



Testimony before the Senate Committee
on Agriculture, Nutrition, and Forestry

For Release on Delivery
Expected at 9:45 a.m. EST
Wednesday, January 31, 2007

FOOD STAMP PROGRAM

**Payment Errors and
Trafficking Have Declined
despite Increased Program
Participation**

Statement of Sigurd R. Nilsen, Director
Education, Workforce, and Income Security Issues





Highlights of [GAO-07-422T](#), a testimony before the Senate Committee on Agriculture, Nutrition, and Forestry

Why GAO Did This Study

The U.S. Department of Agriculture's (USDA) Food Stamp Program is intended to help low-income individuals and families obtain a better diet by supplementing their income with benefits to purchase food. USDA's Food and Nutrition Service (FNS) and the states jointly implement the Food Stamp Program, which is to be reauthorized when it expires in fiscal year 2007. This testimony discusses our past work on two issues related to ensuring integrity of the program: (1) improper payments to food stamp participants, and (2) trafficking in food stamp benefits.

This testimony is based on a May 2005 report on payment errors ([GAO-05-245](#)) and an October 2006 report on trafficking ([GAO-07-53](#)). For the payment error report, GAO analyzed program quality control data and interviewed program stakeholders, including state and local officials. For the trafficking report, GAO interviewed agency officials, visited field offices, conducted case file reviews, and analyzed data from the FNS retailer database.

www.gao.gov/cgi-bin/getrpt?GAO-07-422T.

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

FOOD STAMP PROGRAM

Payment Errors and Trafficking Have Declined despite Increased Program Participation

What GAO Found

The national payment error rate for the Food Stamp Program combines states' overpayments and underpayments to program participants and has declined by about 40 percent between 1999 and 2005, from 9.86 percent to a record low of 5.84 percent, due in part to options made available to states that simplified program reporting rules. In 2005, the program made payment errors totaling about \$1.7 billion. However, if the 1999 error rate was in effect in 2005, program payment errors would have been \$1.1 billion higher. FNS and the states we reviewed have taken several steps to improve food stamp payment accuracy, most of which are consistent with internal control practices known to reduce improper payments. These include practices to improve accountability, perform risk assessments, implement changes based on such assessments, and monitor program performance.

FNS estimates indicate that the national rate of food stamp trafficking declined from about 3.8 cents per dollar of benefits redeemed in 1993 to about 1.0 cent per dollar during the years 2002 to 2005 and that trafficking occurs more frequently in smaller stores. FNS has taken advantage of electronic benefit transfer and other new technology to improve its ability to detect trafficking and disqualify retailers who traffic. Law enforcement agencies have investigated and referred for prosecution a decreasing number of traffickers; they are instead focusing their efforts on fewer high-impact investigations. Despite the progress FNS has made in combating retailer trafficking, the Food Stamp Program remains vulnerable because retailers can enter the program intending to traffic and do so, often without fear of severe criminal penalties, as the declining number of investigations referred for prosecution suggests.

While both payment errors and trafficking of benefits have declined in a time of rising participation, ensuring program integrity remains a fundamental challenge facing the Food Stamp Program. To reduce program vulnerabilities and ensure limited compliance-monitoring resources are used efficiently, GAO recommended in its October 2006 trafficking report 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 Inspector General as needed; and promote state efforts to pursue recipients suspected of trafficking. FNS generally agreed with GAO's findings, conclusions, and recommendations. However, FNS believes it does have a strategy for targeting resources through their use of food stamp transaction data to identify suspicious transaction patterns. GAO believes that FNS has made good progress in its use of these transaction data; however, it is now at a point where it can begin to formulate more sophisticated analyses.

