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Report to the Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate

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FOOD STAMP PROGRAM

Storeowners Seldom Pay Financial Penalties Owed for Program Violations

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Resources, Community, and
Economic Development Division

B-282030

May 11, 1999

The Honorable Richard G. Lugar
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

In 1998, the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA) provided about $17 billion in Food Stamp Program benefits to about 20 million recipients. Recipients purchase allowable food with their food stamp benefits—either through coupons or electronically—at about 185,000 authorized food stores. Each year, storeowners who violate various Food Stamp Program regulations are assessed millions of dollars in penalties as part of FNS' efforts to maintain the program's integrity.

To assess the role that FNS' management of these financial penalties plays in maintaining the integrity of the Food Stamp Program, you asked us to (1) identify the dollar amount of the financial penalties, collections, and debt reductions (waivers, adjustments, or write-offs) affecting storeowners violating program regulations during fiscal year 1993 through fiscal year 1998; (2) determine the effectiveness of FNS' procedures and practices for assessing financial penalties against storeowners for program violations; and (3) determine the effectiveness of FNS' procedures and practices for collecting financial penalties levied against storeowners.

Results in Brief

Over the past 6 years, the Food and Nutrition Service and the courts have assessed or levied about $78 million in financial penalties and interest against storeowners for violating Food Stamp Program regulations. The penalties and interest are recorded as debts in the agency's accounting records. During this period, the Food and Nutrition Service and the courts collected $11.5 million, or about 13 percent of the total penalties, and the agency reduced the amount owed by storeowners by about $49 million, or about 55 percent, through waivers, adjustments, or write-offs. The dollar amount of penalty debt outstanding at the end of the year more than doubled, from $12.3 million in 1993 to $28.2 million in 1998.

In seven Food and Nutrition Service field offices, we reviewed 259 USDA undercover investigations that identified program violations, and we found

that the Food and Nutrition Service almost always assessed financial penalties against storeowners when warranted. However, other storeowners who may have violated program regulations and could have been penalized were not identified. The agency is not effectively using data on the electronic redemption of food stamp benefits to identify these storeowners.

Agency officials noted that the small percentage of debt collected reflected, in part, the difficulties involved in collecting this type of debt, including problems in locating debtors and their refusal to pay. However, weaknesses in the agency's debt collection procedures and practices also have contributed to low collections. For example, the Food and Nutrition Service has not aggressively collected debt, consistently assessed interest on unpaid debt, and written off uncollectible debt in a timely manner. Furthermore, the agency has not yet referred any delinquent debt to the Department of the Treasury, which could deduct the debt from any future federal payments due the storeowners. The Food and Nutrition Service expects to soon be in a position to make such referrals as it completes the implementation of the provisions of the Debt Collection Improvement Act of 1996. This law makes the Department of the Treasury primarily responsible for collecting debts delinquent for over 180 days. We are making a number of recommendations to the Secretary of Agriculture for improving the Food and Nutrition Service's debt collection activities.

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.[1] In addition, federal, state, and local court actions can result in financial penalties against storeowners. 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.[2] FNS' seven regional offices are

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

[2]Trafficking is the exchange of food stamp benefits for cash and other major noneligible food items instead of for allowable food products. See Food Stamp Program: Information on Trafficking Food Stamp Benefits (GAO/RCED-98-77, Mar. 26, 1998).

responsible for collecting the financial penalties and related interest charges, which are recorded as debts in FNS' accounting records.

The states are responsible for handling the day-to-day operation and management of the program, including conducting such duties as certifying the eligibility of individuals or households to participate in the program, delivering benefits to recipients, and monitoring recipients' compliance with the program's requirements.

Recipients use food stamp coupons or an electronic benefits 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.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandates that all states implement electronic benefits transfer systems by October 1, 2002, unless the USDA waives the requirement. As of October 1998, 26 states had implemented electronic systems statewide. Additionally, the District of Columbia is operating a District-wide electronic system. The remaining states are in various stages of implementing electronic systems. Collectively, electronic systems supplied about 47 percent of all food stamp benefits in 1998.

Federal agencies' debt collection policies, practices, and procedures are based on legislation, regulations, and direction from the Office of Management and Budget (OMB). The principal statutes are the Federal Claims Collection Act of 1966, the Debt Collection Act of 1982, and the Debt Collection Improvement Act of 1996. The applicable regulations are principally the Federal Claims Collection Standards and departmental regulations. These statutes and regulations establish mandatory requirements for federal agencies to follow. OMB Circular No. A-129 describes management direction for federal debt collection.

