



Secretary of State Oregon Audits Division **Advisory Report**



Supplemental Nutrition Assistance Program (SNAP) Fraud Investigations

June 2018

Secretary of State Dennis Richardson
Audits Division Director Kip Memmott

A Note on Advisory Reports

Advisory reports provide information on limited reviews or time-critical assessments, investigations, or evaluations. They are not audits and therefore do not adhere to the full set of government auditing standards. However, they follow the same rigorous quality assurance process used for every audit report from the Oregon Audits Division.

Acknowledgements

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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

This report is intended to promote the best possible management of public resources. Copies may be obtained from:

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Summary

Since 2013, the Oregon Secretary of State Audits Division has analyzed data from the Supplemental Nutritional Assistance Program (SNAP), commonly known as “food stamps,” in order to identify potential fraud. Our goal was to review SNAP merchant and client data using analytical and mapping software to identify red flags that could assist state and federal fraud investigations.

Our work with state and federal officials has resulted in prosecutions, convictions, and hundreds of thousands in restitution paid to the state. The work also facilitated the Oregon Department of Human Services receiving federal funding to improve prevention, detection, and prosecution of recipient SNAP fraud.

This report highlights our food stamp fraud work activities including a description of the innovative techniques we used. Law enforcement agencies in Oregon and other audit offices should consider pursuing similar work.



Source: U.S. Department of Agriculture

Impacts

- Prosecution and conviction of five merchants who committed SNAP fraud
- 59 SNAP recipients banned for life and 40 SNAP recipients banned for one year
- Over \$525,000 in court-ordered restitution
- Over \$1.7 million in future cost avoidance from banned recipients
- A \$300,000 grant awarded to the Department of Human Services, which is the agency responsible for investigating client SNAP fraud, to apply analytical methods in their SNAP investigation work

Partners

- Oregon Department of Human Services (DHS): The state agency that administers the SNAP program in Oregon.
- U.S. Department of Agriculture (USDA): The federal entity overseeing and administering the SNAP program for the nation.
- U.S. Department of Agriculture, Office of Inspector General (OIG): The OIG conducts investigations of significant criminal activities involving USDA programs and is authorized to make arrests and execute warrants.
- Federal Bureau of Investigation (FBI): A federal government agency whose mission includes investigating fraud and other crimes.
- U.S. Attorney’s Office, District of Oregon: Federal officials involved in the prosecution of criminal cases brought by the federal government.
- Oregon District Attorneys: Public officials who act as prosecutors for the state in particular districts in Oregon.
- Local Law Enforcement: Various sheriff’s offices and police departments across the state charged with enforcing laws and preventing crime in their jurisdictions.

Next Steps

We are continuing to partner with key stakeholders to perform our fraud work. Oregon is considered a leader among other state auditors in using data analytics to detect food stamp fraud.

Background

SNAP is the federal food assistance program administered by the USDA

SNAP (Supplemental Nutrition Assistance Program) provides nutritional support to low-income individuals and families. SNAP is an entitlement program, meaning the federal government is required to fund the benefits for eligible people. The federal government pays 100% of client benefits. States must cover 50% of the program's administration costs. For the past few years, Oregon's portion of administration costs has averaged \$78 million per year.

SNAP is the most significant program in the domestic hunger safety net. The USDA estimates that in 2017, more than 42 million people received SNAP benefits, with total costs of more than \$68 billion. SNAP benefits help supplement an individual's or a family's income so they can buy nutritious food. Most households spend some of their own cash along with their SNAP benefits to buy the food they need.

Households can use SNAP benefits to buy:

- Food for household consumption, such as:
 - breads and cereals,
 - fruits and vegetables,
 - meats, fish and poultry,
 - dairy products; and
- Seeds and plants which produce food for the household to eat.

