United States General Accounting Office

GAO

Testimony

Before the Task Force on Welfare, Committee on the Budget, House of Representatives

For Release on Delivery
Expected at 1:00 p.m. EDT
Wednesday
July 19, 2000

FOOD ASSISTANCE

Reducing the Trafficking of Food Stamp Benefits

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GAO/T-RCED-00-250

Mr. Chairman and Members of the Task Force:

Thank you for the opportunity to present our observations on how to reduce the improper trafficking of food stamp benefits—exchanging food stamps for cash or certain nonfood items. As you know, the Food Stamp Program, one of the nation's largest assistance programs for low-income Americans, provided $16 billion in benefits to about 18 million recipients in 1999. And, like many programs, the Food Stamp Program is susceptible to fraud, waste, and abuse. When benefits are improperly exchanged for cash, the storeowner gives a recipient a discounted cash payment (often 50 cents on the dollar) for food stamp benefits. The storeowner then redeems the benefits at full face value from the government. Until the mid-1990s, most recipients were provided coupons to purchase food, but currently about 70 percent of all benefits are provided electronically through a card that works much like a debit card at the grocery checkout counter. All the transactions are recorded in databases that can be analyzed to identify trafficking. The U. S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS), in partnership with the states, administers the Food Stamp Program.

Our testimony today focuses on various aspects of the trafficking problem that we have addressed over the past 3 years.[1] In particular, we have reported on (1) federal efforts to identify storeowners who engage in trafficking, (2) the amount of penalties assessed and collected against these storeowners, and (3) the extent to which states with statewide electronic benefit transfer (EBT) systems are identifying and disqualifying recipients who engage in trafficking.

In summary, we found the following:

- FNS and USDA's Office of Inspector General (OIG) use a variety of databases to analyze transaction patterns to identify suspect traffickers. They then conduct costly and time-consuming investigations to confirm actual trafficking. While FNS and the OIG have

[1] *Food Stamp Program: Information on Trafficking Food Stamp Benefits* (GAO/RCED-98-77, Mar. 26, 1998); *Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violations* (GAO/RCED-99-91, May 11, 1999); and *Food Stamp Program: Better Use of Electronic Data Could Result in*

identified thousands of storeowners who have trafficked benefits, there are opportunities to identify additional trafficking storeowners who are likely to be engaged in trafficking by more effectively using EBT data. Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, federal agencies may use EBT data alone, without the expense of conducting an uncover investigation, to take action against storeowners violating the requirements of the Food Stamp Program.

- Storeowners generally did not pay the financial penalties they were assessed for trafficking. For example, from 1993 through 1998, FNS and the courts assessed or levied about $78 million in financial penalties and interest against storeowners for violating Food Stamp Program regulations, primarily for trafficking. However, they collected only $11.5 million, or about 13 percent of the total penalties. FNS wrote off as uncollectible another $49 million, or 55 percent, of the total assessed or levied. The remaining debt was pending collection at the time of our review.

- Most states with statewide EBT systems were not analyzing EBT data to identify recipients who may have been trafficking food stamp benefits. Of the 29 states with statewide electronic benefit systems, as of April 1, 1999, only 4--Florida, Missouri, South Carolina, and Texas--independently analyzed their electronic databases to identify suspect recipients. Additionally, since 1994, USDA's OIG has identified about 34,000 suspected traffickers in Maryland and provided this information to that state. All five of these states invested the resources to investigate suspect recipients and disqualify those engaged in trafficking. During 1998 and 1999, these five states were responsible for disqualifying about 99 percent of the 6,873 individuals nationwide who were removed from the Food Stamp Program for trafficking.

In recent reports, we have recommended various ways that FNS can improve its debt collection activities and better use electronic data to identify suspected storeowner and recipient traffickers. We have also recommended that FNS use electronic data to routinely develop reliable estimates of the extent of trafficking and establish goals and strategies for

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Disqualifying More Recipients Who Traffic Benefits (GAO/RCED-00-61, Mar. 7, 2000).

reducing recipient trafficking on the basis of these estimates. Appendix I lists our recommendations and describes the actions FNS has taken to address them.