Financial Penalties Levied, Collected, or Written Off During Fiscal Year 1993 Through Fiscal Year 1998

During fiscal year 1993 through fiscal year 1998, FNS' assessments and court actions resulted in $72.7 million in financial penalties and $5.0 million in interest against storeowners for violating the Food Stamp Program's regulations. Furthermore, FNS and the courts collected $11.5 million from storeowners, and FNS waived, adjusted, or wrote off $49 million.[3] (See table 1.)

Table 1: Financial Penalties Levied and Collected, and Debt Reduced by Other Means, Fiscal Years 1993-98

Dollars in millions

Fiscal year	Balance at beginning of fiscal year	New penalties	Interest added to penalties	Collection of penalties	Other reductions of penalty debt	Balance at end of fiscal year
1993	$11.0	$11.5	$0.5	$1.8	$9.0	$12.3
1994	12.3	9.0	0.4	1.6	4.6	15.4
1995	15.4	25.5	1.3	1.8	15.0	25.3
1996	25.3	10.0	0.9	1.9	9.3	25.0
1997	25.0	7.8	1.0	2.4	7.1	24.4
1998	24.4	8.9	0.9	2.0	4.0	28.2
Total		**$72.7**	**$5.0**	**$11.5**	**$49.0**	
Average		**$12.1**	**$0.8**	**$1.9**	**$8.2**	**$21.8**

Note: Other reductions of debt can be waivers, adjustments, or write-offs.

Source: FNS' data.

Table 1 shows the following for the 6-year period, fiscal year 1993 through fiscal year 1998:

FNS and the courts collected only a small percentage of the financial penalties assessed against storeowners. During the 6-year period, the total penalties were $88.7 million, but they collected only $11.5 million, or about 13 percent.

FNS reduced storeowners' penalty debt through adjustments, waivers, or write-offs by several times the dollar amount of debt that it collected

[3]Some storeowner debt is collected through court-administered and -supervised processes (court collections).

annually. For example, debt reductions averaged $8.2 million each year, while collections averaged $1.9 million. According to FNS, adjustments are changes in the amount of the original debt that should have been charged; waivers are relief from some or all of the debt; and write-offs occur when an agency determines that a debt is uncollectible after all appropriate debt collection tools have been used. FNS had large debt reductions because it was unable to collect most of the financial penalties assessed against storeowners.

The dollar amount of penalty debt outstanding more than doubled from the end of year fiscal year 1993 to the end of fiscal year 1998 (from $12.3 million to $28.2 million), while the amount of collections increased slightly, from $1.8 million to $2.0 million.

FNS' Reduction of Financial Penalty Debts

As table 1 shows, during fiscal year 1993 through fiscal year 1998, FNS reduced financial penalty debts for storeowners by $49 million. OMB Circular No. A-129 instructs federal agencies to establish effective write-off and closeout procedures for uncollectible accounts in order to permit agencies to focus their efforts on delinquent accounts with the greatest potential for collection. As discussed in greater detail later in this report, FNS has an opportunity to improve its debt collection, which, in turn, could potentially reduce the amount of debt that is written off as uncollectible.[4]

Types of Financial Penalties Against Storeowners

FNS' accounts receivable records classify financial penalties against storeowners into the following seven types:

- Retailer/wholesaler fine—unauthorized use. A storeowner not authorized to participate in the program accepts and/or redeems food stamp benefits.
- Civil money penalty—transfer of ownership. A storeowner transfers ownership of a store during a period when the storeowner was disqualified from the program.
- Court-ordered restitution. A storeowner misused food stamps, and federal, state, or local court actions imposed a financial penalty.
- Retailer/wholesaler fiscal claim. A storeowner misused food stamps by, for example, selling nonfood items to program recipients.
- Civil money penalty—hardship. A storeowner is allowed to remain in the program in lieu of disqualification when removing the store would cause

[4]As discussed in app. I, we did not evaluate the merits of the write-offs.

program recipients a hardship because of the unavailability of authorized stores in a given area.

- False Claims Act penalty. A storeowner submitted a false claim against the federal government and must pay a penalty under the False Claims Act. Such penalties usually involve storeowners caught trafficking who are not criminally prosecuted.
- Civil money penalty—trafficking. If a clerk is caught trafficking and the owner and store management were not involved, the owner can remain in the Food Stamp Program by agreeing to pay a financial penalty.

