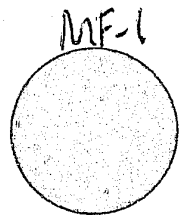


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**FRAUD AND ABUSE INVOLVING FOOD STAMPS
AND OTHER FEDERAL PROGRAMS**

MF-1


HEARING
BEFORE A
**SUBCOMMITTEE OF THE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES**
NINETY-SEVENTH CONGRESS
FIRST SESSION

OCTOBER 28, 1981

1 for the use of the Committee on Government Operations

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ACQUISITIONS

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FRAUD AND ABUSE INVOLVING FOOD STAMPS
AND OTHER FEDERAL PROGRAMS

WEDNESDAY, OCTOBER 28, 1981

HOUSE OF REPRESENTATIVES,
INTERGOVERNMENTAL RELATIONS
AND HUMAN RESOURCES SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. L. H. Fountain (chairman of the subcommittee) presiding.

Present: Representatives L. H. Fountain, Clarence J. Brown, and Raymond J. McGrath.

Also present: James R. Naughton, counsel; Margaret M. Goldhammer, secretary; and Steven Brennen, minority professional staff, Committee on Government Operations.

Mr. FOUNTAIN. The subcommittee will come to order.

Under the Rules of the House of Representatives, the Committee on Government Operations has jurisdiction over the overall economy and efficiency of Government operations and activities.

This responsibility, insofar as it relates to the Department of Health and Human Services and the Department of Agriculture, has been assigned to the Intergovernmental Relations and Human Resources Subcommittee.

During the hearing today, we would like to review fraud and abuse problems involving the food stamp program, which is administered by the Department of Agriculture, and several major programs administered by HHS, under which cash payments are made to individuals.

In part, the hearing today is a continuation of hearings held by this subcommittee in November of 1979, concerning losses through stolen or duplicate checks or authorization documents.

We are interested in getting any further information concerning the extent of fraud and waste and thievery and all of the other shenanigans that go on with those who manipulate this program, whether from within or without. We're also interested in ascertaining the extent to which the agencies concerned have or have not taken effective corrective action concerning the problems disclosed in our 1979 hearing.

We're also concerned about the adequacy of resources available to the Department of Justice and the statutory Offices of Inspector General at the Departments of Agriculture and HHS in their efforts to combat fraud in the food stamp and other programs.

We want to inquire particularly into the potential impact of substantial budget reductions proposed by the Office of Management and Budget, and to ascertain whether the IG's or the Justice Department have received any firm assurances that OMB's position has been changed. I might note, in this connection, that the Committee on Government Operations unanimously found, in a report prepared by this subcommittee and approved by the committee in July, that staffing and other resources available in the statutory Offices of Inspector General were "grossly inadequate."

I would also like to include in the hearing record a letter I wrote to the President on October 7 concerning proposed 12-percent cuts in the OIG budgets.

Because of the large number of witnesses and the possibility that we may be interrupted by calls to the House floor, I am going to ask that witnesses—except for those with very short statements—if they can do so, give us a summary of the highlights of their prepared statements. The entire statement will, of course, become a part of the record.

In the event time does not permit asking all questions we may have for any of the witnesses, we will submit additional questions in writing and include the responses in the hearing record.

Because attitudes about the food stamp program are so easily distorted, I want to emphasize my strong personal belief, which I'm sure is shared by every member of this subcommittee, that effective action to combat fraud in programs which provide assistance to needy people—and there are some hungry people in America—is absolutely essential, because every dollar that is wasted or stolen in these programs is a dollar that is not available to meet the needs of those for whom these programs are intended.

My letter to the President, of which I spoke earlier, will be entered into the record at this time. We will also include the reply when we receive it.

[The information referred to follows:]

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NINETY-SEVENTH CONGRESS
Congress of the United States
House of Representatives
INTERGOVERNMENTAL RELATIONS AND
HUMAN RESOURCES SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM D-372
WASHINGTON, D.C. 20515
(202) 225-2543

October 7, 1981

The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

During the past few months, you have often expressed your concern—and properly so—about waste and fraud in Federal programs and your determination to take corrective action.

In an address to a joint session of Congress on February 18, 1981, you described waste and fraud in Federal programs as a "national scandal" that "we are bound and determined to do something about." On March 26, 1981, when you established the President's Council on Integrity and Efficiency, you emphasized that "The reduction of fraud and waste in the operation of all Federal programs is a major commitment and priority of my Administration." You also stated on that occasion that "we are going to follow every lead, root out every incompetent, and prosecute any crook we find who's cheating the people of this Nation. This I promise."

In a statement on April 16, 1981, you reaffirmed that ". . . we will not tolerate fraud, waste, and abuse of the taxpayers' dollars. Every allegation of wrongdoing, every investigative lead will be pursued thoroughly and objectively."

The abovementioned assurances were heartening. However, it is evident that your stated purposes cannot be fully accomplished with the resources presently available to the statutory Offices of Inspector General. These offices, as your Administration has recognized, are essential to the success of the fight against waste, fraud and abuse. However, in a July 30, 1981, report, the Committee on Government Operations unanimously found that staffing and other resources available to the statutory Offices of Inspector General are "grossly inadequate."

Although these offices have responsibility for monitoring the expenditure of around \$400 billion annually in public funds, the report pointed out that total staffing for all 17 offices is well under 5,500 persons--substantially less than the number employed by the Los Angeles County sheriff alone.

As examples of problems facing Inspectors General, the report noted that the Environmental Protection Agency's OIG has only ten investigators, with a five-year backlog of uncompleted work, to look into fraud, waste and abuse in 12,000 water pollution control grants totaling \$29 billion; the Commerce Department Office of Inspector General has such limited resources that there is a 36-year audit cycle for management audits.

The committee further concluded that the inadequacy of OIG resources is particularly ironic and indefensible in the light of strong evidence that additional personnel for these offices would return far more in savings and recoveries than the cost of hiring and supporting them. I might add, in this connection, that a Fact Book on The President's Campaign Against Waste and Fraud issued by OMB in July 1981 indicated that there was an average of \$5.50 in questioned costs for every budgetary dollar spent by the statutory Offices of Inspector General during the first six months of fiscal year 1981, without including very substantial additional savings resulting from improved operations and the deterrent value of criminal prosecutions.

In view of the above, I was both surprised and deeply concerned to find that OMB's September 30, 1981, budget requests to the Congress propose a 12-percent reduction in the already inadequate budgets of each Office of Inspector General which has a separate budget line item.

Mr. President, if these proposed cuts are finally approved by the Congress, it will undoubtedly necessitate the firing of a large number of experienced auditors and investigators and deal a crippling blow to the work of their offices. Moreover, since these auditors and investigators are saving and recovering far more than it costs to hire and support them, it will result in a substantial net loss--not a saving--to the taxpayers.

Frankly, Mr. President, I find it hard to believe that you are aware of and personally support these proposed cuts. This is particularly true in view of your statement in a nationwide address on September 24 that "...the black market in food stamps must be stopped, the abuse and fraud in Medicaid by beneficiaries and providers cannot be tolerated..."

The battle against fraud in the food stamp program is being led by the Agriculture Department's Office of Inspector General, which was instrumental in obtaining more than 600 indictments for food stamp violations during fiscal year 1981. If the proposed cut is approved, that office will be forced to dismiss some of the investigators whose work has led to these indictments.

Approval of the proposed cuts would also necessitate a severe curtailment of the operations of the HHS Office of Inspector General, which has responsibility for combating abuse and fraud in the Medicaid program.

Moreover, there would be little hope that the gap left in the ranks of these Inspectors General could be filled through greater assistance from the Federal Bureau of Investigation, since OMB has proposed a reduction of nearly \$48 million in the funds to be appropriated for the FBI.

Mr. President, I urge you to take immediate action to rescind the proposed reductions in the budgets of the statutory Offices of Inspector General and to request increased resources for those Inspectors General who desperately need them.

Sincerely,

L. H. Fountain
Chairman

NOV 17 1981

THE WHITE HOUSE

WASHINGTON

November 13, 1981

Dear L. H.:

This is in further response to your letters to the President and me expressing your concern about the possible effects of the twelve percent fiscal year 1982 budget reductions on the offices of Inspector General.

The President has repeatedly emphasized his support for the Inspector General program and the priority that it has in his efforts to eliminate waste and fraud in government programs. He certainly appreciates the value of their contributions, and wants to assure that they have adequate resources to perform their missions successfully.

As you know, the Office of Management and Budget has provided recommendations to all of the involved departments and agencies concerning Inspector General staff resource levels within the context of the twelve percent reduction for fiscal year 1982. Based on these recommendations, Inspector General staff resources in total would show a modest increase from 6,112 at the close of fiscal year 1981 to 6,213 in fiscal year 1982. Although the final decisions on budget levels will continue to be made by the agency heads, these OMB recommendations, if adopted, will represent a two percent increase at the same time that most other government programs are being reduced. The enclosed table details the current recommendations for fiscal year 1982 staffing levels for the Inspectors General.

The President wants you to be assured of his continuing support for, confidence in, and reliance on the Inspector General program.

With cordial regard, I am

Sincerely,



Max L. Friedersdorf
Assistant to the President

The Honorable L. H. Fountain
House of Representatives
Washington, D.C. 20515

OMB Recommendations for FY'82 Budget Levels

	FY '81 Actual FTE	FY'82 OMB Rec.	% Change '81 - '82
Agriculture	902	902	-
AID	153	153	-
Commerce	186	186	-
CSA	54	35	-35%
Defense	385	505	+31%
Education	288	295	+ 2%
Energy*	149	182*	+22% *
EPA	151	162	+ 7%
GSA	530	511	- 4%
HHS	976	976	-
HUD	520	520	-
Interior	226	226	-
Labor**	439	439	-
NASA	100	100	-
SBA**	130	130	-
State	76	76	-
Transportation	471	439	- 7%
Treasury	27	27	-
VA	349	349	-
Totals	6,112	6,213	+ 2%

* The figures for Energy include 46 additional auditors to be transferred from DOE field offices.

** All figures are FTE for FY'81 except Labor and SBA which are end of year.

Mr. FOUNTAIN. Our first witness is Congressman Fred Richmond, chairman of the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition of the House Agriculture Committee.

Mr. Richmond has a longstanding interest and concern in the food stamp program and the necessity for vigorous action to combat fraud in order to insure that the program accomplishes its intended purpose.

I might note that Mr. Richmond's subcommittee held a hearing on food stamp fraud last month and it's my understanding that the subcommittee plans to hold a further hearing in New York City. Our staff attended the Richmond subcommittee hearings and we have planned our own hearing with a view to avoiding any duplication of matters already covered by that subcommittee.

Congressman, we're delighted to have you with us this morning and you may proceed.

STATEMENT OF HON. FREDERICK W. RICHMOND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. RICHMOND. Thank you very much, Mr. Chairman. Good morning, Mr. McGrath.

I am certainly happy to appear today at your hearing on fraud and abuse in the food stamp and other Federal programs. Effective and efficient control of fraud and abuse in the food stamp program requires widespread attention and concern from the Congress and the executive branch, from your subcommittee as well as mine, from the Justice Department, the Postal Service, as well as the Department of Agriculture.

For far too long those few of us who have consistently been troubled by evidence of fraud associated with food stamps that is engendered by serious criminal elements both inside and outside the program and aided and abetted by administrative neglect have been preaching to empty halls.

The advocates of the program didn't want to hear what we had to say for fear it would be used to pass legislation that would harm recipients and deprive them of needed benefits. The enemies of the program wanted to use fraud in order to pillory the program itself and label all of the truly needy as greedy.

Neither group was willing to focus on the real issue of how to erect sufficient legislative and regulatory safeguards to limit fraud and, even more significantly, how to bring pressure to bear upon State and local officials to make sure that they rigorously implement those safeguards and police against criminal behavior.

For many years now, I have been trying to get the Department of Agriculture to use photo ID cards as a means of preventing ineligible persons from securing authorization to purchase cards and to rely on electronic funds transfer as a way to cut the heart out of fraudulent opportunities by permitting the direct pickup of food stamp benefits at food stores and thus eliminating fraud at the check-cashing or banking operations.

Finally, thanks to ABC's 20/20 and the awakening interest of the Congress and the executive branch, symbolized by this hearing, at which we can learn what has already been accomplished and what remains to be done by those committees and agencies with appro-

prate jurisdiction, things are finally happening and the fraudulent are on the defensive for the first time.

Let me tell you what my Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition and the full Committee on Agriculture have achieved in the past 2 years.

We have provided for the collection of social security numbers from applicants, gave the States the right to retain 50 percent of the funds recovered as a result of their fraud investigations and prosecutions and required persons disqualified from the program for fraud to repay the amounts they fraudulently obtained as a condition of future program eligibility.

In 1980, we crafted sanctions to be imposed against States with high quality control error rates, authorized 75 percent Federal cost-sharing for computerizing the handling of program data, encouraged computer wage and benefit matching, allowed States to tighten verification rules by relying upon error-prone profiles, permitted the use of photo ID cards in urban areas where the Secretary thought that would enhance program integrity, and gave the Secretary power to confiscate cash or goods used in food stamp trafficking.

The 1981 Omnibus Budget Reconciliation Act required the use of retrospective accounting and periodic reporting for all but entering and migrant households as of August 1, 1983, and we increased the penalties for fraud disqualifications, and encouraged the collection of nonfraud overissues by permitting States to retain 25 percent of the amounts recovered.

The bill before you would add to these more antifraud and anti-error provisions. Among others it would: Require the Secretary to permit any political subdivision that wishes to do so in return for a 50-percent share of work-fare administrative costs and that agrees to comply with the Secretary's guidelines, to administer a work-fare program in which nonexempt food stamp recipients must work for the subdivision at the Federal minimum hourly wage or the State rate, if higher, payable in the form of food stamps.

Second, it would eliminate establishments that do only a marginal, staple food business, such as bars, gas stations, party stores, and carryout shops from the program unless they are the only food store in the immediate area.

Third, we deny deductions for any expenses paid on a household's behalf by a third party and require the income and resources, over a floor, of sponsors of certain aliens to be deemed available to those aliens in order to determine the alien's eligibility and benefits.

Fourth, we would give the Secretary flexibility to alter the complex accounting standards for ascertaining the value of licensed vehicles.

Fifth, we extend program disqualification for voluntarily quitting a job to current program participants. We extend sanctions for noncompliance with the food stamp work registration requirement to food stamp participants who fail to satisfy an AFDC-WIN or unemployment compensation work requirement. And finally, we make work registration an annual requirement.

Sixth, we make States strictly liable for issuance losses and provide liability for on the basis of negligence failures in certain other areas of State agency administrative responsibility.

Seventh, we end the 60-day transfer provision permitting benefits to follow a household moving from one political subdivision to another in an uninterrupted fashion.

Eighth, we allow States the flexibility to provide households with a notice of expiration of their certification period up to 30 days before the last month of a 6 month or longer certification period.

Then we limit provision for expedited food stamp benefits within 3 working days of application to applicant households with \$150 or less in gross income a month.

Then we end the Department's liability to restore food stamps to households that have wrongfully been denied them or terminated from the program if the benefits were lost more than 1 year prior to a household's request for restoration.

Then we require the State agency to request and utilize for certification purposes household members' wage and benefit information available from the Social Security Administration and State unemployment compensation agencies.

Then, we require the Secretary to allow political subdivisions to use certified mail in issuing food stamps to reduce mail theft and loss.

Fourteenth, we require States to meet the Secretary's standard for States.

Then we require States to meet the Secretary's standard for improper denials and terminations in order to receive 55-percent Federal funding of administrative costs and further require all States with error rates over 5 percent to develop corrective-action plans.

Fifteenth, we mandate obtaining a household's social security number as a prerequisite to participation.

And finally, we make the first endorser-issuers liable for coupons received by ineligible households in those locations in which an authorization-to-participate [ATP] card-issuance system coincides with mandatory photo ID cards.

The check-cashing office or bank that initially handles that ATP card would be held responsible for any losses flowing from misuse of that authorization so long as the endorser could, through demand of the cardholder's photo ID card, readily identify the cardholder and prevent abuse.

Whatever Congress mandates is meaningless without full State and local cooperation. My city of New York, where the evidence of blatant fraud is strongest, has already shown some improvement. However, the sloppiness, the neglect, and the failure to follow through to the end on evidence of criminality is a national disgrace.

We will continue to pay particularly close attention to the administration of the food stamp program in New York City and other major cities which appear to have outstanding examples of mismanagement.

I believe that every Federal program would benefit from this same kind of scrutiny. We do not have to cut our social programs

because we can realize tremendous savings by closing them off from the organized corruption that is now pilfering the public.

Undeniably, more remains to be done, much more, and I'm here to tell you that my subcommittee and I intend to keep on top of this program in the future as we have in the past. And we certainly welcome your assistance, Mr. Chairman.

Mr. FOUNTAIN. Thank you, Congressman, for giving us the benefit of your thinking as well as an indication of the kind of legislation you're proposing. It seems to me that many of these suggestions are steps in the right direction. If we can give the agencies the tools with which to act and call upon the States to do their job, then I think we will have moved in the right direction.

I know you have other commitments, but I'll ask you just one or two questions and the other members may also have questions.

I do want to commend you for the hearings you've had and the legislation we passed last week with respect to the ability of special agents under the Inspector General of the Department of Agriculture to protect and defend themselves because I notice from your hearings just one or two excerpts indicate that "organized crime" is involved in food stamp fraud. In fact, one of the witnesses, Mr. Magee, said that there were cases on the books in which individuals reputed to be connected with so-called organized crime are involved.

Mr. Magee said it is much more common, however, to have criminal elements involved who have the sophistication to organize themselves into bands so that they have everything laid out, including guaranteed redemption facilities for their food stamps. That kind of organized criminal activity is common.

There are many other indications that OIG special agents go into some rather dangerous and precarious situations, and the purpose of that legislation, as I understand it, was to give these men the ability to protect and defend themselves when they are investigating or are engaged in undercover work or are about to make an arrest.

I'll just ask you one question. Do you care to comment on the role which you envision for the USDA Office of Inspector General in combating fraud and abuse in the food stamp program and in recommending and supporting necessary procedural changes?

Mr. RICHMOND. Yes, Mr. Chairman, now that we have passed a 4-year food stamp program, with your help yesterday—or last week—I feel that many of us can now turn our attention to the efficient administration of that program.

As you know, Mr. Chairman, for the last 7 years we have had that food stamp legislation on the floor almost every year. Each year Congress has reauthorized additional regulations and changed regulations. We have succeeded in so confusing the 50 State welfare commissions who actually have to administer the program, that we've had administration that really wasn't satisfactory to either your committee or mine.

I believe now that we have a firm, sound food stamp bill with most every open door closed out. We've closed out strikers, closed out students, and mandated the photo ID cards. Now that we have photo ID cards, we have mandated that banks must have first-endorser liability. That means anyone who cashes our food stamps

has to have first-endorser liability. We've also mandated that wholesalers can't accept food stamps from their retailers as cash, because we have found that wholesalers are able to use stolen food stamps. Consequently, it would be unlikely that retailers will take stolen food stamps to their banks for cash.

So, we've tried to plug every leak there is. I believe now as we proceed in this program, we're going to find much more sophisticated crime. I think it's going to be very, very important for the Department of Justice to use its expertise in cleaning out some of the major pockets of crime throughout the country.

We have some cities that do have large, large amounts of fraud. These cities have large transit populations such as New York, Miami, and Los Angeles. Unfortunately, my own city is the worst and that's why I plan to have two hearings in New York, one on November 30 and one on December 1. I'm going to spend 2 days then and I'm going to spend lots of time later following it up to make sure that my city is not the worst city in the United States, but rather a shining example of what an effective administration can do.

And certainly, we'll need the Department of Justice right along the way on these actions. We know that we have underworld connections in major fraud and particularly in connection with the check-cashing institutions, some of the bank branches, some of the major store chains, and some of the major wholesalers.

Mr. FOUNTAIN. I know how busy you are, and we have limitations of time, too, so I'll yield to Mr. McGrath.

Mr. McGRATH. Thank you, Mr. Chairman.

At the outset let me congratulate my colleague from New York for his efforts toward elimination of fraud and abuse in this program.

I just have two questions. Through your experience in the program do you find that more fraud and abuse has occurred since the elimination of the copayment?

Mr. RICHMOND. No, Mr. McGrath, a lot less. When people had to pay a small amount for their food stamps, we had additional administrative costs. We had the check-cashing outfits, which really aren't the highest class financial institutions in the United States, keeping our money as long as they possibly could. In those days, interest rates were only 6 percent.

You can imagine the trouble the U.S. Government would have had getting that money back from the check-cashing institutions today with money at 20 percent. Every check-cashing institution would suddenly say that its major depository had moved to the National Bank of Honolulu or something. They would have kept our money for much longer than the 24-hour period after which they're supposed to give it back to the Government. With the purchase requirement, we had terrible trouble getting our flow back from the check-cashing outfits.

Also, we found that the 3 million poorest of the poor people, who desperately needed the food stamps more than anybody, never had the \$20 or \$30 together in order to go out and get their \$80 worth of food stamps. So, in general, eliminating the purchase requirement made the entire program much easier to administer and it had less paperwork.

And now I've got one additional item, Mr. Chairman, which I think might interest you. I found out, much to my pleasure, on a trip with Joe Wright, our Deputy Secretary of Commerce that he had been the president of the First National City Bank, Consumer Credit Division, for 5 years, and that he handled 24 million accounts.

When Joe walked into that office 5 years ago he said that you couldn't walk in for all the paper there. When he walked out there wasn't a single piece of paper in the office. And I said, "How did you do it?" He said, "We just installed a modern computer setup." So I said, "OK. Why can't we do it for the food stamp program?" He said, "Of course, you can." I said, "If you have 24 million accounts and we have 22 million accounts, it should be just as easy to do it for us as it was for you, right?"

Joe Wright is now working with Deputy Secretary Lyng. We've formed a small task force and we plan to run a pilot program here in Washington very soon, I would think that within a year or two we should be able to get this entire food stamp program into a modern computerized system where the recipient has nothing but a computerized photo ID card. He or she takes it to his grocery store where they have a terminal, plunks the card into the terminal, finds out how much credit they have from food stamps, gets the credit slip, countersigns the credit slip right in front of the manager, buys the food, goes through the cash line, countersigns the credit slip again so we know that there hasn't been any funny business in the store, and walks out with the food.

I think we can modernize this program with the use of the technical information that's been developed by every credit card company in the United States. Why shouldn't we in Government be just as efficient as commercial companies?

I think we can cut the cost of our program. My aim is \$1 billion. Therefore, within the next couple of years, we'll have an additional \$1 billion to go out in food stamps to poor people instead of being wasted.

That's what I look forward to. Now that the program is set, I look forward to really bringing this administration into the modern world of computers.

Mr. McGRATH. I have no further questions. Thank you.

Mr. RICHMOND. Thank you. Thank you, Mr. Chairman.

Mr. FOUNTAIN. Mr. Naughton has a question.

Mr. NAUGHTON. Thank you, Mr. Chairman. Just one question, Congressman. Would you care to comment on the role played by the Office of Inspector General in pointing out the necessity for changes and recommending and supporting the changes that your committee has been so active in making.

Mr. RICHMOND. Certainly. We couldn't work very effectively without the Inspectors General. They're very important. Every letter of complaint we ever get in our office—and we get an enormous amount—we turn over to them. We've had close relations with the Office of Inspector General. The present Inspector General, Mr. Graziano, is excellent. He is well motivated and he's experienced. We're more than happy to work with him—as we are with the Inspectors General in New York City. But in the city, of course, we have to make sure that they do their job a little better.

Mr. NAUGHTON. Thank you.

Mr. RICHMOND. I certainly appreciate your interest, Mr. Chairman, and I hope that any suggestions you have we can do together and try somehow or other to clean up some of this mess.

Mr. FOUNTAIN. Thank you. We'll give you the benefit of any suggestions we have as a result of these hearings.

Mr. RICHMOND. Thank you very much.

Mr. FOUNTAIN. Thank you.

I would like to insert in the record at this time a statement by Congressman Brown who will be here a little later.

[Mr. Brown's prepared statement follows:]

PREPARED STATEMENT OF HON. CLARENCE J. BROWN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, I commend you for calling these hearings. This subcommittee, which not only has oversight over the Agriculture Department, but which also, under your leadership, has been a leader in the fight against government waste, needs to ask some hard questions.

In recent months, we have been confronted with report after report of open, wholesale fraud in the operation of the food stamp program. We have been faced with example after example of stealing of stamps, lying on applications for aid, and syndicated bartering with stamps used as money. We have been told that food stamp fraud, waste, and abuse runs in excess of \$1 billion annually. All of this is, quite honestly, shocking to those of us who must pay for this program. But, even worse, given the need for reductions in the program itself, it results in thieves literally taking food off the tables of our nation's poor.

One particular area of our examination should be the need for greater coordination between the various law enforcement agencies investigating food stamp fraud. As the situation presently exists, investigations can involve state and local law enforcement officers, the Agriculture Department's Inspector General, the U.S. Attorney, the FBI, and a host of other agencies. I am concerned that this disparate effort not result in a dilution of our ability to deal effectively with this critical problem. It is vital that each agency know what its job is and that it sees that it gets it done. It is also important that the investigating agencies share information in order to prevent duplication and mistakes.

I am very pleased that we are holding these hearings. We have to find out just how bad the problem of food stamp fraud is, what is presently being done to stop it, and what we in the Congress can do to help in the fight against this rampant fraud.

Mr. FOUNTAIN. Our next witness is from the Department of Justice, Mr. D. Lowell Jensen, who is the Assistant Attorney General, Criminal Division. Mr. Jensen, we appreciate your being here and we look forward to getting the benefit of your comments. I read your statement last night and it was impressive. It gave an indication of what you're trying to do, but I think it would be good to get it in the record.

STATEMENT OF D. LOWELL JENSEN, ASSISTANT ATTORNEY
GENERAL, CRIMINAL DIVISION, DEPARTMENT OF JUSTICE,
ACCOMPANIED BY BRECKINRIDGE WILLCOX, CRIMINAL DI-
VISION, FRAUD SECTION

Mr. JENSEN. Thank you, Mr. Chairman. It's a pleasure to be here with you and Congressman McGrath. Breck Willcox from the Fraud Section of the Criminal Division, Department of Justice, who has been given the lead responsibility, is here with me.

I understand your time constraints and we have submitted an extended statement for the record. I will summarize that at this time and see if I can get this moving in reflection on your constraints.

Mr. FOUNTAIN. We will enter your statement in the record.

Mr. JENSEN. Much of the current interest in food stamp fraud stems from recent media attention but it is not a new area of concern to the Department of Justice. Since 1972 we have taken an active role, not only in the prosecution of major cases by U.S. attorneys, but also in policy areas. We have worked closely with the Inspector General of the Department of Agriculture in developing a prosecution memorandum of understanding, for example.

We've also sponsored joint conferences with USDA and with the Postal Service in this area. With this background, let me turn briefly to the recently aired allegation of food stamp fraud in New York City.

As you know, on September 4 the Attorney General announced the creation of a special unit under my direction to examine the situation in New York as well as across the Nation. We have reviewed all of the allegations of fraud in the redemption of ATP's in New York. Each and every retail grocery wholesaler and check casher who was implicated on the "20/20" program in question was the subject of ongoing Federal investigations in New York. Many of those persons have already been indicted and convicted.

We have aggressively pursued food stamp traffickers in New York at the Federal level and we'll continue to do that. We've also reviewed the allegations of corruption within HRA. We have found evidence which suggests an institutional lack of concern at HRA and serious failures of management. USDA has identified millions of dollars worth of food stamps issued to improperly certified recipients. There are 30,000 administrative fraud cases which are languishing at HRA. Even today, HRA is not adequately reconciling the ATP's issued with those redeemed.

On the other hand, we have found no hard evidence of corruption within HRA. We are continuing our investigation of this aspect and we are pleased to accept the offer of New York's Department of Investigation to assist in this effort.

In addition to the efforts in New York, let me outline the approach we intend to take on a nationwide basis.

We've been discussing the investigative problems in the food stamp program with the various Federal agencies and I am pleased to announce we are preparing to increase dramatically the Government's investigative efforts in this area.

To date, only USDA and the Postal Service have had food stamp responsibilities. The FBI and the Secret Service will now join in the effort of identifying, investigating, and referring for prosecution major food stamp trafficking cases.

The Department of Justice will coordinate this enhanced investigative effort and will, of course, insure that Federal prosecutions are initiated wherever appropriate. The nationwide presence of the FBI and the Secret Service will result in an increased emphasis on investigation of food stamp fraud across the country.

In addition to this national effort, we have identified a number of major metropolitan areas where we believe major fraud in the food stamp program may be occurring. We intend to target those cities for special emphasis. Task forces will be established under the direction of the local U.S. attorney and will include investiga-

tors from the IG's Office, from the FBI, from Postal Service, and Secret Service.

Next month, the new U.S. attorneys will be meeting here in Washington. The Attorney General and I intend to stress to them our emphasis on, and commitment to, this increased investigative and prosecutive effort.

As yet another component of the effort, we plan to encourage local prosecutors to increase their emphasis of food stamp fraud. We intend to work with the newly funded State food stamp investigative units and the district law enforcement coordinating commissions which are going to be formed with leadership from the Department of Justice with an existing national executive working group that works with the DA's and the AG's in the country.

I understand that the subcommittee is also interested in our views of organized crime involvement in food stamp trafficking. We have, as has already been pointed out, prosecuted specific instances of traditional individual crime figures involved in food stamp trafficking. But we have not found pervasive organized crime involvement.

I think the remarks you made, Mr. Chairman, are appropriate in this instance. We have found criminals who organized to exploit food stamp redemption and issuance. I think that's an important point to make. There are organized activities in this area, and we have to make sure that that's there. But in terms of what you might say is "traditional" organized crime, we have not found that to be a pervasive part of their operations.

We obviously should point out, however, that food stamps are clearly the second currency of the criminal community. And as such, criminal elements, organized or not, will use them to buy anything.

We also believe we can play a positive role in assisting the Department of Agriculture in formulating management and policy initiatives with a view toward tightening up the administration of the food stamp program.

For example, to date, we have focused most of the Federal investigative effort on the delivery and redemption of food stamps. We intend to greatly increase our investigative efforts in fraud in the issuance process, an area that we have paid relatively little attention to.

In sum, the Department of Justice has consistently viewed food stamp fraud as a priority matter. That's been over a period of time.

With the additional Federal resources that will be employed, I am hopeful that our enhanced detection efforts and our continued prosecution emphasis will help root out the major criminal offenders.

I would be happy to answer your questions.

[Mr. Jensen's prepared statement follows:]

STATEMENT OF D. LOWELL JENSEN, ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, DEPARTMENT OF JUSTICE

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to be here this morning to discuss the Department's efforts in the food stamp fraud area.

Although much of the public interest in fraud in the food stamp program stems from recent media attention, it is not a new area of concern to the Department of Justice. Since 1972, we have taken a strong and aggressive approach together with the Inspector General in addressing enforcement problems in the program. For example, in the past three years, the United States Attorneys have prosecuted more than 1200 cases of food stamp fraud, the vast majority being major violations involving trafficking in food stamps and ATPs.

Our involvement has also been expressed in the policy area: the Department of Justice has sponsored joint conferences with the Department of Agriculture and the Postal Inspection Service and developed a prosecution memorandum of understanding with the USDA Inspector General. Also in special circumstances we have sent Criminal Division attorneys to the field to help organize and try food stamp fraud cases.

With this background let me turn to the recently-aired allegations of food stamp fraud in New York City. As you know, on September 4, the Attorney General announced the creation of a special unit under my direction to examine the

situation in New York as well as nationally. We have reviewed the allegations of fraud in the redemption of ATPs in New York, and the inferences of high-level corruption in New York City's Human Resources Administration.

With respect to the fraud in the redemption process, it is important that you realize that each and every retail grocery store, wholesaler, and check casher implicated on the "20/20" program was the subject of ongoing federal criminal investigations in the Eastern and Southern Districts of New York, and many have already been indicted and convicted. I think it is fair to say that the federal government has aggressively pursued food stamp traffickers in New York City, and will certainly continue to do so.

We have also reviewed the general allegations of corruption within HRA. We have found evidence of an institutional lack of concern at HRA, and serious failures of management. For instance, the Department of Agriculture has identified millions of dollars worth of food stamps issued to improperly-certified recipients. There are some 30,000 administrative fraud cases against individual recipients that are pending at HRA, and none have been scheduled for hearing. And even today, HRA is not adequately reconciling ATPs issued with those redeemed.

But, we have found no evidence as yet that would indicate corruption within HRA. We are continuing our investigation of this aspect, and we are pleased to accept the offer by New York City's Department of Investigations to assist in this effort. Rest assured that any evidence of criminal acts by HRA employees will be swiftly and thoroughly investigated.

As the Attorney General stated on the "20/20" program, we do have strong indications that fraud has permeated the food stamp program in distressingly large proportions. Enhanced enforcement efforts are required. Let me briefly outline the special approach we are taking on a nationwide basis.

Over the past few weeks, representatives of the Department of Justice have met and discussed the investigative problem in the food stamp program with various federal investigative agencies, and I am pleased to announce that we are preparing to increase dramatically the government's investigative efforts in the food stamp area. To date, only USDA and the Postal Service have had responsibility, at the federal level, for food stamp investigations. The Federal Bureau of Investigation and the Secret

Service will join in the effort of identifying, investigating and referring for prosecution, major food stamp trafficking cases. The Department of Justice will coordinate this enhanced investigative effort, and we will, of course, ensure that federal prosecutions are initiated wherever appropriate. A major element of our enhanced effort, in addition to simply more investigation, is an extra effort to share intelligence routinely gathered by federal law enforcement agencies.

In addition to this national effort, we have identified a number of major metropolitan areas where we believe major fraud in the food stamp program may be occurring. We intend to target those cities for a special emphasis. Task forces will be established under the direction of the local United States Attorney, and will include investigators from the USDA IG's office, FBI, Postal Service, and Secret Service. The cases that are developed from these efforts in our target cities will be prosecuted by the United States Attorney, or if additional resources are needed, by attorneys from the Criminal Division.

The new United States Attorneys will be meeting here in Washington next month. The Attorney General and I intend to stress to them our emphasis on this program, and our commitment to prosecute these cases. In addition,

senior federal fraud prosecutors from around the country will be meeting in Atlanta in December, and we have scheduled a food stamp fraud session for them.

We will not announce the cities targeted for special emphasis for obvious reasons. People involved in fraud and food stamp trafficking do not need a warning as to where we will be going. Further, this special emphasis in a few cities does not mean that we will do nothing elsewhere. The FBI and the Secret Service, with their nationwide presence, and large number of staffed locations, will begin to gather intelligence on food stamp fraud throughout the country. That effort, in fact, has already commenced.

As yet another component of this enhanced federal investigative and prosecutive approach, we plan to encourage local prosecutors to increase their emphasis of food stamp fraud. We intend to work with the newly-funded state food stamp investigative and prosecutive units, in those states where they exist; to increase the attack on fraud in the food stamp program at all levels through the newly forming District Law Enforcement Coordinating Committees and our National Executive Working Group of local, state and federal prosecutors.

I understand that the subcommittee is interested in our views of organized crime involvement in food stamp trafficking. On the "20/20" program it was alleged that food

stamps are now financing organized crime and the narcotics business. The Criminal Division's Organized Crime Strike Forces have prosecuted some instances of individual organized crime figures involved in food stamp trafficking, especially in the mid-west. However, we have not found pervasive organized crime involvement, nor have we found widespread instances of narcotics being purchased with food stamps. Food stamps are clearly the second currency of the criminal community and, as such, the criminal element, organized or not, will buy drugs, guns, cars, or any other commodity until the system can be changed.

We believe we can play a positive role in assisting the Department of Agriculture in formulating management and policy initiatives with a view toward tightening up the administration of the food stamp program.

For example, we have to date focused most of the federal investigative interest on fraud in the delivery and redemption of food stamps, and we have paid limited attention to problems in the issuance area. The trend toward computerizing the issuance process without adequate controls in many localities has greatly increased the vulnerability of the delivery system to fraud. Corrupt social workers who open up phony recipient accounts, thievery of ATPs by employees of the local administering

agency, collusion between eligibility certifiers and recipients -- all these must be, and will be, given increased investigative attention.

In addition, I believe that we can also play a constructive role in working with the Department of Agriculture in overseeing the implementation of changes recommended by the IG in food stamp administration by local distribution agencies, such as New York City's HRA.

Mr. Chairman, I believe that we all share the same goal: to prevent abuse and fraud in this vital program. We will work with USDA to encourage more local accountability; we will increase the federal investigative effort; and we will prosecute the cases that are developed.

The Department of Justice has consistently viewed food stamp fraud as a priority matter. With the additional federal investigative resources that will be employed, I am hopeful that our enhanced detection efforts and our continued prosecution emphasis will help root out the major criminal offenders.

I will be most happy to answer any questions.

Mr. FOUNTAIN. Thank you. I understand that U.S. attorneys have been prosecuting food stamp cases for years.

Mr. JENSEN. That's correct.

Mr. FOUNTAIN. How many of these prosecutions resulted from investigations by the FBI or who made the investigations?

Mr. JENSEN. The investigations in the past have been done by the Department of Agriculture or the Postal Inspection Service so that those cases were processed by investigations which did not include efforts by either the FBI or Secret Service.

Mr. FOUNTAIN. Have many resulted from investigations by other Federal investigators outside the Department of Agriculture's Office of Inspector General?

Mr. JENSEN. I would think the Federal investigative effort has been, as I say, through the Department of Agriculture and postal inspectors. There may be an occasional case where there's relationship back—for example, as I indicated, there are specific instances of traditional organized crime figures. When that has happened our strike forces in the Criminal Division have been involved in the investigative efforts, and with them, the FBI. But those occasions, as I say, are specific and not as pervasive.

Mr. FOUNTAIN. But these agencies do have the basic responsibility of checking and referring to you for prosecution any cases they find?

Mr. JENSEN. That's right. That's what we'll build upon.

Mr. FOUNTAIN. On page 2 of your statement you indicate that "each and every retail grocery store, wholesaler, and check cashier implicated on the '20/20' program was the subject of ongoing Federal investigations."

Mr. JENSEN. Yes.

Mr. FOUNTAIN. What agency or agencies were conducting those investigations?

Mr. JENSEN. The Department of Agriculture.

Mr. FOUNTAIN. The Department of Agriculture.

And that is the jurisdiction of the Inspector General's Office?

Mr. JENSEN. That's correct. Within that broad jurisdiction.

Mr. FOUNTAIN. These investigations were being carried out prior to the interest and involvement of "20/20."

Mr. JENSEN. That's correct.

Mr. FOUNTAIN. They were ongoing?

Mr. JENSEN. That's correct.

Mr. FOUNTAIN. Do you know how long they have been ongoing?

Mr. JENSEN. Some of them were—a good period of time had been involved that the investigation had been underway. Others were relatively recent. I think we could, if the chairman is interested, give you a case-by-case analysis of that.

Mr. FOUNTAIN. If you can do that without too much difficulty. We don't want to give you a lot of burdensome paperwork.

Mr. JENSEN. Sure.

Mr. FOUNTAIN. It would be nice to have it for the record.

[The analysis referred to had not been furnished at the time the hearing was printed.]

Mr. NAUGHTON. Did you want to put the "20/20" transcript in the record?

Mr. FOUNTAIN. And we'll also put the "20/20" transcript in the record at this time for consideration by members of the committee.

[The "20/20" transcript appears in the appendix, along with a September 17, 1981, letter from the New York City Human Resources Administration to Roone Arledge, president, ABC News and Sports, commenting on the "20/20" program.]

[A letter from New York City Mayor Edward Koch to Assistant Attorney General Jensen concerning Mr. Jensen's testimony also appears in the appendix.]

Mr. FOUNTAIN. I happened to hear that program and like many others, I was angered by what I saw. And it was a clear cut indication that even if there were defects in the program or if it wasn't as bad as it looked, the opportunity is there and there are many loopholes and weaknesses in the administration of the program right on down to the local level, because officials in the State do administer these programs. And it seems to me that maybe we're going to have to do some work on those levels which we've always referred to and this administration has referred to as the ones most capable of running things in this country.

You also state on page 2 that "we have evidence of an institutional lack of concern at HRA,"—that's the New York City Human Resources Administration—"and serious failures of management."

When you say "we," do you mean the Department of Justice?

Mr. JENSEN. As a result of our review of these statements and of the suggestions that were implicit in the program when we looked through all the cases and the situation, and, as I say, we gave you a response vis-a-vis the specific cases. But this is a general observation, and in the statement I think I pointed out some specific areas where there are something like 30,000 fraud cases pending at an administrative level where the individual recipients were wrongful recipients, but nothing has taken place with reference to those cases. They simply haven't been heard.

Mr. FOUNTAIN. Have you prepared a report giving details of your findings that you can provide to the subcommittee?

Mr. JENSEN. I think we can—we are preparing reports and we're working with the Department of Agriculture with reference to that and we can provide to the—

Mr. FOUNTAIN. If we can get such a summary or report it would be helpful to us.

Mr. JENSEN. I am sure that we could provide a summary report in that fashion.

[The report referred to had not been furnished at the time the hearing was printed.]

Mr. FOUNTAIN. You make the further statement that "HRA is not adequately reconciling ATP's issued with those redeemed."

What is the basis of that statement?

Mr. JENSEN. It's on the basis of the present systems that are in existence. I think Congressman Richmond touched upon this, and in my statement as well, I say that we are lacking in the redemption area, that we simply don't have the systems in place to manage our reconciliation process.

That's simply an observation of the way that system works and what we're looking at is how you can achieve a better systematic approach to this.

Mr. FOUNTAIN. In a news release on September 4, the Attorney General announced the creation of a special unit to investigate allegations of fraud in the Federal food stamp program throughout the United States. How many people are presently assigned to full-time work in that unit?

Mr. JENSEN. In that unit we have three to four attorneys here at the Criminal Division. The problem with identifying units is that we do it by the fact that we have a responsibility for enforcement all the way through the country, and U.S. attorneys are the front-line of that enforcement.

There are approximately 2,000 U.S. attorneys out there. In one sense, they are all available for this kind of resource. But what happens is a piece of their effort will be, as it's needed, put into food stamps. And as I indicated, we're going to specifically put U.S. attorneys into targeted areas so that they'll have, in that sense, full-time involvement. But I think that as far as looking at it from—we're not going to be in a position to say, "We have x number of lawyers that have been taken out of total flow of investigation or prosecution effort and have put them in there."

We do have leadership here. Breck will be involved with this and other lawyers here at the Criminal Division will be available for full coordination of those efforts.

Mr. FOUNTAIN. Will the U.S. attorneys be involved primarily in prosecutions, not in investigations?

Mr. JENSEN. Well, they'll necessarily be involved in investigative efforts. They will have to.

Mr. FOUNTAIN. I didn't know they had time for that; we have such heavy dockets throughout America.

Mr. Naughton, do you have a followup question?

Mr. NAUGHTON. Yes. Has there been a problem in the past in getting U.S. attorneys to prosecute cases where they had investigators available to bring them the necessary evidence? There have been, as you mentioned, some 1,200 prosecutions.

Mr. JENSEN. I think that you're exactly correct. There have been areas where the enforcement efforts are different around the country. There have been areas where the investigative effort has not produced cases.

Now, the U.S. attorney stands ready to file those cases when there is an adequate investigative effort. We have, I think, adequate prosecutive resources to take care of those.

Mr. NAUGHTON. So that while your efforts may help in assuring even greater attention on the part of prosecutors, the basic problem is more in the investigative area?

Mr. JENSEN. I don't think there's any question about that.

Mr. FOUNTAIN. I might say to the other members of the committee, that I would like to get some basic questions answered for the record, but during the course of this questioning, if you have some question that relates to the subject matter, don't hesitate to ask me to yield and I'll do so.

Mr. Jensen, on page 3 of your statement, you indicate that "we have strong indications that fraud has permeated the food stamp program in distressingly large proportions." I wonder if you could elaborate on the basis for that statement and also give us your best estimate of the dollar amount of losses being incurred annually

because of fraud involving the program. Also, if you could, give us the major categories of fraudulent conduct involved.

Mr. JENSEN. Breck, let me give you an opportunity to address that. No, I don't think that we've looked at this in a specific fashion. I can tell you that the Department of Agriculture has made some estimates in terms of the losses. I think Congressman Richmond referred to roughly a figure around \$1 billion in terms of approximately \$11 billion in distribution of food stamps. That's a mix between the errors in issuance of food stamps to persons who are not eligible and actual fraud. It's hard to come up with a specific percentage and what we're doing is simply saying that that dollar amount is of such dimension that it has to be expressed in this kind of language. It's a distressingly large figure.

To put it into something that says x number of dollars I don't think is appropriate. But I do not disagree with the estimate that we're dealing with roughly \$1 billion that is being wasted either by abuse or fraud in this program.

Mr. BROWN. Excuse me, Mr. Chairman, but you haven't mentioned counterfeiting or embezzlement. Is not there any counterfeiting of food stamps?

Mr. JENSEN. There are occasional cases like that. It is not a major portion of the problem. There are some instances of that, but it's a relatively sporadic and individual kind of thing. It doesn't appear to be an organized, in that sense, kind of effort.

Mr. BROWN. And embezzlement within the structure of the Department of Agriculture and the food stamp distribution system?

Mr. JENSEN. There are occasions of that. That's why I mentioned that we have to look at that in terms of the issuance process.

Mr. BROWN. You separate fraud in terms of the effort to acquire the stamps and theft and some of the other—

Mr. JENSEN. There are instances where the food stamps disappear out of the institution itself by means of theft by a public employee; this is the embezzlement you speak of.

Mr. BROWN. But can you put a figure on that?

Mr. JENSEN. I can't give you a dollar figure on that, no.

Mr. BROWN. Would you give it as a percentage of the \$1 billion?

Mr. JENSEN. I hesitate to do that, Congressman, because it's such a speculative area that I really wouldn't be of much help to you. It's an area that's significant. It's an area that has to be looked at.

Mr. BROWN. Is it close to 2 percent or closer to 20 percent?

Mr. JENSEN. Closer to 2.

Mr. FOUNTAIN. In your statement on pages 3 and 4, you indicate that that you're "preparing to increase dramatically the Government's investigative efforts in the food stamp area," and that the FBI and the Secret Service will join in the food stamp investigation with the USDA IG and the Postal Service.

What specific commitments, if any, do you have for additional manpower for food stamp investigations? I notice the FBI was cut about \$44 million.

Mr. JENSEN. We've had discussions with the FBI about, one, the sharing of intelligence that they gather in their normal kind of operations that heretofore has not been shared. We have had discussions with them about commitment in task force operations in the specific targeted areas of the country.

As I said in the statement, we will not give a number or specific destination of our targeting, but there will be a commitment of manpower and resources from the FBI. The same sort of thing will happen from Secret Service. When we use the word "dramatically" it's drama in the sense that this is a new and a different kind of commitment of resources.

Mr. FOUNTAIN. On September 30 the Office of Management and Budget proposed substantial reductions in the 1982 budgets of most Federal agencies, and some of the proposed cuts were in addition to reductions already proposed earlier in the year. Was a reduction proposed in funds for the Criminal Division of the FBI?

Mr. JENSEN. Yes.

Mr. FOUNTAIN. Do you know how much it was?

Mr. JENSEN. Well, we're now discussing that. It really hasn't been fixed as to what kind of allocation of Department of Justice resources would be there. There's some discussion of a reduction of approximately 6 percent. We're still discussing that. We are in the process of looking at our total lawyer complement in terms of the Criminal Division and U.S. attorneys, but it hasn't been determined what, if anything, will happen to that complement.

Mr. FOUNTAIN. Do you know what OMB proposed for the Department of Agriculture Office of Inspector General?

Mr. JENSEN. I do not, Mr. Chairman.

Mr. FOUNTAIN. That was a 12-percent cut. Do you know what OMB proposed for the Secret Service?

Mr. JENSEN. Well, I believe it's roughly the same right down the line.

Mr. FOUNTAIN. It's approximately 3 percent, I believe, about a \$5.2 million reduction.

I ask you this question for the record because it will give you a chance to explain your responsibilities. Why wasn't the FBI involved in the food stamp investigations in the past?

Mr. JENSEN. I really can't go—not having been privy to all of the resource allocation decisions over the past years, I can't really give you a specific answer to that. It's just a question of perception of the adequacy of the investigative resources, both at the Department of Agriculture and at the FBI.

And I think that what we're looking at is a level of consciousness where we're moving up on the scale; one that says that we should commit more investigative resources than we did in the past.

Mr. FOUNTAIN. We have information indicating that the Secret Service has been involved in investigations relating to counterfeiting of food stamps but not in other food stamp investigations.

Mr. JENSEN. That's part of their traditional enforcement responsibility, so that follows from traditional enforcement by the Secret Service in areas of the forgery or the counterfeiting of Government documents.

Mr. BROWN. Mr. Chairman?

Mr. FOUNTAIN. Yes.

Mr. BROWN. Could I also ask a question at that point?

Mr. FOUNTAIN. Yes, go ahead.

Mr. BROWN. How many requests has the Justice Department had for pursuit of food stamp fraud?

Mr. JENSEN. You mean in terms of requests coming in from investigators to file complaints, or just raw investigative leads?

Mr. BROWN. Yes.

Mr. JENSEN. Most of those would come into the Department of Agriculture.

Mr. BROWN. No, I'm asking about intragovernmental requests. In other words, requests from some Government agency asking the FBI or the Justice Department to investigate food stamp fraud, counterfeiting or some other abuse of the program or the process?

Mr. JENSEN. There are basically two kinds of ways that prosecutors within the Department would be concerned with that. One would be where an investigative agency brings in a case for review in terms of what kind of prosecutive action should take place.

In addition to that, there may very well be reports that come into either the Department or to investigators that suggest that there ought to be an investigation carried out. If these are investigative requests reports, they would be in the thousands, but they would be filtered through the investigative process.

Mr. BROWN. Let me try to restate the question. In situations where somebody else has done the investigative work and brought a case, could you give me some idea of how many requests you have had?

Mr. JENSEN. I could give you a figure in terms of results. Last year, 1981, there were 799 food stamp fraud indictments involving work of the Agriculture Department Office of Inspector General. Eighty-five percent of these were brought in Federal courts. In addition, there were a substantial number of indictments brought solely by State or local authorities.

Mr. BROWN. I am talking about the Justice Department. Now, I'm trying to find out—well, go ahead with your—

Mr. JENSEN. Well, those would be Justice Department. Every one—

Mr. BROWN. All of them?

Mr. JENSEN [continuing]. Of those cases would be filed by the Justice Department, either by a U.S. attorney or by the Criminal Division.

Mr. BROWN. All right. Now, let's go back to requests for investigatory assistance. How many cases have there been where a Federal agency or a local law enforcement agency—in other words, an authorized governmental unit, has asked the FBI or some branch of the Justice Department to pursue investigation of a case?

Mr. JENSEN. There have been relatively few cases where the FBI or the prosecutors in the Department of Justice have been requested to get into an investigative track that was being handled, say, by the Department of Agriculture.

There are instances where that takes place and there are significant kinds of prosecutions out there where the FBI has participated with, say, the Department of Agriculture in shaping up and investigating cases. It has, in the past, been relatively rare, that there have been requests to augment, as it were, Department of Agriculture investigative resources.

Mr. BROWN. That's what I'm getting at and I am asking for not vague words, but rather more precise words than "relatively few" or "not many" or something like that. Could you give me a figure?

Mr. JENSEN. I frankly cannot. It's not one of those pieces of data that's been gathered. There is no data base out there that counts each time there is such an investigative request. We simply don't have that as a piece of data. And I'm forced to give you in essence, then, a kind of a vague response.

I think that, in a way, what we're getting at is that the investigative requests heretofore have been rare because of perceptions about participation and role, and that what we're saying is a change of the perception and role will bring more requests and more investigative efforts.

Mr. FOUNTAIN. I just have one more question before yielding.

I'm still concerned about resources. I've supported the President's efforts to cut in a lot of areas, but I think, as indicated by some figures we've gotten, when you spend a dollar and get back \$20 or prevent \$20 from being stolen—I think we ought to be awfully careful that we have enough resources at the places where the responsibility is to get the job done, and I'm satisfied that the Inspectors General in these areas don't have adequate personnel.

Prior to the Attorney General's announcement of an expanded food stamp effort, was any review made to determine what resources might be available for this purpose and whether other activities might have to be reduced or eliminated in the process?

Mr. JENSEN. Well, that's part of the survey that I made reference to. We've looked at the present effort in terms of what kind of work product is coming out of investigative or prosecutive efforts, and we've looked at the resources that are out there. We looked specifically at those that have been traditionally involved, that is, the Department of Agriculture and the Postal Service, and what we are saying is that level of investigative resources ought to be enhanced and augmented by those who did not play a role before, that is, the FBI and the Secret Service. That's precisely what the survey says to us and what we contemplate doing.

Mr. McGRATH. Thank you. Let me just comment on something that you alluded to in the past, and to what I think was the attitude of the program and the people who administered the program in the beginning. I happen to be from the State that has the dubious distinction of having the most fraud, waste, and abuse. I can remember as a State legislator having to vote on whether or not we were going to promote more use of the food stamp program in the State. Somebody got up on behalf of the majority at that time saying, "This isn't going to cost us anything. It's not going to cost the State a nickel so let's go out and spread the word." Having lived in a city where there's probably one out of six people on some sort of assistance, trying to determine the eligibility of those people who come and go every single day is an enormous job.

If the attitude at the top was just to throw as many food stamps at the people as they could absorb and at the State level it was, "It's not going to cost us anything so therefore why not," and at the local level, not being able to handle the program or determine the eligibility or all of the other aspects and such for fraud in one way or another, it's little wonder that the program is in the state that it's in today. I'm happy that perhaps because of the "20/20" program the emphasis that is being given to this particular problem is greater today than it has ever been.

I don't think the program should be eliminated. I don't think the program should even be cut down to any great extent. I think we ought to get the waste, fraud and abuse out of it.

This is what I consider to be a major thrust on the part of the Government today. When you start putting FBI and Secret Service along with the IG and the Justice Department into an investigation, you're putting together a pretty potent and powerful force.

I'm wondering, along with what the chairman has said, as to how reluctant the FBI is to get into this particular area? I know they weren't happy at all to get into it in the past.

Mr. JENSEN. With somewhat of a disclaimer in that I clearly am not a spokesman in that sense for the FBI's posture, I think the reluctance is that they want to make sure that they'll be able to contribute and to do a good job, and that their presence will be productive. I don't think that they will be reluctant to get into this kind of enforcement effort when they see that it will be productive in terms of making cases that can be successfully prosecuted.

There's a certain amount of reluctance in terms of going into areas where there's a lack of definition and certainly taking on the kind of responsibilities that ought to be shared, but I think that that's the only kind of reluctance. They see that their efforts ought to be, in effect, tailored in such a fashion that they will be able to help out those who, in effect, have primary responsibility for that.

Mr. McGRATH. Let's get on to the next question. Of those four or five agencies now in this task force, who has primary responsibility?

Mr. JENSEN. Clearly, the Department of Agriculture has the expertise and the background, the experience, and they have been producing investigations that have been successful. It's a question of enhancing their expertise and their involvement.

Mr. McGRATH. How is that going to work, as a funnel from them to the other investigatory agencies?

Mr. JENSEN. There are any number of ways in which you put this together. They will depend upon the various areas of the country, depend on what resources are out there. There's not an even mix of investigative resources around the country and as we identify specific areas we'll have to adapt. It's a question of being relatively flexible in this regard. There is no national pattern that can be imposed upon the enforcement effort.

Mr. McGRATH. Does the Justice Department support the granting of peace officer status to the IG's in the Agriculture Department?

Mr. JENSEN. As I understand the position of the Department as far as that issue, there's been a traditional opposition to that expansion and in this specific instance the Department of Justice was opposed to that definition.

Mr. McGRATH. As far as your comments regarding organized crime in the food stamp program, if I understood you correctly, organized crime as we know it is not the major problem here; it's the organization of criminals into the area.

Mr. JENSEN. I think that's correct. If you look at the traditional organized crime activities, their activities remain loan sharking and gambling and extortion and narcotics, and they have not

moved into food stamps at any level of significance, as far as traditional organized crime activity.

There are sporadic areas, as I intended to mention, where we're talking about a "second currency" so anybody who is involved in crime will use food stamps in that fashion.

But the real problem is people who organize to exploit food stamps.

Mr. McGRATH. Would you endorse food stamps as not being stamps but rather a credit card type of operation as outlined by Congressman Richmond?

Mr. JENSEN. I'd have to have a good deal more knowledge about that. I think in terms of the general thrust of his commentary on technology I totally agree with that. I think we need to upgrade our participation in technology. I couldn't comment on the rest of the ramifications of what he said.

Mr. McGRATH. Thank you. I have no further questions at this time.

Mr. FOUNTAIN. At that point I'd like to ask this question. Has technology advanced enough so that a computer can be used for the purpose of putting into the computer information indicating whether or not an individual who is, say, getting food stamps, is also getting funds from a variety of other sources which are never disclosed? We understand that a tremendous amount of loss is from fraudulent statements with respect to income.

