

USDA targets stores in food stamp trafficking

LAURA CRIMALDI - Associated Press - Associated Press

A criminal swindle of the nation's \$64.7 billion food stamp program is playing out at small neighborhood stores around the country, where thousands of retailers are suspected of trading deals with customers, exchanging lesser amounts of cash for their stamps.

Authorities say the stamps are then redeemed as usual by the unscrupulous merchants at face value, netting them huge profits and diverting as much as \$330 million in taxpayer funds annually a year. But the transactions are electronically recorded and federal investigators, wise to the practice, are closely monitoring thousands of convenience stores and mom-and-pop groceries in a push to halt the fraud.

Known as food stamp trafficking, the illegal buying or selling of food stamps is a federal offense that has resulted in 597 convictions nationwide and \$197.4 million in fines, restitution and forfeiture orders, over the past three years, according to the U.S. Department of Agriculture's Office of the Inspector General. The USDA last month awarded a 10-year contract worth up to \$25 million to Fairfax, Va.-based SRA International, Inc., to step up the technology used to combat fraud.

"It's misuse of the program. It's a misuse of taxpayer dollars at a tough time. Not only the people who need the program are having a tough time, but the people who are paying for the program are having a tough time, too," said Kevin Concannon, USDA Undersecretary for Food, Nutrition and Consumer Services.

The fraud is almost always found among the 199,000 smaller stores that process 15 percent of the nation's total food stamp transactions, Concannon said.

In Providence, for example, federal prosecutors in August charged former 7-Eleven franchisee Syed Shah, 43, with conspiracy for letting customers turn in their stamps for lesser amounts of cash and purchase items like soap, over-the-counter medication and laundry detergent that are not allowed under USDA rules, court records show. Federal agents began investigating Shah's store in July 2008.

Agents said the practice brought an increase in sales.

Christopher Robinson, a USDA special agent, said Shah "believed that if they did not give customers cash for the food stamp benefits then they would lose that business."

Shah has been given a chance to negotiate a plea deal, court records show. His attorney, Scott Lutes, declined comment.

The modern food stamp program was created in 1977 to help low-income families.

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Benefits are loaded onto plastic debit cards that can only be redeemed at authorized stores. More than 45 million people were receiving benefits as of August, according to program figures, nearly half of them children.

Nationwide, 234,000 stores are authorized to accept food stamps, including 35,000 supermarkets where 85 percent of benefits are redeemed, Concannon said.

Last year, 931 stores nationally were dismissed from the food stamp program for trafficking and 907 others were sanctioned for lesser violations — 37 percent of the nearly 5,000 retailers being investigated. A March USDA report found more than 8 percent of the large and small stores, 210,000 in all, allowed people to cash in their benefits between 2006 and 2008.

The analytical tools officials are turning to have paid off, they say. Even though food stamp spending has ballooned from \$22.7 billion to \$64.7 billion since 1995, the misuse of benefits has dropped from four cents to a penny on every dollar spent, said Food and Nutrition Service spokesman Aaron Lavallee.

The USDA says it's enhancing the computerized tools used by fraud investigators to track illegal transactions by using geospatial analysis to identify scammers, scanning social media sites for evidence of fraud and using mathematical formulas to zero in on retailer abuses. The agency uses a massive database to track transactions and flag possible scamming stores.

Red flags include spikes in redemptions at stores or customers spending most or all of their monthly benefits during a single shopping trip.

The agency has told states that they can strip benefits from people who sell them online or use them to purchase beverages that have hefty bottle redemption rates, only to cash in on the bottle return, Concannon said.

USDA last month urged states to examine food stamp recipients who shopped at stores where trafficking occurred, he said.

Investigators said redemptions at Shah's store skyrocketed from \$228,000 in 2008 to nearly \$1 million last year and far exceeded that of other 7-Eleven stores.

Shah told Robinson there was a system for arranging the deals.

"If a customer was very loyal, and used his store on a regular basis, then they would charge these customers less to provide them with cash back for their food stamps," Robinson said.

The affidavit did not disclose how much investigators believe Shah fraudulently pocketed in benefits. Shah told investigators he lost the franchise last year because he violated food stamp program rules, according to an affidavit.

A 7-Eleven spokeswoman said Shah was stripped of his franchise after the store conducted its own investigation. Margaret Chabris said 7-Eleven has access to its

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franchises' sales activity and can identify fraud. She added the store is now run by 7-Eleven's corporate operation.

"He's taking people, like, stupid for their money because the people let them do it. That's bad," said Zenaida Velez, 46, who lives near the 7-Eleven Shah formerly owned. Velez said the \$375 she gets in monthly food stamp benefits doesn't cover the cost of feeding her three children.

"That's a shame," Velez said. "They give it for the kids."

Earlier this year, two brothers from Somalia were each sentenced to five years in federal prison after investigators found their small convenience store in Wyoming, Mich. trafficked about \$400,000 in benefits for food stamps and Women, Infants and Children benefits over four years, according to USDA inspectors. Investigators also found the brothers conspired with another retailer in Ypsilanti, Mich., to move more than \$300,000 illegally to the Middle East and Africa through an unlicensed money system.

The fraud has even touched the restaurants, where several states have set up programs to let food stamp recipients buy hot meals.

A California restaurant owner was sentenced in February to more than three years in federal prison for skimming \$1.3 million in food stamp benefits by depleting electronic benefit transfer cards of their balances — one cent at a time, according to investigators.

Tyra Carmon, 40, who occasionally shopped at Shah's 7-Eleven in Providence, remembered how investigators swarmed the store and cashiers stopped accepting food stamp benefits until just a few months ago.

"I didn't play that food stamp game," said Carmon, who uses the program for herself and two children.

"When I use my food stamps, I treasure them so much," she said.

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