Background

FNS administers the Food Stamp Program in partnership with the states. It funds all of the program's food stamp benefits and about 50 percent of the states' administrative costs. FNS is primarily responsible for developing the program's policies and guidelines, authorizing retail food stores to participate in the program, and monitoring storeowners' compliance with the program's requirements. Its 58 field offices assess financial penalties against storeowners who violate program regulations.[2] Storeowners violate the program's requirements when they accept food stamps for nonfood items such as paper towels, accept food stamp benefits when they are not authorized to participate in the program, or traffick in food stamp benefits. The states are specifically responsible for investigating recipients alleged to be engaged in trafficking and for disqualifying those found trafficking.

According to a 1995 FNS study, about $815 million, or about 4 percent of the food stamps issued, was trafficked at 9 percent of authorized retail stores during fiscal year 1993.[3] The study found that most trafficking occurred in small grocery stores. Last week, FNS released an updated study.[4] This study estimated that stores trafficked about $660 million a year, or about 3½ cents of every dollar of food stamp benefits issued, and that most trafficking occurred in small stores. Our 1998 analysis of 432 trafficking cases found comparable results--most trafficking occurred in small stores. Data on the extent of trafficking between parties prior to reaching authorized retailers are unavailable.

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[2]Food stamp state agencies establish debts against program recipients to recover benefits they receive in excess of the level that was appropriate. According to FNS officials, debt owed by recipients is approximately 95 percent of the agency's accounts receivable.

[3]*The Extent of Trafficking in the Food Stamp Program*, FNS, Aug. 1995. This study analyzed data from the Store Investigation and Monitoring System database, which contains information on the stores suspected of trafficking.

[4]*The Extent of Trafficking in the Food Stamp Program: An Update*, FNS, Mar. 2000.

In addition to determining the eligibility of individuals applying for food stamps, the states are responsible for investigating recipients alleged to be engaged in trafficking and for disqualifying those found trafficking. Typically, a recipient found guilty of trafficking is disqualified from the program for 1 year for the first offense, 2 years for the second offense, and permanently for the third offense or for trafficking an amount that exceeds $500.[5] To disqualify an individual from the program, the states often conduct costly, time-consuming investigations--interviews with the suspect, undercover observations of transactions, and a more detailed analysis of the recipient's shopping habits.

Recipients use food stamp coupons or an electronic benefit transfer card to pay for allowable foods. Food stamp electronic systems use the same electronic fund transfer technology that many grocery stores use for their debit card payment systems. After a food stamp recipient receives a card and a personal identification number, the recipient purchases food by authorizing the transfer of the food stamp benefits from a federal account to a retailer's account. At the grocery checkout counter, the recipient's card is run through an electronic reader, and the recipient enters a personal identification number to access the food stamp account.

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, all states must implement EBT systems by October 1, 2002, unless USDA waives the requirement. Currently, 37 states and the District of Columbia have statewide EBT systems.

Federal Efforts to Identify Storeowners Who Engage in Trafficking

FNS and USDA's OIG use a variety of sources, including EBT databases and USDA's fraud hotline, to analyze transaction patterns to identify suspect traffickers. This initial effort is generally followed up with costly and time-consuming investigations, including undercover investigations, to confirm actual trafficking. Through these efforts, FNS and the OIG have identified thousands of storeowners who have trafficked benefits. The OIG has reported

[5]In some states, trafficking can also be prosecuted in state courts.

that it spends about 50 percent of its investigative resources on addressing trafficking and oversight of the Food Stamp Program—the single largest program administered by USDA.

