

TESTIMONY OF
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U.S. DEPARTMENT OF AGRICULTURE
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COMMITTEE ON THE BUDGET
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Good afternoon, Mr. Chairman, and members of the Committee. We are pleased to be here today to testify on trafficking in the Food Stamp Program (FSP), a topic of considerable concern within my agency. Before we begin, I would like to introduce members of my staff who are here with me today: Gregory S. Seybold, Assistant Inspector General for Investigations; and James R. Ebbitt, Assistant Inspector General for Audit.

The FSP continues to be our nation's primary nutritional "safety net," with \$15.8 billion in benefits issued to an average 18.2 million people in fiscal year (FY) 1999. The huge size of this program and its vulnerability to fraud and abuse has caused the Office of Inspector General (OIG) to continue to devote a significant portion of its total resources to work in FSP. In FY 1999, we committed roughly 39 percent of our investigative resources to combat fraud in the program and 9 percent of our audit resources to protect program integrity.

Limited Resources

While we have committed a significant percentage of our special agents to combating trafficking in the program, the number of agents available for such assignments has declined significantly and steadily. During FY 1999, we devoted approximately 80 investigative staff years to food stamp trafficking and theft investigations. This was down from about 150 staff years in FY 1996, or a drop of nearly 50 percent. This decline was primarily a result of our shrinking staff--agents and auditors reduced by approximately 25 percent since 1993--and secondarily due to our shifting agents to investigations of criminal activities that threaten the safety and health of the public, the agricultural sector, and U.S. Department of Agriculture (USDA) employees. Such matters included investigations of meat packers who knowingly sold contaminated or unwholesome meat products to an unsuspecting public and smugglers who brought in tens of thousands of pounds of agricultural products that were infested with agricultural pests, as well as an increasing number of threats, assaults, and homicides involving USDA employees.

The substantial drop in resources that we have been able to devote to combating trafficking in FSP has led to corresponding drops in our numbers of investigations conducted and convictions obtained. In FY 1996, we conducted 691 food stamp trafficking and theft investigations, which resulted in 593 criminal convictions of individuals and businesses. In FY 1999, we conducted only 242 investigations and obtained 391 criminal convictions.

Food Stamp Trafficking Investigations

With our limited resources we have continued to investigate a wide variety of food stamp trafficking activities. These investigations have targeted those who defrauded the program of benefits distributed through the Electronics Benefits Transfer (EBT) system, as well as those distributed as food stamp coupons, both of which are highly vulnerable to criminal activity. These investigations, as in past years, often uncovered complex, criminal conspiracies, involving dozens of individuals who used numerous legitimate and phony businesses to gather and redeem benefits. Those involved moved their trafficking operations from one authorized store to another, used the names of bogus owners for their stores, established counter surveillance and took other measures to avoid detection by law enforcement authorities. These individuals were also often found to be involved in other criminal activity, such as drug trafficking, thefts, and violent crimes. I will cover the types of criminal investigations we have been conducting, update you on our “Operation Talon” initiative, and briefly mention our audit work in this area.

Street and Retailer Trafficking

We categorize food stamp trafficking activities primarily into two categories: street trafficking and retail store trafficking. Street trafficking involves individuals who buy or barter food stamp benefits for cash or other nonfood items away from Food and Nutrition Service (FNS) authorized stores. These traffickers generally obtain benefits from recipients at a substantial discount of their face value, in exchange for cash, drugs, or other nonfood items, and then sell them to FNS-authorized store retailers who redeem the

benefits at full value, or sell them to another retailer. As of September 30, 1999, 161,000 stores were authorized to receive and redeem food stamp benefits whether in the form of paper coupons or EBT cards. Both the street trafficker and retailer profit when they sell or redeem the benefits.

We further categorize trafficking activities into those that involve food coupons and EBT. While much of the country has moved to EBT, which I will discuss later, many States are still using food stamp coupons. This distribution system has been shown to be highly vulnerable to large-scale street-type and retailer trafficking, and we continue to uncover immense frauds.

An example of such a case was recently completed in New York City. In this investigation our investigators uncovered a food stamp conspiracy involving 44 defendants in 3 boroughs who fraudulently redeemed food stamps worth \$63 million at 40 authorized stores. Money used in the food stamp trafficking was derived from drug trafficking. In order to promote the scheme and conceal the illegal source of funds, defendants moved money in bank accounts between stores and laundered large amounts of currency to accounts in Puerto Rico and Florida, held in the name of account holders in the Dominican Republic. This case has already resulted in 35 convictions, including four bank officials. More are expected.

