



Billing Code: 3410-30-P

DEPARTMENT OF AGRICULTURE

Food and Nutrition Service

7 CFR Parts 271 and 274

RIN 0584-AE26

Supplemental Nutrition Assistance Program: Trafficking Controls and Fraud Investigations

AGENCY: Food and Nutrition Service, USDA.

ACTION: Proposed rule.

SUMMARY: The Food and Nutrition Service (FNS) is proposing to amend Supplemental Nutrition Assistance Program (SNAP or Program) regulations at 7 CFR 274.6 to allow State agencies to deny a request for a replacement card until contact is made with the State agency, if the requests for replacement cards are determined to be excessive. State agencies that elect to exercise this authority will be required to protect vulnerable persons, such as individuals with disabilities, homeless individuals, or the elderly, who may repeatedly lose EBT cards but are not committing fraud. FNS proposes to also change the Electronic Benefit Transfer (EBT) card replacement timeframes in the same section to require State agencies to make replacement cards available for pick up or to place the card in the mail within one business day following notice by the household to the State agency that the card has been lost or stolen. This proposed rule would further amend regulations at 7 CFR 271.2 to clarify the definition of trafficking to include the intent to sell SNAP benefits in cases where an individual makes the offer to sell their benefits and/or EBT card online or in person so the State may pursue an intentional Program violation (IPV) against the individual who made the offer.

DATES: To be assured of consideration, comments on this proposed rule must be received by the Food and Nutrition Service on or before [insert date that is 60 days from date of publication in the Federal Register].

ADDRESSES: The Food and Nutrition Service, USDA, invites interested persons to submit comments on this proposed rule. Comments may be submitted by one of the following methods:

- Federal e-Rulemaking Portal: Go to <http://www.regulations.gov>. Preferred method; follow the online instructions for submitting comments on docket [FNS-2012-0028].
- Fax: Submit comments by facsimile transmission to: Jane Duffield, Chief, State Administration Branch, Fax number 703-305-0928.
- Mail: Comments should be addressed to Jane Duffield, State Administration Branch, 3101 Park Center Drive, Alexandria, VA 22302.
- Hand Delivery or Courier: Deliver comments to the Jane Duffield, State Administration Branch, 3101 Park Center Drive, Alexandria, VA 22302, Room 818, Monday – Friday, 8:30 am – 5:00 pm.

All comments submitted in response to this proposed rule will be included in the record and will be made available to the public. Please be advised that the substance of the comments and the identity of the individuals or entities submitting the comments will be subject to public disclosure. FNS will make the comments publicly available on the Internet via <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: Jane Duffield at 703-605-4385.

SUPPLEMENTARY INFORMATION:

I. Background

In this rule, FNS is proposing to amend the SNAP regulations at 7 CFR 274.6 to give States an option for handling requests for multiple replacement cards. Current regulations do not allow State agencies to require clients requesting multiple replacement cards to contact the agency and provide an explanation before a new card is issued, even though such requests sometimes indicate fraudulent activity. Under this rule, States could choose to withhold the benefit card when the client has requested an excessive number of replacements, until the client makes contact with the State agency and provides an explanation for the request. State agencies taking up this option would be expected to establish a threshold beyond which contact must be made, but in no instance may that threshold be fewer than four cards in a 12 month period prior to the request, except as provided below. The proposed minimum threshold is based on an analysis by FNS of electronic transaction data that demonstrates a statistically significant difference when a client reaches his or her fourth replacement card, indicating that transaction activity is three times more likely to be flagged as potential trafficking, which is the exchange of benefits for cash or other consideration, compared to clients with three or fewer replacement cards. The State agency would need to notify the client when he or she reaches the threshold for excessive card replacements, as determined by the State agency, and indicate what actions the State agency would take if the client requests another card replacement. The State agency would be expected to refer clients to the fraud investigation unit that respond to the agency request for contact but do not provide an appropriate explanation for such requests and must issue a replacement card while the investigation is ongoing. In all cases, States would be required to protect vulnerable persons who lose EBT cards but are not committing fraud.

