

Jeanne P. Atkins
Secretary of State

Robert Taylor
Deputy Secretary of State



Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

(503) 986-2255

MEASURE: HB 2173
EXHIBIT: 2
SENATE JUDICIARY
DATE: 4/28/15 PAGES: 2
SUBMITTED BY: Gary Blackmer

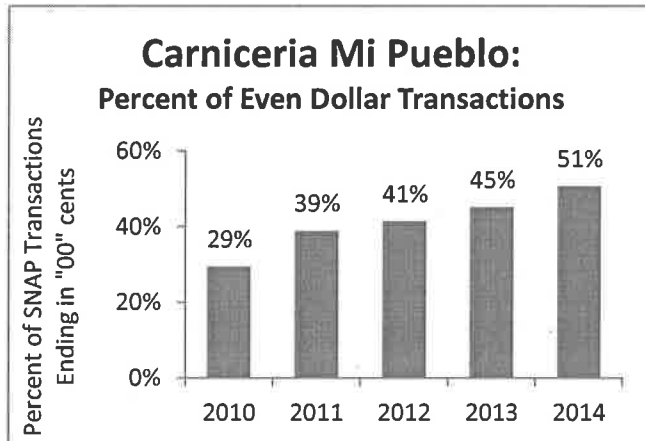
April 28, 2015

An example of when HB 2173 would have helped...

In the course of its audit work, the Secretary of State's Audits Division applied an analysis to identify possible fraud among holders of SNAP cards (formerly known as food stamps) and the businesses that accept them. The Audits Division found some clear indications of fraud. When it tried to proceed with the inquiry and obtain a more current data set, the Division encountered several hurdles. Some hurdles involved federal law, and an attorney representing the U.S. Department of Agriculture noted that he believed the Oregon Secretary of State lacked state statutory authority to report its suspicions to law enforcement.

The Audits Division held several meetings with representatives of the Oregon Department of Human Services, the US Attorney for Oregon, the US Department of Agriculture Inspector General, and the FBI. After several months of meetings and administrative efforts, the Division was able to obtain the records (over 22 million) and perform its analysis and convey its evidence of several patterns of fraud to DHS, which conveyed it to the U.S. Department of Agriculture's Inspector General, which worked with the FBI on the case. This was a cumbersome work-around for reporting fraud to criminal justice authorities.

The Secretary of State's Office was recently notified by law enforcement that the Audits Division could describe some of the particular aspects and results of its efforts in the above case. The Audits Division found that 51% of the SNAP transactions at a



grocery store in Klamath Falls were even dollar transactions, such as \$40.00, \$52.00, or \$20.00. It is extremely unlikely that half of the customer purchases at a grocery store would not involve fractions of a dollar.

The FBI conducted additional investigative work on the store and prepared a case for prosecution. At the request of the Klamath County District Attorney, the Audits Division updated several of its analyses and charts with new data. The submitted documents were part of the evidence that lead to the conviction and 90-month prison sentence for each of the three store owners. In addition, over 60 customers of the store were charged with fraud.

Notably, the efforts of the Audits Division also created an opportunity for Oregon's Department of Human Services to obtain a \$300,000 grant to apply our analytical methods in the performance of DHS's work.

HB 2173 would eliminate one of the hurdles the Audits Division encountered by allowing the Secretary of State to report her concerns about possible fraud or other criminal activity directly to a law enforcement agency. Working through the other federal and administrative hurdles will still require an extra effort by the Secretary of State in the future.

Excerpts of a September 24, 2014, *Herald-News* story covering law enforcement activities that relied on analyses conducted by the SOS Audits Division:

Another ringleader in the Klamath Falls food stamp fraud ring busted in Operation Gold Card pleaded guilty to multiple criminal charges Tuesday afternoon.

Rafael Ortega-Vargas, 46, pleaded guilty to five charges of first-degree aggravated theft via an interpreter. He appeared before Judge Marci Adkisson in the Klamath County Circuit Court.

He was sentenced in 90 months (7.5 years) in prison, with mandated post-prison supervision as well. The defendant was also ordered to pay the U.S. Department of Agriculture \$125,000 in restitution.

Ortega-Vargas and two other suspects were arrested in May and accused of trading cash for the electronic benefits stored on Oregon Trail Cards. They would pay welfare recipients 50 cents on the dollar in cash after ringing up fraudulent purchases.

The defendant and fellow ringleader Severo Toro-Castellon owned and operated the meat market Carniceria Mi Pueblo and the taco stand Tacqueria Mi Pueblo in Klamath Falls.

"We started doing this because the economy got pretty bad and it just started happening without us really thinking about it," Ortega-Vargas told Judge Adkisson through an interpreter.

Assistant District Attorney Sharon Forster told Judge Adkisson the scam was active for several years and may have generated \$500,000 in profits for the primary suspects. At the scam's height in 2012, they may have been taking in \$13,000 a month.