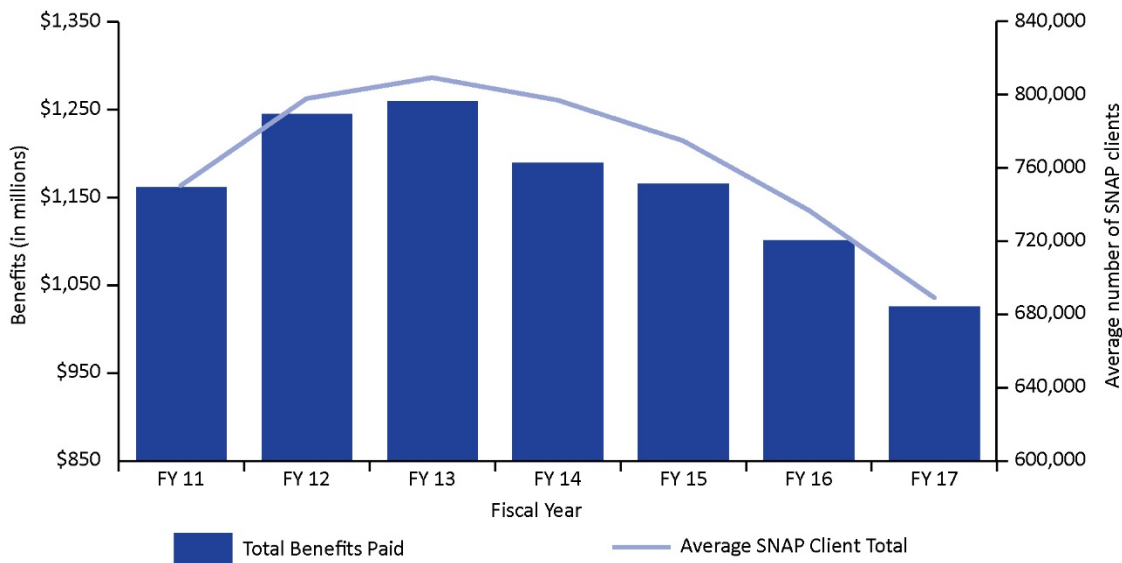
Households cannot use SNAP benefits to buy:

- Beer, wine, liquor, cigarettes or tobacco;
- Any nonfood items, such as:
 - pet food,
 - soaps, paper products,
 - household supplies,
 - vitamins and medicines,
- Food that will be eaten in the store; and
- Heated foods- foods cooked or heated by the retailer before or after purchase. Examples of these are food from a store's hot deli case, carry-out cooked pizza, and heated beverages.

Oregon's SNAP program provides benefits for more than 650,000 people

In fiscal year 2017, Oregon's SNAP expenditures totaled more than \$1 billion. These benefits covered an average of 689,000 Oregonians throughout the year. The past 4 years has seen a decrease in SNAP expenditures and eligible clients; however, 1 in 4 Oregon households still rely on this assistance.

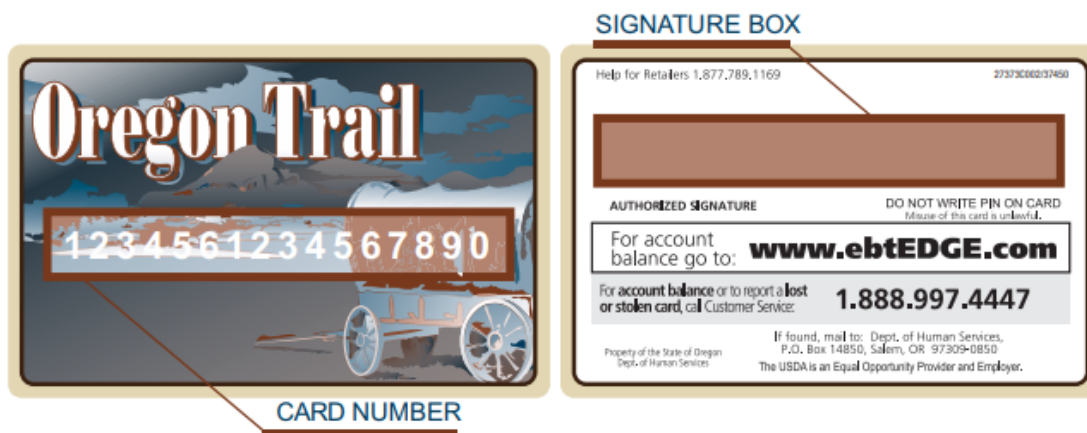
Figure 1: Oregon SNAP benefits and average number of clients is trending down



Source: Department of Human Services

SNAP operates through benefit cards similar to debit cards

Oregonians eligible for SNAP benefits receive Oregon Trail Cards, which work like bank debit cards. Card holders pay for eligible food items from participating merchants by scanning their benefit card at point of sale machines. Merchants are then automatically paid through the state’s Electronic Benefit Transfer (EBT) system.



