

**Statement of Jessica Shahin, Associate Administrator, Supplemental Nutrition Assistance Program (SNAP), for the Food and Nutrition Service Before the House Committee on Agriculture
July 6, 2016**

Thank you, Chairman Conaway and Ranking Member Peterson for this opportunity to appear before you today. I am pleased to share what we are doing at the Food and Nutrition Service (FNS) to protect and ensure the integrity of the Supplemental Nutrition Assistance Program (SNAP). I am the Associate Administrator for SNAP, and have been the Program's career Senior Executive since 2004.

SNAP is the cornerstone of our Nation's nutrition assistance safety net – providing access to food and lifting millions of Americans out of poverty as they participate. The program currently provides food assistance, nutrition education and work support services to 44.3 million low-income individuals according to the most recent month of data. In Fiscal Year (FY) 2014, 64 percent of SNAP participants were children, seniors, and those with disabilities and 42 percent of SNAP participants lived in a household with a currently working adult. Census-based estimates show that among SNAP households with at least one working-age, non-disabled adult, more than 80 percent work in the year before or after receiving SNAP benefits (Rosenbaum 2013), an important reflection of who participates in this important nutrition safety net program.

SNAP provides critical nutrition assistance to low-income households. Ensuring the integrity of the program is imperative to make sure that this assistance remains available to the households who need it, and so is paramount to me personally, as well as to the Agency. We define integrity broadly, to include ensuring the proper amount of benefits go to those who are eligible; ensuring that fraud and trafficking does not take place, and, when it does, that bad actors are held accountable; and, ensuring that States administer the Program in accordance with rules and regulations. That is our responsibility as the Federal oversight agency.

Today I will largely limit my remarks to the importance and activities associated with integrity and accountability. But before I do, I would like to make note of the core program

attributes and the people served by this important nutrition assistance program.

Studies have shown that participating in SNAP is associated with a significant decrease in food insecurity and, in turn, helps to address a range of negative health outcomes that are associated with food insecurity. SNAP lifts millions of people out of poverty. Recent Census data indicate that 4.7 million people, including 2.1 million children, were lifted out of poverty due to SNAP benefits in 2014. The impact is greatest for the most poor, moving 13 percent of participating households from below to above 50 percent of the poverty line as it improves their well-being with better access to food resources. The Supplemental Poverty Measure shows that SNAP reduced child poverty by almost three percentage points in 2014—the largest child poverty impact of any safety net program other than refundable tax credits.

Evidence is clear that SNAP benefits increase household expenditures on food and reduce food insecurity. But SNAP does not just help relieve short-term hardship. A growing body of high-quality research shows that the impact of SNAP's benefits are especially evident and wide-ranging for those who receive food assistance as children. This impact extends beyond the immediate goal of alleviating hunger and includes improvements in short-run health and academic performance as well as in long-run health, educational attainment, and economic self-sufficiency among disadvantaged women.

SNAP also benefits local businesses and economies through its countercyclical design. During economic downturns, every \$1 issued in SNAP benefits generates up to \$1.80 in economic activity. Every time a family or individual uses SNAP benefits to put food on the table, it benefits the store and the employees where the purchase was made, the truck driver who delivered the food, the warehouses that stored it, the plant that processed it, and the farmer who produced the food. In short, SNAP strengthens low-income individuals, their families, and their communities.

SNAP operates with efficiency. Almost 95 percent of Federal SNAP spending goes directly to families to buy food. Most of the rest goes toward the Federal share of State administrative costs. Only a small portion goes to Federal administration, including oversight of State operations and monitoring of retailers that accept SNAP. Relative to other Federal means-tested programs, SNAP spends far less on program administration.

FNS and our State partners share in the administration of SNAP, including ensuring integrity in the program. At USDA, we establish rules and regulations, provide monitoring

and oversight of State administration of the program, pay the full cost of SNAP benefits and pay half of the expenses incurred by the States to administer the program. We also provide technical assistance to States, including information and guidance about the many policy options and flexibilities available to States through regulations and statute. Overall, SNAP is a program that offers a great deal of State flexibility through options and waivers.

USDA takes the lead on the authorization, monitoring and oversight of retailers that redeem SNAP benefits—over 260,000 retailers around the country. On behalf of American taxpayers, we work in concert with the Department’s Office of Inspector General (OIG) and in close coordination with the States that operate the program and others to protect the Federal investment in SNAP. We work together to make sure benefits are used as intended—for eligible food items. The biggest threat to this aspect of integrity is trafficking—the illegal sale or purchase of SNAP benefits for cash. FNS has focused resources at the doorstep of fraud and modernized our efforts using data analytics to root out and fight new tactics used by those who want to commit fraud. Retailers found trafficking are taken out of the program—permanently; other violations can result in monetary fines or temporary disqualification.