Mr. Chairman and Members of the Committee:

Thank you for inviting me here today to discuss our observations on the administration of the Food Stamp Program. As you know, the U.S. Department of Agriculture's (USDA) Food Stamp Program is intended to help low-income individuals and families obtain a better diet by supplementing their income with benefits to purchase food. USDA's Food and Nutrition Service (FNS) and the states jointly implement the Food Stamp Program, which is to be reauthorized after it expires in fiscal year 2007. Participation in the program has been cyclical, with a decrease in the number of recipients for a few years beginning in 1996. Studies suggest that economic growth in the late 1990s played a major role in this decrease. However, in recent years, the Food Stamp Program has grown tremendously. From 2000 to 2005, the program has grown from \$15 billion in benefits provided to 17 million individuals to \$29 billion in benefits to nearly 26 million individuals. Almost 1 in every 12 Americans participates in the program.

The information I am presenting today is based primarily on findings from our past work on two issues related to ensuring integrity of the program: (1) improper payments to food stamp participants, and (2) trafficking in food stamp benefits.¹ Those findings were based on multiple methodologies, including an analysis of program quality control data for fiscal years 1999 through 2003, case file reviews, data analysis of the FNS retailer database, and interviews and site visits with program stakeholders, including federal agency and state and local officials. These efforts were conducted in accordance with generally accepted government auditing standards.

In summary, both payment errors and trafficking of benefits have declined in a time of rising participation, and although progress has been made, ensuring program integrity remains a fundamental challenge facing the Food Stamp Program. The national payment error rate for the program combines states' overpayments and underpayments to program participants and has declined by about 40 percent between 1999 and 2005, from 9.86 percent to a record low of 5.84 percent. If the 1999 error rate had been in effect in 2005, the program would have made payment errors

¹GAO, *Food Stamp Program: States Have Made Progress Reducing Payment Errors, and Further Challenges Remain*, GAO-05-245 (Washington, D.C.: May 5, 2005); *Food Stamp Trafficking: FNS Could Enhance Program Integrity by Better Targeting Stores Likely to Traffic and Increasing Penalties*, GAO-07-53 (Washington, D.C.: Oct. 13, 2006).

totaling over \$2.8 billion rather than the \$1.7 billion it experienced. FNS and the states we reviewed have taken many approaches to improving food stamp payment accuracy, most of which are similar to internal control practices known to reduce improper payments. In addition to declining payment error, FNS estimates suggest that the national rate of food stamp trafficking declined from about 3.8 cents per dollar of benefits redeemed in 1993 to about 1.0 cent per dollar during the years 2002 to 2005 and that trafficking occurs more frequently in smaller stores. FNS has taken advantage of electronic benefit transfer (EBT) and other new technology to improve its ability to detect trafficking and disqualify retailers who traffic, while law enforcement agencies have investigated and referred for prosecution a decreasing number of traffickers, instead focusing their efforts on fewer high-impact investigations. Despite the progress FNS has made in combating retailer trafficking, the Food Stamp Program remains vulnerable because retailers can enter the program intending to traffic and do so, often without fear of severe criminal penalties, as the declining number of investigations referred for prosecution suggests. To reduce program vulnerabilities and ensure limited compliance-monitoring resources are used efficiently, GAO recommended in its October 2006 trafficking report 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 Inspector General as needed; and promote state efforts to pursue recipients suspected of trafficking. FNS generally agreed with our findings, conclusions, and recommendations. However, FNS believes it does have a strategy for targeting resources through their use of food stamp transaction data to identify suspicious transaction patterns. We believe that FNS has made good progress in its use of these transaction data; however, it is now at a point where it can begin to formulate more sophisticated analyses.