Source: Department of Human Services website

The state loads new funds onto the cards monthly based on clients’ continued eligibility and participation in the program, and clients can replace lost cards by contacting the state. While hundreds of thousands of Oregonians rely on these benefits to support themselves and their families, the system does create opportunities to commit fraud.

Common SNAP fraud schemes involve client and merchant collusion

One of the primary SNAP fraud schemes is called trafficking. Some types of trafficking include:

- Buying, selling, or stealing SNAP benefits;
- Using SNAP benefits to buy containers with bottle deposits, discarding the contents, then returning the containers for the deposit; or

- Buying food items with SNAP benefits with the intent of selling or trading those items.

We focused on a common and high risk trafficking scheme that occurs when clients and merchants collude to profit from the system. In this scenario, a SNAP client has a merchant run their benefit card as if they were paying for food, but the merchant gives cash instead. The client pockets the cash and the merchant is reimbursed through the EBT system.

Merchants committing this type of fraud typically pay 50 cents on the dollar for SNAP benefits. For example, the merchant runs the benefit card for \$100 and gives the card holder \$50 in cash. The merchant is automatically paid \$100 through the state's EBT system, for a net profit of \$50. No eligible food items are exchanged in this scheme.



SNAP fraud is uncommon, but still means significant loss for the state

According to USDA, due to increased oversight and program improvements, the SNAP trafficking rate has fallen significantly over the last two decades, from about 4 cents on the dollar in 1993 to about 1 cent in the 2006 to 2008 timeframe (the most recent data available).

However, these numbers may be understated. These estimates are based on fraud convictions, and federal and state agencies have limited resources to investigate and prosecute these types of fraud. The estimates also do not include fraudulent applications for benefits or fraud between cardholders; they include only trafficking of benefits between cardholders and merchants.

While the vast majority of benefit recipients are not committing fraud, a 1% fraud rate in this substantial program still translates to relatively large misuse of public monies. In Oregon, a 1% to 4% fraud rate would mean \$10 million to \$40 million in misused SNAP funds annually. In order to minimize the misuse of SNAP funds in Oregon, we utilized data mining techniques to identify instances of potential fraud.

Finding Fraud with Data Analytics

In 2013, we developed a sophisticated methodology that combined data analytics¹ and mapping software to detect SNAP fraud. Since that time, we have been utilizing this methodology, which identifies approximately two dozen merchants with a high risk for potential fraud. Given the highly sensitive nature of fraud investigations, we have generalized our methodology to maintain the integrity of our current and future work efforts in this area.

Analytics work started with a public assistance audit in 2013

In 2013, while working on a public assistance audit,² DHS and other agencies provided us with large public assistance data sets, including a set of detailed SNAP client transactions. During this audit, we matched multiple data sets and found deceased individuals receiving benefits, benefit payments being made to incarcerated individuals, and a million dollar lottery winner who was still deemed eligible for public assistance. We also designed a test to assess fraud risks within the SNAP program.

In order to execute the methodology, we reached out to multiple law enforcement and federal agencies including FBI, USDA, and the OIG. We also requested and received merchant data from the USDA. We matched the state client data with the federal merchant data, ran initial data analytics, identified anomalies, and then shared our results with key stakeholders including DHS, the OIG, DOJ, and the FBI to investigate SNAP fraud. Results of our collaboration are outlined in the three case studies later in this report.

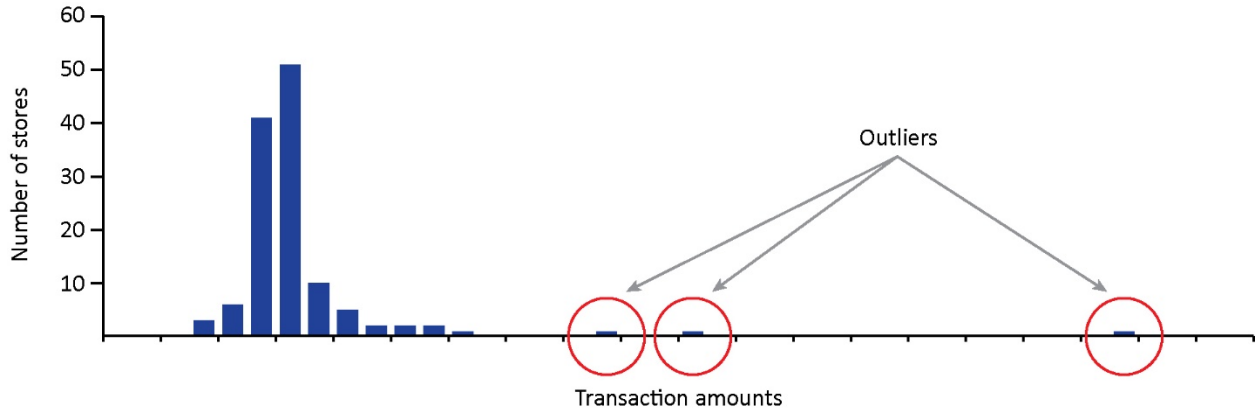
The methodology included multiple analytic techniques