We found that FNS could have identified additional storeowners who violated program regulations if it more effectively used EBT data. For example, each month FNS prepares a list of hundreds of stores in each region that appear to be highly likely to be violating program regulations, such as trafficking. Two of the six FNS field offices we visited further analyzed the data and took administrative action to penalize offending storeowners. However, the four other FNS field offices were not sure what to do with the data. Moreover, the head of one of the field offices told us that one monthly report indicated that over 100 of the stores in her area were probably engaged in trafficking, but she lacked the resources to further analyze the data on any of these stores and take action against them. Further, FNS had no feedback system to inform headquarters of how many of the stores on the list of likely traffickers were actually reviewed in detail. Such information would enable headquarters officials to know the extent to which the listings were examined. At the time of our review, FNS had no assurance that the stores on the monthly lists were consistently reviewed.

FNS had made limited use of this information because it had not developed an effective plan for reviewing and acting upon the data, including designating responsible staff. FNS officials told us that they need more personnel to analyze the data on stores that are likely to be trafficking food stamp benefits. Greater use of EBT data would enable FNS to better leverage its enforcement resources. Moreover, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 permits FNS to use EBT data alone, without the expense of conducting an uncover investigation, to take action against storeowners violating the requirements of the Food Stamp Program.

To improve FNS field offices' use of EBT data, we recommended that FNS develop guidance for its field offices for use in reviewing EBT data to identify and assess penalties against storeowners who violate Food Stamp Program regulations. FNS agreed and has initiated corrective actions to implement the recommendation.

Amount of Storeowner Financial Penalties Assessed and Collected

We found that FNS almost always assessed penalties against storeowners when its investigations showed that storeowners had violated requirements of the Food Stamp Program. However, storeowners generally did not pay the financial penalties they were assessed for trafficking. For example, from 1993 through 1998, FNS and the courts assessed or levied about $78 million in financial penalties and interest against storeowners for violating Food Stamp Program regulations, primarily for trafficking. However, they collected only $11.5 million, or about 13 percent of the total penalties. FNS wrote off as uncollectible another $49 million, or 55 percent of the total assessed or levied. The remaining debt was pending collection at the time of our review.

According to agency officials, this small percentage of fines collected (13 percent) reflects the difficulties involved in collecting this type of debt, such as problems in locating debtors as well as their refusal to pay.[6] However, weaknesses in the agency's debt collection procedures and practices also contributed to low collections. For example, FNS has not consistently implemented federal policies, practices, and procedures that are designed to ensure the effective management and collection of debt. FNS has not consistently and aggressively collected debt, assessed interest on unpaid debt, written off uncollectible debt in a timely manner, or established procedures to identify the causes of delinquencies and develop the correction actions needed.

To improve FNS' debt collection activities, we recommended that FNS develop the corrective actions needed to make its debt collection more effective. FNS agreed and has initiated corrective actions to implement the recommendation.

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[6]These problems are particularly acute for collecting debt from storeowners who were penalized for unauthorized participation in the Food Stamp Program. In these cases, FNS may not have information that would facilitate debt collection, such as Social Security numbers, because the storeowners never applied to FNS to become authorized retailers. Furthermore, FNS cannot use one of its tools for encouraging debt payment—threatening to remove the storeowner from the program—in these types of cases.

Extent to Which States Use EBT Systems to Identify and Disqualify Recipients Who Traffick

Of the 29 states with statewide electronic benefit systems, as of April 1, 1999, only 4--Florida, Missouri, South Carolina, and Texas--independently analyzed their electronic databases to identify suspect recipients. These states viewed this activity as essential to their efforts to improve the integrity of the Food Stamp Program. Additionally, since 1994, USDA's Office of Inspector General has identified about 34,000 suspected traffickers in Maryland and provided this information to that state.[7] All five of these states relied upon the results of detailed analysis of EBT databases to identify suspect recipients and invested the resources necessary to investigate these recipients and disqualify those engaged in trafficking. For example, for fiscal years 1998 and 1999, these five states were responsible for disqualifying about 99 percent of the 6,873 individuals nationwide who were removed from the Food Stamp Program for trafficking benefits. Although not as aggressive, nine other states investigated suspect recipients--identified by other sources, such as FNS through its efforts in disqualifying storeowners--and disqualified those who engaged in trafficking. The remaining 15 states did not disqualify any recipient for trafficking during the 2-year period.

