



STATE OF MICHIGAN

DEPARTMENT OF HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

MAURA D. CORRIGAN
DIRECTOR

February 10, 2014

The Honorable Bruce Caswell, Chair
Senate Appropriations Subcommittee on DHS
Michigan State Senate
Lansing, Michigan 48933

The Honorable Peter MacGregor, Chair
House Appropriations Subcommittee on DHS
Michigan House of Representatives
Lansing, Michigan 48933

Dear Senator Caswell and Representative MacGregor:

Section 672(1) of 2013 Public Act No 59:

"The department's office of inspector general shall report to the senate and house of representatives appropriations subcommittees on the department budget, the senate and house fiscal agencies, and the senate and house policy offices by February 15 of the current fiscal year on department efforts to reduce inappropriate use of Michigan bridge cards. The department shall provide information on the number of recipients of services who used their electronic benefit transfer card inappropriately and the current status of each case, the number of recipients whose benefits were revoked, whether permanently or temporarily, as a result of inappropriate use, and the number of retailers that were fined or removed from the electronic benefit transfer program for permitting inappropriate use of the cards"

The attached report provides information to fulfill the requirements of Section 672(1). If you have any questions about the attached material, please contact the DHS Inspector General's Office at (517) 335-3899.

Sincerely,

A handwritten signature in cursive script that reads "Susan Kangas".

Susan Kangas
Chief Financial Officer

cc: Senate and House Appropriations Subcommittees on DHS
Senate and House Fiscal Agencies
Senate and House Policy Offices

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**Electronic Benefit Transfer (Bridge Cards)
Efforts to Reduce Inappropriate Use**

MICHIGAN EBT

Electronic Benefits Transfer (EBT) is the current method used by the Michigan Department of Human Services (DHS) to provide clients with food and cash assistance. EBT is the alternative to paper food stamps and paper checks. The federal government has mandated that all states use EBT for food assistance benefits. Clients are issued a card when they become eligible for food and/or cash assistance. In Michigan the EBT card is called a Bridge Card.

Currently, approximately 10,000 retailers and just over 19,000 ATMs are available for Bridge Card use within the state.

TRAINING AND EDUCATION

The first line of defense in reducing inappropriate use of Bridge Cards is education. DHS provides client and retailer training. The trainings include guidelines for appropriate use of Bridge Cards as well as fraud and abuse information.

DHS county and district offices also utilize Bridge Card education videos in their lobbies. Michigan offers a toll free EBT information phone line (1-888-678-8914) that is available 24 hours a day, seven days a week. The phone number is located on the back of the Bridge Card. The phone line allows Michigan Bridge Card holders to access benefit availability in English, Spanish, and Arabic.

Bridge Card holders are also provided with written materials when they become eligible for assistance. DHS Publication 322, “How to Use Your Bridge Card,” includes the following information about inappropriate use:

- Misuse of your food benefits is a violation of state and federal laws.
- DO NOT sell, trade or give away your food assistance benefits, PIN or Michigan Bridge Card.
- DO NOT allow a retailer to buy your food benefits in exchange for cash.
- DO NOT use someone else's food benefits or Bridge Card for your household.
- People who break Food Assistance Program rules may be disqualified from the program, fined, put in prison, or all three; *and* must repay the food benefits.

EBT-authorized retailers are also provided with training and are required to understand and comply with all federal and state guidelines for EBT acceptance. Retailers interested in accepting the Bridge Card for food benefits purchases must be authorized by the federal Food and Nutrition Services (FNS).

CESSATION OF RESTAURANT PROGRAM

In the 1990s, Michigan began statewide implementation of Electronic Benefit Transfer (EBT) for food and cash assistance. At that time, the Department of Human Services adopted the option of extending EBT use by homeless, elderly or disabled recipients to restaurants approved by the federal Food and Nutrition Service. Until 2007, an average of three to six restaurants actively participated in the program. As Michigan's economy worsened, a larger number of restaurants was approved for the program – with 110 restaurants certified and 57 were actively redeeming food assistance benefits as of late 2012. Questions arose about the lack of nutritional food available at the restaurants. In addition, concerns were raised about the potential for fraud. On July 1, 2013, DHS mailed notifications to participating restaurants that the program would be discontinued on August 1, 2013.