Mr. JENSEN. That's another issue, I think, than we were talking about right here.

Mr. FOUNTAIN. I know.

Mr. JENSEN. I think that what was being discussed there was the availability of technology to check at the point of distribution. They are, that when you go into a store and use your VISA card or whatever, there is a technological way of looking that up, and I think that was the reference.

Mr. FOUNTAIN. I understand that.

Mr. JENSEN. In terms of the original issuance, you could make better systematic use of data processing with that kind of capacity.

Mr. FOUNTAIN. I recall Mr. Richmond talked about a card which has your picture on it just like your driver's license.

Mr. JENSEN. Right. I believe so.

Mr. FOUNTAIN. Any other questions, Mr. McGrath?

Mr. McGRATH. I have one further question as a followup.

Were you personally or anybody in your division consulted before the enactment of that amendment last week giving peace officer status to employees of the Agriculture Department's Inspector General?

Mr. JENSEN. I was not personally. There was some level of departmental scrutiny. There is an institutional review of that kind of legislation throughout the Department where any legislative enactment is run through the institutional process.

Mr. McGRATH. Somebody either signed off or knew about it?

Mr. JENSEN. I don't think they've gone through that process at this moment. There is a process going on.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. On the first page of your statement, you indicate that "in special circumstances we have sent Criminal Division

attorneys to the field to help organize and try food stamp fraud cases." Would you have any idea of how often that has happened?

Mr. JENSEN. No more than a dozen instances in the last year.

Mr. NAUGHTON. I had heard it might be only once, but is it more than that?

Mr. JENSEN. No, I think that it's more than that. As a matter of fact, there are more than that.

Mr. NAUGHTON. All right, fine.

Mr. FOUNTAIN. Any other questions?

Mr. Brown?

Mr. BROWN. This morning in the local Washington newspaper there was a somewhat whimsical editorial about food stamp fraud which indicated that the only reason that Congress is interested in it is because it's poor people who are involved and that poor people have a right to rip off the system to some extent, because they're disadvantaged. The editorial implies that had it been, say, the green economy in this country that avoids taxes by doing business in cash, that we wouldn't have been quite so interested in it because it is more prosperous and prominent businessmen that are involved. That is we, the Congress, wouldn't have been as interested because these are people we might have dinner with.

Some of the people in my district are involved in the green economy. The Joint Economic Committee on which I serve has done a lot of study of the green economy. The reason the green economy exists is because there are a lot of people out there who are sick to death of paying taxes from their hard work to allow the Government to set up programs that can be fraudulently operated.

Now, I want to ask you a question to find out how much of the fraud is mothers with hungry babies who just simply make an error or maybe consciously use the food stamps to buy something that they really need for their families and those that basically profiteer off the food stamp system. Can you get me either now or later a figure on how many dollars are lost by counterfeiting food stamps? That doesn't seem to me to be the job for a welfare mother. Can you give me an idea?

Mr. JENSEN. We can do that. We can give you a more specific answer.

Mr. BROWN. Can you give me a guess now?

Mr. JENSEN. As I said before, in terms of its relationship to the total food stamp program, see, it's a question of how you do your statistics. But it's a significant enough thing for you to be concerned about it, I can tell you that.

Mr. BROWN. Would you say that that's a billion dollars worth of loss? Is that your estimate?

Mr. JENSEN. Yes.

Mr. BROWN. Was it your estimate?

Mr. JENSEN. That was the estimate by the Department of Agriculture. We see no reason to disagree.

Mr. BROWN. Can you give me an estimate, then, breaking down that billion dollars, and that's a fair-sized business. I'm in the second generation of a family business and we're not in a billion-dollar business. It's considerably less than that, and we pay taxes, and we can't do some of the things in that business we'd like to do because of the taxes that we pay, so I want to know in this

somewhat better business than we are in, how much of it is counterfeiting?

Mr. JENSEN. We can give you a specific on that rather than go again in terms of the vagueness that you referred to. We'll give you a response that is specific.

[The information follows:]

	Fiscal year	
	1980	1981
Counterfeit food coupons seized (prior to circulation)	\$1,212,692	\$152,983
Counterfeit food coupons passed (redeemed)	18,547	90,683

Mr. BROWN. All right. Now, how much of it is theft of the stamps from the level at which they are printed to the level above the local distributor?

Mr. JENSEN. Let me say this: I think that we can give you an analysis of the loss through criminal conduct, and we'll do that in a more specific fashion.

[The information follows:]

We were asked to estimate the dollar valuation of the food stamps and ATPs involved in the 799 criminal cases that were brought through Federal investigative efforts in fiscal year 1981. Such an estimate we find it impossible to make without an exhaustive case-by-case analysis. Suffice it to say that the dollar value of the fraud actually charged in the 799 indictments and informations was a small fraction of the fraud we suspected (and in some instances, proved at trial). The fraud involved in those 799 cases was, in turn, a small fraction of the total estimated fraud in the entire food stamp program.

As I indicated during my testimony, those 799 cases can be broken down as follows: 182 recipients, 12 city or state employees, 236 retailers or wholesalers, 8 vendors, and 361 non-participants in the food stamp program. These cases represent tens of millions of dollars worth of suspected fraud, but certainly come nowhere near even the most conservative estimates of the total annual fraud in the food stamp program.

Mr. BROWN. But the cases, you mentioned 700 and some cases.

Mr. JENSEN. Right. Correct.

Mr. BROWN. Over how long a period of time?

Mr. JENSEN. That was 1 year. That was 1981.

Mr. BROWN. All right. Can you just pick 1981 and go through those 700 and some cases? It shouldn't be too hard for somebody who's been trained in law.

Mr. JENSEN. Right.

Mr. BROWN. Can you determine how much the loss was from counterfeiting? And you can determine how much of it was from the actual disappearance of stamps, theft of stamps, within the governmental system from the printer of the stamps down to the local distributor?

The reason I stop above the level of local distributor is because I want to ask you some questions about the local distributor.

Mr. JENSEN. I've got some figures that may be of help to you right now.

Mr. BROWN. Good.

Mr. JENSEN. Of the 799, in addition to the sort of generalized estimates, there is a level of fraud you referred to that essentially

is committed by the recipient. Of the 799 cases I spoke of, 182 of those cases are recipient fraud. Twelve of the cases were city or State employees.

Mr. BROWN. Wait a minute. You're going to have it broken down slightly differently than I have.

Mr. JENSEN. OK.

Mr. BROWN. 182 were recipient fraud?

Mr. JENSEN. Right.

Mr. BROWN. OK. Go ahead.

Mr. JENSEN. 361 were—

Mr. BROWN. Wait a minute. Twelve were what?

Mr. JENSEN. Yes, by city or State employees.

Mr. BROWN. Probably not on welfare, right?

Mr. JENSEN. Correct.

Mr. BROWN. Go ahead.

Mr. JENSEN. 236 of the cases were by persons who participated in the process as a retailer or a wholesaler rather than a recipient.

Mr. BROWN. Probably not on welfare?

Mr. JENSEN. Right. Eight of them were by vendors of food stamps or ATP; 361 of the cases were by people who were totally outside the process. They were the criminals who were exploiting the process.

Mr. BROWN. All right. Who may or may not have been on welfare. Who knows, right?

Mr. JENSEN. That's correct. But they were not participants in the food stamp program.

Mr. BROWN. But when you say that they were criminals, do you mean that they were people with criminal records?

Mr. JENSEN. No.

Mr. BROWN. Do you mean that they were convicted of a crime?

Mr. JENSEN. I'm saying that they were the people who were charged with these offenses.

Mr. BROWN. So by that definition they had become criminals?

Mr. JENSEN. Yes.

Mr. BROWN. That does sort of change the nature of the editorial's concept which, of course, was leading me to take this thing not too seriously.

Let me now ask you about the qualifications of the people who are distributors. As I understand, some States, notably my own, have the food stamps distributed through local welfare departments, but there are people in the contracting process who serve above them that are not Government officials. Is that not correct?

Mr. JENSEN. That's correct.

Mr. BROWN. And they are sort of food stamp warehousemen, isn't that right?

Mr. JENSEN. We can give various definitions but I think that's a correct one.

Mr. BROWN. They have a contract with the Government, to get the food stamps and then in some way to distribute them to the local welfare department?

Mr. JENSEN. There has to be that level of participation to issue and redeem the food stamps, and that is correct. Those are above and beyond strictly governmental employees. There is contract

involvement and then there's necessary involvement in the actual process of handling the food stamps.

Mr. BROWN. Now, could you tell me or someone else tell me how these people qualify for the job to do that level of distribution?

Mr. JENSEN. It varies in terms of—

Mr. BROWN. Is it the low bidder?

Mr. JENSEN. In those instances where there is a contractual relationship that depends on the bidding process. There are many instances where it's not a bidding process.

Mr. BROWN. Why would it not be a bidding process?

Mr. JENSEN. What we're talking about is that there is a delivery of food stamps out there to people who run independent businesses and by the nature of the business they run, they handle and accept the food stamps. That's not a bidding process.

Mr. BROWN. I'm trying to get the questions and the answers precise for the record.

Mr. JENSEN. Right.

Mr. BROWN. From the Federal Government, which prints up and authorizes the food stamps as a result of the act of Congress, there are people who contract for the printing of the stamps and the distribution of the stamps to the local distributor which is the level above the person who uses the stamps to buy the food, correct?

Mr. JENSEN. That's correct.

Mr. BROWN. So there are really four levels or even more. The Federal Government, the printing of the stamps, the delivery of the stamps to the distributor to the poor, the distributor level, which in some cases is a welfare department and in some cases private business. Is that not correct?

Mr. JENSEN. That's correct.

Mr. BROWN. And then there are the poor. So there are really five levels.

Now, what I'm after is who qualifies for the printing of the stamps? Is there any specific qualification and security requirement involved?

Mr. JENSEN. I think that the most appropriate way for me to answer this is to say that our knowledge of the process generally comes when it goes off the track, and that what I was talking about is when we charge cases where an investigation shows fraud and when we list these cases we come up with criminality. I think what you're getting at is the whole structure of the distribution that's set up in the flow of the stamps.

I, frankly, think that it would be better if that question were put to the Department of Agriculture.

Mr. BROWN. All right. I'll try to do that. But now, from the standpoint of criminality, we only have 182 out of the 799. Is that the total?

Mr. JENSEN. Yes, that's correct, for 1981.

Mr. BROWN. 182 at the recipient level. In some States and communities the distribution to the poor is done by city or State employees and so you have 12 cases there. When you say retailer or wholesaler, what do you mean by that in terms of the level of the food stamp process?

Mr. JENSEN. They match up with your description of that process where you may have people who were in contract relationships, or

who have been assigned responsibilities in the flow of the food stamp redemption and issuance. But that's what I say. In terms of identifying how those people get there in the process, I would say that you should ask the Department of Agriculture that question.

Mr. BROWN. But those are people who are at the level of above the welfare recipient level, the recipient of the stamps who is going to spend those stamps on food?

Mr. JENSEN. That's right.

Mr. BROWN. All right. When you talk about vendors of the stamps, what are you talking about?

Mr. JENSEN. They're in a sense within that distribution pattern, but that's a specific responsibility where they distribute the stamps to the person with the authorization to purchase.

Mr. BROWN. So this would probably fall in the same category as vendors of stamps and city and State employees. Those would probably be in the same category?

Mr. JENSEN. In a sense that's right.

Mr. BROWN. Because in some cities and some States it is city and State employees who distribute them and in some States it is vendors who distribute them.

Mr. JENSEN. That's correct.

Mr. BROWN. And then there are 361 criminals outside the process. Now, what does that mean?

Mr. JENSEN. It may mean somebody who just steals the stamps out of the mails. It may mean somebody who buys the stamps for criminal distribution. You have people totally outside the process who will corrupt the process by the purchase of them. Many of these cases come from undercover investigations where the Department of Agriculture has identified people who are involved in the theft or distribution of food stamps, set up an undercover operation and made arrests.

Mr. BROWN. In one of the cities in my district we had a case where over \$75,000 worth of food stamps disappeared. The Inspector General of the Department of Agriculture at that time, advised me as the Congressman somewhat distressed about this because there had been a lot of talk in the papers and in the community about it, advised me that a pursuit of that loss was no longer practical because it was discovered some 6 months after the fact, apparently, and that it was such a small matter that it was really not worth pursuing. Is that a small matter not worth pursuing in terms of the Justice Department?

Mr. JENSEN. No. I don't think that that would be correct. It may be that what he's making reference to is the reality of a fruitful investigation. It may be that it's so old and so stale that you simply can't put it back together.

As far as the amount is concerned, it doesn't seem to me that that's an insignificant amount.

Mr. BROWN. I guess what I'm trying to lead to is to how much of the billion dollars is in that category where you didn't pursue it, or are the 799 cases in 1 year cases which involved a billion dollars worth of fraud? What was involved in 799 cases?

Mr. JENSEN. These involve specific criminal charges, as opposed to cases where there's been an issuance to an ineligible participant, but where there's no fraud involved.

Mr. BROWN. But involved in the 799 cases, was how much loss in terms of criminality in the process?

Mr. JENSEN. We can give you a report on the dollar figure.

Mr. BROWN. In other words, what I'm trying to do is work up where the estimate, whatever it is, of a billion dollars, comes from, because I don't know whether my \$75,000 is in that billion dollars or not. If it isn't, then I think we're dealing with something else that's a little bit bigger than a billion dollars.

Mr. JENSEN. But as you realize, there has to be a level of projection within that kind of question. We're talking about 799 known cases where the investigation has produced a criminal charge and we can measure that.

Mr. BROWN. Carried to fruition, in effect?

Mr. JENSEN. That's right.

Mr. BROWN. And in this case it may have been investigated, but there was nothing done. I got a little hand patting from somebody saying, "Don't worry about it. It's only \$75,000 and we spill more than that in Washington every day."

Mr. JENSEN. But my point is that in any kind of assessment of the dollar value of the loss and the sense of how much of these dollars can be attributed to crime, there's got to be a projection because not all of those crimes, clearly, are successfully investigated and prosecuted.

Mr. BROWN. Yes. So, 799 may be the tip of the iceberg?

Mr. JENSEN. I think that's a valid assessment.

Mr. BROWN. Do you have, as a result of the 799 cases that have been successfully prosecuted, any evidence of a pattern of failure in the system? In other words, what occurs to me, if you'll pardon my jumping to a conclusion, and I don't want to do that because I want to be guided by the thoughtful presentation that was made in that editorial this morning, my conclusion is that if there were 236 retailers and wholesalers, plus 20 vendors, city and State employees, never mind the criminals outside the process where we don't have much of a definition, that this seems to be a process that has some built-in failures in it, I mean some loose spots, if you will, in the process. Would you agree with that?

Mr. JENSEN. Yes, and I think that is part of the area that we want to address. I'm sure the Department of Agriculture wishes to address it. I think the Congressman was addressing that general area by pointing out just what you say. What you've got to be concerned about is vulnerability to fraud, and that you can now address this by preventive measures in terms of how you go about administering the program.

I think that's important.

Mr. BROWN. Yes. It may never have occurred to the editorialist that the purpose of this hearing, for instance, would be to tighten up the process and to figure out some way, although we're not gifted, obviously, but some way that we could change the method by which the stamps are produced and distributed so that they really do get in the hands of the poor before somebody rips off the process.

Mr. JENSEN. I don't think there's any question about that. Our role in that, in terms of our responsibility for criminal enforcement, is actually to identify areas of vulnerability. We have done

some of that, and we intend to continue and to work with the Department of Agriculture, because that's an administrative responsibility.

Mr. BROWN. Have you made any specific suggestions to the Department of Agriculture as a result of the 799 prosecuted cases as to the weak spots in the distribution system and how they might be corrected, that you could provide us either a copy of or that somebody from the Department of Justice could give us a written report on that for our benefit?

Mr. JENSEN. Yes, we can.

Mr. BROWN. Thank you, Mr. Chairman.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Are you satisfied with the qualifications, experience, and capabilities of the Agriculture Department investigators who are working on food stamp cases?

Mr. JENSEN. Yes, indeed. As I indicated before, they have the frontline responsibility and there is experience and expertise there.

Mr. NAUGHTON. And they have training equivalent to that of the FBI, do they not, on criminal cases?

Mr. JENSEN. They have training that is adequate to their responsibilities, I believe.

Mr. NAUGHTON. Did either the FBI or the Secret Service express any reservations in view of the substantial cuts that are already proposed for their budget as to what might happen to some of their other operations if they were to divert substantial resources to food stamps?

Mr. JENSEN. As I mentioned before, that's always a matter of the management of your resources, and clearly we're concerned with that. The FBI and the Secret Service are concerned, but it's a question of managing it in such a way that we are resilient enough in our resources to address this special emphasis without giving up those other areas we're responsible for.

Mr. NAUGHTON. Thank you.

Mr. FOUNTAIN. Thank you very much, Mr. Jensen.

Mr. JENSEN. Thank you, Mr. Chairman.

Mr. FOUNTAIN. Our next witness is from the Department of Agriculture, Food and Nutrition Service, Mr. G. William Hoagland, Administrator, accompanied by Alberta C. Frost, who's the Deputy Administrator for Family Nutrition Programs.

We're delighted to have you and you may proceed with your statement.

**STATEMENT OF G. WILLIAM HOAGLAND, ADMINISTRATOR,
FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE,
ACCOMPANIED BY ALBERTA C. FROST, DEPUTY ADMINISTRATOR FOR FAMILY NUTRITION PROGRAMS**

Mr. HOAGLAND. Thank you, Mr. Chairman.

Mr. Chairman, you have already identified the Deputy Administrator for Family Nutrition, Alberta Frost, who's accompanying me. She appeared before the subcommittee 2 years ago.

I would like to try to summarize my statement, Mr. Chairman, by covering four major points. The first part of my presentation is the identification of the problems in the food stamp issuance system. I'd like also to discuss actions that have been taken to date

in large project areas of this country relative to the food stamp issuance system.

I'd also like to discuss the recovery of the losses for poor issuance systems and, finally, touch briefly upon Congressman Richmond's statement from the recent congressional and internal FNS agency's activities relative to improving on the process.

Before I do that, however, I think it would be useful to review very quickly the food stamp issuance system because some questions have been raised already this morning.

The process by which the system of issuance of coupons is decided upon is an individual State choice of issuance, and that will depend upon a number of factors within the individual State relative to its computer support availability, the distribution of recipients, and various other factors, but basically there are four ways in which we get food stamps to the poor people that receive those stamps. The first one is a manual issuance system. The second type of mechanism is a mail issuance system. Then the authorization to participate system, the ATP system, and then as Congressman Richmond alluded to earlier this morning, a relatively new system, the on-line computerized system.

The ATP system, the third system I talked about, is the most common form of food stamp issuance used in this country today. This system, the ATP system, is used exclusively by 23 States and partially by another 18 States.

Approximately 75 percent of all food stamps issued are issued under the ATP system and therefore we'd like to concentrate our remarks this morning, Mr. Chairman, on the ATP system.

Turning to the problem identification, first of all, in early 1980, my agency, the Food and Nutrition Service, conducted a survey of nearly 88 large urban project areas where the ATP system was underway and we did this to obtain better data on duplicate and replacement issuances. Nearly half of these projects were found to have problems or potential problems in their issuance system. In most circumstances these problems related to the poor reconciliation of transacted authorization documents, rather than a high rate of duplicate issuance.

The problems identified in this management survey and our ongoing State agency reviews as well as those the States identify themselves are addressed through a corrective action process. We have a performance reporting system which monitors State systems for identifying and preventing unauthorized issuances. In cooperation with the Office of Inspector General we have also continued to examine unauthorized issuance and the completion of planned corrective action through our audit process.

Beyond these various activities and these sources of information, we also have implemented a new system, a new data reporting system, as a means to obtain and analyze complete reconciliation data on a monthly basis as a result of the implementation of this ATP reconciliation report, a new report we will call FNS-46.

This particular report was final and was issued in January with final rules, with each State operating an ATP issuance system having to report monthly on the reconciliation of transacted ATP's, identifying authorized from unauthorized issuances, and ATP's

which are unauthorized are identified as being unmatched with the State's master record.

Now, the unauthorized issuances are further categorized as to those for which the State is to be held liable, and other areas categorize them for which the recipient or other party redeems both the original and the replacement ATP and counterfeits or alters an ATP. Thus, this report, this FNS-46, provides us with detailed information on unauthorized transactions, allowing us to bill States for losses which are in their control to prevent.

The FNS-46 is a new report, Mr. Chairman. We are still verifying the entries as to their correctness and the States fully understand what is being reported to us. In this regard, Mr. Chairman, we are appreciative of the Office of Inspector General and its willingness to conduct a detailed audit of this new FNS-46.

Preliminary data for the period February through May of this year shows that a total of over 19½ million ATP documents were transacted in the States with the ATP system and these transactions represented nearly \$2 billion in food stamp issuance. Duplicate ATP's, transactions where both the original and the replacement ATP were redeemed, represented a very small percentage, less than 0.2 percent of the total number of ATP's transacted. Nevertheless, that small proportion that were duplicate issuance, 0.2 percent, did translate into nearly \$4 million in losses in this 4-month period.

Approximately 77 percent of all the duplicate transactions that we have identified from this new management reporting system, were issued in seven States. Those seven States include New York, Texas, Pennsylvania, Michigan, Maryland, Tennessee, and California. It is important, I think, to point out that the FNS-46 gives us for the first time—

Mr. BROWN. Excuse me. Is it possible for you to relate those States in terms of the size of food stamp business done in those States?

Mr. HOAGLAND. Yes, it is very easy to do that. We'd be happy to provide that information to you.

Mr. BROWN. Because it occurs to me that some of the States might be very low volume States by comparison to others and that if the volume of failure or abuse in those States is quite high, then obviously it may just be that there's an organized effort in those States.

Mr. HOAGLAND. I would suggest that I know for a fact that New York, Texas, Pennsylvania, Michigan, California, are very high users of food stamps. Maryland and Tennessee may be on the lower scale of that, Mr. Brown.

Mr. McGRATH. Would my colleague yield?

Mr. BROWN. Sure.

Mr. McGRATH. Let me just interject there, it seems to me if we're going to require the States to report back and then hold them liable for whatever they lose, then there is an incentive not to report.

Mr. HOAGLAND. That's very true and we're concerned about that ourselves, and that is why I've asked that the Office of Inspector General carefully audit these reports that are coming to us now from the States and we want to make sure that the actual informa-

tion is correct. The State will be held liable, again, through the audits and we would analyze the States through the audit system also, that are incorrectly reporting this information.

Mr. McGRATH. In what regard? Are you going to hold back food stamps?

Mr. HOAGLAND. They would be penalized and held strictly liable for the loss.

Mr. McGRATH. Under what?

Ms. FROST. We would bill them for the amount of the loss.

Mr. HOAGLAND. We would remove it from their letter of credit in terms of the food stamps that they receive.

Mr. McGRATH. Who's getting hurt in a case like that?

Mr. HOAGLAND. The State, the administrative funding of a particular State.

Mr. McGRATH. It's that portion of the program funds which they can take out for administration?

Mr. HOAGLAND. That's correct.

The FNS-46 report will not, however, identify the specific causes of all the reconciliation problems. For example, duplicate transactions may result from actual theft of an ATP card as well as false reports by households or nonreceipt and we are in the process of carefully examining, as I said, the FNS-46 to determine the causes and devise solutions and monitor the results of the actions taken from the 46.

Let me turn now briefly to our actions to date over the last 2 years in our large project areas. Excessive unauthorized issuances tend to occur in certain areas. New York City, clearly, has been one that has experienced many problems with its ATP system in the past, failing to properly reconcile. Over the last 2 years my agency, the Food and Nutrition Service, the State of New York, and New York City, have worked to significantly improve the issuance system, to correct the breakdown in the control mechanisms.

A system we refer to as the rapid access system was developed and fully implemented in December 1980. It provides a computer check to identify an already cashed ATP before another ATP is issued.

Now, the number of replacement ATP's issued has been reduced by about one-third of the number issued before rapid access implementation. In September 1980, before the system was in place, a monthly average of nearly 25,000 replacement ATP's were being issued by the city. It is our best estimate that at least half of those were based upon fraudulent recipient requests. In June 1981, the latest date for which we have information, there have been a little over 10,000 replacements, but only 300 of those have been identified as fraudulent recipient duplicates.

There is still a problem with stolen ATP's in New York. No one should deny that. However, in the next few months the city will be piloting an electronic payment funds transfer system which we believe will further reduce ATP loss and fraudulent replacements, improve reconciliation, and eliminate ATP trafficking.

In late 1980—

Mr. McGRATH. Excuse me.

Mr. HOAGLAND. Yes, sir.

Mr. McGRATH. How many people are presently receiving food stamps in New York City?

Mr. HOAGLAND. I believe there are about 1 million people receiving food stamps. That probably translates into somewhere in the neighborhood of 500,000 households or so.

Mr. McGRATH. Thank you.

Mr. HOAGLAND. I turn now our attention to Pennsylvania. In late 1980 we funded a 6-month demonstration project. This system we have called the direct delivery system, another alternative form of delivering benefits. The project was conducted in certain parts of Philadelphia and Pittsburgh and provided for the direct delivery of food stamp authorizations to the issuance outlet rather than to the individual recipient's home. The demonstration project virtually eliminated duplicate ATP's completely in the test areas and in these areas replacements now average five per month compared to hundreds before.

Given this success, the system was extended citywide this September in both Pittsburgh and Philadelphia. New Jersey is in the process of converting their manual ATP system to a modified online system. In other cases corrective action has involved refinement of systems to identify duplicate transactions accurately and quickly for followup action at the local level. Here Tennessee is currently taking steps to reduce ATP replacements initiated earlier this year. Michigan is monitoring past corrective action to insure staff is following up on reports of excessive authorizations, and another encouraging development, the city of Detroit now is implementing what we refer to as the online system, which Congressman Richmond spoke to this morning.

I turn now to the recovery of losses. I've highlighted several ways we can identify losses from unauthorized issuances. Some are the liability of States but the larger percentage is caused by third-party or recipient transactions of duplicate, altered, stolen, or counterfeit ATP's. To attack this problem and encourage State recovery steps, we issued regulations in 1980 which increased from 50 to 75 percent the Federal payment for State cost of fraud investigations, prosecutions, and fraud hearings for recipient-caused overissuances.

Thirty States are presently receiving increased funding and we are encouraging further State participation in the 75-percent funding initiative.

About a year ago there were only 15 States that were participating in this 75-percent funding. I've attached a map of the United States showing those States that are not now participating in the 75-percent funding. The State of New York is not one of those States that is participating in 75 percent Federal funding.

States also are now permitted to retain 50 percent of the funds collected from fraud claims and could collect fraud claims through a reduction in the food stamp allotment. The Reconciliation Act will further allow States to retain 25 percent of all nonfraud recoveries. Provisions were implemented in early 1980 allowing disqualification of persons who refused to pay fraud claims. The Omnibus Reconciliation Act, signed into law back in August, strengthened this provision considerably. Any person found guilty of misrepresentation or of handling food stamps wrongly will be disqualified

from the program for 6 months on the first time this occurs, for 1 year on the second time this occurs, and permanently after the third time.

A national tracking system will prevent a household found guilty of fraud or misrepresentation to avoid paying an overissuance by moving.

In fiscal year 1980 we collected well over \$2 million in fraud claims, and \$45 million in nonfraud claims have been established quarters of the current fiscal year we had \$7 million in fraud claims and \$45 million in nonfraud claims have been established against the States. To date we have collected \$8 million of that combined amount.

We are also working on third-party transactions to the extent that they will be spurred by additional legislation and administrative changes. We believe that the FNS-46 will produce a specific billing amount for those unmatched ATP's for which the States are responsible. As I said earlier, \$4 million can be expected to be billed against the States. We have collected, as an example, \$577,000 from Ohio for negligence regarding replacement ATP's. Earlier this year, through a sanctions process, we initiated action against Rhode Island and the Department disallowed \$161,000 in Federal funding for the State of Rhode Island and we have been suspending \$34,000 per month for the State's letter of credit.

Let me simply summarize the recent congressional action again, that we believe is very important. First of all, internal within my agency. In June I established, reporting directly to the Office of the Administrator, a special task force to evaluate the information that we will receive. Some of the questions of the subcommittee members this morning are the same frustrations that I have as an Administrator, not knowing the information available for actually responding to the questions of fraud, waste, and abuse. That particular task force is well underway.

We also appointed and began working last week on a regulatory review process, reviewing all of the regulations as they relate to food stamps, as required by the Executive order and Reg-Flex Act. This fiscal year the Department will devote considerable attention to State issuance systems to insure that all necessary control features have been implemented. Specifically, we will enforce, through our management evaluation review, requirements that the States have their controls in place and we are checking for internal fraud or errors in establishing issuance files.

Several weeks ago, as has already been pointed out, the Attorney General established a special task force within the Department of Justice which will be working with our Office of Inspector General.

This month we issued two major regulations to deal with fraud and abuse. The first was the photo identification regulation. We will now require photo ID's in project areas of 100,000 or more participants. This gives States the increased ability to prevent duplicate issuance. New York City has implemented such a system this month and we will be able to bill States for such a loss, for the amount of loss, if a duplicate issuance results because an issuance agent fails to record the recipient ID number on the ATP card. We are also having new revisions in ATP and coupon replacement rules, including a time limitation for the number of replacement

ATP's and extended time for States to make replacements, allowing thorough checking of the validity of the request, and a limitation on the number of replacements which can be requested. States will find it easier to reduce the number of fraudulent or incorrect ATP's through these new regulations.

Rules are in preparation to allow States to reduce food stamp allotments to collect nonfraud issuance. Those will be implemented shortly.

There are a number of provisions within the conference bill which I need not go into, but a number of those have to do with mail issuance, and we intend to implement those regulations as soon as the conferees act upon the farm bill.

Mr. Chairman, I appreciate the opportunity to appear before the subcommittee and we will be pleased to answer any questions that you might have.

Mr. FOUNTAIN. Thank you, Mr. Hoagland. Your entire statement is filled with an abundance of information which I think is of interest to the subcommittee. We will include your prepared statement in the record at this point.

[Mr. Hoagland's prepared statement follows:]

or take other action indicated by the circumstances. The State agency itself is held liable for certain unauthorized issuances.

In a presentation to this Subcommittee in late 1979, FNS officials cited several actions planned or underway to control problems with authorization documents, focusing on the ATP system. The Department has acted as promised, and continues strong initiatives aimed at controlling fraud and abuse in this area. I would now like to turn to a detailed report of these measures.

PROBLEM IDENTIFICATION

In early 1980 the Agency conducted a survey of 88 large urban project areas which use ATPs in their issuance systems to obtain better data on duplicate and replacement issuances. Nearly half of these projects were found to have problems or potential problems in their issuance system. Reports from States and our Regional staff, after these problems were brought to the States' attention for corrective action, indicated that the problem in most circumstances related to poor reconciliation of transacted authorization documents rather than a high rate of duplicate issuances.

The problems identified in this management survey and our ongoing State agency operations review as well as those the States themselves identify, are addressed through a corrective action process. Our Performance Reporting System monitors State systems for identifying and preventing unauthorized issuances. In cooperation with the Office of the Inspector General, we have also continued to examine unauthorized issuance and the completion of planned corrective action through our audit process.

The unauthorized issuances are further categorized as those for which the State is liable (blank cards that are lost or stolen, expired, out-of-state, or duplicate ATPs erroneously transacted by the State) and others for which the recipient or other party redeems both the original and replacement ATP, counterfeits or alters an ATP. Thus, this report provides us with detailed information on unauthorized transactions allowing us to bill States for losses which are in their control to prevent.

Since the FNS-46 is a new report, we are still verifying that the entries are correct and that States fully understand what is to be reported. However, the preliminary data for the period February through May 1981 shows a total of over 19 and one half million ATPs transacted in the States with ATP systems in this four-month period. These transactions represent over \$2 billion in issuances. Duplicate ATPs, transactions where both the original and replacement ATPs were redeemed, represent a very small percentage (.17 percent) of the total number of ATP transactions nationwide. Nevertheless, the duplicates represented almost \$4 million dollars in losses in this four month period.

Approximately 77 percent of all these duplicate transactions were issued in seven States. These include New York, Texas, Pennsylvania, Michigan, Maryland, Tennessee, and California. Later I will mention some encouraging information of systems being improved in certain of these project areas which should result in these figures being reduced. I believe it is important to point out, however, that the FNS-46 gives us for the first time the data to identify where the problems are and have States devote the necessary resources to reduce the unmatched ATP issuances to an acceptable level.

To illustrate some of the problems that have been identified and are in the process of resolution through audits and our Performance Reporting System, our Midwest Regional Office is working with Wisconsin in Milwaukee County to solve a reconciliation problem. Several other States have cited problems with reconciliation, replacements, and duplicate transactions in their detailed corrective action plans. We provide the technical assistance necessary to enable States to carry out their planned corrective action, and track the results to make sure the problem is remedied.

As we deal with very major problems in locations such as New York and Pennsylvania, our Regional staff is then able to move to what we consider a "second tier" magnitude of problems. For example, in Maryland, Baltimore has had a history of problems with multiple replacements. Our Regional Office is now stepping up its efforts with the Maryland State agency to implement front end controls and also to pursue prosecutions against households negotiating duplicates.

However, beyond these sources, we now have the means to obtain and analyze complete reconciliation data on a monthly basis as a result of implementation of the new ATP Reconciliation Report (FNS-46) required by final rules issued in January of this year. Each State operating an ATP issuance system must report monthly on the reconciliation of transacted ATPs, identifying authorized from unauthorized issuances. ATPs which are unauthorized are identified as being unmatched with the State's master record.

The FNS-46 report will not identify the specific causes of reconciliation problem areas. For example, duplicate transactions may result from actual theft of ATP cards as well as false reports by households of non-receipt. We are in the process of working with each State to determine causes, devise solutions, and monitor the results of actions taken.

LARGE PROJECT AREA ACTION

As I mentioned earlier, excessive unauthorized issuances tend to occur in certain areas. New York City for one has experienced many problems with its ATP system in the past, failing to properly reconcile. Over the last two years, FNS, the State of New York, and New York City have worked to significantly improve the issuance system to correct the breakdown in control mechanisms. A "Rapid Access" reconciliation system was developed and fully implemented in December 1980. It provides a computer check to identify an already cashed ATP before another ATP is issued. The system also limits the time period for cashing ATPs to stop recipients from cashing more than one ATP. The number of replacement ATPs issued has been reduced to about one-third of the number issued before Rapid Access implementation. In September 1980, a monthly average of 25,000 replacement ATPs were being issued by the City, at least half of which were based on fraudulent recipient requests. In June 1981, a little over 10,000 replacements were issued, but only 300 have been identified as fraudulent recipient duplicates. There is still a problem with stolen ATPs. However, in the next few months, the City will be piloting an electronic payment funds transfer system which will further reduce ATP loss and fraudulent replacements, improve reconciliation, and eliminate ATP trafficking.

In late 1980, the Department provided funds to Pennsylvania for a six-month demonstration project to eliminate duplicate issuances. Called the Direct Delivery System, the project was conducted in parts of Philadelphia and Pittsburgh and provided for the direct delivery of food stamp authorizations to the issuance outlet rather than to the individual recipient's home. At the outlet the ATP is picked up and transacted. The demonstration project virtually eliminated duplicate ATP issuance in the test areas. In these areas replacements now average five per month, compared to hundreds before. Given this success the system was extended citywide this September in both Pittsburgh and Philadelphia. The same system may be adopted in other parts of the country.

New Jersey is in the process of converting their manual ATP system to a modified on-line system. This conversion should be implemented in November and should eliminate most of the replacement problems they are experiencing.

In other cases, corrective action has involved refinement of systems to identify duplicate transactions accurately and quickly for follow-up action at the local level. Tennessee is currently taking steps to reduce ATP replacements, initiated earlier this year. Michigan had a problem in that computer-generated print-outs of potential duplicate participations were very difficult to use. The State, late in 1979, refined the report and developed procedures for its distribution and use at the local level. Michigan is monitoring past corrective action to ensure staff is following up on reports of excessive authorizations. In another encouraging development, the city of Detroit is now implementing an on-line system.

Our Regional Offices will, through the corrective action process, pursue identification of the causes of the excessive duplicates in Texas, Maryland, and California so this can be remedied immediately.

RECOVERY OF LOSSES

I have highlighted several ways we can identify losses from unauthorized issuances. Some are the liability of the State but the larger percentage is caused by third party or recipient transactions of duplicate, altered, stolen, or counterfeit ATPs. To attack this problem and encourage State recovery steps, we issued regulations in 1980 which increase from 50 to 75 percent the Federal payment for State costs of fraud investigations, prosecutions and fraud hearings for recipient caused overissuances. Thirty States are presently receiving increased funding and we are encouraging further State participation in the 75 percent funding initiative, this is double the number of States just one year ago. (Attached chart shows the thirty States receiving enhanced funding.) States also are permitted to retain 50 percent of the funds collected from fraud claims and can collect fraud claims through a reduction in the food stamp allotment. The Omnibus Reconciliation Act will further allow States to retain 25 percent of nonfraud recoveries. Provisions were implemented in early 1980 allowing disqualification of persons who refused to pay fraud claims. The Reconciliation Act strengthens this considerably. Any person found guilty of misrepresentation or of handling food stamps wrongly will be disqualified from 6 months to permanently. A national tracking system will prevent a household found guilty of fraud or misrepresentation to avoid repaying an overissuance by moving.

We have strengthened reporting requirements in the areas of State prosecutions, fraud investigations, and overissuance recoveries. Although we do not have a breakdown on those which involve stolen or duplicate authorizations, we can track the status of these operations. In Fiscal Year 1980 we collected well over \$2.0 million in fraud claims and over \$6.0 million in nonfraud cases. For the first three quarters of Fiscal Year 1981 over \$7.0 million in fraud claims and \$45.0 million in nonfraud claims were established by States. Over \$8.0 million of the combined amounts have already been recovered. We believe that the recovery effort for recipient or third party transactions will be further spurred by additional legislative and administrative changes recently regulated or in progress. The FNS-46 data produces a billing amount for those unmatched ATPs for which the States are responsible. These we are taking action to collect and will do so on a routine basis. In addition to these claims from the reconciliation report system, we also establish liability via sanctions affecting State administrative funds, other direct liability billings, or negligence charges. In our testimony two years ago, we mentioned we were in the process of collecting over \$577,000 from Ohio for negligence regarding replacement ATPs. That amount has been fully recovered. Earlier this year through the sanction process, we initiated action against Rhode Island, partly due to failure to reconcile. The Department disallowed \$161,000 in Federal funding and began suspending \$34,000 per month from the State's Letter of Credit in February 1981.

Massachusetts has also historically had a problem with ATP replacements. An audit is in progress and further administrative actions are being considered because of the State's failure to properly reconcile and report on the FNS-46.

RECENT CONGRESSIONAL AND FNS EFFORTS

As you can see, our efforts are continuing to control fraud and abuse in these unauthorized issuances. Increasing attention has been given to developing legislation, regulations, and monitoring systems to improve program integrity. It is a major effort by FNS, separated into several different points of attack.

1. In June we established a special task force to evaluate all the information we receive on the amount of fraud, waste, and abuse in all of our programs. This will give us a better picture to initiate aggressive counteractions.
2. We are appointing a regulatory review task force. As you know, regulatory review is required by both executive order and the Regulatory Flexibility Act. Regulation review will require an in-depth analysis of all rules now in effect. We see it as a key management effort in improving program integrity.
3. This Fiscal Year the Department will devote considerable attention to State issuance systems to ensure that all necessary control features have been implemented. Specifically, we will enforce, through our management evaluation reviews,

requirements that the State has these controls in place and is checking for internal fraud or errors in establishing issuance files. This review and technical assistance effort, combined with some demonstration project work about to get underway, should yield good results.

4. In another action several weeks ago, Attorney General William French Smith announced the formation of a Special Task Force and efforts to combat fraud in the program.

This month we issued two regulation changes which will have a significant impact on fraud and abuse. Final rules now require photo ID's in project areas of 100,000 or more participants. This gives States the increased ability to prevent duplicate issuance. New York City implemented such a system this month. We will be able to bill States for the amount lost if a duplicate issuance results because an issuance agent fails to record the recipient's ID number on the ATP card being redeemed.

New revisions of ATP and coupon replacement rules include a limited time for requesting ATP replacements, an extended time for States to make replacements, allowing thorough checking of the validity of the request, and a limitation on the number of replacements which can be requested. States will find it easier to reduce the number of fraudulent or incorrect ATPs replaced.

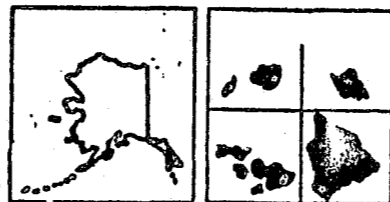
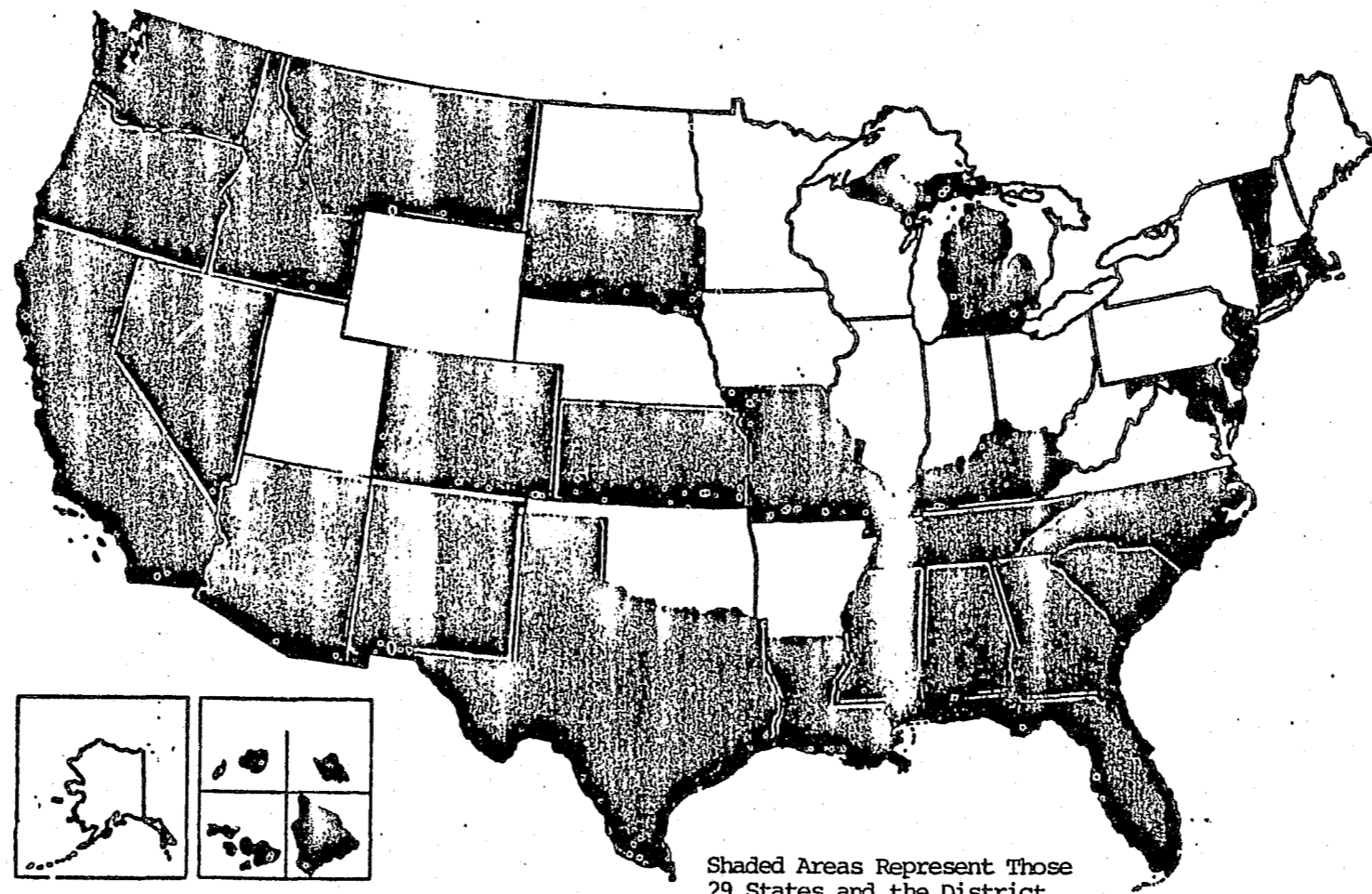
New legislation from the Omnibus Budget Reconciliation Act is being implemented. Rules are in preparation to allow States to reduce food stamp allotments to collect nonfraud overissuances and to impose stronger

penalties for fraud and misrepresentation. Proposed rules were just issued that give States 75 percent funding for them to develop automated certification and issuance systems with thorough management controls. Rules on the States' retention of 25 percent of the nonfraud recoveries are expected shortly.

More provisions are under consideration in Congress as part of the FNS reauthorization which will bear directly on issuance systems. For example, legislation is pending which would establish mail issuance loss tolerance levels, resulting in State liability for coupon issuance. We believe that mail issuance is one area that is especially vulnerable to fraud and abuse. Although this is a small percentage of overall coupon issuance, its use has continued to grow. During the past year we have closely monitored mail loss rates and subsequently proposed legislation to Congress earlier this year giving the Department the specific authority to control mail issuance. The Senate passed a provision requiring States to reimburse the Federal government for coupons replaced lost in the mail which exceed one percent of total mail issuance during any six month period in areas that issue a significant volume of coupons by mail. The House language allows the Department to establish the mail issuance tolerance level, and permits 75 percent funding of costs for use of certified mail in issuing coupons. Thus legislation as finally adopted by Congress will require States to significantly tighten their mail issuance operations. The Senate language also grants the Department broad authority to mandate certain controls or restrict the use of mail issuance in areas with consistent mail loss problems. In cooperation with the United States Postal Inspection Service, we will be developing materials on techniques States should use to reduce mail losses.

Finally, regardless of these upcoming or potential changes, we expect States to take the necessary administrative action to identify and act on issuance problem areas. States have always had the authority, and the responsibility under the program's regulations, to structure and administer a well-founded issuance system. For our part, we must encourage alternative delivery systems, monitor issuance systems, and provide the technical assistance States need to have accountable systems to prevent unauthorized issuances.

I appreciate the opportunity to appear before the Subcommittee and will be pleased to provide any further information you require.



Shaded Areas Represent Those
29 States and the District
of Columbia Which Have Been
Approved for 75% Fraud Funding

Mr. FOUNTAIN. What is your best estimate of the losses being incurred annually through fraud and abuse in the food stamp program and what are the major problems involved?

Mr. HOAGLAND. A number of estimates have been generated regarding the amount of fraud in the food stamp program. The figure that has been discussed this morning, \$1 billion, is a figure that includes nearly \$800 million in what we refer to as simply "errors." We do not have a good feel in this country for the, quote, "amount of fraud," documentable fraud, dollar amount of fraud, in the food stamp program. The \$1 billion includes nearly \$800 million that we document through our own quality control system in this country. That is a system where we look at overissuance and underissuance of food stamps to individuals, and that \$800 million I would refer to as error. I would not call it all fraud.

Mr. BROWN. Could I then ask about the 799 cases? Would those 799 cases be the cases involved with this \$200 million of criminal activity, or are you telling me that the \$800 million worth of sloppy administration, another word for "error," involves no criminal activity?

Mr. HOAGLAND. I'm saying that of the \$800 million, which I feel very comfortable that I can document and prove to the subcommittee, a lot of it is administration, faulty administration, sloppy administration, if you'd like. The additional, whether or not the 799 cases that the Department of Justice spoke about this morning translates into \$200 million, I honestly can't tell you. I do not know if those 799 cases translate into \$200 million.

Mr. BROWN. Could you relate the \$800 million to the total amount of food stamp activity currently?

Mr. HOAGLAND. This translates into about 10 percent of the total amount of food stamps issued that would fall into this category of error. We will be spending close to, a fully authorized program, about \$11.3 billion in the food stamp program for the fiscal year that we're currently in. So, this represents close to 10 percent, slightly less than 10 percent, of the total amount of food stamps issued.

Mr. BROWN. This is an observation, Mr. Chairman, but in most American industries that are manufacturing products, the manufacturer of the product allows for a 2½-percent error. I heard the president of the Phillips Industries in the Netherlands say, and he's 87 years old, that the thing that he had learned from the Japanese recently, was that 2½-percent error was 2½ percent too high. It seems to me that 10 percent is just way too high.

Mr. HOAGLAND. Can I simply respond that I agree that 10 percent is too high? In terms of what are the individual components we can even go further as to what the definition of error is.

One of those pieces of information in the definition of error would be if they failed to sign their affidavit, or maybe something that is just a simple slip-up, not to suggest that the individual was not eligible for those benefits, but by not carrying out the certain procedures established for the office operation, that would be considered something that would show up in the \$800 million.

Put in proper perspective, the \$800 million doesn't mean that it's a poor person that's ripping off the system.

Mr. BROWN. But if I was a teller in a bank cashing a check and I cashed a check that was not signed, do you have any idea what would happen?

Mr. HOAGLAND. I understand and I appreciate the comment. All I'm saying is in the perspective of the \$800 million there are lots of things that we have to look at individually.

Mr. BROWN. Has the Agriculture Department done any study of that \$800 million, which really is more than I made all last week in my business? That is the \$800 million that has been lost in 1 year or, rather, as a result of bad bookkeeping or procedural administration. That \$800 million seems to me to be of sufficient size that it would be worthwhile for the Agriculture Department to make a study of it to find out where those errors occurred and how changing the process could improve that rather abysmal record?

Mr. HOAGLAND. Congressman Brown, we do this. We are consulting daily with the States and one piece of information you should know that is changing the process to address this issue is that we will begin this fall with what is referred to as the fiscal error rate sanction system. That is, a State that is out of line, that contributes highly to the large error rate that we talked about, the \$800 million, the 10 percent, that State will be held liable for poor administration in their program and they will have to reimburse or we will reduce the amount of administrative funds going into that State.

About 14 or 15 States will possibly come under a fiscal sanction this fall because of having high error rates. We believe that's one mechanism to encourage States, since this is all Federal money from the food stamp program. It should encourage them to properly administer the food stamp program in their individual State.

Mr. BROWN. If in a specific program there was \$11 billion and we have lost \$800 million just through sloppy procedure, whether it was a defense system or something else, it seems to me that there would be a high dudgeon within that Department on the part of somebody to try to correct that state of affairs.

Now, the reason I have raised that question is that the food stamp itself seems to be about as close in physical look and feel to money as anything I can think of in the whole process of government. It is not like somebody putting a dent into the nose of a very sophisticated airplane that costs you a lot of money, that has to be then corrected. It is money that people are dealing with and being sloppy about. Isn't there some way that that can be given the same kind of attention that one would give in a bank or a private business? In my business if there was a 10 percent bad debt rate, I would go after my managers hammer and tong.

Mr. HOAGLAND. Yes, I agree with you that it is extremely high. As I indicated, one of the problems that we have is that this is federally funded. One hundred percent, in terms of the benefits, are Federal funds. We have a State administration, local administration of this program. They do not, I would suggest to you only in passing, that they may not look at this in terms of the States or the local people, as their money. It's Federal money. I realize the perversity of that in some ways, but the way you probably encourage States to take a little bit better care of Federal moneys is to make sure that they are held strictly liable for losses as well as

penalizing them for sloppy administration, and that is what we will be doing through our quality control fiscal sanction system plus these other State sanctions that we'll be imposing for loss to ATP.

Mr. BROWN. One final question, Mr. Chairman. Do you have any breakdown as to where in the process the \$800 million comes, how much of it comes within the control of the Department of Agriculture through its own employees, and how much of it comes in somewhere else, after Agriculture has signed off on its part of the process?

Mr. HOAGLAND. This is at the issuance, the certification level, so this is all the local administration. These are not USDA employees. These are public welfare offices. These are State employees.

Mr. BROWN. Or private.

Mr. HOAGLAND. No, this \$800 million is strictly the administration and certification of eligibility for food stamps, so this is strictly the public sector employees that are responsible for this loss of \$800 million. We would be happy to share the details of the \$800 million, which I should point out to you, if my figures serve me correctly, that's both overissuance and underissuance. Some people didn't get as much as they should have by about \$200 million, if my recollection serves me.

Mr. BROWN. It would be helpful for us to see whatever detail they might have, Mr. Chairman.

Mr. HOAGLAND. Thank you.

Mr. BROWN. Thank you, Mr. Chairman.

[No further breakdown of the \$800 million in errors had been supplied at the time the hearing was printed.]

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Mr. Hoagland, at our hearing on November 8, 1979, the Food and Nutrition Service testified that it expected to publish regulations the next day which would require States to report the numbers and value of duplicate food stamp ATP's they issued. That's on page 98 of the hearings. Are those regulations the ones that require the FNS-46 report that you're talking about?

Mr. HOAGLAND. Yes. Those are the ones that were issued by us in January of this year. I was not the Administrator at that time and cannot respond to specific questions on it.

Mr. NAUGHTON. Does anybody know why it took from November 1979 until January 1981 to do that?

Mr. HOAGLAND. I'd be happy to turn to the Deputy Administrator for Family Nutrition, if she has a response to that. I do not know what happened within the Department during that period of time.

Ms. FROST. The reference to the publication the following day, as I remember, was to a proposed regulation, that we put it through a public comment period and in fact got a considerable amount of comment from State agencies who were not too pleased that we were changing some of the liability provisions and then we finalized them in January. It is correct that that was quite a period of time between proposed and final, but we got a good deal of adverse comment.

Mr. NAUGHTON. Am I correct in assuming from your testimony that you are not really sure that the information provided, the FNS-46 reports, are complete and accurate?

Mr. HOAGLAND. We had indicated that it is a new report and as is the case of any new report that's placed upon a State for providing us with information, there's bound to be some misunderstanding at times as to what they're supposed to be reporting, and also as has already been reported this morning, there may be some incentives within it, to the extent that you're going to be penalized by what you report on, that a State may want to not necessarily be as forthcoming with the information as they should be, and so that is why we are asking for the Office of Inspector General to help us out in a very detailed audit of the FNS-46.

Mr. NAUGHTON. When do you think you will be able to provide the subcommittee with comprehensive, State-by-State figures on losses through stolen or duplicate food stamps or ATP's?

Mr. HOAGLAND. I would believe that potentially by the first part of next year, as we have an opportunity to carefully review the FNS-46 and depending on how quickly the Office of Inspector General can help us out in doing this audit on the FNS-46. It will probably be early next year before we'd be able to give you that kind of detail.

Mr. NAUGHTON. And would that be January or February?

Mr. HOAGLAND. I'd hate to get tied into a specific date, but I would assume some time along in the period of the first quarter of the next calendar year we ought to be able to provide you with some improved information.

Mr. FOUNTAIN. Do your regulations require the reporting of ATP's or food stamps stolen from the mails to the Postal Service?

Mr. HOAGLAND. That's correct.

Mr. FOUNTAIN. What steps, if any, have you taken to insure compliance?

Mr. HOAGLAND. With the report of the losses?

Mr. FOUNTAIN. Yes.

Mr. HOAGLAND. Well, again, we are moving in the farm bill that is now going to conference, I believe next week. We will be able to have the ability to hold, again, a State strictly liable for losses in the mails that exceed certain tolerance levels and here again, then, we will be going to the State and penalizing that State if they have a large loss.

Also, the regulations as we've discussed it we have already issued, say that in the mails you lose ATP's twice in a 6-month period, then the State is required to find some other issuance system for that individual.

Mr. FOUNTAIN. Witnesses from the Office of Inspector General testified at our 1979 hearing, on page 100, that most large cities were not in compliance with regulations requiring that food stamp ATP issuances be reconciled for each month to identify duplicate redemptions. Has that problem been eliminated?

Mr. HOAGLAND. As I've indicated, our FNS-46 is designed to do that. I'm not going to suggest to you that we still do not have issuance losses, but we are working very strongly, along with the FNS-46 and the rapid data access system I talked about.

Mr. FOUNTAIN. Is it still true that ATP's issued in New York City can be redeemed anywhere in the State?

Ms. FROST. Yes.

Mr. HOAGLAND. That's correct.

Mr. FOUNTAIN. Are you aware of any significant recommendations concerning the food stamp program made by the Inspector General with which the Food and Nutrition Service disagrees?

Mr. HOAGLAND. Well, there have been, I presume. In the short time that I've been in the agency since February, I look upon the Office of Inspector General as a management consultant in some ways, giving me good information on ways of improving our programs and operations. There have been some differences of opinion relative to the effectiveness of certain recommendations the Office of Inspector General has given. As an example, wage matching is one. But we have usually followed very closely their recommendations when it is documented and supportable by their audits and their investigations.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Could you provide a list of any significant recommendations of the Inspector General with which you disagree, indicating the reasons for your disagreement, for the record?

Also, are there any significant IG recommendations concerning the food stamp program with which you agree but have not yet fully complied with?

Mr. HOAGLAND. I would have to know exactly what those recommendations were from the IG. I guess we would have to check with them.