Two other examples of cases are those recently completed in Illinois and Mississippi. An investigation in Chicago resulted in the indictment of a food storeowner and his brother

for conspiring to fraudulently redeem more than \$1.2 million in food stamps over 10 months. The brothers opened eight bank accounts around Chicago and deposited the proceeds from illegally obtained food stamps that were received from other merchants and food storeowners in exchange for cash. A record analysis revealed that only approximately \$295,000 of the over \$1.2 million redeemed through the store resulted from legitimate sales. The owner, who fled the country prior to sentencing, is a fugitive. His brother was convicted and sentenced to serve 37 months in prison and ordered to pay restitution of \$1 million.

An investigation in Mississippi resulted in the sentencing of a storeowner to 4 years and 3 months in prison after his conviction for food stamp fraud, conspiracy, and witness tampering. He was also ordered to pay \$1.2 million in restitution. The individual had obtained several authorizations to accept and redeem food stamps in different names and at different locations, and with an accomplice, had illegally redeemed food stamps worth about \$1.3 million over a 21-month period. The investigation also disclosed that this individual offered a gang member \$10,000 cash to kill his accomplice who had become a Government witness against him. The accomplice pled guilty to food stamp trafficking and was sentenced to 6 months in prison.

Other Criminal Activity

As is indicated by the investigations mentioned earlier, our special agents often establish that individuals involved in food stamp trafficking are also involved in a variety of other criminal activities. Such activities include drug trafficking, burglary, armed robbery,

fencing of stolen property, illegal firearms trafficking, money laundering, and immigration fraud. Through these investigations, which are often worked with other law enforcement organizations, we are able to remove from society those who defraud its programs and endanger its citizens.

A recent example of such an OIG investigation, conducted with members of a Detroit, Michigan, task force, is that which led to the arrest and conviction of 18 members of an organization of a major narcotics and food stamp trafficker. The head of the organization had trafficked narcotics for over 20 years in the area and was seemingly "untouchable" until he mentioned that he was interested in buying food stamps, which brought OIG into the investigation. Prior to this time he had insulated himself from law enforcement by never conducting any drug deals himself, only through his lieutenants. During the course of the investigation he bought \$23,000 in food stamps directly from an undercover officer. He then sold narcotics to the officer, after which he was arrested. However, after being released on bond, he was murdered, gangland style, along with his girlfriend. The rest of his organization was arrested in a citywide sweep. Their convictions for drug and/or food stamp trafficking led to sentences that ranged from a maximum of life in prison without parole to a minimum of 5 months in prison. The owner of the authorized store who was involved pled guilty to food stamp and drug trafficking. He is currently a fugitive. The neutralization of this major drug trafficking enterprise significantly stemmed the flow of narcotics in the Detroit area.

Another OIG investigation, which we conducted with a task force in Indiana, resulted in the arrest and conviction of 14 individuals for their involvement in the theft and trafficking of \$728,000 in food stamps from 4 county welfare offices. Sentences ranged up to 20 years in prison, with \$1.1 million in restitution ordered. The investigation showed that street gang members stole the food stamps from county welfare offices and traded them for cocaine, marijuana, firearms, explosives, and cash.

Through another ongoing case we are currently working jointly with Immigration and Naturalization Service (INS) and Internal Revenue Service, we found that food stamps were trafficked in Rochester, New York, and then laundered through approximately 20 authorized grocery stores. This food stamp conspiracy was conducted to facilitate the smuggling and illegal entry of approximately 50 foreign nationals from Pakistan. The group was also involved in a marriage fraud scam and visa fraud. Thirty-six of 38 indicted individuals have, thus far, been arrested and another unindicted individual arrested. Ten other individuals have also been detained for INS violations.

My office has also continued to lead a special law enforcement initiative known as “Operation Talon,” which targets individuals who are involved in food stamp fraud and wanted for other crimes. Under this initiative, OIG has been the intermediary between social service agencies across the country and State and local law enforcement agencies. The social service agencies match their food stamp recipient records with law enforcement agencies' fugitive records. Information on fugitives is then shared with OIG and other law enforcement officials, who use it to locate and apprehend the fugitives. As

of July 12, 2000, Operation Talon has resulted in 6,360 arrests of fugitive felons in more than 70 metropolitan areas nationwide. These fugitives included numerous violent and dangerous felons who were wanted for murder, child molestation, rape, and kidnapping.

EBT Implementation

I have briefly addressed food coupons trafficking and some of the other types of criminal activity associated with food stamp trafficking, now I want to address the EBT system for distributing food stamp benefits, and our efforts to combat trafficking in food stamp benefits distributed through EBT.

As you know, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, also known as Welfare Reform, mandated that all Food Stamp Program benefits be issued using an EBT system by 2002. States have rapidly moved in that direction.

Whereas about 75 percent of the benefits were issued using paper food coupons in FY 1997, now about 74 percent of FSP benefits are issued using EBT. Almost three out of every four recipients receive their food stamp benefits via an EBT system. Per FNS, as of April 2000, 41 States and the District of Columbia use EBT systems. Thirty-seven of the systems have been implemented statewide, including the District of Columbia.