Background

The federal Food Stamp Program is intended to help low-income individuals and families obtain a more nutritious diet by supplementing their income with benefits to purchase nutritious food such as meat, dairy products, fruits, and vegetables, but not items such as soap, tobacco, or alcohol. The Food and Nutrition Service (FNS) pays the full cost of food stamp benefits and shares the states' administrative costs—with FNS usually paying approximately 50 percent—and is responsible for promulgating program regulations and ensuring that state officials

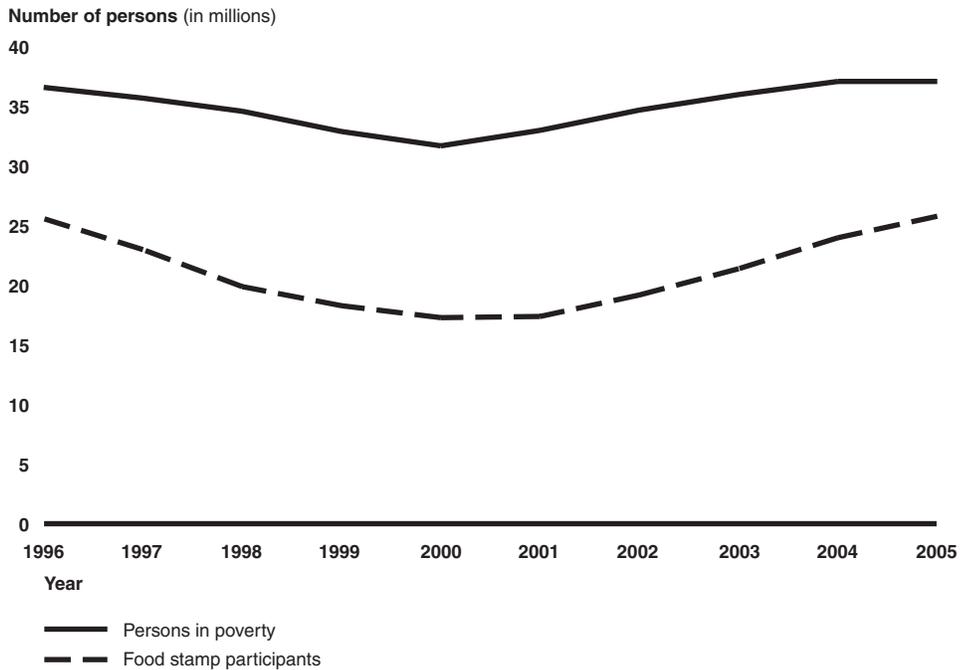
administer the program in compliance with program rules.² The states administer the program by determining whether households meet the program's income and asset requirements, calculating monthly benefits for qualified households, and issuing benefits to participants on an electronic benefits transfer card.

Program Participation

In fiscal year 2005, the Food Stamp Program issued almost \$28.6 billion in benefits to about 25.7 million individuals participating in the program, and the maximum monthly food stamp benefit for a household of four living in the continental United States was \$506. As shown in figure 1, program participation increased sharply from 2000 to 2005 following a substantial decline, and the number of food stamp recipients follows the trend in the number of people living at or below the federal poverty level.

²Reimbursements for food stamp administrative costs in 44 states are adjusted each year to subtract certain food stamp administrative costs that have already been factored into these states' Temporary Assistance for Needy Families (TANF) grants. As a result, these states receive less than 50 percent of their administrative costs. See GAO, *Food Stamp Program: States Face Reduced Federal Reimbursement for Administrative Costs*, RCED/AIMD-99-231 (Washington D.C.: July 23, 1999).

Figure 1: Food Stamp Participation and Poverty Trends



Source: GAO analysis of FNS and U.S. Census data.

Note: Poverty data are by calendar year and participation data are by fiscal year.

In addition to the economic growth in the late 1990s, another factor contributing to the decrease in number of participants from 1996 to 2001 was the passage of the Personal Responsibility and Work Opportunity Act of 1996 (PRWORA), which toughened eligibility criteria and had the effect of untethering food stamps from cash assistance. Since 2000, that downward trend has reversed, and stakeholders believe that the downturn in the U.S. economy, coupled with changes in the program's rules and administration, has led to an increase in the number of food stamp participants.