Mr. NAUGHTON. I was just going to ask for a second look.

Mr. HOAGLAND. Sure. Fine.

Mr. NAUGHTON. That would be to see those with which you agree, when they were issued and if it has been a considerable period of time without full compliance, what the reason for the delay is.

Mr. HOAGLAND. You're not talking about insignificant things?

Mr. NAUGHTON. No, significant.

Mr. HOAGLAND. I understand.

[The information follows:]

OIG/FNS ISSUES

RECOMMENDATION 1:

OIG advocates mandatory wage matching for the Food Stamp Program. They believe that matching techniques would allow States to identify more readily those households with unreported or incorrectly reported earnings or benefits, thereby preventing error and abuse. It is the opinion of OIG that many States with the capability, and now making matches for Public Assistance (PA) cases, will not make the Food Stamp Program matches unless it is mandatory.

STATUS:

The 1981 Farm Bill mandates wage matching by State agencies with either State Employment Security Agency (SESA) or Social Security Administration (SSA) data. We have already begun work on the necessary regulations and hope to publish the proposed rule mandating wage matching in middle to late Spring.

On July 10, 1981, FNS published a proposed rule which would permit access to SSA wage and benefit information by the Department of Agriculture and State agencies. This rule-making does not mandate this activity but encourages State agencies with the capability to conduct wage matching to do so. We believe that this is an excellent technique especially when used in conjunction with other verification tools. A number of States are already doing some wage matching. In addition, FNS would establish certain broad guidelines which will allow States some flexibility in establishing the specifics of their matching programs. We are currently in the process of finalizing this rule.

RECOMMENDATION 2:

OIG recommended that FNS implement an "ATP Charge Back Provision" (First Endoser Liability). The system would work in conjunction with the food stamp identification (ID) card which is supposed to be checked when an Authorization to Participate (ATP) document is redeemed for food stamps.

STATUS:

FNS is currently drafting language for a proposed rule which will require those project areas using photo ID's to implement a charge back system. We anticipate publication of the proposed regulations later in the Spring. For those areas not subject to photo ID's, the States have the discretion to incorporate a charge back provision into their contract with issuance agents.

RECOMMENDATION 3:

OIG supports the establishment of a mail tolerance level. Presently the Federal Government assumes all losses resulting from mail issuance. FNS has little authority to enforce State agency corrective action to reduce financial loss.

STATUS:

We too are aware of the need for establishing a mail issuance tolerance level. For sometime now we have been examining several alternative solutions to the problem of coupons lost in mail issuance systems. Over a year ago we drafted proposed regulations establishing a tolerance level. During the proposed regulations clearance process, our Office of the General Counsel (OGC) determined that without specific legislative authority it was not possible for FNS to establish a tolerance level wherein liability for losses would be shared with States. We now have that legislative authority. The 1981 Farm Bill provides the Secretary of Agriculture with authority to set a mail issuance tolerance level through regulations. We are currently working on language for the proposed regulations which we expect to be published by late Spring.

RECOMMENDATION 4:

States who do not complete at least 95 percent of their QC sample should have their administrative cost for quality control reduced by the percentage amount of non-completion below 95 percent.

STATUS:

The section on good cause (275.25(a)(5)) contains a provision that allows the Secretary to waive or reduce a State's liability for circumstances other than those specified in the regulations in order for the Department to maintain flexibility. This will allow the Department to recognize extreme cases that cannot be anticipated beforehand in which a State should not be held liable for high error rates. The Department would be using this provision in the regulations to recognize the situations that unduly penalize a State agency and it will not be used indiscriminately.

The regulations contain a provision for adjustment to a State's error rate should they fail to complete 95 percent. This adjustment will raise a State's error rate. Also in the extreme cases where a State fails to complete a substantial portion of its sample, FNS can invalidate the sample as improper and assign the State an error rate.

The regulations that implement the sanction/incentive system state that no State shall receive enhanced funding based upon quality control data for a period prior to the date upon which its quality control system was in operation. This would prevent

States from claiming enhanced funding if the State did not have an operating QC system in place, even though the regulations for incentives are retroactive to October 1978 as the law requires.

RECOMMENDATION 5:

Require States with county operated computer systems to design and implement compatible systems. In addition, OIG recommended that the 75 percent funding should not be available to States that are not developing computer systems capable of detecting fraud and abuse on a Statewide basis.

STATUS:

We are currently discussing and resolving the issues raised by commentors in the drafting of the final rule on FNS matching grants of administrative costs for computer systems. The issues raised by OIG are major issues, particularly those of transferability and compatibility and will be carefully considered before publishing the final regulations. We will continue to encourage the use of systems already developed in the States.

Mr. NAUGHTON. Have you had any problems or do you perceive potential problems because of the situation in New York State where food stamps issued in New York City or ATP's issued in New York City can be cashed anywhere in the State?

Mr. HOAGLAND. It is a concern to us that we still have the level of ATP's, even after the rapid data access that are not reconcilable. My understanding in working with the Office of Inspector General is they will be doing an investigation to look throughout the State and will be supportive of that investigation.

Mr. FOUNTAIN. I'd like to include in the record a memorandum from Mr. Thomas McBride who was Inspector General, on August 23, 1979, which was addressed to the Attorney General and the subject was law enforcement authorities for special agents for the USDA Office of Inspector General, and the purpose of this memorandum, I think, was to solicit the support of the Attorney General's Office in connection with the need for special agents who go into dangerous situations to be able to protect themselves and maybe when they see an offense being committed to even make an arrest.

But in this memorandum is set forth a tremendous amount of information about the extent to which this thing has become a big-time criminal operation to an extent greater than, I think, many people realize and this was back on August 23, 1979, and I'm sure that during the course of some of the testimony we will probably have some updating of this from the Inspector General of the Agriculture Department.

That is all we have to ask you this morning. We appreciate very much both of you being here.

Ms. FROST. Thank you.

Mr. HOAGLAND. Thank you, Mr. Chairman.

[The memorandum referred to appears in the appendix.]

Mr. FOUNTAIN. Our next witness is Gerald W. Peterson, Assistant Inspector General for Auditing of the Inspector General's

Office of the Department of Agriculture, and along with him is Mr. Thomas J. Burke, Deputy Assistant Inspector General for Investigations. I understand that Mr. Graziano, who at one time was expected not to be able to be with us, will be here, and so whoever wants to do the talking has the privilege of doing so. We are seeking information, and I'm sure you gentlemen are in a position to give it to us.

You don't have a prepared statement?

STATEMENT OF JOHN GRAZIANO, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY GERALD W. PETERSON, ASSISTANT INSPECTOR GENERAL FOR AUDITING, AND THOMAS J. BURKE, DEPUTY ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS

Mr. GRAZIANO. No, sir, I do not.

I appreciate the opportunity to appear before the committee. We are prepared to answer any questions you might have, Mr. Chairman, concerning our participation in the food stamp program.

Mr. FOUNTAIN. Thank you very much. We appreciate your being here. We want to congratulate you on the work you've been doing in the limited period of time within which you've had to operate so far, in view of the shuffling around of the Inspectors General. It doesn't make it easier for one in that position to carry out his responsibilities.

I'd like to know what your best estimate is of the annual losses incurred through fraud and abuse in the food stamp program and what do you regard as the major categories involved?

Mr. GRAZIANO. We have the categories involving recipient fraud, which I think has been spoken of earlier, and we speak to the fraud contained in what has been described as the error rate, which is estimated to be about 10 to 12 percent of the program from our review, and most of the error, as we see it, involves underreporting income or overstating the size of the household. So, a good percentage of what is classified as "error" is, in fact, fraud because people should know how many people are in their household or what amount of money they do earn.

There is also a considerable amount of fraud in trafficking operations which is generally not picked up by a quality control system.

So, to give you a hard dollar figure, Mr. Chairman, would be extremely difficult.

Mr. FOUNTAIN. Are there any areas in which you think the Food and Nutrition Service has done a particularly good job or a particularly poor job in responding to your recommendations for corrective action? If so, would you elaborate.

Mr. GRAZIANO. May I ask Mr. Peterson to respond to that because in on-going audits he has been in a position to make a review of what FNS has been doing?

Mr. FOUNTAIN. Yes. Mr. Peterson?

Mr. PETERSON. I think for the most part, at least over the past—

Mr. FOUNTAIN. Give us your general impression and then supply the details for the record.

Mr. PETERSON. At least over the past couple of years, the time that I'm immediately concerned with, I think that FNS has done a

pretty good job implementing the recommendations that the Office of Inspector General had made as it pertained to the food stamp program. I don't think that we can say that all of those changes have been made in a timely fashion, as we've just discussed, but I do believe that they've made good progress in responding to the recommendations.

Mr. FOUNTAIN. How many investigators and auditors do you have working on the food stamp program?

Mr. GRAZIANO. Well, I would estimate of our total, which at the present time is 881 positions, about 30 percent of our total staff is involved in investigations and audit, Mr. Chairman.

Mr. FOUNTAIN. If the 12-percent cut in your budget, proposed by OMB on September 30, were to take place, what impact would that have on your ability to combat fraud and abuse in the food stamp program?

Mr. GRAZIANO. It would have a significant impact on our total commitment to handle our program, Mr. Chairman, because we are a labor intensive organization. About 90 cents out of every \$1 goes for salaries and travel expenses.

However, yesterday we were informed by representatives of the Office of Management and Budget that the recommendation has been made by OMB that there be no cut in staffing for the Office of Inspector General at the U.S. Department of Agriculture.

Mr. FOUNTAIN. I'm delighted to hear that. We had been led to believe that a new look was being taken at these situations.

Mr. GRAZIANO. Yes, sir. We were informed last evening by our Budget Office that our new numbers would be 902, which would be straight lining from the 1981 authorizations.

Mr. FOUNTAIN. With that number would you have to fire any food stamp investigators?

Mr. GRAZIANO. Would I have to fire?

Mr. FOUNTAIN. Would you have to get rid of any food stamp investigators?

Mr. GRAZIANO. No, sir.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. If the 12-percent cut had taken place or should take place, you would have to terminate some food stamp investigators, would you not?

Mr. GRAZIANO. It would appear likely, Mr. Naughton, yes sir.

Mr. NAUGHTON. Would any reduction in force bear disproportionately heavily on food stamp investigators as opposed to your other personnel?

Mr. GRAZIANO. Well, our investigators generally handle a variety of assignments. We do not specialize because of the size of our staff and we assign investigators as they are available. We do have some people who are experts in undercover operations and are continually involved and when we set up a RIF register it could very possibly involve some of those people.

Mr. NAUGHTON. But aren't the ones who are out there in the hazardous duty, the undercover operations and so forth, primarily the younger agents who have less seniority and therefore might be fired first?

Mr. GRAZIANO. Yes, sir, they are. They certainly are.

Mr. NAUGHTON. Did you receive any assurances with respect to travel funds? Of course, obviously, your personnel are not much good for you if they can't travel.

Mr. GRAZIANO. No, sir. All I was given was information concerning that I had a ceiling for 1982 which I did not have prior to last evening and that up until November 20, during the period of time of the operation of the continuing resolution, the 12-percent cut would not apply to us.

Mr. NAUGHTON. Have you gotten anything in writing, or to your knowledge has the Department gotten anything in writing, indicating that OMB has withdrawn its recommendation for a 12-percent cut in your budget?

Mr. GRAZIANO. No, sir. I was informed by a telephone call that came to the Director of the Office of Budget last Friday. There was nothing in writing forthcoming.

Mr. NAUGHTON. Of course, the proposed cut is in writing and it would be helpful, I am sure, if equal formality would be given to rescinding it, if in truth it's being rescinded.

Mr. GRAZIANO. It may be forthcoming, Mr. Naughton.

Mr. NAUGHTON. Yes.

Mr. FOUNTAIN. I wonder if you would briefly describe for us the qualifications and the training of IG personnel assigned to food stamp investigations and give us some indication of the kind of work they're doing and the results they're accomplishing.

Mr. GRAZIANO. Well, our agents receive the same type of training that all Federal law enforcement agents receive. With the exception of the FBI, all criminal investigators working in the various Federal agencies are trained at the Federal Law Enforcement Training Center, Glencoe, Ga. Our agents are trained at that facility, along with Secret Service agents, ATF agents, DEA agents, and everyone else.

They are trained in the use of firearms and the issuance of warrants, conducting searches and seizures, and all the legal aspects concerning those procedures.

We also have retraining programs where we bring them up to date on the latest activities. We have in-house training in certain areas such as conducting investigations on meat inspection, bribery that may arise as a result of that, and certain aspects of the building and industrial loan programs, and Farmers Home Administration, and, of course, specifically because there's such a major impact on our total workload, the food stamp program, and the various other aspects of the Food and Nutrition Service programs.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. What percentage of your total food stamp investigative work, your fraud investigations, involves recipient fraud as opposed to traffickers or the other categories of more hardened criminals.

Mr. GRAZIANO. We do very little work in the area of recipient fraud. Traditionally it's been an area that we have left to the States and local communities. We concentrate primarily on trafficking, caseworker issuances, and errors of that type.

Mr. NAUGHTON. It was indicated, I think, that about one-fourth of the 799 indictments that your investigators and auditors were responsible for during fiscal 1981 involved recipient fraud. Was the

amount of work that went into those indictments on the part of your personnel equal to the other indictments or were those relatively easy cases, short-term cases as compared with trafficking?

Mr. GRAZIANO. I will ask Mr. Burke to give you a more specific answer. However, generally the U.S. attorneys are very selective in the types of cases that they will accept for prosecution and therefore they generally are not concerned in the assessment of their priorities by cases which are so-called easy recipient frauds. Tom, perhaps you can give a little more.

Mr. BURKE. Thank you. Mr. Naughton, last year we had 882 individual investigations into the food stamp program. Of that 882 investigations 106 were specifically in the recipient area. Stemming from the 106 investigations of recipients, as Mr. Jensen stated before, there were 182 indictments.

Now, you should be aware also that the statistics that Mr. Jensen gave from the categories are not mutually exclusive. That is, when we have an investigation we may label it at the outset trafficking. Then when the results of the type or classification of people fall out, that is those indicted or arrested and convicted can be retailers, wholesalers, recipients or a combination thereof, or precisely, in addition, people that are outside the system, as Mr. Jensen stated.

About 6 or 7 work years went into the recipient investigations last year by us. That's out of a total of about 100 work years. So about 6 percent of our field endeavor was specifically targeted at recipient fraud. So that—you shouldn't think that we work in a vacuum because our recipient fraud work also stems from audit referrals in which the audit side of our house does a great deal of matching using the social security numbers and I think Mr. Peterson may want to direct some of your attention to that area.

Mr. NAUGHTON. I'm sure that some of the traffickers that you've investigated and gotten indicted have gone to jail, have they not?

Mr. BURKE. Oh, yes, sir.

Mr. NAUGHTON. Is it common practice for recipients to actually serve any jail time for a relatively uncomplicated case where they're not using several different names or things of that kind?

Mr. BURKE. No, Mr. Naughton, that would be atypical. Most of the recipients that get involved in this are relatively poor people who are possibly greedy but they don't do jail time. Most of the sentences are for 30 to 60 days and sometimes as much as a year or two but they're usually suspended and put on some sort of probation.

Mr. NAUGHTON. These usually result from plea bargaining.

Mr. BURKE. Yes, sir. Most of it is plea bargaining. In fact, I would say over 90 percent of the cases that we bring to the U.S. attorney following indictment are plea bargained. We have very few actual court cases.

Mr. NAUGHTON. But they do try to work out, to the extent that it's feasible to do so, recoupment of the moneys that have been illegally obtained?

Mr. BURKE. Not necessarily.

Mr. FOUNTAIN. I don't guess you recoup very much.

Mr. BURKE. I think our record in that area is very poor. Most of the courts do not levy fines or look for recoupment.

Mr. NAUGHTON. Do you think these indictments have a deterrent effect on recipient fraud?

Mr. BURKE. Yes, sir, we think it does. We jointly worked with the audit people on a match in Tennessee. We also worked on that case with the State officials. There was a great deal of notoriety and a great deal of people were indicted; both on the Federal side and on the State side. As a consequence of the notoriety and the reported indictments, numerous people came into the welfare offices and asked to take their names from the rolls. We think this had an impact. We can't measure it exactly but we have had reports that numerous people have voluntarily come in and taken their names off the rolls.

Mr. FOUNTAIN. You know, of course, that we on this committee have been extremely interested in being sure that your office and the other Offices of Inspectors General have adequate personnel. I must confess that one of the key factors I had in mind in introducing legislation and in cosponsoring other legislation which established the Offices of Inspector General was not only to discover fraud and waste and downright thievery, but to have an institution with the power to act independently and to take such an inventory of the administration of the programs within the agency that you can eliminate as much fraud as possible and prevent unnecessary expenditure and waste and extravagance. In my opinion, one of the great accomplishments that can be made by your office and the other inspectors general is to understand the programs that are in effect, and check into those programs to prevent happening some of the things you're now talking about.

I wonder if you would describe for us your involvement in an income verification project in Memphis and Nashville and the results of that project.

Mr. GRAZIANO. Mr. Peterson is going to answer that question.

Mr. FOUNTAIN. Mr. Peterson.

Mr. PETERSON. We have been involved in a matching project in Memphis and in Nashville and I guess it's a somewhat unique project because I think for the first time a number of different agencies got together to cooperate. It was not just USDA but HHS and HUD also participated. In future endeavors of this type the Department of Labor and the Department of Education have expressed a desire to also cooperate. Focusing on the Memphis-Nashville match, our intent was to tackle this problem of recipient fraud. There's a lot of figures kicked around. A recent GAO report suggested that there may be \$850 million in underreported income in the various programs. We endorse that but I think that that's a very, very conservative figure.

To put this in the right context, there's been some suggestion that we may be out looking for the very poor that just marginally missed the program or marginally have too much income. That isn't the case. In Nashville, we looked at no recipient that was not making at least \$100 a month more than would have been qualifying for the program. In Memphis and Nashville, we ended up with about 1,600 food stamp recipients that were participating in at least one program and many of those were participating in at least four programs.

But in those 1,600 cases, the amount of money attendant to those cases was \$2,500,000. What we're talking about here is that once we make the case we then go back and compute the total amount the person has received illegally while they were ineligible for program benefits.

To date there have been 114 indictments of those 1,600 cases in the State courts and 89 in the Federal courts. I should also say that of the 1,600 cases, 667 were also participating in the AFDC program and had received benefits of about \$800,000; 500 had participated in medicaid, receiving benefits of about \$150,000 and 144 also participated in HUD programs, receiving a total of \$250,000 illegally.

Mr. FOUNTAIN. What is your estimate of the benefits that project has had as compared with the cost?

Mr. PETERSON. Our estimate is that it's returning \$20 for every dollar that we put into it. The total cost just for food stamps, I believe, was about \$125,000, with a return of about \$2½ million.

Mr. FOUNTAIN. Of course, there are other programs also involved.

Mr. PETERSON. Yes, as has been pointed out.

Mr. FOUNTAIN. But in view of the apparent benefits of the Tennessee project in curbing fraud and abuse in a number of programs, are you in a position to move rapidly now to carry out similar projects in other areas?

Mr. GRAZIANO. We have instituted a project in Atlanta and we are going to institute a number of additional projects. We have already had a meeting involving a number of the other IG's to gain their cooperation and participation in expanding this as rapidly as possible.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. If you're receiving a 20-to-1 return, that's an awfully good investment. Do you have adequate resources so that you're able to proceed, to move ahead with additional programs, as rapidly as you would like to do so in order to obtain these benefits?

Mr. GRAZIANO. I think you never have all of the resources that you think you would like to have in order to move as rapidly as you can. We are to establishing priorities and moving into those areas as quickly as possible where we think we can get the biggest bang for the buck. If we had to blanket all of the areas we would like to target, obviously the answer is we do not have sufficient resources.

Mr. NAUGHTON. Is there any question at all in your mind that, if you had additional resources, you could more than pay for them through projects similar to this one that you can't now undertake with the resources you have?

Mr. GRAZIANO. Our track record is such that we've returned substantially greater amounts to the U.S. Treasury for the investment in investigators and auditors, so that obviously we do feel that we would be able to increase our effectiveness and return more money to the U.S. Treasury if we had greater numbers of resources.

Mr. NAUGHTON. Of course, if the 12-percent cuts, which all of us hope will not materialize, should materialize, you would have to cut back on the plans you now have, would you not?

Mr. GRAZIANO. Yes, sir.

Mr. FOUNTAIN. As you know, the General Accounting Office has reviewed significant federally supported programs at the request of the subcommittee with a view to ascertaining the adequacy of procedures used to verify the accuracy of income or asset information supplied by applicants. We expect to have a full report from the General Accounting Office within the next few weeks.

I think it would be useful to read into the record a staff summarization of advance information we have received from the General Accounting Office in connection with the report it is preparing for us on income verification activities, as well as related activities of the USDA Office of Inspector General:

In late 1979 the subcommittee asked the General Accounting Office to review significant federally supported programs which rely on income or asset information in determining eligibility for or the amount of benefits with a view to ascertaining the adequacy of procedures used to verify the accuracy of information supplied by applicants.

It is expected that a report on this review will be supplied to the subcommittee within the next few weeks. In the meantime, at the subcommittee's request, GAO supplied an advance summary of significant findings which will be discussed in detail in the forthcoming report.

GAO reviewed five major programs which use income and asset information in determining eligibility. These programs—AFDC, SSI, Medicaid, Food Stamp and HUD's section 8 Housing Program—involved total program expenditures of approximately \$45 billion in fiscal year 1978.

On the basis of its review, GAO estimated that overpayments caused by recipients' failure to fully report income and assets in applying for benefits under these five programs during fiscal year 1978, totaled more than \$850 million—nearly 2 percent of the total program expenditures.

The Agriculture Department's Office of Inspector General, working with the OIG personnel from HHS and HUD, matched income data supplied by food stamp recipients in Shelby and Davidson Counties, Tenn., with wage data supplied by employers for the unemployment insurance program.

This match and subsequent followup work disclosed a total of 1,600 suspected fraud cases in the Food Stamp Program out of a total caseload of approximately 82,000. The total food stamp fraud involved in the 1,600 cases is estimated at \$2½ million.

I imagine that's a sum that you wouldn't be able to collect because they're the people that aren't able to pay it.

Mr. GRAZIANO. Yes, sir.

Mr. FOUNTAIN. But you get them off the rolls.

Mr. GRAZIANO. Yes, sir. We could prevent further loss by getting them off the rolls.

Mr. FOUNTAIN [continues reading]. "735 of the 1,600 cases also are believed to involve fraud in the medicaid program"—and I might say in response to the editorials in the paper that if we get information indicating that doctors or lawyers or preachers or anybody else is stealing money from the taxpayers, whether it's in a resthome or nursing home or in a hospital or anyplace else, this committee will exercise its surveillance jurisdiction to whatever extent we can to see that appropriate action is taken. "About 200 Federal and State indictments have been returned as of September 1981. According to USDA OIG sources, this project will result in a very high benefit/cost ratio."

I wanted to get that in the record for the benefit of all members of the subcommittee.

Do you think the findings of these two separate projects are consistent, GAO and yours?

Mr. GRAZIANO. Yes, sir.

Mr. FOUNTAIN. It's my understanding that food stamp ATP's issued in New York City can be redeemed anywhere in the State. Is that accurate?

Mr. GRAZIANO. Yes, sir, it is accurate.

Mr. FOUNTAIN. Is that an appropriate way to run a program?

Mr. GRAZIANO. Obviously we would like to see that an ATP issued in a county is cashed in that county. This would minimize the amount of duplicate issuances if we could confine the redemption of the ATP for food stamps to the area where it has been issued.

Mr. FOUNTAIN. So it has caused problems?

Mr. GRAZIANO. Yes, sir.

Mr. FOUNTAIN. To your knowledge, are there any other States in which food stamp ATP's can be redeemed in locations other than those in which they're issued?

Mr. GRAZIANO. I'll ask Mr. Burke to answer that question.

Mr. BURKE. Mr. Chairman, I think it can also be accomplished in the State of Pennsylvania.

Mr. FOUNTAIN. Pennsylvania?

Mr. BURKE. Not only because, as New York, it's a centrally directed food stamp program. It is centrally reconciled and because of that the ATP can be issued in one jurisdiction and cashed in another.

Mr. PETERSON. But there is a significant difference between Pennsylvania and New York. It isn't so much that New York allows the ATP to be redeemed at another location. It's that they are not reconciled on a statewide basis. In Pennsylvania they do, in fact, have a statewide system and you can redeem an ATP at a location other than the one that you received it in. But, the State has a reconciling process that makes that fall out. In New York that does not exist. They reconcile county by county rather than on a statewide basis and therefore that data is lost for reconciling purposes in New York. So that's the real thrust of the problem in New York.

Mr. FOUNTAIN. But it is true, as has been pointed out by other witnesses and as I think we understand from the program, that notwithstanding the fact that this is a Federal program involving Federal tax dollars, the burden for the administration of this program is at State and local levels.

Mr. GRAZIANO. Yes, it is.

Mr. FOUNTAIN. And would you say that is where most of the problems are?

Mr. GRAZIANO. Well, in the fraud concerning the issuance and redemption and the steps in between, certification, reconciliation, yes, sir.

Mr. FOUNTAIN. I happen to be one of those who used to be referred to as a "States righter," but I always thought that along with States rights go State responsibilities. Everybody seems to jump on the Federal Government, but somehow I have detected a feeling that in some States this is Federal money and there's a printing press up there somewhere and whether they're public officials or whoever else they are, they're willing to take the money and if they make a mistake in distributing it, they're not too

concerned about getting it back or paying it back. Does that seem to be the situation?

Mr. GRAZIANO. Yes, sir. I believe the previous testimony before your subcommittee, Mr. Chairman, in the past by my predecessor, Mr. McBride, would also indicate that that has been our experience. When I was in Agriculture between 1974 and 1979, we had instances where State officials felt it was not one of their priorities because it was Federal money.

Mr. FOUNTAIN. So it appears that one of the things we need to emphasize is that with States rights do go State responsibilities and that it's time for us to sort of reemphasize to States to take some action on the State levels and local levels to see that these programs are responsibly administered. Otherwise, they can get out of hand and the people who need the help may not get it because the funds aren't there.

Mr. BRENNEN. Just one quick question here. In previous testimony it was noted by witnesses that the Department of Agriculture's Office of Inspector General is the primary, if not the only, Federal agency doing the investigative work required for preparation of cases for presentation to the U.S. attorneys for prosecution. Do you agree with that assessment and if so, why is this the case?

Mr. GRAZIANO. Do you want to answer that?

Mr. BURKE. Basically I agree with you. The legal responsibility for the food stamp investigative program is set forth in the Food Stamp Act and it gives the criminal sanctions, et cetera, and the responsibility to the Secretary who has delegated it to the Inspector General. Historically we have been investigating the violations in the program but again, as I stated before, we don't normally investigate it in a vacuum. We seek aid and assistance at all levels.

For instance, we have a very harmonious working relationship with the postal authorities. I cannot give you an exact number of cases that we have worked with them over the years but it's considerable. You can see why. In the delivery system the mails are used both in the ATP delivery system and in the direct mail of the coupons. Therefore we are in daily touch with them.

We're also in frequent and almost daily contact with the U.S. Secret Service in which they assist us or we actually, to turn that around, we assist them in the investigations on counterfeiting because counterfeiting is their exclusive jurisdiction since it's a Government document.

Additionally, we are in daily contact throughout the Nation through our regional offices with almost every State investigative group, local police, welfare, and in the last few years we've had considerable relationships and experience with ATF, DEA, Customs, and of course, the FBI.

We have an ongoing daily dialog with the FBI in seeking advice and counsel in certain areas and we have referred some cases to them on which they worked, again, where they have exclusive jurisdiction such as in the banking area.

I think that our track record over the years has been one of seeking help from whatever source we can and doing a yeoman's job.

Mr. NAUGHTON. Getting back to the situation in New York, where ATP's issued in New York City can be cashed or redeemed

anywhere in the State, have you found or do you suspect that there are large amounts of food stamp ATP's being issued in New York City that are being taken by parties unknown elsewhere in the State for redemption?

Mr. PETERSON. Mr. Naughton, we're currently working on that problem. What we know is this, that in June of 1981 there were 10,000 requests for replacement ATP's. We know that about 2,100 of those cases were forgeries. That is to say, the original and the replacement were signed by different people.

We also know that about 330 of those cases were fraud in that the original and the replacement ATP were signed by the same person. That leaves about 7,900 unaccounted for. We can't find them and we are currently looking at other locations throughout the State to see if those ATP's were improperly redeemed at some other location.

Mr. GRAZIANO. It is our suspicion that that's what happened because of the reconciliation process being a county-by-county arrangement in New York. We know they have not appeared in New York City, so our conclusion at this time is that they have been taken and redeemed somewhere else.

Mr. FOUNTAIN. Would it be safe to say that most of the violations you've been finding in a number of categories are in large, metropolitan areas of the country?

Mr. GRAZIANO. Yes, sir. That's where most of the big dollars are. We have found an increasing number, of late, of the involvement of people who traffic in narcotics and stolen property also traffic in food stamps and there seems to be a greater concentration of these types of people in the metropolitan areas.

Mr. FOUNTAIN. And, of course, you have a larger population and I guess an inadequacy of personnel to really do the checking you ought to do. It'd be too expensive to do that.

Mr. NAUGHTON. Isn't it also true that in less heavily populated areas people are generally known to their neighbors. The county commissioners have a pretty good idea who's receiving food stamps and so does the grocer so that the kind of fraud that involves coming in under a false name would be much more difficult to perpetrate?

Mr. GRAZIANO. That's partially true, Mr. Naughton, and a second reason, of course, is that there are different delivery systems in some of the smaller areas which minimize the type of fraud we are finding in a larger metropolitan area.

Mr. FOUNTAIN. Just one more question because we're going to have to move along here. Do you think the recommendations which are being made and the legislation proposed by Congressman Richmond's committee, will close loopholes and afford an opportunity for quicker detection of fraud and waste and maybe prevent more of it because of the deterrent effect?

Mr. GRAZIANO. Yes, sir.

Mr. FOUNTAIN. I see no reason why every holder of a card, whether it's for welfare or whatever it may be, whatever program it is, should not have an identification card of some kind with their picture so that anybody can see that this is the person that's entitled to this money.

Mr. GRAZIANO. We believe the photo ID card is a step in the right direction. Congressman Richmond has also, I believe, proposed the first endorser liability to hold the person who redeems the ATP accountable like we do with Treasury checks. I believe that will help.

I believe that a number of the recommendations that have been made to the Congress by individual Congressmen, including yourself, Mr. Chairman, would do a great deal toward giving us up front verification which is really the area we need to attack.

Mr. FOUNTAIN. If you have other recommendations, we would be pleased to have them.

We want to thank all of you for coming.

Mr. NAUGHTON. Just to close on that theme, if the systems were such that instead of having a matching program as you did in Tennessee after the fact, to see whether misstatements had been made about income, you were able to make that kind of a match at the time the application came in, persons who were not eligible could be kept off the rolls rather than possibly being indicted at a later date.

Mr. GRAZIANO. We think that that's the one area that we should pursue very vigorously because an attempt to recover is so difficult. There are one or two projects where we are testing that type of approach, doing up front verification prior to the certification. We are hopeful that we can expand it quickly.

Now, perhaps you want to add to that.

Mr. PETERSON. That's the place to do it. It should be done up front instead of after the fact. Florida has been doing that and I think it's working very well and it's cost effective and we'd very much like to see that become the practice in other areas.

Mr. FOUNTAIN. Thank you all very much for coming and congratulations on the work you are doing thus far. I hope you succeed in getting adequate personnel so that you can do the job like it ought to be done.

Mr. GRAZIANO. Thank you, Mr. Chairman.

Mr. FOUNTAIN. Thank you very much.

Our next witness will be from the Department of Health and Human Services, from the Social Security Administration, Sandy Crank, the Associate Commissioner of Operations, Policy, and Procedures, and a young lady from down my way, from the city of Rocky Mount, N.C., Linda McMahon, the Associate Commissioner of the Office of Family Assistance. I haven't had the pleasure of meeting Ms. McMahon previously, but I understand that she is the daughter of Russell and Lydia Sarrow. They're both very good friends of mine and have been for a number of years and we're delighted to have her with us, along with Mr. Crank.

Ms. McMAHON. Thank you, Mr. Chairman. They speak very highly of you.

Mr. FOUNTAIN. Thank you very much.

Mr. Crank, either one of you may now proceed with whatever statements you have.

STATEMENT OF LINDA McMAHON, ASSOCIATE COMMISSIONER,
OFFICE OF FAMILY ASSISTANCE, SOCIAL SECURITY ADMINISTRATION,
DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. McMAHON. Thank you, Mr. Chairman, and members of the subcommittee. I appreciate the opportunity to testify on what the Office of Family Assistance has done and is doing to reduce the incidence of duplicate check issuance as a result of AFDC checks being lost or stolen.

Since the hearings in November 1979, we have undertaken a number of initiatives to address the duplicate check problem. On October 15, 1980, we published a notice of decision in the Federal Register to develop regulations which would reinforce long-established policy. Specifically, the regulations would require that the Federal share of checks voided or canceled by the State agency must be returned to the Federal Government on the State's quarterly expenditure report for the quarter in which the check is voided or canceled. This regulation would also require States to refund the Federal share of all uncashed checks after 180 days from the date of issue.

We are further proposing that before a duplicate check is issued the State must initiate a stop payment on the original check as well as secure a signed statement from the recipient attesting to the nonreceipt of the original check. This regulation was one that was temporarily delayed by the administration's moratorium on issuing regulations. However, we are now moving to issue the NPRM as quickly as possible.

Our efforts in technology transfer, by which we share successful practices of one State with other States, has continued during this time. For example, we arranged for Cuyahoga County officials knowledgeable on their electronic fund transfer project to demonstrate the approach to the Wisconsin State agency. Wisconsin now expects to start an electronic fund transfer project in January 1982.

In addition to States noted at the prior hearing that have implemented or are experimenting with alternate methods of check delivery, namely, Pennsylvania, Illinois, Ohio, and New York, this list now includes Los Angeles County, Calif. In 1980 California was granted funding for a demonstration project on electronic fund transfer whereby AFDC payments will be directly deposited in regular checking accounts maintained by recipients.

Our efforts to disseminate information concerning innovative State practices continue through our Welfare Management Institute. This past month we issued a document on New York City's check fraud control program. This program reduced the number of duplicate checks from 15,000 to 5,000 per month and the number of fraud attempts from 5,000 to 300 per month. This system is characterized by a more timely flow of information between the city agency and Manufacturer's Hanover Trust Co. and a concerted effort by the Check Cashiers' Union to inform its members on the emphasis to prevent public assistance checks fraud.

Probably of most interest to the committee is the fact that as a result of the 1979 hearing we have undertaken a study to gather statistical data on the incidence of duplicate check issuance. The

study, conducted during the period January to June 1981, was designed to be completed by the regional offices with the best information that was readily available. Consequently, we do not have data for some States and in other instances some inconsistencies in the data are obvious.

Although this study is still in draft at the present time, I can share with you some of the preliminary findings. On the volume of duplicate checks issued we have data on 32 of the 54 jurisdictions. These States represent approximately 57 percent of all jurisdictions and 50 percent of all AFDC expenditures. In these 32 States, duplicate checks constituted seven-tenths of 1 percent of all AFDC checks issued in fiscal year 1979. In terms of dollars, the dollar value of duplicate checks to total dollars was also seven-tenths of 1 percent or approximately \$39 million of the close to 6 billion Federal dollars paid out.

The percent of duplicate checks to total checks on a State basis range from a high of 1.9 percent to a low of 0.1 percent. On a dollar basis the range was from 1.5 percent of total expenditures to 0.1 percent.

The study also documented the wide variation permitted by State policy and statute on how long a check may be outstanding before it is voided. For example, the time ranged from 2 weeks to over 2 years.

Our current plan in the area of duplicate check issuance includes the following: As noted earlier, we will be issuing regulations to insure timely refund of the Federal share of uncashed and canceled checks. We will place greater emphasis on our technology transfer efforts, particularly focusing on the large urban States. We will develop a monitoring guide for regional office use in monitoring State performance in this area, including a sampling of uncashed and duplicate checks to assure proper refunding of the Federal share.

Finally, I think it is appropriate to mention our more long-range goal to improve automation of State systems. Part of the problem today is that payment files are not automated. In most States the checks are written by another governmental agency. For example, the State treasury or the comptroller. As a result, payment history files tend to be fragmented. This was one of the reasons some States could not provide the statistical data we requested without undertaking an in-depth study.

However, new legislation effective July 1, 1981, authorizes the Federal Government to give States 90 percent Federal money for automated systems design. Implementing regulations were issued on September 30. Improved automation of the payment process will, I believe, significantly contribute to better control of the duplicate check problem.

This concludes my prepared testimony. I'm happy to answer questions now or after Mr. Crank testifies.

Mr. FOUNTAIN. Thank you very much, Ms. McMahan. Mr. Naughton, do you have any questions?

Mr. NAUGHTON. You've indicated, I believe, that a regulation has been issued to make it clear that the Federal Government will not share in the cost of duplicate checks.

Ms. McMAHON. We are in the process of getting that notice of proposed rulemaking out. It has not yet been published in the Federal Register.

Mr. NAUGHTON. I'm glad to see you're doing that. During our 1979 hearing a witness at that time who, I think, held your job then, indicated that there was really no danger of loss to the Federal Government on duplicate checks because the regulations did not permit the States to obtain Federal cost sharing for duplicate checks, I gather the fact that you are proposing new regulations suggests that perhaps you aren't quite as confident as he apparently was that the situation was already taken care of.

Ms. McMAHON. Well, as I stated, the reason we're doing the regulations is to clarify our policy.

Mr. NAUGHTON. Right. And do you share his feeling that the regulation will be self-enforcing once you get it into the—

Ms. McMAHON. One of the reasons that we want to prepare a monitoring guide for our regional offices is to, in fact, have a way of insuring that it is enforced.

Mr. NAUGHTON. Yes. Thank you.

Mr. FOUNTAIN. Do you have adequate information to measure the extent of the problem of stolen and duplicate AFDC checks?

Ms. McMAHON. No, Mr. Chairman, we don't. The States do not break down the difference. Duplicate checks can be issued because a person moves and the original check cannot be forwarded, so the check comes back to the agency and a new check is issued, and for a number of other reasons, so we really don't know what part of that duplicate check amount is or could possibly be fraud.

Mr. FOUNTAIN. Are you undertaking any new approach to try to get more adequate information?

Ms. McMAHON. We hope that through our 90/10 matching for automated systems for States that we will be provided better information.

Mr. FOUNTAIN. Our past experience has indicated that those responsible for the AFDC program have not given a very high priority to the need for corrective action and I hope maybe you've instilled into those over there a keener appreciation of the need for making this a high priority.

Ms. McMAHON. I'm happy that you've brought the issue to my attention at this time. I have spent, I have to admit, the last 7 months on the implementation of the new changes in the AFDC program, but obviously this is an important area that we need to look at.

Mr. FOUNTAIN. Thank you very much. We have a lot of questions we could ask everyone but we're pressed for time.

[Ms. McMahan's prepared statement follows:]

STATEMENT BY

LINDA S. MCMAHON
 ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE
 SOCIAL SECURITY ADMINISTRATION

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Finally, I think it is appropriate to mention our more long range goal to improve automation of State systems. Part of the problem today is that payment files are not automated. In most States, the checks are written by another governmental agency, for example, the State Treasury or the Comptroller and as a result payment history files tend to be fragmented. This was one of the reasons some States could not provide the statistical data we requested without undertaking an in-depth study. However, new legislation, effective July 1, 1981, authorizes the Federal Government to give States 90 percent Federal money for automated systems design. Implementing regulations were issued on September 30, 1981. Improved automation of the payment process will, I believe, significantly contribute to better control of the duplicate check problem.

Mr. FOUNTAIN. Mr. Crank?

STATEMENT OF SANDY CRANK, ASSOCIATE COMMISSIONER FOR OPERATIONAL POLICY AND PROCEDURES, SOCIAL SECURITY ADMINISTRATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. CRANK. Thank you, Mr. Chairman. In the interest of time—

Mr. FOUNTAIN. Questions we don't ask today we'll submit to you, however.

Mr. CRANK. My full statement has been submitted for the record. I would like to limit my oral statement this morning to the subject of SSI lost and stolen checks.

Mr. FOUNTAIN. Your full statement will be made a part of the record. In fact, I read it last night.

Mr. CRANK. The most effective way to prevent the loss or theft of a social security check is to arrange to have it deposited directly into the beneficiary's account at his or her financial organization. With the close cooperation of the Treasury, SSA has been and continues to be a strong advocate of this method of payment delivery. We are continuing our public information campaign to encourage the use of direct deposit by all beneficiaries. In fact, the use of direct deposit is a matter discussed with each new applicant for social security benefits at the time of application.

These efforts have had a modest degree of success. In 1979, when SSA representatives last appeared before this subcommittee to discuss this subject, approximately 9 million social security beneficiaries and approximately 286,000 SSI recipients participated in the direct deposit program. Today about 11 million social security beneficiaries and 386,000 SSI recipients participate in the direct deposit program.

Of the 26 million social security and SSI beneficiaries who continue to receive payment by means of a monthly paper check, there remains a small percentage, less than 1 percent, that report nonreceipt of the check. For these individuals SSA and the Treasury Department established the check replacement procedures described to the subcommittee in the 1979 hearings.

At that time the subcommittee expressed interest in the replacement process used in the SSI program. For that reason I would like to outline the improvements that we have made in this area.

We continue to believe, as we did then, that the SSI client, because of the special nature of his or her needs, has a great dependence on the timely receipt of the monthly payment. Unexpectedly deprived of this monthly income, the individual usually experiences immediate hardships. The current expedited check replacement procedure does serve the vast majority of SSI clients who, through no fault of their own, fail to receive a payment.

However, we have undertaken a review of our check replacement process in an effort to reduce its manipulation by those intent on abusing it.

As a result of that, we have instituted a computer modification which automatically bars the immediate replacement of a missing SSI check for any individual with a history of a duplicate payment in the past which was directly attributable to a previous loss of

check claim. This systems modification will substantially reduce the number of claims from those who misuse the process while leaving the expedited replacement technique available to those who have a legitimate claim.

The new automatic systems bar has been programed in our system and is now being tested on the computers. Field office instructions are now being printed and we expect to implement this new security measure in about 2 weeks. Our review of the SSI check replacement operation has also led us to investigate what legal action could be taken against those suspected of making false claims. SSA representatives have met several times with their counterparts in the U.S. Secret Service to determine if an ongoing referral mechanism can be established for purposes of investigating suspected fraud cases. These meetings resulted in a group of test cases being released to the Secret Service. Of this group, seven have been referred to the appropriate U.S. attorney for prosecution and four convictions have resulted. Several cases are still under investigation and we are continuing our efforts to determine if the referral process can be expanded and made permanent.

Finally, our analysis of the SSI check replacement process led us to the conclusion that local field office managers would benefit from additional management information reports to detect process anomalies. These reports have been made available for the past 6 months and provide managers with a tool to compare check replacement patterns with other geographic areas and with their own past experience. Managers use this as a tool to correct internal processing problems.

We fully intend to continue our efforts in these and other areas, to strengthen the SSI check replacement process.

Mr. Chairman, that concludes my oral statement for this morning. I'll be happy to answer questions.

Mr. FOUNTAIN. Thank you very much. Mr. Naughton, I believe, is prepared to ask some questions of you, Mr. Crank.

Mr. NAUGHTON. Mr. Crank, with respect to the situation in which it was discovered that substantial numbers of checks were being sent to persons who had been reported dead under the medicare program, is it true that in many of these cases the checks were actually never cashed and that survivors had accumulated large numbers of checks which were never cashed but were sitting out there?

Mr. CRANK. That's correct.

Mr. NAUGHTON. That brings me to an article that appeared in a Nevada newspaper back in August and it quotes someone named Larry Murphy of San Francisco, who is described as external affairs officer for Social Security in the Western United States. He was quoted as saying that, quote:

As of December 31, 1980, we have 36 million social security recipients. Of these, 23 million, 843 thousand were 65 or older. If checks are not cashed within 60 days our computers go to work. The system is triggered to advise somebody to look into it.

[The article referred to appears in the appendix.]

Mr. NAUGHTON. Now, in the light of that, why hasn't the computer advised someone to look into all of these outstanding checks that apparently have never been cashed?

Mr. CRANK. I can only conclude there's some misinformation in that article, Mr. Naughton.

Mr. NAUGHTON. I suspected that.

Mr. CRANK. Our computers are not programed to follow up on checks after 60 days.

Mr. NAUGHTON. I've been looking for that computer system for the last 4 or 5 days and have been totally unsuccessful in finding any evidence that it does exist or ever did exist.

Mr. CRANK. It sounds like Mr. Murphy was a victim of Murphy's law.

Mr. FOUNTAIN. We are just before voting on two or three items so I guess we'll just have to take a recess until 2:30 and it won't be necessary for you all to come back.

We will submit any additional questions that we have to you. The Inspector General of HHS will be our next witness at 2:30.

We will include your remarks in the record at this point. Thank you very much. The committee stands recessed until 2:30.

[Mr. Crank's prepared statement follows:]

STATEMENT BY SANDY CRANK, ASSOCIATE COMMISSIONER FOR OPERATIONAL POLICY
AND PROCEDURES, SOCIAL SECURITY ADMINISTRATION

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to discuss the progress made by the Social Security Administration (SSA) in improving the procedures used to replace lost, stolen or destroyed Social Security and Supplemental Security Income (SSI) checks. I will also outline for the subcommittee the actions taken by SSA to detect and terminate monthly payments to deceased beneficiaries.

I turn first to check replacement in the Social Security and SSI programs.

The most effective way to prevent the loss or theft of a Social Security check is to arrange to have it deposited directly into the beneficiary's account at his or her financial organization. With the close cooperation of the Treasury Department, SSA has been--and continues to be--a strong advocate of this method of payment delivery. We are continuing our public information campaign to encourage the use of direct deposit by all beneficiaries. These efforts have had a high degree of success.

In 1979, when SSA representatives last appeared before this subcommittee relating to this subject, approximately 9 million social security beneficiaries (28 percent of the total) and approximately 286,000 SSI recipients (7 percent of the total file) participated in the direct deposit program. Today about

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11 million Social Security beneficiaries (33 percent of the total file) and 386,000 SSI recipients (9.5 percent of the total) participate in this program.

Of the 26 million Social Security and SSI beneficiaries who continue to receive payments by means of a monthly paper check, however, there remains a small percentage of checks that fail to reach the intended recipient. For these individuals, SSA and the Treasury Department established the check-replacement procedures described to the subcommittee in the 1979 hearings. At that time, the subcommittee expressed interest in the replacement process used in the SSI program. For that reason, I would like to outline the improvements which we have made in this area.

We continue to believe that the SSI client, because of the special nature of his/her needs, has a great dependence on the timely receipt of the monthly payment. Unexpectedly deprived of this monthly income, the individual usually experiences immediate hardships. The current expedited check replacement procedure does serve the vast majority of SSI clients who, through no fault of their own, fail to receive a payment.

However, SSA has undertaken a review of its check replacement process in an effort to reduce manipulation by those

intent on abusing it. We have instituted a computer modification which automatically bars the immediate replacement of a missing check for any individual with a history of a duplicate payment in the past which was directly attributable to a previous loss-of-check claim. This systems modification will substantially reduce the number of claims from those who misuse the process while leaving expedited replacement available to those who have a legitimate claim.

The new automatic "systems bar" has been programmed and tested in our computers. Field office instructions are now being printed, and we expect to implement this new security measure in about 2 weeks.

Our review of the SSI check replacement operation has also led us to investigate what legal action could be taken against those suspected of making false claims. SSA representatives have met several times with their counterparts in the U.S. Secret Service to determine if an ongoing referral mechanism can be established for purposes of investigating suspected fraud cases. These meetings resulted in a group of test cases being released to the Secret Service. Of the "pilot" cases investigated, seven have been referred to the appropriate U.S. Attorney for prosecution, and four convictions have resulted.

Several cases are still under investigation, and we are continuing our efforts to determine if the referral process can be expanded and made permanent.

Finally, our analysis of the SSI check replacement process led us to the conclusion that local field office managers would benefit from additional management information reports to detect process anomalies. These reports have been available for the past 6 months and provide managers with a tool to compare check replacement patterns with other geographic areas, as well as a tool to correct internal processing problems.

We intend to continue our efforts to strengthen the SSI check replacement process.

I would like to turn now to those actions taken by SSA to detect and terminate payments to beneficiaries who are deceased.

We receive approximately 2 million reports of death each year. While some of these reports are duplicative, they do result in the termination of about 1.5 million beneficiaries a year. Most death reports come to SSA from sources such as local funeral directors, relatives and friends of the deceased person and from the Treasury Department because of the check has been returned by the bank or local mail carrier. These sources result in SSA detecting and action upon the vast majority of beneficiary deaths.

Of course, the question of principal interest to the subcommittee is how SSA failed to act upon death reports for several thousand individuals when those reports were readily available to it through operations of the Medicare program. We offer no excuses. It was a regrettable gap in our computer process. We are moving as quickly as we can to close this gap. With the assistance of the Inspector General's office, we will take immediate action to terminate the benefits of those persons found to be deceased and to recover past overpayments.

By way of an explanation of how this processing gap came about, SSA "automated" its data exchange with the predecessor organizations to the present day Health Care Financing Administration in 1977. However, when this process was automated a conscious decision was made that SSA would not act upon reports of death made by health care providers because of the high number of erroneous reports. Indications were that when completing the data input forms, health-care providers often placed the date of discharge from hospital in the data field used to report the date of death. Prior to 1977, these mistakes led to a number of erroneous benefit terminations.

SSA decided to take action only when reports of deaths were received from the traditionally more reliable source, such as a funeral director, for a number of reasons, as follows:

1. Questionable reliability of the death reports from health care providers, and
2. The great inconvenience and hardship to beneficiaries brought about when their monthly checks were erroneously stopped, and
3. The difficult and labor intensive process that it took to reinstate monthly benefits to a person who was mistakenly reported as deceased.

Again, we offer the preceding information as an explanation, not an excuse. We should have reevaluated the 1977 decision. In fact, it was a project that was scheduled for each of the past two fiscal years. However, as pointed out by Commissioner Svahn on several occasions recently, SSA does not have adequate systems resources to do everything which it would like to do.

Since 1977, SSA has terminated 6.75 million deceased beneficiaries. We failed to terminate approximately 5,000 beneficiaries because of a gap in our data interface process with the Health Care Financing Administration. We are correcting this error to prevent it from happening again.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or the members of the subcommittee might have regarding my testimony.

[Whereupon, at 12:36 p.m., the subcommittee recessed, to reconvene at 2:30 p.m., the same day.]

AFTERNOON SESSION

Mr. FOUNTAIN. I'm delighted that we have with us as our next witness, Mr. Richard Kusserow, the Inspector General of the Department of Health and Human Services. We're sorry to have had to detain you but it's impossible to win the battle of the bells over here. We have to keep going over to vote and may have to do so soon again, but go right ahead and proceed with your statement. We appreciate your being here.

STATEMENT OF RICHARD P. KUSSEROW, INSPECTOR GENERAL,
DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. KUSSEROW. Thank you, Mr. Chairman. If you'd like, I've submitted my statement in advance and if it would be useful I can summarize it.

Mr. FOUNTAIN. Fine.

Mr. KUSSEROW. I can even dispense with reading it.

Mr. FOUNTAIN. You can just summarize if you'd like and your whole statement will be in the record.

Mr. KUSSEROW. Would you like to have that portion of the statement just submitted into the record rather than read?

Mr. FOUNTAIN. Yes. That will save us some time. We're all familiar with that.

Mr. KUSSEROW. Then perhaps if there's some questioning you want to pursue?

Mr. FOUNTAIN. Would you like to make any observation in connection with the subject matter?

Mr. KUSSEROW. I think that perhaps early in the day you had about as good an observation as you could from the representatives from our Department, who stated that, as an agency, they have been very slow to implement some of the changes necessary. I think that their statement says it about as well as you can on the subject.

Mr. FOUNTAIN. OK. We'll just proceed to our questions then.

Mr. KUSSEROW. Yes, sir.

Mr. FOUNTAIN. We want to congratulate you on your appointment. I wish you every success in your new undertaking.

Mr. KUSSEROW. Thank you.

[Mr. Kusserow's prepared statement follows:]

STATEMENT OF

RICHARD P. KUSSEROW
INSPECTOR GENERAL
DEPARTMENT OF HEALTH AND HUMAN SERVICES

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

AS A FOLLOW UP TO CONGRESSIONAL HEARINGS HELD ON NOVEMBER 8, 1979 BEFORE THIS COMMITTEE ON "LOSSES THROUGH STOLEN OR DUPLICATE CHECKS OR AUTHORIZATION DOCUMENTS", THE OIG CONVENED A MEETING IN LATE 1980 OF STATE, FEDERAL AND CONGRESSIONAL OFFICIALS TO DISCUSS WHAT ACTION HAD TAKEN PLACE WITH REGARDS TO THIS PROBLEM.

AS A RESULT OF THAT MEETING - IN WHICH IT APPEARED THAT LITTLE HAD BEEN DONE IN THIS AREA BY THE DEPARTMENT, THE OIG CONDUCTED A REVIEW OF STATE AND FEDERAL EFFORTS UNDERWAY TO COMBAT SUCH LOSSES THROUGH THE POSTAL SYSTEM. A COPY OF OUR REVIEW WILL BE SUPPLIED FOR INCLUSION INTO THE RECORD. IN THE REVIEW, A CLOSE LOOK WAS MADE OF THE STATE OF PENNSYLVANIA AND COOK COUNTY, ILLINOIS SYSTEMS OF DELIVERING WELFARE CHECKS, AND FOOD STAMPS AUTHORIZATIONS TO PURCHASE DOCUMENTS.

IT WAS FOUND THAT THESE TWO STATE SYSTEMS UTILIZE FISCAL INTER-MEDIARIES TO DELIVER DIRECTLY TO THE CLIENT THEIR WELFARE CHECKS (AFDC AND STATE GENERAL ASSISTANCE) AND FOOD STAMPS. IN PENNSYLVANIA, BRANCH BANKS AND FINANCIAL EXCHANGES ARE USED - AT NO CHARGE TO THE RECIPIENT - TO PROVIDE THIS DELIVERY AND CHECK CASHING SERVICE. WHEREAS IN COOK COUNTY, ILLINOIS -

WHERE BRANCH BANKING DOES NOT EXIST, CURRENCY EXCHANGES (CHECK CASHING SERVICES) ARE USED AND A FEE OF 1% OF THE FACE VALUE OF THE CHECK IS CHARGED TO THE CLIENT FOR THE CHECK CASHING SERVICE. BOTH SYSTEMS UTILIZE PHOTO IDENTIFICATION CARDS AND OTHER QUALITY CONTROL MECHANISMS TO ASSURE THAT THE RIGHT PAYMENT OR BENEFIT IS BEING PROVIDED TO THE RIGHT CLIENT.

IN PENNSYLVANIA, THE DIRECT CHECK DELIVERY SYSTEM HAS BEEN IN OPERATION SINCE 1972, AND NOW COVERS ALL MAJOR URBAN AREAS AND IS GRADUALLY BEING IMPLEMENTED - WHERE APPROPRIATE - IN THE MORE RURAL COUNTIES. SOME 225,000 OUT OF ABOUT 300,000 HIGH RISK CLIENTS NOW RECEIVE DIRECT DELIVERY SERVICES IN PENNSYLVANIA. IN 1980, PENNSYLVANIA ESTIMATED ANNUAL COST SAVINGS OF \$9.3 MILLION TO THE TAXPAYERS - SAVINGS WHICH BASED ON THE OIG STUDY SEEM TO BE QUITE REASONABLE AND ACCURATE. IT WAS FOUND THAT THE PROBLEM OF FORGED OR DUPLICATE PAYMENTS HAS BEEN VIRTUALLY ELIMINATED FOR THOSE CLIENTS UNDER DIRECT DELIVERY.

IN COOK COUNTY, ILLINOIS, HOWEVER, WHERE THE DIRECT DELIVERY SYSTEM HAS BEEN IN PLACE FOR ABOUT 6 YEARS, THE STATE HAS NOT BEEN ABLE TO EXPAND THIS SAME SYSTEM INTO OTHER AREAS - E.G., EAST ST. LOUIS - DUE TO A LIMITED NUMBER OF NEIGHBORHOOD

BASED FINANCIAL INSTITUTIONS AND APPARENTLY LIMITED INTEREST IN PARTICIPATING IN SUCH AN EFFORT BY THESE SAME INSTITUTIONS. NEVERTHELESS, ILLINOIS ESTIMATES ANNUAL SAVINGS OF OVER \$13 MILLION - HOWEVER, COST FIGURES FOR THE OPERATION OF THE PROGRAM WERE NOT GENERALLY AVAILABLE. IN ADDITION, ILLINOIS STILL CITES PROBLEMS DUE TO FORGED ID CARDS AND THE RESULTANT DUPLICATE CHECK SITUATION.