Analyzing the data in different ways generated multiple fraud risk indicators for merchants. An indicator is a test we perform that we believe could identify potential fraud. Graphs and maps helped us identify abnormal results within the data. The graph of SNAP transactions depicted in Figure 2 is an example of an analysis that spotlighted some abnormal results. The majority of the population falls on the far left side of the graph. The red circles show instances of outliers, or abnormal results. Instances like these are considered risk indicators. Merchants with more risk indicators were “flagged” for further review. Just because a merchant ranks high on an indicator does not mean that fraud is occurring. It is important to look at how a merchant ranks across all indicators as well as getting input from law enforcement who are familiar with merchants.

¹ Data analytics is the process of examining data sets in order to draw conclusions about the information they contain, increasingly with the aid of specialized systems and software.

²Public Assistance: Improve Eligibility Procedures and Consider Approaches of Other States
<http://sos.oregon.gov/Documents/audits/full/2013/2013-10.pdf>

Figure 2: Example of identifying outliers in the data

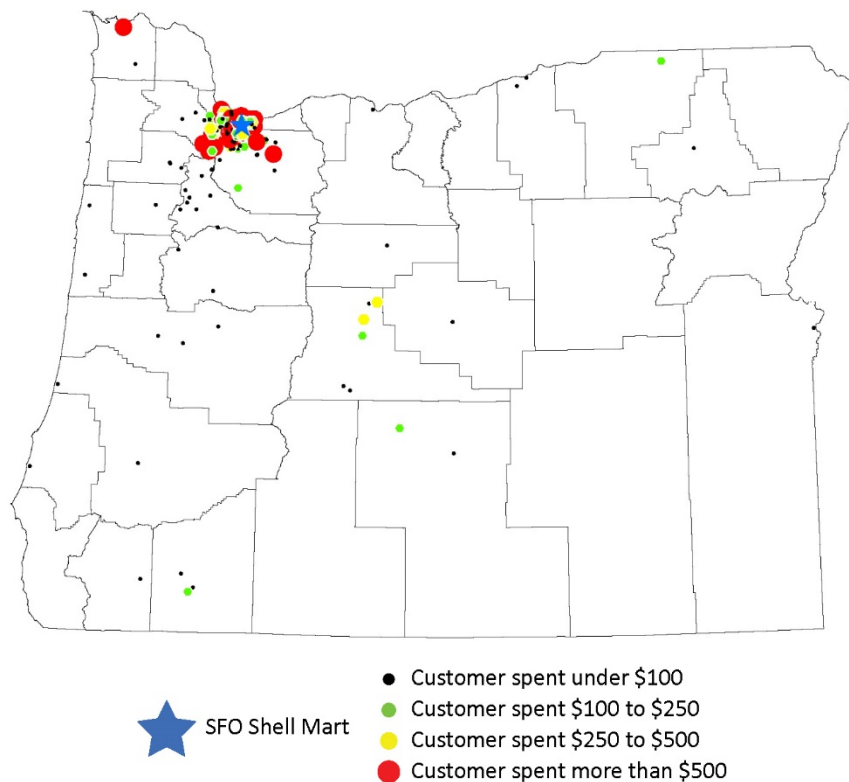


Source: Office of Inspector General and Department of Human Services

Merchants and clients committing SNAP fraud may not be detected by a single or even several of our risk indicators but it is very unlikely that fraud will not be detected using all of our indicators.

Another data strategy we used involved mapping stores and SNAP recipients' addresses. We expected recipients to generally purchase their food from merchants close to where they live. A SNAP recipient may buy food farther from home for legitimate reasons — for example, when traveling, to meet special dietary needs, or after they move but before their home address is updated in the system. However, we found some stores drew unusually large numbers of SNAP recipients traveling long distances to use their cards, as shown in Figures 3, 4, and 5.

