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Accountability · Integrity · Reliability

Highlights

Highlights of [GAO-07-53](#), a report to congressional committees

Why GAO Did This Study

Every year, food stamp recipients exchange hundreds of millions of dollars in benefits for cash instead of food with retailers across the country, a practice known as trafficking. From 2000 to 2005, the Food Stamp Program has grown from \$15 billion to \$29 billion in benefits. During this period of time, the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) replaced paper food stamp coupons with electronic benefit transfer (EBT) cards that work much like a debit card at the grocery checkout counter. Given these program changes and continuing retailer fraud, GAO was asked to provide information on (1) what is known about the extent and nature of retailer food stamp trafficking, (2) the efforts of federal agencies to combat such trafficking, and (3) program vulnerabilities. To do this, GAO interviewed agency officials, visited 10 field offices, conducted case file reviews, and analyzed data from the FNS retailer database.

What GAO Recommends

To reduce program vulnerabilities, GAO recommends that FNS take additional steps to target and provide early oversight of stores most likely to traffic; develop a strategy to increase penalties for trafficking, working with the USDA Inspector General as needed; and promote state efforts to pursue recipients suspected of trafficking. FNS generally agreed with findings, conclusions and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-53.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215 or nilsens@gao.gov.

FOOD STAMP TRAFFICKING

FNS Could Enhance Program Integrity by Better Targeting Stores Likely to Traffic and Increasing Penalties

What GAO Found

FNS's estimates suggest trafficking declined between 1995 and 2005 from 3.8 cents per dollar of benefits redeemed to 1.0 cent, resulting in an estimated \$241 million in food stamps trafficked in 2005. The rate of trafficking in small grocery and convenience stores is 7.6 cents per dollar, significantly higher than the rate for large stores, where it is estimated to be 0.2 cents per dollar. In addition, the use of EBT cards has changed the way some benefits are trafficked, for example eliminating middlemen who used to collect and redeem large amounts of paper coupons from program participants willing to sell them.

FNS has taken advantage of EBT data to improve its ability to detect and disqualify trafficking retailers, while law enforcement agencies have conducted a decreasing number of investigations. Cases using only EBT transaction data now account for more than half of trafficking disqualifications, supplementing traditional, but more time-consuming, undercover investigations. Other federal entities, such as the USDA's Inspector General and the U.S. Secret Service, have reduced the number of traffickers they pursue in recent years and focused their efforts on high-impact cases. This has resulted in fewer cases referred for federal prosecution and fewer federal convictions for retailer trafficking.

Despite FNS progress, the program remains vulnerable because retailers can enter the program intending to traffic, often without fear of severe criminal penalties. FNS authorizes some stores with limited food supplies so that low-income participants in areas with few supermarkets have access to food, but may not inspect these stores again for 5 years unless there is some indication of a problem. Oversight of early operations is important because newly authorized retailers can quickly ramp up the amount of benefits they traffic. One location that FNS disqualified for trafficking redeemed almost \$650,000 in 9 months. In addition, FNS has not conducted analyses to identify high risk areas and to target its limited compliance-monitoring resources. Furthermore, disqualification, FNS's most severe penalty, may not be a sufficient deterrent, and FNS must rely upon others for prosecution. Finally, states' failing to pursue trafficking recipients leaves a pool of recipients willing to traffic when a disqualified store reopens.

This Disqualified Store, with Its Limited Counter Area and Single Cash Register, Redeemed Over \$190,000 of Food Stamp Benefits in One Month



Source: FNS.