WITH REGARDS TO REPLICABILITY OF DIRECT DELIVERY SYSTEMS OR VARIATIONS THEREOF, WE BELIEVE THAT THIS HINGES ON CERTAIN FACTORS AS FOLLOWS:

- O A CYCLICAL DELIVERY OF THE NEGOTIABLE ITEMS (MANY STATES ISSUE THEIR CHECKS, ETC., ON A MONTHLY BASIS),
- O A SAFE, LOW COST FISCAL INTERMEDIARY TO DELIVER AND NEGOTIATE THE ITEMS,
- O A MOBILE POPULATION WITH GOOD ACCESS TO THE DISPERSAL POINTS,
- O AN EFFECTIVE QUALITY CONTROL SYSTEM, AND
- O A BACK-UP MAILING SYSTEM - OR OTHER CAPABILITY - TO VERIFY ADDRESSES PERIODICALLY OF CLIENTS.

WE BELIEVE THAT THESE SYSTEMS CAN BE REPLICATED ELSEWHERE FOR THOSE PROGRAMS EXPERIENCING SIMILAR OR RELATED DELIVERY PROBLEMS. HOWEVER, DUE TO THE LABOR INTENSIVE NATURE OF DIRECT DELIVERY, WE BELIEVE THAT OTHER ALTERNATIVE DELIVERY MODES SHOULD BE PILOT TESTED AS THE USE OF ELECTRONIC FUND TRANSFER.

FOR EXAMPLE, IN THE AREA OF ELECTRONIC FUND TRANSFER, THE OIG REVIEWED, AS PART OF THIS STUDY, EFFORTS UNDERWAY AT THE TREASURY DEPARTMENT TO REDUCE MULTIPLE OR DUPLICATE FEDERAL BENEFICIARY PAYMENTS - AS REFLECTED IN CLAIMS AND RELATED ACCOUNTS RECEIVABLE UNDER THEIR CHECK CLAIMS PROGRAM. WE FOUND THAT THE INCREASED VALUE OF CLAIMS AND CONTINUED LIMITED STAFFING AT TREASURY HAVE MITIGATED AGAINST EFFORTS TO REDUCE THE ACCOUNTS RECEIVABLE BALANCES. IN A STUDY RELEASED IN JULY 1981, THEY CITE THE SOCIAL SECURITY ADMINISTRATION'S CHECKS AS AN INDEX AND SHOW IN 1974, AN INCOMING WORKLOAD TO TREASURY'S CHECK CLAIMS DIVISION OF 800,000 ITEMS VALUED AT \$134 MILLION, WHEREAS IN FY 82, THEY PROJECT 1.6 MILLION ITEMS WITH A VALUE OF \$540 MILLION. THEY SEE THE LONG TERM SOLUTION TO THE PROBLEM BEING THE USE OF ELECTRONIC FUND TRANSFER UNDER THEIR DIRECT DEPOSIT PROGRAM. WHILE FEDERAL GOVERNMENT PARTICIPATION IN THE DIRECT DEPOSIT PROGRAM CONTINUES TO GROW, SOCIAL SECURITY ANTICIPATES ONLY 40% COVERAGE IN THEIR REGULAR PAYMENTS BY 1985 VERSUS A 60% LEVEL DESIRED BY TREASURY. THIS IS AN AREA THAT DESERVES A HIGHER LEVEL FOCUS SINCE EFT HAS A MULTITUDE OF BENEFITS INCLUDING:

GREATER SAFETY; REDUCED DUPLICATE CHECKS, FORGERIES, AND LOST AND STOLEN CHECKS; AND SIGNIFICANT POSTAL SAVINGS. SOME OF THE PROBLEMS ASSOCIATED WITH DIRECT DEPOSIT INCLUDE: A RELUCTANCE OF MANY INDIVIDUALS TO MAKE THE CHANGE FROM RECEIPT OF A HARD-COPY CHECK TO A RELIANCE ON A SEEMINGLY FOREIGN COMPUTER TRANSFER OF FUNDS. IN ADDITION, IN CERTAIN POPULATION GROUPS - ESPECIALLY AMONG THE LOW INCOME - MANY PEOPLE DO NOT HAVE OR EVEN MAKE USE OF BANK ACCOUNTS IN THEIR DAILY LIVING.

WITHIN THE DEPARTMENT, WE ARE AWARE OF ONLY ONE STUDY UNDERWAY TO EXPLORE THE EXTENT TO WHICH LOST OR STOLEN BENEFICIARY PAYMENTS OCCUR THROUGH THE POSTAL SYSTEM. THIS IS BEING CONDUCTED BY THE OFFICE OF FAMILY ASSISTANCE WITHIN THE SOCIAL SECURITY ADMINISTRATION, AND NO FINDINGS ARE AVAILABLE TO DATE. IN GENERAL, NEITHER THE DEPARTMENT NOR THE STATES HAVE ROUTINELY COLLECTED OR MAINTAINED SUCH INFORMATION UP TO NOW, MAKING CURRENT STUDIES OF THE PROBLEM SOMEWHAT INCONCLUSIVE. OUR DEPARTMENT, HOWEVER, FUNDED IN OCTOBER 1980, A TWO YEAR RESEARCH AND DEMONSTRATION PROJECT TO THE STATE OF CALIFORNIA TO PILOT TEST THE USE OF ELECTRONIC FUND TRANSFER FOR WELFARE RECIPIENTS. THE PROJECT IS IN THE RESEARCH STAGE, AND NO FINDINGS ARE AVAILABLE TO DATE. IN ADDITION, THE OFFICE OF FAMILY ASSISTANCE PUBLISHED ON SEPTEMBER 30, 1981 INTERIM-FINAL REGULATIONS

IMPLEMENTING THE REQUIREMENTS FOR STATE PARTICIPATION IN THEIR FAMILY ASSISTANCE MANAGEMENT INFORMATION SYSTEM. THE FAMIS GENERAL SYSTEMS DESIGN DOES CONTAIN A COMPONENT THAT STATES MAY USE TO AUGMENT THEIR ACCOUNTING SYSTEM, WHICH WOULD INCLUDE SAFEGUARDS TO DETECT AND PREVENT DUPLICATE PAYMENTS.

FINALLY, THE OIG HAS CONDUCTED A LIMITED NUMBER OF AUDITS WHICH WERE TARGETED TO DETECT ANY FEDERAL FUND OWED BACK TO THE DEPARTMENT. DUE TO DUPLICATE NEGOTIATED CHECKS TO BENEFICIARIES - PRIMARILY AFDC RECIPIENTS. FOR EXAMPLE, A MAY, 1981 AUDIT CONDUCTED IN MASSACHUSETTS UNCOVERED \$131,000 OWED BACK TO THE FEDERAL GOVERNMENT FOR DUPLICATE PAYMENTS MADE IN THE AFDC PROGRAM. AND, TWO AUDITS CONDUCTED BETWEEN 1975-1978 IN NEW YORK UNCOVERED \$1.5 MILLION OWED BACK TO THE DEPARTMENT DUE TO LOST, STOLEN OR REPLACEMENT CHECKS.

THROUGH A CURRENT AUDIT INITIATIVE ON ESCHEATED WARRENTS, THE OIG IS REVIEWING STATES' PROCEDURES FOR RETAINING THE FEDERAL PORTION OF UNCASHED BENEFIT CHECKS AND OTHER CREDITS, AND WE PLAN TO EXPAND UPON OUR EFFORTS IN THIS AREA. FOR THOSE AUDITS PLANNED FOR THIS FISCAL YEAR IN STATES WITH LARGE URBAN POPULATION AREAS, WE WILL TARGET OUR EFFORTS SO AS TO DETECT ANY POSSIBLE DUPLICATE NEGOTIATED PAYMENTS WHERE FEDERAL FUNDS MAY NOT HAVE BEEN PROPERLY REFUNDED.

Mr. FOUNTAIN. Mr. Kusserow, what are the total annual expenditures under programs administered by the Department of Health and Human Services?

Mr. KUSSEROW. At the present time we're operating at approximately \$255 billion.

Mr. FOUNTAIN. How much of that is expended to run your office?

Mr. KUSSEROW. Approximately \$45 million.

Mr. FOUNTAIN. To put it another way, out of every \$100 expended by HHS, how much goes to support your office?

Mr. KUSSEROW. Somewhat under 2 cents. Probably 1.8 cents per \$100.

Mr. FOUNTAIN. Fantastic. Your office also receives another \$40 million or so, which goes for the support of State antifraud units, does it not?

Mr. KUSSEROW. Yes. That money is set aside exclusively for grants to various State medicaid fraud control units.

Mr. FOUNTAIN. None of that money is available for your own expenses?

Mr. KUSSEROW. Not at all. In fact, it's the other way around. When that responsibility devolved upon the Inspector General's Office, no positions followed it. The Inspector General oversees the program out of its own budget—there was no additional appropriation for it.

Mr. FOUNTAIN. The Office of Management and Budget recommended a 12-percent cut in the 1982 budget for your office in its September 30 budget proposal. If such a cut is actually imposed, give us the benefit of your thinking as to what the impact would be on the operations of your office.

Mr. KUSSEROW. If we had to make cuts, it's pretty difficult to say exactly how we would respond to the cuts in terms of where we would cut. Any cut would have a significant impact on the personnel level. It would certainly impact strongly upon our travel budget as well as mandated contracts that we would not be able to perform. It would also affect a lot of our efforts to automate our management information systems.

As to the exact mix of where it would come, we would really have to let the circumstances hit us before we can make that determination.

Mr. FOUNTAIN. In your opinion, would such a cut result in a net saving for the taxpayers or would it cost more in lost savings and increased fraud and abuse in the amount saved in salaries and expenses?

Mr. KUSSEROW. Once again, it's difficult to know where the diminishing returns factor enters into it but currently we're able to produce in savings and recoveries far more than is expended on the Office of the Inspector General so that I think we could say fairly certainly that a reduction in the level of operation of the Office of Inspector General would be more than offset by the lack of fine savings recoveries from our system, et cetera.

Mr. FOUNTAIN. Have you received any information or any kind of firm assurances from anyone with authority to give them that OMB either has changed its thinking or will change its position and withdraw the recommendation for a 12-percent cut in your budget?

Mr. KUSSEROW. Yes. Last week I received a call from Edwin Harper at OMB who indicated that the 12-percent cut would not extend to the Office of Inspector General as far as they were concerned and that they were also going to forward to the Assistant Secretary of Management and Budget of our Department their recommendation to maintain it at the operating level. This was reiterated at the yesterday meeting of the President's Council on Integrity and Efficiency where, once again, we were told that our office was excluded from OMB's recommendation for that 12-percent cut.

Mr. FOUNTAIN. In your current operations are the personnel of your office, in your opinion, saving or recovering substantially more than the taxpayers are paying to hire and support them?

Mr. KUSSEROW. We're operating at probably, depending upon how you want to look at the payback on cost efficiency, somewhere between \$4 to \$12 for every dollar expended. Again, it depends upon whether you want to use only the documented savings as a result of audits along with savings and restitutions that come from our investigations or if you want to add to that the audited recommended financial adjustments that we've come up with that have been concurred with. If you take the former it's going to be approximately \$4 recovered for every dollar expended. If you take the latter it'll be approximately \$12 for every dollar expended.

Mr. FOUNTAIN. I ask those questions to indicate the importance of your office but I don't think we should assume that an agency like yours has to necessarily return what it's spending in specific savings because it's sort of an intangible thing. I think one of the prime purposes of your institution is to prevent waste and fraud and extravagance and even thievery and unnecessary allocation and expenditure of funds, and I'm hopeful that with the passage of time the work you're doing and your group and the independence it has will serve as a deterrent to these things happening and when it gets to that point the recoveries will diminish. I say that so no one will think that an Inspector General should always collect as much as it may cost to run the office.

Mr. KUSSEROW. I believe that Secretary Schweiker would agree with that statement 100 percent and, in fact, we've had conversations to that effect prior to my selection wherein he indicated that he had from this side of the Capitol observed most of that and participated in the development of many of the programs that I'm now asked to provide some oversight to. His concern was that he wasn't as interested in the dollar-for-dollar ledger sheet type of approach to determining success so much as he was to seeing that the Office of the Inspector General becomes an agency for change to provide to departmental management the types of tools that will enable them to effect the change, to make the operation of the Department not only more effective and efficient in terms of dollars and cents but also more efficient in terms of delivery of services to those beneficiaries of the program that Congress wanted to reach.

Mr. FOUNTAIN. All of us have seen news accounts of a project conducted by your office in which you compared death reports submitted in connection with the medicare program to lists of persons receiving benefit checks and found that a substantial

number of persons who had been reported dead were still receiving checks. Anticipating what your answer will be based on the information I already have access to, I'm sorry the writer of the editorial in the Washington Post did not have access to those facts before it was written this morning. Would you give us details concerning that project?

Mr. KUSSEROW. What we were looking at is a systemic approach to trying to determine whether there was any slippage in the system. We looked at the termination notices that go out under medicare where under most circumstances social security beneficiaries under title II are also receiving medical care. When a death occurs there's usually an attendant physician or medical service that would eventually bill medicare for services performed at the time of death and in that bill there would be coded that it was as a result of death.

What we found is that that information, when submitted, was not communicated to the master beneficiary record with Social Security. Consequently that those individuals were not culled from the list of beneficiaries in that file. When we matched these files, we came up with approximately 8,500 such cases in which dead persons were still receiving social security checks. This has resulted in a loss to our system of approximately \$60 million, conservatively.

We're finding now that a lot of people have not cashed those checks but have held them not knowing exactly what to do with them. So not all of it was associated with fraud, although we have a very significant level of fraudulent activity out there that is resulting in prosecutions in most of the judicial districts in the United States.

Mr. FOUNTAIN. Have you found any situations where the checks continue to go to, say, nursing homes or rest homes and long after the person has passed away, that those checks were still being endorsed and returned?

Mr. KUSSEROW. Yes, we have cases of it. We don't know exactly how many situations there are where you have the designated payee continuing to cash them. The system is such that a lot would be eliminated through other checks—controls—on the system. For example, we may have a nursing home that is cashing checks and has failed to notify us. There are other means of notifying the system of terminations, for example through funeral home directors who would call directly. So, in spite of any fraudulent intent the nursing home operators may or may not have, they would run a risk that there would be a notification by some other means.

So, we do have cases of it but that's not the common fraudulent case that we are encountering.

Mr. FOUNTAIN. I wonder if you'd give us details of any additional reviews which you've conducted to determine whether dead people are receiving or whether someone else is receiving checks under other HHS programs?

Mr. KUSSEROW. Not only under other HHS programs but other departments' programs. One of the things that we found when our agents went out to locate these individuals that were continuing to receive checks when the recipient was reported dead was that upon collecting a stack of checks from somebody, they would say: "I've

been holding them; I didn't know what to do with them. I also have VA checks. Do you want those as well?" As a result of this kind of information, I got together with Frank Sato, who is the Inspector General for the Veterans' Administration and provided him the computer program which allowed them to do an interface to eliminate deceased persons from their records.

In addition to that, after going to the master beneficiary record [MBR] at Social Security, we compared their death information against another program administered by the Department relating to the black lung program and have found that there is a pattern of individuals who die in that program that are not being culled from the rolls. Checks continue to be sent out, not unlike what we found in the original death termination project.

We've come up with 1,200 cases so far in that project which we think will probably impact on the system somewhere in the neighborhood of \$15 million to \$18 million. We feel that based upon our projections that we have approximately \$225,000 a month going out to people that are not entitled to the benefits because of a death or some other reason which should have terminated them from the rolls. Yet, they are still continuing to have those checks follow.

Again, this doesn't necessarily mean that all activity is fraudulent. You may have a situation where a miner is collecting both for himself and his spouse. The spouse dies and the checks continue and the miner may not be aware of the fact that his compensation should be less, or vice versa. But we do have a very significant number of situations where both spouses are dead and the checks are continuing to go out which suggests that either they're collecting someplace or that somebody has been in the pattern cashing those checks.

We have come up with rather astounding, I think, indications that the average may be as high as 81 months of unentitled benefits going out to these people.

Mr. FOUNTAIN. Eighty-one months?

Mr. KUSSEROW. Yes, 81 months, where these benefits have gone out in that fashion. The tests that we've run so far, bring that figure up that high, so we know that it's a very significant problem and then when it does occur that it goes on for quite a long period of time unchecked.

Mr. FOUNTAIN. And I'm sure you're right, that there are a lot of people who don't know just exactly what to do with those checks. In fact, I recall an experience when I was in the Army during World War II and I got my commission. I was a staff sergeant and went from staff sergeant to second lieutenant through the Judge Advocate School. For about a year I kept returning the checks for a living allowance for my wife and myself, and they kept returning the checks to me. I would carry them down to the finance office at the base and they refused to take them. They said, "Send them to Washington." I sent them to Washington and they sent them back to me. You often wonder how this sort of thing can happen. It happened then, and now we've got computers. It's pretty hard to talk to computers.

Mr. KUSSEROW. Yes, we have situations like that too which I could speak about as well.

We have examples. This project grew out of an audit that was performed by our office in Lucerne County, Pa., which has probably the largest concentration of black lung recipients in the United States. We had a case not unlike what you're suggesting where you had a miner that notified the system that his wife should no longer be part of it and that he expected that his benefits would be reduced by \$127 a month. Subsequent to his notification he received an increase of \$38 because of the basic rate increase. So the net effect was that they sent him more money rather than cut him off.

But the purpose of our exercise in all of these areas is the fact that the individual recipient of these programs may not be able to talk to a computer, but it is hoped that the Office of the Inspector General, with their program expertise, can find means by which you can talk to the computer and convince the computer that they should take certain steps to eliminate this type of a problem.

And then when you do lock onto a system, I think that it's an obligation of the Office of the Inspector General working through the offices of the Secretary to insure that the agencies make the necessary corrections to eliminate the problems so that next year we do not go back and find the same kinds of problems. Also, another advantage of having the Offices of the Inspectors General work closely with one another is that if we find something unexpectedly as in this case, or in the original death termination project, then we should not expect Frank Sato at VA, to reinvent the same wheel; we should impart the expertise, the programs, and allow him to do something that can be done very simply now. He knows how to do it. It's being done, and in very short order.

As here, where we have not only a black lung program administered by our Department, but also have a black lung program taken over by the Department of Labor subsequent to 1974, we are now working with the Department of Labor and communicating the knowledge and program expertise of the development of this exercise to allow them to cull whatever might be on their rolls of a similar nature.

Therefore, we should be able to communicate with those computers and make them do a job for us, rather than having to fight them all the time.

Mr. FOUNTAIN. That's good. From my experience here—this is my 29th year—we've had a very poor system of coordination between the various agencies of the Federal Government, which may be doing business or having some relation with the same individual.

I remember one time in particular when we found that the FBI didn't know what the Internal Revenue Service was doing and the Internal Revenue Service didn't know what the Agriculture Department was doing. The Agriculture Department hadn't consulted anybody and there were five or six agencies with which Billie Sol Estes had contacts and none of them had consulted the other.

Had they done so, they would have discovered the situation a long time before they did. To make a long story short, the amazing thing is that here was one of these fellows that just loved to be in the company of so-called VIP's and he made a lot of money cheating under the private enterprise system.

But the funny thing about it is that it turned out that the Government never lost a dime on Billie Sol Estes' storage operations. All the grain he had stored was there. It was the farmers in Texas and the bankers in New York and other places that he talked out of millions of dollars. He was a good salesman.

But I think it's good that you are promoting that coordination.

Mr. KUSSEROW. Well, I think it has been recognized by you, Mr. Chairman, as well as other members of the committee, that there are finite resources, very finite resources, within the Offices of the Inspector General, as well as the entire government community at large. Consequently it's an obligation on the Offices of the Inspector General to pool their resources wherever possible to avoid being inefficient or lacking in economy in our mission and objective.

I think that we're beginning to find that it's good to follow this course of cross-fertilization, this cross-pollination effort, so that we can capitalize on each of our own strengths and to try to take on rather sizable problems which would probably not be within the scope of any one Inspector General's capability.

As was indicated this morning when you heard testimony from Inspector General John Graziano, the fact is that Agriculture along with our own Office of the Inspector General has been working very closely and pooling our resources and developing pilot programs in Tennessee and in Alabama and also now into Georgia that could uncover a lot of the fraudulent, abusive behavior in some of our entitlement programs. Once we have worked out the bugs we will be able to apply them in the larger, more industrialized areas where we expect an even greater return. Those types of projects really would not be in the capability of any one single Inspector General. But if the entire community works together on it, we could probably accomplish quite a bit more.

Mr. FOUNTAIN. What is your evaluation of the extent to which the Social Security Administration has or has not taken effective corrective action concerning the problems disclosed in our 1979 hearing as they affected HHS programs?

Mr. KUSSEROW. Well, as I previously indicated and as stated in my formal statement, I think that Social Security witnesses this morning admitted that a lot more could have been done than actually has been done. And the fact is that I think they were stronger in their statement about their failure to move affirmatively than I was in mine. There is a basic recognition that a lot more could be done in that area and by that admission, I expect to see that our Department will be a little bit more responsive in taking steps necessary to rectify the situation.

Mr. FOUNTAIN. Mr. Naughton?

Mr. NAUGHTON. Before asking questions, I would like to comment on your reference a few moments ago to the resources of the Offices of Inspector General as finite. In the subcommittee's recent unanimous report we called them grossly inadequate rather than finite.

In terms of the death termination projects that you've been engaged in, what is your estimate of the cost of performing those projects as compared with the likely savings and recoveries?

Mr. KUSSEROW. A lot of it depends on how you want to calculate it. As the chairman indicated, there's a difference in counting

something that's saved or returned to the Government versus something that was never spent. In the cases of death termination we've come up with somewhere in the neighborhood of \$2 million in checks that were never cashed. That is quite different from how you determine whether that is a savings, a recovery, or however else you want to describe it. When the check was uncashed, the Federal Government suffered losses but in a different way than when it is cashed.

But we're saying that if, in fact, our projections that the annual savings that we'll have as a result of correcting this deficiency will be around \$21 million, and if we also add to that the identified inappropriate payments that we've come up with that were somehow recoverable, that would amount to another \$50 million, you're probably going to get up in the neighborhood of \$60 to \$70 return for every \$1 invested. I would prefer to take the more conservative posture and say that it's considerably less than that because of the fact that the actual dollars recovered, of checks recovered, cashed or deposited, will probably be considerably less. But still, all in all, I think that you will find that there will be a very attractive ratio as to the dollar invested versus the dollar returned.

Mr. NAUGHTON. Earlier in the day I referred to a newspaper article which talked about a computer system that would, if checks were not cashed within 60 days, trigger the computers to call for an inquiry into the situation. It now appears, as we suspected all along, that there is no such computer system.

That article—perhaps, Mr. Chairman, we might want to put the whole article into the record—indicates the reason that the case came up in the first place was because the widower of a deceased beneficiary was trying to get the check stopped and was having great difficulty in doing it, and that was the occasion of his contacting the Social Security Administration.

But there is another problem that doesn't surface quite as readily. There's been considerable emphasis on going to direct deposits, where the payment goes directly from the Social Security Administration to a bank for credit to the beneficiary's account.

Where a check is sent out and not cashed, of course, there is no direct monetary loss to the Government. There is a bookkeeping problem and undoubtedly some expense, of course. But if a direct deposit is made to the account of a deceased beneficiary, and if those payments continue to be made even though no one is drawing them out, it won't be long before you have a rather substantial amount sitting in a noninterest-bearing checking account, benefiting the bank, but costing the taxpayers an amount equivalent to the interest that they could get if the payments had not been made.

It's interesting—the gentleman in question lived in Decatur, Ga.; he was a former resident of Las Vegas, and evidently he contacted the Decatur Social Security office and was advised that occasionally these kinds of cases came up, so they try to have the funeral homes notify SSA. But the statement was made that banks are not obligated to report such accounts to SSA. In other words, if there is an account which is constantly growing and there is no activity because the owner of the account is dead, is there no requirement

that the banks report those to you, at least to the extent that they're aware of them?

[The article referred to appears in the appendix.]

Mr. KUSSEROW. As you will note in the opening statement which I submitted for the record, pursuant to this committee's action, in 1979, we are engaged in a study now near completion, of that review, which we will include for the record. That review includes looking in part at the problem that you suggest.

[The study referred to appears in the appendix.]

Mr. KUSSEROW. If, of course, you do have a system, not unlike, let's say, what you have in Pennsylvania where banks are only used as a conduit to hold the check for somebody to come into claim, then you wouldn't have that problem. But if, in fact, you have a direct deposit system, then, in fact, you would have no check as it stands now. Consequently, you're absolutely right in that it would mean that banks in effect could be beneficiaries from the interest of the money as well as operating with the principal, especially where you do have somebody that is dead and not entitled to have an account and not have any money going into that account.

Most banks are aware of dormant accounts. They have people that watch dormant accounts for fear that there might be an embezzlement activity against that account if there's not some sort of check on it. So banks are aware of dormant accounts. They watch them and they are concerned about them. But, as it stands now, there is no check to insure—that I'm aware of—that banks will notify the system when, in fact, they learn that somebody is dead. By all ethical standards it would seem that they should, but there's no regulation I'm aware of that commands them to—no law that commands them to.

Mr. NAUGHTON. And, of course, you could have two types of activity going on there, both of them at the expense of the taxpayers. One would be a situation in which the bank itself was well aware that depositors had died, but was sitting there allowing the checks to come to whatever number of such accounts they had there until, if ever, the Government found out that it was going on.

Another case would be where an employee of the bank, acting on his own initiative, had spotted such an account and perhaps might be drawing money out of it so that the bank employee would be getting the benefit. But in either case, the loss would be to the taxpayers.

Mr. KUSSEROW. That's correct.

Mr. NAUGHTON. Clearly, a crime would have been committed if the employee embezzles the money. It would certainly be an abuse if the bank, with direct knowledge of a beneficiary's death, deliberately did not disclose that knowledge.

I'm wondering if it wouldn't be appropriate to have your regulations provide specifically that banks must advise you where they are aware of such cases.

Mr. KUSSEROW. Well, that's something that I think that I can give you an answer to, and have included in the record.

[The information follows:]

We believe that current regulations require banks to advise the Government when they become aware of the death of beneficiaries whose accounts are receiving direct deposits.

In conjunction with the Department of the Treasury, we are exploring the desirability of imposing more explicit reporting requirements on financial institutions. We are also investigating the recovery of interest on funds erroneously paid into such financial organizations. When our report is final, we will submit it to the Subcommittee.

Mr. NAUGHTON. Certainly, in an aggravated case, I would think the Government would have a pretty good basis for a quantum meruit action on the ground that there had been an unjust enrichment that the bank was not entitled to that had occurred and the Government would be entitled to recover that amount.

Mr. KUSSEROW. We're very concerned not only with banks, but any time you suddenly have a dormant situation develop with regards to a beneficiary, I think that that should trigger an inquiry. For example, if you were to take somebody who has for years been under medicare and receiving medical services through medicare and then suddenly is no longer using medicare, it might suggest the either the person suddenly got very healthy or they suddenly got very dead, in which case we should have a mechanism that would trigger us that there is something wrong.

So, whenever you have activity suddenly go dormant with regards to entitlement programs, I think that we should have some sort of triggering mechanism. The banks could be another area where there could be a tipoff that we should be culling the records.

But I think the question that we should really look at is the broader one, and that is, is that the best way to get at the problem? Is there some other way that would be better? Or maybe that is the best way. But we should certainly be trying to address that issue.

Mr. NAUGHTON. Perhaps it might be worthwhile to have some kind of a spot check situation where you have direct deposits being made for elderly individuals, every now and then make checks as to whether they're dead and whether the banks have knowingly failed to disclose it.

Mr. KUSSEROW. Yes, that could be a very good option. The question we would want to try to decide is, is that the best way to get at the problem. We're working on a program that is under title II, in which beneficiaries are almost invariably involved in medicare. If suddenly you have a situation where somebody has been regularly using medicare suddenly stops using it, that should be a point of concern. You could say similarly for medicaid that that would be a point of concern. Why has that happened? That is unusual that suddenly somebody who has been regularly using a medical service no longer is using it.

Maybe that might be a better triggering mechanism. But I think the point that you're making and that I would agree to wholeheartedly, is that we should be looking at all of these tips; that the system should be geared such that it responds to those tips of aberrant behavior in the system. We should be able to find it as well as be able to cull the records of people that are no longer entitled to the benefits.

Mr. NAUGHTON. Certainly, the computer is a wonderful tool in fighting fraud, waste, and abuse and the things that you're talking about sound very good.

Another subcommittee of this committee has been making a review of the Social Security computer system. From the fragmentary reports that we get it sounds like it's all they can do with that system to get the checks out. They consider themselves lucky to do that.

Mr. KUSSEROW. I think the only way that that monster can get under control is to get another monster at it, and that's data processing again. A major concern of this Office of the Inspector General is to develop an ongoing ADP capability so that we can look at the entire system, that whole Goliath of computers and programs, to try to get it under control.

Mr. NAUGHTON. It sounds like you'll have to do that if you're going to use that computer in the other operations that you've been talking about.

Mr. KUSSEROW. Absolutely.

Mr. FOUNTAIN. Approximately how much of HHS' expenditures are for medicare and medicaid programs?

Mr. KUSSEROW. It's approximately \$60 billion. We recently began an exploratory effort to look at the entire spectrum of Federal Government involvement in health care financing and have found that there is nearly \$69 billion being spent and financed by the Federal Government, in whole or part, on health care for Americans. And about 95 percent of that is in our Department, and of course, the lion's share is within the Health Care Financing Administration. So that's a very sizable sum.

Mr. FOUNTAIN. What percentage of your efforts to combat fraud and abuse in those programs, approximately, are devoted to provider cases as compared with recipient cases?

Mr. KUSSEROW. In Health Care Financing Administration?

Mr. FOUNTAIN. Yes.

Mr. KUSSEROW. It has to be in excess of 95 percent.

Mr. NAUGHTON. To providers?

Mr. KUSSEROW. To providers.

Mr. FOUNTAIN. Can you give us any figures in terms of dollars as to what that runs?

Mr. KUSSEROW. In terms of what we are recovering off of those programs from the investigations or from the audits?

Mr. FOUNTAIN. Yes.

Mr. KUSSEROW. Let's see.

Mr. FOUNTAIN. Both the total of the losses and also what you might be recovering or attempting to recover.

Mr. KUSSEROW. I have figures here, but why don't I submit that for the record so that it will be broken down in the fashion that you want.

Mr. FOUNTAIN. Good. If you'll insert that for the record, that will be satisfactory.

Mr. KUSSEROW. All right.

[The information supplied follows:]

Our data shows that the Office of Inspector General has identified substantial questioned costs in the Medicaid and Medicare area. In addition to approximately \$5 million identified by OIG investigators, the OIG auditors recommended final adjustments, concurred in by the Health Care Financing Administration, of \$82.8 million for the first 11 months of 1981.

and go beyond to Agriculture's programs and say that one of the difficulties is that a lot of the States are having difficulty in getting control of the processes, in being able to do proper systemic and programmatic reviews.

We have the resources, we have the expertise to devise ways in which we could help them get control. So I think that what we're finding is that it's very good investment for the Federal Government, for our Federal Inspectors General to work with States. And when we have solved the problems, such as if we have come up with a way in which we can kick out social security cards that are not good, that we make that information available to them so that they can use it for their system. If we devise a medical screening program that can kick out medical providers that are suspect or that might be abusing the system—a medical provider that might be charging for the same service under two medical identifier numbers, for example, they are most appreciative of that and they're most anxious to go with it.

The difficulty that we've been finding is that a lot of States lack that resource, do not understand it, and feel left to their own devices to struggle with it. But we find that when we go in there and give them the expertise, they have the human resources to follow through with it. This makes a very good partnership arrangement.

So, I think a lot of it is the fact that it's an obligation on the Federal Government's part to—I guess it's a little bit like the honey bee that flies from flower to flower and cross-pollinates a little bit rather than leaving them to their own devices—to constantly try to solve problems in this very complicated area.

Mr. NAUGHTON. In the area of cooperation with States and with private firms, I would assume that there are a number of insurance companies that make payments on annuities, that pay life insurance policies on an installment basis, that have just as much interest as Social Security might have in knowing when persons that are receiving payments are deceased, and probably have their own difficulties in getting that information.

Have you explored the possibility of working on a cooperative basis with private companies, perhaps with State retirement systems, and so forth, in exchanging this type of information—simply the fact of death?

Mr. KUSSEROW. Yes, we are working very closely right now. In fact, it goes back to what I said before about the fact that we have found that there is a community of interest between your private insurers and of course, the great Federal insurer in HCFA, and that where abuses show up in one area, there's a high probability that it's going to show up in the other.

We're very much in the exploratory stage here because of the fact that there are some legal considerations as far as exchanging information. We also find, for example, that death termination vital statistics in most State jurisdictions are automated and very much accessible in terms of technically linking it with other data bases. However, there are State privacy considerations, that information may be considered privileged because it also carries the cause of death and some other information on it. So, in all of these

projects, as we proceed with them, we have to wrestle with the legal constraints that go with it and try to work them out.

Now, in some cases where we're not going to be able to, and if it's important enough, then it's my obligation under the Inspector General Act that created this IG to come back to you and to report where we feel that legislative assistance might be warranted to allow us to attack the problems.

So, we're in an exploratory effort. It could be down the pike that I may come back to you and report to you, as I am required to do under the act, and let you know about this problem so that maybe you can consider it for remedial action by legislation.

Mr. NAUGHTON. Have there been situations in which the law itself may not have prohibited an exchange of information that an IG or some other investigative agency wanted to engage in, but the OMB guidelines, which, as I understand it, you would have to follow on these exchanges, are even stricter than the law itself?

Mr. KUSSEROW. Absolutely. And the fact is that one of the first steps that I took when I became an Inspector General and joined the President's Council on Integrity and Efficiency was to posture myself on the matching committee of that council to work with the Chairman, Thomas McBride at the Department of Labor, in working out a list of all of the screening techniques and all of the matching techniques that are known using data processing. We also worked to form various subcommittees, one of which is a subcommittee dealing with that various issue with OMB to see how we might be able to work out some of those constraints that now exist.

Mr. NAUGHTON. Is it true that in some instances there's sort of a catch-22 situation in which in order to comply with the OMB guidelines, you have to show that a project is going to be cost-effective before you undertake it, but you cannot show that it is cost-effective without a pilot project, and unless you have the cost information, you cannot do the pilot project?

Mr. KUSSEROW. I would say that's probably the major consideration why I joined that committee with Tom McBride—to avoid that kind of a situation from developing.

A lot of the Offices of the Inspector General are just now beginning to realize the benefits of various, we use the term "matching," but we're really talking about matching in the larger context of the various ADP screening techniques, and as we begin to get in more and more, we're getting closer to what you're describing, and what we want to do is avoid that kind of situation from actually coming to the fore. And we are able now to demonstrate to OMB, and with OMB's blessing, they're going to work this problem, hopefully, so that it doesn't turn into a catch-22 situation.

I don't think it's reached that point yet, but if we were to continue down that pike, it could turn into that kind of a situation.

But we've got a lot of assurances out of OMB that they're going to help us with this problem.

Mr. NAUGHTON. At least a part of the problem could be solved, I gather, by changes in the guidelines, since it is the belief of a number of individuals that the guidelines go beyond what the law itself requires.

Between January 1981 and the beginning of October of 1981 the Health Care Financing Administration, through its intermediary reviews of Medicare provider costs, identified \$1.2 billion in questioned costs.

Mr. FOUNTAIN. Just one more question. Can you give us a brief description of some of the major problems, other than those that you've already referred to, which you've encountered in connection with the medicare and medicaid and the efforts you're making to combat them?

Mr. KUSSEROW. Coincidentally, yesterday I presented to the President's Council on Integrity and Efficiency what I described as an exploratory effort to look at the entire spectrum of fraud, waste and abuse in the health care financing programs.

We're trying to create a comprehensive information base of Governmentwide and private sector knowledge and techniques to permit efficient, effective detection and prevention of fraud, waste and abuse in this area. We want to be able to have a means by which we can concentrate and focus ourselves on the criminal element operating in this health provider area and then try to develop additional techniques using these various computer assisted techniques to get at it.

The first step that we have done is surveyed the entire Federal community for various programs that have medical providers, both with fee for service and indirect, and to look at common points in that area. We have found primarily that the fee for services are concentrated not only in our Department but also in VA, Department of Defense and Labor and we are trying to work within that area to find common points.

We find also that in looking at this problem we're trying to determine the extent of a crossover of fraudulent providers among public and private sectors. An interesting fact is that over 10 percent of the practitioners that are excluded from medicare have been under investigation by private casualty insurance companies and investigators for fraud. So we want to try to find out what the extent of that area is. It seems that if somewhere in the Federal community we're identifying a medical provider that's engaged in fraudulent activity and perhaps even barred from a program, they should not be permitted to go unchecked to other facets of Federal health care programs. For that matter, we should see if there's an overlap between the private and the public sector in dealing with fraudulent medical providers and there should be a communication linkage there as well.

We're also developing a wide series of computer projects to try to tackle this area. We are working on a program to detect medicaid providers who bill for the same service under two or more provider numbers. We are also trying to detect other types of improper billing under medicaid programs.

We're working on a computer program to identify physicians who pay for higher priced medical procedures when less costly services are given. We have another computer program which is designed to detect individuals who are using fictitious identifiers—names, addresses, social security account numbers, and who are entered on a computer more times than they are actually allowed.

We have another computer procedure that we're actually developing to detect medicaid drug providers who charge for brand

name drugs, but who actually issue recipients cheaper generic drugs.

We have a program which we are using in a variety of ways, which the committee has been aware of to one degree or another over the last couple of years, wherein social security card numbers that have never been issued can be kicked out of the system. We finished doing a test run in the State of Texas with a data base of 2 million between AFDC and food stamps, and kicked out some 5,000 numbers that are nonexistent. From that we found that a lot of them were, of course, transposed numbers and mistakes, but also a lot of them were people using the social security account number improperly.

We are very much interested in devising a system, again through computer technology, in the area of medical laboratory charges. We have several projects in progress to detect illegal markup of laboratory charges.

Of course, you're aware of the fact that we have a number of computer projects that are tying in and interfacing data bases in more than one State jurisdiction to see if there are duplicated benefits.

So there's a wide variety of things where we could take a computer that can do what would be a very labor-intensive effort if done by hand. A machine can do it very quickly. And the criteria which we're trying to work with is to devise a system that would kick out or filter out or screen out in such a fashion that what remains would be an extremely high probability of fraud and abuse so we don't get into a situation where we come out with a lot of data, but that data is ambiguous in meaning. Therefore, when, in effect, you come up with the name of a medical provider that is dropped out of a screen, you have an extremely high probability that that medical provider was engaged in that type of conduct.

So we have a wide variety of things that we are doing in the area of piloting, and once it is piloted, the next step is to get that to a consumer. And we are, again, working outside the Federal community on that as well as within the Federal community. We're working with the State of Kentucky in using a medical screening device to help them with their medicaid program. We are working in the States of Louisiana and Ohio on other types of medical screening programs. So we're looking not only at medicare for the direct Federal dollar that comes under the medicare program, but also working with the indirect Federal dollar that comes through in the medicaid system that's a State-administered program.

So there's an awful lot that can be done in this area to gain control of that monster, the computer, and to make it work for us as well as having to deal with it in our daily lives when it works against us.

Mr. FOUNTAIN. What are the major problems you've discovered in your contacts with the States with respect to the way in which they administer a number of these programs, such as the food stamp program?

Mr. KUSSEROW. Well, of course, the food stamp program is not particularly our area of direct expertise although we are developing a lot of expertise in that area after working so closely with Agriculture's IG on various projects. I can even generalize it more

and go beyond to Agriculture's programs and say that one of the difficulties is that a lot of the States are having difficulty in getting control of the processes, in being able to do proper systemic and programmatic reviews.

We have the resources, we have the expertise to devise ways in which we could help them get control. So I think that what we're finding is that it's very good investment for the Federal Government, for our Federal Inspectors General to work with States. And when we have solved the problems, such as if we have come up with a way in which we can kick out social security cards that are not good, that we make that information available to them so that they can use it for their system. If we devise a medical screening program that can kick out medical providers that are suspect or that might be abusing the system—a medical provider that might be charging for the same service under two medical identifier numbers, for example, they are most appreciative of that and they're most anxious to go with it.

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So, I think a lot of it is the fact that it's an obligation on the Federal Government's part to—I guess it's a little bit like the honey bee that flies from flower to flower and cross-pollinates a little bit rather than leaving them to their own devices—to constantly try to solve problems in this very complicated area.

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projects, as we proceed with them, we have to wrestle with the legal constraints that go with it and try to work them out.

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Mr. NAUGHTON. Is it true that in some instances there's sort of a catch-22 situation in which in order to comply with the OMB guidelines, you have to show that a project is going to be cost-effective before you undertake it, but you cannot show that it is cost-effective without a pilot project, and unless you have the cost information, you cannot do the pilot project?

Mr. KUSSEROW. I would say that's probably the major consideration why I joined that committee with Tom McBride—to avoid that kind of a situation from developing.

A lot of the Offices of the Inspector General are just now beginning to realize the benefits of various, we use the term "matching," but we're really talking about matching in the larger context of the various ADP screening techniques, and as we begin to get in more and more, we're getting closer to what you're describing, and what we want to do is avoid that kind of situation from actually coming to the fore. And we are able now to demonstrate to OMB, and with OMB's blessing, they're going to work this problem, hopefully, so that it doesn't turn into a catch-22 situation.

I don't think it's reached that point yet, but if we were to continue down that pike, it could turn into that kind of a situation.

But we've got a lot of assurances out of OMB that they're going to help us with this problem.

Mr. NAUGHTON. At least a part of the problem could be solved, I gather, by changes in the guidelines, since it is the belief of a number of individuals that the guidelines go beyond what the law itself requires.

Mr. KUSSEROW. Yes, but then we also have another matrix of legal hurdles that we have to get through. If you're trying to compare data bases that exist within the purview of the State with that of the Federal, you have to take into consideration then the distinct regulations and laws with regard to the privacy issue.

Mr. FOUNTAIN. Are there any further questions? Do you have any other comments that you want to add? I think you've been very forthright in your explanation of the situation and in your response to our questions. We want to thank you for being here.

Mr. KUSSEROW. Thank you very much, Mr. Chairman.

Mr. FOUNTAIN. We wish you every success in the mammoth undertaking that you have. It's a tremendous job and I hope that all of you will continue to have success as you try to determine where the problems are and how you might be able to remedy them and help the States, inasmuch as some of these programs are administered primarily on the State and local levels.

Mr. KUSSEROW. Well, with your continued support and encouragement, I think that we have a good chance of being successful in this area.

Mr. FOUNTAIN. Thank you very much.

Mr. KUSSEROW. Thank you.

Mr. FOUNTAIN. At this time we will enter into the record the statements of William T. Murphy, Assistant Chief Postal Inspector, Office of Criminal Investigations, and William E. Douglas, Commissioner, Bureau of Government Financial Operations.

[The prepared statements of William T. Murphy and William E. Douglas follow:]

TESTIMONY OF WILLIAM T. MURPHY

ASSISTANT CHIEF POSTAL INSPECTOR

OFFICE OF CRIMINAL INVESTIGATIONS

I AM WILLIAM T. MURPHY, ASSISTANT CHIEF POSTAL INSPECTOR FOR THE OFFICE OF CRIMINAL INVESTIGATIONS. I HAVE WITH ME TODAY, MR. EDWARD J. SCHIERBERL, JR., WHO IS ON MY STAFF AS MANAGER OF THE EXTERNAL CRIMES BRANCH.

I APPRECIATE YOUR INVITATION TO APPEAR TODAY TO DISCUSS THE PROBLEMS OF FOOD STAMPS AND AUTHORIZATION TO PARTICIPATE (ATP) CARDS AS THEY RELATE TO THE THEFT OF MAIL AND OTHER POSTAL VIOLATIONS.

IN 1979, FORMER CHIEF POSTAL INSPECTOR C. NEIL BENSON, TESTIFIED BEFORE THIS SUBCOMMITTEE ON A SIMILAR SUBJECT. HE INFORMED YOU OF SERIOUS PROBLEMS WITH FOOD STAMPS AND ATP'S AND OF THE FACT WE WERE NOT RECEIVING THE INFORMATION WE NEEDED TO CONDUCT INVESTIGATIONS. WHILE THERE HAVE BEEN SOME IMPROVEMENTS IN A FEW LOCALITIES, GENERALLY THE SAME CONDITIONS EXIST.

THE POSTAL SERVICE'S INTEREST IN THE FOOD STAMP PROGRAM EXISTS BECAUSE OF THE VOLUME OF FOOD STAMPS AND ATP'S DISTRIBUTED BY MAIL. FOOD STAMP PROGRAM CONTROLS AGAINST THEFT AND FRAUDULENT CLAIMS HAVE BEEN INSUFFICIENT AND INEFFECTIVE, MAKING THE FOOD STAMPS AND ATP'S ATTRACTIVE TARGETS FOR THEFT. THEY ARE EASILY CONVERTED TO CASH OR GOODS, AND PROVIDE LITTLE TRACEABLE EVIDENCE. THIS ATTRACTIVENESS LEADS THIEVES TO ATTACK THE POSTAL SYSTEM AND IT'S EMPLOYEES AND RESULTS IN INDIVIDUALS FILING FALSE CLAIMS OF NON-RECEIPT.

WE ARE NATURALLY CONCERNED WITH ANY ACTIVITY THAT PLACES POSTAL SERVICE EMPLOYEES OR THE MAIL ITSELF IN JEOPARDY AND HAVE ENDORSED THE ESTABLISHMENT OF CONTROLS IN THE FOOD STAMP PROGRAM AT THE NATIONAL LEVEL. AS SERIOUS AS THE SITUATION IS CONCERNING THEFTS FROM THE MAILS, IT NEVERTHELESS, IS ENLIGHTENING TO DISCOVER THAT THE VAST MAJORITY

OF REPORTED "LOST IN THE MAIL" OR "STOLEN FROM THE MAIL" CLAIMS ARE, IN FACT, ATTEMPTS TO FRAUDULENTLY OBTAIN REPLACEMENT ITEMS FOR THOSE ACTUALLY RECEIVED.

THE MAILS ARE USED IN TWO PRIMARY WAYS IN THE DISTRIBUTION OF FOOD STAMP BENEFITS. THESE ARE THE DIRECT MAILING OF FOOD STAMPS AND THE MAILING OF ATP'S, WHICH SUBSEQUENTLY ARE REDEEMED FOR FOOD STAMPS.

CURRENTLY, THERE ARE SOME VERY SERIOUS PROBLEMS IN THE DIRECT MAILING OF FOOD STAMPS. THEY ARE BASICALLY AS GOOD AS CASH, AND THIS NATURALLY MAKES THEM EXTREMELY ATTRACTIVE THEFT TARGETS. THERE IS NO WAY THEY CAN EVER BE IDENTIFIED OR RETRIEVED AFTER USE, AND, THEREFORE, THERE IS LITTLE THAT CAN BE DONE TO INVESTIGATE THESE THEFTS AFTER THEY OCCUR.

THE THEFT OF FOOD STAMPS FROM THE MAIL IS A SERIOUS CONCERN OF OURS, HOWEVER THE SCOPE OF THE PROBLEM DOES NOT BEGIN TO APPROACH THAT REPORTED BY THE FOOD STAMP PROGRAM AS MAIL THEFTS. INCLUDED IN THE REPORTED FIGURES ARE THEFTS IN LOCAL AGENCIES BEFORE THE FOOD STAMPS ENTER THE MAIL STREAM, MAIL THEFTS, MAILINGS WHICH ARE UNDELIVERABLE AS ADDRESSED AND ARE RETURNED TO THE MAILING AGENCY, AND FALSE CLAIMS OF NON-RECEIPT BY ADDRESSEES. THE LAST GROUP, FALSE REPORTS OF NON-RECEIPT, ACCOUNTS FOR THE LARGEST LOSS PROBLEM. A HOUSEHOLD SO INCLINED CAN EASILY DOUBLE IT'S ALLOTTMENT THROUGH FALSE CLAIMS.

IN MAY 1980, THE POSTAL SERVICE GRANTED A REGULATORY WAIVER TO THE DEPARTMENT OF AGRICULTURE TO PERMIT THE MAILING OF FOOD STAMPS BY CERTIFIED MAIL. THIS WAS NEEDED BECAUSE CERTIFIED MAIL SERVICE IS NOT ORDINARILY PROVIDED ITEMS WITH INTRINSIC VALUE. IN AREAS WHERE CERTIFIED MAIL HAS BEEN USED,

THE RESULTS ARE VERY IMPRESSIVE. IN EVERY INSTANCE, CERTIFIED MAIL HAS RESULTED IN ALMOST TOTAL ELIMINATION OF REPORTED NON-RECEIPTS AND UNDERSCORES THE PREVALENCE OF FALSE THEFT COMPLAINTS.

CERTIFIED MAIL PROVIDES NO ADDITIONAL PROTECTION TO FOOD STAMP LETTERS, BUT REQUIRES THAT THE ADDRESSEE OR AN AGENT SIGN A RECEIPT AT TIME OF DELIVERY. THIS DOES, HOWEVER, MAKE IT DIFFICULT FOR AN ADDRESSEE TO LATER DENY RECEIPT OF THEIR FOOD STAMPS.

ONE EXAMPLE OF THIS CAN BE SEEN IN THE STATE OF ARKANSAS. ARKANSAS BEGAN USING CERTIFIED MAIL IN 1980 SHORTLY AFTER THE SPECIAL WAIVER WAS GRANTED BY THE POSTAL SERVICE. IN DECEMBER 1980, THE MANAGER OF THE STATE'S FOOD STAMP ISSUANCE OFFICE SELECTED 5,000 RECIPIENTS FROM ALL OVER THE STATE. FOOD STAMPS FOR THAT MONTH WERE SENT BY CERTIFIED

MAIL. THERE WAS NOT ONE COMPLAINT OF NON-RECEIPT. THE FOLLOWING MONTH, JANUARY 1981, THE SAME 5,000 PERSONS WERE SENT FOOD STAMPS BY REGULAR FIRST-CLASS MAIL. THIS TIME, THERE WERE 150 REPORTS OF NON-RECEIPT, OR 3%. IN FEBRUARY 1981, CERTIFIED MAIL WAS AGAIN USED FOR THE 5,000 FOOD STAMP RECIPIENTS, AND AGAIN THERE WERE NO LOSSES CLAIMED.

ATTACHED TO MY PREPARED TESTIMONY IS A COPY OF A RECENT LETTER FROM MR. C. H. ROBINSON, II, MANAGER OF THE ARKANSAS FOOD STAMP ISSUANCE OFFICE, TO ONE OF OUR POSTAL INSPECTORS IN ATLANTA, GEORGIA. MR. ROBINSON IS CONVINCED THAT MOST NON-RECEIPT REPORTS BY RECIPIENTS ARE FRAUDULENT AND THAT CERTIFIED MAIL PREVENTS THEM.

UNFORTUNATELY, REPORTED LOSSES ARE ON THE RISE IN ARKANSAS. AS CAN BE SEEN FROM HIS LETTER, BECAUSE OF A SHORTAGE IN STATE FUNDS, CERTIFIED MAIL IS NOT USED AS WIDELY AS BEFORE. THE ADDITIONAL COST FOR CERTIFIED MAIL IS ONLY A FRACTION

OF THE AMOUNT WHICH CAN BE SAVED FROM AVOIDING DUPLICATE FOOD STAMP ISSUANCES, BUT FOOD STAMP COSTS ARE PAID BY THE FEDERAL GOVERNMENT, AND MAILING COSTS MUST BE BORNE BY THE STATES.

UNLIKE ARKANSAS, MANY STATES WILL NOT EVEN ATTEMPT TO IDENTIFY OR CORRECT PROBLEMS. ONE, FOR EXAMPLE, HAD DUPLICATE ISSUANCES OF FOOD STAMPS AMOUNT TO OVER \$64,000 FOR NOVEMBER 1980. POSTAL INSPECTORS MET WITH STATE OFFICIALS AND POINTED OUT HOW SUCCESSFUL ARKANSAS HAD BEEN IN REDUCING CLAIMS BY USING CERTIFIED MAIL. INSPECTORS DEMONSTRATED THAT 70 TO 80 PERCENT OF THEIR TOTAL REPORTED LOSSES WERE IN 10 OF THE STATES 84 COUNTIES. ALTHOUGH THE STATE OFFICIALS RECOGNIZED THAT A GREAT AMOUNT OF MONEY COULD PROBABLY BE SAVED BY USING CERTIFIED MAIL, THERE WAS NO INCENTIVE FOR THEM TO PAY ADDITIONAL MONEY TO CERTIFY FOOD STAMP MAILINGS TO THE 10 HIGH LOSS COUNTIES BECAUSE THE PRESENT MONEY LOSS INVOLVED FEDERAL FUNDS.

ATTACHED TO MY STATEMENT IS A NEWSPAPER ARTICLE WHICH APPEARED SEPTEMBER 15, 1981, IN THE KNOXVILLE JOURNAL, KNOXVILLE, TN. KNOXVILLE HAD THE HIGHEST REPORTS OF NON-RECEIPTS OF FOOD STAMPS IN THE STATE. IN JANUARY 1981, THAT AMOUNTED TO 2.24 PERCENT OF THE TOTAL NUMBER MAILED. IN MAY 1981, CERTIFIED MAILING OF FOOD STAMPS WAS BEGUN, AND, BY JUNE, REPORTED NON-RECEIPTS HAD DROPPED TO 4/100'S OF A PERCENT. TENNESSEE'S HUMAN SERVICES COMMISSIONER CONCLUDED THAT THE REPORTED NON-RECEIPTS PRIOR TO USE OF CERTIFIED MAIL WERE PRIMARILY FALSE REPORTS BY PERSONS ATTEMPTING TO OBTAIN ADDITIONAL STAMPS.

AT THE BEGINNING OF OCTOBER, WE CONDUCTED A TEST FOR THE STATE OF IOWA. THE MAJORITY OF THAT STATE'S REPORTED MAIL THEFTS ARE IN BLACKHAWK COUNTY, WHICH INCLUDES THE CITY OF WATERLOO. OF 554 FOOD STAMP MAILINGS ON JULY 1, 1981, BY FIRST-CLASS MAIL TO BLACKHAWK COUNTY, 29 WERE REPORTEDLY

NOT RECEIVED. ON OCTOBER 1 AND 2, 1981, THERE WERE A TOTAL OF 988 FOOD STAMP LETTERS SENT TO BLACKHAWK COUNTY, AND POSTAL INSPECTORS ARRANGED TO HAVE EACH CERTIFIED. THERE WERE ONLY THREE REPORTS OF NON-RECEIPT. WE HAVE DELIVERY RECEIPTS SIGNED BY THE ADDRESSEES IN THOSE 3 INSTANCES AND STATE OFFICIALS ARE CURRENTLY CONDUCTING FRAUD INVESTIGATIONS ON THOSE.

EXCEPT IN NEW YORK CITY, THE MAILING OF ATP'S HAS FOR THE MOST PART REMAINED UNCHANGED SINCE 1979. NEW YORK CITY HAS ELECTED TO IMPLEMENT SOME CONTROLS SIMILAR TO THOSE WE HAVE RECOMMENDED NATIONALLY, AND IT HAS BEEN STATISTICALLY ESTABLISHED THAT 90 PERCENT OF THE NON-RECEIPT CLAIMS IN NEW YORK CITY WERE EITHER FRAUDULENT OR RESULTED FROM PROGRAM ADMINISTRATIVE ERRORS. RECENT TESTS CONDUCTED IN OTHER PARTS OF THE COUNTRY BY THE DEPARTMENT OF AGRICULTURE'S OFFICE OF INSPECTOR GENERAL HAVE CONFIRMED THAT THE 90 PERCENT FIGURE IS RELIABLE.

ATP'S ARE SIMILAR TO CHECKS, BUT RESULT IN OBTAINING FOOD STAMPS INSTEAD OF CASH. THE ATP MUST BE SIGNED BY THE RECIPIENT AND REDEEMED AT SPECIFIED OUTLETS. HERE THE SIMILARITY WITH CHECKS ENDS.

IN MOST STATES USING THE ATP SYSTEM, THE PROBLEMS WITH ALLEGED NON-RECEIPTS ARE SIMILAR TO THOSE PREVIOUSLY MENTIONED FOR FOOD STAMP MAILINGS. A RECIPIENT CLAIMS AN ATP WAS NOT RECEIVED, AND THE ISSUING AGENCY SIMPLY ISSUES A DUPLICATE. THE ALLEGEDLY STOLEN AND FORGED ATP, IF REDEEMED, IS NOT CHARGED BACK TO THE FOOD STAMP OUTLET. IN FACT, NO ATTEMPT IS USUALLY MADE TO DETERMINE IF A STOLEN ATP HAS BEEN NEGOTIATED, WHETHER IT ACTUALLY HAS BEEN FORGED, OR EVEN TO RETRIEVE IT FROM HUGE, UNSYSTEMATIC WAREHOUSING SYSTEMS. THERE IS NO INFORMATION AND, MOST IMPORTANTLY, NO PHYSICAL EVIDENCE ON WHICH TO BASE AN INVESTIGATION.