As of September 30, 1998, storeowners owed FNS about $28.2 million in financial penalties. Table 2 shows the amount owed for each type of financial penalty.

Table 2: Types of Financial Penalties and Amounts Owed FNS, as of September 30, 1998

Dollars in millions

Type of financial penalty	Amount owed as of September 30, 1998
Retailer/wholesaler fine—unauthorized use	$10.3
Civil money penalty—transfer of ownership	7.1
Court-ordered restitution	6.8
Retailer/wholesaler fiscal claim	2.2
Civil money penalty—hardship	1.3
False Claims Act penalty	0.3
Civil money penalty—trafficking	0.2
Total	**$28.2**

Source: FNS' data.

FNS Almost Always Penalized Identified Program Violators but Could Identify More Violators With Better Use of Electronic Data

FNS almost always assessed financial penalties, when warranted, against storeowners who were identified through undercover investigations as violating the Food Stamp Program's regulations.[5] However, we found that FNS could have identified additional storeowners who violated program regulations if it more effectively used data on electronic benefits transfers. FNS has made limited use of this information because it has not developed an effective plan for reviewing and acting on this information, including designating responsible staff. FNS officials believe that they need more personnel to analyze the data on stores that are likely to be trafficking.

[5]For fiscal year 1997, we reviewed about 90 percent of the reports by the Office of Inspector General and about 60 percent of the reports by FNS' Compliance Branch on undercover investigations that identified program violations by stores located within the seven FNS field offices we visited.

FNS Almost Always Assessed Financial Penalties When Warranted

FNS followed its procedures for assessing financial penalties in nearly all of the 259 cases we reviewed in which stores were found to have violated program regulations. Under its procedures, stores are penalized if the violations meet certain criteria, such as involving more than $100 in program benefits. Of the 259 cases we reviewed, 117 met these criteria, and FNS assessed penalties in 114 of these cases. In the remaining three cases, we found that FNS did not assess financial penalties when we believe it should have, and FNS concurred in our opinion.

FNS Does Not Consistently Use Electronic Data to Identify and Penalize Program Violators

Through the use of data on electronic benefits transfers (EBT), FNS identifies stores that are probably engaged in trafficking, but it does not consistently follow up on this information with further analyses to determine whether violations are occurring and to assess penalties. Greater use of EBT data to identify and penalize storeowners in violation of program regulations would enable FNS to better leverage its enforcement resources.

All states using EBT systems must provide their data on food stamp transactions to FNS for analysis. These data include the date, time, and amount of the sale; the store's authorization number; and the recipient's identification number. FNS' computer program analyzes these data and identifies individual electronic transactions or transaction patterns that indicate trafficking may be occurring at a store. Each month, FNS prepares a list of hundreds of stores in each region that appear to be highly likely to be violating program requirements.

This analysis of the electronic data offers a breakthrough in combating food stamp fraud, according to the Department's Office of Inspector General and FNS' Compliance Branch. Furthermore, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provides that FNS may use electronic data alone, without the expense of conducting a labor-intensive undercover investigation, to initiate action—such as removal from the program—against storeowners violating the requirements of the Food Stamp Program.

Before FNS staff in field locations can take action against any of the storeowners identified by FNS' computer system, they must further analyze the data because all the stores on the list may not be engaged in trafficking. They have to consult other databases and documentation to determine whether other factors, such as a store's sales volume, might have caused the computer system to flag that particular store.

We found that field offices were using these data differently, with some offices providing a more thorough review than others. For example, two field offices further analyzed the data and took administrative action to penalize offending storeowners. However, four of the other five offices were not sure what to do with the data, and they either forwarded the report to the Compliance Branch or took no action at all. In the fifth office, the state was not using an EBT system. For example, the head of a field office 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. Furthermore, FNS has 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 lists were examined. Currently, FNS has no assurance that the stores on the monthly lists are consistently reviewed.

The problems we found in the field offices show that FNS does not use the information on likely violative storeowners to the program's full advantage. It has not assigned responsibility for, or provided guidance on, following up on lists of probable traffickers. Such an approach would enable FNS to make better use of its resources to identify and penalize violators. While FNS staff might need several days each month to review the lists sent from headquarters, undercover investigations require weeks or months of staff work. Nevertheless, FNS headquarters officials told us that FNS lacks the resources to effectively carry out its store-monitoring activities, including reviewing electronic data. Over the last 2 years, the agency has requested several hundred additional staff for store monitoring but has not been successful in obtaining them.