FNS proposes to further amend 7 CFR 274.6 to change the EBT card replacement timeframes. Currently, State agencies must ensure that clients receive replacement EBT cards within two business days (or five business days if using a centralized mail issuance system) after the client notifies the State agency that the card has been lost or stolen. The proposed changes would place the requirement on the mailing end instead of the receiving end by requiring State agencies to make replacement cards available for pick up or to place the card in the mail within one business day following notice by the client. The proposed change would alleviate State agencies' responsibility for mail delays beyond their control. Finally, this proposed rule would also clarify the definition of trafficking to include actions that clearly express the intent to sell SNAP benefits or EBT cards in person or online through web sites and social media.

Allow States to withhold replacement cards until contact is made with the State agency

FNS proposes to amend regulations in order to provide States with options when clients request an excessive number of EBT card replacements. States would be able to withhold a replacement card until the client makes contact by phone or in-person with the State agency and provides an explanation for the excessive EBT card requests. The State agency would need to determine what it considers to be excessive, but the threshold may not be less than four card replacements requested within 12 months prior to the request; unless the State agency has sufficient, additional evidence indicating potential misuse that warrants noticing the client sooner than the fourth card request. These might be individuals about whom the State agency has gathered other evidence of suspected fraudulent activity. In these circumstances, the State agency may require the client to provide an explanation by phone or in person before the fifth card request, and, if deemed appropriate, refer the client for investigation. Evidence indicating

potential misuse may include, but is not limited to, transactions made with retailers found by FNS to be guilty of trafficking, benefit cards that have a zero balance for both SNAP and cash assistance when the request is made, cards that follow established patterns of trafficking, etc. Further, States with sufficient evidence to warrant noticing the client sooner that the fourth replacement card request are encouraged to begin an investigation without waiting for the client to request another card. States would be required to notify clients when clients reach the threshold number of card replacement requests (not less than upon the fourth card in 12 months prior to the request or as otherwise provided by this proposed rule) prior to taking any action upon receiving a subsequent card replacement request. The notice must inform the client that the next request for card replacement will require contact with the State agency to provide an explanation for the requests, before the replacement card will be issued. The notice must be written in clear and simple language to ensure that the notice is understood.

Many States currently monitor multiple card replacements as a possible indicator of trafficking or other suspicious activity. However, it is difficult for States to prove trafficking on this information alone. States report that they often ask the client to come in to speak with them, but many do not respond. Current regulations do not allow State agencies to require client contact to obtain additional card replacements. FNS proposes to change the regulations so that State agencies have this latitude to require contact prior to issuing another card replacement once a significant threshold has been reached and the client notified. This change would provide States with another opportunity to gather potentially important information and to determine whether assistance or further investigation is warranted. Providing States with this new option supports FNS' commitment to Program integrity while maintaining the intent of the Program to provide nutrition benefits to low income households

FNS is concerned that when clients request multiple EBT card replacements over a short period of time, there may be one of two possible problematic explanations. It may indicate that the client does not know how to use his or her EBT card properly, and needs additional help or training to protect the card and access benefits. It may also indicate that the client has sold his or her card, perhaps repeatedly, in order to obtain cash or other ineligible items. If the client does not understand how to use, maintain or protect the card, requiring him or her to contact the State office, either in-person or by phone, would allow the State to identify the problem and to assist the client with using the EBT card. On the other hand, the State agency may determine through such contacts, that the client is possibly or likely selling his or her cards, and could then refer him or her to the fraud unit for further investigation. In either event, the client who contacts the State agency would be provided a replacement card and must be allowed to continue to participate. If the client does not contact the State agency, the card may be held until he or she does so and the case must be turned over to the fraud unit for further investigation to determine if there is enough evidence to pursue an Intentional Program Violation (IPV). If the client does contact the State agency but refuses to explain the card losses, the card must be provided and the case must be turned over to the fraud unit for further investigation.

