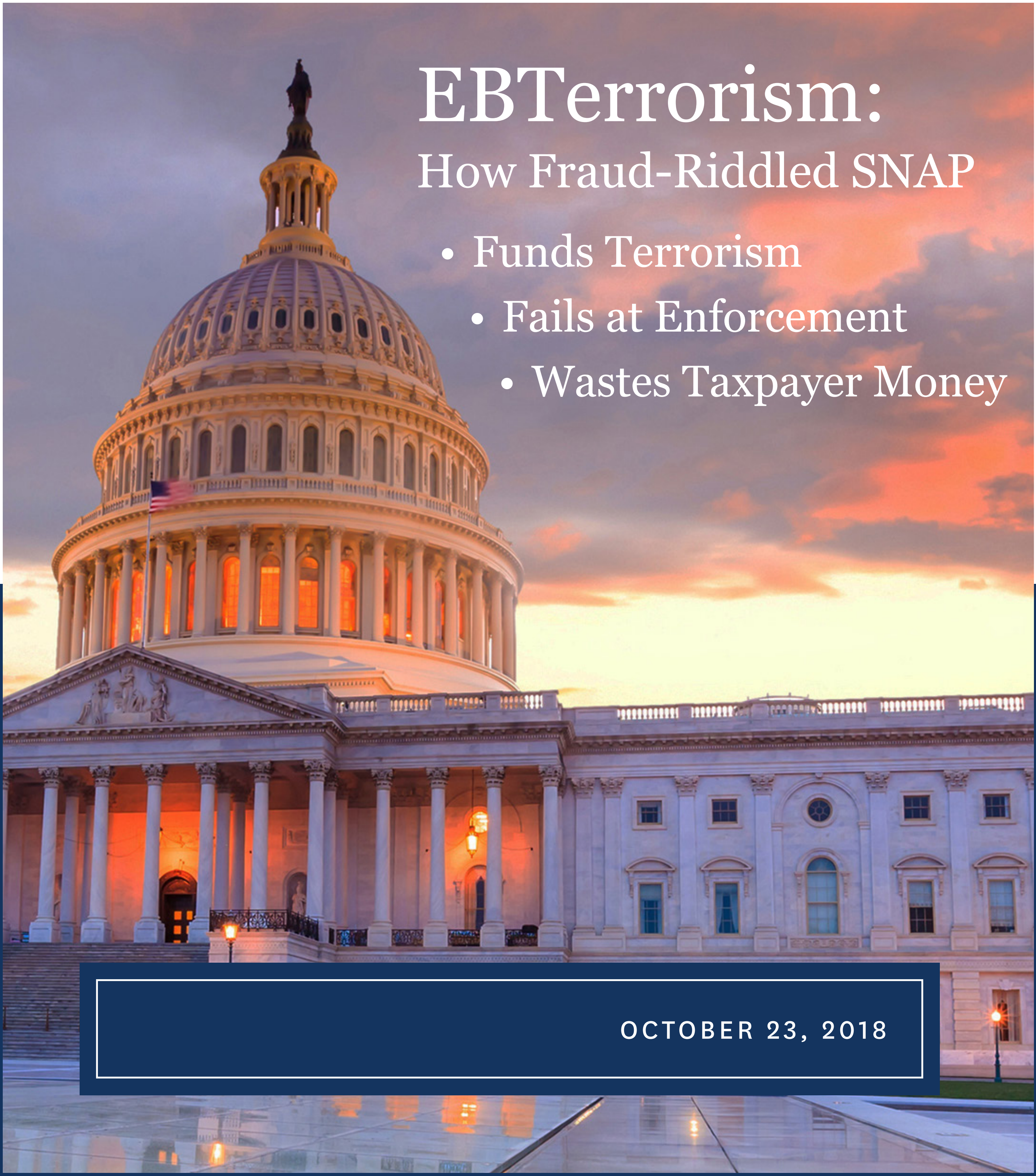

EBTerrorism:

How Fraud-Riddled SNAP

- Funds Terrorism
- Fails at Enforcement
- Wastes Taxpayer Money

OCTOBER 23, 2018

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Executive Summary

The Supplemental Nutrition Assistance Program (SNAP), or federal food stamps, grew dramatically in the aftermath of the 2008 economic recession. Yet, despite a vastly improved economy and an unemployment rate of 3.9 percent as of August 2018, SNAP remains about 45 percent larger than its pre-recession size. Although participation and program costs have steadily declined since peak-year 2013, just under 39 million Americans—nearly one in eight—still receive taxpayer-funded SNAP assistance as of July this year. The program's total cost was over $68 billion in 2017.[1] That is roughly the combined annual budgets of the U.S. Department of Homeland Security (DHS), the U.S. Environmental Protection Agency (EPA), and the U.S. Department of Treasury.[2]

As the U.S. Department of Agriculture's Food and Nutrition Service (FNS) scaled up the program, large amounts of fraud were inevitable. But FNS claimed annual fraud rates of just one percent, and record low "payment errors."[3] More recent data show a 1.5 percent trafficking fraud rate where SNAP benefits are exchanged for cash or non-eligible items.[4] These are figures that few in program integrity areas of SNAP believe to be true.[5]

This report by the Government Accountability Institute (GAI) will show that FNS has hidden systemic fraud and allowed large-scale waste and abuse to go unabated for years. The report will explain the most common types of fraud by both beneficiaries and by many authorized vendors who are entrusted to redeem program benefits honestly. The report will also show that FNS mismanaged many aspects of this important program, resulting in:

- Allowing SNAP and other public assistance funds to be used in connection with acts of terrorism in the United States and abroad. Millions of dollars have been sent to terror-prone nations such as Yemen and Somalia through hawalas and money-laundering by SNAP-approved vendors who were known to be supporting terrorist organizations including "Al Qaeda in the Arabian Peninsula." (p. 46)

- Dramatically increasing food stamp participation without providing support for necessary increases in fraud investigators, especially at the state level. Large amounts of fraud likely went unaddressed for lack of manpower. (p. 5)

Executive Summary (Continued)

- Using bureaucratic constraints to hamper state and federal enforcement efforts while masking immense amounts of fraud as "inadvertent program errors." (p. 17)
- Permitting undocumented immigrants to obtain food stamps. FNS prohibits asking about the citizenship status of any household members other than the SNAP applicant. (p. 21)
- Allowing "food stamp millionaires" to remain in the program. (p. 25)
- Expanding the number of approved SNAP vendors by 50 percent without providing adequate oversight, and at a time when the USDA's own investigative staff was at its lowest level since 1978. (p. 33)
- Allowing more than half of SNAP vendors to be made up of convenience stores and small- to medium-sized grocery stores, where 94 percent of all illegal SNAP trafficking occurs. (p. 35)
- Re-certifying SNAP vendors who were previously thrown out for fraud and allowing suspected sham merchants—even a "farmer's market" with fruit displays made out of plastic—to traffic SNAP benefits for years. (p. 37)
- Issuing bogus national "error rates" that masked billions in improper payments to SNAP recipients. The practice goes back to at least 2010, with FNS declining to report any national error rate in fiscal years 2015 and 2016. (p. 42)

SNAP meets vital needs for millions of vulnerable Americans. But fraud, waste, and abuse are rampant in the program. Every benefit dollar wasted, or improperly obtained, is a dollar diverted from those who need SNAP the most.

Even though the size of SNAP has modestly declined since its 2013 pinnacle, many reforms are needed to safeguard against fraud and mismanagement of taxpayer resources. In particular, state and federal integrity-enforcement units need greater overall support, and FNS-approved SNAP vendors, especially convenience stores and small grocery stores, need greater oversight. Most trafficking occurs at these locations, and further scrutiny would reduce opportunities for food stamp recipients to illegally exchange their food benefits for cash.

Part I: Introduction

Throughout the Great Recession, Supplemental Nutritional Assistance Program enrollment skyrocketed—and for good reason. Millions of Americans were unemployed, state and local governments were cutting public services, and vulnerable citizens needed help meeting basic needs, such as the ability to adequately feed their families. SNAP, also known as "food stamps," provided relief.

In 2009, the Obama administration and Congress began increasing SNAP funding to historic levels. By 2013, the program had grown by nearly 50 percent to 47.6 million food stamp recipients, with the annual benefit cost jumping to $76 billion.[6] (Another $3.8 billion was spent administering those benefits).

Today, unemployment is two and one-half times less than its recession-era peak, and the economy is vastly improved, but the program remains disproportionately larger than its pre-recession size. As of June 2018, 39.3 million people are still enrolled in the program.[7]

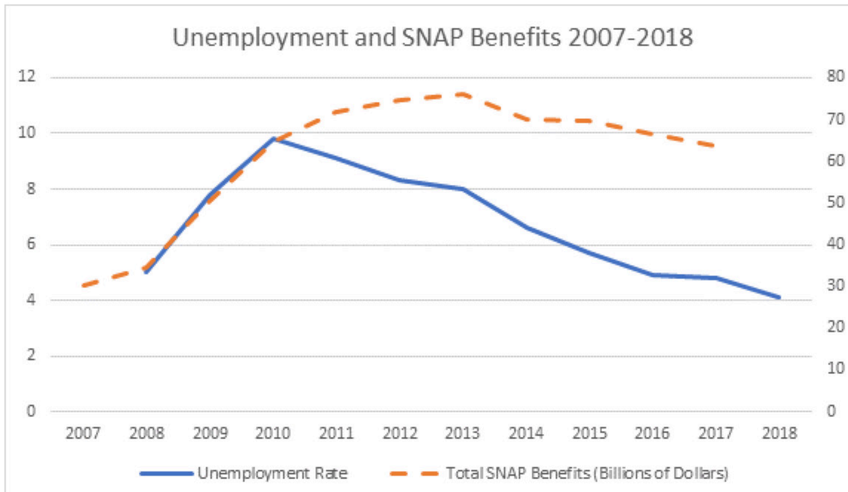


Figure 1: US Bureau of Labor Statistics; USDA Food and Nutrition Service

Throughout these years of explosive growth, FNS reported a trafficking fraud rate for the program of just *1.3* percent.[8] Our investigation suggests otherwise. In our months of research, GAI interviewed approximately two dozen federal and state fraud investigators. We attended a week-long national public assistance fraud conference held by the United Council on Welfare Fraud that included nearly 300 fraud investigators from across the nation. We learned a very different story.

When a senior FNS official referenced the "one percent" fraud rate at the conference, an entire roomful of fraud investigators erupted in laughter. Not one program integrity official we interviewed believed FNS's claim to be accurate. Indeed, the figure defies common sense, especially for a program that has grown so much, and so quickly. Studies performed in Florida and California, based on a sampling of cases that appeared suspicious on their face, suggest that fraud occurs far more often. As SNAP grew in size, federal overseers did not provide for a proportionate increase in fraud investigators and staff. In some instances, they actually reduced staffing.[9]

As this report will show, FNS maximized food stamp participation during the past eight years at the expense of program integrity. Since SNAP benefits are paid entirely by federal funds, states have virtually no independent authority, or much incentive, to root out fraud in the program. In some instances, states are even incentivized to underreport abuses when they are discovered. Worse, federal program rules and regulations make it harder for states to detect fraud, even as they share the costs of administering food stamp benefits. These issues allowed senior program officials to hide the true extent of fraud by both SNAP retailers and recipients.

Part II: SNAP Background and Responsibilities

1. Who is responsible for which parts of SNAP?

Responsibility for managing the program is divided among three distinct entities: the USDA Food and Nutrition Service (FNS); the USDA's Office of the Inspector General (OIG); and individual states' welfare fraud units.

The division of authority and responsibility is presented in Table 1. FNS, headquartered in Washington, D.C., has overall control of the program. It has over seventeen hundred employees, seven regional offices around the country, 18 field offices/satellite locations, and four SNAP compliance centers nationwide.[10] FNS is headed by an administrator who reports to a politically-appointed USDA Secretary.[11]

Agency	Authority and Responsibility
FNS	Sets and administers SNAP rules and regulations, provides guidance for states, and monitors state activities to combat fraud.
OIG	Audits and investigates programs and operations, serves as the law enforcement arm of the department and conducts criminal fraud investigations.
States	Determine eligibility and monthly benefit amounts for qualified SNAP recipients, and issue electronic benefit transfer (EBT) cards. State public assistance fraud agencies detect and investigate SNAP recipient fraud, or fraud committed by vendors receiving food stamp benefits.[12]

2. Who are the program's recipients?

SNAP awards benefits to households based on eligibility requirements including the number of members in the household and total monthly income (minus deductions for housing and other costs. Once determined, the monthly benefit amount is loaded each month into an EBT charge card to be used at SNAP-approved stores and other food merchants.

Recipients	Individuals in households with gross monthly income below 130% of the poverty line generally qualify. Benefits are allocated according to members within the household. The monthly average-per-person was $126 in FY 2017.[13]
Approved Retailers	All stores that sell food may apply to accept EBT cards as payment for basic food items.[14] These range in type from big-box "super stores" to farmers' markets, food marts, convenience stores and small groceries, as well as specialty merchants.

3. How is Fraud Defined?

The USDA Food and Nutrition Service defines fraud in three ways:

- SNAP "trafficking" occurs when purchases are faked or inflated and cash is given back to the cardholder. The amount charged to the card less the cash given is then pocketed by the retailer.
- "Front-end fraud" occurs when individuals falsify information on SNAP applications in order to qualify or increase the amount of benefits they may receive.
- Fraud occurs when retailers lie on an application to participate in the program after having been previously disqualified for abuses.[15]

4. Do Federal and State Administrators Have Adequate Staff to Detect and Prevent Fraud?

FNS denies that fraud is a significant problem. In late 2016, a memorandum called "*Detecting Potential SNAP Trafficking Using Data Analysis,*" was sent to the USDA Assistant Inspector General for Audit, Gil H. Harden. In a formal response contained within the memorandum, FNS Administrator, Audrey Rowe, maintained that the SNAP trafficking fraud rate had decreased from 3.5 percent to 1.5 percent over the last 16 years.[16] FNS has stood by this rate and touted it on a regular basis.

Yet, the agency is underfunded and understaffed in proportion to the substantial growth in the program's constituency and budget. In 2013, the peak year for SNAP growth, FNS had less than 1,400 employees. Of those, only 170 were assigned to the $76 billion food stamp program, according to an audit by the OIG.[17] As of September 30, 2017, there were approximately 1,551 full-time FNS employees, with 372 assigned to SNAP.[18]

Part III: Staffing Issues

The lack of SNAP oversight staff was a well-known problem that was never properly addressed.

The aforementioned 2013 audit repeated a conclusion made two years earlier in a 2011 OIG report. Auditors warned, "FNS continues to struggle with diminishing staff resources. Any future reductions in FNS resources, any increases in responsibilities or change in program design without compensating Administrative resources increases may compromise the gains we have achieved in the areas of Program integrity and FNS' ability to adequately execute internal controls already put in place or to develop any additional controls that may be needed in the future."[19]

Four years later at fiscal year-end 2017, OIG auditors again arrived at the exact same conclusion, "FNS continues to struggle with diminishing staff resources."[20]

The repeated finding is all the more troubling considering fraud investigators are only one type of FNS employee. Others include policy analysts, communications staffers, nutritionists, accountants, program evaluators and tech support.[21]

Secondly, the OIG is also understaffed, and it lacks authority to take immediate action on known fraud.

- In February 2017, Inspector General Phyllis K. Fong reported that the OIG was at its lowest staffing level since 1978.
- In February 2017, the OIG's annual average budget for monitoring more than 200 USDA programs, including SNAP, was less than $90 million, compared to the roughly $70 billion in average annual SNAP benefits issued since 2009.