Figure 3: SFO Shell Mart had customers who traveled from across the state and the dollar amount spent



Map depicts client spending from January 2015 through May 2016.

Source: Office of Inspector General and Department of Human Services

Figure 4: SFO Shell Mart customers not only traveled some distance to this small convenience store, they also spent high total dollar amounts

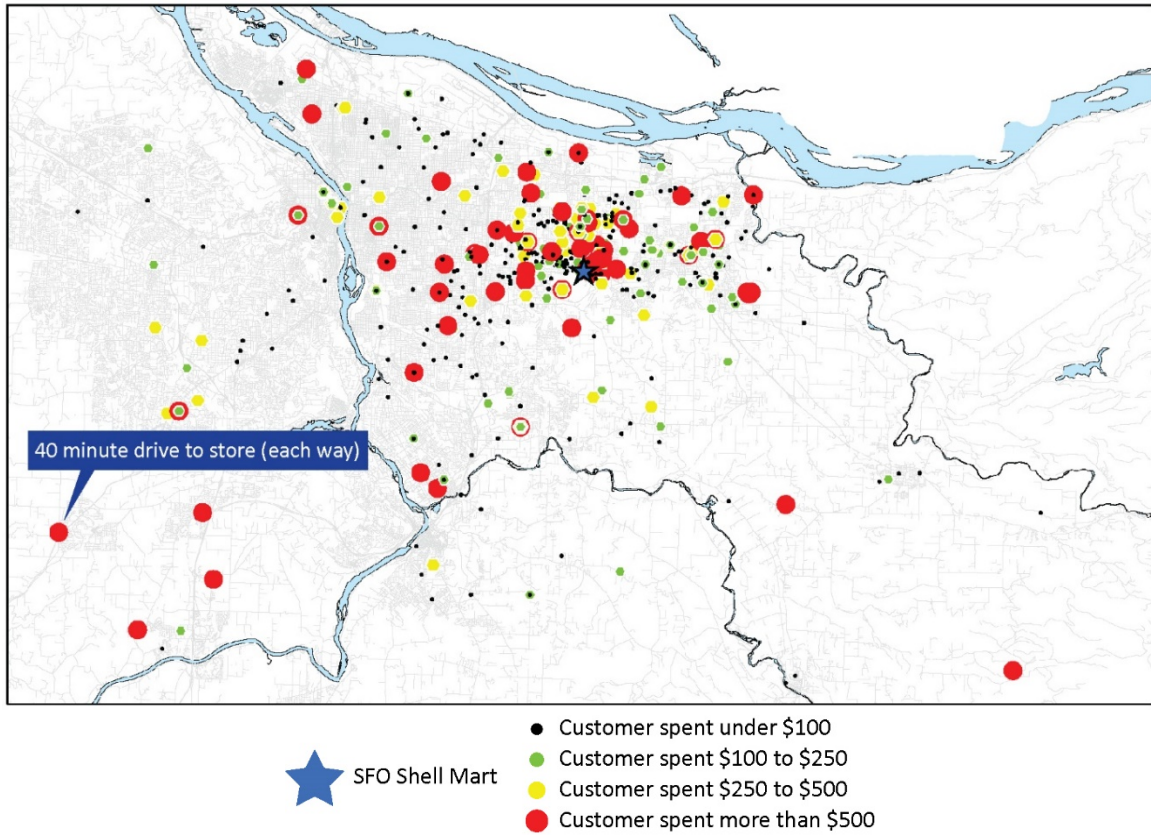
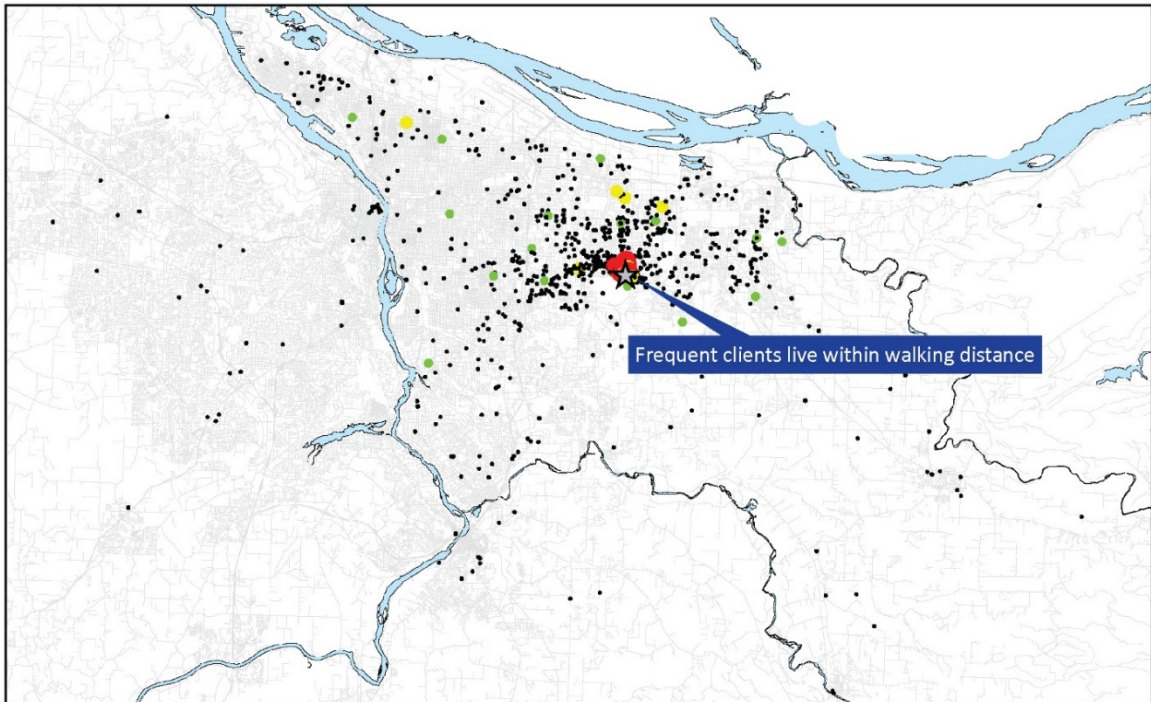