Our State agency partners are responsible for investigating participant fraud and punishing those found to be trafficking. Punishments can include permanent disqualification and even prosecution. According to the latest data available, in FY 2015, States conducted approximately 723,000 investigations resulting in over 46,500 disqualifications for recipient fraud and collected almost \$86 million in fraud claims from households. The statute authorizes State agencies to retain 35 percent of the amount they collect on fraud claims. Currently, most of these claims are for fraud regarding efforts to collect benefits for which an individual or household is not eligible; however, we would like to see States focus more on the trafficking side as well and have developed predictive analytic models that States can use and are requiring stepped up reporting on anti-fraud activities to encourage more activity in this area.

As vital as the program is to so many, and as well as it operates, we can all agree that it can do even better, and it is up to all of us, the Federal Government, the States, and the local providers to work together to improve it by holding ourselves accountable. FNS is committed to continually improving the integrity of SNAP. FNS has long recognized that SNAP cannot succeed without strong public confidence, so good stewardship of tax dollars is one of our most important objectives. That is why we continually strive to improve program oversight

and to identify, penalize, and exclude those who seek to defraud the program. This is critical to preserving benefits for the vast majority of participants who play by the rules and need help to ensure their families have access to adequate and nutritious food.

With that background on our program, let me now talk about what we have accomplished. FNS has succeeded in reducing trafficking from about 4 percent to 1.3 percent over the last 20 years. While the trafficking rate is low, and 98.7 percent of the benefits are used properly, we continue to focus on this vital area because, when almost \$70 billion (in FY 2015) in taxpayer supported benefits are involved, continuous attention, energy and diligence is required. The following list describes actions taken by FNS to improve integrity related to retailer trafficking.

- We have restructured our retailer management functions into a single cohesive, centralized business structure that allows us to better target resources to particular high-risk areas;
- We have used data analytics to examine EBT transactions at stores as well as other retailer information, to focus on the stores most likely to traffic;
- We have upgraded our Anti-fraud Locator Using Electronic Benefit Transfer Retailer Transactions (ALERT) system to stay in step with state of the art technology to better detect suspicious SNAP redemption activity across the country;
- FNS implemented policies that combat abuse and the misuse of benefits and imposes stronger penalties and sanctions against retailers who violate program rules; and
- We have provided resources to retailers and the public about ways to fight fraud and how to report abuses to help stop trafficking.

I am happy to report that our efforts, particularly those aimed at removing or preventing fraudulent retailers or those with other business integrity issues from participating in the Program, are working. In FY 2015, we issued sanctions against nearly 2,700 retailers who committed violations, reflecting an overall increase of 21 percent as compared to FY 2014. More than 1,900 stores were permanently disqualified, let me say again, permanently disqualified for life, one of the toughest sanctions in the Federal Government, for trafficking or falsifying an application, and over 700 stores were sanctioned for other violations such as the sale of ineligible items using SNAP. Our strengthened vetting policies and procedures have

increased our ability to prevent the authorization of firms that attempt to circumvent SNAP's business integrity rules. In 2015, there was a 254 percent increase in stores denied SNAP participation because of problems with business integrity of store ownership as compared to 2010.

Nevertheless, we continue to focus on improvement, particularly in the area of recipient trafficking. The Government Accountability Office (GAO) released a report a couple of years ago titled "Supplemental Nutrition Assistance Program: Enhanced Detection Tools and Reporting Could Improve Efforts to Combat Recipient Fraud." As noted in their report, FNS was already working to improve tools and technical assistance to States in this area; however, GAO also noted more could be done and recommended that FNS reassess current detection tools, reassess current financial incentives and issue guidance to assist States further in their efforts to detect fraud and report on their efforts. FNS agreed. Indeed, we had already begun the process. FNS issued almost \$15 million in grants to States to improve detection, investigation and prosecution of recipient trafficking. These projects focused on the use of technology and data analytics to improve and better track outcomes.

- We contracted with one of the nation's premier data analytics consulting firms to improve business processes in this area and use cutting edge technology to build a model using predictive analytics to help States more effectively identify SNAP recipient trafficking. The models use a variety of eligibility and transaction data, including card replacement data.
- FNS has completed studies in seven SNAP State agencies: New York (Onondaga County), Pennsylvania, South Carolina, Wisconsin (Milwaukee County), California (Sacramento County), and Texas.
- The preliminary results demonstrated success so this year we added four additional States Arizona, District of Columbia, Utah, and Washington to share this proven data analytics model.