The OIG is the law enforcement arm for the USDA and is responsible for more than 200 department programs and operations, ranging from food assistance programs to farm- and ranch-related operations, as well as agricultural research.[22] In FY 2016, more than half of the OIG's investigative staff worked on criminal investigations relating to FNS-approved SNAP retailers, despite its wide range of responsibilities.[23] OIG does not have any authority over FNS or the food stamp program, and has no separate authority to prosecute crimes. The OIG performs audits, investigates potential SNAP retailer fraud, and makes official recommendations.[24]

Even with a majority of the OIG's investigatory staff devoted to SNAP retailer fraud, their efforts are spread far too thin. In February 2017, less than one month after a change in presidential administrations, USDA Inspector General Phyllis K. Fong testified to a U.S. House Appropriations Subcommittee that, "In our FY 2015 appearance before this Subcommittee, we informed you that we finished fiscal year 2014 with our lowest level of staffing since we were statutorily established in 1978." She added, "Unfortunately, we are again at our lowest staffing level since 1978."[25]

Despite record low personnel, the OIG managed to obtain 510 convictions and monetary results totaling $95.6 million in FY 2016.[26] But consider there are more than 300,000 FNS-approved retailers, with approximately 12 percent estimated to engage in illegal SNAP trafficking.[27] For the five years prior to Fong's February 2017 congressional testimony, the OIG's annual average budget for monitoring all USDA programs was less than $90 million.[28] This is a pittance compared to the $71 billion average annual SNAP benefits issued over the same period.[29]

According to USDA OIG's strategic plan for fiscal years 2017 through 2022, two of the most important factors affecting whether the OIG will meet its strategic goals are the size and experience of its investigative workforce, and whether funding shortfalls threatening its mandated activities will be addressed.[30]

Thirdly, individual states are limited in their ability or incentive to prosecute SNAP fraud due to a similar lack of investigative personnel and funding shortages.

- Nationwide, the number of program fraud investigators at the state level has been either reduced or has remained stagnant.
- In June 2016, the Government Accountability Office revisited its 2014 findings (that reviewed SNAP issues beginning in 2009) and again noted, among other things, a critical lack of state investigatory staff and financial support for effective anti-fraud activities.
- Most of SNAP's financial incentive programs reward states for expanding access to benefits, and for issuing benefits faster and more accurately.
- There are few incentives for the states to identify either "front-end" fraud or retailer fraud.

As SNAP ballooned in size from 2009-13, the number of state-level fraud investigators had either declined or remained relatively stagnant in most of the states sampled in a 2014 Government Accountability Office review."[31] Specifically, eight of eleven states reported insufficient staffing due to "attrition, turnover, or lack of funding," and that those limitations "are significant hinderances to their investigations of eligibility fraud and trafficking."[32]

State-level SNAP fraud activities were further hindered because investigators in all eleven sampled states were also tasked with pursuing fraud in other public assistance programs, such as Medicaid, Temporary Assistance for Needy Families, and housing and child care assistance programs.[33]

The GAO added, “Such rapid program growth can increase the potential for fraud unless appropriate agency controls are in place to help minimize these risks.”[34] Among the agency controls and issues mentioned, were:

- The need for FNS to provide federal financial incentives to support state anti-fraud activities.
- Better tools for states to detect SNAP fraud and to report on their anti-fraud efforts.

Two years later in June 2016, the GAO reiterated its 2014 findings, noting again a critical lack of state investigatory staff and financial support for effective anti-fraud activities. The sheer volume of SNAP recipients, FNS-approved retailers, and potential fraud cases has overwhelmed state fraud investigators, the report said.[35]

- While noting that FNS had agreed with its previous recommendations and was addressing them, “it has yet to fully develop the detection tools and improved reporting methods that would address these recommendations,” the GAO said.[36]

In May 2018, GAO once again affirmed its previous findings regarding inadequate investigative staffing and funding and did not indicate that FNS has made any changes to resolve these critical issues.[37]

Part IV: Program Incentives/Disincentives

The USDA regularly awards bonuses, grants, and funding opportunities to states that increase their food stamp program access and participation rates, or that deliver benefits with the greatest payment accuracy and fewest errors. For example, in FY 2015, USDA awarded states “SNAP High Performance Bonuses” in the following amounts:

- $24 million for payment accuracy
- $6 million for low error rates
- $6 million for the fastest application turnaround times
- $12 million to states that provided the best access to SNAP [38]

The USDA offers at least a dozen funding opportunities for farmers' markets, including subsidizing advertising costs.[39] In 2015, it issued $31 million in EBT grants, and spent $414 million in 2017 in SNAP-Education (SNAP-Ed) funds to encourage healthy eating to prevent obesity.[40] The USDA also spent millions on SNAP promotions, such as a $2.5 million radio ad campaign aired in 2012, aimed at increasing enrollment in the program.[41] Another participation campaign was aimed at senior citizens and encouraged them to "Throw a Great Party" and put SNAP information into game formats like bingo.[42]

While there has been no shortage of funding for increasing SNAP participation, FNS has consistently failed to provide adequate financial support and earned incentives for state anti-fraud activities. Details and shortcomings are as follows:

- For successfully prosecuting a SNAP recipient for food stamp fraud, obtaining an intentional program violation (IPV) judgment through an administrative hearing, and recovering SNAP funds—which are difficult to obtain—states may retain a maximum of 35 percent of recovered funds.[43]
- If food stamp recipients and an FNS-approved retailer are caught trafficking SNAP benefits together, which often happens, the U.S. Treasury receives 100 percent of any recovered retailer funds *plus* the 65 percent recovery amount from any associated recipients.[44]
- A state has no incentive to prevent "front-end fraud" (during the application process). If a state or county caseworker or investigator detects fraud from an applicant who misreports income or household size, then no benefit payments will be issued and therefore there is no percentage to recover.[45] FNS offers no financial motivation to states for preventing this fraud; on the contrary, based on the incentives they do offer to increase program involvement, FNS seems to discourage it.

This has led to an application system that is easily gamed. In 2012 alone, and in a sample of only ten states, program investigators identified 27,044 individuals receiving monthly SNAP payments who were:

- Dead
- Using a deceased person's social security number
- Using an incorrect social security number
- Receiving duplicate benefits
- Previously disqualified from receiving SNAP benefits [46]

In April 2014, FNS published a "Request for Information" in the Federal Register seeking state and stakeholder guidance on how it could better incentivize state performance and award financial bonuses.[47] In August 2014, the GAO recommended that FNS reassess the issue of financial incentives for state anti-fraud efforts. Specifically, the GAO recommended that the Secretary of Agriculture direct the Administrator of FNS to, "Explore ways that federal financial incentives can better support cost-effective state anti-fraud activities."[48] However, in 2016, FNS decided to undertake *no* new anti-fraud rewards or incentives.

Two years later, it was more of the same. In May 2018, GAO auditors again noted that FNS failed to pursue bonus awards for effective state-level food stamp fraud efforts. "Given that FNS has not made changes in this area, state SNAP fraud agencies may continue to report resource concerns in addressing fraud," the GAO concluded.[49]

For states, the 65 percent to 35 percent recovered SNAP recipient-fraud split with the federal government results in the proverbial *spending a dollar to receive a dime*.

FNS does not value fraud prevention and cost-avoidance enough to offer states attractive financial incentives or rewards—merely the 35 percent "pay-and-chase" incentive, which is awarded only after a fraud conviction or an IPV finding has been determined and appeals exhausted. As a result, a state's financial interest is better served by shoveling out food stamp benefits rather than fighting waste and fraud in the program. Meanwhile, state fraud investigators are overwhelmed with an avalanche of potential fraud cases.

The funds recovered by states are typically reinvested into SNAP integrity activities. It is not difficult to imagine how anti-fraud bonuses, incentives, and awards, and an increased federal-state recovered funds split, would increase morale and beef-up program integrity efforts beginning with the additional staffing of state fraud units. This has clearly not been a priority of the FNS.

Part V: State Level Enforcement Efforts

Our research looked at many examples of state-level staffing issues. We found that:

- In California, about 400 state fraud investigators are responsible for safeguarding 4.4 million SNAP participants and $7.5 billion in annual benefits.[50]
- In Maine in FY 2015, seventeen fraud investigators were responsible for 202,000 individuals receiving $282 million in annual SNAP benefits.[51]

- In Texas, the state Office of Inspector General is responsible for investigating SNAP fraud. The OIG has 88 investigators who in addition to SNAP, are tasked with investigating Temporary Assistance for Needy Families (TANF), FNS assistance for Women, Infants and Children (WIC), and Medicaid.[52]
- In Florida, 49 state Division of Public Assistance Fraud (DPAF) investigators are responsible for protecting nearly $5.2 billion a year and overseeing 3.4 million SNAP recipients.[53]

California Case Study

California public assistance is administered at the county-level. Each of the state's 58 counties are also responsible for investigating public assistance fraud. There are about 400 investigators statewide as of September 2018, according to the California Welfare Fraud Investigators Association, a professional organization providing training and legislative information to the state welfare investigative community.[54]

Each county investigative unit sets its own fraud enforcement priorities, although the main shared focus is on early detection. This is aimed at minimizing SNAP overpayments if fraud is in fact occurring.[55] It is also much more cost-effective for CalFRESH investigators to address so-called "early fraud" than to conduct large, in-depth investigations long after benefits have been issued.[56]

The criteria for examining food assistance applications varies from county to county. Some use a "percentage sampling" approach, while others look for red flags, such as a lack of cooperation or conflicting statements and documents.[57]

Of the SNAP/CalFRESH cases of suspected fraud California's state investigators were able to address in the first eleven months of 2016, the California Welfare Fraud Investigators Association reported that investigators had confirmed fraud in 34 percent of those cases. In 2013, it reported a positive finding in 37 percent of the cases investigated.[58]

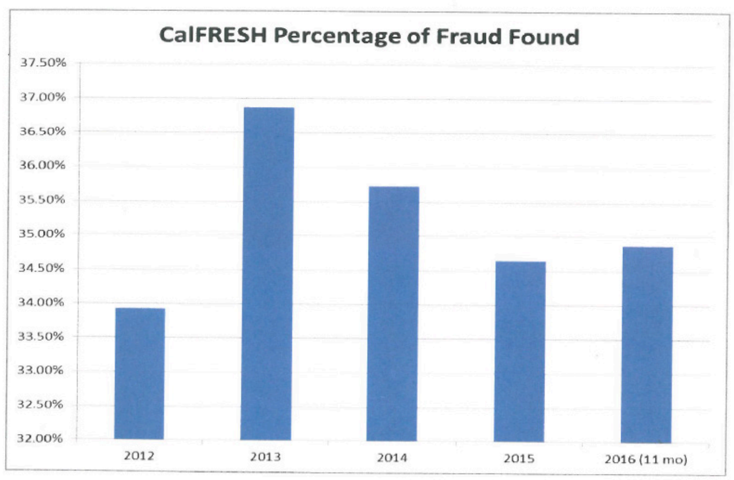


Figure 2: California Fraud Rate Study

This does not mean that the overall rate of fraud for California SNAP was 34-37 percent in those years, rather it's an indication that there's a high fraud rate among the cases fraud investigators can actually get to. Investigators are not able to investigate all referrals of suspected fraud due to a lack of manpower.[59]

It could be that the total amount of suspected fraud cases for the state of California is an abnormally large portion of overall SNAP/CalFRESH participation. If so, the state fraud rate could be huge. If total suspected fraud referrals is a minimal portion of the state's program, then the fraud rate could also be small. It's not altogether clear, but in any case additional investigators could help cope with unaddressed fraud referrals.

Hiring more investigators would almost certainly lead to discovering and prosecuting additional instances of fraud in the program.

Florida Case Study

From 2008 to 2010, Florida's annual SNAP benefit payments grew from nearly $1.8 billion to $4.4 billion, or 150 percent.[60] At the end of FY 2016, it reached $5.2 billion.[61] According to a Florida public assistance fraud task force, in fiscal year 2010, Florida conducted more than 51,000 pre- or post-SNAP eligibility investigations. Tracking the results found in Florida, fraud was detected and confirmed in 35% (18,000) of those investigations.[62]

In fiscal year 2016-17, the DPAF received 23,934 suspected fraud referrals, but investigators were only able to pursue 1,986 of them, or about 8 percent. The other 92 percent of DPAF's suspected fraud referrals went unaddressed.[63]

Compounding the issue is the difficulty in obtaining evidence to substantiate fraud. When investigators suspect fraud but fall short of proving it, discovered payments that should not have been made to a food stamp recipient are considered under FNS rules to be an "Inadvertent Household Error" or an "agency error."[64] While this protects SNAP recipients who may have received benefits by mistake, it also provides cover for many who knowingly seek to take advantage of the program.

In May 2016, the largest food stamp trafficking fraud bust to date occurred in Miami-Dade County, Florida.[65] (A new, record-breaking fraud occurred in Southeast Florida during the writing of this report.)[66] Twenty-two FNS-approved SNAP retailers were arrested for committing an alleged $17 million in trafficking fraud. According to Mike Carroll, Secretary of Florida's Department of Children and Families (DCF), the social services agency responsible for administering SNAP statewide, more than 41,000 SNAP recipients may have illegally exchanged their EBT cards for cash at the retail fraud ring.[67] Given FNS rules and the state's lack of investigative staff, a significant portion of the 41,000 SNAP recipients will avoid accountability.

Other States

Other states experience similar staffing pressures. The chart below (Figure 3) measures the sharp increase in workload for state-level SNAP fraud investigators in 10 of 11 states studied from 2009 to 2013 (North Carolina was not included in the chart because some of their localities do not have designated fraud investigators). It was discussed at a June 2016 congressional hearing by Kay Brown, Director of Education, Workforce, and Income Security Issues at the GAO.[68] Taken together, these 11 states represent almost one-third of total SNAP recipients.[69]

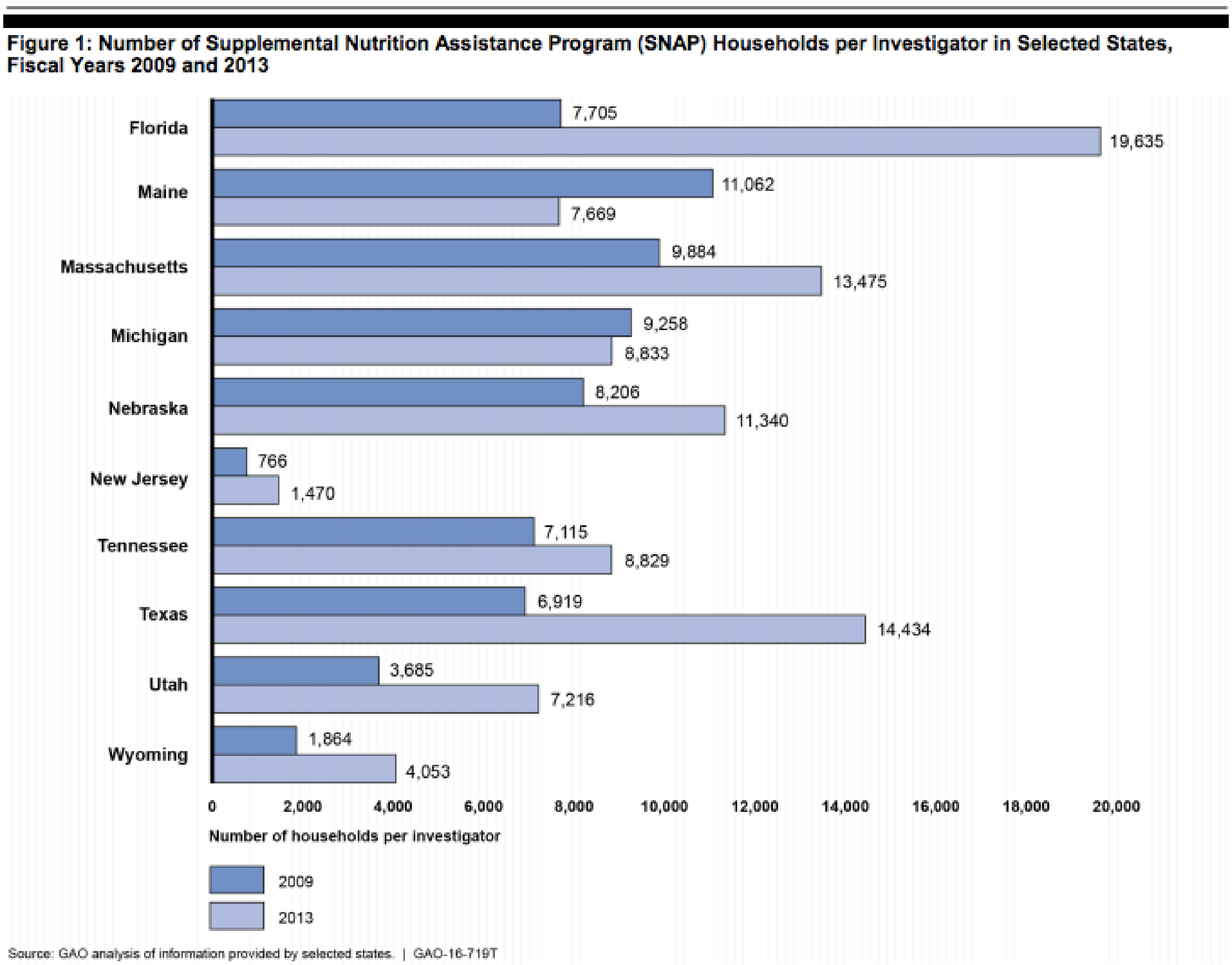


Figure 3: Ratio of Households to Investigators (Note: there are typically multiple individuals per household).