Figure 5: Meanwhile, a next-door competitor's customers were concentrated closer to the store and higher total dollar expenditures were made by clients within walking distance of the store



Map depicts client spending from January 2015 through May 2016.
Source: Office of Inspector General and Department of Human Services

SNAP Fraud Case Studies

The following case studies detailed the outcomes of some of our SNAP fraud work over the past several years.

SFO Shell, Portland



Source: Google

SFO Shell Fast Facts

- 8 SNAP recipients banned for life
- 6 SNAP recipients banned for one year
- Total court ordered restitution: \$378,981
- Estimated future cost avoidance from bans: \$247,640
- Store owner pled guilty to first-degree aggravated theft, unlawfully obtaining public assistance and unlawfully using a food stamp benefit. Sentenced in Multnomah County Circuit Court for 22 months

SFO Shell was a small gas station in Portland and is our most recent merchant investigation. The SNAP transactions at this store caught our eye. At a typical gas station in Oregon, 1 out of every 6,000 SNAP transactions is over \$100. At this store, 1 out of every 8 SNAP transactions was over \$100. This was a store with no shopping carts and only six handheld baskets, making expensive purchases with a high number of items unlikely.

We performed additional procedures to assist law enforcement and local prosecutors. We reviewed wholesale food purchases and compared that total to the store's inventory. Our analysis found that the wholesale food purchases and store inventory did not support the store's high volume of reported SNAP transactions.

Investigators routinely saw people leaving the store empty-handed after their SNAP card had been run, often for high-dollar amounts. During his interrogation with police, the store owner claimed he sold a lot of high-end cheeses. He said his customers would place the slices of high-end cheese in their pockets before walking out of the store, and that's why they appeared to be empty handed after spending over \$100 in SNAP benefits at his store.



The molding, 'high-end' cheese sold at the SFO Shell store in Portland.

Credit: Ian Green, Oregon Audits Division

Carniceria Mi Pueblo, Klamath Falls



Source: Google

Carniceria Mi Pueblo Fast Facts

- 44 SNAP recipients banned for life
- 8 SNAP recipients banned for 1 year
- Total court ordered restitution: \$72,301
- Estimated future cost avoidance from bans: \$1.28 million
- 2 owners were sentenced to 90 months in prison

Carniceria Mi Pueblo was a very small meat market in Klamath Falls. We were surprised when we sorted the data and saw this store had an average SNAP transaction amount that was significantly higher than many large chain stores, like Walmart or WinCo. This merchant also had more even-dollar SNAP transactions than an actual “dollar” store. We shared these facts with the FBI and OIG. The investigators worked with the Klamath County Sheriff’s Office to prosecute the merchant.

