

**U.S. Department of Agriculture
Food and Nutrition Service
Administrative Review Branch**

**5 U.S.C. § 552 (b)(6) & (b)(7)(C) and
5 U.S.C. § 552 (b)(6) & (b)(7)(C), Former
Owners, Reddy-Mart #3,**

Appellant,

v.

Retailer Operations Division,

Respondent.

Case Number: C0203451

FINAL AGENCY DECISION

It is the decision of the U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS), that there is sufficient evidence to support that a Transfer of Ownership Civil Money Penalty (TOCMP) of \$44,000 was properly assessed against **5 U.S.C. § 552 (b)(6) & (b)(7)(C)** and **5 U.S.C. § 552 (b)(6) & (b)(7)(C)**, the former owners of Reddy-Mart #3, for selling or otherwise transferring a store that has been permanently disqualified from the Supplemental Nutrition Assistance Program (SNAP).

ISSUE

The issue accepted for review is whether the Retailer Operations Division took appropriate action, consistent with 7 CFR § 278.6(f)(2) in its administration of the SNAP when it assessed a TOCMP in the amount of \$44,000 against the Appellant.

AUTHORITY

7 U.S.C. § 2023 and its implementing regulations at 7 CFR § 279.1 provide that “A food retailer or wholesale food concern aggrieved by administrative action under § 278.1, § 278.6 or § 278.7 ... may ... file a written request for review of the administrative action with FNS.”

CASE CHRONOLOGY

The Retailer Operations Division permanently disqualified Reddy-Mart #3, under the ownership of **5 U.S.C. § 552 (b)(6) & (b)(7)(C)** and **5 U.S.C. § 552 (b)(6) & (b)(7)(C)**, from the SNAP effective January 13, 2015 for

trafficking in SNAP benefits. The permanent disqualification letter dated December 23, 2014, stated that if the owner sold or transferred the store after its disqualification, it would be subject to and liable for a TOCMP as provided by SNAP regulations at 7 CFR § 278.6(f)(2)(3) and (4). As noted in that letter, the amount of the TOCMP is calculated based on the SNAP regulations at 7 CFR § 278.6(g).

The Retailer Operations Division determined that 5 U.S.C. § 552 (b)(6) & (b)(7)(C) and 5 U.S.C. § 552 (b)(6) & (b)(7)(C) sold Reddy-Mart #3 to a new owner as documented by a general bill of sale dated March 12, 2017 and other documents in the case record. When the new owner applied for the SNAP, the Retailer Operations Division discovered that the store previously authorized at that location had been sold or otherwise transferred by the former owner. As a result, the Retailer Operations Division, in a letter dated November 2, 2017, notified 5 U.S.C. § 552 (b)(6) & (b)(7)(C) and 5 U.S.C. § 552 (b)(6) & (b)(7)(C) that it had assessed a TOCMP in the amount of \$44,000 in accordance with the SNAP regulations.

In a letter postmarked November 9, 2017, the Appellant, through counsel, requested an administrative review of the TOCMP. The administrative review was granted and the assessment of the TOCMP was held in abeyance pending completion of this review.

STANDARD OF REVIEW

In appeals of adverse actions, an appellant bears the burden of proving by a preponderance of the evidence, that the administrative action should be reversed. That means an appellant has the burden of providing relevant evidence which a reasonable mind, considering the record as a whole, might accept as sufficient to support a conclusion that the matter asserted is more likely to be true than not true.

CONTROLLING LAW AND REGULATIONS

The controlling statute in this matter is contained in the Food and Nutrition Act of 2008, as amended, 7 U.S.C. § 2021 and Section 278 of Title 7 of the Code of Federal Regulations (CFR).

