



STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

MAURA D. CORRIGAN
DIRECTOR

March 1, 2013

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 2012 Public Act No 200:

"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 March 1 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 Al Kimichik, director, DHS Office of Inspector General at (517) 335-3899373-7787.

Sincerely,

A handwritten signature in black ink 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 CARD

Efforts to Reduce Inappropriate Use

MICHIGAN EBT

Electronic Benefits Transfer (EBT) is the current method used by the Michigan Department of Human Services (MDHS) 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. MDHS provides client and retailer training. The trainings include guidelines for appropriate use of Bridge cards as well as fraud and abuse information.

MDHS county and district offices also utilize Bridge Card education videos in their lobbies. Michigan offers a toll free phone line (1-888-678-8914) that is available 24 hours a day, 7 days a week. The phone number is located on the back of the Bridge Card. Clients are also provided with written materials when they become eligible for assistance. DHS Pub-322, “How to Use Your Bridge Card,” includes the following information about appropriate 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).

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) is a criminal justice agency within MDHS 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 MDHS 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 MDHS clients and authorized EBT retailers. Through data sharing and advanced analytics, MDHS 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 for cash or items not authorized under the Food Stamp Act of 1977. Some examples of retailer 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 for cash at less than face value.
- The exchange of food assistance for contraband such as drugs or weapons.
- Accepting food assistance for cash at less than par value.

The OIG uses multiple data universes, including MDHS recipient and EBT databases, as well as USDA-Food and Nutrition retailer databases for its investigations. Analysts produce retailer matrix reports, individual recipient reports and individual retailer reports.

The OIG also includes a Special Investigations Unit that develops recommendations to address fraud vulnerability, internal controls and accountability relating to program law, regulation, policy and procedures for the most complex investigations.

The Special Investigations Unit works with local MDHS staff and law enforcement officials in developing and advocating ways and means to deter and/or detect fraud.

Fraud complaints can be made by calling the Welfare Fraud Hotline at 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

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.

In March of 2012, OIG formally established a **Benefits Trafficking Unit** to combat trafficking and inappropriate use of EBT cards in the food assistance program. Since its inception the unit has completed 1,652 trafficking investigations, conducted 184 Intentional Program Violation (IPV) hearings and identified \$5.8 million in benefit trafficking. 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 Genesee County, a catering business was purchasing Bridge cards to purchase food items and supplies for the catering business at a major retailer. The investigation further identified a second business, a restaurant, where it was discovered the owners were also purchasing Bridge Cards from clients. In total, 80 DHS recipients and over \$104,000 in fraud was identified as Bridge Card trafficking, with over \$75,000 recovered to date. Several criminal felony warrants were issued by the Genesee County prosecutor and the cases are awaiting final adjudication.

In Kent County, a small party store owner, not an authorized EBT retailer, was offering DHS recipients 50 cents on the dollar to purchase Bridge Card benefits and use those

benefits to purchase goods for both his business and personal use. Twenty DHS recipients, including the owner and his wife, are currently being charged for felony welfare fraud. Additionally, the owner and his wife were also receiving Medicaid benefits which they were not entitled to in excess of \$19,000 dollars and were additionally criminally charged.

MORE FISCAL YEAR 2012 PROGRAM ENHANCEMENTS

In fiscal year 2012, Michigan also implemented the following new and enhanced efforts to address fraud, waste and abuse:

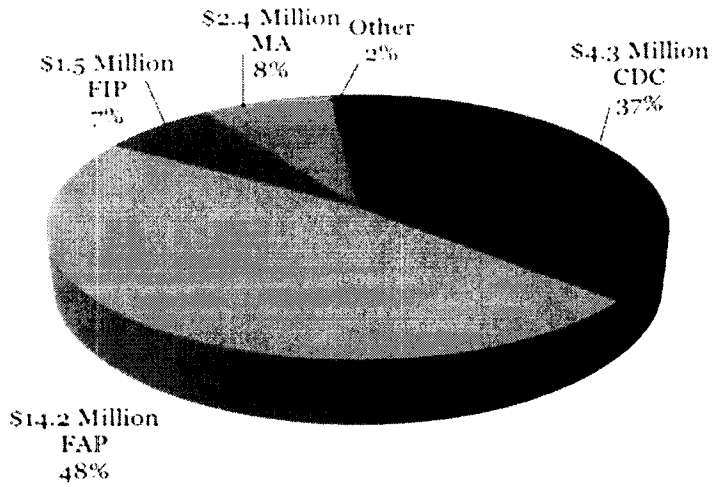
- In addition to the Benefits Trafficking Unit that is staffed with agents solely dedicated to trafficking investigations, an Investigative Analytics Unit dedicated to fraud analytics to assist with targeted investigations was added in 2012.
- The addition of IP address tracking software for online benefit applications allows identification of applications that are initiated outside of Michigan. Identified applications are assigned for FEE investigation.
- Benefit recipients who had requested more than four replacement EBT cards during a 12 month period were recently sent a letter indicating that multiple replacement cards are an indicator of fraud and that their case may be assigned for investigation by the OIG.
- The OIG Trafficking Unit is investigating all cases where more than 10 replacement cards were requested.
- A contract with S.A.S. to build capacity for data mining fraud queries from the DHS integrated eligibility system Bridges and our data warehouse was recently initiated. The design and identification of business requirements started at the end of January 2013.
- The OIG is in the process of designing a new case management system with more robust capabilities for tracking investigations and IPV disqualifications.
- The OIG monitors social media sites and online networks (like Facebook and Craigslist) for trafficking solicitations.
- A Fraud Dashboard that includes recommendations and input from DHS field operations staff contains ideas for enhancing fraud detection and prevention through policy and procedural changes. Each item is researched and analyzed for efficacy and potential implementation.

MEASURABLE RESULTS - FRAUD ESTABLISHED FISCAL YEAR 2012

In fiscal year 2012, the OIG was able to save over \$110 million in public benefits through the Front End Eligibility (FEE) process and fraud prevention and detection efforts.

FY 2012 STATISTICS/OUTCOMES											
Food Assistance Program (FAP)	<p>9,907 FAP Recipient Fraud Investigations:</p> <ul style="list-style-type: none"> ➤ 7,702 Fraud Intentional Program Violations (IPV) Dispositions ➤ \$14.2 Million in FAP Recipient Fraud ➤ 976 Criminal Warrants Issued ➤ 1,124 IPV Hearings – IPV Established ➤ 4,400+ FAP IPV Disqualifications (benefits revoked) <ul style="list-style-type: none"> • IPV Disqualifications = \$13M in Cost Avoidance • \$11.3 Million in FAP Fraud Receivables 										
All Programs Fee and Fraud Complaints (FIP, MA, CDC, FAP, Other)	<p>30,296 FEE and Fraud Complaints</p> <ul style="list-style-type: none"> ➤ 11,497 Recipient Fraud complaints <p>16,900 FEE investigations completed</p> <ul style="list-style-type: none"> ➤ 6,065 recipient fraud investigative dispositions. <p>Recipient Fraud found: \$22.6 Million</p> <p>Revenue generated: \$19.7 Million in fraud receivables</p>										
Trafficking Statistics	<ul style="list-style-type: none"> ➤ \$5.8 Million in Trafficked Benefits Identified* ➤ \$4.1 Million in Fraud Receivables Established* ➤ 1,652 Trafficking Cases Completed* ➤ 184 IPV Hearings Conducted* <p style="text-align: center;">*Trafficking totals include retailer, recipient and other trafficking.</p>										
Retailer Fraud/Disqualifications	<p><i>The Federal Food and Nutrition Services (FNS) have sole responsibility for the disqualification of retailers and the USDA/OIG handle prosecution of the FNS retailers.</i></p>										
All Programs Financial Savings	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Front End Eligibility</td> <td style="text-align: right;">\$69,584,900</td> </tr> <tr> <td>Recipient Fraud /IPV</td> <td style="text-align: right;">\$22,690,534</td> </tr> <tr> <td>IPV Disqualifications</td> <td style="text-align: right;">\$14,419,620</td> </tr> <tr> <td><u>Special Investigations</u></td> <td style="text-align: right;"><u>\$5,723,544</u></td> </tr> <tr> <td>TOTAL SAVINGS</td> <td style="text-align: right;">\$112,418,598</td> </tr> </table>	Front End Eligibility	\$69,584,900	Recipient Fraud /IPV	\$22,690,534	IPV Disqualifications	\$14,419,620	<u>Special Investigations</u>	<u>\$5,723,544</u>	TOTAL SAVINGS	\$112,418,598
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SAVINGS BY BENEFIT PROGRAM
(Percentages included are rounded up)



RECEIVABLES ESTABLISHED