Florida and Texas analyze their EBT data to identify stores likely to be engaged in trafficking and then identify likely trafficking recipients using those stores. As a result, Texas identified hundreds of recipients suspected of trafficking at stores identified as likely to be engaged in trafficking. On the other hand, FNS generally limits its identification of food stamp recipients to the few cases that it needs to support its actions against a storeowner. After recipients are identified as suspected traffickers, the states investigate to confirm whether trafficking actually occurred before disqualifying those found to be trafficking.

Other states take a different approach. For example, Missouri identifies suspect recipient traffickers by profiling all recipients in the EBT database without regard to specific stores.

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[7]The Office of Inspector General analyzes EBT data to generate a list of all suspect recipients associated with storeowners who have been convicted of trafficking. This list is more complete than the information FNS would provide to states in connection with its investigation of trafficking storeowners.

From January through August 1999, Missouri identified about 500 recipients suspected of trafficking food stamp benefits. Since 1994, Maryland has disqualified about 7,700 recipients out of about 34,000 referred by OIG as possible traffickers, including 3,000 during fiscal years 1998 and 1999. These referrals were associated with eight storeowners who were convicted for trafficking.

Of the 15 states that had not taken any action against trafficking recipients, 5 had received referrals of suspected recipients from FNS. According to officials in these states, they did not investigate suspect recipients because the investigations were time-consuming and costly and it was not cost-effective to do so. The officials in the five states that disqualified about 99 percent of all those removed from the program nationwide for trafficking agreed that acting against suspect traffickers was not cost-effective. However, these officials and FNS officials agree that identifying suspect recipients and disqualifying those who traffic is an essential activity for maintaining the integrity of the Food Stamp Program. They maintain that their efforts act as a deterrent by discouraging other recipients from engaging in trafficking. In this regard, FNS has established improving the integrity of the program as a major goal in complying with the principles of the Government Performance and Results Act of 1993 (Results Act).

Although EBT data have been available in varying degrees since 1993 to analyze food stamp transactions for trafficking, FNS has only recently taken steps to encourage the states to target recipients engaged in trafficking. In July 1999, FNS instructed its seven regional offices to prepare plans on how to work with states to best use the EBT data now available to identify, investigate, and disqualify trafficking recipients. We reviewed the seven draft plans that were developed and found that they were all different, but they generally included such activities as defining the federal and state roles for identifying recipients suspected of trafficking and developing processes for routinely sharing information. All these plans provide that FNS would submit to the states the names of suspect recipients associated with storeowners disqualified from the program. However, states could target a more extensive list of suspect recipients for investigation. FNS' plans do not set goals for the number of recipients to be investigated and/or disqualified. Furthermore, none of the draft plans

described how they contributed to FNS' overall effort to reduce trafficking. The FNS regions are just beginning to implement the plans.

In our March 2000 report, we reported that FNS was not able to measure the effectiveness of its or the states' efforts in reducing the overall level of trafficking because it lacked current, reliable information on the extent of trafficking. FNS' estimate, developed in 1995, used 1993 data and did not rely on EBT data. With the introduction of EBT systems in 1993, FNS has an important tool for developing current estimates of the extent of trafficking at the local, state, and national levels. Using these estimates, FNS could establish goals for reducing trafficking on the basis, for example, of the value of benefits trafficked each year. FNS could then develop strategies to efficiently and effectively reduce trafficking and use EBT data to measure the extent to which it was achieving its goals. On July 13, 2000, FNS released an update to its 1995 study. The new study estimated stores to be trafficking at $660 million, about 3½ cents on every dollar of food stamp benefits provided.

FNS' actions to help the states reduce recipient trafficking was not being guided by the best available estimate of the extent of trafficking, which would enable it to better set appropriate goals and strategies, as prescribed by the Results Act. Instead, as proposed in the draft regional plans, FNS would work with the states only to investigate the number of suspect recipients identified as being involved with specific trafficking storeowners. In its fiscal year 2000 performance plan, FNS' goal is to disqualify 1,201 stores annually. FNS could realize this goal but not substantially reduce the overall level of trafficking because the stores disqualified might be those stores with relatively low levels of trafficking. FNS has not set priorities for targeting the trafficking stores--for example, based on the volume of transactions and/or the value of the benefits trafficked. If FNS set such priorities and identified these storeowners, additional states might have an incentive to examine more suspect recipients purchasing at these stores because the likelihood of recipient trafficking would be greater.