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) is a criminal justice agency within DHS created in 1972. The office assists DHS in maintaining integrity and accountability in the administration of its programs. OIG agents and managers are strategically located throughout the state of Michigan.

The OIG is responsible for investigating instances of alleged welfare fraud in all programs administered by DHS, as well as reviewing administrative policies and procedures and recommending ways of improving accountability, fraud deterrence and detection. This includes investigations of non-Medicaid vendor fraud as well as department employees alleged to be involved in program fraud. All investigations found to contain the elements of fraud are forwarded to the appropriate authority for criminal disposition or are forwarded to the appropriate DHS program area for administrative action.

The OIG tracks and investigates inappropriate Bridge Card use by DHS clients and authorized EBT retailers. Through data sharing and advanced analytics, DHS-OIG analysts and agents conduct sophisticated anti-trafficking efforts in the food assistance area.

Food assistance trafficking is the buying and selling of food assistance benefits for cash or items not authorized under the Food Stamp Act of 1977, updated in 2008. Some examples of retailer and client food assistance trafficking are:

- Allowing purchases of unauthorized items such as tobacco, alcohol, lottery tickets or other methods of gambling.
- The selling of food assistance benefits for cash at less than face value.
- The exchange of food assistance for contraband such as drugs or weapons.
- Purchasing food assistance benefits for cash at less than face value.
- Purchasing containers with deposits, dumping/discarding the product and then returning the containers to obtain cash refund deposits. Using the Bridge Card at casinos, liquor stores or places with adult entertainment.
- Abusing card replacement privileges, including the replacement of more than four cards in a 12-month period.

Individuals who violate Food Assistance Program and cash assistance program rules may be disqualified from the program, fined, put in prison, or all three; *and* are required to pay back benefits they received illegally.

The OIG uses multiple data universes, including DHS recipient and EBT databases, as well as United States Department of Agriculture-Food and Nutrition Services (USDA-FNS) retailer databases, for its investigations. OIG's analysts produce retailer matrix reports, individual recipient reports and individual retailer reports.

The OIG conducts investigations when clients are suspected of misrepresenting their eligibility for public assistance. Front End Eligibility (FEE) investigations target cases in which DHS field staff have requested an investigation when assistance applications or other submitted documentation appear to contain suspicious or error-prone information.

The OIG also includes a Special Investigations Unit that identifies weaknesses and develops recommendations to address fraud vulnerability, internal controls and accountability relating to programs, legislation, federal regulations, policy and procedures for the most complex investigations. This unit also works with local DHS staff and law enforcement officials in developing and implementing ways and means to deter and/or detect fraud.

PUBLIC AWARENESS

In an effort to enhance public awareness of EBT fraud, DHS advertises the Welfare Fraud Hotline on State of Michigan websites and on billboards and posters across Michigan. Anyone can report suspected fraud by calling 1-800-222-8558 or by going to the following link:

<http://www.mfia.state.mi.us/OIG/SubmitComplaint.aspx?ComplaintMode=client>

TRACKING INAPPROPRIATE USE

DHS, beginning in January 2014, is monitoring excessive card replacements for all clients who have ordered four or more replacement cards within a 12-month period. Clients will be notified in writing that they have reached the four-card limit and will be notified at the time of their request for a fifth card that they cannot receive the card until they go to the local office and successfully explain their excessive card replacements to the county director or regional manager.

Michigan Bridge Cards are the mechanism that the department uses for administering not only food assistance benefits (formerly food stamps), but also certain types of cash assistance. Cash assistance can be used for purchasing non-food items and for accessing cash benefits to pay for housing expenses and approved goods and services.