This proposed rule would not require States to pursue these cases, but does provide States with the option to pursue cases when they determine that the requests for card replacement are excessive. In all cases, States would be required to protect vulnerable persons who lose EBT cards but are not committing fraud. FNS is particularly focused on ensuring that persons who may have a greater tendency to lose multiple cards for legitimate reasons such as individuals with disabilities, homeless individuals, or the elderly, are protected and treated appropriately by State agencies that elect to exercise this authority. Furthermore, it is FNS's expectation that

upon contact, should the State agency identify that the explanation for the request is appropriate, the State agency must use the contact to educate the client on proper use of the card, document this activity, and should not require contact upon subsequent requests that could be seen as a barrier to participation. It would only be appropriate to require contact upon subsequent requests if the pattern of activity has changed since the initial contact that indicates a likelihood of potential fraud.

Change the EBT card replacement timeframes

State agencies have the option to provide replacement EBT cards in person at the local State SNAP office or by mail. For many clients, having to go into the local SNAP office to pick up a card can present a substantial barrier to getting a replacement card quickly. However, as the United States Postal Service (USPS) scales back its delivery services in many areas, State agencies are finding it more and more difficult to ensure clients receive replacement EBT cards within the timeframes required by FNS. Because State agencies do not have control over the length of time it takes the USPS to get a replacement EBT card into the hands of a SNAP household, FNS believes it is more appropriate to prescribe a timeframe by when the State agency must place the card in the mail instead of when the client must actually receive the card in the mail. FNS continues to believe that clients who have legitimately lost their card or had it stolen must receive a replacement card within a reasonable amount of time to ensure that they have access to benefits needed to meet their dietary needs. To this end, FNS is proposing to require State agencies to act on a notice by the client of a lost or stolen EBT card within one business day. The State would accomplish this requirement by either providing the client with a card for pick-up at the local office or by placing the card in the mail. Similar requirements apply

to lost or stolen Personal Identification Numbers (PINs). However, if a PIN is being mailed in combination with a card, States would continue to follow industry standards for mailing PINs separate from the card.

Clarify the Definition of Trafficking

FNS has received numerous reports regarding abuses of the Program involving attempts to sell SNAP benefits in person or online. In an effort to combat fraud and abuse, FNS has taken many steps to assist States in their ability to identify and further investigate instances of SNAP fraud, including trafficking, and is committed to continuing those efforts. To further assist States, FNS believes it is necessary to clarify the definition of trafficking to include the intent to sell SNAP benefits online or in person. FNS is basing these proposed changes on the existing definition of trafficking while acknowledging that there is another rulemaking in process which proposed additional changes to the trafficking definition. (76 FR 35787, proposed June 20, 2011). That regulation is not yet final. FNS will reflect all changes to the existing definition of trafficking in the final rule at the time of publication.

States have expressed concern with the growing popularity of social media websites as a format for advertising SNAP benefits for sale. The use of social media networking sites as a vehicle for trafficking SNAP is an area that needs increased monitoring. FNS has heard from a number of States and from the public that recipients are posting SNAP benefits for sale online and that the frequency of this activity is on the rise. FNS has taken action to discourage several of these websites from posting such advertisements, yet the Agency is aware that it still occurs.

Clarifying that the definition of trafficking to include activities demonstrating the intent to sell SNAP benefits would eliminate the common misunderstanding that one must observe or

witness an actual transaction in order to pursue these cases as IPVs. State agencies can disqualify a recipient for posting or soliciting SNAP benefits for sale and assign the appropriate penalty to those individuals, such as permanent disqualification and criminal penalties, for particularly egregious offenses. The clarification would also include practices of individuals who target people outside of grocery stores or other locations, offering to sell their benefits for cash or other non-eligible items.