AT PRESENT, THERE IS NO INCENTIVE FOR REDEMPTION CENTERS TO ENSURE THEY ARE NEGOTIATING ATP'S FOR THE TRUE RECIPIENTS. MANY REDEMPTION CENTERS, AND/OR EMPLOYEES OF THOSE OUTLETS, ARE WILLING TO FENCE STOLEN ATP'S, AND CENTERS WITH POOR OPERATING PROCEDURES SERVE AS EASY TARGETS FOR THIEVES ANXIOUS TO NEGOTIATE STOLEN ATP'S.

THERE IS ALSO A LACK OF INCENTIVES FOR STATES TO PROPERLY ADMINISTER THE PROGRAM. AS WITH THE DIRECT MAILING OF FOOD STAMPS, ATP'S ARE FURNISHED BY THE FEDERAL GOVERNMENT, AND IT IS EASIER TO SUPPLY DUPLICATES TO PERSONS CLAIMING NON-RECEIPT THAN TO TAKE TIME TO SCRUTINIZE CLAIMS AND INITIATE FRAUD CONTROLS.

NEW YORK CITY HAS RECENTLY BEEN THE TARGET OF MUCH CRITICISM FOR THE MANNER IN WHICH IT HAS RUN THE FOOD STAMP PROGRAM. HOWEVER, IN 1980, NEW YORK CITY IMPLEMENTED THE

SYSTEM REFERRED TO AS "RAPID ACCESS" AND SUPPLEMENTED IT BY AN ATP WITH A VALIDITY SPAN OF EIGHT DAYS. PRIOR TO THESE CHANGES, NEW YORK WAS SPENDING \$2.5 MILLION A MONTH ON DUPLICATE ATP ISSUANCES FOR ALLEGED NON-RECEIPTS. AFTER IMPLEMENTATION OF SOME BASIC SECURITY CONTROLS, LOSSES WERE REDUCED TO AN ESTIMATED \$200,000 MONTHLY. THIS CAN BE EVEN FURTHER REDUCED IF CERTAIN OTHER MEASURES ARE ADOPTED.

THE NEW YORK SYSTEM HAS BEEN EXTREMELY HELPFUL TO OUR INVESTIGATIONS OF THEFT OF ATP'S FROM THE MAILS. THE SYSTEM ELIMINATED OR IDENTIFIED THE MAJORITY OF FRAUDULENT CLAIMS OF NON-RECEIPT. IN NOVEMBER OF 1979, THERE WERE 33,000 REPORTS OF NON-RECEIPT, ALLEGED TO BE THEFTS FROM THE MAILS. WHAT CAN NOW BE IDENTIFIED AS PROBABLE MAIL THEFTS NUMBER FROM 1,500 TO LESS THAN 2,000 PER MONTH. THE NEW YORK SYSTEM NOW FURNISHES US WITH THE ACTUAL ATP CARDS WHICH WERE STOLEN AND SUBSEQUENTLY NEGOTIATED. THIS MEANS WE NOW HAVE

ACCURATE INFORMATION REGARDING THEFT VOLUME AND AREA, PLUS THE NEEDED DOCUMENTATION AND EVIDENCE ON WHICH TO CONDUCT AN INVESTIGATION.

THE NEW YORK SYSTEM IS PRIMARILY DESIGNED TO CORRECT FRAUDULENT REPORTS OF NON-RECEIPT. WITH THE IDENTIFICATION OF ACTUAL ATP THEFTS FROM THE MAILS, WE CAN ATTACK THOSE PROBLEMS DIRECTLY.

YOU REQUESTED CERTAIN INFORMATION CONCERNING REPORTED MAIL THEFTS OF FOOD STAMPS, ATP'S, TREASURY CHECKS AND STATE CHECKS FOR FISCAL YEAR 1981. AN ATTACHMENT REFLECTS THIS INFORMATION. GENERALLY, WE DO NOT HAVE PROBLEMS OBTAINING INFORMATION AND COPIES OF EITHER TREASURY OR STATE CHECKS STOLEN FROM THE MAIL. WE DO HAVE GREAT DIFFICULTY WITH ATP'S AND FOOD STAMPS.

NEW YORK CITY BEGAN FURNISHING ATP'S TO US ABOUT APRIL OF THIS YEAR, AND THIS IS THE ONE LOCATION WE FEEL THE INFORMATION REGARDING ATP'S IS FAIRLY ACCURATE. YOU WILL NOTE ON THE ATTACHMENT THAT THERE WERE MORE ATP'S THAN TREASURY CHECKS STOLEN IN THE PERIOD OF APRIL THROUGH SEPTEMBER 1981, THAN TREASURY CHECKS FOR THE ENTIRE FISCAL YEAR. ATP'S WILL CONTINUE TO BE MORE ATTRACTIVE THEFT TARGETS THAN CHECKS UNTIL AN IDENTIFICATION AND CHARGE BACK SYSTEM IS IMPLEMENTED.

WE HAVE RECEIVED NO REPORTS OF NON-RECEIPT IN LOS ANGELES. WE HAVE TRIED FOR YEARS TO OBTAIN NEEDED INFORMATION FROM LOS ANGELES OFFICIALS, BUT THEY DO NOT HAVE THE ABILITY WITH THEIR CURRENT SYSTEM TO IDENTIFY OR RETRIEVE ALLEGEDLY STOLEN AND FORGED ATP'S. THIS IS SIMILAR TO THE SITUATION WHICH EXISTED AT ONE TIME IN NEW YORK CITY.

AT THE OTHER END OF THE SPECTRUM, PITTSBURGH, PA, REPORTED 6,305 STOLEN ATP'S FOR FISCAL YEAR 1981. PITTSBURGH FURNISHES US ONLY THE NUMBER OF ALLEGED MAIL THEFTS. WE ARE NOT PROVIDED THE ALLEGED STOLEN AND FORGED ATP'S NOR ANY INDICATION WHERE THE THEFTS OCCURRED. THERE IS LITTLE BASIS FOR AN INVESTIGATION.

THE POSTAL INSPECTION SERVICE CAN BE VERY EFFECTIVE BOTH IN PREVENTING AND IN INVESTIGATING FOOD STAMP AND ATP THEFTS GIVEN THE NECESSARY COOPERATION AND INFORMATION WHETHER DEALING WITH FOOD STAMPS OR ATP'S. THE BASIC APPROACH TO ELIMINATING FRAUDULENT CLAIMS OF NON-RECEIPT IS THE USE OF CERTIFIED MAIL FOR FOOD STAMPS AND THE ADOPTION OF SYSTEMS SIMILAR TO NEW YORK CITY'S FOR ATP'S. ONCE THAT IS ACCOMPLISHED, ACTUAL LOSSES CAN BE ANALYZED FOR BOTH PREVENTIVE AND INVESTIGATIVE PURPOSES. A GOOD IDENTIFICATION AND CHARGE BACK SYSTEM FOR ATP'S TRANSACTIONS WOULD FURTHER ELIMINATE MOST OF THE THEFT PROBLEMS WHICH CURRENTLY EXIST.

CRIMINALS WILL ENGAGE IN ACTIVITIES WHICH MINIMIZE THEIR RISK AND MAXIMIZE THEIR PROFITS. THE CURRENT SITUATION IN THE FOOD STAMP PROGRAM IS THAT THERE IS VERY LITTLE RISK WITH TREMENDOUS PROFIT TO BE MADE THROUGH ILLICIT ACTIVITY.

THE CHANGES IN THE FOOD STAMP REGULATIONS WHICH APPEARED IN THE FEDERAL REGISTER ON OCTOBER 9, 1981, IF INITIATED AND ENFORCED IN THE STATES, ARE WELCOMED AS A MAJOR STEP IN THE RIGHT DIRECTION. HOWEVER, THERE HAVE BEEN REQUIREMENTS IN THE PAST WHICH WERE IGNORED WITHOUT CONSEQUENCE. I HOPE THAT WILL NOT BE THE CASE WITH THESE NEW REGULATIONS.

MR. CHAIRMAN, I APPRECIATE HAVING BEEN GIVEN THIS OPPORTUNITY TO ADDRESS YOUR SUBCOMMITTEE, AND WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE. THANK YOU.

Arkansas Department of Human Services
Division of Social Services

P.O. Box 1437
Seventh and Cairns Streets
Little Rock, Arkansas 72203

August 27, 1981

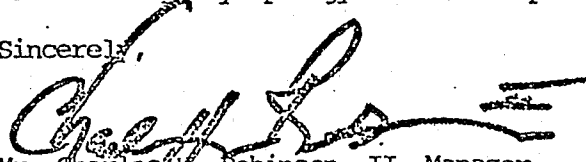
Mr. Robert D. Smith, Postal Inspector
P. O. Box 16489
Atlanta, GA 30321

Dear Mr. Smith:

In conjunction with your letter of July 13, 1981, please find enclosed the requested information and materials. In response to question number three, Item A., the attached FNS-259's will provide the necessary information requested. However, in noticing the most recent quarterly report (April, May, and June 1981) our losses are extremely high as compared to the report where we began using certified mail (July, August, and September 1980). The reason for this difference is due to the fact that we are no longer using a great deal of certified mail because of a shortage of funds.

Please accept my apology for our response time.

Sincerely,


Mr. Charles J. Robinson, II, Manager
Food Stamp Issuance

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THE KNOXVILLE JOURNAL

U. S. POSTAL INSPECTION SERVICE
MAIL THEFT COMPLAINTS
OCTOBER 1980 - SEPTEMBER 1981

	<u>TREASURY CHECKS</u>	<u>STATE CHECKS</u>	<u>ATP'S</u>	<u>FOOD STAMPS</u>
New York, NY	4,580	8,011	7,611	0
Philadelphia, PA	1,534	3,281	0	20
Pittsburgh, PA	822	880	6,305	3
CHICAGO, IL	1,849	2,248	422	0
State of Illinois (except Chicago)	800	895	51	24
Los Angeles, CA (city and county)	1,273	5,321	0	0
National TOTAL	*52,470	61,994	25,833	28,621

*The exact number of checks placed in the mail is not known. More than 750 million Treasury Checks are issued annually, with the vast majority being sent through the mails. Therefore, the 52,470 reported Treasury Check thefts amount to less than 1/100th of a percent.

DEPARTMENT OF THE TREASURY
FISCAL SERVICE - BUREAU OF GOVERNMENT
FINANCIAL OPERATIONS

STATEMENT OF WILLIAM E. DOUGLAS
COMMISSIONER
FOR PRESENTATION TO THE INTERGOVERNMENTAL RELATIONS AND
HUMAN RESOURCES SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
GENERAL STATEMENT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM HERE TODAY TO COMMENT ON PROGRESS TOWARD RESOLVING PROBLEMS IN THE CHECK CLAIMS PROGRAM OUTLINED IN THE HEARING HELD NOVEMBER 8, 1979.

AS YOU KNOW, UNDERLYING PROBLEMS IN THE CLAIMS PROGRAM ARE LONG-STANDING. THEY HAD BEEN GROWING FOR A NUMBER OF YEARS, AND IN 1979, DUE TO INCREASED WORKLOAD COMBINED WITH OPERATIONAL SHORTCOMINGS IN A NEW NATIONWIDE PAYMENT SYSTEM, THE DIVISION OF CHECK CLAIMS COULD NOT FULLY ACCOMPLISH ITS MISSION. THE PROBLEM WAS MANIFESTED BY A SIGNIFICANT INCREASE IN THE AMOUNT OF ACCOUNTS RECEIVABLE RESULTING FROM DUPLICATE PAYMENTS AND CHECK FORGERIES AND A SERIOUS DROP IN THE VOLUME OF FORGED CHECK REFERRALS TO THE U.S. SECRET SERVICE FOR INVESTIGATION.

IN THE LAST TWO YEARS, THE BUREAU HAS BEEN WORKING TO RESOLVE UNDERLYING DIFFICULTIES WHICH LED TO THE 1979 SITUATION. WE HAVE CONCENTRATED OUR EFFORTS TOWARDS: (1) IMPROVING MANAGERIAL EFFECTIVENESS; (2) GAINING ACCOUNTING CONTROL OVER WORKLOAD; (3) IMPLEMENTING SHORT TERM CHANGES THAT RESPOND TO THE BASIC NEED TO RECONCEPTUALIZE THE REPLACEMENT PROCESS.

IN TERMS OF THE IMMEDIATE PROBLEM OF CHECK FORGERY REFERRALS, THE AVAILABILITY OF INCREASED PERSONNEL IN FISCAL YEARS 1980 AND 1981 AND INCREASED MANAGEMENT ATTENTION HAVE SERVED TO INCREASE OUTPUT. IN FY 1981, THE NUMBER OF CHECKS RETRIEVED AND FORWARDED TO THE U.S. SECRET SERVICE TOTALED ALMOST 90,000, OF WHICH ABOUT 65,000 INVOLVED CHECKS REFERRED FOR FORGERY INVESTIGATIONS INVOLVING CLAIMS. THE REMAINING 25,000 INVOLVED CHECKS NEEDED FOR FIELD ORIGINATED INVESTIGATIONS OR REQUESTS BY U.S. ATTORNEYS AND OTHER LAW ENFORCEMENT AGENCIES. DATA REGARDING THE CHECKS RETRIEVED FOR THE U.S. SECRET SERVICE INCIDENT TO FIELD ORIGINATED INVESTIGATIONS AND OTHER PURPOSES PRIOR TO FY 1981 IS NOT AVAILABLE, BUT CHECK REFERRALS INVOLVING CLAIMS TOTALED 45,000 IN FY 1979 AND 60,000 IN FY 1980.

ONE OF THE KEY ELEMENTS IN IMPROVING A PROGRAM IS TO FOCUS ON MANAGEMENT. THE MANAGEMENT TEAM OF BUREAU OF GOVERNMENT FINANCIAL OPERATIONS IS NEW. I CAME FROM THE INTERNAL REVENUE SERVICE WHERE I HAD EXTENSIVE EXPERIENCE WITH MANAGING LARGE SCALE OPERATIONS. THE DEPUTY COMMISSIONER AND MY FOUR ASSISTANT COMMISSIONERS ARE NEW TO THEIR POSITIONS. IN ADDITION, THE DIRECTOR AND BOTH ASSISTANT DIRECTORS OF THE

DIVISION OF CHECK CLAIMS ARE NEW. I BELIEVE THAT THIS NEW MANAGEMENT TEAM IS COHESIVE AND WILL BE RESPONSIVE TO OUR CHECK CLAIMS PROBLEMS. HAVING THIS NEW TEAM, I HAVE ENCOURAGED THE ESTABLISHMENT OF A COORDINATED MANAGEMENT APPROACH TO SOLVING PROBLEMS ON A BUREAU-WIDE BASIS. WE HAVE STARTED A TRAINING PROGRAM FOR ALL LEVELS OF EMPLOYEES, INCLUDING ROTATIONAL ASSIGNMENTS OF MANAGEMENT PERSONNEL TO THE DIVISION OF CHECK CLAIMS. THESE CHANGES HAVE SERVED TO FOCUS OUR BEST TALENT IN THE PLANNING AND DEVELOPMENT OF VIABLE APPROACHES TO RESOLVING DIFFICULTIES IN OUR CLAIMS PROGRAM WHILE INSURING THAT OTHER OPERATIONS DO NOT SUFFER. IN ADDITION TO THESE, SENIOR BUREAU MANAGEMENT, INCLUDING MYSELF, HAVE CLOSELY MONITORED THE CHECK CLAIMS PROGRAM THROUGH FREQUENT ON-SITE VISITS AND MEETINGS WITH OPERATIONAL PERSONNEL AND LOWER-LEVEL MANAGERS. WE ARE ALSO WORKING, WITHIN AVAILABLE FUNDING LEVELS, TO IMPROVE OR CHANGE THE PHYSICAL SETTING FOR OUR CLAIMS PROGRAM. OUR OBJECTIVE IS TO PROVIDE A SETTING WHICH IS MORE CONDUCTIVE TO A LARGE-SCALE, PAPER-BASED OPERATION AND A BETTER WORK ENVIRONMENT FOR EMPLOYEES.

OUR SECOND AREA OF CONCENTRATION TO IMPROVE THE CHECK CLAIMS OPERATION INCLUDES THE INSTALLATION OF AN AUTOMATED

ACCOUNTING SYSTEM TO STRENGTHEN ACCOUNTING CONTROLS OVER RECEIVABLES RESULTING FROM DUPLICATE PAYMENTS AND FORGERY SETTLEMENTS. THE DCC FINANCIAL ACCOUNTING AND REPORTING SYSTEM WAS IMPLEMENTED IN APRIL 1980 FOR THE DOUBLE PAYMENT RECEIVABLE ACCOUNTS AND WAS EXPANDED IN OCTOBER 1980 TO COVER THE FORGERY RECEIVABLE ACCOUNTS. THIS SYSTEM, ALONG WITH THE RECRUITMENT OF PROFESSIONALLY TRAINED ACCOUNTING PERSONNEL, A DETAILED OPERATING MANUAL, CLERICAL TRAINING, AND IMPROVED PROCEDURES HAVE BROUGHT ACCOUNTING OPERATIONS UNDER CONTROL. MANAGEMENT NOW HAS THE CAPABILITY TO MONITOR OPERATIONS THROUGH VARIOUS SUMMARY REPORTS. COMPUTER ASSISTED MICROFILM EQUIPMENT NOW ENABLES US TO CONTROL ACCOUNTING DOCUMENTS AND HAS REDUCED STORAGE AND RETRIEVAL PROBLEMS.

AS OF SEPTEMBER 30, 1981, WE COMPLETED A TWO YEAR TASK OF RECORDING ALL KNOWN PAST REPLACEMENT CHECKS THAT REMAIN UNCOLLECTED SO THAT THESE ITEMS MAY BE ENTERED INTO OUR NEW ACCOUNTING SYSTEM. OUR OBJECTIVE IS TO SPECIFICALLY IDENTIFY BY AGE ALL CHECK CLAIMS RECEIVABLES AND ESTABLISH THE AMOUNT OF UNCOLLECTIBLE ITEMS FOR THE PURPOSES OF REQUESTING APPROPRIATED FUNDING.

SINCE MAY 26, 1981, AN INTEREST BILLING SYSTEM HAS BEEN IN OPERATION FOR CHECK FORGERY REFUNDS FROM BANKS. BANKS ARE NOW BILLED INTEREST FOR ALL REFUNDS OVER 60 DAYS OLD. THE INTEREST RATE VARIES BY QUARTER, AND THE CURRENT RATE BEING USED IS 16.19 PERCENT. THIS SYSTEM OPERATES IN CONJUNCTION WITH THE CHECK CLAIMS ACCOUNTING SYSTEM AND THE PREVIOUSLY ESTABLISHED AUTOMATED BANK RECLAMATION SYSTEM INSTALLED IN 1978.

OTHER ACTIONS TO IMPROVE BANK RESPONSIVENESS INCLUDE EFFORTS TO IMPROVE OUR CHECK COPY QUALITY. THIS WAS A SIGNIFICANT AREA OF COMPLAINT FROM BANKS IN THE ESTABLISHMENT OF THEIR LIABILITY FOR FORGED CHECKS. ALSO, PROCEDURES FOR HANDLING BANK CORRESPONDENCE HAVE BEEN STREAMLINED, WITH THE ESTABLISHMENT OF STANDARD REPLIES TO PROTESTS OF LIABILITY, WHICH UNNECESSARILY DELAYED REFUNDS IN THE PAST. A PROPOSED RULE PROVIDING FOR SET-OFF ON OVERDUE BANK REFUNDS HAS BEEN FORWARDED TO THE FEDERAL REGISTER FOR PUBLICATION. THIS PROPOSED RULE WOULD GIVE TREASURY A CONTRACT RIGHT TO RECOVER THOSE AMOUNTS FROM THE RESERVE ACCOUNTS WITH FEDERAL RESERVE BANKS USED BY BANKS WHICH PRESENT THE CHECKS FOR PAYMENT. WE ARE ALSO WORKING WITH THE DEPARTMENT OF JUSTICE TO SUE CERTAIN BANKS WITH LARGE BALANCES OF UNPAID REFUNDS.

WITH REGARD TO THE PROBLEM OF DUPLICATE PAYMENTS, ON OCTOBER 8, 1981, WE BEGAN A 90 DAY TEST TO DELAY THE PROCESSING OF CLAIMS FOR LOST CHECKS SUBMITTED ON MAGNETIC TAPE. WE PLAN TO HOLD THESE TAPES FOR TEN DAYS BEFORE PROCESSING TO ALLOW MORE TIME FOR ORIGINAL CHECKS IN THE BANKING SYSTEM TO BE PAID AND RECORDED IN OUR CENTRAL COMPUTER OPERATIONS. THIS SHOULD RESULT IN THE ISSUANCE OF FEWER SUBSTITUTES, THEREBY RESULTING IN FEWER DUPLICATE PAYMENTS.

ANOTHER ACTION TAKEN IN REGARD TO DUPLICATE PAYMENTS IS THE IMPLEMENTATION ON OCTOBER 1, 1981, OF PROCEDURES TO DECLINE SECOND PAYMENTS THROUGH THE BANKING SYSTEM INVOLVING LARGE DOLLAR AMOUNTS PAYABLE TO BUSINESSES OR FINANCIAL ORGANIZATIONS.

TO IMPROVE COLLECTION TIMELINESS, IN ADDITION TO THE AUTOMATED ACCOUNTING SYSTEM, TWO OTHER AUTOMATED SYSTEMS HAVE BEEN IN OPERATION SINCE OCTOBER 1980. ONE SYSTEM CONTROLS THE REQUESTING OF PAID CHECKS FROM FEDERAL RECORDS CENTERS WHICH ARE NEEDED FOR REFERRAL TO THE SECRET SERVICE AND OTHER CLAIMS MATTERS. ANOTHER SYSTEM PROVIDES EFFECTIVE RETRIEVAL AND CONTROL OF CHECKS INVOLVED IN DUPLICATE PAYMENT RECEIVABLE CASES. THESE SYSTEMS, AND MANAGEMENT REPORTS AVAILABLE FROM THEM, HAVE CONTRIBUTED TO THE CONTROL AND TIMELINESS FOR OBTAINING CHECKS NEEDED TO PURSUE COLLECTION EFFORTS.

OTHER OPERATIONAL IMPROVEMENTS HAVE BEEN FOCUSED SPECIFICALLY ON IMPROVING THE QUALITY OF MICROFILM COPIES OBTAINED FROM TREASURY RECORDS. THE BUREAU HAS AN ONGOING PROJECT WITH THE FEDERAL RESERVE BANKS TOWARD IMPROVING MUTUAL OPERATIONS IN A VARIETY OF AREAS. MUCH STRICTER MICROFILM QUALITY STANDARDS HAVE BEEN ESTABLISHED FOR FEDERAL RESERVE BANKS IN THE PROCESSING OF GOVERNMENT CHECKS. THESE STANDARDS WILL BE USED SYSTEM-WIDE BY DECEMBER 1. THIS WILL IMPROVE THE QUALITY OF MICROFILM COPIES NEEDED BY AGENCIES AND THE CHECK CLAIMS DIVISION FOR COLLECTION ACTION AND OTHER ADMINISTRATIVE PURPOSES. EMPLOYEES HAVE BEEN TRAINED IN THE OPERATION AND MAINTENANCE OF THE MICROFILM EQUIPMENT AND IN THE PRODUCTION OF COPIES. THIS OPERATION HAS BEEN MOVED TO A REMODELED ENVIRONMENT TO CONTROL HEAT, HUMIDITY AND DUST. ALSO, A NEW GOVERNMENT CHECK HAS BEEN DEVELOPED TO FURTHER IMPROVE QUALITY. THE NEW CHECK HAS A NATURAL COLOR BACK AND THE PRINTING ON THE REVERSE IS IN ORANGE INK WHICH DISAPPEARS IN MICROFILMING, THEREBY ENABLING US TO BETTER READ THE ENDORSEMENTS. THE FIRST RELEASE OF THE NEW CHECK WAS THE SEPTEMBER 1 PAYMENT FOR SUPPLEMENTAL SECURITY INCOME. OTHER PROGRAMS WILL BE PHASED IN GOVERNMENT-WIDE OVER THE NEXT YEAR AS EXISTING INVENTORIES ARE REPLACED.

THE PROGRESS I HAVE OUTLINED IS RELATIVELY SHORT-TERM AND IS SERVING TO ELIMINATE THE MAJOR CAUSES OF PAST PROBLEMS. IN THE CURRENT BUDGETARY ENVIRONMENT, RELIANCE MUST NOW BE PLACED ON LONG-RANGE POLICY AND SYSTEMS CHANGES. OUR PRIMARY APPROACH IS TO REDUCE INCOMING WORKLOAD WHICH MUST BE PROCESSED, AND SIGNIFICANTLY UPGRADE SYSTEMS CAPABILITY TO REDUCE RELIANCE ON STAFF RESOURCES. THE KEY PROGRAM TO ACCOMPLISH OUR OBJECTIVE IS THE DIRECT DEPOSIT/ELECTRONIC FUNDS TRANSFER PROGRAM. THIS SYSTEM PROVIDES ECONOMICAL AND SAFE DELIVERY OF PAYMENTS. THE VOLUME OF OUR DIRECT DEPOSIT PAYMENTS HAS SIGNIFICANTLY INCREASED SINCE 1979 -- FROM ABOUT 131 MILLION TO 179 MILLION AS OF THE END OF FY 1981 -- ABOUT A 37 PERCENT INCREASE. IN THE SAME PERIOD, THE VOLUME OF CHECKS DECREASED ONLY ABOUT 6 PERCENT FROM AROUND 700 MILLION TO ABOUT 656 MILLION. WE ARE HAPPY TO REPORT THAT THE PROGRAM HAS SERVED TO PREVENT WORKLOAD WHICH WOULD OTHERWISE HAVE BEEN RECEIVED. HOWEVER, FUTURE PROGRESS IN INCREASING PARTICIPATION AMONG PERSONS NOW RECEIVING CHECKS IS EXPECTED TO BE SLOW -- BECAUSE IT IS STRICTLY VOLUNTARY.

WE ARE HOPING TO FOCUS OUR EFFORTS ON THE RECIPIENTS OF RECURRING BENEFITS, SUCH AS SUPPLEMENTAL SECURITY INCOME,

SOCIAL SECURITY AND VETERANS BENEFIT RECIPIENTS. SINCE SEPTEMBER 1979, PARTICIPATION IN ALL MAJOR RECURRING BENEFIT PROGRAMS INCREASED FROM A RATE OF 22 PERCENT TO 30 PERCENT. WE ARE EXPLORING WAYS, IN ADDITION TO AGGRESSIVE MARKETING TO IMPROVE THESE FIGURES. WE ANTICIPATE AGENCIES TO PLAY A MUCH LARGER ROLE IN INCREASING PARTICIPATION AND ARE DESIGNING POLICIES WHICH WILL INCREASE INCENTIVES. OUR HOPE IS TO BRING ABOUT THE SAME RESULTS FOR THE HIGH VOLUME/LOW DOLLAR AMOUNTS MADE BY CHECK THAT WE HAVE ACHIEVED THROUGH OUR TREASURY FINANCIAL COMMUNICATIONS SYSTEM. IN FISCAL YEAR 1981, THE TREASURY FINANCIAL COMMUNICATION SYSTEM HANDLED ABOUT 106 THOUSAND MESSAGES TOTALING \$162 BILLION.

A PRIMARY LONG-RANGE POLICY CHANGE TO INCREASE INCENTIVES FOR AGENCIES TO STRESS THE DIRECT DEPOSIT PROGRAM INVOLVES INCREASING THEIR RESPONSIBILITY IN THE PROCESSING OF CLAIMS AND THE ASSOCIATED COLLECTION ACTIVITY. ONE OF THE METHODS WE ARE PURSUING IS FOR AGENCIES TO RECERTIFY PAYMENTS TO THEIR RECIPIENTS IN RESPONSE TO CLAIMS OF NON-RECEIPT OR LOSS OF CHECKS IF THE AGENCY BELIEVES A REPLACEMENT CHECK IS JUSTIFIED BASED ON THEIR KNOWLEDGE OF THE CASE. WE BELIEVE THIS TO BE CONSISTENT WITH A RECENT GENERAL ACCOUNTING OFFICE REPORT WHICH

INDICATED THAT DUPLICATE PAYMENTS SHOULD BE CHARGED TO APPROPRIATIONS, AND THAT AGENCIES ARE OFTEN IN A BETTER POSITION TO COLLECT THAN IS OUR BUREAU. AGENCIES DEAL DIRECTLY WITH PAYEES AND HAVE THE POWER TO EFFECT COLLECTION FROM FUTURE BENEFITS. WE ARE DISCUSSING THE POSSIBLE IMPLEMENTATION OF A PILOT PROGRAM FOR RECERTIFICATION WITH THE U.S. AIR FORCE, CONSISTENT WITH GAO CONCURRENCE FOR SUCH A PROGRAM.

UNDER A PROGRAM OF RECERTIFICATION, WE BELIEVE THAT AGENCIES WILL HAVE A MUCH GREATER INCENTIVE TO EXERCISE CARE IN THE SETTLEMENT OF CLAIMS, IDENTIFY PATTERNS OF POTENTIAL FRAUD OR ABUSE AND ENCOURAGE INCREASED DIRECT DEPOSIT PARTICIPATION TO REDUCE PROBLEMS IN THE CLAIMS AREA. ANY ACCOUNTS RECEIVABLE WILL NO LONGER BE REFLECTED IN TREASURY'S ACCOUNTABILITY, BUT WILL BE CHARGED TO THE VARIOUS AGENCIES' APPROPRIATIONS. THESE WE BELIEVE, ALONG WITH MORE EFFECTIVE STRESSING OF DEBT COLLECTION ACTIVITY BY AGENCIES WILL BE THE ULTIMATE LONG-RANGE SOLUTION.

ANOTHER CHANGE WHICH SHOULD DECREASE RELIANCE ON CHECKS FOR GOVERNMENT PAYMENTS IS LIMITING THE TIME ALLOWED FOR NEGOTIABILITY. PRIOR TO 1947 CHECKS WERE NEGOTIABLE FOR ONLY 1

YEAR; THE PERIOD OF NEGOTIABILITY WAS 10 YEARS FROM 1947 UNTIL 1957, WHEN ALL TIME LIMITS WERE LEGISLATIVELY REMOVED. THE BUREAU NOW HAS A PROJECT TO CONSIDER LIMITING THE NEGOTIABILITY OF GOVERNMENT CHECKS. THE AMOUNT OF CHECKS NOT CASHED WITHIN THE PERIOD OF NEGOTIABILITY WOULD BE CANCELED IN TREASURY'S RECORDS AND BECOME THE RESPONSIBILITY OF AGENCIES. THIS POLICY IS CONSISTENT WITH A RECENT LEGISLATIVE CHANGE, PUBLIC LAW 97-35, WHICH REQUIRES THE TREASURY TO NOTIFY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES OF ALL SUPPLEMENTAL SECURITY INCOME CHECKS WHICH HAVE NOT BEEN PRESENTED FOR PAYMENT WITHIN 180 DAYS AFTER THE DATE OF ISSUANCE.

LONG RANGE OPERATIONAL IMPROVEMENTS IN CONJUNCTION WITH THE IMPLEMENTATION OF THESE POLICIES ARE ALSO BEING MADE. PRIMARY AMONG THESE IS THE REDESIGN OF THE BUREAU'S CENTRAL CHECK PAYMENT AND RECONCILIATION SYSTEM AND AN OVERALL MODERNIZATION OF THE TREASURY PAYMENT SYSTEM. HOWEVER, THESE CHANGES ARE EXPECTED TO TAKE FROM 3 TO 5 YEARS. A LONG RANGE PLANNING STAFF HAS BEEN ESTABLISHED TO SPECIFICALLY COORDINATE AND INTEGRATE LONG-RANGE OPERATIONAL IMPROVEMENTS NEEDED BY THE BUREAU TO COPE WITH THE OPERATIONAL ENVIRONMENT OF THE 1980'S IN LIGHT OF THE DECREASING AVAILABILITY OF RESOURCES.

IN CONCLUSION, THE ACCOUNTS RECEIVABLE BALANCE AS OF SEPTEMBER 30, 1981, WAS \$99.5 MILLION. THIS COMPARES WITH \$82.3 MILLION AT THE END OF FY 1980 AND \$87.8 MILLION AT THE END OF FY 1979. KEY FACTORS IMPACTING ON THE PROBLEM ARE INFLATION AND REDUCED RESOURCES AVAILABLE TO OUR DIVISION OF CHECK CLAIMS. WE DO NOT SEE MAJOR CHANGES TO THESE TRENDS IN THE FORESEEABLE FUTURE AND THE BALANCE IS LIKELY TO CONTINUE INCREASING UNTIL MAJOR SYSTEMS CHANGES CAN BE ACCOMPLISHED, INCLUDING THE IMPLEMENTATION OF GOVERNMENT-WIDE RECERTIFICATION BY AGENCIES AND SIGNIFICANT INCREASES IN THE DIRECT DEPOSIT PROGRAM.

THESE SYSTEMS AND POLICY CHANGES ARE LONG-RANGE. HOWEVER, I CAN ASSURE YOU THAT THE MANAGEMENT IN THE BUREAU OF GOVERNMENT FINANCIAL OPERATIONS IS COMMITTED TO INSURING THE BEST POSSIBLE MANAGEMENT OF THE PROGRAM UNDER EXISTING CONDITIONS UNTIL THE LONG-RANGE CHANGES ARE ACCOMPLISHED.

I APPRECIATE THE OPPORTUNITY TO ADDRESS THE SUBCOMMITTEE AND WILL BE HAPPY TO ANSWER ANY QUESTIONS.

Mr. FOUNTAIN. With that, we are adjourned.
[Whereupon, at 3:55 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

MATERIAL SUBMITTED FOR THE RECORD

ABC NEWS

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Press contact: Gail Freedman (212) 887-4099

20/20

September 3, 1981

AV WESTIN Vice President & Executive Producer
HUGH DOWNS Host

**"Feeding the Needy — Feeding the Greedy —
The Great Food Stamp Scandal"**

DANIEL S. GOLDFARB,
CHARLES C. THOMPSON II Producers
GERALDO RIVERA Correspondent

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ABC NEWS

20/20

September 3, 1981

HUGH DOWNS: Good evening. I'm Hugh Downs. And this is 20/20.

ANNOUNCER: On the ABC News Magazine, 20/20, tonight:

Rep. CHARLIE ROSE, North Carolina: This is not minor abuse. This is massive, overwhelming abuse that the country will not stand for.

ANNOUNCER: Organized crime in the food stamp program — more than a billion dollars stolen every year. Small-time cheats working with big-time thugs; computer records erased; evidence destroyed by arson; investigators harassed. Now much of the money needed to feed hungry people goes to finance the heroin traffic. Tonight, Geraldo Rivera with a special hour-long report: "Feeding the Needy — Feeding the Greedy: The Great Food Stamp Scandal."

DOWNS: Up front tonight, how the government spends your money. Just two days ago, in order to balance the federal budget, the Reagan administration revealed that an additional \$75 billion will have to be cut over the next two years. Thirty billion dollars of the cuts will come out of defense spending; the rest, \$45 billion, from social programs like food stamps. Food stamps; for all its flaws, the controversial program has done a lot to eliminate hunger in America. But now, as in most federal programs, the cutbacks are coming.

[videotape clip]

Pres. RONALD REAGAN: The food stamp program will be restored to its original purpose: to assist those without resources to purchase sufficient nutritional food. We will, however, save \$1.8 billion in fiscal year 1982 by removing from eligibility those who are not in real need, or who are abusing the program.

DOWNS: Interestingly enough, at about the same time the President was calling for his cuts, a House subcommittee was also looking hard at the food stamp systems. In a virtually unpublicized report, the subcommittee said that fraud and mismanagement in the program were costing the taxpayers as much as \$1.6 billion a year. Nobody seemed to notice at that time that the amount the President said needed to be cut from the program, \$1.8 billion, was almost exactly the amount being lost or stolen from it each year. For the last nine months, Geraldo Rivera and a team of 20/20 investigators have been taking a hard look at the food stamp program. Here is our special hour-long investigative report, "The Great Food Stamp Scandal." Geraldo?

GERALDO RIVERA: Thanks, Hugh. Money stamps — that's what the crooks and the cheats call these food stamp coupons. Money stamps — because on the black market tens of millions of dollars' worth of these are floating around, and to the thieves who are buying and selling them, they are just as good as money. After speaking with hundreds of people in a dozen American cities, we found that food stamps are being used to feed the needy, but also to feed the greedy.

RIVERA [voice-over]: The food stamp program was designed to feed hungry Americans, and, thankfully, it's been basically successful. But whatever else the food stamp program is, or is supposed to be, it has also become a subsidy for alleged criminals, like this unsavory group, arrested six weeks ago in New York City for conspiring to defraud the federal government. Here in San Francisco, the hidden camera catches a crooked grocer who thinks he's buying more than \$100,000 worth of stolen food stamps for \$23,000 in

cash. Unfortunately for him, the guy selling the stamps was an undercover federal agent. The leader of the food stamp bandits was a San Francisco grocer named Mahmud Ghanem.

MAHMUD GHANEM, Grocer: I was greedy like anybody else. Hundred thousand dollars? I'm— see, life is based on capitalism, money. So you show me a guy who, \$100,000, he won't take it for \$20,000.

RIVERA [voice-over]: Ghanem and 48 other grocers were arrested last year, when federal authorities broke up two nationwide rings allegedly dealing in stolen food stamps. Aside from San Francisco, these conspiracies operated in Denver, Chicago, and New York City.

GLENN COOK, Assistant U.S. Attorney: It's costing the taxpayers a lot of money, a great deal of money, based on what I've seen and the type of abuses I've seen in the program.

RIVERA [voice-over]: Glenn Cook is an assistant U.S. attorney in Baltimore, where federal agents again used hidden cameras to catch a thief, this time buying stolen food stamps from a federal agent, who made sure the camera could see him counting his money. There have already been 47 indictments in Baltimore, with at least 60 more expected at any time.

LELAND McNABB, Memphis Assistant Prosecutor: Unless you take some stabs, you are inviting what's going to become a disaster. We might as well go up there and throw it out the window.

RIVERA [voice-over]: Leland McNabb is a prosecutor in Memphis, where computers are routinely used to catch food stamp cheats. There have been 77 federal indictments so far in Memphis, with more to come. In Wichita, it was a local hood who got busted after putting a gun to the head of an undercover agent during a transaction involving stolen food stamps. In Philadelphia, a grocer and his family got caught buying hundreds of thousands of dollars' worth of food stamp authorizations. Afraid to come out in the open, the grocer had his customers slip the stolen stamps through a slot in his door.

Rep. CHARLIE ROSE, North Carolina: This is not minor abuse. This is massive, overwhelming abuse that the country will not stand for.

RIVERA [voice-over]: But this scandal is not merely about the tens of millions of tax dollars that are being ripped off. It's also about what that stolen money is being used for. You see, all across the country food stamps paid for by your tax money have been used by gangsters to buy cars and jewelry and television sets and, in South Carolina, heavy weapons.

JAMES KEGLEY, Federal Agent: The weapons included conventional shotguns, rifles, pistols, semi-automatic weapons, machine guns, and two light-weight anti-tank rifles.

RIVERA [voice-over]: And it gets even worse than that. As ABC News reported two weeks ago, a major ring trafficking in heroin was, according to federal officials, actually being financed with stolen food stamps. We know by now what heroin can do to people; the fact that food stamps are being used to buy heroin is perhaps the best evidence of just how badly a noble ideal has been perverted. Tragic, because it is a noble ideal, whose roots can be traced to the Great Depression, when the federal government began distributing surplus food to hungry people. During the late '30s and early '40s, stamps were first used, redeemable for various surplus commodities. But it was only after President Kennedy made a visit to a depressed area of West Virginia that the establishment of a truly national program was directed.

[videotape clip, August 13, 1962]

Pres. JOHN F. KENNEDY: In Beatty, West Virginia, a young couple with only \$100 a month, and they have to feed eight growing boys. They regard the food stamp program as the salvation of their family budget.

RIVERA [voice-over]: President Kennedy had a vision: the elimination of hunger in America. And even though the food stamp program has been riddled by fraud, it's done much to achieve its noble goal. Food stamps now help feed nearly 23 million people in this country, and today, in rural Kentucky, 41-year-old Flossie Durbin and her six children are just as dependent on food stamps as was that West Virginia family mentioned by President Kennedy more than 20 years ago. Flossie's husband is an out-of-work coal miner. The economic prospects for their children? Well, they're not bright.

RIVERA: What do you want to do when you grow up?

BOY: Work in coal mines and stuff.

FLOSSIE DURBIN: Well, now, we manage pretty well, but we ain't got no— what you call a whole lot.

RIVERA [voice-over]: When Flossie says she doesn't have a whole lot, she's understating her family's situation. At the end of the food stamp month, we found the refrigerator bare.

RIVERA: How difficult is it for you to make your month— to stretch out your money, to make your food budget last?

DURBIN: Ain't a whole lot— there's just a lot of things that I could use that I do without.

RIVERA: Like what?

DURBIN: Well, like milk, mostly, and meat.

RIVERA [voice-over]: Without food stamps, the Broyle family of Baltimore would be in a desperate fix. Walter Broyle is permanently disabled; his wife Margaret, unable to find work.

WALTER BROYLE: Well, it puts food on the table, when we can't work— when we have no other way of getting food.

RIVERA: Is it literally that — is it really going hungry, or being fed, is that the difference it makes?

BROYLE: Yes.

RIVERA [voice-over]: Arlene Robinson of Washington, D.C., receives \$216 a month in free food stamps — that works out to \$7.20 a day to feed herself and five dependent children. Because she says it is not enough, Arlene supplements her food supply with these end-of-the-month gifts from the Community of Hope, a local Washington, D.C., charity.

ARLENE ROBINSON: What they give me for food stamps now doesn't allow me really to feed them a balanced diet; I just get one pack of hamburger and that hamburger has to stretch like two or three meals.

RIVERA: You mean you're not traveling first class on food stamps?

ROBINSON: Oh no, no way. If I was traveling first class, believe me, my icebox would be full.

RIVERA [voice-over]: With the imminent cutbacks in the food stamp program, all of the people we've talked to face an effective reduction in benefits amounting to about 10 percent a year. It is our contention, however, that the cutback would be virtually unnecessary if the widespread fraud you are about to see could just be stopped. Stop the

fraud, and the federal government admits it could save as much as a billion and a half tax dollars a year — at least \$60 million in New York City alone. All across the country the crooks in essence are stealing food off the tables of the poor.

RIVERA: What if I told you in one city alone we found \$60 million worth of fraud from the top?

ROBINSON: I believe it.

RIVERA: Would it make you angry?

ROBINSON: Of course it makes me angry, because I— not only am I suffering, but my kids are really the ones that are going to suffer.

RIVERA [voice-over]: To understand how the system is suffering, you have to understand how it's supposed to work. Until 1978, food stamp recipients had to pay something for them. For instance, to get \$125 in food stamps, eligible recipients had to put up \$50 of their own money. Now, that requirement is gone, and the stamps are free; and once they're out there on the street, the stamps are just like money. Oh, they're supposed to be used strictly for food, but as you've already seen, you can use food stamps to buy just about anything. The federal government pays the entire cost of the program, but it's the state or local government which is responsible for getting the stamps in the hands of the eligible people. So all different delivery systems have sprung up all across the country. In New York City, where much of this investigative report takes place, the system is supposed to work this way: a recipient is mailed a document called an "Authorization to Participate" — an ATP. The ATP shows the dollar amount the recipient is entitled to. All he or she has to do is take the ATP to an authorized check cashing agency or bank branch, show some identification, then cash in the ATP for the appropriate amount of food stamps. As you can see, the ATP, the food stamp authorization, is the key document. And as you are about to see, these ATPs have been stolen where they are printed, where they are processed, and where they're mailed. The crooks range from big-time thugs to small-time cheats, like this one — the so-called Welfare Queen of Jacksonville, who agreed to make this training film for the government after getting caught conspiring to sell between \$75,000 and \$80,000 worth of stolen food stamps.

[film clip]

"WELFARE QUEEN": And the going rate in Florida — or in Jacksonville, where I sold my stamps — was 50 cents on the dollar. So if I took \$500 worth of food stamps to my buyer, I would get \$250 cash.

RIVERA [voice-over]: One admitted buyer of stolen food stamps is 77-year-old Fred Cohen of New York. Between June and November of last year, Fred ran a small-time food stamp fencing operation, cashing stolen food stamp authorizations, those ATPs, worth about \$19,000. In just six months' time, at this branch of Manufacturers Hanover Trust, Fred admitted forging hundreds of different signatures, on hundreds of ATPs. He said it was like stealing candy from a baby.

RIVERA: So you went to the bank 60 times to cash forged ATPs.

FRED COHEN: Right.

RIVERA: And the bank never questioned it.

COHEN: The tellers never questioned it.

RIVERA: Never questioned it.

COHEN: No, no.

RIVERA: Never questioned it — never said, hey, wait a second, I want to check the signature, or one thing or another — never?

COHEN: Never.

RIVERA: I mean, it's the easiest robbery there ever was.

COHEN: Right.

RIVERA: And you got about \$19,000?

COHEN: Right.

RIVERA: You think you're going to go to jail now?

COHEN: Well, that I don't know. That I don't know.

RIVERA [voice-over]: Fred got lucky. Recognizing his age and ill health, the judge only gave him a suspended sentence. On the other hand, most food stamp crooks don't even get that. As a matter of fact, most never get caught, which breeds a kind of arrogance. This fellow says he's the superintendent of the tenement building he's living in. He's also an admitted thief, who wasn't at all shy about showing the food stamp authorization he had just stolen out of someone else's mailbox.

RIVERA: Who stole it?

MAN: Well, I did. I stole it, yeah.

RIVERA: You stole it? From the mailbox?

MAN: Yeah.

RIVERA: Well, you've done this before — you've stolen food stamps—

MAN: Yeah—

RIVERA: How many times?

MAN: Many times.

RIVERA: Many times.

MAN: Many times.

RIVERA [voice-over]: When his neighbors heard the crook bragging about his misdeeds, there was an angry confrontation.

MAN (neighbor): Suppose you might be goin— breaking into my mailbox.

MAN: What is it — come across the street and I'll break into your mailbox, mother [beep].

MAN (neighbor): You ain't going to break into my mailbox.

MAN: Well, come across the street, then, [if] you that bad!

RIVERA [voice-over]: This kind of relatively small-time larceny costs the food stamp program nationwide millions and millions of dollars, but it is just that — small time, especially when compared to the organized high-level theft we are about to document for you. This is the real hemorrhaging in the food stamp program.

RIVERA: Look at this example. What I have on my desk represents \$1 million worth of your money — tax money, in the form of food stamps fraudulently negotiated in violation of federal law. Obtained by 20/20, this million dollars is just part of a massive theft involving various conspiracies to defraud the federal government. This is a million tax

dollars, but it's just a piece of the action in the great food stamp scandal.

RIVERA [voice-over]: It's a nationwide problem, but this million-dollar mound was accumulated just in New York City. These are copies of food stamp authorizations — they are all ridiculous forgeries. This one is my personal favorite: signed with an X, this ATP was successfully cashed by some crook, who walked away with \$151 tax dollars. Here are some other specifics. Item: New York City.

RIVERA: This 20/20 investigation has uncovered many instances of obvious fraud, but perhaps none is as blatant as this one. It involves the Public Service Check Cashers Corporation, located here in Harlem.

RIVERA [voice-over]: Last August during a six-day period, 542 ATPs, worth about \$53,000, were cashed at Public Service. There were three problems: first of all, the 542 food stamp authorizations were all in numerical sequence, which means that of all the hundreds of check-cashing agencies and bank branches available much closer to their homes, 542 people in a row all decided to come as a group to Harlem, to pick up their food stamps. Which brings up problem number two: according to the addresses on the ATPs, the 542 people all live in a beach-front community called Far Rockaway. Far Rockaway is 20 miles from Harlem.

RIVERA: Now it doesn't take a genius or a Sherlock Holmes to figure out that somebody in that check-cashing agency fraudulently negotiated 542 of these food stamp authorizations, documents that were stolen either from the computer center where they were printed, the post office from where they were supposed to be mailed, or someplace in between. But in case there was even a remaining shred of a doubt, all the city officials had to do was come out here and ask the people whose names appear on these documents — the legitimate food stamp recipients — if indeed they received their food stamps for this month.

RIVERA: Now Laurie, just for the record, is this your signature?

"LAURIE": No it isn't.

RIVERA: Did you and 541 of your friends get together one day and take the bus or the train, the hour-and-a-half ride to Harlem, to cash in your food stamp authorizations?

"LAURIE": No, we didn't.

RIVERA: How do you feel about this?

"LAURIE": I think it's terrible, and I just think that something should be done about it.

RIVERA: Would you sign your signature right under this one, so we can compare the two?

"LAURIE": Yes.

RIVERA: These aren't even close. And notice this, Laurie. The same person that signed your signature, also signed Linda's and Mary's, also.

RIVERA [voice-over]: We asked Andrew and Hanna Sulner, two of the nation's most respected handwriting experts, to check the signatures.

RIVERA: Should anybody who was looking at those documents have spotted those signatures?

HANNA SULNER, handwriting expert: Yes, they should. It should be obvious, and they should spot it.

ANDREW SULNER, handwriting expert: There is no question that somebody should have been alerted to it, and inquired further.

RIVERA: If they cared.

ANDREW SULNER: If they cared.

RIVERA [voice-over]: Joel Rabine is one of the officers of the Public Service Check Cashing Agency.

RIVERA: According to the experts, somebody at Public Service had to be involved in this fraud for this to happen.

JOEL RABINE: I would imagine that that's a distinct possibility. I would have to say, yeah.

RIVERA [voice-over]: In mid-July, only after 20/20 informed New York City about our allegations, Public Service finally lost its right to deal in food stamps. Federal prosecutors are currently investigating several of the company's employees. Some more specifics. Item: the Payamatic scam. With approximately 85 branch offices, Payamatic is a multi-million-dollar corporation, the largest chain of check-cashing agencies in New York City. 20/20 has obtained copies of 275 stolen ATPs from one of Payamatic's branch offices. They're worth about \$17,000. According to our experts, all are forgeries. Federal officials tell 20/20 that this particular incident is just a tiny part of a pattern of corruption. Payamatic refused comment. Item: the RLJ Check Cashing Agency. It recently went out of business after being terminated from the food stamp program. Evidence obtained by 20/20 shows that the company had cashed \$2 million worth of forged and stolen ATPs each year for the past two years. No one at RLJ has been charged with the crime, and no demand has even been made by the city for the return of the stolen money. The huge city agency which runs the food stamp program is called the Human Resources Administration. Jack Krauskopf is the current commissioner.

JACK KRAUSKOPF, HRA Administrator: But I want to assure you that we are deeply concerned about the integrity of the food stamp program, have always been concerned. Wherever there has been an instance of potential fraud, that situation has been investigated by our staff and then referred to the appropriate authorities, either the city department of investigation or the federal agencies which have jurisdiction.

RIVERA [voice-over]: But just exactly how interested has the city government really been in exposing fraud in the food stamp program? Not very. That at least is the contention of Victor Hakim, Bob Worthem, Ed Koin, Myron Avon, David Feinstein, and other dedicated past and present New York City investigators. They decided to tell 20/20 about gross abuses in the food stamp program, but only after their cries for official action allegedly fell on deaf ears.

DAVID FEINSTEIN, NYC Fraud Investigator: Knowing that I was risking my job, at my age especially, and my pension, I did it because I felt I had an obligation, a moral obligation to the taxpayers and the people who were paying my salary, to go to somebody who might possibly do something to stop the pattern of coverup that's been going on in my agency for years.

RIVERA [voice-over]: David Feinstein has worked as an investigator for the city for the last 14½ years. A Korean War hero who received a Silver Star for gallantry in action, Feinstein also works nights and weekends at a department store to make ends meet.

FEINSTEIN: I'm tired and frustrated, and I just was hoping that somebody would stop what's going on. We couldn't.

RIVERA: As you can imagine, with so very much at stake in their personal lives, it is rare for inside sources to go public with their allegations. As a result of their cooperation with

us, five of those fellows are currently under investigation by New York City.

DOWNS: And Geraldo will have their inside story, when we continue.

[commercial break]

DOWNS: Food stamps going for guns, jewelry, even drugs — a noble idea perverted. Geraldo continues his special 20/20 food stamp investigation.

RIVERA: There is fraud and corruption in the food stamp program throughout this country. In New York, however, we had the advantage of an inside look at a pattern of corruption and coverup.

RIVERA [voice-over]: New York City's food stamp program has been afflicted by scandal and corruption for years. As a matter of fact, the man who first headed the city's program, Sidney Brooks, left in dishonor after being indicted and pleading guilty for embezzling food stamp money for his own purposes. Before he got caught with his hand in the taxpayers' cupboard, Brooks told a panel of federal officials, essentially, that he wasn't the only crook.

SIDNEY BROOKS, former NYC Food Stamps Director: And I'm not gonna be the fall guy for the inadequacies of the state and local staffs. Thank you.

RIVERA [voice-over]: In 1976, New York City was named as one of seven areas not cooperating with federal officials in the crackdown on food stamp fraud. The others: Atlanta, Cincinnati, Los Angeles, Philadelphia, and the entire states of Massachusetts and Illinois. A 1976 memo from the U.S. postal inspectors claimed at the time that 10,000 food stamp authorizations were being stolen out of the mail every year in New York, and that the city was not providing inspectors with either sufficient information or cooperation to catch the thieves. Apparently, the city is still not.

GARY TUCKER, Auditor, US Agriculture Department: When we presented the city with the concerns that we had, the city was not receptive. They were not interested in knowing what we felt; they were not interested in knowing how they could improve their operations.

RIVERA [voice-over]: Gary Tucker and Mary Heard are officials with the Office of the Inspector General of the Department of Agriculture. For the last four years they have in essence been the federal watchdogs of the New York food stamp program.

TUCKER: A normal manager, one might assume, would take the information that was given to him, and at least consider the need to make improvements. Not in New York.

RIVERA: Is it indeed a fact, Mary, that in the city's mind, at least the attitude as expressed to you all, big-time fraud does not exist in the city's food stamp program?

MARY HEARD, Computer Expert, U.S. Agriculture Dept.: One city official once told us no fraud existed in the food stamp program, and that there were no false cases on the file, because we had never shown him one. So I would say, yes.

RIVERA [voice-over]: Victor Hakim, former director of the New York Bureau of Client Fraud Investigation.

VICTOR HAKIM, former Director, NYC Fraud Investigations: It's in excess of half a billion dollars sitting there for anybody — anybody — to pick a piece; it only depends on the size of their hand, how large a chunk they grab.

RIVERA [voice-over]: Until last December, Victor Hakim headed the department whose job it was to root out food stamp corruption. Driven by what he called a total lack of support from his superiors in city government, Hakim left his job as chief investigator in

disgust.

HAKIM: They never asked myself or my staff for our recommendations, for our findings, and I stress that the staff was 250 people, yet we were in the dark, we were merely a paper agency, so HRA and the city can say they have this operation. But they were not going to let it be effective.

RIVERA [voice-over]: Eddie Coyne is another ex-city investigator.

ED COYNE, former NYC Fraud Investigator: I would say the level of cooperation was very, very low, extremely low. If you went on a basis of one to ten, it would probably be about two.

RIVERA [voice-over]: Coyne was a high-ranking official with the U.S. Customs until his retirement from federal service in 1978. That was when he went to work with Victor Hakim and David Feinstein in the then newly-established Bureau of Client Fraud Investigation. The bureau was created after a federal audit accused the city of being grossly negligent in not attempting to stop or even slow down fraud and other massive theft from the food stamp program. Consider this letter, for instance, from the Office of the Inspector General of the Department of Agriculture. It indicates that what the city was most afraid of was having to pay back all that stolen money to the federal government. Ed Coyne resigned from city service on May 1, opening up his own office as an investigator. During the month of June he worked briefly as a consultant for 20/20, helping in the preparation of this report. Coyne claims that while he was with the city, he was a fraud investigator with no real authority.

COYNE: In my opinion if we didn't do anything, they'd have been just as satisfied.

RIVERA [voice-over]: As you can imagine, the city officials tell a much different story.

HERB ROSENZWEIG, HRA Deputy Administrator: Everything that we have given the investigative agencies — every investigative agency — every cooperation in any aspect of any investigation — in the six and a half years that I have been in this job there has never been any instance in which they have not received full cooperation from us.

RIVERA [voice-over]: So Mr. Rosenzweig claimed city officials always cooperated fully with their investigators. But did they? Item: subpoenas. One bureau responsibility was to gather evidence from banks, check cashing agencies, and from the suspects themselves.

RIVERA: The problem was, although the parent city agency has subpoena power, they refused to give it to their own investigators, and as you can imagine, without subpoena power, it was virtually impossible for the bureau to gather the necessary documentary evidence. Another item: personnel problems. Bureau requests to hire investigators or to promote the people already on staff were routinely ignored. Perhaps this memorandum from the bureau's personnel liaison says it best: "The feeling at the Personnel Office is definitely negative. They intend placing as many obstacles as possible in the path of the Bureau of Client Fraud Investigation." Item: again, jurisdiction. Bureau investigators were told that some places, critically important places, were strictly off limits to them.