FNS Has Had Problems Collecting Penalty Debts

Large amounts of debt owed by storeowners for Food Stamp Program violations go uncollected. During the 6-year period covered by our review, FNS collected about 11 percent of the storeowner debt for which it was responsible. According to agency officials, this small percentage 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

[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.

the agency's debt collection procedures and practices also contributed to low collections. For example, the agency has not consistently implemented federal policies, practices, and procedures for, among other things, aggressively collecting debt, assessing interest on unpaid debt, and writing off uncollectible debt in a timely manner. Furthermore, the agency has not yet referred any delinquent debt to the Department of the Treasury, which could offset (deduct) the debt against any future federal payments, including an income tax refund due a storeowner.

FNS expects to soon refer delinquent debt to the Department of the Treasury after it fully implements provisions of the Debt Collection Improvement Act of 1996. This law makes the Department of the Treasury primarily responsible for collecting debts delinquent for over 180 days and could help FNS better manage its collection activities.

FNS Has Not Implemented Policies, Practices, and Procedures for Effective Collection of Penalties

FNS has not consistently implemented several federal debt collection policies, practices, and procedures that are designed to ensure the effective collection of the debt owed to federal agencies. These practices include

- collecting debts aggressively;
- assessing interest on delinquent debts;
- collecting installment debt payments within 3 years;
- removing old uncollectible debts from accounts receivable;
- establishing procedures to identify the causes of delinquencies and developing the corrective actions needed; and
- referring delinquent debts to the Treasury Department, which can deduct the debt amounts from any federal payment due a storeowner and reporting to the Internal Revenue Service (IRS) debts written off, which are treated as taxable income to the storeowner.

A discussion of the policies, practices, and procedures that FNS did not consistently implement follows.

Amounts Owed Not Aggressively Collected

Federal Claims Collection Standards provide that agencies shall aggressively collect all debts of the United States. Collection activities are to be timely and followed up effectively.[7] The standards state that three progressively stronger "demand letters" are to be sent out to debtors. The standards also cite a number of sources for federal collection agents to check or contact to locate debtors who do not respond to the demand

[7] 4 C.F.R. 102.1.

letters, such as driver's license records, automobile title and registration records, and other state and local government agencies.[8]

In all three FNS regions we visited, FNS personnel were not aggressively collecting the penalties storeowners owed. For example, two of the three FNS regional offices mailed out two progressively stronger demand letters to debtors 30 days apart and sometimes attempted to telephone them. The regional staff did little to locate storeowners who did not respond to the demand letters. They stated that they did not have the resources for more aggressive follow-up.

Interest Not Consistently Charged

Federal legislation requires agencies to charge interest on outstanding debt.[9] FNS has not consistently charged interest on debt that is not fully paid when due. FNS officials told us that it is FNS' current policy to assess interest on all delinquent debts when FNS has clear authority to do so. The officials stated that FNS does not assess interest on court-ordered restitution debts unless provided for in the court order. They said that some court orders provide for charging interest, while others do not.

Excluding court-ordered restitution debts, as of September 30, 1998, FNS had a total of 1,182 storeowner debts. Of this total, we identified 1,053 debts that should have been charged interest because they were outstanding for at least 60 days. However, FNS did not charge interest to 177, or 17 percent, of these debts. Furthermore, for the three FNS regional offices we visited, interest was applied inconsistently for the same types of debts. For example, the Southeast Region had 19 civil money penalty—hardship debts that should have been charged interest. Of these debts, 16 had no interest charged. FNS officials stated that they noticed an inconsistency in FNS' handling of interest charges on civil money penalty—hardship and —trafficking cases. The officials added that FNS would examine its policies on establishing interest on the various categories of debt.

Installment Debt Payments Not Consistently Collected

Federal Claims Collection Standards require federal agencies to collect debts in one lump sum payment or generally within 3 years if installment payments are used.[10] About 400 storeowner debts were being paid during fiscal year 1998. FNS was responsible for establishing and collecting the financial penalties for 330 of these debts. Monthly payments collected by

[8] 4 C.F.R. 104.2.