Through discussions with States regarding these issues, FNS has learned that State agencies have difficulty prosecuting these individuals because State agencies believe that the current regulations do not cover these types of activities. By amending the definition, FNS would be clarifying that an IPV for trafficking occurs when there is an attempted sale of benefits before the sale is completed. These proposed changes to regulations would help to ensure that the integrity of the Program is upheld and the benefits are used as intended.

II. Procedural Matters.

Executive Order 12866 and Executive Order 13563

Executive Orders 12866 and 13563 direct agencies to assess all costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, of reducing costs, of harmonizing rules, and of promoting flexibility.

This proposed rule has been designated non-significant under section 3(f) of Executive Order 12866.

Regulatory Flexibility Act

This Regulatory Flexibility Act (5 U.S.C. 601-612) requires Agencies to analyze the impact of rulemaking on small entities and consider alternatives that would minimize any significant impacts on a substantial number of small entities. Pursuant to that review, it has been certified that this rule would not have a significant impact on a substantial number of small entities. This proposed rule would not have an impact on small entities because they do not administer SNAP or investigate suspected intentional Program violations.

Unfunded Mandates Reform Act

Title II of the Unfunded Mandates Reform Act of 1995 (UMRA), Public Law 104-4, establishes requirements for Federal agencies to assess the effects of their regulatory actions on State, local and tribal governments and the private sector. Under section 202 of the UMRA, the Department generally must prepare a written statement, including a cost benefit analysis, for proposed and final rules with “Federal mandates” that may result in expenditures by State, local or tribal governments, in the aggregate, or the private sector, of \$100 million or more in any one year. When such a statement is needed for a rule, Section 205 of the UMRA generally requires the Department to identify and consider a reasonable number of regulatory alternatives and adopt the most cost effective or least burdensome alternative that achieves the objectives of the rule.

This rule does not contain Federal mandates (under the regulatory provisions of Title II of the UMRA) for State, local and tribal governments or the private sector of \$100 million or more in any one year. Thus, the rule is not subject to the requirements of sections 202 and 205 of the UMRA.

Executive Order 12372

The Supplemental Nutrition Assistance Program is listed in the Catalog of Federal Domestic Assistance Programs under 10.561. For the reasons set forth in the final rule in 7 CFR part 3015, subpart V, and related Notice (48 FR 29115, June 24, 1983), this program is excluded from the scope of Executive Order 12372 which requires intergovernmental consultation with State and local officials.

Federalism Summary Impact Statement

Executive Order 13132 requires Federal agencies to consider the impact of their regulatory actions on State and local governments. Where such actions have federalism implications, agencies are directed to provide a statement for inclusion in the preamble to the regulations describing the agency's considerations in terms of the three categories called for under Section (6)(b)(2)(B) of Executive Order 13121. The Department has determined that this rule does not have Federalism implications. This rule does not impose substantial or direct compliance costs on State and local governments. Therefore, under Section 6(b) of the Executive Order, a Federalism summary impact statement is not required.

Executive Order 12988

This rule has been reviewed under Executive Order 12988, Civil Justice Reform. This rule is intended to have preemptive effect with respect to any State or local laws, regulations or policies which conflict with its provisions or which would otherwise impede its full and timely implementation. This rule is not intended to have retroactive effect unless so specified in the

Effective Dates section of the final rule. Prior to any judicial challenge to the provisions of the final rule, all applicable administrative procedures must be exhausted.

Civil Rights Impact Analysis

FNS has reviewed this rule in accordance with the Department Regulation 4300-4, “Civil Rights Impact Analysis,” to identify and address any major civil rights impacts the rule might have on minorities, women, and persons with disabilities. After a careful review of the rule's intent and provisions, FNS has determined that this rule will not in any way limit or reduce in any way the ability of protected classes of individuals to receive SNAP benefits on the basis of their race, color, national origin, sex, age or disability.