RIVERA [voice-over]: Like 2 Broadway, the building which houses the Office of Data Processing, the computer center where the food stamp authorizations are actually printed. For obvious reasons, this would have been a logical place to start any major fraud investigation.

RIVERA: Although we still don't know how it's been done, or indeed who's been doing it, we do at least know where the massive chain of robbery begins. Because so many of the food stamp documents obtained by 20/20 have been found to be in numerical sequence—

RIVERA [voice-over]: This is one likely place where they could have been stolen. Over the last five years, five separate reports have complained of a lack of even the most basic security safeguards here in the computer center. Charles Lecht is one of the nation's experts on computer crime and prevention.

CHARLES LECHT, computer expert: I am astounded, frankly, that the printing of such highly negotiable instruments isn't accompanied by the normal kinds of security measures taken in and about money. They are money. I would have done something immediately; I would have brought in the best kinds of help I could have possibly brought in to help on both the computer side and the controller's side, the financial side of it, and the physical security side. Listen: those places are printing money.

RIVERA [voice-over]: Larry Goodson is one of the city officials responsible for security at 2 Broadway.

LARRY GOODSON, HRA Security Officer: This is not an impenetrable facility. We think that we have been doing an excellent job relative to increasing the physical security aspects. As in any system, there may very well be weaknesses and possible breaches.

RIVERA: If these documents were being stolen in numerical sequence, would it be logical to assume, then, they were being stolen somewhere in this building?

GOODSON: Not necessarily. A finger of suspicion would probably be pointed to this building. There could be any number of other alternatives that should be investigated, but I would have to agree that a finger of suspicion would be pointed.

LECHT: What I think, from what I have seen on these, they were printed from a disk in the computer center. Perhaps not printed in the computer center, but from a disk which existed in the computer center, was brought out, printed in another facility, and brought back in again. That's one technique, you know, and probably is the one that was used here.

RIVERA [voice-over]: Investigator David Feinstein was more direct.

FEINSTEIN: If there isn't theft going on at the Office of Data Processing, it's the biggest miracle since the loaves and fishes, because the system is wide open. The only people who can't get into 2 Broadway are the people who should be investigating it.

RIVERA [voice-over]: If the bureau had been given the authority to investigate the Office of Data Processing, perhaps they could have asked why computer records of all food stamp transactions for a two-year, seven-month period had been erased. Yes, erased.

MARY HEARD: They were missing from October '79 prior. So, over two years and seven months' worth of data.

RIVERA: Two years and seven months' worth of computer tapes have been erased?

HEARD: Yes.

RIVERA: Now, it would seem to me that that would certainly hamper any investigation into fraud during that period.

HEARD: Yes.

RIVERA: I mean, did it indeed stop any meaningful investigation?

HEARD: Yes.

RIVERA: Is there any way, then, of knowing how much money was stolen during that period?

HEARD: No. You would not have any idea. We can make projections, but based on the

records we have no easy means of identifying how much was stolen.

RIVERA *[voice-over]*: According to Mel Hester, the man who runs the computer center, the tapes had been erased because of a misunderstanding.

MEL HESTER, Computer Center Director: They weren't erased deliberately. The design did not take into consideration that particular element in the regulations, and that is what I am saying.

RIVERA: Are you saying that you were unaware of the federal regulation that required you to retain those tapes for three years?

HESTER: I didn't say that at all. I said that the system design did not seem to include that as a significant item.

RIVERA: What do mean, did not seem to include that? What does that mean?

HESTER: Data processors are not food stamp experts. They're not legal experts, they work in respect of specifications. The specifications are reacted to and we build systems around them.

RIVERA: The federal regulations require that you keep them for three years. You kept them for one month. Weren't you in violation of those federal regulations?

HESTER: I'm not being querulous about that.

RIVERA: They said that the tapes were erased by accident?

HEARD: Yes.

RIVERA: How did you react to that?

HEARD: Not gracefully.

RIVERA *[voice-over]*: Last fall investigator David Feinstein uncovered what he felt was a pattern of corruption, an organized, large-scale ring. To build an ironclad case of high-level conspiracy, the investigators needed access to certain critical documents, which were requested in a series of five memos. The sixth memo informed the head of the food stamp program that the documents were needed "to prepare the case for criminal prosecution." A week later, on Halloween night, there was a fire.

HAKIM: The week of the fire my staff was there, was requesting those very documents that were destroyed in a fire on Friday.

RIVERA: Chief, is there any doubt in your mind but that that was an arson fire?

ANTHONY ROMERO, NYC Deputy Chief Fire Marshal: No doubt at all. We had several fires separate and distinct from each other on the floor where the fire occurred.

RIVERA *[voice-over]*: Deputy Chief Fire Marshal Anthony Romero was the arson investigator called to the scene.

RIVERA: Was it a difficult arson fire to detect?

ROMERO: No, it wasn't, it was quite obvious up there.

RIVERA: Was any effort being made to preserve the fire site when you arrived?

ROMERO: When we arrived there were people removing the burnt-out debris, and we informed them that we were starting our investigation and stopped them from removing what was on top of the desk tops, which was burnt-out receipts. We informed them that was an ongoing investigation, and they stopped.

RIVERA: So they were just throwing the evidence away as garbage?

ROMERO: That's correct.

RIVERA: How did you react to that?

ROMERO: I was very surprised that, when I was informed that it was an ongoing fraud investigation, that the area was not secured, and the evidence that was there preserved.

RIVERA *[voice-over]*: While admitting that some evidence had been thrown away, Ben Solowitz, who is the head of the food stamp program, angrily denies that it was intentional.

BEN SOLOWITZ, NYC Food Stamp Director: And I'm very sensitive to that, okay? You can say a lot of things about me, but don't say that, that I'm destroying evidence, or I'm a criminal, or fraud. Okay? And you can put that in your show.

RIVERA *[voice-over]*: Six days after the fire, both the bureau and the fire marshals were informed they could no longer investigate the arson fire. They were told that any investigation would be carried out by the inspector general of the city agency that runs the food stamp program. That was last November.

ROMERO: Well, I was told that they had an ongoing investigation going on, and that they would handle it from that point on.

RIVERA: And it's still ongoing, almost a year later?

ROMERO: That's correct.

RIVERA: And to the best of your knowledge, nobody has been apprehended.

ROMERO: To the best of my knowledge, no one has been apprehended, right.

RIVERA: Do you know if they have any suspects in mind?

ROMERO: No, not at all.

RIVERA *[voice-over]*: In a memo sent in February, the bureau was informed that the fire had destroyed, or had otherwise rendered unusable, all the records the bureau had requested for its fraud investigation. These photographs, though, obtained by 20/20, indicate that was not true, that, contrary to the memorandum, evidence had survived the fire. Months later, the salvaged evidence was finally made available to the Bureau of Fraud Investigation, but by that time, Hakim and Coyne were already gone. Coyne had quit in despair, while Hakim had been transferred to another city agency, the Department of Finance, to head up its fraud prevention unit. Last month he asked his new boss, Finance Commissioner Philip Michael, for permission to do this interview with 20/20. A few days later, at 3:20 on a Friday afternoon, Hakim was told to be out of his office by 5:00, that he was being reassigned to another job, as yet undetermined.

RIVERA: Is there any doubt at all in your mind that what happened to you on Friday is directly because you chose to go public with the facts about corruption within the food stamp program?

HAKIM: I am absolutely convinced in my own mind that what happened to me on Friday was directly—directly because of your involvement in the food stamp program, and trying to finally let the public know what is going on.

RIVERA *[voice-over]*: City officials strongly deny that Hakim was being harassed because of his cooperation with 20/20. They went on to label him a disgruntled employee. On July 29, Hakim resigned from city service, frustrated by erased computer tapes, burnt-up

records, and a long trail of other obstacles.

FEINSTEIN: They're spending more time and energy investigating Victor Hakim's contacts with you, than they ever spent investigating this massive malfeasance, if not deliberate corruption.

RIVERA: It is not unusual for a bureaucracy to turn on the bearers of bad news, instead of working hard to clean up the problems they bring to the public's attention, but in this case, as you'll see, the little guys win in the end.

DOWNS: Geraldo will be back in a moment to tell us how organized crime steals your tax money from the food stamp program, and uses it in the heroin traffic.

[commercial break]

DOWNS: The great food stamp scandal — what we've seen so far is how well over a billion tax dollars a year have been stolen by small-time cheats and high-level crooks. We've also shown you how officials who are trying to investigate have been blocked by bureaucratic inaction and worse. Unfortunately that's not all there is to this unhappy situation. Here with the conclusion of his 20/20 report on widespread fraud in the nation's food stamp program, is Geraldo Rivera. Geraldo?

RIVERA: Thanks, Hugh. Late last year, New York finally instituted a new system of fraud control in its food stamp program, which, according to city officials, dramatically reduced small-time fraud. The problem with the new system, according to federal officials, is that it's not designed to catch either insiders involved in fraudulent conduct, or the big-time crooks. In the words of one of our sources, "The new system is great for catching minnows, but it's worthless against the sharks."

RIVERA [voice-over]: The fellow showing off his hardware has just spotted 20/20's surveillance camera. He's Martin Goldstein, co-owner of the Argo chain of nine New York check cashing agencies. According to city investigators, "These people are involved in the systematic negotiation and distribution of large quantities of stolen food stamp authorizations," amounting to about \$458,000 a year. That was last October. Since then Argo's right to deal in food stamps has been suspended.

RIVERA: Are you, have you been, guilty of fraudulently negotiating unsigned or forged ATPs?

MARTIN GOLDSTEIN, Argo Check Cashing Corp.: No.

RICHARD D'ALESSANDRI, Attorney: Mr. Rivera. Excuse me, Mr. Rivera, if I may answer the question, there's a case presently pending before the Supreme Court for the County of New York, and at this time the two gentlemen would choose not to reply to that question.

RIVERA: In an effort to get back into the food stamp business, the owners of Argo turned in two employees who admitted their involvement in the crimes. Argo also told the city that it was willing to pay back the stolen money, but for months New York did not reply to the offer of restitution. It was only after 20/20 made known our interest in the case that Argo finally received a bill from the city, and that was just for about half the money allegedly stolen. Further investigation by us has uncovered the fact that New York City almost never asks for the money back. In fact, the city has never gotten a nickel's worth of restitution from any of the check cashiers, including the admittedly crooked ones, or from Manufacturers Hanover Trust, the bank primarily involved in New York's food stamp program.

RIVERA [voice-over]: Millions of dollars have been looted, and as you can see from these articles and documents, in some cases, bank or check cashing agency employees have

been involved in the thefts. But still, there has been no restitution, even though restitution, according to federal officials, is required by law.

TUCKER: I'm skeptical as far as whether or not they would establish claims. We told them that federal regulations require it, it's your duty, it's your responsibility. They were not interested.

RIVERA [voice-over]: Why would honest officials be less than aggressive in cracking down on fraud, or working hard to recover stolen money? Well, perhaps it's because the program, though run by the local government, is funded 100 percent by the federal government. In other words, it's not the city's money.

FEINSTEIN: That's all you heard — it's not our money, it's government money. Aren't you a taxpayer?

RIVERA: You heard that?

FEINSTEIN: Yeah! That's all you would get from these people. What are you worried about? It's not our money, it's the federal government's money.

ROSENZWEIG: That's absolutely and completely incorrect. This has received the highest priority in the Department of Income Maintenance. The food stamp program— dealing with the vulnerability to fraud in the food stamp program has received the highest priority of the administrative staff at all levels in the food stamp program for the past two years.

RIVERA [voice-over]: Federal officials disagree with Mr. Rosenzweig and contrast New York's record of apparent non-cooperation with that of Baltimore, another city whose food stamp program is troubled by fraud and corruption. In Baltimore, once city officials uncovered evidence of large-scale theft, federal investigators were immediately called in, and were given access to whatever evidence they said they needed. The result: dozens of imminent federal indictments.

KALMAN HETTLEMAN, Maryland Secretary of Human Resources: Despite the immediate harm to the program, there has not been the slightest doubts in our minds that the investigation should be pursued thoroughly and vigorously.

RIVERA: To contradict the thrust of this 20/20 report, New York City officials point proudly to the 42 arrests they have made since 1978 of people allegedly involved in food stamp fraud. Forty-two arrests in four years.

RIVERA [voice-over]: But by contrast, Memphis, a city about a tenth the size of New York, is processing about that many cases each week. Faced by what seemed a lack of action by New York City in combatting this flagrant abuse, we decided to try and speak with some of the alleged crooks directly. One was the owner of a grocery store, allegedly accepting large numbers of stolen food stamps, then cashing them in with the help of a corrupt bank teller working at this branch of Manufacturers Hanover Trust. Having already obtained a copy of the bank teller's written confession, we felt confident enough to confront the grocer, who is the apparent mastermind of the scheme.

RIVERA: Then she's saying that you gave her cash in exchange for her giving you food stamps?

GROCER: I don't know, I don't know nothing about that.

RIVERA [voice-over]: We're concealing the identity of the grocer for a reason.

RIVERA: She's been fired because of what she said, why would she say these things about herself if they weren't true?

GROCER: I don't know.

RIVERA: But you gotta— give me some help, you know, I want to give your side of the story, but you're not giving me any help here.

GROCER: Just I don't know what you're talking about.

RIVERA [voice-over]: In our dismay over the lack of action by the city, it had not occurred to us that any other official body would be investigating food stamps, until I got called into the back of the store. The camera wasn't allowed, but because my microphone was still on, you'll hear my surprise encounter with federal agents.

AGENT: You know, we got an undercover operation going on here, okay?

RIVERA: Yes sir.

AGENT: I'm a federal agent, okay, I'm with the inspection service.

RIVERA: Oh, investigating the food stamps?

AGENT: Yeah, we're the ones that arrested him, and he's cooperating with us now.

RIVERA: We had no idea.

MAN: Carl, how you doing?

MAN: Say, what's going on?

AGENT: This is Mr. Rivera.

RIVERA: Geraldo Rivera, from 20/20. We had no idea that you guys were into this. How the [beep] do we know?

RIVERA [voice-over]: It was every investigator reporter's bad dream. You see, the grocer had already confessed his misdeeds, and while the city wasn't doing much about it, we had blundered into an ongoing federal undercover operation. To avoid any future embarrassing encounters with federal authorities, from this point on 20/20 worked more closely with them. They have been fairly aggressive in tracking down food stamp felons. This sting operation, for instance, last year in Milwaukee, photographed with a hidden camera. The fellow on the right is a grocer named Amin, a known dealer in stolen stamps. The guy on the left, a federal agent.

[Federal undercover audio tape]

AGENT: Ready?

AMIN: Let's count it right now, or I'll be in trouble. One, two, three, four, five, there's two hundred—

RIVERA [voice-over]: Amin was arrested and convicted of trying to defraud the federal government. This unhappy fellow in his pajamas is former New Mexico State Senator Eddie Barboa, arrested two weeks ago in Albuquerque by agents from the Department of Agriculture. Better dressed last week for his arraignment, Mr. Barboa was formally charged with eight counts of illegally buying and selling food stamps.

EDDIE BARBOA, Former State Senator: Excuse me, you buy, when you can buy stamps for the price you were selling them, it's a good deal.

RIVERA [voice-over]: He had purchased more than \$33,000 worth from an undercover agent, who, Barboa complained, had practically forced him to buy the stamps.

BARBOA: It's like a lady enticing a guy to go to her house and saying you raped me after he's finished with her, and then get him to come for eight or ten times and then calling the police and saying he raped me eight or ten times.

RIVERA [voice-over]: But the biggest catch came six weeks ago in New York, when U.S. postal inspectors went after the organized criminals, the Galina family, and their heroin-food stamp connection. The arrests came down in July, but the investigation had been going on for more than two years. This, for instance, is Giuseppe Galina, seen here in June emerging from the compound of homes the family owns in Queens, New York. He was on his way to federal court, to stand trial along with his brother Salvatore for conspiracy to smuggle 16 pounds of heroin into the country. Giuseppe was convicted on July 1; by that time Salvatore had already fled the country. Testimony from federal officials at Galina's bail hearing made it clear that the family had allegedly been bank-rolling the heroin operation with stolen food stamps — handling between \$50,000 and \$100,000 a month in stolen stamps, laundering them through the family's chain of wholesale meat markets. On the 16th of July, postal inspectors made their move. The man they wanted most was the one they went after first — Antonio Galina. With Giuseppe already in jail, he was the head of the family. The agents waited until Antonio had driven away from his home, otherwise a phone call could have alerted the other family members of the impending arrests. Caught by surprise and totally surrounded by shot-gun toting agents, Galina gave up without a struggle. Later that same morning, nine other family members and associates were busted and charged with conspiracy to defraud the federal government of millions of food stamp dollars. Food stamps for heroin. Clearly this well-intentioned program is in critical condition. Last Sunday, on a trip to Washington, I accompanied the seven past and present New York City investigators who had provided us with this insider view of the food stamp program. They had an appointment at the Justice Department. Associate Attorney General Rudolf Giuliani, the man in charge of all federal criminal prosecutions, wanted to see the documentary evidence and hear how these investigators had been frustrated in their efforts to root out food stamp corruption.

HAKIM: Each individual you see here wants to get paid for doing a job. And that job is being a professional investigator. We were not allowed to be professional investigators; they would rather that we were paper investigators.

FEINSTEIN: We did it the hard way, because we had very little, if no help at all. The only help we got was from people in the system who weren't in the hierarchy, who were disgusted at what they were seeing, and they helped us.

RIVERA [voice-over]: Then Giuliani made a major commitment on behalf of the federal government — a top priority attack on the great food stamp scandal.

RUDOLPH GIULIANI, Associate U.S. Attorney General: What you can expect is that on a nationwide basis the Justice Department will take charge of this investigation, that we will bring the FBI into it, we will bring the United States Attorney's offices into it, that these records will be put before a grand jury, that those responsible for it will be put before grand juries, and we will try to root out this fraud, and show those people who are engaged in it that the federal government will come after them.

DOWNS: Standing by now in our Washington studio is the Attorney General of the United States, William French Smith. Attorney General Smith, you've been briefed, I know, on our documentation of this very serious problem. What exactly is the federal government going to do about it?

WILLIAM FRENCH SMITH, U.S. Attorney General: The Reagan administration is determined to root out fraud and waste in government. We now have very strong indications that fraud of the worst kind has permeated the food stamp program, and we are going to use every effort as quickly as possible to identify those responsible, to prosecute them, and to put them behind bars.

DOWNS: Is 20/20's investigation of this fraud a factor in federal action?

SMITH: Well, we have had the information from various sources. We do think that investigative journalism such as is represented by this program certainly helps in that effort.

RIVERA: When, Mr. Attorney General, if I may ask, can we expect the first really overt action against this fraud and corruption?

SMITH: Well, we have already undertaken investigations, and in this area they will be intensified and we will— as soon as we are able to obtain the evidence to establish a prosecutorial case, we will take the necessary steps and proceed with appropriate action against those who are accused.

DOWNS: Thank you, Mr. Attorney General.

SMITH: Thank you.

DOWNS: And thank you, Geraldo. We'll be right back.

[commercial break]

DOWNS: There's new trouble in Southern Africa and new evidence of Russian involvement in Angola. ABC News Nightline will examine the tensions and U.S. policy in the critical region tonight, 11:30, 10:30 Central. There will be no 20/20 for the next two weeks so we can watch ABC's NFL football special Thursday night editions. That's 20/20 for tonight. We are in touch, so you be in touch. I'm Hugh Downs. Good night.



HUMAN RESOURCES ADMINISTRATION
DEPARTMENT OF INCOME MAINTENANCE
250 Church Street, New York, New York 10013

JAMES A. (Jack) KRAUSKOPF
Administrator/Commissioner

HERB ROSENZWEIG
Deputy Administrator

September 17, 1981

Mr. Roone Arledge, President
ABC News and Sports
1330 Avenue of the Americas
New York, New York 10019

Dear Mr. Arledge:

We are writing to express our indignation over the inaccurate, one-sided picture of the Food Stamp Program in New York City presented on ABC's "20/20" report of September 3, 1981. In this program, ABC contends that fraud associated with stolen and forged ATPs in New York City costs the taxpayer \$60 million per year. They allege not only that top management in the City's Human Resources Administration (HRA) has made no effort to curb this fraud but that they have impeded investigations. They also imply that top management at HRA is involved in illegal practices and/or a cover-up of corruption. All of these charges are false and completely without foundation. Let us examine the allegations:

ABC alleges that HRA top management is indifferent to fraud in the Food Stamp Program. In fact, for the past three years, HRA has given the highest priority to the detection and prevention of fraud. Let us review the record:

- In 1978, we urged the United States Department of Agriculture (USDA) to mandate the use of Photo ID cards by Food Stamp recipients. This recommendation, which has only now been approved, would make it impossible for organized crime rings or anyone else to profit by negotiating stolen authorizations to participate in the Food Stamp Program (ATPs). Had our recommendation been followed in 1978, almost all of the illegal activities shown on the "20/20" program would have been prevented.
- In 1979, the City, on its own initiative, conducted a study of the vulnerability of the Food Stamp Program to fraud. Based on the findings of this study, we implemented a 17 point corrective action program to reduce vulnerability to fraud. This program was approved by USDA who then monitored our progress on an on-going basis. Attachment A is a report describing this corrective action program.

In 1979, we recognized that \$15 million per year in fraud was being perpetrated by recipients who received a replacement authorization to participate (ATP) in the Food Stamp Program after falsely claiming the loss of the original. To combat this fraud, we developed a Rapid Access Reconciliation System -- the first of its kind in the country -- which enables us to retrieve redeemed ATPs within three days. We also got USDA to allow us to put an 8-day expiration on the ATPs. The new system, which became operational in October 1980, has enabled us to reduce fraud by clients from 12,500 per month to less than 100 per month, at a savings to the taxpayers of \$15 million per year. We have been complimented on this achievement by both USDA and the U. S. Postal Investigators.

In November 1981, after a two year development process, we will pilot test our Electronic Payment File Transfer System. This system -- one of the first of its kind in the country -- will eliminate the production and mailing of ATPs by requiring recipients to pick up their Food Stamps directly, using an electronically coded Photo ID card. It will eliminate fraud based on stolen ATPs.

ABC contends that \$60 million per year is lost in New-York City due to stolen and forged ATPs. ABC presents no evidence to support this contention. We do, however, have evidence which proves this claim to be vastly inflated. HRA conducts a detailed reconciliation of all ATPs issued against those redeemed. The reconciliation reports, which are submitted to USDA on a monthly basis, show that the loss due to stolen and forged ATPs is \$2 million per year, or one third of one percent of the total \$600 million per year spent on the Food Stamp Program in New York City. This loss will be eliminated when we are allowed to use Photo IDs.

ABC alleges that HRA staff did not cooperate with the investigators from its own Bureau of Client Fraud Investigation (BCFI). The fact is that the Food Stamp staff uncovered fraud in three of four cases of alleged check casher fraud shown on the program and they were the ones who referred these cases to BCFI and/or the HRA Inspector General. These cases involved Argo, Public Service Check Cashers, and Pay O Matic. We have also been complimented by the Regional USDA Inspector General's Office for the cooperation we have given them in their investigations.

ABC alleges that HRA has made no effort to recoup money from check cashers who are caught laundering stolen ATPs. The fact is that in the Argo case, HRA pursued recoupment as soon as the investigative agencies turned over the information we needed to file a claim. This was before we became aware of "20/20"'s interest in this subject. In all of the other cases mentioned in the "20/20" program, the investigations are still going on and the evidence we need to file a claim has not been released to HRA. Attachment B provides additional information on this subject.

ABC implies that HRA top management has impeded the BCFI investigations and that they have participated in an illegal cover-up of corruption. In an attempt to add credence to these allegations, ABC has woven a web of suspicion based on charges of erased tapes, lax security at the computer center, a suspicious fire

that destroyed evidence, the squelching of an investigation of the fire by the Fire Marshal, the denial of subpoena power, and the denial of access to the computer facility. This web is constructed, however, with inaccurate statements, half-truths, omissions of fact, and unsubstantiated innuendos. In fact, BCFI investigators did go into the computer facility, BCFI never asked for a subpoena to be issued, the evidence in the Argo case was turned over to the BCFI investigators intact a few days after the fire, the Fire Marshals were not called off the case, and the erasing of the tapes, which was an error on the part of HRA, in no way hampered the investigation of any of the alleged check casher fraud shown on "20/20". Attachments C, D, E, F, and G, provide a more detailed response to each of these ABC allegations.

ABC alleges that the BCFI investigators "decided to tell "20/20" about gross abuses in the Food Stamp Program, but only after their cries for official action allegedly fell on deaf ears". We do not know why the BCFI investigators decided to go to "20/20" with their allegations instead of pursuing them through governmental channels. We do know, however, that the BCFI investigators were obliged to bring any evidence they had concerning wrongdoing on the part of any City employee, no matter how high up he or she might be, to the organizations that were responsible for investigating employee fraud -- the HRA Inspector General and the City Department of Investigations. We also know that they did not bring any evidence or complaints to these organizations and that they did not go to any of the other organizations involved in investigating wrongdoing in the Food Stamp Program -- the USDA Inspector General, the U. S. Attorney's Office, and the U. S. Postal Inspectors.

We are appalled not only by the misleading and inaccurate picture drawn by "20/20", but also by the reporting itself. Undoubtedly, the most disgraceful aspect of the reporting is the blatant and intentional use of an out-of-context statement made by Sidney Brooks, a former New York City Food Stamp Director, who was indicted for embezzlement, to imply that other high level staff in HRA were also involved in illegal activities. The following is the transcript of that segment of the program:

"RIVERA (VOICE OVER:) New York City's Food Stamp Program has been affected by scandal and corruption for years. As a matter of fact, the man who first headed the City's Program, Sidney Brooks, left in dishonor after being indicted and pleading guilty for embezzling food stamp money for his own purposes. Before he got caught with his hand in the taxpayers' cupboard, Brooks told a panel of federal officials essentially that he wasn't the only crook.

"SIDNEY BROOKS: I'm not going to be the fall guy for the inac...inadequacies of the State and local staff."

The implication here is that Brooks was saying that other staff were also involved in illegal activities. In fact, however, Brooks was not talking about illegal activities at all. The film clip was taken when Brooks was testifying before a House Agriculture Subcommittee on February 29, 1977. At the time, he was being charged by Congressman Richmond with not providing adequate service to Food Stamp recipients who were required to wait hour on hour for service at the Food Stamp Offices. Brooks was saying that he alone could not be blamed for that since he had asked for more staff but had not received the approval from his superiors to hire more staff.

There can be no doubt but that this was a blatant and intentional misrepresentation of the facts on the part of ABC to impugn the integrity of the top management at HRA. We are outraged that ABC would indulge in such underhanded and deceptive practices.

During the "20/20" team's investigation, HRA cooperated fully in providing information about all phases of our Food Stamp Program. We provided official documents, statistics, and more than two hours of on camera interviews with top HRA staff. What was the result of our cooperation? During the program, HRA staff members appeared for approximately 90 seconds, carefully spliced into the narrative to suit the scenario of the "20/20" team. The good news about what we had done to fight fraud in the Food Stamp Program was left on the editing room floor.

One cannot underestimate the immense power of the electronic media in this country. Your program reached millions of Americans. It left with them a misleading, one-sided view of fraud in the Food Stamp Program. Of course there is fraud in the Program — as there is in every other large governmental program, whether it be Welfare, Medicaid, or the collection of taxes. HRA has been working effectively toward combatting this fraud. By grossly exaggerating the extent of the fraud, by completely ignoring the efforts we have made to combat fraud, and by unfairly impugning the integrity of those responsible for administering the program, you have done a disservice to the good name of journalism, the Food Stamp Program, and the truly needy who count on Food Stamps to provide an adequate diet for themselves and their families.

Herb Rosenzweig

Herb Rosenzweig
Deputy Administrator
New York City
Human Resources Administration

Jack Krauskopf

James A. (Jack) Krauskopf
Administrator/Commissioner
New York City
Human Resources Administration



ATTACHMENT A

HUMAN RESOURCES ADMINISTRATION
250 CHURCH STREET, NEW YORK, N.Y. 10013

JAMES A. (Jack) KRAUSKOPF
Administrator/Commissioner

August 1981

A Report on Efforts to Reduce Vulnerability to Fraud in the
Food Stamp Program

For the past few years, HRA and other governmental investigative agencies have been closely scrutinizing the vulnerability of the Food Stamp Program to fraud. In 1979, the City's Department of Investigation and HRA cooperated in producing a report on the program's vulnerability. In November of 1979, HRA launched 17 separate projects to reduce the Food Stamp Program's vulnerability. This vulnerability was greatly increased as a result of federal legislative changes in the program, including the elimination of the requirement that recipients pay cash for the food stamp coupons. This report summarizes the problems identified, what we have done, and what we still have to do as of August 1981. For the purposes of clarity, this report wherever possible combines some of the original projects under a common heading and you will, as a result, find a total of 15 different problems and solutions identified in this report.

While this report does not reflect the efforts of investigative agencies, such as HRA's IG and Bureau of Client Fraud Investigation, the USDA's IG, the Post Office's IG, or the City's Department of Investigation, it should be noted that as a result of their investigations, HRA has barred continued participation in the program to two corporations involving 12 check cashing stores, has made a claim for repayment of food stamp coupons issued illegally by one corporation, and is awaiting the release of evidence on the illegal transactions of the second corporation by the U.S. Attorney. HRA's interest in these losses is protected by mandatory insurance carried by the corporations. In addition, there have been over 200 arrests of individuals by investigative authorities as their attempts to defraud the system are detected by the procedures described in this report.

1. Deterring Fraudulent Claims of Non-Receipt of Food Stamp Benefits

Problem:

HRA was unable to detect whether a recipient who reported a lost benefit authorization and asked for a replacement had actually redeemed the benefit. The reports of such losses soared to over 25,000 a month in 1979 as compared to about 5,000 a month in 1978. Under federal regulations, HRA was required to replace the benefit promptly so as not to cause hardship to persons who made legitimate reports of a loss. After the fact studies indicated that as many as 12,500 beneficiaries a month were making false reports and were receiving two benefits instead of the one to which they were entitled. This represented a potential loss of about \$15 million a year.

Solution:

HRA succeeded in obtaining the consent of the federal authorities to change the regulations so that a decision to replace a reportedly lost benefit could be delayed for ten calendar days. A further modification of the regulations was obtained to make the life of the benefit authorization good for only eight days. HRA and the Manufacturers

Hanover Trust Company developed a system in which redeemed authorizations were microfilmed and made easily accessible through computer programs. Whenever a benefit authorization was reported as lost, the computer searches the file of redeemed authorizations and produces a listing indicating that the reportedly lost benefit has been paid. At the same time, a photocopy of the authorization is made available. As recipients come in to ask for the replacement of the lost benefit, the listing of redeemed benefits is consulted by staff. If the listing indicates that the lost benefit has not been redeemed, a replacement is issued. If the listing indicates that the lost benefit has been redeemed, the recipient is required to go to a Fraud Prevention Unit where signatures and identification card numbers are compared to those recorded on the redeemed authorization document. If the signatures and identification card numbers do not match those on the redeemed authorization document, the recipient's replacement is released. If there is a match, the recipient is denied a replacement.

In the first six months of operation of this system which was installed in October, 1980 fraudulent redemptions were reduced by over 99% avoiding a loss of over \$7 million in the six months period.

2. Deterring Theft and Redemption of ATPs by Unauthorized Persons

Problem:

HRA was unable to detect whether ATPs were being stolen and redeemed by unauthorized persons. Studies conducted in 1979 pointed to the possibility that some 2,500 ATPs a month were being redeemed by unauthorized persons. Investigative reports hinted that ATPs could be counterfeited or that large numbers of legitimately authorized ATPs could be stolen before mailing or after mailing and redeemed by redemption agents at a discount. In order for a profit to be made, the redemption agent had to have an ATP that he could use to account for the disbursement of Food Stamp coupons.

Solution:

HRA and MHT developed a computerized system for checking the validity of each redeemed ATP so that a redeemed ATP, not printed by HRA's computer, would immediately be identified during processing. This system was implemented in October 1980. In the ten months of operation no counterfeit ATPs have been redeemed in New York City. Each redeemed ATP is matched against HRA's file of documents issued and reconciled. ATPs issued by other districts in New York State and redeemed in New York City are identified and returned to the issuing district.

As discussed below, HRA has improved its controls over its stock of ATP documents and counts them from the time they are shipped into HRA's premises, through their use for legitimately authorizing benefits, and their insertion into mail bags for delivery to the Post Office. These controls enhance our ability to deter unauthorized persons from gaining access to either the stock or the printed ATPs.

Once the ATPs are placed in the mail, HRA loses its control and the possibility exists that a few or a large number of these ATPs can be stolen. The counterbalancing force is that a recipient expecting to receive an ATP will report the loss. Under its rapid access and reconciliation system, HRA is able to examine each reported loss and sort out

from the 500,000 ATPs redeemed each month those lost ATPs that were redeemed by the recipient and those that were redeemed by unauthorized persons. Since October 1980, the reports of loss have diminished by 46% from 21,674 in October to 11,909 in March. Our examination of each reportedly lost ATP shows a decline in redemption by unauthorized persons from 2,900 in October 1980 to 1,716 in March 1981.

There are two approaches to cutting out the theft and redemption of stolen ATPs. Clearly, redemption agents or their employees have to find it unprofitable to redeem a stolen ATP. To achieve this objective, HRA asked the federal government two years ago to require every food stamp recipient to have a photo identification card. The federal government has yet to publish final regulations with this requirement although they are expected shortly. In anticipation of changed regulations HRA has geared up to order cameras, ID card stock, and has identified space and personnel. Within six months of a startup, we could have a photo ID card for our NPA population of 200,000. Our PA population already has photo ID cards. With a photo ID card and a requirement that redemption agents see the card before issuing coupons, HRA could hold redemption agents responsible for forged redemption authorizations. This will take the profit out of the redemption of stolen ATPs.

The second approach is to eliminate the printing and mailing of authorization documents. HRA in conjunction with a private contractor has developed a system in which a recipient with a specially encoded photo ID card can appear at a participating redemption site, and by passing the card through a computer terminal, verify the entitlement to food stamp coupons. Under this system, the recipient will sign for the receipt of benefits and the computer will mark the file with the notation that a benefit has been paid. HRA has secured the approval of the federal government to test this system in a pilot area. The startup date is November 1, 1981.

Other problems of a smaller size are:

3. Mailing of ATPs

Problem:

HRA's internal audits account for every item of stock in which ATPs were printed from the point of delivery from the vendor through the printing process. HRA had a contract with the vendor to mail the printed ATPs. The vendor's controls were poor and his employees or visitors to the premises could take from one to several thousand printed ATPs before they were delivered to the Post Office without the vendor being aware that they were missing.

Solution:

HRA decided to mail the ATPs from our Electronic Data Processing Center. This enabled HRA to exert the same kind of count controls used in mailing public assistance checks so that we were sure that all of the ATPs printed were delivered to the Post Office. Overall physical security is achieved through four distinct measures which operate in conjunction with each other, but are independent.

Controlled Access System (CAS)

This system through the use of a stand alone mini-computer will either permit or deny access to pre-designated areas through the insertion of a uniquely encoded identification card into a card reader. Every attempted entry, whether valid or invalid, is recorded and such records may be retrieved for analysis.

Identification Badges

Each employee is issued an ID badge which contains his/her photograph and a Roman Numeral. This same badge is used to access the card readers which are part of the controlled access system. Badges are prominently displayed at all times and allow the security force to constantly monitor the eligibility of an individual to be in a particular area. Similar ID badges are issued to all visitors to the facility for use during the course of their visit.

Closed Circuit Television (CCTV)

A CCTV system involving cameras in the more security sensitive processing areas is monitored on a 24 hour per day, 7 day week basis. The system incorporates a video taping feature which allows security personnel to video tape any of the 12 monitors being observed.

Security Guards

Uniformed security guards equipped with two-way radio are on assigned posts on a 24 hour per day, 7 day week basis. Assignments include fixed posts at main entrances and at the more security sensitive areas, and patrol duties to monitor general conditions. The security guard monitors adherence to security procedures and reports all violations to management for appropriate action.

Additional measures have been taken to tighten security over the ATPs. Fiscal documents are received from the main Agency warehouse in factory sealed cartons. Upon receipt, they are checked for proper sequence and stored in a secure stockroom which requires both the use of a card reader and a key to gain access. The room is additionally secured by an ultrasonic detection system.

Blank documents are taken to the computer room when required for processing and appropriate logs are noted reflecting sequence of numbers issued and signatures of receipt obtained.

All numbers are reconciled after completion of processing and they are subsequently moved to the distribution area for further processing, i.e. bursting, insertion, signature if required, and packing for delivery to the U.S. Post Office. As each machine operation is completed, balances and counts are checked and finally approved with the totals recorded in Computer Operations.

The documents are then packed in closed containers and turned over to an armored car service for delivery to the U.S. Post Office.

Starting with the moment the sealed cartons are brought to the computer room and until they are turned over to the armored car service, all processing stages are under the scrutiny of the CCTV.

We are again reviewing our security measures at the computer center. Additional safeguards are being developed, and will be implemented in the near future.

4. Security for Manual Pickup of ATPsProblem:

Investigations showed that a small number of individuals obtained access to authorization forms which enabled them to present themselves and the form to a Manual Disbursement Office where they were issued an expedited food stamp benefit.

Solution:

To prevent this, we had one staff person at each of our 41 Income Maintenance Centers and 17 Food Stamp Offices call the Manual Disbursement Unit to give the names and other identification of those new applicants or recipients for whom a benefit was authorized. The recipient presented the form to the Manual Disbursement Unit and in addition, presented identification that insured he was the person authorized to receive the benefit. When each recipient was issued a benefit, the action was logged in a report for each of the 58 offices. These reports were sent back daily to the 58 offices where they compared the daily lists kept of persons for whom benefits were authorized. Through this device, HRA blocked unauthorized persons from presenting authorization forms.

5. Security Over Undelivered ATPs Returned from the Post OfficeProblem:

When the Post Office was unable to deliver an ATP to a recipient, the document was returned to one Post Office box and picked up by one of HRA's staff who took it to an HRA office for cancellation. Since there were no counts by postal employees on the number of ATPs returned to the Post Office box and no count on the number picked up by HRA's employee, either a postal employee or our HRA staff member could take any number of these ATPs and redeem them at a redemption center.

Solution:

When we were unable to convince the Post Office Department to assign staff to count the ATPs with our staff member as we picked them up, we assigned a supervisory employee and an HRA messenger to pick up the returned ATPs at the Post Office. These documents were then brought by the two employees to one of our offices where they are counted and cancelled under supervision. This has removed the access of any of HRA's employees to these returned documents.

Date Completed: November 1979

6. Data Entry of Authorizations for Food Stamp Benefits for Public Assistance Recipients

Problem:

Authorizations for supplemental and retroactive food stamp benefits were carried by hand to a central data entry center. Controls over the documents carried by the messenger were such that HRA could not be fully assured that there were no additions or substitutions for those which were authorized for legitimate recipients.

Solution:

To eliminate this risk, computer programs were modified to provide that the documents authorizing benefits were data entered from the IM Centers over telephone lines linked to the main computer. At each IM Center, a control unit verified that the authorization was for a legitimate recipient and was signed by an authorized staff member. After each day's data entry, the computer printed a list of ATPs created and our HRA staff member (other than the one who checked the authorizations prior to data entry) verified that there was an authorization document for each ATP created by the computer.

Completion Date: December 1979

7. Data Entry of Authorizations for Food Stamp Benefits for Non-Public Assistance Recipients

Problem:

Authorizations for all food stamp benefits including monthly, recurring, supplemental, retroactive were forwarded from 17 offices by messenger to one data entry point. The authorizing office was unaware of whether the authorization had been data entered. Controls over the documents carried were such that HRA could not be fully assured that there were no additions or substitutions of the legitimate authorizations.

Solution:

As a first step, HRA instituted a control section in each of the 17 food stamp offices. These sections examined each of the authorizations to insure that they have a signature of a staff member authorized to issue benefits. Each authorization was stamped with a sequential number. A transmittal sheet was developed and the authorization and their sequential numbers were listed on the transmittal. The computer was programmed to provide to each of the 17 food stamp offices a listing of the sequential authorization numbers for which a benefit was sent. The control staff checked the computer listing to insure that benefits were issued only for those persons where an authorization had been sent.

Completed: February 1980

As a second step, HRA acquired remote data entry terminals for its 17 food stamp sites, reprogrammed its computers to accept data entry from those terminals and instituted the same control procedure as described in item 6 above. This eliminated the possibility of the insertion of authorizations for benefits for unauthorized persons.

8. Overissuance or Underissuance of Benefits as a Result of Staff Error in Public Assistance Cases

Problem:

Because different authorization forms were used to authorize public assistance and food stamp benefits, it was possible that a staff member might authorize food stamp benefits, and when authorizing cash public assistance benefits again give food stamp benefits for the same period.

Solution:

HRA developed a series of computer edits that looked at the history of food stamp benefits provided to a family in the month. If full benefits were given, the computer rejected any additional authorizations for that month.

Completed: July 1980

9. Recipients Who Report Loss of an ATP Receive a Replacement and Can Also Report Loss of the Replacement and Receive Yet Another Replacement

Problem:

The number of replacements of lost ATPs soared from 5,000 per month in May 1978 to 25,000 per month in October 1979. Our studies showed that about 5,000 of the 25,000 replacements issued were replacements of a replacement. In the absence of an ability to identify whether a reportedly lost ATP was redeemed before issuing a replacement, HRA needed to cut off the possibility of two or more replacements a month.

Solution:

HRA developed a system by which all replacement ATPs were sent to the IM Center or Food Stamp Office at which the recipient was serviced. The replacement was given to the recipient in hand. A policy was established that all requests for replacement of hand, not delivered ATPs, would be denied. Tight controls were put on the staff giving out the ATPs to insure that every ATP delivered to the HRA office was accounted for as received by the recipient or voided.

Completed: January 1980

10. Replacement Authorizations Data Entered from Remote Entry Terminals

Problem:

The authorizations for the computer to authorize a replacement ATP were being carried by a messenger to a central data entry center. Despite such safeguards as transmittal sheets and sealed envelopes, the manual transmission of authorization documents made HRA vulnerable to the addition of unauthorized documents.

Solution:

HRA developed the capacity to data enter replacement authorizations from remote entry terminals located at its IM Center. The data entry documents were subject to the controls stated in item 6 above and so reduced the vulnerability of HRA to unauthorized documents inserted into the system.

Completed: October 1980

11. Manual Pickup of Original ATP for Multiple OffendersProblem:

HRA was vulnerable to a recipient who succeeded in obtaining a replacement ATP on report of a loss when he knew he had obtained the original. Before our Rapid-Access System was in place we could not determine who these individuals were, and there were reports that the same recipient repeated his fraud on the program month after month.

Solution:

HRA developed a computer system which identified recipients who had obtained two replacements. HRA changed the delivery of the ATP from the recipients' home to an HRA office. The recipient was required to pick up the ATP in person. HRA would not accept any request for a replacement of a hand delivered ATP.

Completed: October 1980

12. Borough Wide In Person Pickup CentersProblem:

In anticipation that some 20,000 recipients a month might be required to visit HRA offices to pick up their rerouted ATPs, HRA projected that this additional traffic would impact on the ability of its personnel to service other clients.

Solution:

HRA developed special pickup offices in each borough.

Completed: October 1980

13. Processing Fraud CasesProblem:

Federal Food Stamp regulations require that recipients who are found to have committed a fraud are to be asked to repay the amount fraudulently received, are to be referred to a district attorney for prosecution, and are to be referred to an Administrative Fraud hearing if the District Attorney does not prosecute.

Discussion of Problem

The amounts involved in recipient fraud are generally not large. District Attorneys have indicated the cost of preparing and prosecuting a fraud case are such that unless the fraud exceeds a \$1500 value, there is little likelihood that they will be able to devote the manpower.

To carry out the federal regulation, HRA initiated a series of steps to gather

documentation on about 7,000 fraud cases involving the receipt of an original and replacement ATP, and the redemption of both by the recipient despite the signing of an affidavit of loss. These frauds occurred in 1979 and gathering the materials is a painstaking process of sorting through hundreds of thousands of redeemed ATP documents to find evidence that would substantiate the charge.

In accordance with the regulations, we sent the documentation on these cases to the State Department of Social Services which is charged with the responsibility for administering the hearings. The State has informed us that their interpretation of the federal regulations is that there must be clear and convincing evidence before they can initiate the hearing. In addition, they require that the evidence presented at the hearing must include the testimony of an expert witness who will be subject to cross examination of his credentials and expertise to attest that the evidence shows beyond a reasonable doubt that the recipient committed the fraud. In short, they want an expert handwriting analysis to attest that the signatures on the original ATP, the affidavit, and the replacement ATP are those of the recipient against whom we have lodged the accusation of fraud.

The number of "experts" in this field are very limited and in high demand by law enforcement agencies. There are some "semi-experts" whom we have identified as willing to contract with HRA for the required service. In passing the credentials of these semi-experts through our IG, we have learned that their "expertise" is open to legal challenge and that some experts with exactly the same credentials were successfully challenged. We have shared these findings and concerns with the State and have asked them to consult with federal authorities as to the acceptability of the testimony that these semi-experts are willing to provide. There has been no reply from the State or USDA to this matter.

At the same time, the State and HRA have together asked USDA to reconsider the stringent rules of evidence required by the regulations. The State Commissioner has brought this matter directly to the attention of Assistant Secretary Hoagland recently appointed by President Reagan. The word out of these discussions is that the federal rules may change for future cases, but not for those that allegedly perpetrated a fraud before the regulations change. We literally have thousands of cases identified as having perpetrated a fraud during 1979 and 1980 in which we are holding up securing the evidentiary materials until USDA and the State advise that the testimony of the "semi-experts" we have identified as willing to testify will be acceptable.

14. Inquiry Against HRA Files to Ascertain if an Applicant for Food Stamps is Already Receiving BenefitsProblem:

HRA staff were unable to determine whether a new applicant for

Food Stamp benefits was already receiving benefits because the roster of Food Stamp recipients was not available on a computer inquirable file. While the identifying information on persons who received public assistance and food stamp benefits was available on an inquirable file, the staff at Food Stamp offices did not have computerized inquiry terminals to access the file.

Solution

HRA modified its computer systems to make identifying information on persons receiving only food stamp benefits available on an inquirable computer file. HRA enlarged its hardware equipment to make inquiry terminals available at its Food Stamp offices. Thus HRA staff, whether stationed at Food Stamp offices or in IM Centers, were in a position to ascertain whether an applicant was already known to the system.

Completed: May 1980

NOTE: Further, more complicated modifications to the computer system were initiated back in 1980 and completed in July 1981. Under the present edits in the computer, as a new entry is made authorizing benefits for Food Stamps, the computer checks the existing active beneficiaries on the file and identifies possible duplication by Social Security number and/or case number. As a result of a match, the new entry is edited out and the staff has to do further investigation prior to reentry.

RESPONSES TO ALLEGATIONS MADE
ON ABC's "20/20" REPORT
OF SEPTEMBER 3, 1981

ATTACHMENT B PAGE 1

Allegation: "The city has never gotten a nickel's worth of restitution from any of the check cashers, including the admittedly crooked ones, or from MHT."

"Argo also told the city it was willing to pay back the stolen money, but for months, New York did not reply to the offer of restitution. It was only after "20/20" made known our interest in the case that Argo finally received a bill from the city, and that was just for about half the money allegedly stolen."

"No one at RLJ has been charged with a crime and no demand has ever been made by the city for the return of the stolen money."

Response: The "20/20" program mentions four check cashers alleged to be involved in fraudulently redeeming ATPs:

- Argo: In September, 1980, personnel in the Food Stamp Program were the ones who initially detected the fact that Argo was redeeming some unsigned ATPs. They referred the matter to BCFI. The HRA administrators wanted to remove Argo from the program immediately, but we were told by BCFI to keep them in the program. (See attached memo dated November 7, 1980 from Mr. Hakim to the HRA Inspector General). It was not until February 1981 that we received approval from BCFI to remove Argo from the program. (See attached memo dated February 1981 from BCFI Investigator Wortham to Food Stamp Director Solowitz). In January 1981 BCFI turned over evidence of \$144,232 worth of ATPs inappropriately redeemed by Argo. We immediately sent a letter to Manufacturers Hanover Trust (MHT) the prime vendor, requesting reimbursement. (See attached letter dated January 13, 1981. MHT advised us that they would not pay the claim because they felt that Argo was responsible under our contract.

After they were removed from the program, Argo offered to send the claim to their insurance broker if we would reinstate them. We refused their offer because an active investigation was still underway.

It was not until June 1, 1981 that BCFI investigators provided us with the evidence needed to submit the full claim of \$241,654. The material they provided had errors in it and we were in the process of correcting those errors and preparing the claim when we became aware of "20/20"'s interest in the case. We submitted a claim to both MHT and Argo for the full amount on July 2, 1981.

CONTINUED

2 OF 3

Public Service Check Casher Corp.: The City's Food Stamp Program first became aware of possible wrongdoing on the part of PSC on January 28, 1981, and immediately referred the situation to the HRA Inspector General. We later were to learn that the U. S. Department of Agriculture had an investigation underway.

On July 16, 1981, arrests were made in the case. On July 21, 1981, we banned PSC from the program. While the U. S. Attorney has informed us that theft involving some \$376,000 in food stamps have occurred, the evidence to substantiate a claim against PSC has still not been released to HRA and so no claim has been lodged.

RLJ: HRA was made aware of the RLJ wrongdoing through a message from USDA's Inspector General, received in August 1980. The check casher was informed that it could no longer distribute coupons in August 1980. The evidence on which to base a claim is still being put before a Grand Jury and has not been released to HRA.

Pay-O-Matic: Personnel in the Food Stamp Program were the ones who first uncovered possible fraud by Pay-O-Matic and referred the case to the HRA Inspector General who has been conducting an investigation of a small number of Pay-O-Matic outlets. Since the investigations have not been completed, no action has been taken to bar these stores from the program.



HUMAN RESOURCES ADMINISTRATION
BUREAU OF CLIENT FRAUD INVESTIGATION
60 HUDSON STREET, 10TH FLOOR, NEW YORK, N.Y. 10013
Telephone: 377-6600

VICTOR P. HAKIM
Director

In Reply Refer To:

November 7, 1980

To: Edward Leopold
Inspector General
Office of Inspector General

From: Victor P. Hakim *VPH*
Director
Bureau of Client Fraud Investigation

Subject: Argo Check Cashing Company

This is to confirm my separate conversations of this date with Herb Rosenzweig, Deputy Administrator, Income Maintenance, and yourself, where I advised each of you that this office has an ongoing investigation of Argo Check Cashier, 804 Broadway, Brooklyn, N.Y. 11206.

Therefore, there is to be no termination nor alteration between this Agency and Argo pending the culmination of our active investigation.

Thank you.

VPH:jug

cc: S. Brezenoff
M. Hester
H. Rosenzweig

ATTACHMENT B PAGE 4
MEMORANDUMTHE CITY OF NEW YORK
HUMAN RESOURCES ADMINISTRATION

DATE: 2/6/81
Benjamin Solowitz, Director
Food Stamp Program
119 W. 31st Street, New York, N. Y. 10001

FROM: Robert Wortham, Assistant Director
Special Projects Division/BCFI
60 Hudson Street, New York, N. Y. 10013
Per: Robert Gordon and David Feinstein, Special Investigators

SUBJECT: INVESTIGATION OF UNSIGNED AND REDEEMED ATP'S

As this office has previously set forth in memos dated 9/10/80, 9/15/80, 9/19/80, 9/22/80, 9/24/80, 10/6/80, 10/8/80, 10/14/80, 10/16/80, 10/24/80, an on-going partial review of ATP's has revealed the existence of a large quantity of unsigned redeemed ATP's.

To briefly recapitulate our findings the following chronology is offered:

On September 9, 1980, an investigation revealed the existence of a quantity worth approximately \$49,000.00 of unsigned, redeemed ATP's. These ATP's were negotiated through the Argo Check Cashier, 804 Broadway, Brooklyn, N. Y. 11206.

On September 18, 1980, a meeting was held at Manufacturers Hanover Trust 270 Park Avenue, 16th floor. The purpose of the meeting was to discuss the unsigned ATP's negotiated through said Check Cashier. The meeting was arranged by Joseph Matera, Security Representative (MHT).

Present at the meeting were:

Joseph Matera - MHT Co.
John Kraker - MHT Co.
Philip Pierce - Booth, Lipton & Lipton
405 Park Ave., NYC 10022
Tel. # 758-1700
Martin Goldstein - Owner, Argo Check Cashing
Robert Wortham - BCFI/SPD
David Feinstein - BCFI/SPD

ATTACHMENT B PAGE 5

As per conversation between the representatives of MHT and Martin Goldstein, a charge back was to be made to the Argo account. Mr. Goldstein stated that the ATP's were negotiated in his establishment and said establishment had two employees.

On September 23, 1980, Mr. Arnold I. Beigen, Attorney representing Martin Goldstein informed this office that the children of Roland Ortiz (the partner of Martin Goldstein) were responsible for negotiating the unsigned ATP's.

On 10/17/80, Frank Wright, Esq. counsel for the Ortiz children, upon acceptance of a "Use Immunity" letter from U. S. Attorney Harvey Golubuck, Eastern District, allowed his clients Peter and Leila Ortiz to be interviewed. Peter and Leila readily admitted to accepting unsigned ATP's from one Rafaela Rivera. They further admitted to receiving money from Rafaela as compensation. Both were emphatic as to the times and places they dealt with Rafaela. Leila stated that she was not involved prior to April 1980; and only at 804 Broadway, Brooklyn, N. Y. Peter stated that his involvement began July 1980, and at 4706 5th Avenue, Brooklyn, N. Y. As a result of their "cooperation" on January 5, 1981, Rafaela Rivera was arrested and charged with felony violation of Title 7, Section 2024 (b), USC.

In spite of the emphatic assurances of Peter and Leila, our investigation has uncovered unsigned ATP's from other stores owned by Goldstein and Ortiz. These ATP's cover periods prior to and during those supplied by Peter and Leila.

During the course of this investigation, the deposits of various branches of the Argo Check Cashing Corp. were reviewed in part or in whole from 1/80 through 8/80. The review was based on the availability and accessibility of redeemed ATP's from these branches.

Five Argo Check Cashing concerns were noted to have deposited an excessive amount of unsigned ATP's during the aforementioned time period.

Following is a breakdown of the five check cashiers and the amounts of unsigned ATP's found to date:

Romar Check Cashing Corp.	amount \$ 18,738.00
205 Fifth Avenue	No of ATP's 218
Brooklyn, N. Y. 11217	review period: 1/80,
Subvondor # 679	2/80, 8/80.
Branch # 21	

ATTACHMENT B PAGE 6

M & R Check Cashing Service
4706 Fifth Avenue
Brooklyn, N. Y. 11220
Subvender # 821
Branch # 21

amount \$ 31,683.00
No of ATP's 392
review period 7/80,
8/80, 9/80.

Argo Check Cashing Corp.
590 Clinton Avenue
Brooklyn, N. Y. 11201
Subvender # 987
Branch # 21

amount \$ 6,095.00
No of ATP's 65
review period 7/80,
8/80.

Argo Check Cashing Inc.
804 Broadway
Brooklyn, N. Y. 11206
Subvender # 986
Branch # 21

amount \$ 139,922.00
No of ATP's 65
review period 1/80
thru 8/80.

M & R Check Cashing
884 Fifth Avenue
Brooklyn, N. Y.
Subvender # 824
Branch # 21

amount \$ 1,630.00
No of ATP's 20
review period 5/80,
8/80.

The total unsigned ATP count for the review period is 2586, totalling 198,074.00.

Please note that the figures reflected represent only a partial review and that the existence of additional unsigned ATP's is likely.

A projection of the above figures, when broken down as to a per month, twelve month period, would represent a possible total amount of redeemed, unsigned ATP's of \$ 457,944.00.

A spot check of Argo's July 1979 negotiated ATP's revealed over \$ 1000.00 worth of unsigned ATP's; and December 1979, a review of only four days receipts revealed three thousand dollars worth of unsigned ATP's. This suggests that projections can be made for the year 1979 also. It also indicates that the practice of accepting unsigned ATP's extends over a lengthy time span and was on-going.

It appears that the cashiers set forth above were negligent in their contractual duties to negotiate properly signed ATP's and that there may exist direct and primary liability by the subvender for such negligent activity.

ATTACHMENT B PAGE 7

Additionally, these five concerns have redeemed numerous ATP's that are apparent and/or suspected forgeries. This segment of the investigation is not completed as yet and is continuing.

In October 1979, this agency requested that the Food Stamp Office not take any action to close any "Argo" cashiers pending further investigation.