Expecting a single investigator to effectively monitor thousands of SNAP households, often with multiple SNAP recipients per household, is unreasonable—especially as state welfare fraud units are tasked with policing additional public assistance programs.[70]

Moreover, the discrepancy between fraud investigators and SNAP households may be much worse than reported by the GAO. According to the Director of Florida's DPAF, there were 43,888 SNAP households for every one of DPAF's 44 investigators in 2013. Keeping in mind the subsequent reduction in food stamp rolls in recent years, DPAF now maintains 48 investigators for 1,754,420 households, or 36,550 households per investigator.[71]

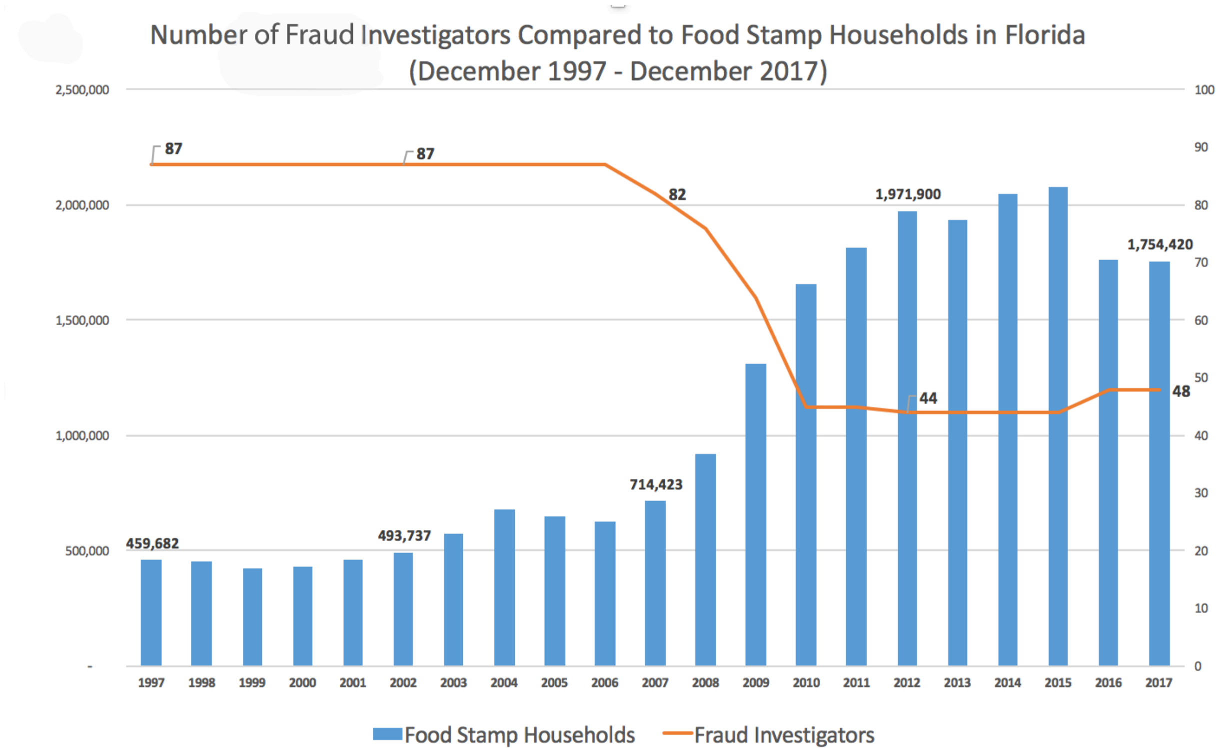


Figure 4: Number of Florida Department of Public Assistance Fraud Investigators compared to Florida SNAP households.

As we have seen, during the program's post-recession explosive growth, there was not a proportionate increase in state or federal fraud investigators to adequately safeguard the nation's largest food assistance program from criminal exploitation. The lack of manpower and resources—which continues—limited the amount of potential fraud cases investigators could pursue, leaving significant amounts of potential fraud unaddressed. Despite calls by officials within the USDA OIG, the GAO, and state agencies for more investigators, the workload for each investigator grew larger, contradicting statements by Obama-appointed USDA FNS Under Secretary Kevin Concannon, that "rooting out waste, fraud and abuse (was) a top priority for this administration."[72]

Part VI: Standards of Evidence for Classifying Fraud

FNS maintains its own set of standards for determining whether fraudulent activity has occurred. Efforts to investigate and administratively prosecute SNAP fraud are impaired by heightened evidentiary standards and an FNS policy that favors reclassifying fraud as "administrative error." Here are some examples:

- To disqualify a SNAP recipient, state investigators must establish the fraud and an intent to defraud the program by *clear and convincing* evidence, rather than the normal *preponderance of evidence* standard.[73]
- If intent cannot be established, then eligibility misstatements by an applicant that would reduce benefit amounts, such as false income or household size information, are classified per FNS rules as an "inadvertent household error" (IHE).[74]
- An applicant may simply deny wrongdoing and what may otherwise be fraudulent activity is classified as an improper overpayment and labeled an IHE. In other words, without a confession, innocence is assumed.
- If a caseworker or eligibility officer could have known a false statement affecting benefit payments might have been given by an applicant, these so-called mistakes are labeled by the FNS as "Agency Error."[75]

The high FNS standard of proof required to administratively disqualify a recipient suspected of fraud limits the ability of state investigators to protect program resources. For years, states have asked FNS to lower the evidentiary burden from "clear and convincing" to "preponderance"—the same standard for SNAP retailer fraud. A specific request for this common sense initiative by Florida DCF Secretary Mike Carroll was denied in November of 2016 by then USDA Under Secretary Concannon.[76] Five months earlier, appearing before a U.S. House Oversight Committee hearing, Carroll told lawmakers, "Right now it is easier to arrest a recipient than to disqualify them from SNAP."[77]

"Clear and convincing evidence" is a harder legal standard to meet than "preponderance of the evidence."[78] It requires proof that fraud was *substantially* more likely to have occurred than *not* to have occurred, and that prosecutors demonstrate that a SNAP recipient not only committed fraud, but *intended* to commit fraud or some other IPV. If that intent cannot be established, then eligibility misstatements affecting benefit amounts, such as false income or household size information, are classified per FNS rules as inadvertent.[79] Preponderance of evidence is an evidentiary threshold used by other agencies administering public assistance, such as Housing and Urban Development and Social Security Disability—but not FNS.[80]

This high burden of proof, and its many policies that are used to explain fraudulent activity as simple "error" as we will discuss below, inhibit program accountability efforts and serve to understate the agency's official SNAP recipient fraud statistics. FNS reports its annual recipient fraud figure as the total amount of food stamp participants disqualified from the program each year. However, as the OIG pointed out, this figure “only includes those recipients actually identified committing fraud and does not estimate the rate of potential fraud.”[81]

Sometimes considerable time and resources are committed to undercover fraud operations linking suspected EBT-retail store traffickers to recipients who exchange their food benefits for cash. In these scenarios, video surveillance, EBT transaction records matching time and location data, and positive identification by a third party of the recipient are often needed to meet the FNS standard. Simply showing that fraud occurred, without regard to the intent, is enough to convict and disqualify EBT vendors from the program, but *not* recipients.[82]

Part VII: Reclassifying Fraud as “Errors” or “Mistakes”

In July 2016, SNAP Associate Administrator Jessica Shahin told members of the House Committee on Agriculture that “the vast majority of improper payments...are the result of mistakes on the part of States administering the program and households applying for or participating in the program.”[83]

But as previously explained, so-called mistakes and inadvertent errors are in significant portion attributable to fraud.

The Government Accountability Institute interviewed two dozen state-level investigators from across the country who told us that most errors classified as program IHEs involve willful attempts to take advantage of SNAP and are not in fact honest mistakes. The use of euphemisms and bureaucratic reclassifications of fraud makes the actual rate of fraud in the program difficult to monitor and confirm.

For example, eligibility fraud in Florida is almost certainly higher than what FNS reports. According to a Florida public assistance task force, the rate of food stamp eligibility fraud, or “front-end fraud,” for the third largest food stamp population in the country is at least 7.5 percent—this does not include benefits trafficking fraud.[84]

Florida state auditors also determined that the FNS Quality Control process is designed to identify payment errors, not to detect cases of fraud, and that FNS does not count some cases that would otherwise increase SNAP’s national error rate, namely:

- Cases pending a hearing to appeal an adverse action
- Cases already referred for investigation
- Cases under active investigation or pending an IPV hearing
- Cases where household members have moved out of state
- Cases in which the household members could not be interviewed after all reasonable efforts to do so have been made and documented [85]

The Office of Management and Budget (OMB) designated SNAP as a "high-risk" and therefore "high-priority" program due to the large dollar amounts involved and the potential for fraud through EBT card vulnerabilities.[86] Other high-risk, high-error programs include the National School Lunch Program (NSLP), and the School Breakfast Program (SBP). In fiscal year 2015, NSLP and SBP had error rates of nearly 16 percent and 23 percent, respectively.[87]

In 2016, ardent proponents of food stamp growth were still citing low FNS error rates as evidence of the program's remarkable success. In a twenty-one-page statement issued to several congressional committees, Stacy Dean, Vice President for Food Assistance Policy at the widely-quoted Center on Budget and Policy Priorities, testified that food stamp program eligibility and payment accuracy are strongly supported by the FNS Quality Control system. "SNAP has long had one of the most rigorous payment error measurement systems of any public benefit program," Dean told federal lawmakers, adding, "the percentage of SNAP benefit dollars issued to ineligible households or to eligible households in excessive amounts fell for seven consecutive years and stayed low in 2014 at 2.96 percent, USDA data show."[88]

Just five months later, USDA would report error rates for only nine states and two territories, after finding discrepancies in state-level data for FY 2015.[89] USDA declined to provide error rates for the program entirely for FY 2016.[90]

Part VIII: FNS Policies and Rules Invite Recipient Fraud in Many Ways

FNS rules and policies after 2008 were designed to encourage greater use of the program, not to ensure its integrity. These rules in fact contribute to EBT/SNAP fraud. Briefly:

- Federal SNAP rules allow anyone with an EBT card and the PIN to be an authorized user of that card, even disregarding concerns from several states about fraudulent resale of EBT/SNAP cards contributing to drug abuse.
- Food stamp recipients suspected of committing fraud are not required to cooperate with fraud investigators while continuing to draw benefits.
- FNS requires no identity verification or customer authentication checks during online applications. Even after granting Florida's request to include an online identity verification feature on that state's SNAP application website, FNS insisted that the online applicant be able to skip the verification step in the process.
- FNS does not share some program information with the states.

- FNS allows SNAP recipients to receive an unlimited number of replacement EBT cards, a known red flag for fraud.
- FNS regulations permit a disqualified person to continue receiving benefits for up to 10 months after they have been disqualified.

Lax Authorization Rules Worsen State Drug Abuse Problems

FNS rules allow for some of the worst food stamp abusers to avoid prosecution. According to law enforcement, it is not uncommon for arrested drug dealers to possess multiple EBT cards with other people's names on them. However, FNS seems not only unconcerned with such issues, but is exacerbating the problem. Mary Mayhew, Commissioner of Maine's Department of Health and Human Services, testified before federal lawmakers about the disturbing nexus between illegal drugs and SNAP trafficking. This "unfortunate and direct connection," she said, combined with federal SNAP regulations that "often create barriers to pursuing cases against these traffickers," serve to facilitate drug abuse, such as Maine's crack cocaine problem and opioid crisis. "FNS rules state categorically that if someone has the EBT card and the PIN, FNS considers them an authorized user of the EBT card," Mayhew told lawmakers.[91]

This approach is in direct contrast to the way other similar programs are administered. The Women, Infant, and Children (WIC) public assistance program allows for only three authorized individuals per card—the cardholder, and two additional registered users.[92]

In a recent development, agents from the Ohio Investigative Unit made multiple arrests and revoked the liquor license of "Sharky's Lounge" after a five-month investigation showed customers using EBT cards and trading SNAP benefits to buy drugs and lap dances. During the five-month long investigation, agents exchanged more than $2,000 worth of food stamps to buy heroin, fentanyl, carfentanil, cocaine, methamphetamine, and lap dances.[93] This is a case where GPS location on point-of-sale device would have prohibited the fraudulent/criminal sales noted.

Not Cooperating With An Investigation

According to FNS, food stamp recipients suspected of committing fraud are *not* required to cooperate with fraud investigators. As a result, recipients facing credible allegations of fraud often fail to appear for OIG and state-level investigative interviews. Program rules do not give integrity officers the authority to compel recipients to appear for questioning, nor to impose sanctions for not cooperating, such as by suspending benefits. Food stamp recipients are afforded unfettered mobility without notifying their respective welfare agencies. Under this rubric, there is no way to know for sure where a recipient actually lives.[94] Participants might live in counties or states outside of where they were deemed eligible to receive SNAP benefits—even outside the country.[95] To conduct fraud interviews with uncooperative recipients, accountability officers must either spend valuable time and resources attempting to locate no-show SNAP beneficiaries or move on to other cases.

Illegal Immigrants Receive SNAP benefits

American citizens and certain "qualified aliens" are eligible for the program. "Qualified aliens" include green card holders and others who can prove a) five years of residence; b) 40 qualifying quarters of work; or c) being a child under eighteen. It also includes small populations of refugees, victims of human trafficking, and asylum grantees.[96] Most qualified aliens, about 13.3 million in 2012, are green card holders, of a total non-citizen population estimated then to be 22.3 million, according to DHS and Census Bureau estimates.[97] The remaining 9 million would have been mostly ineligible for SNAP. But there are many loopholes.

For example, in California, SNAP eligibility workers are not allowed to ask a food stamp applicant about their immigration status, and ineligible undocumented immigrants are allowed to apply for benefits on behalf of a reportedly qualifying household member.[98] And because SNAP is awarded to individuals within a household, one or more members of a particular household may be eligible for SNAP while others are not.[99] One member of a household is granted SNAP benefits and purchases food. Who actually *receives* the benefits is unclear.

State agencies further cannot demand any information regarding the citizenship or immigration status of any non-applicant. If someone applying for SNAP benefits has not willingly provided that proof, it is up to the state to request it *from* federal agencies, then the agency must certify the applicant while awaiting that verification. Furthermore, if an individual has documents stating that the Social Security Administration (SSA) is currently verifying the number of quarters worked, then the agency must certify the individual for up to six months pending that verification.[100] This creates bureaucratic "slack" in the process.

Ineligible undocumented immigrants who live in households that receive SNAP benefits are also protected from facing any consequences when applying for citizenship.[101]

Undocumented immigrants who live at SNAP eligible households may also undermine the purpose of government provided food assistance if their income is unreported, as SNAP benefits are determined on the basis of income and assets—the lower the income the greater the benefit amount. Perversely, having illegal aliens in a household could lead to greater SNAP benefits than would otherwise be afforded to all-citizen households.[102]

Unlike other federal agencies, SNAP is not required to report on a quarterly basis on individuals known to be in the country illegally.[103] Because of this SNAP exemption, its processes allow undocumented aliens numerous opportunities to avoid detection.