[9] 31 U.S.C. 3717.

[10] 4 C.F.R. 102.11.

FNS on 125 debts, about 38 percent of the 330 storeowner debts, were so small in relation to the total debt owed that the debts could not be collected within 3 years. For example, one storeowner who had transferred ownership of the store during a period of disqualification was assessed a civil money penalty of $59,800 and was making installment payments of $10 a month. At that payment rate, this debt would be paid in about 498 years, even if no interest were assessed. FNS officials stated that the agency's current policy is to follow the general requirements associated with the 3-year rule.

Old Uncollectible Debts Not Removed From Agency's Accounts Receivable Records

According to OMB Circular No. A-129, effective write-off and closeout procedures on uncollectible debt are important because they permit managers to focus their efforts on the debts with the greatest potential for collection. Agencies are instructed to develop a two-step process that identifies and removes uncollectible accounts and establishes closeout procedures.

We found that FNS' write-off and closeout procedures are too general to guide the regional personnel responsible for this activity. The procedures do not specify the action that personnel should take if no collection is made on a debt during a specified period. According to our analysis of FNS' storeowner debts as of September 30, 1998, FNS had many old debts with little or no collection activity. As of that date, FNS had a total of 1,393 storeowner debts, of which 1,003 of the debts, or 72 percent, had no collections during fiscal year 1998. And 691 of the 1,003 debts were over 1 year old. Even many court-ordered restitution debts had no collections. For example, 211 storeowner debts were a result of court actions—a total of $6.8 million. However, 89 of these debts, or 42 percent, had no collections during fiscal year 1998, and 79 of these debts were over 1 year old. FNS officials stated that collections on court-ordered restitution debts are supervised by the courts, not FNS, but FNS will examine the possibility of being able to refer these debts to Treasury for collection and for IRS Form 1099-C reporting if the debts were based on violations occurring after December 27, 1996.[11]

Table 3 shows the age and dollar amounts of storeowner debt as of September 30, 1998.

[11]This form is used by agencies to report to IRS the amount of debt written off, and IRS treats the amount written off as taxable income to the debtor.

Table 3: Amounts of Storeowner Debt, as of September 30, 1998, by Age of Debt

Dollars in millions

Age of debt	Balance as of September 30, 1998	Percentage of total
1 day to 180 days	$3.0	11
181 days to 1 year	4.4	15
Over 1 year to 5 years	18.2	65
Over 5 years to 10 years	2.5	9
Over 10 years	0.1	0
Total debt	**$28.2**	**100**

Note: Some debt shown in the table is not delinquent.

Source: FNS' data.

FNS agreed that old debts should be removed from its accounts receivable records and stated that efforts under way with Treasury will help the agency define the optimum point for removing old debts from its records.

Corrective Actions Needed to Improve Debt Collection Not Developed

Federal Claims Collection Standards instruct federal agencies to establish procedures to identify the causes of delinquencies and defaults and develop the corrective actions needed.[12] Although FNS headquarters was aware that it collected only a limited amount of the storeowner debt, FNS has not developed a written action plan to deal with the agency's problems in collecting debts from storeowners. When FNS develops a plan to deal with these problems, it could assess the merits of implementing certain federal debt collection policies, practices, and procedures that it does not currently follow. These include the practices of charging penalties and administrative costs to delinquent debts and referring delinquent debts to credit bureaus. FNS officials told us that some of these practices might require legislative changes before they could be implemented.

Delinquent Debts Not Referred to Treasury

FNS has not implemented the statutory requirement for the referral of delinquent debts to the Treasury Department.[13] Under this requirement, agencies are to refer all accounts delinquent more than 180 days to Treasury, and Treasury is to deduct the debt amount from any federal payments due the storeowner. In addition, agencies are required to report to the Treasury Department any discharge of indebtedness over $600.[14] Agencies report such amounts on IRS Form 1099-C as taxable income.

[12] 4 C.F.R. 102.17.

[13] 31 U.S.C. 3711(g)(1).

[14] 26 U.S.C. 6050P.

FNS, which recognized as far back as 1990 that it did not refer delinquent debts to IRS for deduction from income tax refunds, has been slow to address this requirement. However, it has made progress and will soon be in a position to implement this requirement. In August 1994, FNS obtained statutory authority for debt referrals using Social Security numbers to other federal agencies. In December 1996, FNS issued regulations implementing this authority. In March 1999, USDA published final regulations allowing FNS to refer delinquent storeowner debts to Treasury for offset, including deductions from income tax refunds.