At this point, although investigations are still in progress, the need to keep these concerns operating as subvenders is no longer pressing. Therefore, our October request is rescinded and recommendation is made to enact whatever administrative/legal action that your office deems appropriate in light of the information provided regarding the aforementioned check cashiers.

Any contemplated action regarding the possible termination of participation in the Food Stamp program by these concerns should be communicated to other investigative agencies involved that may have investigatory operations planned or in progress regarding the food stamp program i.e. Dept. of Agriculture, Postal Inspector and Dept. of Investigation.

If there is a need for further information and/or documentation please advise.

Please inform this office of any action taken as to recoupment and/or termination of participation relating to Argo Corp.

cc: I. G. : Mr. L. L. L. L.
D. of A. : S. A. Soupis
E. D. M. : A. J. Golubuck
Postal Inspector: Fileccia

ATTACHMENT C

Allegation:

"although the parent City agency has subpoena power they refused to give it to their own investigators..

Response:

By statute subpoena power resides in the City's Department of Investigations. They could not, by law, delegate this responsibility to BCFI. However, the Commissioner of the Department of Investigations, Stanley Lupkin, called Mr. Hakim into his office two weeks after he was appointed to the BCFI job and told him that if he ever had any need to issue a subpoena he could call DOI or Mr. Lupkin personally and that if the request was justified the subpoena would be issued promptly. The BCFI did receive subpoenas from the Department of Investigations. Commissioner Lupkin has indicated that Mr. Hakim had never personally requested that a subpoena be issued by him during the more than two years he was at HRA.-

ATTACHMENT D

Allegation: "...jurisdiction. Bureau (BCFI) investigators were told that some places -- critically important places -- were strictly off limits to them: like Two Broadway, the building which houses the Office of Data Processing, the computer center where the Food Stamp Authorizations are actually printed."

Response: It is important to understand the "jurisdictional" issues involved here. At that time there were two investigative organizations in HRA. BCFI had the responsibility for investigating client fraud and reported to the HRA Deputy Administrator for Management, Mr. Hester. The HRA Inspector General who reported to the HRA Commissioner had the responsibility for investigating employee fraud. Mr. Hakim, the head of BCFI, approached his supervisor, Mr. Hester, to request permission to conduct a covert investigation at the Office of Data Processing. Since the only reason for conducting such an investigation would be to detect employee fraud, Mr. Hester insisted that Mr. Hakim conduct his investigation in conjunction with the HRA Inspector General. Although Mr. Hakim balked at this arrangement at first, BCFI investigators did indeed go into the computer center with investigators from the Office of the HRA Inspector General.

ATTACHMENT E

Allegation: HRA's computer system erased 31 months of computer tapes for a period commencing April 1976 and ending October 1979. This hampered investigations into fraud.

Response: HRA did erase tapes in error. The tapes contained information on the redemption of ATPs and were erased after they had been compared to HRA's file of ATP's issued. When this mistake was brought to our attention, it was immediately corrected.

While HRA clearly erred by not retaining the tapes, the loss of the information on the tapes in no way hampered the investigation of any of the alleged check casher fraud shown on "20/20".

ATTACHMENT F PAGE 1

Allegation: BCFI requested copies of redeemed ATPs as part of an investigation. Later that week there was a suspicious fire which destroyed evidence. After the fire, additional evidence was thrown away. HRA told the Fire Marshal to call off his investigation. BCFI was told that all records it had requested were destroyed. Only later, after Hakim and Coyne were gone was the evidence produced.

"The investigators needed access to certain critical documents which were requested in a series of five memos. The sixth memo informed the head of the food stamp program that the documents were needed to prepare the case for criminal prosecution. A week later on Halloween night, there was a fire."

"Suspicious fire destroying many documents that had been requested by Feinstein as part of his investigation."

"In the memo sent in February, the bureau was informed that the fire had destroyed or otherwise had rendered unusable all the records the Bureau had requested for its fraud investigations."

"Six days after the fire both the Bureau and the Fire Marshals were informed they could no longer investigate the arson fire ... any investigation would be carried out by the Inspector General of the City agency."

Response: None of the evidence requested by the BCFI investigators in connection with the Argo case was destroyed. As indicated in the attached November 5, 1980 memo from Mr. Tepedino, Deputy Director of Fiscal Operations to Mr. Solowitz, the Food Stamp Director, the ATPs relative to the Argo investigation were in the Deputy Director's Office and were preserved in tact. This evidence was removed from the site by Mr. Myron Avant, a BCFI investigator. We have attached a signed receipt we received from Mr. Avant.

Mr. Tepedino's memo of February 2, 1981, referred to by "20/20", informed BCFI that the computer printout containing information on redeemed ATPs had been destroyed (see attached memo) not the ATPs which were needed for evidence. The computer printout was needed to locate the ATPs. This printout could be rerun and was indeed rerun at a later date. As indicated above, all of the evidence that BCFI needed for the Argo case was preserved. The redemption rolls which were "rendered unusable" were later reproduced.

Some ATPs needed by Mr. Feinstein for an investigation of alleged fraud on the part of a bank teller were thrown out after the fire. The material was stored in a desk at our Fiscal Office and survived the fire. As a result of lack of communication between the HRA Office of Plant Management, who arranged for removal of damaged equipment four weeks after the fire, and the Food Stamp staff, the desk containing the material was inadvertently destroyed.

Mr. Feinstein's version of the events leading up to the destruction of the material is presented in a December 5, 1980 memo which is attached.

While Mr. Feinstein tries to lay the blame on the Food Stamp staff it is clear that BCFI investigators had access to this material for four weeks after the fire but did not take custody of it. Mr. Feinstein claims in his December 5 memo that he did not take custody of the evidence because "At that point, (November 3, 1980) nothing could be removed since the Fire Marshals were still conducting their investigation". Clearly this is in conflict with the fact that BCFI investigators were removing evidence as indicated by the signed receipt attached.

The Fire Marshals were never called off the investigation. The HRA Commissioner asked the HRA Inspector General to coordinate the investigation of the fire for HRA. He never asked the Fire Department to stop their investigation. Indeed, the Fire Marshal has an open case on this incident.

MEMORANDUM

THE CITY OF NEW YORK
HUMAN RESOURCES ADMINISTRATION

DATE: November 5, 1980

TO: B. Solowitz, Director
Food Stamp ProgramFROM: J. Tepedino
Deputy Director
Fiscal OperationsSUBJECT: EXTENT OF DAMAGE, INVENTORY OF SALVAGED ITEMS.

We first observed the extent of damage caused by the fire of October 31, 1980, to the premises occupied by the Fiscal Section on Saturday afternoon, November 1, 1980, when we visited the premises together with Mr. Solowitz, Director of the Program. A crew of carpenters and custodial staff were on hand at that time.

It appeared at that time that the entire work area had been severely damaged and that all the ATP's and equipment and other material which were currently being used by our staff were totally destroyed beyond use. The storage room which is separated from the work area by partitions and a door, as well as the Administrative offices appeared to have been affected only to a minimum extent.

On November 3, 1980, we were able to take an inventory of the items which could be salvaged.

ATP'S

Not effected by the fire were the ATP's for the following months:

3/80	7/80
6/80	8/80

As for 9/80, the ATP's which had been received from the banks, i.e. from Pay-u-Matic and other banks were totally destroyed, whereas, the 9/80 ATP's from MIT escaped destruction as they are still in the possession of MIT. In fact also, are a number of boxes of ATP's 6/77 and 7/78 delivered to us in error reasonably. The ATP's for the months of April and May 1980, were completely destroyed together with the ATP's for the month of July 1979.

M-326

Boxes containing M-326's for the following months were preserved and their contents are in useable conditions:

3/80	5/80	7/80	9/80
4/80	6/80	8/80	

The October M-326's have not been delivered to the Fiscal Section yet.

ATTACHMENT F PAGE 4

REDEMPTION ROLLS

Redemption Rolls which escaped destruction are for the period from 12/79 to 5/80. A number of boxes containing redemption rolls for prior months were seemingly destroyed.

BILLINGS

Boxes containing copies of billings to the banks and supporting evidence were in useable conditions with the exception of the billings for the month of June 1979, which were substantially destroyed and therefore not useable. As a precautionary measure, we removed from the premises the files maintained by the Deputy Director containing signed receipts of monthly billings to the banks, which constitutes the only evidence that these billings were delivered and received by the banks. This file which also included copies of the FNS 250 Reports for the entire period of reconciliation to date, is presently in the Director's office safe.

SEPTEMBER 1980 RECONCILIATION

The September 80 Discrepancy list and redemption rolls which have just been delivered to the Fiscal Section were in the working area at the time of the fire and therefore totally destroyed.

U.S.D.A. PRINTOUTS

The U.S.D.A. Printouts were unaffected by the fire as they were located in the Administrative Offices at the time of the fire.

FILES

All the files of the Administrative Staff, contained in file cabinets were unaffected by the fire. Also, unaffected were the contents of 15 file cabinets in the work area contained 12/79, 1/80, 2/80 M-326's in folders.

ARGO CHECK CASHERS MATERIAL

ATP's relative to the investigation of Argo Check Cashers were in the Deputy Director's office and were preserved in tact.

BCFI

Removed these ATP's from the premises on this date. We have a receipt on file for this.

Billings which had been copied on this investigation were also preserved for the same reason.

In conclusion, anything not specifically above should be considered lost or beyond use, with the exception of some furniture which may still be restored.

ATTACHMENT F PAGE 5

BUREAU OF CLIENT FRAUD INVESTIGATION (BCFI)

It is noted that in addition to the ATP's relative to the Argo investigation, reported above, BCF investigators took possession of several cartons of ATP's selected from the month of August 80. We were promised that a detailed inventory will be sent to us of these and any other ATP's they have taken.

Reports from staff members indicate that other property was removed by the BCF without informing us at such action. Specifically, calendars and files on hand from desks of the Administrative staff could not be found on this date and a visitor's log maintained by the secretary to the Deputy Director and which was physically present in the office on the date of the fire cannot be located. Reports from staff indicate that the BCF may have removed such a log.

JT:cm

ATTACHMENT F PAGE 6

November 3rd 1980
 This is to state that on
 this date 2 removals from
 the office of Fiscal Section
 Food Stamp Program a
 bag containing the ATP's
 previously delivered to Mr.
 Tepedino relative to the
 investigation of the Argo
 Check Center -

Myron B. Stuart
 Dep. Asst. Dir.

Inventory to follow.



ATTACHMENT F PAGE 7
 HUMAN RESOURCES ADMINISTRATION
 250 CHURCH STREET, NEW YORK, N.Y. 10013

STANLEY BREZENOFF
 Administrator/Commissioner

February 2, 1981

Mr. Robert Worthman - BCFI

Mr. George Cavanaugh - USDA

Mr. Edward Gallagher - OIG

Mr. Edward Leopold - OIG

This is to bring to your attention that the Fiscal Section of the Food Stamp Program is now able to provide you and your staff with photocopies of ATP's redeemed in New York City after October 1, 1980. Please address any requests for such ATP's to my office in writing.

With respect to ATP's redeemed prior to that date, we are unable to provide you, at this time, with either copies or original ATP's. Any request you may have submitted to us for that period will not be honored at this time.

As you know, redemption rolls, which are essential to the retrieval of ATP's, for the period prior to October 1, 1980, were largely destroyed or otherwise rendered unusable by the fire which affected our premises on October 31, 1980.

We are in the process of reconstructing these essential records, but are unable, at this time, to provide you with an expected target date. We will notify you as soon as these records become available to us. Until then, we will honor requests for photocopies of ATP's redeemed after October 1, 1980.

Sincerely,

Joseph Tepedino
 Joseph Tepedino
 Deputy Director
 Fiscal Operations

JT:cm
 cc: H. Rosenzweig
 M. Burdick
 M. Davis
 B. Solowitz
 B. Nererevitz
 E. Blaustein
 A. Stanley

ATTACHMENT F PAGE 8

MEMORANDUMTHE CITY OF NEW YORK
HUMAN RESOURCES ADMINISTRATION

DATE: December 5, 1980

TO: Robert Wortham, Assistant Director
Special Projects Division
Bureau of Client Fraud Investigation

FROM: David Feinstein, Special Investigator *DF*
Special Projects Division
Bureau of Client Fraud Investigation

SUBJECT: Loss of Evidence

Physical evidence of an ongoing investigation of laundered ATP's in Branch #32, Manufacturers Hanover Trust Co., 1797 Pitkin Ave., Brooklyn, N.Y. was apparently lost after the fire at 529 Eighth Avenue, New York, NY.

Reference is made to the attached copy of a memo from this office dated August 14, 1980 to Joseph Tepedino, Deputy Director, Fiscal Operations, Food Stamp Central Office, 523-29 Eighth Ave., New York, NY.

Barry Mack, Special Assistant to Kurt Elbling, Assistant Director, Fiscal Operations, Food Stamp Office, was assigned the task of locating the ATP's and matching them to the M-326's.

Due to the fire on October 31, 1980 all work on the project was halted and November 3, 1980 I discussed the matter with Barry Mack and was advised by him that all of the tellers ATP's and the matched 326's that were located had survived the fire and were locked in his desk on the sixth floor of 523-29 Eighth Ave. At that point, nothing could be removed since the Fire Marshalls were still conducting their investigation. Mack advised that the material would be removed for safe keeping as soon as the Fire Marshall permitted. Myron Avant, Deputy Assistant Director, SPD/ICFI was with me when Mack advised me of the location and the plans for the subsequent removal of the material.

On 12/1/80 I spoke to Barry Mack and asked about the whereabouts of the material in this case. He told me it was still in his desk and that Kurt Elbling knew where the desk was. I called Kurt Elbling who advised me that the desk, with the material in it, had been removed from the sixth floor and had been discarded as rubbish. I asked how this could have happened. I was told that on 11/21/80 Barry Mack had gone to the sixth floor at 523-29 Eighth Avenue, opened his desk and left a note on Kurt Elbling's desk at 119 W. 31 St. to the effect that he had unlocked the desk and Kurt Elbling could pick up the material.

ATTACHMENT F PAGE 9

On the following Monday, 11/24/80, Kurt Elbling went to pick up the material and found the desk gone. He learned from the Custodian at 523-29 Eighth Avenue that on Saturday, 11/22/80, a private carting firm had cleared out everything from the sixth floor and it was junked (discarded as rubbish). On 12/3/80 Kurt Elbling advised us that no one at the Food Stamp Office was aware of the fact that this was to happen and that it was their understanding that the desks and furniture were to be moved to their new location at 180 Mott Street. This decision was apparently made by someone at Plant Management.

The clearing out of the sixth floor at 523-29 Eighth Avenue and the dumping of its contents as rubbish was done by the following private carting firm:

Stage Carting
6401 9th Avenue
Brooklyn, N.Y.
Telephone: 449-0260

On 12/3/80 I spoke to Mr. L. Bruno, the owner, who told us his company was given the job of clearing out the sixth floor at 523-29 Eighth Avenue and everything up there was disposed of as rubbish and unsalvageable. The place was cleared out and everything was dumped at the Staten Island landfill. The desks and furniture were compacted.

Both Kurt Elbling and Barry Mack told me that they were unaware of any decision to scrap their desks and equipment.

On 12/5/80 Barry Mack told me that his desk contained all the questionable ATP's negotiated by Teller (No. 4, Branch #32) from January, 1980 through July, 1980 (approximately 2000) and some thirty-odd matched ATP's and M-326's redeemed by this same teller. The desk also contained ATP's from another on-going investigation which was interrupted by the fire. All this material has apparently been lost.

The loss of this material not only prejudices the on-going investigation of this Teller's activities, but also represents a loss of potential recoument. The Teller confessed to negotiating stolen ATP's for the period of January through July, 1980. On 8/15/80 this Teller was shown 147 ATP's in the amount of \$12,210.00 which were presumed to be forgeries and fraudulently redeemed by her (these were assumed to be forgeries based on out-of-borough addresses on out-of-borough addresses and on the similarity of handwriting). She admitted they were forgeries and were redeemed by her. There were also 17 Bronx ATP's redeemed by her in the amount of \$1567.00 which we could not locate because the box containing this deposit was missing. The bank said it was picked up by our truck and the Food Stamp Office says it was never delivered to them.

ATTACHMENT F PAGE 10

All the ATP's fraudulently redeemed by this Teller can be charged back to the bank. Based on the dollar amount located for the month of April, 1980 and the Teller's admissions, the projected amount of recoupment lost is approximately \$70,000. The loss of this material may also seriously impair the current on-going investigation by this office and other government agencies.

DF//vs

ATTACHMENT G

Allegation: ABC News alleges a lack of adequate security at the Two Broadway Office of Data Processing building where the ATPs are actually printed.

Facts: Audits conducted by HRA in 1978 indicated serious problems with security in the handling of ATPs both at our computer facility and at the vendor we were then using to mail the ATPs. Based on this audit we developed tighter controls including:

- . In-house mailing of ATPs with the same kind of controls used in mailing public assistance checks.
- . A computerized system of controlled access to sensitive areas.
- . Employee ID badges.
- . Closed circuit TV surveillance in sensitive processing areas.
- . Uniformed security guards around the clock.
- . An accountability system for blank and printed ATPs which balances the count of ATPs at every step in the process.
- . Armored car delivery of printed ATPs to the post office.

These controls have not eliminated the possibility of theft, but they have made it much more difficult for someone to steal ATPs without being apprehended. We are currently reassessing all of our security systems at the computer center to look for even better control.

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

October 29, 1981

Mr. D. Lowell Jensen
Assistant Attorney General
Criminal Division
Department of Justice
Washington, D.C. 20530

Dear Mr. Jensen:

I have read accounts of your testimony of October 28 before a House Government Operations Subcommittee on Food Stamp Fraud. I am pleased, of course, that you have found "no evidence" of corruption within New York City's Human Resources Administration (HRA). But I am deeply disturbed about many items in your testimony, especially your statement that you have "found evidence of an institutional lack of concern" at the Human Resources Administration.

Both Jack Krauskopf, the Administrator of Human Resources, and Stanley Lupkin, the city's Commissioner of Investigation, have assured me that they have been and are cooperating fully with all federal investigations into Food Stamp fraud. If you have reason to believe they are not, please provide me with the details and I shall take immediate corrective action.

Furthermore, HRA has implemented major administrative changes in the Food Stamp Program to reduce its vulnerability to fraud. These changes were detailed in material provided to the Attorney General in September. I am enclosing a letter from G. William Hoagland, the Administrator of the Food and Nutrition Service (FNS) in the Agricultural Department, indicating the department's support for these improvements. It says, in part: "We wish to reaffirm FNS' support for the anti-fraud project New York City has initiated and is currently undertaking. We believe these projects and the close cooperation your agency has given to FNS will result in a significant reduction in the instances of fraud occurring in New York City."

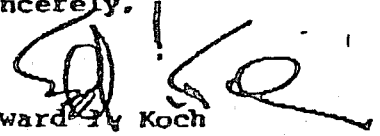
HRA is continuing its review of the internal operations of the Food Stamp Program and will make additional administrative changes that are required to eliminate fraud and incompetence. Any proposals you may have will receive my immediate attention. Contrary to your impression, you should know that HRA does reconcile all food stamp authorizations with coupons issued and does determine whether such authorizations have been appropriately redeemed.

Your testimony also referred to fraud cases against individual recipients which were not scheduled for hearing. In fact, HRA has asked the New York State Department of Social Services to hold hearings on these cases. The state has been unable to do so to date because the standard of proof under federal regulations requires -- unnecessarily, we contend -- the consultation by handwriting experts before any action is taken. Since we are investigating 30,000 cases, it is an impossible fiscal and physical burden to retain enough handwriting experts. Indeed, in our judgment, such experts are not needed at all to make out a prima facie case of fraud. We have protested these regulations, which are much more cumbersome than the rules for the public assistance welfare program. Those allow us to take immediate action with much less of an evidentiary burden to recoup funds where fraud has occurred. Since you have raised this matter, I am asking that you use your good offices with the Department of Agriculture to support New York State's pending request for a change in the Food Stamp regulations as they relate to the burden of proof.

If there are other matters which have come to your attention indicating either administrative deficiencies or instances of employee wrongdoing, I ask again that you bring them to my attention immediately. I can assure you of my Administration's full and continuing cooperation with your investigation.

If at any time you find resistance by any city official to eliminating fraud or waste, or failure to be as respectful of federal dollars as officials are of city dollars, please let me know at once. If the allegations have any merit, those bureaucrats will be removed from the city payroll where I have the right to do that. Where I don't have the right to dismiss, they will at the very least be removed from participation in the investigation of the program.

Sincerely,


Edward I. Koch
MAYOR

Enc.

United States
Department of
Agriculture

Food and
Nutrition
Service

Washington,
D.C. 20250

October 13, 1981

Mr. James A. Krauskopf
Administrator/Commissioner
Human Resources Administration
250 Church Street
New York, New York 10013

Dear Mr. Krauskopf:

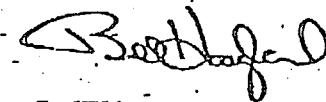
Please refer to your recent letter concerning ABC-TV's "20-20" news feature about fraud in the Food Stamp Program. We believe the points made in your letter to Mr. Roone Arledge, President, ABC News and Sports are valid.

The Food and Nutrition Service (FNS) shares your concern about the allegations made against the New York City's Human Resources Administration on the "20-20" Program. We were disappointed that no mention was made about the initiatives the city has taken to reduce the vulnerability of the Food Stamp Program to fraud and abuse, such as the Rapid Access System, the Electronic Payment Files Transfer System and your planned use of photo identification cards for food stamp recipients.

In regard to photo identifications, we wish to advise you that the Department's regulations authorizing the use of photo identification cards are being published on October 9, 1981.

Finally, we wish to reaffirm FNS' support for the anti-fraud projects New York City has initiated and is currently undertaking. We believe these projects and the close cooperation your agency has given to FNS will result in a significant reduction in the instances of fraud occurring in New York City.

Sincerely,


G. WILLIAM HOAGLAND
Administrator

The following page (202)²⁰³ contain material protected by the Copyright Act
of 1976 (17 U.S.C.): "Deceased woman still Gets Social Security Checks"
from NEVADA STAR JOURNAL 8-2-81

Cont. from previous page

IT HAPPENS
 E. Womack, service administrator for the Decatur Social Security office, was queried by the SUN and said, "We have an occasional case like this. We try to arrange with funeral homes to notify us on the death of Social Security depositors. We are not obligated to report such accounts to us." Mrs. Feuz's account, he explained, "If we can't collect, then we just write it off." Womack could not be reached for comment.

The SUN contacted Larry Murphy, San Francisco, external affairs officer for Social Security in the western United States.

"Our most recent figures are for 1977 which show that 24,774,000 people were Social Security recipients. Of these that year, 1,379,000 had died, or about 5 percent of the total."

He called back later and updated the total figures. "As of Dec. 31, 1980, we had 35 million SS recipients. Of these 23,843,000 were 65 or older. If checks are not cashed within 60 days, our computers go to work. The system is triggered to advise somebody to look into it."

He said he could not explain why Mrs. Feuz checks were still being mailed eight months after she had died, despite repeated notifications of her death.

Neither can Herb Feuz. But he still intends to find out.

PHILADELPHIA, PENNSYLVANIA Check No. **13,526,384**
 SYMBOL 3030

United States Treasury

TREASURY
 FEDERAL RESERVE
 DEPARTMENT OF THE TREASURY

PAY TO THE ORDER OF EMMA A FEUZ 577-10-4293
 2829 CHICAPEE DR 04 - D 2
 DORAVILLE GA 30340 - SOC SEC FOR PAY

08 03 81

DO NOT SIGN OR WRITE ON THIS CHECK
 YOUR SIGNATURE IS REQUIRED TO CASH THIS CHECK

EMMA A. OR HERBERT H. FEUZ 222
 2829 CHICAPEE DRIVE
 DORAVILLE, GEORGIA 30340 5- 19 81 04-1291
 611

SOCIAL SECURITY ADMINISTRATION \$ 1,450.00
 ONE THOUSAND FOUR HUNDRED FIFTY AND 50/100 Dollars

The CITIZENS and SOUTHERN EMORY BANK
 DECATUR, GEORGIA
 EMMA A. FEUZ #577-10-4297D

AUG 23 1979

To: The Attorney General
 From: Thomas F. McBride, Inspector General,
 U.S. Department of Agriculture
 Subject: Law Enforcement Authorities for Special Agents of the USDA Office of
 Inspector General

Over the past several years the number of major criminal investigations conducted by Special Agents of USDA's Office of Inspector General has shown a marked increase. This is due in part to the growth and change in USDA programs. The Food Stamp program in 1970 amounted to one billion dollars. Today it is at almost seven billion dollars. Other fraud-vulnerable programs, particularly rural multi-family housing loan programs, and meat inspection and grading activities, have grown similarly. OIG investigators in years past concentrated on "farmer" programs--grain shortages, missing farmer loan collateral, misrepresentations for price support payments--and less serious employee misconduct cases. That has changed. Today OIG agents investigate cases involving criminal rings involved in multi-million dollar food stamp trafficking and allied criminal activities such as bank or food stamp outlet robberies and burglaries, fencing of stolen goods, sales of narcotics and corruption of public officials; serious bribery cases, particularly in the meat inspection and grading programs; and complex interstate white-collar crime schemes preying on our multi-billion dollar loan programs.

Changing skills of OIG Special Agents have mirrored this changing workload. In place of the more pedestrian and less hazardous tasks of interviewing farmers, conducting grain inventories, counting cattle and examining USDA office files, OIG Special Agents increasingly work undercover, provide undercover backup, develop informants, conduct often dangerous surveillance, use sophisticated electronic monitoring and surveillance techniques, interview career-criminal subjects and witnesses, and participate in searches and arrests.

OIG presently has 280 Special Agents including supervisory personnel. So far, in FY 1979, the work of these Special Agents resulted in 530 indictments. Recently we checked, using a 6 month test period in 1977 where we had final data on case dispositions, and found the conviction rate compared to indictments on OIG cases to be 93.6%. The biggest single category of cases, and the area where we most need law enforcement authorities, are Food Stamp cases. In FY 1978 we conducted 865 investigations and used about 30% of our resources in this program with most of the cases involving trafficking

activities. A total of 185 indictments were obtained in FY 1978 in such cases.1/ Surveillance, undercover operations, and consensual monitoring are common techniques in Food Stamp investigations.2/

Here are some examples of recent trafficking cases:

Baltimore, Maryland

A 17 month OIG undercover investigation in cooperation with State, county and city police, culminated June 14, 1979, with 34 Federal indictments and 21 indictments in Baltimore City and Baltimore County. Operation "Fence-rider" involved a number of suspected fences of stolen property who had moved into the Food Stamp trafficking field. Local and State officers had not been able to penetrate these operations which involved a number of persons with criminal records. Stolen property including appliances, weapons and explosives were purchased by the undercover Agents for Food Stamps in transactions totaling more than \$70,000. U.S. Attorney Russell T. Baker wanted to utilize OIG Agents to execute arrest and search warrants and suggested to our General Counsel that it be authorized under Rule 41, Federal Rules of Criminal Procedure--which provides that a warrant "be directed to a civil officer of the United States authorized to enforce or assist in enforcing any law thereof." The General Counsel advised the U.S. Attorney that the Department has historically taken the position that OIG Agents do not have authority to serve arrest or search warrants in defending civil suits brought under the Federal Tort Claims Act (28 U.S.C. 2671 et seq.). The U.S. Attorney was obliged to arrange for substantial numbers of city and county police to effect the large scale arrests.

Due to the constant danger to which these unarmed Agents were exposed and the uncertainty of adequate backup at all times, Assistant U.S. Attorney Bob Trout explored possibilities of arming the Agents as Special Deputy

1/ Of the total of 530 indictments so far this fiscal year, 304 were for Food Stamp trafficking offenses or offenses detected in investigation of these cases (receiving stolen property, narcotics sales, illegal possession or sale of firearms, etc.). A full breakdown of OIG investigative workload is attached.

2/ Since July 1, 1978, we have obtained approval from the Department of Justice for 158 initial consensual monitorings and 136 extensions of prior approvals. While it is too soon to have the results of these for this year, we monitored 52 conversations during the previous fiscal year with results to date being 26 indictments, 9 convictions and 15 prosecutions pending.

activities. A total of 185 indictments were obtained in FY 1978 in such cases.1/ Surveillance, undercover operations, and consensual monitoring are common techniques in Food Stamp investigations.2/

Here are some examples of recent trafficking cases:

Baltimore, Maryland

A 17 month OIG undercover investigation in cooperation with State, county and city police, culminated June 14, 1979, with 34 Federal indictments and 21 indictments in Baltimore City and Baltimore County. Operation "Fence-rider" involved a number of suspected fences of stolen property who had moved into the Food Stamp trafficking field. Local and State officers had not been able to penetrate these operations which involved a number of persons with criminal records. Stolen property including appliances, weapons and explosives were purchased by the undercover Agents for Food Stamps in transactions totaling more than \$70,000. U.S. Attorney Russell T. Baker wanted to utilize OIG Agents to execute arrest and search warrants and suggested to our General Counsel that it be authorized under Rule 41, Federal Rules of Criminal Procedure--which provides that a warrant "be directed to a civil officer of the United States authorized to enforce or assist in enforcing any law thereof." The General Counsel advised the U.S. Attorney that the Department has historically taken the position that OIG Agents do not have authority to serve arrest or search warrants in defending civil suits brought under the Federal Tort Claims Act (28 U.S.C. 2671 et seq.). The U.S. Attorney was obliged to arrange for substantial numbers of city and county police to effect the large scale arrests.

Due to the constant danger to which these unarmed Agents were exposed and the uncertainty of adequate backup at all times, Assistant U.S. Attorney Bob Trout explored possibilities of arming the Agents as Special Deputy

1/ Of the total of 530 indictments so far this fiscal year, 304 were for Food Stamp trafficking offenses or offenses detected in investigation of these cases (receiving stolen property, narcotics sales, illegal possession or sale of firearms, etc.). A full breakdown of OIG investigative workload is attached.

2/ Since July 1, 1978, we have obtained approval from the Department of Justice for 158 initial consensual monitorings and 136 extensions of prior approvals. While it is too soon to have the results of these for this year, we monitored 52 conversations during the previous fiscal year with results to date being 26 indictments, 9 convictions and 15 prosecutions pending.

U.S. Marshals. This was not possible and eventually arrangements were made with the Commander of the State Police for permits which would allow Agents to carry arms for the duration of this particular operation.

New York City

In April 1978, following 20 months of investigation and surveillance, Ranbar Packing Company, a Queens meat and poultry wholesaler, and the company treasurer were indicted for trafficking more than \$460,000 in stolen and embezzled Food Stamps. The scheme employed by this wholesaler was to alter Redemption Certificates tendered by numerous groceries to Ranbar, with lawfully acquired Food Stamps in payment for wholesale deliveries, to accommodate the many thousands of Food Stamps generated by theft and embezzlement. The investigative task was to trace backwards all Ranbar Food Stamp deposits, reconcile individual store records to prove the alteration of Redemption Certificates and to carry on surveillance during irregular hours throughout Brooklyn, Queens and Manhattan to identify the collection routes and sources of the illegal Food Stamps. The corporation was fined \$520,000 (the largest criminal fine ever levied in the Eastern District) and the treasurer sentenced to three years. The actual owner and operator of this firm and its parent company, Ranchers Packing Corporation, Peter Castellana, is a member of one of the principal organized crime families in New York. The convictions have set the stage for the withdrawal of both Federal meat and poultry inspection, which would have the effect of terminating interstate commerce for the firm (United States v. Martin Gitlitz and Ranbar Packing, Inc., S.D. N.Y.).

Brooklyn, New York

OIG Agents conducted surveillance in dangerous areas over several months of an egg wholesaler whose Food Stamp redemptions had increased 1,000% in a few months. A trafficking operation reaching the level of \$2,000,000 in illegal Food Stamps was established and fourteen suspects were indicted and later convicted. U.S. Marshals had to be brought in for the arrests because the OIG Agents lacked this authority. (United States v. Collaro, et al, S.D. N.Y.).

Philadelphia, Pennsylvania

OIG Agents and Postal Inspectors carried out a hazardous surveillance over several weeks in a van in a dangerous neighborhood in South Philadelphia. Several hundred persons were photographed while passing Food Stamps and Authorization to Purchase documents, illegally bought or stolen from the mails, through a slot in a storefront door for cash. An OIG undercover Agent made several transactions to provide uncontested evidence. Several subjects were arrested and thousands of dollars in Food Stamps were seized in a raid by the Philadelphia Police SWAT Team, called in because the suspects were known to be armed. None of the OIG Agents in this operation were authorized to carry weapons or make arrests. (United States v. John McCullough, et al, E.D. Pa.).

Philadelphia, Pennsylvania

A Democratic Committeeman and Bill Clerk for the City Council, together with his son, who operated a delicatessen, were arrested after buying a total of \$5,000 in Food Stamps at discount from undercover OIG Special Agents. There had been three previous transactions and on one of these occasions the Committeeman displayed a pistol and threatened to shoot them if they turned out to be Federal agents. (United States v. Allan Fisher, E.D. Pa.).

A number of equally significant trafficking investigations are presently underway. In all of these investigations OIG Special Agents have had to work undercover in dangerous situations. Backup has to be provided, search and arrest warrants must be executed and, on occasion, at-the-scene arrests made. To carry out these operations we have had either to rely on our own, unarmed and unauthorized, agents or solicit the help of local or state police, or other Federal law enforcement agencies--help that is often difficult to obtain. In a major trafficking case in New York, our Agent was staked out at a Check Cashing concern, through cooperation of the owner, when the suspect Postal employee entered and completed a transaction of stolen ATP cards with the involved check cashing employee. Had the Agent had authority to make an arrest, this case would not have required the additional efforts in surveillance and tracing used ATP's that was necessary to conclude the case. (United States v. Stukes, S.D. N.Y.).

The second major area where we need law enforcement authorities is in our own meat inspection and grading investigations. During FY 1978 and through July this year, our investigations have resulted in 65 indictments in this program area, with a substantial number of these involving bribery or corruption. A recent case (United States v. Philip Jaffe, D. N.J.) is typical of our work in this program. Jaffe, a Supervisory Meat Inspector, pled guilty to soliciting a \$3,000 bribe from a meat packer and was sentenced to two years. However, this case was almost lost because of our lack of law enforcement authority. Our lengthy surveillance of Jaffe and use of a body recorder on a cooperating meat company employee had established a pattern of extortion. The FBI was brought in when the arrest was anticipated--the plan being for an OIG Agent concealed in a warehouse to radio the arrest teams when the money changed hands. The FBI opted to use their radios and the FBI radio used by our Agent was inoperative and he could not signal when the transaction was observed. The arrest teams let Jaffe pass, thinking the deal had not transpired. Pursuit to a distant shopping center, where he had already passed the money to his wife, ultimately secured both the money and his wife's acknowledgment that she received it from her husband. This slip would not have occurred had our people been able to perform all the functions associated with this kind of operation.

There are a number of other types of cases where we need law enforcement authorities. An example is the Summer Feeding Program. This program, while relatively small, has a large dollar vulnerability to fraud. Judge William C. Connor, S.D. N.Y., in sentencing a defendant in one of our Summer Feeding cases commented, "Government money attracts cheats like a picnic attracts ants." (United States v. Clara Mayer, S.D. N.Y.).

Our most major group of cases in this program are those involving the activities of Rabbi Leib Pinter, Brooklyn, New York, who oversaw a network of sponsors and food vendors operating in New York City and Philadelphia. Our investigations established systematic fraud, false claims and collusive vendor contracts which siphoned hundreds of thousands of dollars from this program. Pinter and confederates ultimately entered guilty pleas in E.D. N.Y.; S.D. N.Y.; and E.D. Pa. in our cases, and Pinter also pleaded guilty to bribing Congressman Daniel Flood.

Incidentally, during trial of one of the defendants in the Pinter Summer Feeding cases, a key witness and his family were targets of telephone threats and our Agents, unarmed, had to provide escort to and from trial and security presence at his residence.

In another major Summer Feeding Program case in Los Angeles, we experienced problems because of our lack of authority to execute search warrants. This case involved a number of sponsor and vendor organizations with the same scheme of collusive contracts, kickbacks, false claims and fabricated records experienced in the New York cases. We placed an undercover Agent in one organization and with a consensual monitoring approval developed cause for several search warrants. However, the warrants were invalidated when the Marshals left the scene for lunch before all items were inventoried and the seized records had to be returned.

Our major White Collar Crime cases include loan and construction frauds in Farmers Home Administration programs which, while not commonly requiring law enforcement authorities, do on occasion present problems. For example, in a FmHA Rural Rental Loan case we recently worked in the Southern District of Ohio, Agents had reason to believe the large scale developer who was the target of our investigation would remove or destroy certain records when he became aware of our activity. A surveillance detected employees placing records in a trash can, from which they were subsequently retrieved by the Agents with telephone clearance from the Assistant United States Attorney. However, earlier utilization of a search warrant would have been an option that might have been more seriously considered had our Agents had the necessary authority. Fortunately, in this instance, we "lucked out."

One thing we do encounter in these cases is the common request by an AUSA that we execute a search warrant or, usually following indictment, an arrest warrant. Abashedly, we must advise the AUSA we don't have the authority and another Federal officer, usually a Deputy U.S. Marshal, must be used. While we endeavor to accompany the other officer, the risk of missing relevant material in the course of the search or failing to attend to or recognize the significance and record for future testimony the words or actions by the subject of the search or arrest poses the serious risk of missing valuable evidence. False arrest problems are sometimes caused by warrants executed by other than the investigating agents. In one 1978 case in Florida, the Deputy U.S. Marshal arrested the wrong individual, based upon a faulty identification, which led to a civil suit against the Government by the wrongly arrested person. The incident would not have occurred had the OIG Agent who conducted this Food Stamp trafficking investigation been able to effect the arrest.

Even in that more traditional portion of our workload, situations arise in which the law enforcement authorities are desirable. For example, earlier this month in Alabama, where five indictments were returned in a School Lunch embezzlement scheme, an unarmed Agent was threatened with a shotgun when a vehicle without license plates pulled alongside his car in a rural area. The two occupants have not been identified, but the specific nature of the threat was made clear when the shotgun-wielding subject shouted, "Bye, Fed," before pulling away. U.S. Attorney Barry Teague called me to express his concern. We were unable to authorize arming the Agents, but U.S. Attorney Teague arranged with the Director of the Marshal Service to deputize the Agents so they could have the means for protection for the duration of this particular investigation.

Several United States Attorneys have conveyed to me their concern over the inability of our Agents to execute warrants or protect themselves in law enforcement situations. Edward R. Korman, U.S. Attorney, E.D. N.Y., who has worked with us on a number of Food Stamp, meat, and Summer Feeding cases, in a letter said:

"In a number of situations where arrest or search warrants were required as a result of these investigations, it was unfortunately necessary to obtain the services of another federal agency with full police powers to execute these warrants. Having to solicit the aid of another agency in such situations is inefficient and time consuming. It is difficult, for instance, for another federal agency to grasp in a limited amount of time all the details and nuances associated with an extended investigation. Such knowledge is, of course, critical to the proper execution of an arrest or search warrant."

Peter F. Vaira, U.S. Attorney, E.D. Pa., has also expressed his concern over the lack of law enforcement authority, saying:

"It has become evident that many of these roles place Special Agents in considerable danger of physical harm, a danger which is unfortunately often enhanced by the inability of the agents involved to carry firearms."

"In cases involving the counterfeiting and/or illegal transfer of ATP cards and food stamp coupons, Special Agents have been called upon to execute search warrants, to serve subpoenas, and conduct surveillance in situations where there is no way of predicting the reactions of the subjects or the extent of danger. This office has participated in several investigations where OIG agents conducted undercover transactions involving the illegal transfer of ATP cards and food stamp coupons worth thousands of dollars. These agents, who have no arrest power and who are not authorized to carry firearms while engaged in this activity, have not only found themselves in clearly dangerous situations, but have acknowledged that their inability to protect themselves in these situations has led to structuring their undercover activity in ways that do not promote the most effective investigation."

Charles Burch, an Assistant U.S. Attorney in Chicago who has handled several food stamp trafficking cases, covered many of the situations which create problems when he wrote:

"I am writing this letter to apprise you of a problem that has arisen in several cases which I have been asked to prosecute and which were handled by agents of the Department of Agriculture. Because of lack of statutory authorization, agents have no power of arrest and also cannot carry weapons. This lack of authority to make arrests has resulted in several difficult situations in Agriculture cases that have gone to indictment. In one instance, we were delayed in making arrests after indictment by several days because of manpower shortages in the U.S. Marshal's office. Since Agriculture agents have no arrest powers and other agencies such as the FBI hesitate to make arrests outside their jurisdiction, the U.S. Marshals are the only agency which will make arrests in cases investigated by the Inspector General's office.

"Another problem seems to me to be the danger posed by the agents not having authority to carry a weapon. As you know, many of the investigations involving food stamp fraud in urban areas involve interviews of persons in dangerous neighborhoods. I believe it presents a significant risk to agents who in carrying out their assignments must go into these neighborhoods unarmed."

Other United States Attorneys, including Russell T. Baker, Maryland; Thomas P. Sullivan, N.D. Illinois; Thomas E. Lydon, South Carolina; Robert P. Fiske, Jr., S.D. New York; Robert J. Del Tufo, District of New Jersey; and Julio Morales-Sanchez, Puerto Rico, are familiar with the problem and could identify situations of which we may not be aware.

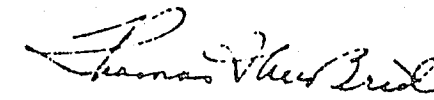
We have no intention of permitting general or uncontrolled exercise of authority with respect to either arrests or weapons. All our criminal investigations are coordinated at an early point with U.S. Attorneys and so any consideration of arrests would be a matter under their control. It is our intention that weapons would be issued on an Agent and case basis under a procedure involving these controls:

1. Agents will be issued weapons only when working on a case involving a possible need, and then only after:
 - Completion of firearms training, with periodic requalification; and
 - Appropriate psychological screening.
2. Administrative regulations will (as at present) preclude privately owned weapons, impose strict controls on the criteria and circumstances when weapons can be employed; and will provide for internal investigation of each instance when a weapon is used with provisions for disciplinary action or removal for abuse.

All USDA-OIG Special Agents are classified as 1811 Criminal Investigators, are trained at FLFTC and are presently certified for law enforcement retirement, so there will be no changes required in either job classification, training or retirement.

A proposed Bill was submitted with this Department's 1979 legislative program to delegate to USDA-OIG Special Agents, subject to the direction of the Secretary of Agriculture, the authority to carry a firearm, execute warrants, make arrests without warrant in certain circumstances, and to offer and pay rewards for services and information. A copy of this proposed Bill is attached.

I will appreciate your consideration of these circumstances, and your support of the proposed authorities which I view as vital to continuing improvement in our effective investigation of the many programs of this Department which are so vulnerable to fraud and abuse. I am at your disposal to provide any additional facts or data which you may need or to discuss any aspect in greater detail.



THOMAS F. McBRIDE
Inspector General

Attachments (2)

OIG:AIG:I:REMagee:jd:8/23/79

CASELOAD BREAKDOWN
(Investigations Completed FY 1979)^{1/}

Investigative Category	Total Investigations	No. Crim. Cases ^{2/}	% Crim. Cases
-Food Stamp Program (Trafficking, thefts, burglary)	715	715	100%
-Food & Nutrition Programs (School Lunch, Summer Feeding, Commodity Distribution, Women & Infants Programs)	57	57	100%
-Inspection & Grading Programs (Meat, Poultry, Eggs, Grain and various products)	138	125	90%
-Construction, Development & Disaster Loans (Physical & Crop loss) (Home & Rental unit construction, Business & Industrial guaranteed loans, Emergency & Disaster programs)	217	214	98%
-Price Support, Warehousing & Disaster Loans (Conservation and Feed Grain, Tobacco, Peanut marketing, and other crop and land programs)	159	146	91%
-Animal & Plant Health Regulation (Import of exotic species, Diversion of funds, property, in eradication programs)	27	24	88%
-Other Criminal cases in various smaller agencies, crime prevention surveys, EEO cases, foreign export and sale programs, etc.	528	125	23%
	1,833	1,406	76%

^{1/} First nine months, thru June 1979.

^{2/} Cases in which violation, if proven, would be offense under Federal Criminal statutes requiring presentation to the Department of Justice.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

Honorable Thomas P. O'Neill, Jr.
Speaker of the House
Washington, D.C. 20515

Dear Mr. Speaker:

Transmitted herewith for the consideration of the Congress is a draft bill "To provide, subject to the direction of the Secretary of Agriculture, basic law enforcement authorities to Special Agents of the Office of Inspector General, United States Department of Agriculture."

The Department of Agriculture recommends enactment of the draft legislation.

This proposal would authorize the Secretary of Agriculture to delegate to Special Agents of the Office of Inspector General basic law enforcement authorities including authority to: carry firearms; execute orders, warrants, subpoenas or other process issued under the authority of the United States; make arrests without a warrant for crimes committed in their presence if there are reasonable grounds to believe that the person to be arrested has committed or is committing a Federal offense; offer and pay rewards for services or information assisting in the detection or investigation of the commission of an offense or in the apprehension of an offender; and to perform any other law enforcement or security duties that the Secretary of Agriculture may designate.

The evolution and expansion of the role of the Department of Agriculture over the last three decades has resulted in a marked change in the investigative role now fulfilled by the Inspector General. Presently, Special Agents of the Office of Inspector General regularly undertake criminal investigations of conspiracy and fraud in such programs as Food Stamps, Meat Inspection and Grading, Summer Feeding Programs and loan programs for housing and development financed by the Farmers Home Administration. Our agents work closely with United States Attorneys, Justice Department Organized Crime Strike Forces, and agents from other law enforcement agencies, such as the FBI, Postal Inspectors and Secret Service. Criminal case investigations have dramatically increased in recent years. In 1977-1978 over 600 federal indictments were returned based on work of Special Agents of the Office of Inspector General.

On the increase are situations where Special Agents on surveillance or undercover assignments have the need to make arrests without warrant for felonies committed in their presence--especially in Food Stamp trafficking and meat inspection and grading cases. Many Assistant United States Attorneys, throughout the United States, have asked our Special Agents to effect arrests on warrants issued on information provided by these agents or after indictment and have expressed their concern and frustration over the lack of such authority. Search warrants are often issued in connection with major trafficking of Food Stamps, usually on fastbreaking information. The inability of the Investigating Special Agents to perform the function of executing search warrants is a serious problem if U. S. Marshals are not readily available--and frequently they are not if the action is at some distant point.

There are approximately 325 Special Agents in the Office of Inspector General who could be delegated law enforcement authority. These Special Agents undergo basic criminal investigative training at the Federal Law Enforcement Training Center, Glynco, Georgia. Furthermore, they are all classified as 1811 Criminal Investigators and are afforded blanket law enforcement retirement eligibility by the Office of Personnel Management.

In addition to the criminal investigative functions described above, selected Special Agents perform personal security duties for the Secretary of Agriculture, both domestically and internationally. At the present time these individuals are able to carry arms by virtue of being deputized U. S. Marshals; however, effective June 29, 1979, the Marshal Service is terminating the deputy status of our people and thereafter we will no longer be able to permit them to carry weapons. This recent decision of the Marshal's Office greatly increases the urgent need for this legislation.

Initial startup costs for the purchase of firearms would be approximately \$10,000. All new Agents receive basic firearms training at the Federal Law Enforcement Training Center, but necessary semi-annual training would require an additional \$10,000 the first year. In regard to the payment of rewards for information and assistance it would require an initial outlay of \$25,000 for a fund which would be replenished yearly with a confidential accounting as to how the money was spent.

An identical letter has been sent to the President of the Senate.

The Office of Management and Budget advises that there is no objection to the presentation of this proposed legislation from the standpoint of the Administration's program.

Sincerely,

Enclosure

A BILL

To provide, subject to the direction of the Secretary of Agriculture, basic law enforcement authorities to Special Agents of the Office of Inspector General, United States Department of Agriculture.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subject to the direction of the Secretary of Agriculture, Special Agents of the Office of Inspector General, Department of Agriculture, in carrying out the functions and duties imposed upon the Inspector General under Public Law 95-452, and in performing such other law enforcement and security duties as may be delegated to the Inspector General by the Secretary of Agriculture, may:

- (a) carry a firearm;
- (b) execute an order, warrant, subpoena, or other process issued under the authority of the United States for arrest, search or seizure, or production of evidence;
- (c) make an arrest without a warrant for a federal offense committed in their presence if they have reasonable grounds to believe that the person to be arrested has committed or is committing such an offense; and,
- (d) offer and pay a reward for services or information assisting in the detection or investigation of the commission of a federal offense or in the apprehension of an offender.

The following are illustrative incidents and experiences in 1979-1980 which update the justification detailed in Inspector General McBride's letter to the Attorney General, dated August 23, 1979, regarding the need for law enforcement authorities in the conduct of investigations, by Special Agents of the Office of Inspector General, U.S. Department of Agriculture.

Alabama

An OIG Special Agent was conducting an investigation into embezzlement of School Lunch Program funds in Bullock County, Alabama, in which local school district officials were suspects. He was enroute from Union Springs to Montgomery, AL, when he noticed a vehicle approaching rapidly from behind him. As the vehicle closed in, the Agent observed at least two occupants in the front seat and as the vehicle started to pass, one person climbed into the back seat. The vehicle matched the Agent's vehicle speed for about 10 seconds and the person in the back seat then pointed a "riot" type pump-action shotgun out of the rear window toward the Agent, shouting "Fed."

The Agent noted that the person holding the weapon appeared to be wearing a stocking mask. This incident eventually led to the deputization of three OIG Agents as United States Marshals at the U.S. Attorney's request and the investigation was successfully continued.

Arkansas

OIG Agents in coordination with the United States Attorney assisted in conducting a raid of a major dogfight organized near Marked Tree, Arkansas, on December 8, 1979. The OIG involvement was necessary to pursue any Federal violations that might be discovered.

A State Prosecutor coordinated the on-site enforcement effort, obtaining a warrant to search the site and all persons and vehicles involved, naming items to be seized as controlled substances, fighting dogs, paraphernalia, and evidence of gambling activities.

A raid team consisting of Arkansas State Police, Sheriff's Deputies, OIG Agents, and Humane Society personnel assembled at the Arkansas State Police Office, Jonesboro, Arkansas.

The team detained and identified about 200 individuals. Over twenty persons were arrested for various charges which included carrying concealed guns or knives, possession of controlled substances, promotion of gambling, and possession of gaming devices. Other weapons were found abandoned. Except for the OIG Agents, all team members had full law enforcement powers.

Florida

A food stamp trafficking task force is currently underway under the coordination of the United States Attorney and will include assistance of BATF, U.S. Customs, DEA, and the Florida Department of Criminal Law Enforcement. This operation is targeted against organized crime and will involve undercover OIG Agents supported by other law enforcement agencies in controlled drug transactions with suspects who also traffick in food stamps.

Illinois

In one part of a nationally coordinated major food stamp trafficking case, the final transaction took place inside a van, outside a store. After the sale of food stamps, U.S. Marshals arrested the subject who was carrying a .38 caliber pistol.

In another facet of the same case, U.S. Marshals, who had been scheduled to make the arrest, were unable to do so. The FBI was contacted but could not assist. U.S. Secret Service, with the assistance of local police, finally made the arrest. Two persons involved in the sale of food stamps were charged by local police with carrying unregistered weapons. The interruptions and delays in this case would not have occurred had the USDA Special Agents had full law enforcement authority.

Indiana

In one case involving an FmHA County Supervisor in Bluffton, Indiana, who was offered a bribe to approve a \$150,000 loan, arrangements had to be made to have a U.S. Marshal serve the arrest warrant although the affidavit had been filed by OIG Agents before the U.S. Magistrate.

Kansas

In March 1980, two OIG Special Agents participated with Wichita Detectives in the surveillance of a food stamp sale to two persons in an apartment, with a Detective acting in an undercover capacity.

It became obvious that the subjects intended to rob the undercover Detective, and when the undercover Detective said, "George, you don't have to put that gun to my head," the backup team entered the apartment and shots were fired.

One unarmed OIG Agent covered the rear door and would have been in clear danger had suspects fled through this exit.

Missouri

In July 1979 it was necessary to arrest three persons simultaneously in different parts of Southeast Missouri, following illegal food stamp sales, to gather added evidence of criminal activity and to preclude the opportunity for the criminals to flee. It was necessary to obtain the assistance of U.S. Marshals, ATF Agents, and local police, which imposed delays in the operation which would not have been necessary if the USDA Agents had power of arrest.

In another case, the subject was known to be affiliated with an active terrorist group. He was extremely cautious in dealing with the OIG undercover Agent to the extent he utilized surveillance teams when meeting. Accordingly, an alternative meeting place was always necessary in dealing with subject. To effect an arrest, two separate police department units plus the U.S. Marshal Service had to be utilized. The Deputy U.S. Marshal making the arrest jeopardized the operation, because of unfamiliarity with subject and the operation. Persons believed to be associates of the subject were observed on the premises when the arrest was made, but were not identified, because police did not recognize them or associate them with subject.

In another case, an Investigative Aide had completed a transaction involving the sale of food stamps to an employee of a suspect establishment. On leaving the premises, the Aide was accosted by a man wielding a sharp instrument who demanded the cash. The Aide was able to escape but had this not been possible, the unarmed OIG Agent covering him would have been forced to place himself in danger in order to protect the Aide.

Kentucky

During one operation, the OIG Special Agent and a County narcotic officer were sitting in an automobile with a confidential informant and an investigative subject. Agents were attempting to make a purchase with food stamps with a known food stamp trafficker. The subject departed the area for a brief time and returned with a second subject who produced a quantity of Quaaludes for a cash transaction. Realizing that the transaction was for cash rather than food stamps, a backup narcotic unit moved in and arrested the two subjects. The OIG Agent and the confidential informant were unarmed during this incident.

One OIG Special Agent was positioned outside a suspect retail store while another Agent was conducting a food stamp trafficking transaction inside the store. Two males passed by the outside Agent prior to entering the store and he noted their apparent hostility to his rough clothing and full beard. He concealed himself within his automobile and the two males later emerged from the store with a pistol they had obtained from the investigative subject. The Agent on the inside heard the store owner tell the two males to "take care of him." The Agent was not observed inside the automobile but the incident could have resulted in great danger to the two unarmed OIG Agents. Twenty-nine persons were ultimately arrested and charged as a result of this operation.

New York City

In April 1980, the United States Postal Service and the Office of the Inspector General, USDA, executed arrest and search warrants at three locations used by individuals considered dangerous by police. Three weapons were included in the various items seized during the search which resulted in the arrest of five individuals.

The search of the premises and the arrest of the individuals could not have been accomplished without the help of the United States Postal Inspection and their authority to make arrests and execute search warrants.

Other cases in the same area involved these circumstances:

An undercover OIG Agent rode in a car with an unknown male to conduct a food stamp transaction. No armed backup was available. The person was later identified as a known criminal.

An OIG informant entered a check casher in the South Bronx to carry out a transaction of food stamps. Postal Inspectors had to accompany OIG to provide armed backup.

Postal Inspectors had to accompany an OIG undercover Agent and an informant who penetrated three grocery stores in the East New York section of Brooklyn, in a food stamp trafficking investigation.

Oklahoma

Two OIG Agents following leads in a food stamp trafficking investigation infiltrated the criminal element by visiting places such as bars, gambling houses, and pool parlors. During such visits, Agents met many persons involved in criminal activity. These persons introduced Agents to potential traffickers in food stamps, either individuals or persons engaged in the retail grocery business.

One individual told one OIG Agent he carried a .357 Magnum, and a .25 automatic pistol on his person at all times, and would use these weapons if the Agent betrayed him concerning food stamp negotiations.

Another subject of the same investigation had been released recently from the Oklahoma State Penitentiary, having been convicted for unlawful delivery of narcotics. He stated to Agents numerous times that he did not want to go back to prison, and would "waste anybody who tried to put him there." Drug Enforcement Administration Agents who had purchased narcotics from the subject at his home observed rifles and handguns in plain sight at the residence. He was described by local law enforcement intelligence officers as being a "speed freak," and potentially dangerous.

Another Agent met the subject of his investigation by visiting a gambling house. The Agent observed about ten males involved in a gambling game and saw weapons in the residence. The subject was described as the "Godfather" in this area. He was always in the company of another male serving as a body guard who carried a weapon at all times. The suspect operated three gambling operations, as well as several prostitutes and was a narcotics trafficker. The subject had prior arrests and convictions involving heroin distribution and armed robbery. Local law enforcement intelligence officers described him as being extremely dangerous. During all food stamp transactions with the OIG Agent, the subject carried a .38 caliber derringer.

This individual was finally arrested by Drug Enforcement Administration Agents accompanied by OIG Agents. The Muskogee Police Department Organized Crime Unit Officers also assisted by providing back up officers.

South Carolina

In a year-long investigation, an OIG Special Agent had been conducting food stamp trafficking transactions in an undercover role for which armed security was provided by Bureau of Alcohol, Tobacco and Firearms Agents. The Agent had assumed a false identity while gathering evidence against known fences, unlicensed firearms dealers, and narcotic traffickers, all trafficking in food stamps. Information developed during this investigation indicated multi-State movements of stolen goods and seven persons have been arrested and charged, to date, some of whom were armed when arrested.