The remaining States are in various stages of implementation, from planning, to putting out requests for proposals, to contract approval. Some of the States in this category, with average participation exceeding 250,000 people, are Indiana, Michigan, Mississippi, and Virginia. The two largest Food Stamp Program States are California and New York.

California currently has two counties operating a pilot system and expects to award a

statewide contract during 2000. The five boroughs of New York City are issuing benefits via EBT with the remainder of the State expected to be operational by 2001.

Positive Aspects of EBT

As EBT has been brought on-line across the country, we have observed a significant, positive impact on trafficking in the FSP. While paper food coupons are generally not traceable to individual recipients, the EBT system records the date, time, amount, recipient, and store involved in all benefit transactions. Our investigators manipulate this information to identify likely trafficking by authorized retailers and food stamp recipients. We also use the data to document criminal violations and then use the data in criminal prosecutions. In fact, we have been manipulating and using EBT data in our criminal investigations since our first EBT investigation in Reading, Pennsylvania, in 1991.

FNS has also developed its own EBT data analysis computer program for detecting potential fraudulent EBT activity, based on our original EBT trafficking identification computer program. The FNS system, known as the Anti-Fraud Locator Using EBT Retailer Transactions, or ALERT, is now on-line and available in all FNS and OIG regions. We use both ALERT and our own computer program in our investigations.

FNS is also using EBT data to disqualify violating retailers and State authorities are using information obtained from EBT records to disqualify large numbers of recipients who have sold their benefits. The number of individuals disqualified as a result of OIG

investigative work has risen from fewer than 10 in FY 1994 to more than 10,000 since FY 1997, almost entirely as a result of EBT investigations.

Investigation of EBT Traffickers

I am also pleased to report that implementation of EBT, as expected, has dramatically reduced street trafficking in FSP benefits. This has occurred because EBT benefits are less negotiable "on the street" and, thus, less likely to be used as a "second currency." Such trafficking, however, does continue to a lesser degree and still requires OIG attention. For example, investigations in Cleveland, Texas, resulted in the convictions of two individuals who exchanged "crack" cocaine for EBT food stamp benefits. The food stamp recipients who purchased "crack" cocaine from these individuals gave them their EBT cards and personal identification numbers, which allowed the traffickers to use the cards and their benefits. One subject was sentenced to 46 months in jail and the other to 18 months.

While EBT has eliminated many street traffickers, large-scale trafficking by retailers continues to be widespread. Again, those involved often traffic in immense quantities of benefits, have large organizations, and often use sophisticated schemes to carry out the crimes and to conceal their illegal activities.

A recent investigation in Houston, Texas, is a good example of retailer trafficking in EBT benefits. The investigation resulted in the conviction of six family members for food stamp fraud, money laundering, and conspiracy. The 2-year long investigation disclosed

that these individuals illegally purchased and redeemed in excess of \$2 million in food stamp benefits via EBT. In this scheme, recipients sold food stamp benefits for cash at two unauthorized storefronts, whose employees telephoned one of two authorized stores and gave the recipient's EBT card number, the recipient confidential identification number, and the transaction amount to employees at the authorized store. The employee at the authorized store then manually entered the information into the EBT access device to make it appear that the recipient had actually purchased groceries at that location. The six subjects were sentenced to prison terms ranging from 3 ¼ years to more than 8 years, and ordered to pay restitution of \$2 million.

In another case, the owners of a store pled guilty in Federal Court in Baltimore, MD, to fraud in EBT. The EBT records showed that during a three-year period \$975,000 worth of benefits was redeemed through this store. However, bank records showed that nearly all of the funds deposited into the account were removed through checks written to cash or the owner, while only \$103,000 in checks was written to wholesale vendors. The total loss to the Government from 1995 to 1999 may have been over a million dollars. Both co-owners confessed to the crimes. One individual was sentenced to 21 months prison, the second to 5 months home detention. Both were ordered to pay \$500,000 each in restitution.

Audits of EBT Systems

In addition to conducting investigations of trafficking, we have also taken a proactive role in attempting to limit fraudulent activities in these programs. My office has taken an

active role in monitoring and reviewing EBT systems beginning in 1986 when we reviewed the Reading, Pennsylvania, EBT pilot project. We view our role as providing assurances to program managers that the systems are operating as intended, or reporting the problems that need to be addressed so that the systems operate properly. Reviewing EBT systems as they are implemented has been a high priority for us and remains so.

Of the 41 States currently operating systems, OIG has conducted reviews at 19, with reviews at 4 additional States and the District of Columbia in process. We have concentrated our limited resources on reviewing systems being implemented that will be issuing a larger volume of program benefits.

This concludes my statement, Mr. Chairman. I thank you again for the opportunity to address the Committee, and I would be pleased to answer any questions you or other members of the committee might have.