7 U.S.C. § 2021(e)(1) states, in part:

In the event any retail food store or wholesale food concern that has been disqualified under subsection (a) of this section is **sold or the ownership thereof is otherwise transferred to a purchaser or transferee**, the person or persons who sell or otherwise transfer ownership of the retail food store or wholesale food concern **shall be subjected to a civil penalty** in an amount

established by the Secretary through regulations to reflect that portion of the disqualification period that has not yet expired. [Emphasis added.]

7 CFR § 278.6(f)(2) reads, in part,

In the event any retail food store . . . which has been disqualified is sold or the ownership thereof is otherwise transferred . . ., the person or other legal entity who sells or otherwise transfers ownership . . . shall be subjected to and liable for a civil money penalty **If the retail food store or wholesale food concern has been permanently disqualified, the civil money penalty shall be double the penalty for a ten year disqualification period.**

[Emphasis added.]

7 CFR § 278.6(g) provides the steps for calculating the TOCMP and states, in part:

- (1) Determine the firm’s average monthly redemptions ... for the 12-month period ending with the month immediately preceding that month during which the firm was charged with violations.
- (2) Multiply the average monthly redemption figure by 10 percent.
- (3) Multiply the product arrived at in paragraph (g)(2) by the number of months for which the firm would have been disqualified

Notwithstanding the above, there is an agency limit of \$11,000 per violation as the maximum TOCMP amount.

APPELLANT’S CONTENTIONS

The Appellant made the following summarized contentions in its request for administrative review, in relevant part:

- The Appellants sold the following inventory for **5 U.S.C. § 552 (b)(6) & (b)(7)(C)**: cigarettes, groceries, sodas, tobacco products, e-cigarettes, cell phone accessories, sunglasses and miscellaneous items, as indicated on the Bill of Sale dated March 12, 2017. However, the Appellants’ company remains in operation, having changed to a liquor store located elsewhere in Lexington, Kentucky.
- The Appellant cites Huggins v. U.S. in concluding that courts have traditionally held that the sale and disposal of company assets, as well as wrapping up of the business organization indicate that the store was not “transferred,” but rather that the store owner has gone out of the retail food business, and made adjustments to the store’s place of business and inventory accordingly.

The preceding may represent only a brief summary of the Appellant’s contentions presented in this matter. Please be assured, however, in reaching a decision, full

attention was given to all contentions presented, including any not specifically recapitulated or specifically referenced herein.

ANALYSIS AND FINDINGS

The SNAP regulations at 7 CFR § 278.6(f)(2) **require** FNS to assess a TOCMP against the owner of a disqualified store that has been sold or otherwise transferred to a new owner. The Appellant admits that it sold inventory including groceries from its previously disqualified store, **5 U.S.C. § 552 (b)(6) & (b)(7)(C)** in a general bill of sale dated March 12, 2017. The buyer of the store inventory, who is also a sub-lessee of the Appellants, subsequently became authorized for the SNAP as a new store at the same location. This constitutes a sale or transfer to a new owner as contemplated by the SNAP regulations at 7 CFR § 278.6(f)(2). The fact that the Appellants opened a liquor store at another location does not constitute a continuation of the business at Reddy-Mart #3 for the purposes of the SNAP.

Case Law Cited by Appellant

The Appellant cites Huggins v. U.S. in concluding that courts have traditionally held that the sale and disposal of company assets, as well as wrapping up of the business organization indicate that the store was not “transferred,” but rather that the store owner has gone out of the retail food business, and made adjustments to the store’s place of business and inventory accordingly.

Regarding this contention, the facts surrounding the Huggins v. US case appear to be different from the current action. Most critically, the TOCMP assessment in Huggins was solely based on a lease of the real estate and **did not include a sale of store inventory to the new owner** of a store subsequently authorized for the SNAP. As such, it is unlikely that Huggins v. US is applicable in this case.