Executive Order 13175 - Consultation and Coordination With Indian Tribal Governments

Executive Order 13175 requires Federal agencies to consult and coordinate with Tribes on a government-to-government basis on policies that have Tribal implications, including regulations, legislative comments or proposed legislation, and other policy statements or actions that have substantial direct effects on one or more Indian Tribes, on the relationship between the Federal Government and Indian Tribes, or on the distribution of power and responsibilities between the federal government and Indian Tribes.

A. In the fall of 2010, USDA engaged in a series of consultative sessions to obtain input by Tribal officials or their designees concerning the impact of this rule on the tribe or Indian Tribal governments. The Joint Consultation sessions were coordinated by USDA’s Office of Tribal Relations and held on the following dates and locations:

1. Rapid City, SD – October 28-29, 2010
2. Oklahoma City, OK – November 3-4, 2010

3. Minneapolis, MN – November 8-9, 2010
4. Seattle, WA – November 22-23, 2010
5. Nashville, TN – November 29-30, 2010
6. Albuquerque, NM – December 1-2, 2010
7. Anchorage, AK – January 10-11, 2011

There were no comments about this regulation during any of the aforementioned Tribal Consultation sessions.

B. In the spring of 2011, FNS offered opportunities for consultation with Tribal officials or their designees to discuss the impact of the Healthy, Hunger-Free Kids Act of 2010 (HHFKA), Pub. L. 111-296, on tribes or Indian Tribal governments. The consultation sessions were coordinated by FNS and held on the following dates and locations:

1. HHFKA Webinar & Conference Call - April 12, 2011
2. Mountain Plains – HHFKA Consultation, Rapid City, SD – March 23, 2011
3. HHFKA Webinar & Conference Call - June, 22, 2011
4. Tribal Self-Governance Annual Conference in Palm Springs, CA – May 2, 2011
5. National Congress of American Indians Mid-Year Conference, Milwaukee, WI – June 14, 2011

There were no comments about this regulation during any of the aforementioned Tribal Consultation sessions.

C. In late 2010 and early 2011, USDA engaged in a series of consultative sessions to obtain input by Tribal officials or their designees concerning the effect of this and other rules on Tribes or Indian Tribal governments, or whether this rule may preempt Tribal law.

Reports from the consultative sessions will be made part of the USDA annual reporting on Tribal Consultation and Collaboration. FNS will respond in a timely and meaningful manner to Tribal government requests for any consultation concerning this rule. Currently, FNS provides regularly scheduled quarterly consultation sessions through the end of FY2012 as a venue for collaborative conversations with Tribal officials or their designees.

USDA will offer future opportunities, such as webinars and teleconferences, for collaborative conversations with Tribal leaders and their representatives concerning ways to improve rules with regard to their affect on Indian country.

We are unaware of any current Tribal laws that could be in conflict with the proposed rule. We request that commenters address any concerns in this regard in their responses.

Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. Chap. 35; see 5 CFR 1320) requires the Office of Management and Budget (OMB) approve all collections of information by a Federal agency before they can be implemented. Respondents are not required to respond to any collection of information unless it displays a current valid OMB control number. This rule does not contain information collection requirements subject to approval by OMB under the Paperwork Reduction Act of 1995.

E-Government Act Compliance

The Food and Nutrition Service is committed to complying with the E-Government Act, to promote the use of the Internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes.

List of Subjects in 7 CFR Parts 271 and 274

Food stamps, Grant programs-social programs, Reporting and recordkeeping requirements

For the reasons set forth in the preamble, 7 CFR parts 271 and 274 are proposed to be amended as follows:

1. The authority citation for 7 CFR parts 271 and 274 continue to read as follows:

Authority: 7 U.S.C. 2011-2036.

PART 271—GENERAL INFORMATION AND DEFINITIONS

2. In § 271.2, the definition of Trafficking is revised to read as follows:

§ 271.2 Definitions.

