



STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

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DIRECTOR

September 29, 2011

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

The Honorable David Agema, Chair
House Appropriations Subcommittee on DHS
Michigan House of Representatives
Lansing, Michigan 48933

Dear Senator Caswell and Representative Agema:

Section 672(1) of 2010 Public Act No. 190 (Enrolled House Bill No. 5882) requires the Department of Human Services to report on departmental efforts to reduce inappropriate use of electronic benefit transfer cards. The attached report provides the required information for the period of October 1, 2009 through September 30, 2010.

If you have any questions about the attached material, please contact me at 373-7787.

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
State Budget Director

**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.

Approximately 9,800 retailers and over 12,000 ATM's are currently 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, OIG analysts and agents conduct sophisticated anti-trafficking efforts in the Food Assistance Program 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 food assistance trafficking are:

- Allowing purchases of unauthorized items such as tobacco, alcohol, etc.
- 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 their 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 control 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>

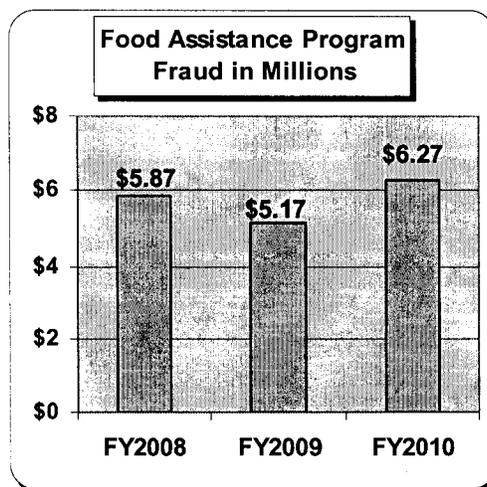
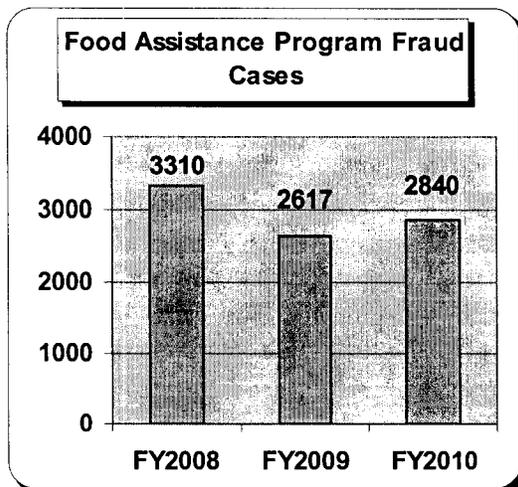
Tracking Inappropriate Use

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.

Investigating and tracking inappropriate use of EBT cards in the food assistance program has been highly successful. For example, in June 2010 after months of investigation, authorities issued 38 warrants over the alleged misuse of Bridge Cards at a Grand Rapids gas station. Officers served a search warrant for “mis-operation” of the food assistance program. The allegations stated that the store owner was giving customers cash for their Bridge Cards at a 50% discount. OIG agents partnered with the USDA-OIG and the Michigan State Police on the investigation.

During the past three years, the Office of Inspector General has confirmed 8,767 fraud cases in the Food Assistance Program. The fraud found in FY 2010 was \$6.27 million for a three-year total of \$17.3 million.



Limitations

The MDHS OIG works diligently to weed out fraud and abuse in the Food Assistance Program through Front End Eligibility work and fraud investigations. However, because of the gaps we have identified in federal regulations, the department is, at times, unable to pursue fraud and abuse to the fullest extent.

Michigan has made the following recommendations to the federal government:

1. *Amend 7 CFR 278.1(8) - § 278.1: Approval of retail food stores and wholesale food concerns. The “convenience store” category of EBT retailers is of particular concern (e.g. liquor stores, party stores, gas stations, food marts). The majority of EBT trafficking occurs in these venues. These establishments typically do not stock the type of eligible food products that satisfy the original intent of the SNAP program. EBT redemptions typically far exceed eligible food inventory at these locations. Specific recommendations include:*

- Increase the minimum eligible food inventory requirements of the four major food groups to be stocked for sale at convenience store category retailers. Current federal requirements that require 3 items from each of the four major food groups are too minimal. Increasing daily food inventory requirements will require convenience store retailers to make an inventory investment to become authorized for EBT redemptions. Currently, convenience stores have minimal requirements and investment to become authorized.
- An alternative option is to require EBT retailers to submit food inventory records on a frequency basis (quarterly, semi-annually?) in order to reconcile with EBT redemptions. This could serve as a deterrent to trafficking redemptions. This option requires increased staffing resources to review inventory records, however.
- Increase financial assurance requirements to participate as an EBT Retailer.
- Increase penalties for non-compliance with retailer requirements (monetary penalties).
- Increase the frequency of compliance inspections at convenience store category retailers.
- Allow the State of Michigan—as a pilot program—to conduct the EBT Retailer Program.

2. *Establish a new Federal Regulation that mandates cooperation with fraud investigations. Recipients suspected of trafficking typically do not appear for an OIG interview. A great deal of time and resources are spent attempting to locate these individuals. EBT has allowed recipients mobility without notifying the department of address changes, as the EBT benefits are electronically loaded on their EBT card monthly (physical location at the time is irrelevant). Specific recommendations include:*

- Creation of a mandate that states, if an individual fails to cooperate with a fraud investigation, the result will be immediate case closure and termination of benefits.
- Disallow out of state EBT redemptions, OR create limited time period exceptions for out-of-state redemptions. Residency requirements are questionable for extended periods of out-of-state EBT redemptions.

3. Amend 7CFR 273.2(3): *This regulation relates to EBT card use. Law enforcement typically encounters individuals with multiple EBT Cards in their possession (an indicator of trafficking activity). If the individual states that the household allowed them to use the card (per current regulation) there is nothing law enforcement can do, aside from attempting to contact the household to verify. Specific recommendations include:*

- Amend regulatory language whereby only household members or an "Authorized Representative" may possess and use the EBT card for purchases.
- MDHS will collect and retain information on the authorized representative(s) for the eligibility case and can verify if possession of the EBT card is legitimate.