In Los Angeles County in 2013, officials from the Department of Public Social Services stated that undocumented immigrants were projected to receive $650 million in welfare (SNAP and other programs) that year. Those funds went to illegal immigrants who are the parents of native-born children, underscoring the economic impact of current debates over immigration policy.[104]

Failure to Share Program Information

Key program data is also not available to states. FNS does not provide micro-level SNAP transaction data that shows how food stamp benefits are spent. According to the Secretaries' Innovation Group, a membership organization of state human services and workforce agencies, such data would allow for "an objective, measurable picture" of where anti-fraud resources could be best utilized.[105]

Unlimited Replacement Cards

Compounding the problem is that FNS allows for SNAP recipients to request and receive an unlimited amount of EBT replacement cards. Multiple replacement cards have been shown to be a red flag for fraud, but upon request, a new EBT card will arrive in the mail in as little as three days with a full monthly benefit amount automatically loaded onto the card on the next benefit issuance date. During a 2012 U.S. House Oversight Committee hearing dedicated exclusively to SNAP fraud, Pennsylvania's IG told lawmakers that in a four-month span in 2010, Pennsylvania's state social services agency issued 150,000 replacement cards. Of those, about 30,000 were at least the 10th card issued to the same individuals, and about 8,100 replacement cards were at least the 20th card issued to the same individuals. One recipient had been issued 88 replacement cards.[106]

No Identity Verification

The FNS approach seems to be geared to undermine rather than strengthen program integrity. Consider, for example, a state of Florida fraud detection program. Florida receives 93 percent of its applications for food assistance online. In 2012, the state was granted a requested waiver from FNS to include an online identity verification feature on its SNAP application website. The feature uses data technology similar to the private financial sector. It asks the food stamp applicants certain questions based on accessible data, such as from a driver's license. It also cross-references government databases to ensure that the individual is not incarcerated or deceased. Surprisingly, FNS does not require identity verification or customer authentication tools for online applications. It only agreed to Florida's request on the condition that the feature would include an opt-out button for those unwilling to verify their identities.[107]

It is helpful here to review the results of Florida's program. The monthly average of online SNAP applicants who opt out of identity verification is between 8 and 11 percent. Of those who opt out, an estimated 75 to 83 percent then pursue public assistance approval through traditional means, such as a telephone or in-person interview. Assuming that the balance of those online applicants were individuals attempting to defraud the application process, Florida believes that it has saved $660 million in taxpayer funds since 2013.[108]

Benefits Continue for Months After Disqualification

Disqualification from the program for cause is not the punishment it sounds like. When an individual is disqualified, that person can still receive food stamp benefits; possibly up to 10 months *after* being disqualified. FNS regulations allow for a thirty-day notice of an administrative hearing and another ninety-day period to complete a "fair hearing" appeal. Under program rules, recipients are entitled to receive benefits during this four-month administrative hearing process.

If an intentional program violation is substantiated and sustained through an appeal, FNS allows up to five months of additional "transition" food stamps benefits.[109] In other words, if a recipient was determined to have lied to fraudulently receive SNAP benefits, that person could receive food stamps for four more months before their final IPV finding, and then another five months of additional benefits to transition from the benefits which were fraudulently obtained in the first place.

Other Causes

There are other ways FNS rules and regulations allow waste, fraud, and abuse to be incorporated into SNAP. Bureaucratic efforts to increase SNAP participation create challenges to program integrity. Supposed administrative streamlining procedures legitimize fraud and waste. Some of these efforts effectively decriminalize activities that lead to avoidable loss of funds and even public safety risks. The following is a list of examples, but is by no means exhaustive.

1. “Fleeing Felon” Rule

Felons with active arrest warrants, or who are in violation of probation or parole terms, and who are fleeing law enforcement are not entitled to receive public food assistance benefits.[110] As it happens, though, SNAP benefits can still be obtained in some cases and even support a fugitive’s attempts to evade arrest. FNS has a list of Criminal Code sections that must be listed on a law enforcement warrant to establish whether FNS considers the fleeing felon rule applicable.[111] In California, with the largest state SNAP population, arrest warrants only list the actual criminal offenses and not criminal codes. As a result, those with outstanding warrants in California remain SNAP-eligible.[112]

2. Out-of-State Purchases

FNS asserts that almost all SNAP food purchases are made in a recipient’s home state, but it allows for purchases to be made outside of a recipient’s SNAP-issuing state in order to accommodate participants living in border areas. In January 2013, FNS said that about 3 percent of program benefits, or roughly $2.1 billion annually, was spent through out-of-state purchases in 2012.[113] However, in practice, the policy affords a much wider array of benefits spending, and raises serious questions.

An investigation by a CBS news team in Boston found millions of dollars in Massachusetts-issued welfare benefits were being spent more than a thousand miles away in Florida. Records the team obtained from the state Department of Transitional Assistance (DTA) revealed $4.5 million in benefits was spent in Florida in 2013. Hundreds of thousands of dollars in benefits were spent in the Tampa, Palm Beach, and Miami areas, and over $1 million was spent in the Orlando area. “This is something that’s totally permissible, you are allowed to use your benefits out of state,” the DTA commissioner told reporters. The agency did disqualify nearly 3,500 EBT accounts of people who actually lived outside of Massachusetts, of which 871 lived in Florida. Prior to 2013, the agency closed *zero* cases of “long-term out-of-state spending.”[114]

Testifying before federal lawmakers in June 2016, Maine’s Commissioner of Health and Human Services explained that out-of-state benefit usage is often a warning sign of fraudulent activity. In 2011, Maine reported more than $15 million in out-of-state transactions, including along known heroin and drug trafficking routes from major northeastern cities. More recent data show Maine-issued SNAP benefits were spent all over the country, including New York City, California, and the Disney World area of Orlando, Florida.[115]

3. Simplified Reporting

Federal rules allow for "simplified reporting" ostensibly to streamline program administration. Simplified reporting lets SNAP recipients notify state and county food stamp-issuing agencies either every four or six months (or once a year for some categories) of any changes in income, expenses, or household size that might affect their benefit levels, depending on certain conditions.[116] Even when recipients are honest, the policy creates a gap allowing recipients to continue receiving benefits after they no longer qualify, according to program criteria. For example, if a recipient were to obtain a job or pay raise and no longer qualifies for food stamp assistance, that recipient would not be required to report that new income for as long as six months without violating program rules. "While there is technically no fraud, the potential for waste under these reporting requirements is significant," Florida public assistance auditors determined.[117] Payments overages made during eligibility lapses caused by these simplified reporting rules do not affect SNAP improper overpayment rates—another factor contributing to the low national error rate that FNS claims.[118]

4. Broad-Based Categorical Eligibility (BBCE)

Federal policy authorizes households to be eligible for food stamps automatically if they qualify for TANF, government cash assistance, and other welfare programs. BBCE is said to reduce errors in the application process, but more significantly, it allows individuals who would otherwise exceed the income limits to qualify. Furthermore, in most states categorical eligibility imposes no limits on financial assets.[119] In other words, a SNAP recipient with sizeable assets may still qualify under BBCE requirements as long as the recipient's income is within program limits.

In one famous case, an Ohio man, dubbed the "Food Stamp Millionaire," exposed obvious flaws in the policy. Pascal Mahvi, who claims to be the son of an Iranian prince, received food stamp benefits from 2014 to 2016, while boasting of multi-million-dollar properties his companies had developed, and living in an 8,000-square foot mansion. Mahvi had vast personal and family assets, but low income. He was arrested in September 2016, and in court proceedings said he lived off hundreds of thousands of dollars in loans from friends that were not required to be disclosed per program eligibility rules. "If you don't like the (food stamp) system, change it," Mahvi told reporters. "I can borrow a hundred million dollars from friends and still get food stamps." He was found guilty of fraudulently obtaining food stamps and Medicaid.[120]

A GAO report found that in FY 2010, 2.6 percent of SNAP households, or 473,000 households, would not have been eligible for the food stamp program without BBCE because their incomes exceeded federal SNAP eligibility limits. Auditors estimated a $460 million increase in benefit costs.[121] The GAO also warned that "fraud could rise because SNAP caseworkers no longer look to verify net income and total assets before granting eligibility." Additionally, a Congressional Research Services report estimated that eliminating BBCE would have saved roughly $12 billion over ten years if it had been cut in the 2014 Farm Bill.[122]

5. Agency Error Determination

According to the California Welfare Fraud Investigators Association, government public assistance offices can both hide and decriminalize fraud by making discretionary administrative determinations. For example, if a recipient commits eligibility fraud by failing to report income, a job, or change in household size, the SNAP-issuing agency can determine whether caseworkers could have or should have known about it. Then, if the determination is made, even though recipient eligibility statements are made under penalty of perjury, the discrepancy will be categorized as an "Agency Error."[123] The recipient is then absolved of all wrongdoing. According to the FNS Annual Report for fiscal year 2015, the most recent available, California alone reported more than $121 million in Agency Errors.[124]

6. Bureaucratic Conflicts of Interests

In some states, welfare fraud investigation units are managed by social service agencies. In California, for example, public assistance fraud units are funded exclusively by the state Department of Social Services (DSS). DSS funding is then directed to county-level social services agencies, but without any requirements as to how welfare fraud units should be funded.[125] This creates a conflict by placing those tasked with providing welfare benefits, and incentivized by FNS bonus programs, to fund and manage those responsible for combating fraud and holding recipients accountable. In contrast, states like Florida separate the state social services agency from the state public assistance fraud agency.[126]

7. Non-Face-to-Face Applications

Most states allow for individuals to apply for SNAP benefits online.[127] Florida receives more than 90 percent of its program applications online. As previously discussed, FNS does not require states to include online identify verification measures, but has issued optional "customer authentication" waivers as long as it includes an opt-out feature. A follow-up phone interview is all that is required. The Secretaries' Innovation Group, a membership organization of state-level human services executives and administrators, recommends in a report to Congress that in-person, face-to-face interviews are the best means of preserving program integrity.[128] Phone interviews also present problems in the event of a fraud investigation or prosecution in that phone conversations are less exact and present questions about who actually completed the phone application to receive benefits.[129]

8. "Whereabouts Unknown" Rule

SNAP recipients may apply and receive benefits regardless of the public assistance-issuing agency's ability to verify where the applicant lives.[130] A loss of contact with the recipient does not mean that benefits will be withheld. Under FNS rules, the participant can be categorized as "Whereabouts Unknown." In such cases, there is no way to know if these recipients live in the issuing county or state, or even in the United States.

9. Confidentiality Issues

FNS considers food stamp recipient information to be highly confidential. The agency will only authorize the sharing of such information with law enforcement if a written request is submitted and it relates to either a SNAP recipient or household member fleeing criminal prosecution or custody, an attempt to commit a felony, or for violating probation terms. Even then, state agencies are only allowed to release an address, a Social Security number, and photographic information, if available.[131]

Many related public safety concerns simply do not meet these criteria. The policy not only obstructs state and local law enforcement agencies, but also national security agencies like the U.S. Department of Homeland Security.[132] Confidentiality is heavily guarded by FNS pursuant to its administrative interpretation of federal laws and regulations, many of which were enacted prior to September 11, 2001 (or "9/11"). They further do not account for modern Internet age.[133]

10. Refugee Resettlement

The federal Office of Refugee Resettlement offers access to SNAP benefits for accepted refugees.[134] But until the last two weeks of the Obama administration, Cubans were exempt from meeting federal refugee requirements. Upon arrival to the U.S., Cuban immigrants immediately qualified for refugee status due to the decades old "wet-foot/dry-foot" policy.[135] U.S. Sen. Marco Rubio, R-FL, among others in Congress, had previously asserted that automatic eligibility for federal assistance under the Refugee Resettlement Program should be terminated for Cuban nationals while still maintaining protections for those fleeing political arrests and brutal repression from the Castro dictatorship.[136]

According to a *South Florida Sun-Sentinel* investigative report, for years Cuban immigrants were able to exploit U.S. taxpayer-funded welfare programs by returning to the Communist island nation after becoming welfare eligible in Florida, and continuing to receive benefits—and not just food stamps, but Medicaid, Supplemental Security Income, and cash assistance.[137] "It is particularly outrageous when individuals who claim to be fleeing repression in Cuba are welcomed and allowed to collect federal assistance based on their plight, only to return often to the very place they claimed to be fleeing," the Cuban-American Rubio said.[138]

The problem grew after President Obama restored relations with Cuba's Castro-led government in 2014. Tens of thousands of Cubans migrated to Florida, according to CNN, with one major motivating factor being the fear that American-paid welfare benefits would disappear—which they did in January 2017.[139] The *Sun-Sentinel* newspaper estimated that public assistance for Cuban immigrants amounted to $680 million per year.[140] The 2016 House bill to terminate automatic Cuban immigrant welfare was introduced by Rep. Carlos Curbelo, R-FL. The nonpartisan Congressional Budget Office (CBO) estimated that it would have saved an estimated $2.45 billion over the next 10 years.[141]

11. Trafficking on Social Media

During the steep escalation of the food stamp program in August 2012, former USDA FNS Under Secretary, Kevin Concannon, insisted that the Obama administration was fighting SNAP fraud through its government-wide "Campaign to Cut Waste." The first item in an FNS anti-fraud list was an official letter to the CEOs of Craigslist, eBay, Facebook, and Twitter aimed at preventing the illegal sale or purchase of food stamps benefits online.[142] FNS still indicates on its website that it does not tolerate the use of social media to facilitate food stamp fraud.[143] But more than five years later, social media SNAP fraud persists.

Brazen social media trafficking has not gone unnoticed by the news media. Local investigative news teams often prove how easy social media trafficking is with undercover camera reports. Recent headlines from around the country include: "13News Now Investigates: Food stamps for sale on social media" (Norfolk, VA);[144] "Food Stamp Fraud: Beneficiaries Illegally Sell EBT Cards on Craigslist, Social Media Sites," (Sacramento, CA);[145] "Fox25 Investigates uncovers food stamps for sale on Facebook," (Boston, MA).[146] In a story titled "Scammers sell food stamps on social media," a Philadelphia investigative news report explained that buying and selling food stamps on Facebook is an $83 million problem. "You can go into just about any one of these corner stores and sell your food stamps for 50% of the value," a storeowner said. "If 10 people come in here with a SNAP card, 8 of them want to sell me their food stamps and the other two want to use them."[147]

FNS asserts that it has given states web-based software tools to monitor e-commerce websites (Craigslist and eBay) and social media websites (Facebook and Twitter). But according to the GAO, only one in eleven states examined by federal auditors reported that FNS online monitoring tools could reliably identify SNAP trafficking fraud. In a 2014 report, GAO stated that auditors found that the FNS e-commerce "tool did not detect most of the postings found through our manual website searches." More specifically, it missed twenty-one of twenty-eight posts indicative of food stamp fraud. The FNS social media monitoring tool was deemed "impractical."[148]

12. Criminal convictions against individuals are hard to achieve.

- Prosecutors at the state level are reluctant to prosecute SNAP fraud for a variety of reasons or are unable to because of limited resources.
- Some states set up their own barriers to criminal prosecution of criminal fraud; California is an example.