* * * * *

Trafficking means the buying, selling, or intent to sell of SNAP benefits issued and accessed via Electronic Benefit Transfer (EBT) cards, for cash or consideration other than eligible food; or the exchange of firearms, ammunition, explosives, or controlled substances, as defined in section 802 of title 21, United States Code, for coupons.

* * * * *

Part 274 - ISSUANCE AND USE OF PROGRAM BENEFITS

3. Paragraph 274.6(b) is amended to read as follows:

- a. Revise paragraph (b) introductory text

- b. Add new paragraphs (b)(4) and (b)(5)

The revision and additions read as follows:

§ 274.6 Replacement issuances and cards to households

* * * * *

(b) Providing replacement EBT cards or PINs. The State agency shall make replacement EBT cards available for pick up or place the card in the mail within 1 business day following notice by the household to the State agency that the card has been lost or stolen; unless the State implements a replacement procedure pursuant to paragraph (b)(5) of this section.

* * * * *

(4) The State agency shall provide replacement PINs in accordance with § 274.2(f) and within the same timeframes prescribed for replacement EBT cards in this paragraph. Notwithstanding the previous sentence, the State agency must follow standard industry practices for PINs mailed in combination with a card.

(5) Multiple requests for replacement cards. The State agency may require an individual or household to provide an explanation by phone or in person in cases where the number of requests for card replacements is determined excessive. If they so require, the State agency must establish a threshold for the number of card replacements during a specified period of time to be considered excessive, but that threshold shall not be less than four (4) cards requested within twelve (12) months prior to the request; unless the State agency has sufficient, additional evidence indicating suspected intentional Program violation, as defined at § 273.16(c) of this chapter, which would warrant noticing the client sooner than the fourth card request, requiring the individual or household to provide an explanation by phone or in person before the fifth card request, and, if deemed appropriate, referring the client for investigation.

(i) The State agency must notify the household in writing when it has reached the threshold, indicating that the next request for card replacement will require contact with the State agency to provide an explanation for the requests, before the replacement card will be issued. The notice must:

- (A) Be written in clear and simple language;
 - (B) Meet the language requirements described at § 272.4(b) of this chapter;
 - (C) Specify the number of cards requested and over what period of time;
 - (D) Explain that the next request will require contact with the State agency, either in person or by phone, before another card is issued and provide the contact information;
 - (E) Include a statement that explains what is considered a misuse or fraudulent use of benefits and the possibility of referral to the fraud investigation unit for suspicious activity.
- (ii) Following notification, should another card be requested, the State agency may contact the household to request information or require that the household contact the State agency. Upon the household's compliance by contacting the State agency as requested, the household must immediately be issued a replacement card.
- (A) The State agency may decline to issue a replacement card if the household does not respond to the State agency's notice to provide an explanation for the need to replace the card and the case must be referred for investigation.
 - (B) The State agency must educate the client on the proper use of the card if the explanation is deemed appropriate and the State agency should not require contact upon subsequent requests, unless the pattern of card activity has changed since the initial contact and indicates possible fraudulent activity.
 - (C) The State agency must refer the household for investigation in cases where the household contacts the State agency but refuses to explain the card losses or the explanation provided appears to be indicative of fraud in accordance with § 273.16 of this chapter. The State agency must issue a replacement card for any household that makes the required contact so that the

household has access to benefits in its EBT account while the investigation is underway and while awaiting a hearing, in accordance with § 273.16(e)(5).

(iii) In all cases, a State agency shall act to protect households containing homeless persons, elderly or disabled members, victims of crimes, and other vulnerable persons who may lose electronic benefits transfer cards but are not committing fraud.

Audrey Rowe
Administrator
Food and Nutrition Service

May 22, 2012_____
Date

[FR Doc. 2012-12907 Filed 05/29/2012 at 8:45 am; Publication Date: 05/30/2012]