Predictive data analytics, when paired with relevant information such as retailer disqualifications and excessive requests for card replacements, can be most effective in targeting the most likely trafficking participants. Let me highlight a couple of examples of how working with States, FNS has helped to reduce trafficking. Texas, my home state, is a State with strong

controls to prevent and investigate recipient fraud—the State operates an in-house data analytics program to identify and root out potential recipient trafficking. They also have strong business processes around their anti-fraud activities and have had significant success in this area. The State of South Carolina is also performing strongly, with over 83 percent of its investigations of potential trafficking now converted into successful disqualifications. This represents an increase of 22 percentage points from the State’s investigation success rate prior to using FNS’s model. Between March 2015, when FNS implemented the model, and December 2015, South Carolina disqualified 185 recipients for trafficking, representing a cost avoidance of just over \$1 million dollars. While these are examples of strong State efforts in the recipient trafficking arena, there is still much more than can be done.

We are revising our State reporting form to provide FNS with more thorough and complete information on State anti-fraud activities and results. With this change, we will soon be in a better position to have more accurate information on what States are doing to combat trafficking and other forms of fraud, and be able to better analyze trends and returns on investment in State anti-fraud activities.

FNS has also focused on enhancing tools to help combat recipient trafficking. In 2015, FNS conducted a pilot in Washington State to test innovative strategies for investigating and preventing trafficking attempts of SNAP benefits through social media websites. We are using lessons learned from these pilots to update our guidance to States for effectively combatting such attempts, which we expect to release later this year.

We are also enhancing our work with our State partners on combatting recipient fraud. USDA continues to establish State Law Enforcement Bureau (SLEB) agreements with States, harnessing their additional law enforcement resources. The 2014 Farm Bill strengthened our ability to use these relationships to maintain focus on and expand recipient investigations in States as well. USDA continues to refer clients with suspicious transaction patterns at disqualified retailers to States for further investigation and encourages States to use that information to investigate and take action against clients believed to have trafficked.

There have been recent discussions on allowing States to do more in the retailer trafficking arena, including the possibility of States taking over all retailer investigative and prosecution activities. We are always willing to avail ourselves of State assistance with retailer fraud in a coordinated manner and do so through SLEB agreements. However,

consistent with provisions of the 2014 Farm Bill, we expect States to focus on the recipient trafficking side before engaging in a significant way with retailers. As such, USDA encourages States to take advantage of tools USDA has made available that can assist in the detection, investigation and prosecution of recipient fraud. We will continue to improve the tools available to States, provide technical assistances on how to use these tools, and share promising practices. States must pay close attention to recipients who request multiple EBT replacement cards. Though there may be a perfectly reasonable explanation, this is an indicator of fraud in certain circumstances. In fact, our data analytics project found that excessive card replacement requests is one of the leading indicators of potential trafficking. By SNAP regulation, States have the option to call clients into the local office after the fourth request for a replacement card before issuing a new one; yet, to date, very few States have taken that option. States need to recognize the predictive value of these data and take full advantage of a proven successful option that is available to them.

Another key component to effective State strategies for combatting fraud is client education. FNS recently released an education package to help State agencies communicate the rules and the responsibilities involved with the program to participating recipients. Education such as this encourages voluntary compliance and prevents SNAP trafficking up front. In this area, as with others, States vary in their focus and level of effort. There is room for States to do more education about SNAP rules with participating households.

Other Integrity Efforts

While cases of duplicate participation (i.e. households simultaneously certified for benefits in two states) are low, it is another issue that USDA takes very seriously. USDA supported a pilot project in conjunction with OMB's Partnership for Program Integrity and Innovation and a five State consortium to develop the National Accuracy Clearinghouse (NAC). The NAC established a database pilot to test a shared data clearinghouse that allows the pilot States to check in real, or near-real, time whether a SNAP applicant is already receiving SNAP benefits in another pilot State. The final report indicates that the NAC reduced duplicate participation in all five pilot States, though effectiveness varied by the level of automation each State was able to implement. Although duplicate participation is already low, States saw significant reductions in duplicate participation from pre-pilot levels. FNS has

urged States for a number of years to consider data-matching agreements with border States that have mobile populations and the pilot reinforces this type of data sharing. Massachusetts and New York are examples of States that are already doing this type of match via a low tech data batching approach. Other States could do the same.