Tracking inappropriate use of Bridge Cards is, in large part, limited to the Food Assistance Program. Clients who receive cash benefits can withdraw those dollars, which they can then spend anywhere. Aside from educating clients on appropriate use of the cash benefits, it is difficult to monitor or curtail inappropriate use.

DHS-OIG's Benefits Trafficking Unit (BTU) continues to combat trafficking and inappropriate use of EBT cards in the food assistance program. During FY 2013 the unit received 1,602 referrals and identified over \$2.5 million in fraud. The investigations have ranged from EBT retailers and non-EBT retailers to DHS recipients offering benefits for sale on social media sites.

Examples of such cases include: In Alpena County, a convenience store was selling ineligible items to FAP recipients. The store would frequently inflate the cost of various food items and sell non-eligible items along with the food as a "bonus" item. During the course of the investigation it was revealed most of the "bonus" items being sold were often illegal bath salts. The term "bath salts" refers to an emerging family of drugs containing one or more synthetic chemicals that act like amphetamine-based stimulants.

In total, OIG identified 40 DHS recipients involved in Bridge Card trafficking resulting in more than \$66,000 in fraud. Several criminal felony warrants were issued by the Alpena County prosecutor and the cases are awaiting final adjudication.

The BTU has expanded its efforts to include monitoring social media for trafficking of food benefits. While these investigations most often involve relatively few recipients and small dollar amounts, they are significant in the ill perceptions they bring to the Food Assistance Program. The BTU monitors social media weekly and conducts investigations on every case that is identified as soliciting the sale of food benefits. Each solicitation minimally results in disqualification from the Food Assistance Program for both recipients and non-recipients alike. The BTU has worked with federal authorities within the Food and Nutrition Service to ensure the rules associated with the program punish those who abuse the system. For example, BTU agents helped to push for the “water dumping” language that was added to the Food Assistance Program regulations this past year. In Jackson County, a DHS recipient was identified by BTU agents through a photograph of her license plate posted on social media. The recipient was observed purchasing and dumping carbonated beverages to obtain cash from the bottle returns. The recipient has been disqualified and the benefits have been recovered at this time.

ADDITIONAL FISCAL YEAR 2013 PROGRAM ENHANCEMENTS

In fiscal year 2013, Michigan also implemented the following new and enhanced efforts to address fraud, waste and abuse:

- The OIG Benefit Trafficking Unit has expanded investigations to include Medicaid prescription abuse. Agents are actively pursuing cases in which forged prescriptions are passed at pharmacies. To date several warrants have been issued in these cases.
- An OIG Investigative Analytics Unit (IAU) dedicated to fraud analytics to assist with targeted investigations was added in late 2012. In addition to data-mining activities, IAU staff are developing queries and reports to assist OIG agents when investigating misuse of public assistance benefits via the Bridge Card.
- The OIG Investigative Analytics Unit is using IP address tracking software to monitor online benefit applications and benefit checks. This allows for identification of individuals who are accessing MiBridges while located outside the state of Michigan. Investigations are assigned on identified individuals whose residency is in question.
- The OIG Benefit Trafficking Unit is working with DHS Policy and Xerox as they develop protocols to identify recipients with multiple card replacements. Egregious instances of card replacement will be assigned for investigation by the OIG.
- The OIG Investigative Analytics Unit has been working with Michigan’s Department of Technology, Management and Budget, as well as its vendor: SAS Inc., to provide an understanding of FAP data and eligibility to assist in the development of data-mining fraud queries. Results of initial data-mining fraud queries have been provided to OIG and investigations have been initiated. Results of investigations and agent feedback are being tracked.