Short of a confession, the criminal conviction of a SNAP recipients suspected of fraud is difficult to achieve. Beyond burden of proof issues, state prosecutors have limited resources and typically prioritize the prosecution of more serious, often violent, alleged crimes. Some state prosecutors are unfamiliar with trying food stamp fraud cases, and others may exercise discretion against taking on the bulk of such cases due to philosophical views against criminalizing what is sometimes considered a victimless crime. Last year, in Duval County, Florida, State Attorney Melissa Nelson, a noted criminal justice reformer, opened 145 public assistance fraud cases but had only six convictions. All but three cases, or 98 percent, were referred to criminal justice diversion programs.[149]

According to the Government Accountability Office:

> State officials we interviewed also reported that the willingness of local prosecutors to pursue charges in court for SNAP fraud has varied across jurisdictions. Officials in eight states reported that a minimum dollar threshold of fraudulently-obtained benefits was required for prosecuting

cases in court, ranging from $100 (in Tennessee) to $5,000 (in Texas). Prosecutors in some local jurisdictions were not willing to accept SNAP fraud cases at all. For example, prosecutors in one county in North Carolina told SNAP officials that they would not prosecute SNAP fraud cases because they need their resources for more serious criminal cases. Texas officials said that some local prosecutors in their state have also refused to prosecute SNAP cases due to workload concerns...Prosecutors in Tennessee and Florida said that juries may be unwilling to convict individuals of SNAP fraud because they may be sympathetic to recipient claims that they do not understand government regulations or are compelled to commit fraud to support their families. SNAP officials in North Carolina said they were concerned about losing the deterrent effect of prosecutions due to the unwillingness of the judicial system to undertake SNAP recipient fraud cases.[150]

In San Bernardino County, California, the county district attorney's office reported a 70 percent drop in the number of cases referred to them by the county's Program Integrity Division over the three years from 2012 to 2015. In 2015, less than 1 percent of completed welfare fraud investigations were referred for criminal prosecution. The rest were sent to administrative disqualification hearings. Recent legal and procedural changes in California make it nearly impossible to criminally prosecute welfare fraud, thus highlighting a broader so-called red-state-blue-state program integrity divide. In 2011, the California Legislature ended "jail time for non-serious, non-sexual and non-violent crimes," and in 2014, a voter-approved ballot measure reduced the severity of welfare fraud from felony status to petty theft.[151]

Part IX: Retailer Fraud is a National Problem

Beyond the many ways that recipients can defraud SNAP, fraud committed by corrupt SNAP retailers is where the big money is. Fraudulent vendors act as de facto organized crime hubs for food stamp recipients looking to illegally exchange their federal food benefits for cash—or worse.

- Trafficking involves drugs, guns, and other contraband.
- FNS rules dictate that state welfare fraud units and local law enforcement must receive FNS permission before they can pursue SNAP retailer fraud.
- In Alabama, millions of dollars in SNAP funds were trafficked with significant proceeds being funneled overseas to Yemen.
- In Oregon, a retail fraud scheme went unimpeded for two years after state investigators first warned federal officials.

SNAP retailer fraud is where most high-cost food stamp trafficking schemes are perpetrated.

A simple keyword search for "food stamp fraud" on most any U.S. attorney website will show numerous examples of egregious retailer trafficking fraud. According to USDA Inspector General Phyllis Fong, such trafficking by vendors often involves not just cash, but also "drugs, weapons, and other contraband."[152] Retailer fraud often occurs over extended periods of known suspicious activity and coincides with elevated SNAP retailer sales redemptions. Yet, "FNS does not coordinate or communicate with states on administrative retailer investigations," according to the United Council on Welfare Fraud. Because states are not authorized to pursue retailer fraud in their own proverbial backyards, this policy undermines the ability of state welfare fraud units and local law enforcement agencies to produce sufficient administrative cases against SNAP trafficking recipients.[153]

SNAP retailer fraud occurs frequently, and all over the country, as this sampling of cases demonstrates:

- A case in Alabama, dubbed "Operation T-Bone," involved 11 FNS-approved convenience stores and resulted in 242 warrants and 17 arrests. Hundreds of thousands of dollars in SNAP funds were trafficked throughout the fraud ring, with significant proceeds being funneled overseas to Yemen—a country the U.S. State Department considers a high security threat due in part to terrorist activities.[154] According to GAI research, one of the store owners, Jowher Almansoob, had previously been disqualified from an FNS retailer program offering nutrition assistance for women, infants and children, known as WIC. According to court records, the disqualification stemmed from violations occurring while Almansoob was in Yemen. He chose not to appeal the decision, and instead accepted a three-year disqualification. FNS also considered disqualifying Almansoob's NaNa's Supermarket from SNAP eligibility, but it did not follow through. Years later, NaNa's Supermarket would be a target in the massive 'Operation T-bone' raid.[155]

  Local news reports documented the scale of the fraud. "We actually had to cut off the number we were going to prosecute this round," said the Jefferson County Deputy District Attorney. "It's apparently rampant. If you just wander into the community and say something about a beneficiary card, someone will sell you one. It's everywhere."[156] Nevertheless, the June 2015 arrests went largely unreported in major news media. As we will see in a later section of this report, the fund transfers out of the country indicate an additional area of deep concern.

- In Oregon, a retail fraud scheme went unimpeded for two years after state investigators first warned federal officials that fraud at the location was growing at an "alarming rate." The case involved a Mexican meat market and at least 65 suspects, most of them charged with illegally taking cash instead of food by selling their cards to a Klamath

Falls market. Oregon public assistance caseworkers were required to continue issuing benefits to the SNAP recipients they strongly suspected of trafficking fraud after repeated warnings of fraud were effectively ignored by federal officials. If not for an informant tipping off the county Sheriff's Office about store-related wire transfers to a Mexican drug cartel, the case might never have risen to the level of actionable federal interest.[157]

- In Jacksonville, Florida, nine residents were indicted in November 2015, for almost $2.6 million in trafficking fraud, including two defendants who were charged with selling cocaine in exchange for SNAP benefits.[158]
- In Youngstown, Ohio, an FNS-approved store owner was recently sentenced to prison in February 2017 for $2.8 million in trafficking fraud. Retail fraud is considered white-collar crime, and if not for assaulting federal agents with a firearm, the store owner, George Rafidi, would have only served 33 months in prison.[159]
- In another Ohio incident, Mahmoud Zayed was sentenced to 30 months in prison and his son to 37 months. They committed fraud for a decade before finally being caught. The pair submitted a fraudulent application that omitted Mahmoud Zayed's previous state felony convictions for food stamp trafficking. Per program rules, this should have barred him from future retail participation.[160]

In a May 2018 semi-annual report to Congress, the USDA OIG outlined a smattering of million-dollar retailer frauds in Florida, Louisiana, and New York City, as well as in California, Ohio, and Missouri. One case even involved a religious community in Utah and Arizona.[161] Previous OIG semi-annual reports show similar widespread retailer fraud activity.[162]

Sometimes, retailer fraud schemes are blatant organized crime operations designed to take advantage of numerous welfare programs, SNAP being only one. For example, in November 2017, the last defendant in an alleged criminal trafficking conspiracy in Kansas was sentenced to prison.[163]

According to the USDA OIG:

> The owner and her employees created a series of fictitious companies, and then filed fraudulent tax returns for non-existent employees. The owner and employees also applied for unemployment benefits using stolen Social Security numbers and falsified SNAP applications in order to receive benefits to which they were not entitled. Previously in July 2017, the owner was sentenced to 75 months in prison and 36 months of supervised release and ordered to pay $894,000 in restitution. One other employee was previously sentenced in August 2017 to time served in prison and 36 months of supervised release and ordered to pay $278,603 in restitution.[164]

Part X: The FNS Provides Inadequate Oversight of Retailers

- During the SNAP escalation years of 2008-12, FNS approved more than 71,000 new stores, a 41 percent increase, but failed to require retailer background checks in many cases.[165]
- FNS states that from peak years 2012-14, approximately 11.8 percent of approved SNAP retailers engaged in trafficking fraud each year, equating to nearly 36,000 stores.[166]
- Most recently available trafficking data indicates that 94 percent of SNAP trafficking fraud occurs at "small stores," mostly composed of small and medium sized groceries and convenience stores.[167]
- FNS has failed to stop individuals and entities previously disqualified from the SNAP retailer program from getting back in.[168]
- FNS approved over 3,000 SNAP retailers using Social Security numbers that matched those of dead people.[169]
- Despite declining food stamp rolls, there are more FNS approved SNAP retailers than ever.[170]

Since the 2008 expansion, FNS has increased the number of SNAP-approved retailers by 50 percent, to more than 263,000 stores.[171] During the period, FNS was also repeatedly cited for inadequate retailer controls.[172]

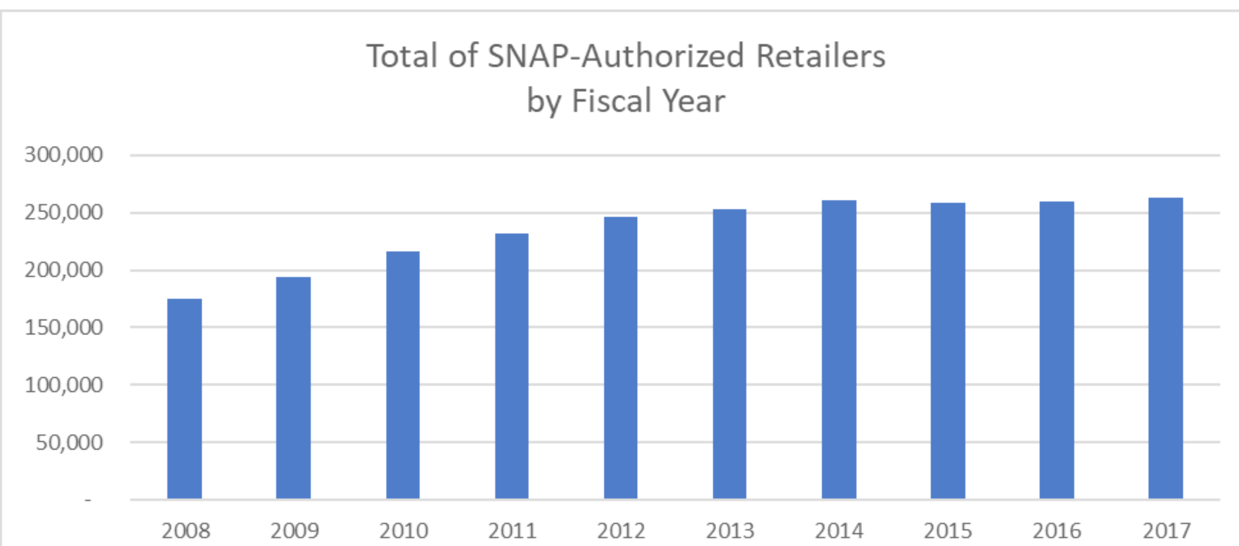


Figure 5: USDA Food and Nutrition Service Data from 2012 & 2017 SNAP Retailer Management Year End Summaries[173]

At a 2012 congressional oversight committee hearing entitled "Food Stamp Fraud as a Business Model: USDA's Struggle to Police Store Owners," Kevin Concannon, then USDA FNS Under Secretary and a President Obama appointee, rejected assertions that FNS was failing to sufficiently combat SNAP retail fraud.[174] Lawmakers cited an investigation by Scripps Howard News Service that showed nearly one-third (roughly 1,500) of store owners previously disqualified from SNAP in the past five years were allowed to return.[175] "According to USDA's Office of the Inspector General, USDA is failing to debar individuals and entities that are repeatedly disqualified from the program," the committee's chairman, Rep. Darrell Issa (R-CA) charged.[176]

The trend appears to have continued. For this report, GAI reviewed the FNS fiscal year 2016 Retail Management Report, which shows the agency approved 26,301 new retailers, reauthorized 38,682 stores, and reinstated 1,409 stores that were previously disqualified. In contrast, FNS issued 2,619 sanctions but only 63 resulted in involuntary withdrawals, or disqualifications, and just 38 were permanent involuntary withdrawals.[177]

Many of the SNAP fraud issues raised in the 2012 congressional oversight hearing would later be confirmed by the USDA OIG. A July 2013 OIG audit, issued at the height of the program's expansion, determined that FNS did not have clear procedures to perform key oversight and enforcement activities regarding SNAP retailer fraud. Yet, FNS approved SNAP retailers in record numbers.

The OIG also found that the FNS was devoting its limited resources to authorizing retailers instead of addressing fraud and enforcing penalties, and that the FNS was not requiring retailer self-initiated criminal background checks. The auditors concluded, "…As a result, the integrity of SNAP is at risk because FNS does not consistently provide deterrents for trafficking."[178]

OIG investigators also examined a small sample of 316 FNS-approved stores. They found $6.7 million in penalties, and 51 authorized store owners who were in fact *ineligible* to participate according to FNS rules. Nevertheless, the store owners received $5.3 million in food stamp benefits. Investigators discovered another 586 approved storeowners who were allowed to continue as SNAP retailers after they had been permanently disqualified at other store locations, and another 90 retail locations having two or more approved retailers that already had been permanently disqualified. Based on these results, OIG recommended FNS perform a comprehensive review of all its retailer policies, require background checks, strengthen safeguards at high-risk stores, and exercise more retailer supervision.[179] In 2014, USDA Inspector General Phyllis Fong reiterated twelve out of twenty of these recommendations to a congressional panel.[180]

According to a January 2017 OIG report, federal auditors examined SNAP retailer and participant data for a 21-month period beginning several months after that July 2013 audit. More than 1.5 billion SNAP transactions were reviewed to identify potential fraud, equating to $23 billion in SNAP retailer redemptions. Investigators found that:

- FNS approved 3,394 SNAP retailers using the Social Security numbers of deceased people.
- In total, these retailers redeemed approximately $2.6 billion in food stamp benefits.
- That $2.6 billion in redemptions is, by itself, about three times the annual trafficking fraud amount that FNS reported during the same period.
- Another 193 authorized retailers listed birthdates indicating they were under the age of eighteen, amounting to $41 million in SNAP redemptions.[181]

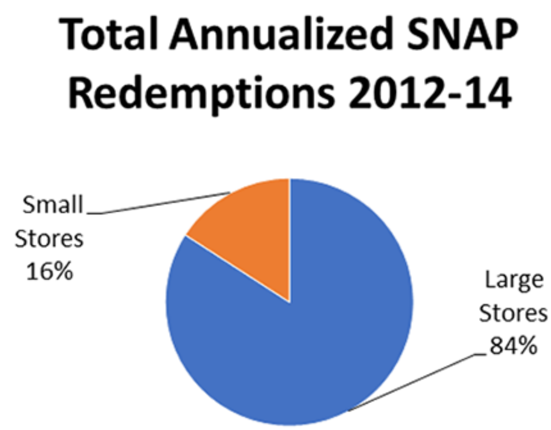
'Small Stores': 16 Percent of SNAP Redemptions and 94 Percent of Trafficking Fraud

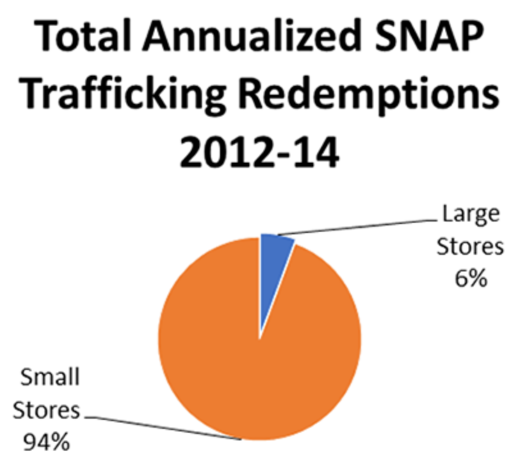
FNS officials know where retailer trafficking fraud occurs—at "small stores," categorized as medium-sized groceries, small groceries, specialty food stores, combination stores, and convenience stores.[182] Yet, it is these types of stores that together now comprise more than 85 percent of all authorized retailers in SNAP, according to a September 2017 FNS trafficking report.[183]

We have grouped small stores together (FNS reports them separately) to compare them with the FNS's other major retailer classification—large stores, defined as supermarkets and large groceries.