FNS officials informed us that the Form 1099-C referral process is handled centrally by headquarters. They added that storeowner debts originating after December 27, 1996, for which FNS can share taxpayer identification numbers with IRS, would be eligible for referral. For debts that FNS referred to Treasury for collection, the agency has made arrangements for Treasury to refer written-off debts to IRS. As of April 1999, FNS had not referred any debt to Treasury for offset, which includes offset from any income tax refund due the storeowner. As noted elsewhere in this report, FNS has referred $3.5 million in debt to Treasury for limited services under cross servicing. FNS has also not referred any Form 1099-Cs to Treasury.

Changes Made by the Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 authorized the Secretary of the Treasury to consolidate federal debt collection services within the Department. Among many requirements designed to improve debt collection in the federal government, the act established two requirements on agencies managing delinquent debt. It required agencies to refer to Treasury for offset all debts that are delinquent more than 180 days. This collection of federal offset programs includes the federal tax refund offset program. The act also required federal agencies to submit debts that are more than 180 days delinquent to Treasury for Treasury-operated collection services referred to as cross servicing. Under cross servicing, Treasury will issue specialized demand letters; attempt to contact the debtor; refer the debt to authorized collection agencies, credit bureaus, and the Department of Justice; and enter the debt into the Treasury offset program. As noted in this report, some of these services have not been conducted by FNS.

To implement the act, Treasury issued guidance to other federal agencies in September 1996 on submitting all debts delinquent for more than 180 days to Treasury for its offset program. The guidance directed agencies to include taxpayer identification numbers to facilitate collection activities

under Treasury's offset program and to submit debt data electronically—by computer modem, computer disk, or magnetic tape.

As shown in table 3, about 90 percent, or $25.1 million of FNS' storeowner debt as of September 30, 1998, was old enough—over 180 days—to send to Treasury for debt collection. However, FNS informed us that as of January 1999, it was unable to submit information on debts electronically to Treasury because of (1) data format problems and a lack of computer systems analysts and (2) the need to issue regulations implementing FNS' authority to disclose taxpayer identification numbers to Treasury. FNS expects to send information on delinquent debts to Treasury by October 1, 1999.[15]

FNS officials noted that FNS concentrated on getting debts owed by food stamp recipients, rather than storeowner debts, under Treasury's new debt collection program. Since 1992, the state food stamp agencies, working with FNS, have referred debts owed by recipients, along with Social Security numbers, to IRS for tax return offset and have collected more than $320 million in delinquent overpayments. This collection from recipients illustrates that such offsets may be a useful tool for improving collections from storeowners.

Conclusions

While FNS believes that it needs more resources to better identify storeowners who violate Food Stamp Program regulations by reviewing electronic data, it can also do so by better using its existing resources to analyze the available data. By improving its debt collection, FNS has an opportunity to increase the integrity of the Food Stamp Program by reducing waste and abuse, and to collect more of the debt, thereby reducing its write-off of uncollectible debt.

While FNS has assessed millions of dollars in penalties, it has collected only about 11 percent of the debt it was responsible for collecting during the period we reviewed. Various constraints impeded FNS' ability to use taxpayer identification numbers in its debt collection activities and to implement certain federal debt collection policies, practices, and procedures. Equally important, FNS has not acted promptly to overcome these constraints, which it knew about as early as 1990. With the Debt Collection Improvement Act of 1996, FNS has a new tool available to

[15]In early 1998, FNS submitted about $3.5 million in delinquent debts manually and without taxpayer identification numbers to Treasury, which had collected about $19,000, as of November 30, 1998.

pursue storeowners who are not paying their penalties by sending debts that it is unable to collect to Treasury for collection.

Recommendations

To improve the integrity of the Food Stamp Program, we recommend that the Secretary of Agriculture direct the Administrator, FNS, to

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

We provided a draft copy of this report to USDA and FNS for their review and comment. We met with and obtained comments from FNS officials, including the Directors of the Grants Management Division and Accounting Division, the Chief, Management Control and Audit Branch, Financial Management; and the Director, Benefit Redemption Division, Food Stamp Program.

