



STATE OF MICHIGAN  
DEPARTMENT OF HUMAN SERVICES  
LANSING

RICK SNYDER  
GOVERNOR

NICK LYON  
INTERIM DIRECTOR

February 11, 2015

The Honorable Peter MacGregor, Chair  
Senate Appropriations Subcommittee on DHS  
Michigan State Senate  
Lansing, Michigan 48933

The Honorable Earl Poleski, Chair  
House Appropriations Subcommittee on DHS  
Michigan House of Representatives  
Lansing, Michigan 48933

Dear Senator MacGregor and Representative Poleski:

Section 672(1) of 2014 Public Act No 252:

*"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 Office of Inspector General at (517) 335-3899.

Sincerely,

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 10,300 retailers and just over 13,400 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 Service (FNS).

### **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 Service (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**

To proactively reduce the access of EBT funds at inappropriate locations, as of January 2015, DHS facilitated the removal of EBT card access to ATMs and Point of Sale devices at 21 Adult Entertainment centers, 43 casinos and gaming centers and 176 liquor stores.

DHS also monitors excessive card replacements for all clients who have ordered four or more replacement cards within a 12-month period. Clients are notified in writing that

they have reached the four-card limit and are 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. This monitoring process has been incorporated into DHS' EBT card vendor's (Xerox Corp.) automated processes. In the last three months of 2014, over 3,800 letters were sent out to households notifying them they had reached their limit.

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 2014 the unit received 2,692 referrals and identified over \$2.4 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 April 2012, trafficking agents were assigned to investigate a disqualified store involving the owner who has been the subject of a previous FNS administrative investigation. It was determined the owner and a DHS recipient were living together and had children in common. The recipient had received \$165,000 in state assistance benefits to which she was not entitled because the owner and father of the children had not been reported in the household. When interviewed the recipient admitted her involvement and agreed to pay restitution to the state. She was also charged with welfare fraud and pled guilty. At the time, prosecutors did not feel there was enough direct evidence to charge the store owner in the case.

However in May 2014, the owner pled guilty to an unrelated felony insurance fraud with an agreement that he would also accept joint responsibility for the \$165,000 over issuance in exchange for no further criminal charges in the case. During the plea negotiations it was learned that, although the owner was a US citizen, he was not natural-born and is also a citizen of Israel. Due to his criminal conviction, on November 18, 2014, he was permanently deported to Israel.

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.

In January of 2015, DHS was also awarded a grant from the USDA Food and Nutrition Service (FNS) SNAP Recipient Trafficking Prevention Grant Program. The two-year grant covers \$176,000 for the purchase of equipment for mobile trafficking agents as well as licenses for advanced social media tracking software for identifying targeted FAP trafficking solicitations in Michigan.

### **ADDITIONAL FISCAL YEAR 2014 PROGRAM ENHANCEMENTS**

In fiscal year 2014, Michigan also implemented the following new and enhanced efforts to address fraud, waste and abuse:

- **OIG Investigative Analytics Unit (IAU) continues to be dedicated to fraud analytics to assist with targeted investigations. 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 has been working with Michigan's Department of Technology, Management and Budget, as well as its vendor, SAS Inc., to make DHS the first department utilizing Michigan's Enterprise Fraud Detection System (EFDS). This DTMB sponsored system utilizes and leverages state owned data to identify potential fraud. During the first year of use, OIG identified over \$1 million in program cost avoidance from these analytics.**
- **OIG's IAU has facilitated statewide participation by Michigan County Sheriff Offices in the OIG Jail Match process. This process identifies individuals incarcerated for over 30 days, making them ineligible for FAP and other cash assistance programs. During FY 2014 this match identified over \$10 Million in annualized Cost Avoidance.**
- **OIG's IAU has developed analysis that identifies DHS single-person households where the individual is deceased and their EBT benefits are still being utilized. These cases are being investigated by the BTU for improper use of EBT benefits.**
- **The OIG Investigative Analytics Unit is using IP address tracking software that allows them to monitor online benefit applications and benefit checks. This allows for the identification of individuals who are accessing MI Bridges while located outside the State of Michigan, those that are college students but failing to report their student status to DHS, and instances of identity fraud schemes.**

Investigations are assigned on identified individuals whose residency, student status, or identity is in question.