Total annualized SNAP redemptions for large stores in years 2012-14 (most recent data available), was $60.6 billion—the vast majority of the program's $72 billion in annual benefits. Total annual SNAP redemptions for small stores was $11.4 billion.[184]

When considering trafficking fraud, the trend is reversed. Despite representing only 16 percent





Figures 6, 7: As labeled.

of total food stamp redemptions, small stores account 94 percent of all retailer trafficking fraud.[185] FNS is clearly aware of this and has allowed small store retailers to comprise the vast majority of SNAP locations. Convenience stores, for example, are the largest type of small store with 133,645 FNS approved locations.[186] For scale, consider that there are 36,000 McDonald's restaurants worldwide.[187]

Convenience stores, together with small groceries (20,794 locations), represent 39 percent of all confirmed retailer trafficking fraud, and 43 percent of all retailer program violations.[188]

From 2012 to 2014, FNS reported SNAP trafficking fraud cost an estimated $1.1 billion annually, or 1.5 percent of yearly total benefits. State investigators often question that figure as too low. FNS states that 11.8 percent of all approved retailers engaged in trafficking fraud over the three-year period of study, equating to almost 36,000 stores.[189]

According to the USDA OIG, which is solely responsible for monitoring SNAP retailer fraud, only 484 convictions were obtained in 2014, the final year of the trafficking report.[190] FNS did not find evidence of trafficking in the nearly 78,500 publicly owned, participating retailers during the three-year period. Privately owned participating retailers experienced a fraud rate of almost 16 percent.[191]

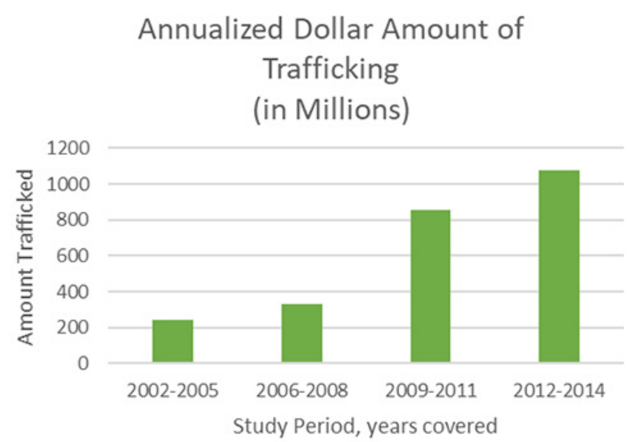


Figure 8: As labeled.

Inadequate Controls and Inability to Recover Penalties Promote Abuse

Unfortunately, according to FNS, there are no limits as to how many EBT retailers FNS will approve under their criteria, and the online SNAP retailer application takes about 15 minutes to complete.[192]

The January 2017 OIG report stated, "While FNS did have some controls to edit or verify retail owner information, these controls were not adequate to ensure that owner information was accurate."[193]

The auditors explained that there was not a great hope of recovery since pursuing criminal penalties and civil monetary penalties in these cases, especially against minors and deceased people is exceedingly difficult. Social security numbers, and other information mentioned in the 2017 audit, such as birthdates, are critical to establish retailer identities. "Without this information, the program is vulnerable to persons wishing to abuse or misuse the program for personal gain," the report said.[194]

Part XI: Retailer Fraud Case Studies

Opa-Locka Hialeah Flea Market, The Second-Largest Trafficking Fraud in History

If there is a signature case of federal administrative failure to safeguard taxpayer resources and protect food stamp benefits from criminals, it is the Opa-Locka Hialeah Flea Market case. Opa-Locka is a city of 16,500 in Miami-Dade County.[195] It is also the site of one of the largest food stamp fraud busts in history.

Dubbed "Operation Stampede," the coordinated multi-agency raid occurred in May 2016, uncovered $13 million in fraud, and led to 22 arrests, mostly of FNS-approved flea market stall operators.[196] "The flea market retailers, who are alleged to have orchestrated this trafficking scheme, pocketed millions in 'fees' which they charged for converting food assistance benefits into cash," said Wifredo A. Ferrer, U.S. Attorney for the Southern District of Florida. The "store" owners and their co-conspirators were swiping SNAP recipients' EBT cards on food stamp program-provided point-of-sale machines for an inflated amount. In return, they paid the SNAP recipients a smaller amount in cash. It was a typical benefits trafficking scheme: The recipients walked away with cash, and the retailers got federal food stamp funds wired to their bank accounts. "In most situations," said Ferrer, "the recipient did not actually receive any food or eligible items."[197]

The scope of the SNAP-fueled fraud at the Opa-Locka Hialeah Flea Market is breathtaking. Testifying before a U.S. House Government Oversight Committee in June 2016, Mike Carroll, Secretary of the Florida DCF, explained that law enforcement officers found cash, guns, prostitution, human trafficking and storefronts serving as illegal drug sales operations.[198]

One of the arrested store owners was an illegal immigrant who was able to use a stolen social security number to become an FNS-approved retailer. Another store owner operated under an immigration work permit, and another was a convicted felon who avoided FNS program detection.[199] According to the Florida Attorney General, six additional suspects were arrested for allegedly using hundreds of stolen identities to fraudulently obtain SNAP EBT cards to use at the flea market.[200] Other details include:

- Plastic fruit and vegetables were used as merchandise displays to give the appearance of legitimate produce businesses;
- A suspected illegal immigrant (using a stolen ID) rammed a U.S. Marshal's vehicle in an attempt to flee law enforcement;

- One suspect store owner fled to Cuba;
- Transaction data revealed that SNAP recipients from 11 different states cashed their benefits at the FNS-approved stores.[201]

Overall, 41,000 food stamp recipients were possibly involved in the massive trafficking scheme, Carroll told congressional lawmakers.[202] According to the U.S. Attorney's Office of the Southern District of Florida, $13 million in fraud was uncovered.[203] But those figures may only scratch the surface.

In August 2016, a letter from the Florida Office of Public Benefits Integrity to the FNS Retailer Operations Division (obtained through public records requests), explained that Opa-Locka flea market losses potentially exceeded $89 million in SNAP funds between 2011 and 2016.[204]

"Since Florida discovered this fraud and reported it to the USDA [OIG] in 2011, over 90,000 clients have redeemed over $89 million in SNAP benefits at this location. After a major OIG operation in 2013 relating to trafficking by two of the five FNS authorized retailers, FNS continued to authorize 48 additional retailers at this high-risk location, exacerbating the trafficking problem and contributing to this major blight on the program's reputation," the letter stated.[205]

"And yet the trafficking continues at this location, with over $700,000 in redemptions from retailers actively trafficking in the first two months since the execution of the federal/state warrants," the letter continued.[206]

Unusual activity at the flea market caught the attention of state public assistance investigators and local law enforcement agencies years before the 2016 headline-grabbing raid. Investigators had notified federal officials, yet FNS allowed flea market stall operators to continue participating in the SNAP retailer program—even after state and USDA OIG anti-fraud efforts led to two significant trafficking busts in 2013. One of the raided stalls, Henry Produce, was receiving $500,000 to $800,000 a month in taxpayer-funded SNAP redemptions for thirteen of fourteen months prior to the stall operator's arrest.[207] Had FNS discontinued SNAP-retail participation at the known fraud location, the loss of millions of dollars in food stamp funds might have been avoided.

The two cases that preceded Operation Stampede demonstrate the obviousness of the problems. Beginning in December 2010, state fraud investigators and local law enforcement agencies identified the Opa-Locka flea market stores as, "Henry Produce" and "I&A Supermarket."[208] FNS classified these stores as fruit and vegetable specialty vendors. SNAP redemptions for similar types of stores in Florida averaged $11,633 per month. But for three years, Henry Produce and I&A Supermarket were averaging more than $200,000 a month in SNAP EBT transactions.[209]

By December 2012, monthly redemptions at Henry reached $800,000, totaling $10 million over the three-year period. In other words, in December 2012 alone, Henry Produce did almost six times as many transactions as similar stores conducted *in a year*. The I&A Supermarket was almost as high, with $7.7 million in transactions over the period. This one stall averaged between 1,610 to 2,300 transactions a month—including 920 transactions in the month *after* it was raided.[210]

GAI obtained the following charts from presentations made at a national public assistance fraud conference in Orlando, Florida, in August 2017:

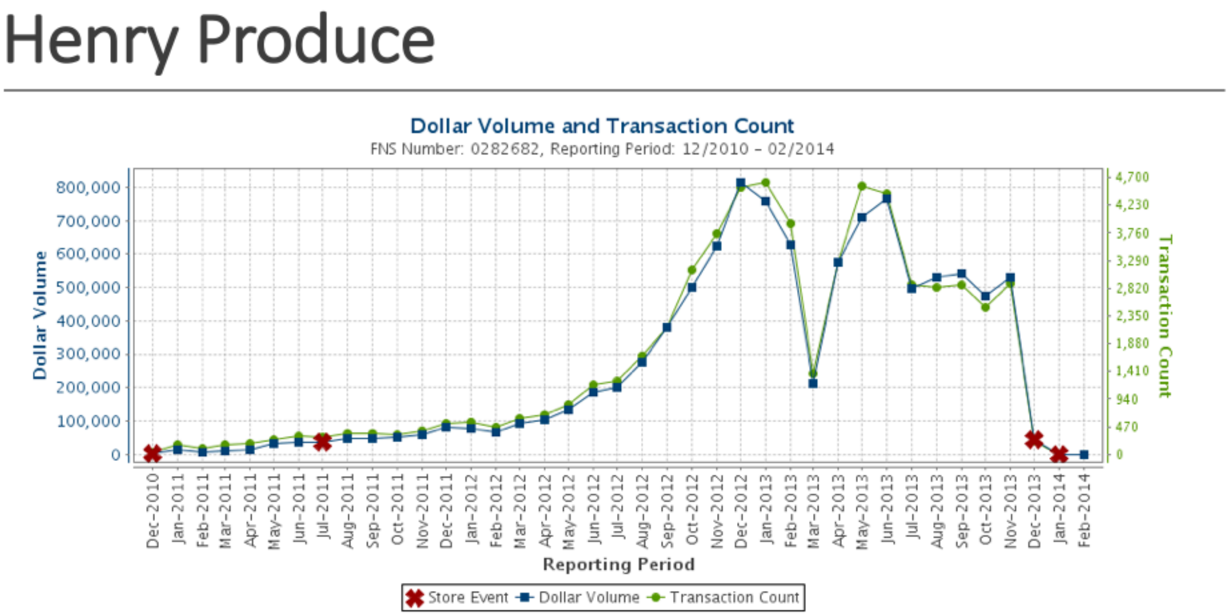


Figure 9: As labeled.

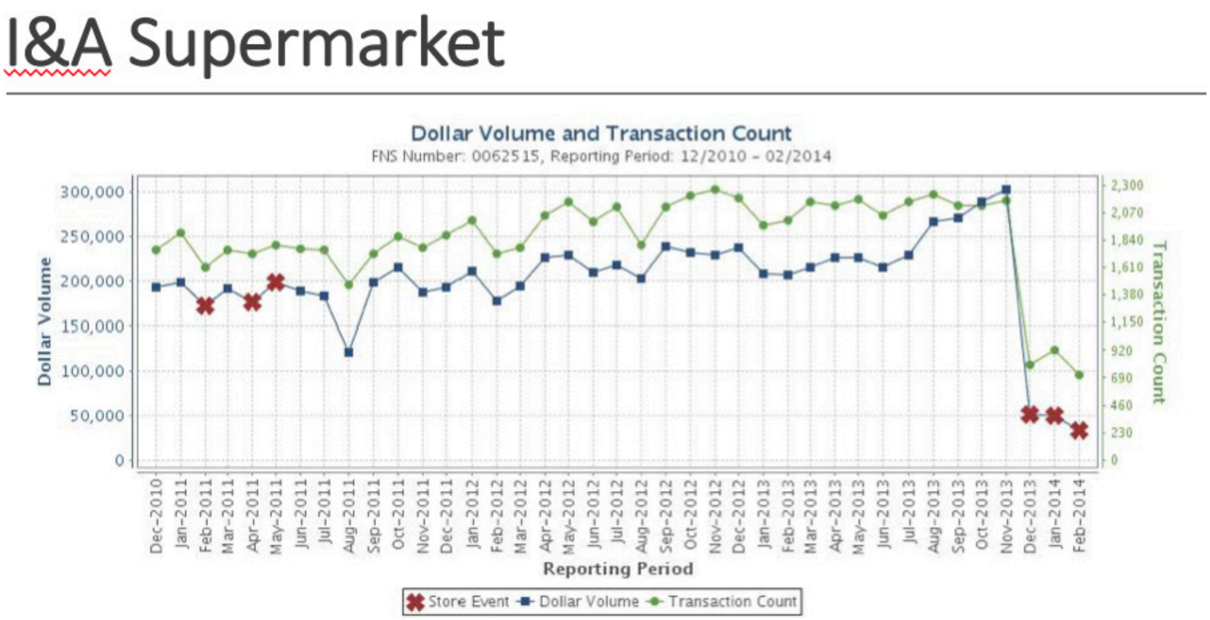


Figure 10: As labeled.

In December 2013, federal search warrants were executed at Henry Produce and I&A Supermarket, and their owners, Henry Garcia Peralta and Jorge Paula, respectively, were arrested and charged with multiple counts of food stamp fraud and wire fraud. *Several months later*, FNS disqualified the stores. Because food stamp fraud is considered a "white-collar" crime, the penalties are dramatically more lenient than many other street crimes, like drug trafficking. In July 2014, Garcia Peralta was sentenced to 33 months in prison. In September 2014, Paula was sentenced to 24 months in prison.[211]

As evidenced by the scale of fraud uncovered by Operation Stampede, FNS did not act in 2013 to eliminate SNAP benefits trafficking at the Opa-Locka Hialeah Flea Market. Rather, fraud was allowed to fester and grow. FNS continued to authorize supposed farmers' market vendors to operate at the flea market location and, as a result, trafficking spread to dozens of retailers. Ironically, at least 200 FNS-approved retailers already existed within a five-mile radius of the Opa-Locka flea market, indicating that this region in southeastern Florida was not a so-called "food desert" bereft of accessible EBT stores (*see map above*).

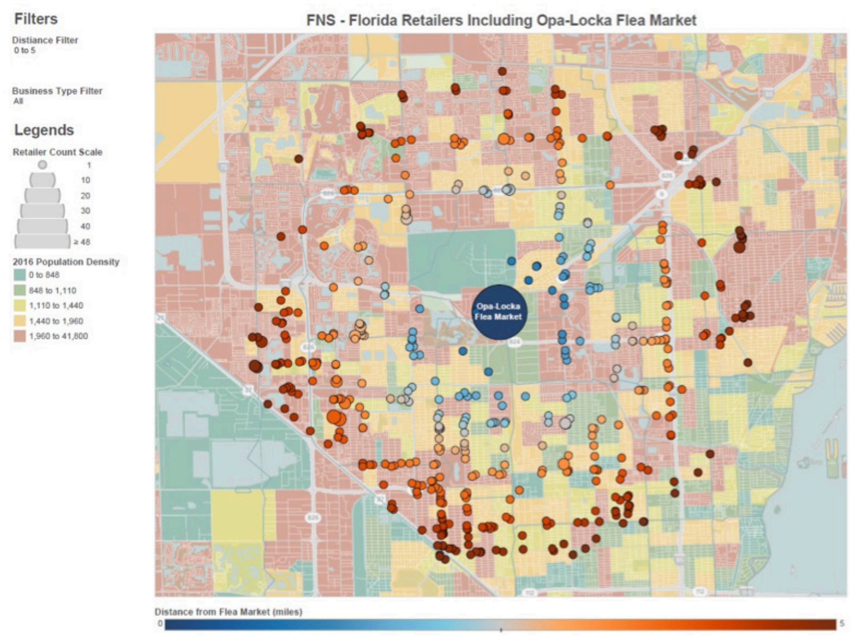


Figure 11: Retailers close to Opa-Locka Flea Market.

Just one month after the crackdown at Henry Produce and I&A Supermarket, there were 14 FNS-approved retailers still operating at the flea market and registering about $630,000 in SNAP transactions. By January 2016, a few months before Operation Stampede, that number had grown to 49 FNS-approved retailers, registering more than $3.6 million a month in SNAP transactions.[212] The fraud that occurred between 2014 and mid-2016 represents a monumental administrative failure to protect taxpayer resources and the limited funds intended for people who genuinely need food support.