USDA and States have worked together for many years to reduce payment errors in SNAP—indeed, improper payments in SNAP are among the lowest in the federal government. Improper payments are different from fraud – the vast majority of improper payments, including both over-payments and under-payments, are the result of mistakes on the part of States administering the program and households applying for or participating in the program.

Our efforts to improve SNAP program integrity while ensuring access to benefits for people in need of food assistance rely on a strong partnership between FNS and our State Agency partners. We have worked together to strengthen the ability of States to correctly determine eligibility and benefit amounts through policy simplification, improved use of technology, and business process reengineering.

The primary way we work with States to identify and reduce payment errors is through the SNAP Quality Control (QC) system. QC is the process by which States review a sample of SNAP cases and determine the States' rates of improper payments – both over- and under-payments – on an annual basis. These rates are then aggregated into the national error rate for SNAP and used to determine State bonuses and liabilities for payment accuracy. FNS also reviews a sample of the State files to provide oversight of States' QC processes.

To be clear, when we are talking about error rates, we are talking about measuring proper administration of the program, including whether the program's administrative processes correctly determine eligibility and compute benefits for those households found eligible. Most errors stem from unintentional mistakes on the part of the State agency or the household, not fraud. The majority of the errors (62 percent) are State Agency errors, while 38 percent are client errors. If an improper payment is determined to be an intentional program violation on the part of the client, they are disqualified from the program and must pay the funds back to the government.

In FY 2015, USDA began a process to assess and implement a thorough review of the SNAP QC system in all 53 States to ensure State administration of SNAP was in line with federal rules and regulations. We have completed reviews of 33 State agencies and will complete all reviews by December 2016, at which time USDA will release an updated SNAP error rate for FY

2015. In States where problems with the QC system are found, USDA requires States to take immediate corrective action and USDA will provide close oversight to ensure these actions are taken.

The ongoing review is part of an effort to ensure State compliance with Federal rules and regulations related to the reporting of improper payments and to ensure accountability to the taxpayers who support this important nutrition program. The ongoing reviews look at both intentional and unintentional State non-compliance in the QC process, such as States misinterpreting FNS QC requirements or providing inadequate oversight of the State QC review process or a lack of cooperation with FNS QC monitoring efforts. Let me be clear, the quality control issues we have found in some States reflect actions by *States*, not by low-income households participating in SNAP.

We take our oversight responsibility seriously and, while the reviews continue, USDA is working internally and with States to ensure all processes are fully up to date and consistent with federal guidelines as well as recommendations from the USDA Office of Inspector General audit published September 30, 2015, which raised a number of issues with State administration of the quality control system. I am pleased to report that we now have reached agreement on all 19 audit recommendations from the OIG report.

USDA has a responsibility in the QC process and FNS will implement additional activities within the next 90 days to both improve State QC operations and to ensure that FNS's oversight of QC systems is robust. This includes establishing a new national QC training curriculum which we will use to train QC staff over the next 6 months, revising FNS' QC policy guidance to clarify rules and procedures, and developing a new QC integrity management evaluation guide that FNS oversight staff will use to regularly re-assess State operations. USDA will also strengthen the current training of Federal QC reviewers through development of a policy-focused curriculum that will be completed by the end of the fiscal year.

Conclusion

Proper stewardship of Federal funds is intrinsically linked to constant and vigilant attention to program integrity and proper implementation of our role in oversight and monitoring of State program operations. And although the vast majority of those involved with SNAP, recipients as well as retailers, are honest and abide by the rules, we cannot accept or

tolerate any fraud or abuse. The Nation entrusts us – USDA and our partner States – to administer SNAP, a program funded by the American taxpayer with accountability and integrity. Americans expect and deserve a government that ensures their tax dollars are managed efficiently and with integrity. To sustain public confidence in these programs, we must meet this expectation.

FNS will continue to pay close attention to these issues and to act to reduce fraud and improper payments. We will continue to work with States, to ensure they take the actions necessary to protect the integrity of this critical program. We are stepping up our Federal efforts to combat retailer fraud and to ensure that State procedures are in line with all Federal requirements. I speak for all of my colleagues at FNS when I say that ensuring that SNAP meets the highest standards of integrity is a top priority and central to our efforts to ensure that those who need help affording food get the help they need. I appreciate the Committee's interest in promoting and improving SNAP integrity, and I look forward to working with this Committee and Congress to keep public confidence in this vital program. I would be happy to answer any questions you may have at this time.