Investigators estimate thousands a month in SNAP benefits was being illegally moved through the store. Officials said in some instances, cardholders would walk out with alcohol or methamphetamine instead of cash.

Metzger Mart, Tigard



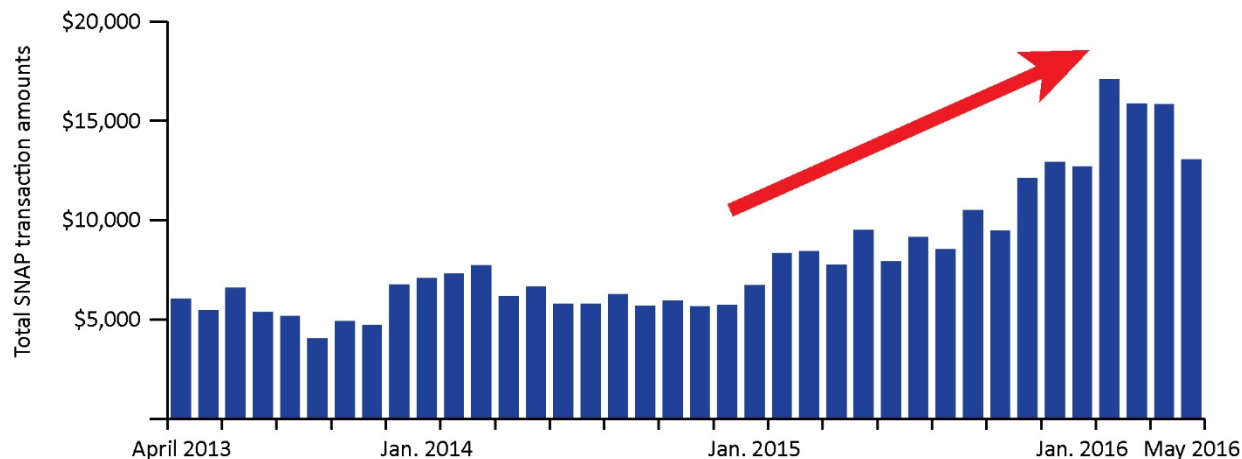
Source: Google

Metzger Mart Fast Facts

- 7 SNAP recipients banned for life
- 26 SNAP recipients banned for 1 year
- Total court ordered restitution: \$74,451.26
- Estimated future cost avoidance from bans: \$239,000
- Store owner sentenced to 24 months in prison

Metzger Mart was a small convenience store in Tigard. SNAP transactions at this store totaled \$93,724 in 2013, a 134% increase from 2012. We also found over 100 clients with high-dollar SNAP transactions during the year, including two customers who spent over \$2,000. Spending that much for legitimate food purchases at a corner store was doubtful.

Figure 6: SNAP fraud tends to grow over time



Source: Office of Inspector General and Department of Human Services

Fraud detection work is ongoing

SNAP trafficking tends to grow over time, particularly if merchants and clients face no negative consequences. Figure 6, which includes data from an actual merchant who committed SNAP fraud, shows the dramatic increase in SNAP revenues over a single year.

The Oregon Audits Division is committed to helping identify and reducing fraud in Oregon, and to helping other audit agencies detect fraud. We continue to analyze current SNAP data for fraud and partner with key stakeholders. We also present our results locally and nationally to inform other auditors how data analytics can be used to detect potential fraud.

Reporting suspected client or provider fraud

Citizens may report fraud involving Medicaid or Oregon Health Plan programs and benefits; food benefits (SNAP), cash assistance (TANF), Oregon Trail cards, and child care benefits by:

- Calling, **1-888-FRAUD01 (1-888-372-8301)** 24 hours a day
- Submit a report online: www.oregon.gov/DHS
- Faxing your written complaint to: ATTN: HOTLINE at 503-373-1525
- Mailing a written complaint to one of the addresses below.
 - For **client fraud**:
Investigations Unit
PO BOX 14150
Salem, OR 97309
 - For **provider fraud**:
DHS Provider Audit Unit
3406 Cherry Ave NE, 2nd Floor
Salem, OR 97303