"The trafficking has not stopped," Florida's DCF secretary told a congressional committee one month after the historic bust. "Today, there are at least eight authorized retailers with transactions consistent with the pattern of fraudulent activity for which this location is now well known. In the first two weeks following the raid, these stores had over $163,000 in SNAP redemptions involving over 1,100 recipients."[213]

How could this continue? FNS typically does not disqualify stores, or locations such as flea markets and strip malls, until after administrative or criminal proceedings are resolved.[214] FNS also will not allow state welfare fraud units to act on known retailer fraud without FNS permission. Further, the USDA OIG only has three retailer fraud agents assigned to South Florida due to the agency's lowest staffing level since its food stamp mandate began in 1978.[215]

When looking at FNS policies that make it harder for state investigators to prove fraud, a clear pattern of FNS neglect appears. "We can identify and shut down these violators quickly, efficiently, and effectively—we just don't have the authority," Florida's DCF Secretary told federal lawmakers. "We can do it smartly, without added costs, if we could share more of the recovery dollars and not just the burden of recovery."[216]

Fort Lauderdale: The Biggest Trafficking Fraud Bust in History

On September 29, 2017, the U.S. Department of Justice (DOJ) announced a new, record-breaking fraud case. Twelve defendants, again from South Florida, were charged with collectively receiving more than $20 million in fraudulently obtained SNAP funds.[217]

Indictments in the case charged that some of the implicated retailers were approved by FNS, while others were not. One defendant, Hasan Saleh, managed a non-approved convenience store in Fort Lauderdale. For two years ending in August 2017, Saleh redeemed $2 million by using a SNAP point-of-sale machine that belonged to an FNS-approved merchant, Mohammad Alobaisi, owner of the "Sparkle" convenience store in Miami.[218] FNS has no requirement that point-of-sale machines include geolocation technology, a policy which fraud investigators want changed.[219] Additional research performed by GAI shows that Saleh was previously convicted of felony food stamp fraud and Medicaid fraud.[220]

Other defendants included Miami residents Omar Hajje and Jalal Hajyousef, who allegedly redeemed $4.2 million in a trafficking fraud scheme and money-laundering conspiracy that spanned three years and two FNS-approved stores. Andy Javier Herrera and his father Javier Herrera together redeemed approximately $10 million over five years, authorities said.[221]

"This operation resulted in the largest combined financial fraud loss for a food stamp trafficking takedown in history," the U.S. Attorney for the Southern District of Florida said.[222]

Money-laundering such as this will be discussed in more detail in section XIII where we show how it has been used with SNAP funds to support international terrorism.

Part XII: FNS-Reported "Error Rates" Mask SNAP's Problems

Whether or not it concerns reporting fraudulent acts by recipients or by SNAP-approved vendors, FNS is either deliberately or negligently reporting "Error Rates" that are inaccurate and discourage accountability. The program's administrators have been quick to classify potential fraud as errors by program officials, not as criminal behavior on the part of beneficiaries or vendors. Moreover, state governments have been rewarded for reporting low fraud and error rates.

- Where intent to commit fraud could not be established, such cases were labeled improper payments or errors.
- FNS has been issuing erroneous national error rates for years.
- FNS bonuses for lowering error rates "incentivized bad behavior" and encouraged "gaming the system."
- Officials in Virginia acknowledged that they had worked with a third-party quality control consultant to falsely lower SNAP improper payment rates and "use(d) whatever means necessary" to find food stamp benefit applications or re-applications "correct," rather than find genuine errors.
- Wisconsin admitted that it falsified its own state error rates, working with the *same* third-party consultant. Alaska and several other states did as well.

Error rates are how the FNS quality control system measures the accuracy of food stamp recipient eligibility and benefit payments. FNS issues a national error rate for the roughly $70 billion program each year.

The FNS Quality Control (QC) process works like this:

1. Each state performs a quality control review on random samples of SNAP cases.
2. States report their findings to the FNS.
3. The FNS then sub-samples state findings and determines state error rates.
4. Those state error rates are then aggregated by the FNS into a national error rate.[223]

The errors reported do include some underpayments to eligible individuals, but mostly consist of improper payments made to ineligible households, or excessive payments made to eligible households. If fraud was involved, then it must be proven. But where fraudulent intent is not established, cases are simply labeled "improper" payments or errors. Due to the difficulty of establishing "intent," a vast majority of what would otherwise be considered fraud is reported as "error."

The extent of SNAP's improper payment issues is staggering. Because of false information included in the QC process, FNS did not include error rates for forty-two of fifty-three total states and U.S. territories in fiscal year 2015. Ten of the eleven states that were included received funding bonuses from FNS. But in fiscal year 2016, FNS did not include any states or territories in its annual Quality Control review, nor did it even bother to issue a national error rate.[224] In February 2017, USDA Inspector General Phyllis Fong told a U.S. House Appropriations Subcommittee that the USDA had not complied with requirements outlined in the Improper Payments Information Act "*for a fifth consecutive year*."[225]

Just as program officials tout that highly questionable "one percent fraud" statistic, they also claim record low error rates. In 2011, FNS Under Secretary Kevin Concannon claimed that food stamp fraud was unfairly overshadowing FNS "record achievements in SNAP for payment accuracy and program integrity."[226] The next year, Concannon bragged of "historic(ally) high" payment accuracy (FY 2010) to a U.S. House Oversight Committee.[227] In 2016, Jessica Shahin, FNS Associate Administrator for SNAP, told the U.S. House Agriculture Committee that SNAP improper payments "are among the lowest in the federal government."[228] The truth is that FNS has been issuing erroneous national error rates for years.

FNS says that when the USDA first identified quality control issues in 2014, that state error rates—and by extension the *national error rate*—were unreliable.[229] However, news reports say that it was a state employee-turned-whistleblower who contacted the FBI about inaccurate error rates in 2015.[230]

States and Agencies Are 'Gaming the System'

The reason for the breakdown in error rate integrity was that FNS created faulty incentives for states already in need of funding, and states took advantage of lax program rules to obtain funding bonuses. In September 2017, Senate Agriculture Committee Chairman Pat Roberts, R-Kansas, said that states faced a conflict of interest regarding FNS bonuses for lowering error rates because the bonus programs encouraged the states to use "whatever means necessary" to obtain bonuses, and unintentionally encouraged "gaming the system." Roberts also said, "Simply put, no one knows the error rate of SNAP, and that is unacceptable."[231]

According to the USDA OIG, FNS constructed a two-tiered process with inherent flaws. If a state accurately reported its real error rate, it might be penalized for not meeting FNS benchmarks. If that state lowered its error rate to meet FNS standards, then it received funding awards. Not surprisingly, some states chose the latter option, and falsified SNAP payment accuracy reporting, using third-party "consultants" and error review committees to help manipulate the process. Despite its own auditor's findings that "States' QC reviews did not meet SNAP regulatory requirements and Federal oversight of State QC was inadequate," FNS appeared indifferent to how states arrived at the low error rate numbers (lauded by FNS leaders) and approved them.[232]

False Error Rates Reported by States

The error rate controversy spanned the period of SNAP growth beginning in 2009, through the period of congressional debate leading to the passage of the nearly $1 trillion 2014 Farm Bill.[233] The CBO projected that 80 percent of that legislation's outlays would go to USDA food assistance programs, of which SNAP is by far the largest.[234] About one in four Americans currently receives some type of USDA food assistance benefits every year.[235]

Some news media outlets repeated low FNS error rates as evidence of its successful taxpayer stewardship. Stateline, a news service of Pew Charitable Trusts, cited the influence of low error rates in relation to the federal Farm Bill funding debate. "For all the increasing stress on the program, the average error rate among all 50 states and the District of Columbia declined 4 percentage points. Eight states saw their error rates fall more than that, including a decline of more than 6 percentage points in Alaska, and decreases of more than 5 percentage points in Louisiana, Maine, Texas and Virginia."[236]

Virginia was held up as the perfect example of SNAP efficiency. It reported the lowest error rate in the country in 2013. Per the FNS Quality Control system, Virginia was listed as having a 0.44 percent food stamp payment error rate—13 times less than its 5.75 percent rate in 2008.[237] At the same time, Virginia also increased SNAP participation by nearly 45 percent in 2013, which itself might have raised a red flag.[238] Regardless, FNS awarded Virginia a $1.7 million bonus for its "high performance" in payment accuracy.[239]

In April 2017, shortly after a change in executive administrations, a different story began to emerge. Under pressure from the DOJ, the Virginia Department of Social Services (VDSS) admitted to habitually reporting false error rates. According to DOJ, Virginia officials acknowledged that starting in 2010, they had worked with a third-party quality control consultant, Julie Osnes Consulting, LLC, to falsely lower the state's improper payment rates. State social services workers used "whatever means necessary" to find food stamp benefit applications or re-applications "correct," while ignoring genuine errors. Virginia SNAP officials also admitted that if their QC staff could not find a way to justify a benefits decision, they either found a reason to drop the case or eliminated it from the sample that was used to determine the state's error rate. This occurred from 2010 through 2015. During that time, Virginia improperly received USDA performance bonuses in 2011, 2012, and 2013. As a result of these findings, the state agreed to pay back over $7.1 million to the federal government.[240]

Wisconsin also falsified its reported error rates. Two days after Virginia's agreement, the Wisconsin Department of Health Services admitted to dropping error cases from quality control reviews by "discouraging beneficiaries from cooperating with information requests and pursuing unnecessary information." The state also admitted to applying program requirements selectively to reduce or overturn errors, and to asking SNAP recipients "leading questions to obtain desired answers." These practices, among others, improperly understated Wisconsin's food stamp error rate while the state received FNS bonuses over several years. The state agreed to pay back nearly $7 million to resolve charges brought by the DOJ for alleged violations of the federal False Claims Act. Wisconsin, like Virginia, had hired Julie Osnes Consulting (*see Appendix)*, which is specifically named in the settlement agreement the state signed with the USDA.[241]

In September 2017, Alaska also agreed to pay back almost $2.5 million to the federal government. Alaska, yet another client of Julie Osnes Consulting, was awarded performance bonuses for fiscal years 2010-13 that the DOJ said it should not have received.[242] From 2008 through 2013, the state's error rate dropped from 7.48 percent to a reported 1.27 percent.[243] The impressive decrease, occurring during the program's explosion in participation, should have raised suspicion within FNS's Quality Control program.

Similarly, using the same consulting firm, Missouri reduced its error from 7.18 percent in 2012, to just 1.62 percent in 2013—the peak year of SNAP benefits and participation, and one year prior to the 2014 Farm Bill passage. Missouri received a $1.6 million performance bonus that, as of this writing, has not been formally called into question.[244] In total, FNS awarded $48 million in bonuses to states in 2013.[245] Clearly, a considerable portion was based on false data that was known to be the result of improper procedures that the responsible federal officials ignored.

Even if SNAP's all-time low national error rate of 3.2 percent was correct in fiscal year 2013, the figure still indicates that 3.2 percent of $76 billion in total benefits, or $2.4 billion, were improper. Nevertheless, it is readily apparent that FNS national error rates have been based on imprecise or falsified information for years.[246] A recent review of the FNS Quality Control process along with modified state reporting procedures led to a national error rate of 6.3 percent for fiscal year 2017—5.19 percent of which, or $3.3 billion, represented improper SNAP overpayments.[247]

Part XIII: SNAP Fraud and International Terrorism

We have thus far focused our report on SNAP fraud committed by "ordinary" criminals. What is even more disturbing is that U.S. taxpayer funds trafficked through SNAP fraud have also directly contributed to terrorist attacks at home and abroad. It sounds incredible, but the use of these public program funds to finance terror actually dates back as far as 1985, to the *Achille Lauro* cruise liner hijacking in which one American hostage was executed. The plotters of the 1993 bombing of the World Trade Center and even the Boston Marathon bombers in 2013 both took advantage of the such vulnerabilities. Since then, multiple major terrorists and their networks have trafficked food stamps to finance devastating attacks and almost certainly continue to co-opt these benefits today.

A few examples will illustrate this.

- In North Carolina, Mohamed Mohamed Nagi, 33, and Abdullah Ahmed Almuwallad, 32, were arrested and charged with food stamp fraud, transporting stolen cigarettes and possession of the illegal stimulant cathinone, more commonly known as "khat."[248] One news account after the 2010 arrests quoted federal authorities as suspecting the stores were operating a money-transfer network supporting terrorist activities in Yemen, including Al-Qaeda in the Arabian Peninsula.[249]

- In Grand Rapids, Michigan in 2010, two Somali store owners, brothers Mohamed and Omar Sufi, were arrested and pled guilty of food-stamp fraud and running an unlicensed money transfer business that wired thousands of dollars to hot spots in the Middle East and Africa. The brothers accepted funds from others, charging 6 to 7 percent, while operating an unlicensed money transfer business from their store, government prosecutors said. They purposely kept transactions below $10,000 so that financial institutions would not file currency transactions reports to the Internal Revenue Service, according to a plea agreement.[250]

- The owner of a grocery store in Chicago was sentenced to more than four years in prison in 2006 for aiding a terrorist group and swindling the food stamp program out of $1.4 million. Hatem Fariz pled guilty in June to one count of wire fraud and one count of money laundering connected to the bogus food stamp transactions. He also pled guilty in a federal court in Tampa to conspiring to provide financial aid to Palestinian Islamic Jihad, which has been designated by the U.S. government as a terrorist organization.[251]

- Prosecutors in Indianapolis believe terror links were behind an organized crime investigation that raided convenience and other stores in Marion County, Indiana, in 2010. The raids involved ten businesses, most of which investigators said were directly tied to an organized crime effort. Authorities seized more than $415,000 from the businesses. Among other allegations, police said the men bought food stamps from customers for 50 cents on the dollar. "The question is going to be whether or not these businesses are linked to some sort of funding of terrorism or terror cells," Marion County Prosecutor Carl Brizzi said. "We don't know the answer to that question, but that's the reason why we executed these warrants when we did, in coordination with the FBI."[252] A fourth suspect, Ali Mohammad, 36, was the suspected ringleader, and was later arrested on his return from Yemen, a country long implicated in sponsoring terrorism against the United States.[253]

Hawalas and Money Laundering

Muslim immigrants in western countries frequently transfer money to family members in their home countries. They frequently use businesses known as "hawalas" to do this. Based on the Arabic word for transfer (or trust), hawalas are a deceptively simple, centuries-old method for transferring funds from one place to another. The system relies on deep, but often informal relationships between agents operating in international networks.[254] These and several other characteristics of the system—even in states where it is illegal—make it a logical choice for recent immigrants trying to help family members back in their home countries.

But the same characteristics also make it attractive for laundering funds in transit from the United States to countries in Asia, Africa, and the Middle East. Even in jurisdictions where hawalas are legal, their business practices make it very difficult for investigators to detect and monitor specific transfers.[255]

In the tight-knit immigrant neighborhoods in which they are located, hawalas may also share space or be a part of other businesses sharing the same physical address. Transactions between agents generally are bundled into total amounts to transfer between two network members, rather than itemized and separately transacted and recorded. Thus, their record-keeping provides few paper trails that investigators may use to follow money internationally. Even the simplest transaction, such as an immigrant wiring money to relatives back in Somalia, can be hard to track through the network of bundled transactions, third-party middlemen, and payments of monies owed between hawaladars for unrelated goods and services.[256]

"Suitcases full of cash leaving Sea-Tac Airport"

In 2015, overseas travelers rolling suitcases of cash departed from Sea-Tac Airport in Seattle boarding flights leaving the United States. In itself, transporting cash is not illegal as long as it is declared. But the individuals, the destination, and the amounts carried were alarming. "The thing was the amount, the staggering amount," said Glenn Kerns, then a member of the FBI's Joint Terrorism Task Force (JTTF).[257]

The travelers were couriers working for hawalas in the Seattle area, where "tens of thousands" of East African immigrants and refugees reside.