Determination of Eligibility and Benefits

Eligibility for participation in the Food Stamp Program is based on the Department of Health and Human Services' poverty measures for households. The caseworker must first determine the household's gross income, which cannot exceed 130 percent of the poverty level for that year (or about \$1,799 per month for a family of three living in the contiguous United States in fiscal year 2007). Then the caseworker must determine the household's net income, which cannot exceed 100 percent of the poverty level (or about \$1,384 per month for a family of three living in the

contiguous United States in fiscal year 2007). Net income is determined by deducting from gross income expenses such as dependent care costs, medical expenses, utilities costs, and shelter expenses. In addition, there is a limit of \$2,000 in household assets, and basic program rules limit the value of vehicles an applicant can own and still be eligible for the program.³ If the household owns a vehicle worth more than \$4,650, the excess value is included in calculating the household's assets.⁴

FNS's Quality Control System Measures Improper Payments

FNS and the states share responsibility for implementing an extensive quality control (QC) system used to measure the accuracy of Food Stamp payments and from which state and national error rates are determined. Under FNS's quality control system, the states calculate their payment errors by drawing a statistical sample to determine whether participating households received the correct benefit amount.⁵ The state's error rate is determined by weighting the dollars paid in error divided by the state's total issuance of food stamp benefits. Once the error rates are final, FNS is required to compare each state's performance with the national error rate and imposes penalties or provides incentives according to specifications in law. The Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill) changed the Food Stamp Program's quality control system by making only those states with persistently high error rates face liabilities.⁶ The 2002 Farm Bill also provided for \$48 million in bonuses each year to be

³Households with elderly or disabled members are exempt from the gross income limit and may have assets valued at \$3,000.

⁴If a household has no other assets, its vehicle can be worth \$6,650. States also have the option to replace the federal food stamp vehicle asset rule with the vehicle asset rule from their TANF assistance program or use a categorical eligibility option as a way to exclude all vehicles.

⁵The food stamp error rate is calculated for the entire program, as well as every state, by adding overpayments to those who are eligible for smaller benefits, overpayments to those who are not eligible for any benefit, and underpayments to those who do not get as much as they should. The program also calculates a negative error rate, defined as the rate of improper denials or terminations of benefits.

⁶Before the 2002 Farm Bill, states were penalized if their combined payment error rate was higher than the national average. As a result, about half of states were subject to financial sanctions each year. States are required to either pay the sanction or provide additional state funds—beyond their normal share of administrative costs—to be reinvested in error reduction efforts, such as additional training in calculating benefits for certain households. Under the 2002 Farm Bill, a state will be subject to fiscal sanction if there is a 95 percent statistical probability that the state's payment error rate exceeds 105 percent of the national average for 2 consecutive years.

awarded to states with high or most improved performance, including actions taken to correct errors, reduce error rates, improve eligibility determinations, and other indicators of effective administration as approved by the Secretary of Agriculture.⁷

Trafficking

Every year, food stamp recipients exchange hundreds of millions of dollars in benefits for cash instead of food with authorized retailers across the country, a practice known as trafficking. In a typical trafficking situation, a retailer gives a food stamp recipient a discounted amount of cash—commonly 50 cents on the dollar—in exchange for food stamp benefits and pockets the difference. By trafficking, retailers commit fraud and undermine the primary purpose of the program, which is to help provide food to low-income individuals and families. Recipients who traffic deprive themselves and their families of the intended nutritional benefits.