FNS officials were concerned that certain aspects of the draft report did not portray the agency's debt collection activities accurately. First, they believed that the draft did not fully recognize the difficulties in collecting debt from storeowners. They noted that low collection rates reflect, among other things, (1) problems in locating storeowners that have been removed from the Food Stamp Program; (2) a lack of information relating to court-ordered restitution and unauthorized retailer/wholesaler debts; and (3) the refusal of some storeowners to pay their debts. We have revised the report to recognize such difficulties but continue to believe that weak debt collection practices also contribute to low collection rates.

Second, agency officials questioned the extent to which fully implementing federal debt collection practices and procedures would significantly increase debt collections. In related concerns, FNS officials noted that the draft report did not compare FNS' performance in managing

debt to other federal agencies' performance nor did it identify instances in which actual debt could have been collected and FNS failed to do so. Concerning the former, an analysis of FNS' relative performance was not within the scope of our work, nor would it have changed our basic conclusions and recommendations. Concerning the latter, we acknowledge that we cannot quantify the amount of additional collections that would be associated with fully implementing the practices and procedures. However, we believe that the implementation of these practices and procedures would improve FNS' collection efforts.

Third, FNS officials stated that the draft report failed to fully recognize the obstacles to implementing certain debt collection tools, such as referring delinquent debts to Treasury for offset against future federal payments, as well as the agency's efforts to overcome these barriers. We revised the draft to better highlight obstacles and the agency's actions.

Fourth, although FNS officials agreed with the report's three recommendations, they questioned the need for them, noting that FNS already has these or comparable actions under way to address the problems cited in the report. As stated above, we have revised the report to better highlight the agency's corrective actions. We believe our recommendations are still warranted because FNS' actions are not complete.

FNS officials also provided comments to clarify technical information or statements made in the draft report. We incorporated these changes in the report, where appropriate.

We conducted our review from April 1998 through April 1999 in accordance with generally accepted government auditing standards. Appendix I discusses the scope and methodology for this review.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 10 days from the date of this letter. At that time, we will make copies available to congressional committees with responsibility for appropriations and legislative matters for USDA and to the Honorable Daniel Glickman, Secretary of Agriculture. We will also make copies available to others on request.

Please contact me at (202) 512-5138 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

Lawrence J. Dyckman
Director, Food and
Agriculture Issues

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Abbreviations

EBT	electronic benefits transfer
FNS	Food and Nutrition Service
IRS	Internal Revenue Service
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture

Scope and Methodology

To identify the dollar amount of financial penalties, collections, and debt reductions (waivers, adjustments, or write-offs) for storeowners in the Food Stamp Program during fiscal year 1993 through fiscal year 1998, we interviewed and obtained financial reports and debt management information from officials in the Food and Nutrition Service's (FNS) Accounting Division. Because of the quality control program operated by FNS and our review of past financial reports conducted by U.S. Department of Agriculture's Office of Inspector General, we accepted FNS' computerized debt collection data as reliable.

To identify FNS' procedures and practices for assessing financial penalties against storeowners for program violations, we interviewed and obtained information from FNS officials in headquarters and in seven field offices—Chicago and Springfield, Illinois; Columbia, South Carolina; Columbus, Ohio; Los Angeles and Sacramento, California; and Tallahassee, Florida. We reviewed (1) FNS legislation and guidelines relating to assessments, (2) the use of Office of Inspector General and FNS Compliance Branch investigation reports in the assessment process, and (3) 259 case files to determine the extent to which assessments were made by FNS staff.

To identify the procedures and practices followed by FNS in collecting financial penalties levied against storeowners, we interviewed and obtained information from FNS officials in headquarters and three FNS regional offices—Midwest, Southeast, and Western. We selected these regions because they had the best and worst debt collection ratios in relation to total storeowner debt and had the largest accounts receivable balances. We analyzed various FNS reports on debt collections for fiscal year 1993 through fiscal year 1998. We also reviewed (1) FNS' guidelines and practices for debt collection and (2) the Debt Collection Act of 1982, as amended; the Debt Collection Improvement Act of 1996; Office of Management and Budget Circular No. A-129; and the Federal Claims Collection Standards. We also discussed debt collection management activities with officials of the departments of Agriculture, Justice, and the Treasury.

Since the focus of this work was on assessing and collecting financial penalties, we did not evaluate the merits of FNS' reductions of financial penalties through adjustments, waivers, or write-offs. However, we did note and report that FNS had old uncollectible debts that it had not written off in a timely manner.

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