- The OIG has completed the design and development of its new case management system. The system was implemented in early FY2014. The system tracks and supports all investigations conducted by OIG: recipient, provider, employee, etc.
- The Benefit Trafficking Unit has obtained clearance from FNS to use investigative Bridge Cards to further trafficking investigations through social media.
- The OIG assists with planning and facilitating the annual DHS annual Anti-Fraud Day conference. The purpose of this annual conference is to maintain the integrity of public assistance programs by raising awareness on how to deter, detect, monitor and report fraud. Participants are given the opportunity to contribute their knowledge and ideas for enhancing fraud prevention through policy and procedural changes. OIG assists with facilitating breakout sessions on identified welfare fraud prevention issues, and provides guidance on how to resolve these issues. OIG also provides essential ongoing feedback to participant questions and concerns.

MEASURABLE RESULTS - FRAUD ESTABLISHED FISCAL YEAR 2013

In fiscal year 2013, the OIG was able to save over \$112.6 million in public benefits through the Front End Eligibility (FEE) process and fraud prevention and detection efforts.

FY 2013 STATISTICS/OUTCOMES	
Food Assistance Program (FAP) Fraud Statistics	<ul style="list-style-type: none"> ➤ 8,569 FAP recipient fraud referrals received ➤ 8,285 fraud Intentional Program Violations (IPV) dispositions ➤ \$14.5 Million in FAP recipient fraud ➤ 472 criminal warrants issued ➤ 1,629 IPV hearings – IPV established ➤ 5,662 FAP IPV disqualifications (benefits revoked) <ul style="list-style-type: none"> • IPV disqualifications = \$13.7 million in cost avoidance • Disqualifications include temporary (1 year, 2 year, and 10 year) and permanent/lifetime disqualifications. ➤ \$12.7 million in FAP fraud receivables ➤ \$41.5 million in FEE cost avoidance

FY 2013 STATISTICS/OUTCOMES											
FAP Trafficking Statistics¹	<ul style="list-style-type: none"> ➤ \$2.5 million in trafficked benefits identified ➤ 44 criminal warrants issued ➤ \$2.4 million in fraud receivables established ➤ 1,820 trafficking dispositions ➤ 180 IPV hearings conducted 										
Retailer Fraud Disqualifications	<i>The Federal Food and Nutrition Services (FNS) has sole responsibility for the disqualification of retailers and the USDA/OIG handle prosecution of the FNS retailers.</i>										
All Programs FEE and Fraud Complaints (FIP, MA, CDC, FAP, Other)	<p>35,065 Complaints received by OIG</p> <ul style="list-style-type: none"> ➤ 9,221 recipient fraud complaints ➤ 25,448 FEE referrals ➤ 396 non-recipient fraud complaints <p>32,225 Investigations completed by OIG</p> <ul style="list-style-type: none"> ➤ 6,851 recipient fraud investigative dispositions ➤ 24,965 FEE referrals completed ➤ 409 non-recipient fraud investigative dispositions² <p>Recipient fraud found: \$20.3 million</p>										
All Programs Financial Savings	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Front End Eligibility</td> <td style="text-align: right;">\$76,711,561</td> </tr> <tr> <td style="padding-left: 20px;">Recipient Fraud /IPV</td> <td style="text-align: right;">\$18,572,402</td> </tr> <tr> <td style="padding-left: 20px;">IPV Disqualifications</td> <td style="text-align: right;">\$14,682,144</td> </tr> <tr> <td style="padding-left: 20px;">Non-Recipient Fraud</td> <td style="text-align: right;">\$2,725,888</td> </tr> <tr> <td style="padding-left: 20px;">TOTAL FY13 SAVINGS</td> <td style="text-align: right;">\$112,691,995</td> </tr> </table>	Front End Eligibility	\$76,711,561	Recipient Fraud /IPV	\$18,572,402	IPV Disqualifications	\$14,682,144	Non-Recipient Fraud	\$2,725,888	TOTAL FY13 SAVINGS	\$112,691,995
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¹ FAP Trafficking Statistics are a sub-set of the Food Assistance Program (FAP) Fraud Statistics.

² This includes complaints from FY 2012 that were still pending at the beginning of FY 2013.