Kerns reviewed financial records that hawalas must file with the state Department of Financial Institutions and investigated ten hawala clients whose transfer volumes were the greatest last year. "All ten of them were on welfare benefits. DSHS benefits," said Kerns. "It's fraud. Straight up fraud – every one of them."[258]

The US government has warned for years about the use of hawalas and their suspected role in laundering funds sent to terrorist-affiliated groups overseas. A 2005 report by the State Department's Bureau for International Narcotics and Law Enforcement Affairs emphasized that "both terrorists and traffickers have used alternative remittance systems, such as 'hawala' or 'hundi,' and underground banking; these systems use trusted networks that move funds and settle accounts with little or no paper records. Such systems are prevalent throughout Asia and the Middle East as well as within expatriate communities in other regions."[259]

Wire Transfers from Arlington, Texas and Dayton, Ohio Stores

In 2012, Ali Ugas Mohamud of Arlington, Texas, was sentenced to more almost five years in prison after pleading guilty to an indictment charging him with multiple charges of food stamp fraud, wire fraud, and conducting an unlicensed money transmitting business. He was ordered to pay $1,418,027 in restitution.[260]

Mohamud owned a grocery store and authorized to accept SNAP funds. Beginning in 2009, Mohamud purchased food stamp benefits for cash and wired money to individuals in Somalia using government benefits. Additionally, he wired thousands of dollars from EBT management firm, Affiliated Computer Services, Inc., to his bank in Arlington.[261]

Both the US Department of Treasury and the USDA's Office of the Inspector General (OIG) have identified these funding mechanisms as suspicious since the aftermath of the September 11, 2001, terrorist attacks on New York and Washington.[262] Why does this continue to present problems for counter-terror investigations?

In 2012, a Dayton, Ohio, grocery store owner and his employees were charged with money laundering and SNAP fraud. The defendants in the case were reimbursed more than $3.8 million in SNAP funds. Prosecutors charged that they provided SNAP customers with cash, weapons, ammunition, and other nonfood items not allowed under the program. The defendants allegedly made structured cash withdrawals to avoid the bank filing a currency transaction report (CTR).[263]

Even with continuing SNAP trafficking investigations, tracing the funds from cases suspected of having links to terrorism remains difficult for financial regulators.

In a 2001 report after the September 11 attacks, the US Treasury Department identified hawalas as a "fast and cost-effective method for worldwide remittance of money or value, particularly for persons who may be outside the reach of the traditional financial sector… It is therefore difficult to accurately measure the total volume of financial activity associated with the system, however, it is estimated that the figures are in the tens of billions of dollars, at a minimum. Officials in Pakistan, for example, estimate that more than $7 billion flow into the nation through hawala channels each year.[264]

In 2005, the US State Department also noted use of hawalas and underground banking by both terrorists and traffickers, because such systems involve "trusted networks that move funds and settle accounts with little or no paper records."[265] Some terrorist groups, the report said, also use Islamic banks to move money. Islamic banks operate within Islamic law, which prohibits the payment of interest and certain other activities. Such banks have multiplied across Africa, Asia, the Middle East and, since the 1970s, in Europe as well. While these banks might voluntarily comply with anti-money laundering regulations, there is often no control measure to assure they do so consistently.[266]

Welfare "Jihad"

In addition to concerns about SNAP funds being trafficked overseas through hawala networks, several stories emerged of terrorist-supporting immigrants in the US who subsidized their activities by SNAP and other assistance programs. Perhaps the most infamous are the brothers Dzhokhar and Tamerlan Tsarnaev, better known as the "Boston Marathon Bombers."

In April 2013, these Islamic militants detonated a bomb in the crowded streets of Boston, killing three people, wounding and maiming hundreds more. After the capture of Dzhokhar Tsarnaev and the shootout death of his brother Tamerlan, investigators were stunned to learn the Tsarnaev family, recent immigrants from Kyrgyzstan, had received more than $100,000 in taxpayer-funded assistance over the previous ten years. This included cash, food stamps, and subsidized, Section 8 housing. "The breadth of the benefits the family was receiving was stunning," said one person describing documents handed over to a legislative committee after the bombing.[267]

The Associated Press reported that both brothers had also been ardent readers of jihadist websites and extremist propaganda. Tamerlan Tsarnaev in particular had devoured issues of *Inspire* magazine, an English-language online publication produced by al-Qaeda's Yemeni affiliate.[268] Investigators focused much of their attention on an infamous *Inspire* article called "Make a Bomb in the Kitchen of Your Mom," which offered detailed instructions for making a bomb inside a pressure cooker—precisely the type the Tsarnaev brothers used.[269]

The terrorist magazine had in a previous issue urged aspiring jihadis in the West to use public assistance programs to fund their extremist activities. A 2011 *Inspire* article called "The Ruling on Dispossessing the Disbelievers Wealth in Dar Al-Harb" encouraged those living in the non-Muslim world to "steal money from disbelievers" in the same way as living off the land by "hunting and wood gathering." Quoting Anwar al-Awlaki, then the group's leader, the article declared, "Muslims should seek the wealth of the disbelievers as a form of jihad," insisting that they should "spend the money on the cause of jihad and not on [themselves]."[270]

Outspoken Islamist Anjem Choudary, a UK resident now jailed for urging support of the Islamic State, openly boasted to his fellow jihadis of his use of public assistance monies, calling them his "Jihad seeker's allowance."[271] Other Muslim clerics, such as Sheik Khalid Yasin, have condemned the practice in YouTube videos, condemning young Muslim men in western countries who abuse public assistance while self-radicalizing themselves on "Sheikh Facebook" and "Sheikh YouTube," eventually abandoning their families to go fight Jihad in Syria.[272]

One example of this is the case of Adnan Fazeli, a refugee from Iran, who settled in Freeport, Maine with his wife and children. Fazeli worked several jobs between 2009 and 2013, before he mysteriously boarded a plane to Turkey without his family. He never returned. Documents unsealed in 2016 show what happened to him: Fazeli joined ISIS as a jihadi; he was killed in fighting with Lebanese government forces in January of 2015. During his four years living in Maine, he and his family had lived partially on federal and state welfare programs, supplementing small, sporadic income Fazeli earned as a translator. He also apparently spent a great deal of time self-radicalizing, watching extremist Islamist videos on the internet.[273]

Perhaps more sensational was the case of Waad Ramadan Alwan, who was one of thousands of Iraqis who applied for refugee status in the United States. Alwan received refugee status in 2009, claiming he faced persecution back in his native country. He settled in Bowling Green, Kentucky. He held a job there briefly, but quit and moved into public housing while collecting various public assistance payouts.[274]

Alwan might have faded into obscurity like other immigrants, except for an extraordinary intelligence tip that brought the FBI to his door. As part of a deep investigation into roadside improvised explosive devices (IEDs), the FBI found some fingerprints on a cordless phone base that U.S. soldiers had unearthed from a gravel pile near Bayji, Iraq in 2005. The phone base had been attached to unexploded bombs buried under a road nearby. Two years later, Alwan was fingerprinted as part of his asylum grant, and investigators discovered the match in 2009.[275]

In 2011 after further investigation and surveillance, the FBI arrested Alwan and another Iraqi refugee, Mohanad Shareef Hammadi, on federal terrorism charges stemming from both the recovered phone base in Iraq and for conspiracy in the U.S. to transfer money and weapons to Iraqi insurgents from the U.S.[276]

> 'Over the course of roughly eight years, Waad Ramadan Alwan allegedly supported efforts to kill U.S. troops in Iraq, first by participating in the construction and placement of improvised explosive devices in Iraq and, more recently, by attempting to ship money and weapons from the United States to insurgents in Iraq. His co-defendant, Mohanad Shareef Hammadi, is accused of many of the same activities. With these arrests, which are the culmination of extraordinary investigative work by law enforcement and intelligence officials, the support provided by these individuals comes to an end and they will face justice,' said Todd Hinnen, Acting Assistant Attorney General for National Security.[277]

These examples show the evolution of a terror-funding tactic through coupon fraud that emerged as early as the 1980s, when terrorist cells linked to the Abu-Nidal network operated a network of grocery store owners who were active in fraudulent coupon submission, as well as hijacking trucks, selling stolen food stamps and other goods, according to later testimony by professional coupon fraud investigator Ben Jacobson.[278]

Appearing at hearings following the 1993 bombing of the World Trade Center, New York City detectives told a Senate subcommittee that, in essence, "corporate America has been victimized by precisely the same dynamic with coupon fraud, unwittingly funding terrorism by as much as $125 million annually."[279] The mastermind of the 1993 World Trade Center attack, Mahmud Abouhalima, funded the attack through a coupon fraud ring.[280]

Given this history, it is not surprising that terrorists and their acolytes would later target SNAP—with its explosive growth, electronic benefits distribution, ease of access, and lax enforcement problems. In some cases, as we have seen, terrorist supporters were able to operate with near-impunity for years without drawing attention from fraud investigators.

Combined with SNAP's administrative and enforcement shortcomings, its vulnerability and exploitation by those seeking to harm Americans at home and abroad make it a prime candidate for legislative and executive branch reform.

Part XIV: Conclusion and Recommendations

The Supplemental Nutrition Assistance Program has provided critical food support for millions of Americans, especially during the "Great Recession" years when it more than doubled in size. Those growing pains exposed it to cheating and fraud on a massive scale. FNS bureaucrats and political appointees failed to provide accountability for taxpayer funds. Many of those dollars were wasted, and faulty systems were criminally exploited. Program resources were stolen by criminals—including terrorists—rather than helping honest people who genuinely need help. Bureaucratic and political manipulations in recent years have also further eroded the public's trust in government.

Food stamp benefits must be available for those in need. Draconian cuts to the program are not necessary to fix administrative abuses. Reforming the program's rules and enforcing them should provide significant savings from reduced fraud and theft, by.

The bulk of the problem is on the retailer side. FNS must crack down on corrupt "authorized" retailers. SNAP is not an entitlement program for stores. This report has shown that most SNAP fraud occurs at smaller stores, particularly small groceries and convenience stores. If FNS were more careful which vendors it approved for the program, SNAP recipients who may be tempted to illegally traffic their benefits for cash would have fewer places to do it. Nearly $1.1 billion was lost to food trafficking in 2014 alone, according to estimates that, as we have seen, are almost certainly low.

Our report recommends these steps for reform of SNAP:

1. More USDA OIG and state-level fraud investigators and better data-sharing between agencies regarding client and retailer information.
2. State incentive bonuses for successful "up-front" eligibility fraud prevention, and an even split between states and the federal government for recovered recipient fraud funds.
3. A lower burden-of-proof for investigators to establish SNAP recipient fraud.
4. Identity verification in every state for all online food stamp applicants.
5. Greater scrutiny on small and medium-sized groceries and convenience stores, input from states on retailer authorizations and investigations, and timely, permanent disqualification for retailers caught defrauding the program.
6. Fewer authorized users per EBT card, photo identification on EBT cards and limits on EBT replacement card requests.
7. Financial asset limits for recipients, and more frequent recipient income and household size reporting.

8. Requiring cooperation by program beneficiaries with fraud investigators.
9. Restrictions on out-of-state spending of SNAP funds.
10. Requiring EBT point-of-sale devices transmit their location via GPS.
11. More accurate definition of "agency errors" to better reflect fraudulent activity.

Furthermore, it is vital to eliminate the dangers posed by hawala networks that operate in the shadows. Federal departments including Treasury, Defense, and State, and agencies like the FBI and DHS all agree: Terrorists and other transnational criminal networks use hawalas.[281] Despite stronger regulations since 9/11, it remains easy to launder money this way, and difficult to trace. While crypto-currencies such as Bitcoin and money transfer services including Venmo and Snapchat have also grown in recent years, hawalas remain the method of choice for transferring funds to the most terror-prone areas in the world. Yet, their operations in the US remain loosely regulated.[282]

In May 2017, US Senators Grassley (R-IA) and Feinstein (D-CA) proposed the Combating Money Laundering, Terrorist Financing, and Counterfeiting Act of 2017, which contained a section titled "Prohibiting Money Laundering Through Hawalas, other Informal Value Transfer Systems and Closely Related Transactions."[283] This is a step in the right direction, but other bills such as the Remittance Status Verification Act of 2015 would have forced hawalas to require identification before accepting money transfers.[284] This must be addressed comprehensively.

Editor's Note: Just before we went to press, a non-profit group dedicated to health care and welfare reform at both state and federal levels echoed many of our findings before Congress. Testifying in late September about the 2018 Farm Bill, which funds the food stamp program, Tarren Bragdon of the Foundation for Government Accountability (FGA) urged lawmakers to eliminate Broad-Based Categorical Eligibility, tighten household income and membership verification, limit replacement EBT cards and restrict authorized users of those cards. He cited a report from a recent Missouri audit that discovered more than 3,800 cases in two years where food stamp recipients in that state used their benefit cards exclusively out-of-state. The FGA's recommendations on reducing SNAP fraud by recipients match many of ours.[285]

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Appendix: Julie Osnes Consulting, LLC

Large bonuses available to states that reported low error rates in their administration of SNAP funds attracted outside consultants such as Julie Osnes Consulting, LLC, of Pierre, South Dakota. The firm was hired by Virginia, Wisconsin, Alaska, California, and other states to consult on lowering error rates (Figure 12).[285]

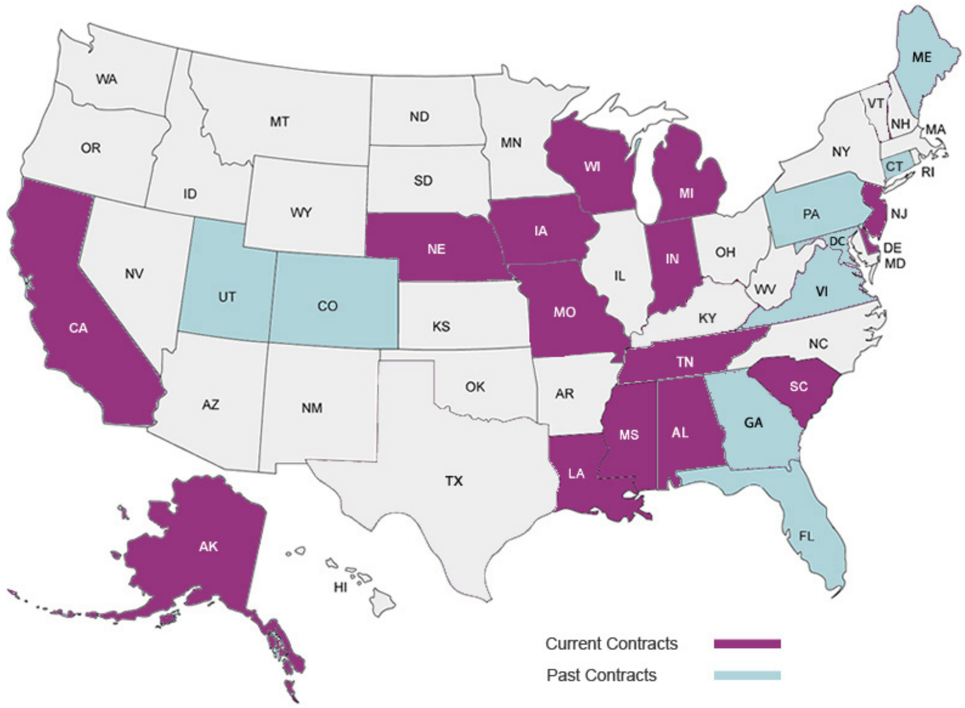

Figure 12: States using Julie Osnes Consulting, LLC. (as of 2015)

The consulting firm's practices were specifically cited in the April 2017 settlement agreement with the VDSS, which had used "Julie Osnes Consulting, a quality control consultant, to reduce its SNAP benefits determination error rate by training VDSS quality control workers to 'use whatever means necessary' to find a benefits decision 'correct' rather than finding an error."[286]

Settlement agreements between the Justice Department and two other states, Wisconsin and Alaska, also stated that the firm's recommendations led to "several improper and biased quality control practices." These included, among others, "discouraging beneficiaries from cooperating with information requests," "selectively applying requirements and policies," "asking beneficiaries leading questions to obtain desired answers," and "omitting verifying information in documents made available to USDA."[287]

The firm was fired by those states, and subsequent news stories about the firm resulted in JOC disconnecting its website and refusing to answer a reporter's questions.[288]

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