FNS has the primary responsibility for authorizing retailers to participate in the Food Stamp Program, monitoring their compliance with requirements, and administratively disqualifying those who are found to have trafficked food stamp benefits. At the end of fiscal year 2005, more than 160,000 retailers were authorized to accept food stamp benefits. Supermarkets account for only about 22 percent of the authorized stores but redeem the lion's share (about 86 percent) of food stamp benefits. To become an authorized retailer, a store must offer on a continuing basis a variety of foods in each of the four staple food categories—meats, poultry or fish; breads or cereals; vegetables or fruits; and dairy products—or 50 percent of its sales must be in a staple group such as meat or bakery items. However, the regulations do not specify how many food items retailers should stock. The store owner submits an application and includes forms of identification such as copies of the owner's Social Security card, driver's license, business license, liquor license, and alien resident card. The FNS field office program specialist then checks the applicant's Social Security number against FNS's database of retailers, the Store Tracking and Redemption System, to see if the applicant has previously been sanctioned in the Food Stamp Program. The application also collects information on the type of business, store hours, number of

⁷The 2002 Farm Bill requires the Secretary to issue regulations for fiscal year 2005 and thereafter that will establish criteria related to these improved performances and be used to award performance bonus payments.

employees, number of cash registers, the types of staple foods offered, and the estimated annual amount of gross sales and eligible food stamp sales.

PRWORA required each state agency to implement an EBT system to electronically distribute food stamp benefits, and the last state completed its implementation in fiscal year 2004. Prior to EBT, recipients used highly negotiable food stamp coupons to pay for allowable foods. Under the EBT system, food stamp recipients receive an EBT card imprinted with their name and a personal account number, and food stamp benefits are automatically credited to the recipients' accounts once a month. In a legitimate food stamp transaction, recipients run their EBT card, which works much like a debit card, through an electronic point-of-sale machine at the grocery checkout counter, and enter their secret personal identification number to access their food stamp accounts. This authorizes the transfer of food stamp benefits from a federal account to the retailer's account to pay for the eligible food items. The legitimate transaction contrasts with a trafficking transaction in which recipients swipe their EBT card, but instead of buying groceries, they receive a discounted amount of cash and the retailer pockets the difference.

In addition to approving retailers to participate in the program, FNS has the primary responsibility for monitoring their compliance with requirements and administratively disqualifying those who are found to have trafficked food stamp benefits. FNS headquarters officials collect and monitor EBT transaction data to detect suspicious patterns of transactions by retailers. They then send any leads to FNS program specialists in the field office who either work the cases themselves or refer them to undercover investigators in the Retailer Investigations Branch to pursue by attempting to traffic food stamps for cash.

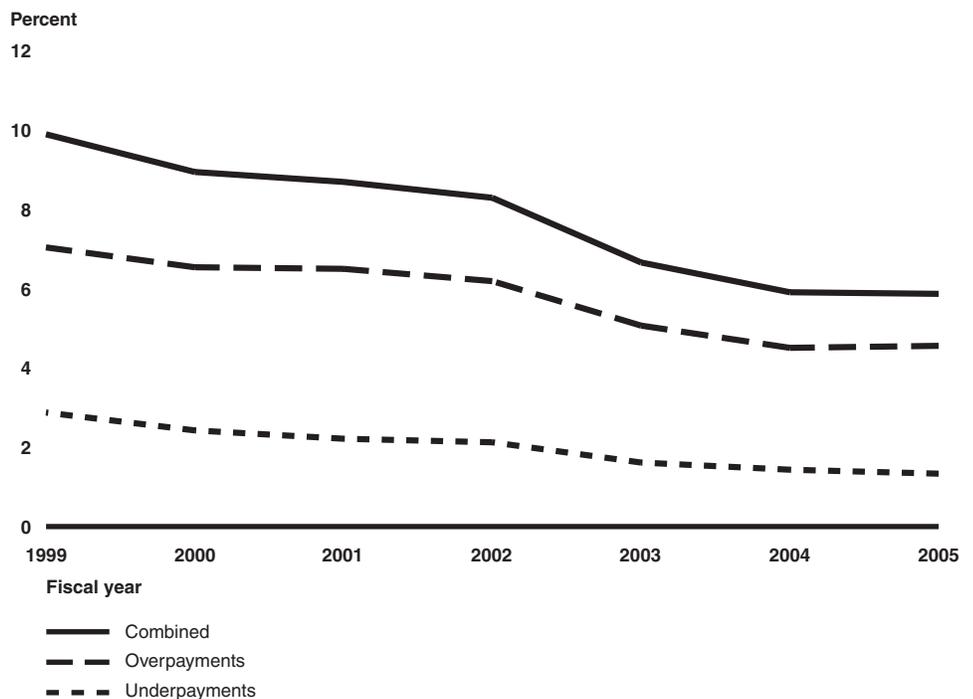
States Have Made Progress Reducing Payment Errors, and Further Challenges Remain