- The OIG assists with planning and facilitating the annual DHS 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 2014**

In fiscal year 2014, the OIG was able to save over \$126.8 million in public benefits through the Front End Eligibility (FEE) process and fraud prevention and detection efforts.

<b>FY 2014 STATISTICS/OUTCOMES</b>	
<b>Food Assistance Program (FAP)</b>	<ul style="list-style-type: none"> <li>➤ 8,821 FAP fraud referrals received</li> <li>➤ 7,443 fraud investigative dispositions</li> <li>➤ \$12.1 million in FAP recipient fraud</li> <li>➤ 343 criminal warrants issued</li> <li>➤ 4,217 administrative hearings and waivers</li> <li>➤ 4,522 FAP Intentional Program Violation (IPV) disqualifications               <ul style="list-style-type: none"> <li>• IPV disqualifications resulted in \$11.3 million in cost avoidance</li> <li>• Disqualifications include 1 year, 2 year, 10 year and lifetime disqualifications</li> </ul> </li> <li>➤ \$11.7 million in FAP fraud receivables</li> <li>➤ \$56.9 million in FEE cost avoidance</li> </ul>

<b>FY 2014 STATISTICS/OUTCOMES</b>									
<b>FAP Trafficking Statistics<sup>1</sup></b>	<ul style="list-style-type: none"> <li>➤ \$2.4 million in trafficked benefits identified</li> <li>➤ 42 criminal warrants issued</li> <li>➤ \$2.6 million in fraud receivables established</li> <li>➤ 1,939 trafficking dispositions</li> <li>➤ 1,247 administrative hearings and waivers</li> </ul>								
<b>Retailer Fraud Disqualifications</b>	<i>The Federal Food and Nutrition Service (FNS) has sole responsibility for the disqualification of retailers, and the USDA/OIG handle prosecution of the FNS retailers.</i>								
<b>All Programs FEE and Fraud Complaints (FIP, MA, CDC, FAP, Other)</b>	<p><b>50,968 Complaints received by OIG</b></p> <ul style="list-style-type: none"> <li>➤ 10,201 fraud complaints</li> <li>➤ 40,767 FEE referrals</li> </ul> <p><b>47,432 Investigations completed by OIG</b></p> <ul style="list-style-type: none"> <li>➤ 8,418 fraud investigative dispositions</li> <li>➤ 39,014 FEE investigations completed</li> </ul> <p><b>Fraud found: \$20.4 million</b>  <b>FEE Cost Savings: \$93.6 million</b>  <b>Established Receivables: \$20.4 million</b>  <b>Criminal warrants issued: 411</b></p>								
<b>All Programs Financial Savings</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Front End Eligibility</td> <td style="text-align: right;">\$93,603,676</td> </tr> <tr> <td>Fraud Found</td> <td style="text-align: right;">\$20,419,615</td> </tr> <tr> <td><u>IPV Disqualifications</u></td> <td style="text-align: right;"><u>\$12,803,250</u></td> </tr> <tr> <td><b>TOTAL FY14 SAVINGS</b></td> <td style="text-align: right;"><b>\$126,826,541</b></td> </tr> </table>	Front End Eligibility	\$93,603,676	Fraud Found	\$20,419,615	<u>IPV Disqualifications</u>	<u>\$12,803,250</u>	<b>TOTAL FY14 SAVINGS</b>	<b>\$126,826,541</b>
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<sup>1</sup> FAP Trafficking Statistics are a sub-set of the Food Assistance Program (FAP) Fraud Statistics.