To help states improve their review of EBT data and to obtain a reliable estimate of the extent of trafficking, we recommended that FNS (1) determine the best techniques for using

EBT data to identify suspected recipient traffickers and work with states to implement these techniques and (2) use EBT data to periodically develop reliable estimates of the extent of trafficking and use these estimates to develop goals and appropriate strategies for reducing trafficking. FNS agreed and has initiated corrective actions to implement both of these recommendations.

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This concludes my statement. I would be pleased to answer any questions that you may have.

Contact and Acknowledgment

For future contacts regarding this testimony, please contact Lawrence J. Dyckman on (202) 512-5138. Individuals making key contributions to this testimony and/or to the reports on which it was based include Ron E. Wood, John Boyle, and Richard B. Shargots.

Recommendations Contained in GAO Reports and Subsequent Agency Actions

Food Stamp Program: Storeowners Seldom Pay Financial Penalties Owed for Program Violations, (GAO/RCED-99-91, May 11, 1999)

GAO Recommendations

To improve the integrity of the Food Stamp Program, we recommended that the Secretary of Agriculture direct the Administrator, Food and Nutrition Service (FNS), to

- develop guidance that specifies its field staff's responsibilities, duties, and guidelines in reviewing data on electronic benefit transfers to identify and assess penalties against storeowners who violate Food Stamp Program regulations;

- develop the corrective actions necessary, as required by the Federal Claims Collection Standards, to help prevent delinquencies and defaults, and determine the priority and resources it needs to assign to make debt collection more effective; and

- complete the actions needed to refer delinquent debts with storeowner taxpayer identification numbers to Treasury electronically in a timely manner.

Agency Action

FNS agreed with each of the GAO recommendations and has initiated actions to implement them. Regarding the first recommendation, FNS has issued several policy memorandums to the field and plans to issue a set of national guidelines for field staff use when reviewing and analyzing EBT data. Regarding the second recommendation, FNS has developed and implemented a strategy to refer all appropriate delinquent retailer debt, including retailer Taxpayer Identification Numbers, to the Treasury Department for collection. Regarding the

third recommendation, FNS is developing the computer software necessary for the electronic transmission of retailer debt to the Treasury Department.

Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits (GAO/RCED-00-61, March 7, 2000)

GAO Recommendations

To improve the integrity of the Food Stamp Program, we recommended that the Secretary of Agriculture direct the Administrator of the Food and Nutrition Service to

- work with the five states currently using EBT data to determine the best techniques for using these data to identify suspected recipient traffickers and work with the other states with statewide EBT systems to implement the best techniques, as appropriate, and

- use EBT data to periodically develop reliable estimates of the extent of trafficking and use these estimates to develop goals and appropriate strategies for reducing trafficking.

Agency Action

FNS agreed with both of the GAO recommendations and has initiated actions to implement them. FNS stated that it fully agrees with GAO's recommendation to work with the five states which have been identified as currently using EBT data to identify suspected recipient traffickers and with the other states with statewide EBT systems to implement the best techniques, as appropriate. In the near future, FNS expects to publish a final regulation on recipient claims, which will provide an increased financial incentive for states to be more aggressive in the pursuit of recipients who traffic in EBT benefits. Under this new regulation, states will be able to retain 35 percent of each collection.

With regard to the second recommendation, FNS agreed and, in July 2000, has issued an update to its 1995 report on the extent of food stamp trafficking. FNS also reported that it would use these estimates to develop goals and appropriate strategies for reducing trafficking. However, according to FNS, current law explicitly prohibits FNS from using

Food Stamp Program funds to conduct studies and evaluations. FNS stated that restoration of funding to conduct this work is critical to effective implementation of this recommendation.

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