The national payment error rate for the Food Stamp Program combines states' overpayments and underpayments to program participants and has declined by about 40 percent, from 9.86 percent in 1999 to a record low of 5.84 percent in 2005, in a time of increasing participation. FNS and the states we reviewed have taken many approaches to improving food stamp payment accuracy, most of which are parallel with internal control practices known to reduce improper payments. Despite this progress, improper food stamp payments continue to account for a large amount of money—about \$1.7 billion in 2005—and similar error rate reductions may prove challenging given that the program remains complex.

The Food Stamp Error Rate, Which Combines Overpayments and Underpayments, Has Declined to a Record Low

The national payment error rate for the Food Stamp Program combines states' overpayments and underpayments to program participants and has declined by about 40 percent over the last 7 years, from 9.86 percent in 1999 to 5.84 percent in 2005 in a time of increasing participation (see figure 2 below). If the 1999 error rate had been in effect in 2005, the program would have made payment errors totaling over \$2.8 billion rather than the \$1.7 billion it experienced.

Figure 2: Food Stamp Payment Errors Have Dropped over the Last 7 Years



Source: FNS.

Improper payments can be in the form of overpayments or underpayments to food stamp recipients. In fiscal year 2005, food stamp payment errors totaled about \$1.7 billion in benefits. This sum represents about 6 percent of the total \$28.6 billion in benefits provided that year to a monthly average of 25.7 million low-income program participants. Of the total \$1.7 billion in payment error in fiscal year 2005, \$1.3 billion, or about 78 percent, were overpayments. Overpayments occur when eligible persons are provided more than they are entitled to receive or when ineligible persons are provided benefits. Underpayments, which occur when eligible persons are paid less than they are entitled to receive,

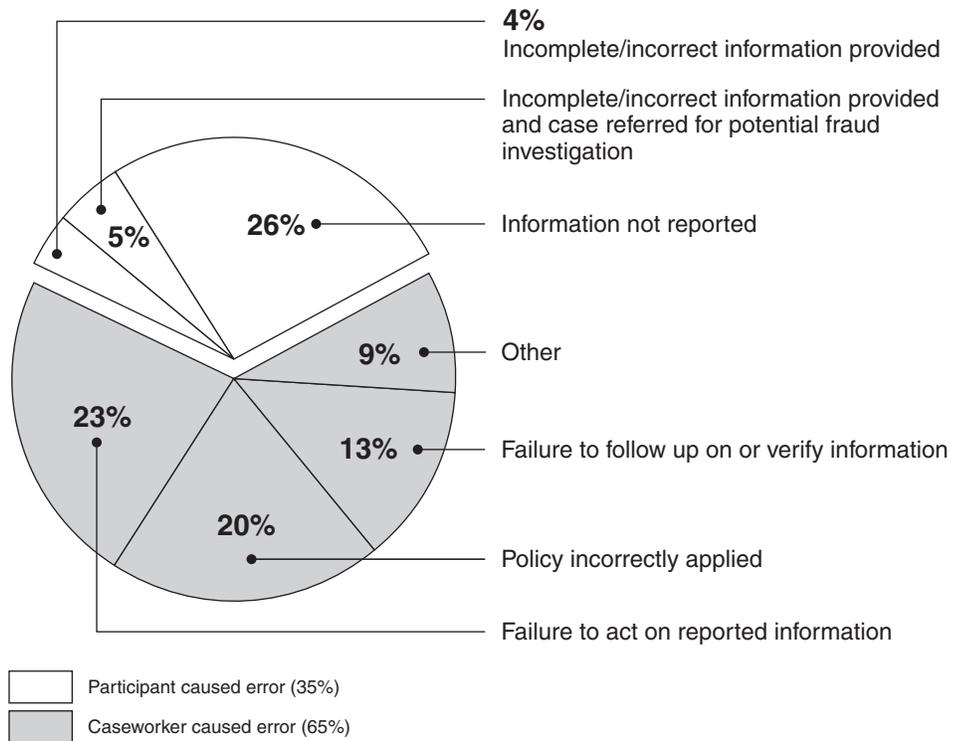
totaled \$374 million, or about 22 percent of dollars paid in error, in fiscal year 2005.

