



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR**

Mr. Chairman and Members of the Committee,

My name is Shad White, and I am the 42nd State Auditor of Mississippi, an attorney, and a Certified Fraud Examiner. I run a state agency of 140 CPAs, attorneys, career investigators, and support staff. Our charge is to ensure taxpayer dollars are spent in accordance with the law. To do this, we perform routine audits of government entities. This includes the annual Single Audit of federal funds in the state. We also have a law enforcement division with trained state police who investigate white-collar crime involving public funds. If we discover such a crime, we work with prosecutors to hold the perpetrators accountable.

In my five years as State Auditor, the most notable case my office uncovered involved TANF funds. Tragically that case has been covered on the pages of The New York Times, The Washington Post, and in newspapers abroad. It is the painful story of how tens of millions of TANF dollars were misspent from 2016-2019 in Mississippi.

In the summer of 2019, my office was alerted to a potential kickback scheme involving the head of the Department of Human Services (DHS). This is the agency in Mississippi that handles the TANF block grant. We immediately launched an investigation. I also simultaneously instructed our auditors to include DHS in their Single Audit for the year and to press farther than most Single Audits to determine how TANF dollars were spent.

After six months of investigating and auditing, we determined tens of millions of dollars had been misspent and that multiple people had committed felonies with TANF dollars. Two of those people—Nancy and Zach New—ran a nonprofit that had drawn down millions of TANF dollars. And in December of 2019, they obtained another Intent to Award letter from DHS. It signaled that the News were about to be given another multi-million dollar infusion of TANF funds. My office had to act quickly.

We took our findings to the local district attorney in January 2020. By February, he indicted six individuals based on our work. Those individuals included the former head of DHS, Nancy and Zach New, their accountant, and a former television wrestler named Brett Dibiase. All five have now pleaded guilty in either state or federal court to a range of crimes involving the TANF funds, from fraud and money laundering to RICO charges.

My office also released our Single Audit of DHS in the spring of 2020. The final verdict was startling: we questioned the spending of over \$90 million in federal funds. We also requested that DHS hire an independent forensic audit firm to confirm our findings. This was to give the public some assurance that my team had plumbed the depths of the problem. DHS eventually hired a private CPA firm from Maryland to perform this audit. While the Maryland firm was only allowed to look at TANF spending (not the other federal anti-poverty programs that DHS oversees), the Maryland firm validated my team's work. They found at least \$77 million in TANF funds had been misspent in recent years.

After the release of this audit, I used my legal authority to demand the repayment of more than \$96 million dollars of TANF funds from those who could be held legally liable under Mississippi law. DHS, under new leadership, then followed up by hiring private attorneys to sue many of these people. This case is now in litigation in state court in Mississippi.

I should also note that the criminal investigation is still ongoing. In February 2020, a few days after the indictments in state court, my office briefed the FBI and Department of Justice on our case. The FBI has been given everything in our evidence file on the case. They have asked to take the leading role in investigating anyone new who might face charges here. My office agreed to that arrangement and has assisted them since that time three years ago. I also allowed federal investigators to work from my office when they needed to. In the last few months, federal prosecutors obtained a guilty plea against a new defendant who was not among the first defendants the state indicted. They also indicted Teddy Dibiase, Jr., another professional wrestler, for the first time. Beyond these facts, I will be limited in what I can say about the criminal case, as the investigation is still ongoing.

Our Single Audits, however, are public record, and they provide an alarming set of examples of how TANF money was misspent in Mississippi. DHS spent TANF money advertising at a college bowl game and out-of-state NCAA tournament games. Celebrities and athletes were given TANF funds with little or no work product delivered. DHS's director John Davis had family members paid. For instance, Davis's nephew was paid more than twice the Mississippi governor's salary to teach coding classes the nephew was not qualified to teach. Davis's brother-in-law was paid for being a "leadership outreach coordinator," whatever that means, while Davis was living with him. Consulting firms and lobbyists were paid without a clear contract or work product to show at the end. Nancy New directed federal dollars to make a down payment on a home for herself in a wealthy part of Jackson, Mississippi. She also purchased cars and iPads for her family and even paid one of her own speeding tickets with TANF funds. TANF funds rented a field for a private travel softball team called the Mississippi Bombers. Brett Dibiase was sent to a luxury drug rehab facility in Malibu using TANF dollars. When my team asked what he was doing there, we were initially told he was paid to teach drug rehab classes, which was a lie. Millions were sent to a private experimental concussion drug company with a celebrity endorser.

The list goes on and on. If you want to read more, I would encourage each member to read our 2020-22 Single Audit reports to the federal government.