Nevertheless, it should be noted that considerations of legal precedent through case law is beyond the scope of this review. Instead this administrative review is limited to whether the Retailer Operations Division appropriately followed the Food and Nutrition Act of 2008, as amended, and the regulations promulgated under the Act, and whether the action taken is sustainable by a preponderance of the evidence. Therefore, any application of a supposed judicial precedent would best be addressed in a judicial review in a court of law. Accordingly, no further findings or conclusions are rendered in this regard.

Proper Notice Given

The permanent disqualification letter dated December 23, 2014, stated that if the owners sold or transferred the store after its disqualification, it would be subject to and liable for a TOCMP as provided by SNAP regulations at 7 CFR § 278.6(f)(2), (3) and (4). As noted in the letter, the amount of the TOCMP is calculated based on the SNAP regulations at 7 CFR § 278.6(g). The permanent disqualification letter was delivered to the Appellant on December 26, 2014 as documented in the administrative record. In summary, the Appellant was given proper notice that a TOCMP would be assessed if Reddy-Mart #3 was sold or otherwise transferred after it was permanently disqualified from the SNAP.

TOCMP Calculation

The case record documents that the Retailer Operations Division correctly calculated the amount of the TOCMP under 7 CFR § 278.6(g). That regulation states that the TOCMP is to be calculated on a formula which includes the SNAP redemption volume of the store during the twelve (12) months prior to the firm being notified of the violations that led to the store's disqualification. Modifications to the TOCMP may occur only when there is an error in calculation or the amount exceeds the agency limit.

The Retailer Operations Division correctly determined, using the methodology described in 7 CFR § 278.6(g), that the initial calculated amount of the TOCMP was \$70,080.00. However, the Retailer Operations Division properly determined that the initial calculated TOCMP of \$70,080.00 is above the agency limit, which is \$11,000 per violation. The December 5, 2014 trafficking charge letter identified four (4) patterns of trafficking based on irregular SNAP transaction data. Therefore, the Retailer Operations Division correctly assessed the final TOCMP at \$44,000.00 which is the agency limit per violation multiplied by the number of trafficking patterns (\$11,000.00 x 4 trafficking patterns).

Summary

The regulations at 7 CFR § 278.6(f)(2) **require** FNS to assess a TOCMP against the former owner of a disqualified store that has been sold or otherwise transferred to a new owner. Moreover, the regulations at 7 CFR § 278.6(g) outline how to calculate the amount of the TOCMP utilizing the aforementioned formula. As such, **there is no discretion in the calculation of the TOCMP amount.**

CONCLUSION

A review of the evidence in this case indicates by a preponderance of the evidence that Reddy- Mart #3, formerly owned by 5 U.S.C. § 552 (b)(6) & (b)(7)(C) and

5 U.S.C. § 552 (b)(6) & (b)(7)(C), was sold or otherwise transferred after it had been permanently disqualified effective January 13, 2015.

Therefore, the SNAP regulation at 7 CFR § 278.6(f)(2) applies to this transfer of ownership. A review of the calculations shows that the amount of the TOCMP assessed by the Retailer Operation Division was correct and proper and the decision in this case is hereby sustained. In accordance with the Food and Nutrition Act of 2008, and the regulations thereunder, this penalty shall become effective thirty (30) days after receipt of this letter.

RIGHTS AND REMEDIES

Section 14 of the Food and Nutrition Act of 2008 (7 U.S.C. § 2023) and Title 7, Code of Federal Regulations, Part 279.7 (7 CFR § 279.7) addresses your right to a judicial review of this determination. Please note that if a judicial review is desired, the Complaint, naming the United States as the defendant, must be filed in the U.S. District Court for the district in which you reside or are engaged in business, or in any court of record of the State having competent jurisdiction. If any Complaint is filed, it must be filed within thirty (30) days of receipt of this Decision.

Under the Freedom of Information Act, FNS is releasing this information in a redacted format as appropriate. FNS will protect, to the extent provided by law, personal information that could constitute an unwarranted invasion of privacy.

RONALD C. GWINN
Administrative Review Officer

March 26, 2018