Texas

Two other OIG Special Agents were approached by two males who attempted to trade watches for food stamps. They ultimately purchased food stamps for cash. Special Agents observed both subjects were armed and had a backup counter-surveillance unit with four unidentified males in it, parked behind the Special Agents' car when the transaction occurred.

An OIG Special Agent was introduced to a junk dealer in Houston who had a 12 gauge shotgun on his desk. He admitted to being a food stamp trafficker, drug dealer and fence. He attempted to trade two (2) stolen .45 Colt automatic pistols for \$1,000 in illegal food stamps. He carried a small revolver at all times. He had four or five lookouts in the area during each meeting. He wanted the OIG Special Agent to meet him at clandestine locations to negotiate the trade.

A record check of this subject revealed an extensive criminal record of theft and narcotics. The OIG Special Agent opted to discontinue this investigation because of his unarmed status.

Another subject in Houston, who purchased \$2,200 worth of food stamps from undercover OIG Agents had been previously arrested and charged for carrying a pistol by Houston Police.

One subject pulled and pointed a pistol at a Special Agent during an undercover food stamp negotiation. A second subject told another Special Agent that he would shoot the Special Agent in the head if he was a Federal Agent.

The investigation established one of these subjects wounded one and killed one person at their store about a month prior to the OIG investigation.

At the time of arrest by United States Marshals, one subject fled the scene and had to be chased down and caught. Because of confusion among Marshals, he was apprehended by an unarmed OIG Agent. Several witnesses observed subject disposing of a firearm. During the operation, Marshals walked by the second subject because they failed to identify him by the physical description furnished, and he had to be apprehended also by an OIG Special Agent. A search warrant was issued to recover the food stamps from the trunk of subject's car, but because of OIG's lack of authority, the search warrant had to be executed by U.S. Marshals. If OIG had arrest authority, the arrests could have been accomplished without the aforementioned confusion.

Another subject had been previously convicted of felony theft and possession of dangerous drugs, and was also charged with intimidation and terroristic threat, aggravated assault, carrying a prohibited weapon, and threat to take a life. He served time in the State prison. Two OIG Agents met this subject in clandestine locations to negotiate food stamp transactions.

Another subject dealing with OIG Agents for food stamps was a member of the Road Knights Motorcycle Gang. This subject and several other members of the gang were observed to be carrying firearms. The subject offered to trade Thompson .45 cal. machine guns, automatic pistols, and narcotics for food stamps with OIG Agents.

At one store under investigation, one of the store clerks carried a .38 Chief Special Revolver at all times and displayed it to Agents.

In a conversation with another subject, owner of a bar-lounge, subject told one OIG Special Agent that he was presently under indictment and couldn't afford to be dealing in food stamps at the present, but to contact him at a later date. He further stated that he carried a gun and that our Agent "had better not be a snitch."

Washington

In June 1980, a food stamp theft investigation in Olympia was concluded with the arrest and confinement of three persons. All three suspects had been observed and photographed in the theft of food stamps, welfare warrants, and drivers licenses from non-U.S. Postal mail trucks delivering mail to State offices and departments.

Following one truck theft, an undercover buy of stolen food stamps was made, followed by immediate arrest by Federal and local officers. Search warrants for the residences of the suspects produced quantities of cocaine, marijuana, amphetamines, and hallucinogens. Also found were \$50,000 in securities, guns, and a silver and gold coin collection, all of which had been stolen in an earlier \$90,000 burglary. The search and arrests would not have been possible without involvement of the Postal Inspectors or the local police.

Multi-State Operation

An eighteen month undercover investigation into food stamp trafficking, conducted with the assistance of local police, which received national media attention, culminated with the arrest of forty-seven persons in San Francisco, Denver, Chicago, and New York.

OIG Special Agents carried out undercover roles in all these cities as the trafficked food stamps implicated various retail stores and individuals. Various subjects were known to be armed and, in some instances, counter-investigative surveillance was observed by OIG back up teams. Threats of retaliation were made to the undercover Agents should they turn out to be law enforcement personnel. One witness received death threats prior to the trial and had to be escorted cross-country by an unarmed OIG Agent. In all these cases, protection and the ability to execute arrest and search warrants was totally dependent upon the availability and willingness to assist of U.S. Marshals, local police, or other Federal Agents - and this added many complicating obstacles to coordinated planning and execution of operations.

ALTERNATIVE CHECK DELIVERY METHODS: A MEANS
TO COMBAT LOSSES THROUGH THE POSTAL SYSTEM

Office of Inspector General
Office of Health Care & Systems Review
December 28, 1981

Alternative Check Delivery Methods: A Means to Combat
Losses Through the Postal System

PROBLEM

U.S. Treasury checks and other beneficiary payments made directly to or on the behalf of the Department of Health and Human Services are being stolen or lost through the Postal system and subsequently illegally negotiated. The theft of such checks is a problem. The large volume of checks mailed, and the ease with which stolen or lost checks can be negotiated, creates a climate which is conducive to mail theft. Mail thieves appear to focus on U.S. Treasury and welfare checks, and at times have developed sophisticated methods of negotiation. For example, the U.S. Postal Service has discovered illicit fencing operations established for the sole purpose of handling stolen checks.

It is unclear, however, as to the actual number of checks that are lost or stolen through the postal system. That type of data is generally not maintained by Federal and State agencies. While certain data is available from the U.S. Postal Inspection Service and the Treasury Department, it is not all inclusive. Nevertheless, the number of checks being reported stolen and subsequently negotiated illegally appear to be in the hundreds of thousands.

In addition to the losses incurred due to forgeries, there is also the administrative costs that result from the processing of non-receipt claims, the reissuance of checks and subsequent balancing of the books when overpayments or duplicate payments occur. Finally, there is the human costs - for which a dollar amount cannot always be calculated, when a recipient fails to receive their check on time or at all.

Despite these problems with mail thefts or excessive mail delays, and the subsequent administrative impact on Federal and State agencies, there appears to be insufficient action underway by these agencies to resolve the issue. This is especially true for programs under the administration of the Department of Health and Human Services (HHS).

BACKGROUND

On November 8, 1979, a Hearing on "Losses through Stolen or Duplicate Checks or Authorization Documents" was held before the Subcommittee of the Committees on Government Operations of the House of Representatives. The Committee's responsibility, insofar as it relates to the Department of Health and Human Resources (HHS) and the Department of Agriculture (USDA) has been assigned to the Intergovernmental Relations and Human Resources Subcommittee. HHS and USDA are responsible for administering four major programs under which more than 500 million checks* and authorizations valued at over \$100 billion are mailed to individual beneficiaries yearly. These programs include: Social Security, the Supplemental Security Income (SSI), the program for Aid to Families with Dependent Children (AFDC) and the Food Stamp program.

The purpose of the hearing was to obtain information about the extent to which losses were being incurred through lost, stolen or duplicate checks or food stamp authorizations and to explore what action could be taken to prevent and recover those losses. At the Hearing, witnesses were called from the U.S. Postal Service, the Department of Treasury, the Department of Health and Human Services, the Department of Agriculture, the State of Pennsylvania, and the U.S. Congress.

Through this Hearing certain information was obtained about the extent to which checks were being reported as lost or stolen through the mails, and duplicate checks issued subsequent to a non-receipt claim by a recipient. With regards to HHS programs, it was clear that insufficient attention was being made at the Federal level to resolve the problem with the exception of the Treasury Department's Direct Deposit program; and, only one State (Pennsylvania) testified about their program of Direct Delivery undertaken to prevent further losses due to welfare checks reported lost or stolen through the mails.

The Treasury Department (DOT) testified about its Direct Deposit program for Treasury checks whereby a recipient can have their check automatically deposited in their bank account. This system eliminates the check and provides for the rapid computer assisted transfer of funds between the Treasury and the Federal Reserve and financial organizations. The service was available then to all the major Federal benefit programs, and was soon to be available to Government employees for salary payment.

* "Losses Through Stolen or Duplicate Checks or Authorization Documents" November 8, 1989. U.S. GPO: 1980 Hearing Record.

Since its initiation in FY 76, DOT testified that the overall payment volume for Direct Deposit increased from 2 million items annually to 119 million by FY 79. However, this program does not appear to be sufficiently supported by the other Federal agencies or the recipients. The Social Security Administration (SSA) testified that as of FY 79, approximately 28% of its SSA (Title II) recipients were using the Direct Deposit program whereas only 7% of its SSI recipients were using the program. These participation rates fall below the goals set by DOT.

In addition, the State of Pennsylvania testified about its Direct Delivery Program whereby welfare recipients' checks are delivered to participating financial institutions for personal pickup by the recipient. It was estimated by the State that some \$50 million had been saved through implementation of this program since 1972. A Photo Identification Card was also being used by the State to assure that the check was delivered to the correct recipient. More information on this program will be provided later in the Scope Section of this report.

Testimony was also provided by the Department of Treasury about the backlog being experienced by their Division of Check Claims, which as of FY 79 appeared to total some 200,000 unworked check claim cases. Many of these check claim cases initiated from the Social Security Administration when it forwarded non-receipt claims to DOT for processing. A non-receipt claim is filed by a recipient when he reports that his check has been lost or stolen from the mails, or unnecessarily delayed. This claim is sent by SSA to DOT for subsequent issuance by DOT of a replacement check to the recipient. At that time DOT has to determine whether the first check has been negotiated, whether a duplicate payment to the beneficiary has occurred, or whether a forgery has probably transpired and a referral to the U.S. Secret Service is appropriate.

When a duplicate payment has occurred, DOT will either seek repayment from the beneficiary, or charge back that amount to the Federal Agency. The agency (SSA) at that time has to seek repayment from the individual recipient. Because of the backlog, however, it was clear that the Division of Check Claims was not able to perform its mission, as evidenced by significant increases in check claims accounts receivable, a precipitous drop in check forgery referrals to the U.S. Secret Service, as well as a major decline in charge backs to the affected Federal agencies for duplicate payments.

It was clear that the Social Security Administration was contributing heavily to the backlog being experienced at Treasury. In FY 79, DOT testified that some 598,260 non-receipt claims were filed by SSA Title II recipients along with 154,940 non-receipt claims for SSI recipients. For these check claims, the exact amount of receivables and losses resulting from duplicate payments and check forgeries could not be estimated by either DOT or SSA. At the same time, charge-backs from DOT to SSA were declining. For example, in FY 77, 146,715 SSI non-receipt claims were filed and 39,746 charge backs were received by SSA. In FY 79, the charge-backs had decreased to 17,347 - despite the increase in non-receipt claims to 154,940. During testimony and in information provided for the record, no evidence could be cited by SSA officials as to their concern or action taken regarding the reduced number of charge-backs, nor were inquiries made to DOT about the problem.

SSA testified as to what actions they were taking to prevent or reduce losses due to lost or stolen checks. They cited a demonstration project funded by SSA for Cuyahoga County, Ohio titled "Electronic Fund Transfer Pilot Project". It was supported in 1978 by a \$65,000 grant under Section 1110 of the Social Security Act. The objective of the project was to reduce the number of claims for replacement checks thereby reducing payment levels and administrative costs. In the pilot, AFDC benefit payments were electronically transferred from the State through a direct deposit system to individual bank accounts established for participating recipients.

In other areas, SSA indicated that they were cooperating with the Treasury Department in its implementation of the Direct Deposit program. This involvement, however, was limited to 1) placing periodically informational flyers about Direct Deposit in the SSA beneficiary's check envelope, and 2) informing new SSA recipients about the program at the SSA local office level. Recipients who were having mail delivery problems were also to be told about the program.

When questioned about SSA's involvement with the States in their administration of the AFDC program and the problem of lost or stolen checks, SSA indicated that they had little hard data on the incidence of lost or stolen checks.

The issue had been seen as a State problem subject to varying local influences. SSA does not require the States to report this data as any losses due to duplicate payments or lost checks were to be borne by the State. SSA noted that they depended on audit and financial management reviews and oversight to assure that SSA was not being charged for this type of loss.

At the Committee's request of October 17, 1979, SSA attempted to obtain information on lost or stolen checks from a sample of ten states. The data provided later for the record, was noted by SSA as being incomplete, not comparable among the localities represented, and in some instances was not obtained.

SSA also indicated that they had provided technical assistance to the States by distributing a "How They Do It" publication in the Mid-1970's on the Direct Delivery system in Pennsylvania.

Finally SSA testified that they were considering improvements in their computer system to improve monitoring of the replacement check process - such as flagging the SSI recipient file for those who have multiple non-recipient claims. They were also to look into new technology capabilities by weighing the use of automatic tellers for issuance of assistance payments.

There appeared to be little activity on the part of the General Accounting Office (GAO) on this problem of lost or stolen checks. There was no material submitted for the record nor testimony received at the Hearing from GAO. There was, however, one GAO report noted in the SSA testimony and included for the record. This was the August 22, 1978 GAO report "Replacing Missing Supplemental Security Income Checks - Recipients Waiting Longer Than Necessary", which focused on the system's problems at HEW and Treasury for the timely replacement of checks reported as non-received by the SSI recipient. It did include, however, reference to certain emergency loan programs in California whereby many recipients had abused the programs by placing false SSI non-receipt claims and obtaining multiple emergency loans. Treasury indicated in its comments to the report, that it would continue to support its Direct Deposit Program and promote check cycling as one means to reduce the need for replacement checks.

SCOPE

As a follow up to the Congressional Hearings held in late 1979, a meeting was convened by the Office of the Inspector General (OIG) in December 1980 with Federal, State and Congressional representatives to discuss what action had taken place with regards to the problem of lost or stolen checks through the mail system. Based on discussions held at that meeting, it appeared that little had been done in this area by the Department. Accordingly the OIG agreed to conduct a review of related Federal and State efforts underway to combat losses through the postal system.

In the OIG review, an assessment first was conducted of the Pennsylvania and Cook County, Illinois systems of delivery of welfare checks, and Food Stamp Authorizations to Purchase documents. The review focused on the states' basic requirements for establishing an alternative delivery system, the role of the financial institution, the impact on the beneficiary, the net savings accrued by the states through the use of the system, and the applicability of these systems to other states.

Interviews were held with state program staff directly responsible for administering or monitoring these programs; Federal regional and central office personnel involved in the AFDC program and familiar with these state based alternatives; representatives of the local financial institutions cooperating in the direct delivery program; and individual welfare recipients being serviced through these direct delivery systems. A listing of the key individuals interviewed is found in Appendix #1. Where available, the policies and procedures for the administration of these programs were also reviewed, and are enclosed in Appendix #2.

Following the state assessments of Pennsylvania and Cook County, Illinois, an update was obtained of efforts underway at the Department of Treasury and within the Department of Health and Human Services with regards to losses through the mail system and alternative delivery systems. A listing of individuals contacted is found in Appendix #1.

A description and assessment of the findings of the study on the two state programs is provided herein, as well as an update on activities at the Departments of Treasury, General Accounting Office and Health and Human Services. Activities underway or planned for the Office of Inspector General are provided in subsequent sections of this report. Recommendations to assist in resolving or better understanding these problems is provided at the close of the report.

PennsylvaniaDirect Delivery ProgramBackground

About 1970, the State of Pennsylvania began experiencing major difficulties in the Aid to Families with Dependent Children (AFDC) program and the State's General Assistance program due to large numbers of recipient checks being reported lost or stolen. Of the some 700,000 welfare checks being issued annually in Pennsylvania, about 65% were AFDC checks.* The State found that about one out of every 26 checks issued was being reported lost or stolen and had to be replaced. Subsequently, the Pennsylvania Department of Public Welfare (DPW) determined that about 50% of the replacement checks resulted in duplicate payments to the recipient. The losses to the State due to the double payment situation, came to over \$12.6 million a year - according to a Report** issued in June 1971 by the Staff of the Joint State Government Commission of Pennsylvania (copy enclosed in Appendix #2).

Most of the lost or stolen checks were being reported by the recipients as not being delivered through the postal system. This was primarily occurring in high risk urban areas in Philadelphia, Pittsburg and Harrisburg, where it was being reported that mail sacks were being stolen and looted, mail boxes in low income projects vandalized, and even mail carriers assaulted for the welfare checks.

• Stolen Checks: Impact on the System - Once a check was reported lost or stolen, a replacement check was issued within 24 to 72 hours by the local welfare office of DPW. A tracer would be generated to see if the original check had been returned to the Pennsylvania Department of Treasury (DOT) as non-negotiated. In most instances, the checks had been cashed and the cases were referred to the DOT Bureau of Investigation for follow-up action. In a study of referrals* made to the Bureau, they found that about 39% of the cases were closed administratively because the payee could not be located; 20% were composed of known fraud cases where the recipient cashed the original check; and 41% involved stolen or forged checks not negotiated by the intended

* Data provided herein is based on discussions with State representatives unless otherwise noted.

** "Emergency Public Assistance Checks Issued in Pennsylvania, November, December, January 1971".

recipient. The total time for processing a non-receipt claim and completion of the investigation, was taking up to three years in the Philadelphia area alone.

This investigative delay resulted in a weak charge back system to the banks, such that the Pennsylvania Department of Treasury would return the forged checks to the banks and demand repayment - up to three years after the check was initially negotiated. In 1970 and 1971, the banks and small businesses were starting to feel the losses incurred due to the delayed charge-back system, and there was some talk circulating that they might even refuse to cash certain government checks in the future if something wasn't done about the situation.

Related to the investigative delay, the Pennsylvania statute of limitation for charge-backs on negotiated checks which have been forged, was three years from the date the check was negotiated. Under that statute, the State could not charge back checks that were illegally negotiated three years hence. For that reason alone, Pennsylvania was losing millions of dollars a year. Similarly, a two year criminal statute of limitation existed for welfare fraud crimes committed in Pennsylvania. This prohibited Pennsylvania from prosecuting criminal violations involving welfare checks that were negotiated two years previously. Accordingly, welfare fraud - wholly a state crime, was virtually unprosecuted in an area as Philadelphia where most investigations were over two years old.

The combination of a weak charge back system, an overburdened investigative unit, and an effective replacement check process, seemed to encourage more thefts of welfare checks, and increased fencing activities of the stolen goods by certain individuals and small businesses. The individuals involved reportedly were eager to accept stolen checks and negotiated them as they felt that it was unlikely that they would ever be charged back even a small percentage of the "bad" checks.

• Legislative and Judicial Involvement - In June 1971, the Pennsylvania Senate Committee to Study All Phases of Public Assistance was established to determine the magnitude, characteristics and reasons for the issuance of emergency welfare payments. During the three month period studied, November 1970 through January 1971, sixteen representative counties in Pennsylvania were surveyed. The Committee found duplicate outlays of \$9.5 million, and projected statewide duplicate payments of \$12.6 million. The duplicate payment problem was found to be centered in the Philadelphia and Allegheny counties, where these two counties contained about 50% of the public

assistance caseload but accounted for 70% of the duplicate payments. For example, in the month of January 1971, over 26,000 replacement checks were issued in Philadelphia; and with the average welfare check amounting to \$108, the value of the replacement checks was over \$2.6 million a month.

At about the same time, in late 1972, a Grand Jury was empaneled in the Eastern District of Pennsylvania to explore the problem of theft of welfare checks from the Postal Service. Indictments for mail fraud were returned by the Grand Jury against a number of postal employees who were subsequently prosecuted for theft and removed from their jobs. In one example, one employee was found responsible for theft of over \$200,000 in welfare checks alone.

As a result of the attention being given to the problem of the massive number of duplicate payments being generated in the State of Pennsylvania, the Department of Public Welfare - in conjunction with the banks and other financial institutions in the State - developed and initiated the Direct Delivery System in 1972.

Direct Delivery System: How Does It Work?

The Direct Delivery System consists of:

- 1) bulk packaging of welfare checks, accompanied by computer generated quality control documents;
- 2) delivery of these packages via private couriers (or mail where appropriate in low-risk areas) overnight to banks, private financial exchanges, banking subsidiaries and local welfare offices;
- 3) dispersal and negotiation of the welfare checks directly to the client on a semi-monthly basis by the intermediaries (except for the local welfare offices which merely hand out the checks), and
- 4) utilization of a carefully monitored quality control system by the welfare office and the fiscal intermediaries to assure the continued effectiveness of the system.

The checks are dispersed on a cyclical basis by the State with delivery spread over a 20 work day period. This eliminates the problem of large numbers of recipients attempting to cash their checks at the same time of the month - a problem not yet resolved by many other State and Federal beneficiary programs. With Direct Delivery, the client is assigned the

nearest available intermediary for pick-up of his check. If the client lives more than 6 blocks from his intermediary site, he is paid the cost of public transportation to and from his residence by the State. The client has up to five days to pick up his check before it is returned to the Department of Treasury stamped "non-negotiated". If the check is not picked up within 5 days, the client must go to the local welfare office to receive an emergency check - issued usually within 24 to 72 hours.

With each check delivered to the intermediary, a receipt voucher is attached which must be reviewed by the bank or intermediary for accuracy, and compared with the check prior to dispersal. This voucher is returned to the local welfare office either stamped as negotiated or voided as appropriate. Through another control mechanism, up to and including the day of dispersal, the local welfare office can place a hold or stop payment on an individual's check. This is done by the Direct Delivery monitor at the local welfare office via telephone to the corresponding monitor at the fiscal intermediary. This stop-payment capability prevents dispersal of funds to those individuals who are not entitled to the benefits, and reduces overpayments to clients. (Copy of procedures are enclosed in Appendix #2).

• Photo Identification System: An Effective Control - In addition, with the Direct Delivery Program, the State initiated a Photo Identification System (ID). Each new welfare recipient must be photographed and given a Photo ID before he can be placed on the Direct Delivery System. This Photo ID contains the individual's color photo, signature, case number and code of the intermediary to be used for pick-up of the checks. Stamped on the ID is the State Seal which provides for a measure of authenticity and prevents forgeries. The teller at the intermediary must review the Photo ID and attest that: the card belongs to that individual, the signature placed by the client on the receipt voucher is the same as that on the card, and the code is correct. If there is any discrepancy, the check is not issued to the client, and he is referred back to the local welfare office for reconciliation. If a check is incorrectly issued by the bank, it is the bank which suffers the financial loss - not the State.

Of interest here, since the initiation of the Photo ID process, some 5% of all clients routinely fail to report for issuance of the Photo ID. Therefore, they are not placed on the Direct Delivery Program, and cease receiving future welfare benefits. There has been some speculation as to why the 5% no-shows occur, but apparently the use of the photograph has a deterrent effect.

• Role of Financial Institutions: A Partner in Direct Delivery - Under the Direct Delivery System, the banks, financial exchanges,

and banking subsidiaries contract with the State to disburse and cash the welfare checks free of charge for the recipient if desired. Prior to the initiation of Direct Delivery, clients had to pay up to 1% of the face value of their welfare check in order to have it negotiated or cashed at a neighborhood check cashing facility. For this service, the intermediaries now receive 90¢ per check handled.

The State delivers the checks to the intermediaries, who then disperse the checks to the clients and negotiate them if the client desires. Some 24 to 72 hours after the initial negotiation, the banks and other intermediaries are repaid by the State for the funds expended. This represents a negative cash float from the perspective of the intermediary. The negative cash float, in conjunction with the 90¢ receive per transaction, reportedly provides the intermediaries with a minimal positive cash flow. According to DPW, this cash flow should improve for the intermediaries as the Direct Delivery program expands into new program areas (as Food Stamps) and other delivery mechanisms are explored. However, the current cash flow situation should not be considered in isolation from the prior losses incurred by these intermediaries due to charge backs received from the State. If the Direct Delivery program - or something comparable, did not exist, the banks would be sustaining regular losses due to forged checks and their ultimate charge back to the banks and other financial intermediaries.

Of note, as a safety measure for the State, prior to approval of a contract, the financial intermediary must carry insurance for loss coverage for up to \$1 million in order to participate in the program. This eliminates smaller, less stable, financial entities from the process.

Growth of Direct Delivery System

The Direct Delivery System was first initiated in 1972 in three counties - Philadelphia, Pittsburg and Dauphin (which includes the city of Harrisburg), and now covers 21 out of 67 counties in Pennsylvania. During the initial development of the Direct Delivery Program, it was said that the existence of branch banking throughout the State of Pennsylvania made its establishment a viable venture. The use of branch banking has indeed facilitated coverage of a larger clientele base under a limited number of contracts, and also narrowed down the early negotiation and implementation process to a smaller number of large banking systems. The number of individuals currently receiving direct check delivery is about 225,000 out of some 300,000 high-risk individuals identified for Direct Delivery. As additional facilities become available, more of these individuals will be placed on Direct Delivery. The development of these new outlets is proving, however, to

be a continual struggle. The banks, in particular, are facing hard times because of increased competition with the savings and loan facilities, and high interest rates. They are interested in more cost effective markets than the welfare clientele.

Despite this area of difficulty, Direct Delivery has developed and proved itself to be a workable program. The financial institutions in the state have continued to work with the Department of Public Welfare, and have expanded the original concept. For example, one of the victims of urban blight has been the small branch bank or independent bank - no longer a cost effective entity when located in a low income, crime ridden area. Many of these small banks or branches are being closed down as neighborhoods deteriorate. The Direct Delivery Program has given a new life to a few of these bank facilities. It has now become cost effective to reopen some of those facilities and provide needed check cashing services to the low income individual.

In those areas lacking neighborhood or branch banks, at least one bank initiated in 1978, the use of subsidiaries called "3-2 Centers", which provide a place for residents to receive and cash their welfare checks free of charge. The bank has purchased old bank branches as a capital investment, refurbished them, and staffed them with managers from branches that it was forced to close in other areas of the city. There are currently 5 such subsidiaries in operation in the Philadelphia area which handle some 50,000 welfare cases a month. In addition, where approved, other services as redemption of Food Stamps ATP's are provided, which also helps to make these facilities more cost effective to operate. The ATP is the Authorization To Purchase Document issued to the client which allows him to pick up his allotted amount of Food Stamps.

• Direct Delivery for Food Stamps - In this related program area, the Direct Delivery Program is now expanding to include the direct delivery of Food Stamps. There are 80,000 recipients receiving their Food Stamps now under Direct Delivery, and the program expects to be under full steam by late 1981. The intermediaries receive 25¢ for each Food Stamp transaction handled, and that along with the 90¢ received from the welfare program, will soon allow the Direct Delivery Program to provide a more positive cash-flow for the intermediaries. This should encourage more financial institutions to participate in the program and will provide better coverage for the clients. The positive cash flow will also be particularly true for the subsidiaries, or "3-2 centers", which up to now had been operating in the red.

• Proposed Use of Electronic Fund Transfer - Of further interest, one of Pennsylvania's major banks has recently approached the State about a proposal to develop an Electronic Fund Transfer System to handle the dispersal of welfare funds for a segment of the welfare population. The bank has already in place in Pennsylvania's major urban centers, freestanding automatic teller machines for the use of its customers. These machines permit a wide range of banking services - including cash withdrawal and deposit capability, through the use of magnetic strip cards. The bank has proposed that these cards be issued to targeted welfare recipients who could with the use of their assigned code number, draw down their semi-monthly allotment from these "money machines" located in various parts of the city. A major advantage to the client would be 24 hour accessibility to their funds from a variety of convenient locations - as stores, shopping centers and freestanding sites on the street. One disadvantage would be the reduced audit trail due to no photo comparison, and the reliance of proper dispersal being primarily that the dispersal of funds occurred. Stolen magnetic cards (along with knowledge of the individual's code) could permit unauthorized access to the system and cause problems. On the other hand, the system potentially might be more cost effective as 1) it could be less labor-intensive than the current Direct Delivery Program, and 2) the bank would not receive the 90¢ per transaction but rather would depend on the state funds on deposit for its interest earnings and investment potential. The latter would provide a positive cash float for the bank in contrast to the negative cash float currently being experienced. The system requires pilot testing before any final conclusions can be reached as to its workability and cost effectiveness.

Strengths and Weaknesses of the Direct Delivery Program

The overall reaction thus far to the Direct Delivery System has been quite positive - from the viewpoints of the client, the State Department of Public Welfare, the banking and business community as well as the State Legislature. We have listed below some of the strengths and weaknesses of the system as perceived from these various perspectives.

Strengths -

- Eliminated the double payment losses being sustained by the State due to welfare checks reported lost or stolen.

- Provides reliable means of obtaining welfare (and food stamp) benefits for the client.
- Reduced drastically the financial losses of charge backs to banks and local businesses due to forged checks.
- Provides free check cashing service for the client. Prior to Direct Delivery, clients typically had to pay 1% of the face value of their welfare check for the check cashing service in their neighborhood.
- Reduced time spent on issuing replacement checks by social workers in the local welfare offices and permitted more time to be spent on other duties - as redeterminations of client eligibility.
- Minimizes overpayments to client with the same day ability to stop or hold payment of checks.
- Reduces the number of referrals to the Department of Treasury for follow-up and investigation by up to 90%. For example, prior to Direct Delivery, Philadelphia used to refer up to 10,000 cases a month for investigation; now it refers less than a 1,000 a month.
- Causes a reduction of 5% of potential and current welfare recipients from the system due to Photo ID usage with Direct Delivery.
- Applicable to other beneficiary programs - as Food Stamps.
- Reduced illegal intrusions into the Postal Delivery System.

Weaknesses -

- Requires mobile population to use the system. It is not easily accessible to the aged, infirm, handicapped, hospitalized, institutionalized, or incarcerated.
- Requires system with cyclical disbursement of checks.
- Requires more labor-intensive operation than routine postal system or electronic fund transfer where they are applicable.

- Requires economies of scale inherent with large population in close proximity, and at high risk. Not cost effective for a small low risk populations.
- Requires efficient automated data processing support function.
- Requires adjunct mailing system on regular basis to verify current address of recipient. Pennsylvania mails monthly medical assistance cards and Food Stamp documents to permit identification of bad addresses.
- Facilitated by contracts with limited number of financial entities capable of handling large number of clients.
- Requires issuance of significant number of replacement checks when the client fails to pick up his check within the five day period.

Cost Benefits: What savings accrue with use of this system?

The cost benefit ratio of gains minus losses is significantly on the positive side. Many of the previously mentioned strengths of the system are directly translatable into cost savings. In 1980, the State of Pennsylvania estimated annual savings of \$9.6 million to the taxpayers. The cost savings figures are developed primarily by comparing the number of double payments issued now against the number being issued just before the Direct Delivery System was initiated in 1972.

In reviewing the cost savings cited, there have been questions raised as to whether the postal thefts and other illicit activities would still occur today if Pennsylvania abandoned the Direct Delivery Program and returned to regular postal delivery. Two examples have surfaced supporting the continued need for the Direct Delivery Program. First, in August 1977, a budget crisis occurred in Pennsylvania, and for two weeks no funds were available for welfare recipients. When the budget passed the State Legislature, the checks could not be issued via Direct Delivery due to the overwhelming numbers. Therefore, the checks were sent by regular mail, and again one out of every 26 checks had to be replaced. This is the same ratio of duplicate payment checks that Pennsylvania was experiencing in 1970. More recently, in April 1981, an

additional 4500 individuals were removed from the postal system and placed onto Direct Delivery. The number of reported lost and stolen checks in that area was reduced from 1410 to 643 in July - the net difference represented a prior duplicate check ratio of 2 replacements out of every 25 checks issued.

A cost benefit analysis chart, developed by the Pennsylvania Department of Public Welfare is enclosed in Appendix #2 and details the development of a net recurring cost savings of some \$9.9 million for 1980. Additional costs not cited in the table, but provided separately by DPW are as follows:

- Data Processing Costs.....: \$ 75,000
- Replacement/Issuance
of Photo-ID Cards.....: \$169,601
- Re-issuance of Check
not Picked Up within
5-day Period.....: \$380,000

Including the above costs, the total net cost savings is \$9,315,103. This figure does not account for the savings generated when clients go off the welfare role when requested to obtain their Photo ID card. Some 5% of clients placed on Direct Delivery - an up to 8% in the Philadelphia area, do not show for their ID card. Based on the current enrollment data, savings could total as much as an additional \$13 million a year. Cost data have not yet been tabulated sufficiently by the State to include this in the final cost savings figure. But Pennsylvania feels strongly enough about this control mechanism that they are expanding it to cover all clients in Pennsylvania this next year. The overall cost savings figures cited by Pennsylvania are in general considered to be quite reasonable and accurate.

Replicability: Can It Work Elsewhere?

The Direct Delivery System, or variations thereof, can be replicated in other programs that are experiencing major difficulties with checks or other negotiable items being reported as lost or stolen from the postal system. Implementation of the program does require certain features for smooth delivery of the items in question. These features would primarily include:

- a cyclical delivery of the negotiable items.

- a safe, reliable, low cost intermediary to disperse and negotiate the items (as applicable).
- a mobile population with relatively easy access to the dispersal points.
- economies of scale found with providing a service to a population at high risk in close proximity.
- an effective quality control system with a sufficient computer back up capability.
- a back up mailing system to periodically verify addresses of recipients.

This system has worked well for the State of Pennsylvania and has virtually eliminated problems with duplicate checks. It can be replicated elsewhere for those programs experiencing similar or related delivery problems. Because it is a labor intensive and somewhat costly system - even though the benefits outweigh the costs, alternative delivery modes as the use of electronic fund transfer should be pilot tested as well.

Direct Delivery of Public Assistance Checks
In Illinois

The Illinois Department of Public Aid began its program of direct check delivery for AFDC and general assistance checks, food stamps and medical cards in 1975. At the time, severe problems of theft through the mail process were being experienced in Cook County and East St. Louis. An average of 6,500 AFDC warrants or about 10% of the AFDC checks in Cook County alone were being reported as lost or stolen. About 26,000 pending investigations of non-received checks were backlogged. An assessment by the agency of the vulnerable areas of mail delivery indicated that the major problems were:

- 1) stolen checks from
 - the Central Post Office;
 - mail trucks and drop off points;
 - recipient mail boxes which were often in a state of disarray;
- 2) undelivered checks caused by
 - change of address without notification to agency (checks are usually not forwardable)
 - fear of mail carriers to deliver to certain neighborhoods;
- 3) illegal sale of checks to recipients by carrier;
- 4) spiraling service fees charged to recipients by currency exchanges (check cashing financial institutions);
- 5) inconvenience and hardships to recipients.

Some of these problems such as broken mailboxes, carrier's fear to deliver mail in certain neighborhoods and thefts from mail trucks and drop off points were thought to be problems which might be lessened, but not without great repetitive costs to the agency and constant inconvenience to the recipient. The agency therefore decided to use a totally different system of mail delivery rather than attempt to patch up the most vulnerable areas. Simultaneously,

the agency choose to experiment with the new design only in Cook County rather than tackle two relatively dissimilar areas at once.

The Direct Delivery System Process

The direct delivery system was designed to resolve problems inherent in the regular mail delivery system by changing the door to door delivery method to a method of designated security drop off spots. A list of each recipient and the agency's mailing schedule is given monthly to the State Comptroller's Office by the State agency. Bulk packages of individually labeled envelopes containing the recipient's check, food stamps and medical card are mailed by the State Comptroller's Office on a staggered mailing schedule to the designated financial institution. Each package is coded for the financial institution (banks or currency exchanges) and delivered by special carrier for guaranteed overnight delivery--a process similar to registered mail. Each recipient picks up the warrant envelope at a local financial institution monthly instead of receiving it at his home through the regular mail delivery. Prior to receipt of the warrant envelope, the recipient must show a photo Identification Card (ID) - issued by the agency - to the teller at the financial institution.

The AFDC caseload in Cook County and two surrounding counties is approximately 156,000 cases. The General Assistance (GA) caseload in Cook County is about 69,000.

Ninety-two percent of the AFDC cases and 97.1% of the GA's participate in the direct delivery system. Recipients are ineligible for participation for any of the following reasons: 1) assigned a protective payee or a conservator; 2) moved outside boundaries of the participating local offices; 3) assigned a temporary caretaker; or 4) unable to sign with an acceptable signature, i.e. an "x" or foreign character.

Cases are geographically divided into 26 districts with case-loads ranging from 1,000 to 15,000 cases per district. The recipient payroll in Cook County is divided into eleven schedules monthly--one approximately every other working day. The scheduling concept provides balancing of volume for check pickups throughout the month and prevents gathering of crowds

in the financial institutions. Each participating bank or financial institution receives a schedule or warrants by 3:00 p.m. of the work day two days preceding the scheduled distribution day. The warrants are received in trays of envelopes pre-stuffed along with a medical card, a food stamp card, and other enclosure(s).

A check control register and individual receipt vouchers accompany each schedule. The check control register is used to document items received. Upon receipt of each schedule, checks are compared with the control register, and the agency is notified by any discrepancies. Receipt vouchers are signed by the recipient and later used for signature comparison and proof of delivery of warrants.

The distribution of warrants are handled as follows:

- 1) client shows teller his photo-identification card;
- 2) teller pulls receipt voucher and check envelope;
- 3) teller compares client appearance with I.D. photo, and I.D. information with receipt voucher information;
- 4) client signs receipt voucher for signature comparison;
- 5) teller compares client signature with signature on I.D.;
- 6) if client is properly identified, teller then gives client the check envelope. Client signs receipt voucher acknowledging delivery. Client may cash his check and purchase Food Stamps at this time. The recipient is charged 1% of the value of the check at the currency exchange. Banks are prepaid \$.45 per transaction by the agency. Teller files the receipt voucher with other signed receipt vouchers.
- 7) if client is not properly identified, teller refers client to his or her caseworker and:
 - a. voids receipt voucher, filing it with unsigned vouchers;
 - b. treats the check as though delivery had been stopped.

- 8) if no check is found for a properly identified client, the client is referred to his or her caseworker.

Each payee is provided a photo-identification card. Checks are not released unless the proper photo-identification is presented. Recipients have 5 days to pick up their envelopes. The remaining or unclaimed checks are returned to the Comptroller. Copies of all receipt vouchers, signed or unsigned, are returned to the agency.

Analysis of System

In order to consider the probable replicability of this system, which is a prime consideration for this review, two factors must be understood. First, this system was designed to impact only upon lost and stolen checks--not lost or stolen money or other instances which might precipitate check replacements, such as check adjustments, address or payee changes, etc. Secondly, the State of Illinois was placed under a court mandate in 1979 (Randall vs Trainor) to replace lost or stolen checks for eligible persons within 14 days or less. This replacement mandate by the court was the impetus for many of the agency's systems development components which are now an integral and essential part of the direct delivery system. Inasmuch as the costs for much of the developed system were incurred prior to direct delivery as part of the replacement mandate, the State agency considers these systems costs as unrelated to the costs for the direct delivery system. An example of this phenomenon is seen in the agency's "Mercury" system. Mercury or fast-delivered checks may be written and distributed in less than a day and used for initial assistance, hardships (stolen money), emergencies and replacements. The "Mercury" system although essential to the direct delivery system is not considered a cost that system since it was begun prior to direct delivery.

The direct delivery system does work and for several reasons. First, responsibility for ensuring its reliability and security is placed first and foremost with the party who would have the most to lose if it failed--the financial institution. The institutions are fully aware that mis-identification and sloppy handling would result in losses to them and have been most cooperative in demanding proper identification and complying with tightly prescribed rules of issuance. Secondly, the tightly prescribed procedures which allow discretionary decisions to be made by only one

person (or backup person) in the system ensures adequate control and allows all parties to know where the checks are and who the accountable persons are, at all times. Third, pre-designated liaisons (called monitors) are available at each participating district office to keep communication lines open between the financial institutions and the agency. Fourth, the rapid issuance of replacement checks allows the agency to void checks easily when any questionable condition arises inasmuch as no inconvenience need be experienced by the recipient. Fifth, time and effort spent by recipients, investigators, caseworkers, administrators and others tracking down undelivered checks, has been completely eliminated since the location of the check remains the same until properly claimed by the recipient or returned by the financial institution to the agency.

In a sense, however, the system's strength of control are also its weaknesses. If anyone but the identified payee attempts to claim the check, the check is not issued and is voided. Therefore, the volume of voided and replaced checks is about 25% of the total undelivered checks. Checks may be undelivered and rewritten (replaced) for two reasons: the recipient is eligible--amount of check and payee is correct, but check was not claimed within the 5-day period; or 2) the check was incorrect and placed on hold status or "stop delivery" to avoid errors. Statistical data kept by the agency does not distinguish between checks rewritten as a result of "stop delivery" and those which are unclaimed. Therefore, it is difficult to tell whether the rewritten replacements represent efficiency, i.e., avoiding errors, or an inflexible system which encourages voided checks due to the restrictive exclusions from the system. The agency sees no need to make the distinction, since it considers any check which is not lost or stolen to be a savings and the cost of replacement to be minimal.

The system produces a high degree of satisfaction and is thought to be cost/beneficial. Of the parties who participate and use the system (i.e., the State Treasurer who processes forgeries; the Comptroller's office who prints and packages the checks; the administrators, investigators, caseworkers and clerks within the agency; the post office who guarantees overnight delivery; the financial institutions who distribute the checks; and the recipients who are not inconvenienced) all seem to be highly satisfied with this system. Additionally, the users have indicated that the system is cost beneficial. The following chart represents the staff savings attributed

to the direct delivery system. The number and type of staff represented persons who have been moved to other functions or terminated due to the direct delivery system:

Staff Savings Brought About Through DDS

	Classification	Annualized Salary
State Treasurer	Clerk Typist III	20,904
State Comptroller	Clerk Typist II	31,104
Illinois Department of Public Aid		
Assistant District Office	Clerk II	185,976
Investigation	P.A. Investigators	203,904
Cook Central Warrant Unit	Clerk II	19,560
D.S. Central Warrant Unit	Account Technician	36,324
		497,772

Of particular significance are the number of investigators who were involved in handwriting analysis and other investigative techniques directly attributable to fraudulently negotiated checks. Only two investigators remain in the entire system to perform this function--most having been moved to other agencies. Many of the clerks however, although included in the chart as removed from the system, may continue to handle duties which are related to the direct delivery system. As an example, district offices now keep a historical record on each recipient who claims non-receipt of a check. After three consecutive reports of non-receipt, the clerk who has maintained a file of this information, reports this information to the district office administrator for proper follow up action.

Overall, the Illinois Department of Public Aid estimates an annual cost savings of over \$13 million - not including the above noted staff savings. (See Appendix #2 for memorandum citing cost savings.)

Major Weaknesses

The major problem with the system is how to assure correct identification of the person for whom the check is intended. The system relies heavily upon the photo ID for identification. However, since the photo ID has been found to be replaced and even duplicated (when lost or stolen) fairly easily, checks may still be received fraudulently. Although the agency does not have adequate data to measure the extent to this problem, they do recognize this as a major system weakness, particularly with the General Assistance (GA) population. Accordingly, they are trying to tighten up the procedures of reissuance of photo ID's.

Costs for the Photo ID operation is the major cost to the system. For example, the agency has a \$50,000 revolving account which it continues to replace bi-monthly, but does not isolate the costs pertinent.

Another problem is that the direct delivery system does not require the recipient to change his address in order to receive his check. Consequently, the agency must make mail-outs of other materials to check current addresses or depend on the often noncurrent determination of eligibility process to effect a change.

Replicability

This system is built on custom and easy replacements of voided checks. Previous familiarity of recipients to use local currency exchanges to cash checks meant that few adjustments had to be made. Where such factors, as custom and fast replacements exists, replicability should be easy. However states or localities with few neighborhood based financial institutions and limited replacement capabilities will have difficulty replicating this system. As an example, the State of Illinois has been unable after six years to expand this same direct delivery system into East St. Louis due to limited neighborhood based financial institutions. Other states may view this system as too labor intensive or restrictive and would prefer to explore Electronic Fund Transfer or some other model. Also, the State has not found a satisfactory method for delivering checks to the aged, blind or disabled, temporarily incarcerated or hospitalized recipient. For a number of states, the latter exclusions would constitute a sizeable portion of the SSI Supplemental, General Assistance or even AFDC population and therefore may not find this system helpful. However there are major controls in this system which would be valuable for any state which is having a problem of lost and stolen checks and is preparing to set up a preventive system.

Related Efforts Underway at the Department
of Treasury, General Accounting Office, and
Department of Health and Human Services

An update was conducted of activities in progress at the Department of Treasury, the General Accounting Office, and the Department of Health and Human Services.

Department of Treasury - Meetings were held with representatives of the DOT's Bureau of Government Financial Operation (Disbursement and Claims) to determine DOT's procedures for handling duplicate payments and check forgeries. At about the same time period of the November 1979 Congressional Hearings (held before the House Intergovernmental Relations and Human Resources Subcommittee), the Bureau of Government Financial Operations (BGFO) initiated several efforts to assist the Division of Check Claims to improve its efforts.

Primary among these was an increase of staffing on a temporary basis to accommodate workload increases and to develop certain operational improvements for a check payment system being developed jointly by BGFO and the Federal Reserve System. Improvements were initiated in the retrieval of paid checks from the Federal Records Centers. These paid checks are required by the Secret Service for investigative purposes. Efforts are underway to improve the administrative process between BGFO and the Secret Service for identifying and processing forgery cases.

Preliminary assessment of these efforts indicate mixed results. The overall number of check forgery referrals to the Secret Service have increased from 46,338 in FY 1979 to 60,434 in FY 1980, and to about 90,000 by FY 1981.* Because of the personnel shortages, BGFO has concentrated on current workload and basically stopped all efforts to match the older work-in-process. Because of the continuing increased value of claims and limited staffing, efforts have not been successful to reduce the accounts receivable balances. BGFO has used the Social Security checks as an index, and shows that in 1974, the incoming workload to the Division of Check Claims was 800,000 items valued at \$134 million with staffing of 390 positions. In FY 82, BGFO projects 1.6 million items with a value of \$540 million and 447 positions.**

*Data reflected in "Status Report - Check Claims Program" July 1981. DOT. (Copy enclosed Appendix #3).

**Data reflected in "Status Report - Check Claims Program" July 1981. DOT.

With regards to forgery items from the Social Security Administration (SSA), Disbursement and Claims of BGFO has sent SSA statistical information about forgery trends by zip code in March 1981. This data was for SSA's information and use for the development of programs to reduce claims and duplicate payments. In addition, BGFO also sent to SSA records of repeat claims for SSA and SSI beneficiaries. These records cite cases of individuals who show a history of repeated claims for lost or stolen checks as reflected by the Dispersing Centers of DOT. SSA has not responded directly to DOT on these matters, however, SSA has taken action along these lines as reflected later in this section. (See Appendix #3 for copies of referral memoranda from BGFO.)

Treasury sees the long term solution to the problem being the use of Electronic Fund Transfer (EFT) under their Direct Deposit Program. Data indicates that the overall efforts by DOT and the program agencies to increase EFT participation are successful. DOT understands that the Office of Management and Budget (OMB) is also considering whether to mandate that all new recipients of benefit payments must use Direct Deposit. By 1985, DOT and SSA have set goals for a participation rate of 60% for the retirement and disability programs. However, actuarial projections by SSA anticipate only a 40% participation rate.* The difference represents - on the basis of postage cost of 20¢ - a cost of \$16 million. This doesn't include costs associated with handling of claims nor the hardships on claimants who must suffer due to lost or stolen checks. Discussions held with the Director, Banking and Cash Management, BGFO, indicate that this is an area that deserves a higher level focus due to its benefits including: greater safety; reduced duplicate checks, forgeries, and lost or stolen checks; and significant postal savings.

GAO Report - Related to this matter, the General Accounting Office (GAO) released a final report on October 1, 1981 titled "Millions Paid Out in Duplicate and Forged Government Checks". In the report, GAO indicated that over the past several years, DOT had disbursed millions of dollars for duplicate and forged Government checks which were not charged to appropriations and were not handled in accord with all necessary laws. Treasury was cited for failing to account for the control the accounts receivable resulting from duplicate payments and forgeries, such that it could not assure that the funds would be collected promptly.

*"Status Report - Check Claims Program". July 1981. DOT.

GAO felt that future duplicate payments and forgeries could be reduced if changes - such as alternative delivery methods, were made. Among the alternatives cited were the Direct Deposit program and requiring certain payees to personally pick up their check. However, GAO noted that making Direct Deposit/EFT mandatory for receiving individual benefit payments would not be simple. They cite that there has been broad support for preserving an individual's freedom to choose among available payment methods. And, some individuals - as with the SSI program, do not usually deal with financial institutions for a variety of reasons. They felt that there would be some objection from those people as well as from those who prefer to receive a check.

Both GAO and Treasury supported the notion of proposing cycling monthly Social Security and Supplemental Security Income payments. It would involve spreading the release of checks over several dates throughout the month. One-half of the 694 million checks issued in FY 1979 were for Social Security and SSI payments, and all were mailed out the first of the month. Advantages of cycling were:

- Streamlining the Federal Reserve's and Treasury's check clearing by reducing peak load operations.
- Reducing Government check thefts and forgeries as thieves would not be as aware of when individual checks would be released.
- Peak check cashing loads for banks would be alleviated.

Disadvantages of cycling were:

- Multiple deadlines for payment dates would be necessary.
- Social Security would have to reprogram its system to change to cycling.

SSA noted the administrative problems involved in implementing the system, as well as the fact that the possibility of thefts would still remain. Cycling of checks or payments was also cited as an integral part of the state programs reviewed utilizing direct check delivery systems.

Department of Health and Human Services -

Within the Department, certain actions have been taken with regards to lost and stolen checks since the November 8, 1979 Congressional Hearings. The Social Security Administration - as cited in their October 28, 1981 testimony before the same Congressional Subcommittee on Intergovernmental Affairs - indicates that the most effective way to prevent loss or theft of the Social Security check is to arrange for direct deposit. They note an increase in their participation in the Treasury Department's direct deposit program over the past two years from 28% to 33% for the social security beneficiaries and from 7% to 9.5% for the SSI recipients. This is in line with the prior SSA actuarial projections; however, it does not keep up with the goals set by Treasury. SSA also cited certain improvements in its check replacement process through the development of a computer edit that will bar immediate replacement of a missing check for any individual with a history of duplicate payments in the past attributable to a prior loss-of-check claim. This is in process of being implemented now at the field office level.

SSA has also initiated on a pilot test basis a referral mechanism between SSA and the Secret Service on suspected fraud cases. Of the pilot cases investigated, 7 were referred to the appropriate U.S. Attorney for prosecution and 4 convictions have been obtained to date. A determination is still in process regarding the usefulness of this pilot effort.

In addition, SSA is now providing its local field office managers with management reports on check replacement patterns.

In the research area, SSA has funded two electronic fund transfer (EFT) projects - the Cuyahoga County project in 1978 and most recently in 1980 an EFT project in California. While not cited in the testimony, the results of the Cuyahoga County project were mixed. The project was successful in reducing fraud as fewer replacement checks were written and fewer forgery cases occurred. However, the Ohio Welfare Department's net cost for the project averaged \$1.09/month for the some 1000 persons enrolled in the project, and the bank involved (Cleveland Trust) incurred a net cost of \$0.89 per enrollee per month. The evaluators of the project did believe, however, that implementation of the project countywide would result in a net savings if a low enough monthly service charge by the bank could be negotiated by the county. The California project - which will test the use of EFT with a sample of welfare recipients in Los Angeles county, is still in process of being implemented.

Questions were also raised during the October 1981 Hearings with regards to the role and responsibility of the bank or financial institution when a recipient dies and has been on the direct deposit program. Based on Treasury regulations (31 CFR Pt. 210.7 f), a bank or financial institution is supposed to notify the Federal Reserve Bank of the death or permanent incapacitation of a recipient as soon as they are aware of it, and they are to return the SSA payments to the Federal Reserve Bank for subsequent transferral to the Social Security Administration. The financial liability of the bank is then equal to the amount of funds in the account including or up to the amount paid by SSA for the first 45 days after death or incapacitation. If the bank knew of the death but failed to report it, it is liable for the full amount sent by SSA since the time of death. No interest is now charged by SSA to the bank on funds so transferred through the direct deposit program.

The Office of Family Assistance (OFA) within SSA also testified at the October 1981 Hearings and cited that a Notice of Proposed Rulemaking was in process of being developed regarding the Federal financial participation refund for voided or cancelled welfare checks. OFA also cited their efforts in the EFT area with regards to the California EFT project, and a recent information dissemination by the Welfare Management Institute about a New York City project (not funded by HHS) that utilizes an electronic payment transfer system for food stamps and welfare recipients. In addition, OFA noted that a study was underway to determine the incidence of duplicate checks being issued by the States. The study was conducted for the period between January 1981 through June 1981; however, the study was still in draft form and its findings preliminary.

OFA has also recently published Interim-Final Regulations implementing the requirements for State participation in their Family Assistance Management Information System (FAMIS). The FAMIS general systems design contains a component that states may use to augment their accounting system which would include safeguards to detect and prevent duplicate payments.

The Office of Inspector General has had a continued interest in the issue of lost or stolen checks, and has conducted a number of audits on State practices in refunding the Federal portion of

recovered overpayments and uncashed checks under the AFDC program. The major audit findings and recommendations focused on the problem of a lack of a uniform policy by states for crediting Federal programs for their share of uncashed checks, and its substantial monetary impact on the Federal programs. The OIG has recommended that SSA propose a uniform policy (6 months from time of issuance) for the timely return of the Federal portion of uncashed checks and other credits.

As part of this same audit initiative, in 1976 the Audit Agency issued two audits to the State of New York*. In these audits, 1) a disallowance was recommended to the New York City Department of Social Services (NYCDSS) for \$1.134m. for the Federal Financial Participation (FFP) during January 1, 1968 to June 30, 1975 for duplicate claims filed for replacement checks issued as a result of recipient fraud; and 2) a disallowance was recommended for \$10.752m. to the NYCDSS for duplicate claims for Emergency Public Assistance (EPA) expenditures for June 1972 to January 1973. The EPA checks were issued to replace lost or stolen assistance checks and for emergency situations.

In addition, in May 1981, an audit was conducted in Massachusetts** in which \$131,324 of FFP was recommended to be disallowed due to duplicate charges made to the Federal programs for lost, stolen or forged checks in the AFDC and the Medical Assistance programs.

Finally, in early 1980 the OIG initiated a review of exemplary State alternative check delivery programs (Pennsylvania and Illinois) which resulted in the preparation of this report by the Office of Health Care and Systems Review.

* "Review of Assistance Payments Claimed for Federal Financial Participation under AABD and AFDC in New York City for January 1970 - August 1975" (Audit Control No. 02-60259). "Review of Replacement Checks Issued to Third Parties and Recoupment From Recipients of Related Fraudulent Payments Claimed for Federal Participation under AFDC for the Period January 1, 1968 - June 30, 1975". (Audit Control No. 02-60252).

** Review of Escheated Warrants and Other Credits Processed and Reported Under AFDC, Medical Assistance and Social Services Programs by the Massachusetts Department of Public Welfare for July 1, 1976 to June 30, 1980". #01-10262

CURRENT/PROPOSED OIG INITIATIVES

Through an OIG initiative whereby we have been reviewing States' procedures for retaining the Federal portion of uncashed benefit checks and other credits, we will finalize over the next few months our efforts in this area. For those escheated warrant audits underway this fiscal year in States with large urban population areas, we will target our efforts so as to detect any possible duplicate negotiated payments where Federal funds may not have been properly refunded. Our audits to date have shown that State laws vary considerably with respect to their policies for voiding checks and crediting Federal programs.

In view of the vastly different State policies within the individual States, we believe that there is a definite need to establish an overall uniform policy for the timely return of the Federal portion of uncashed checks and other credits - including negotiated duplicate payments. While this standard policy should be established by SSA, we have recommended* in the past that SSA set 6 months or less from the date of issuance as the optimum time allowable for States to return the Federal share of these credits. We recognize that State laws require different time periods for voiding checks, and our recommendations should not be construed to mean that States should change their laws as they relate to State financial procedures. However, the Federal share of the funds involved should be returned at the earliest possible date. Since most banks will not honor checks over 90 days to 6 months old, we have recommended that 6 months or less be established as a uniform period for the return of the Federal portion of such funds.

In addition, the Office of Investigations has initiated a project, called Spectre, with the cooperation of the Health Care Financing Administration, in order to identify cases of individuals who have received or are currently receiving social security benefit payments after their reported date of death. The investigation began in August 1981 and to date involves potentially about 8000 cases with an estimated benefit overpayment amount of \$40 million. While it is too early yet to establish exactly how and why benefit payments continued to be made by SSA, and negotiated by 3rd parties after the death of a beneficiary, the Office of Investigations has identified certain trends to date. They have found so far that most cases involved joint bank accounts whereby the death of the primary beneficiary could go undetected for months or years. The individual (non-beneficiary) on the joint account could simply continue to cash the checks or draw down on the EFT of the benefit payment. Of particular interest to this study, however, is that the investigators have also come across a number of cases whereby the banks have permitted funds from SSA to be electronically transferred through EFT for some years after the death of the client - without notifying SSA or the Treasury Department. Bank accounts remaining inactive except for the monthly benefit payment deposit have ranged in age from two to six years. This is highly unusual and may highlight the need for additional oversight by SSA and the Treasury Department.

* Letter Report dated 5/13/80 to Commissioner, SSA from Acting Assistant Inspector General for Auditing. (Audit Control Number: 15-90250)

END