My hope, now that this misspending is public, is that our nation will learn the lesson of the Mississippi case. In my experience, anti-poverty programs are particularly vulnerable to fraud. My office has uncovered other examples of anti-poverty programs being defrauded, sometimes by the very people who are running the programs or spending the grant dollars. National headlines confirm the risk of these programs. For example, federal agents have alleged that more than \$250 million was stolen by a group of people in Minnesota who drew down a grant intended to feed the poor.

It is worth reflecting on why these programs are vulnerable. My sense is that the perpetrators believe the people they are serving may not have access to decision makers or law enforcement to report any suspected theft. I also believe that the relaxed rules attached to these programs may lead to fraud.

I believe block grants were made to be flexible by a bipartisan group of lawmakers who, in good faith, wanted the grants to work. They wanted to give states, the laboratories of democracy, the chance to implement the best ideas to meet their specific challenges. I know they hoped the best uses of anti-poverty interventions would bubble to the top, giving other states a roadmap to follow.

In light of the Mississippi scandal, though, it's important to acknowledge that flexibility also comes with a cost. In our fraud case, we hypothesize that the seeds of the corruption started with the relaxed four TANF purposes and the freedom that the agency head believed he had to interpret those to his liking. We believe that flexibility sent a message to agency employees that, if they worked hard enough, they could shoehorn almost any use of dollars into one of the four purposes.

The second way flexibility led to fraud was through the agency's use of nonprofits. The agency sent large cash grants to nonprofits up front, no reimbursement required. If the agency head didn't find enough legal justification to spend TANF money on an object in his own office, he might then just ask the nonprofit to spend money in this way. This sort of a workaround was obviously illegal, but it happened because the parties involved likely did not believe anyone was watching.

I should note, though, that flexibility alone was not enough to create this fraud. John Davis and the nonprofit had to agree to spend money in violation of the law together. The nonprofit executives likely knew that, as long as they agreed to do what Davis said, the TANF money would keep flowing from DHS. Eventually, those nonprofit executives probably came to believe no one was watching the money at all, so they spent it in ways that benefitted themselves. In short, flexibility plus a willingness to engage in fraud led to years of misdeeds.

What guardrails, then, could have prevented this scheme? First, the federal government should send a stronger message to agency heads that they will be held accountable for telling the truth about where TANF dollars are going. Agency heads should sign statements under penalty of perjury about their spending of TANF dollars and the number of TANF-eligible recipients who have been helped.

Second, the federal government should ensure agency heads, who must monitor the nonprofits that receive their grants, do so. In Mississippi, according to our investigation, John Davis told DHS employees to avoid monitoring Nancy and Zach New's nonprofit. This should not be allowed to happen, and the federal Department of HHS should respond swiftly when state auditors flag a lack of appropriate monitoring.

Third, HHS should respond swiftly to our Mississippi case to show the nation that this type of fraud will not be tolerated. My office turned over its explosive Single Audit to the federal government in May 2020. To this day, HHS has not given an indication of when they might debar any of the nonprofits involved, when they will demand back any money, or when they will level any penalties. As I mentioned earlier, the Department of Justice has also been working on the case for three years, too, and the taxpayers of this nation will eventually deserve answers on who they will charge and who they will not. It is slow going, but my hope is that all those who were responsible will be held accountable.

Fourth, HHS should be required to report improper spending to Congress. My office is required to report all instances of improper spending in state or local government to the Mississippi legislature in August of each year. My understanding is this reform is being discussed in your proposed TANF reforms.

Fifth, Congress should ensure TANF dollars cannot flow to anyone over 200% of the federal poverty line—that the dollars will only help the truly needy. Squishy determinations around who is “needy” helped fuel the Mississippi scandal while those in actual need often missed out. Again, my understanding is this reform is also being considered.

Finally, states that have proven they do not have the ability to properly monitor nonprofits or do not have relationships with strong nonprofits should move away from granting money to nonprofits. These states should focus on research-backed interventions that move people into the workforce. The emphasis when awarding funds should be on providing dollars with clear oversight of outcomes and focused spending on proven interventions. Leaving a nonprofit to experiment can lead to death by a thousand tiny cuts of waste. Leaving a nonprofit to spend money without outcomes can lead to no good outcome at all. The provisions of the JOBS for Success Act that limit the number of exceptions for dollars flowing to employment-related activities is a good example of limiting flexibility in a way that can promote a stronger program.

In conclusion, I want to credit the men and women of the Mississippi Office of the State Auditor for their hard work in their case. One of them was awarded the American Institute of Certified Public Accountants' highest award for her work on the TANF matter. The team, collectively, has recovered more money in the last four years than in any other four-year period in Mississippi history. They are the

professionals who spent months wading through invoices, poring over accounting entries, and interviewing witnesses, and the credit for uncovering this case is theirs.

Mr. Chairman and Ranking Member Davis, thank you for the opportunity to tell Congress their story.