Error rates fell in 41 states and the District of Columbia, and 18 states reduced their error rates by one-third or more between fiscal years 1999 and 2003. Further, the 5 states that issue the most food stamp benefits reduced their error rates by an average of 36 percent during this period.⁸ For example, Illinois' error rate dropped from 14.79 in 1999 to 4.87 in 2003, and New York's error rate dropped from 10.47 to 5.88 in those same years. In addition, 21 states had error rates below 6 percent in 2003; this is an improvement from 1999, when 7 states had error rates below 6 percent. However, payment error rates vary among states. Despite the decrease in many states' error rates, some states continue to have high payment error rates.

We found that almost two-thirds of the payment errors in the Food Stamp Program are caused by caseworkers, usually when they fail to act on new information or when they make mistakes when applying program rules, and one-third are caused by participants, when they unintentionally or intentionally do not report needed information or provide incomplete or incorrect information (see fig. 3). As shown below, 5 percent of participant-caused errors were referred for potential fraud investigations in fiscal year 2003. Program complexity and other factors, such as the lack of resources and staff turnover, can contribute to caseworker mistakes. Despite the decrease in error rate in recent years, these factors remained the key causes of payment error between 1999 and 2003. We also found that income-related errors account for more than half of all payment errors.

⁸These states are New York, Florida, Illinois, Texas, and California.

Figure 3: Caseworker- and Participant-Caused Errors in Fiscal Year 2003



Source: FNS and GAO analysis.

FNS and States Have Taken Steps to Increase Payment Accuracy

We found that FNS and the states we reviewed have taken many approaches to increasing food stamp payment accuracy, most of which are parallel with internal control practices known to reduce improper payments.⁹ These include practices to improve accountability, perform risk assessments, implement changes based on such assessments, and monitor program performance. Often, several practices are tried simultaneously, making it difficult to determine which have been the most effective.

⁹See GAO, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: October 2001).

States we reviewed adopted a combination of practices to prevent, minimize, and address payment accuracy problems, such as

- increasing the awareness of, and the accountability for, payment error;
- analyzing quality control data to identify causes of common payment errors and develop corrective actions;
- making automated system changes to prompt workers to obtain complete documentation from clients;
- developing specialized change units that focus on acting upon reported case changes; and
- verifying the accuracy of benefit payments calculated by state food stamp workers through supervisory and other types of case file reviews.

For example, in California, state and local officials employed a combination of practices under each internal control component over the last several years to bring about their improved error rate. State officials reported expanding state oversight, hiring a contractor to perform assessments and provide training to larger counties with higher error rates, preparing detailed error analyses, and implementation of a quality assurance case review system in Los Angeles County, which accounted for 40 percent of the state's caseload. California state officials credit the adoption of a combination of approaches as the reason for the state's dramatic error rate reduction from 17.37 percent in fiscal year 2001 to 6.38 in fiscal year 2005 as the number of cases increased.

In addition, 47 states have adopted some form of simplified reporting, one of the options FNS and Congress made available to states, which has since been shown to have contributed to the reduction in the payment error rate.¹⁰ FNS and Congress made several options available to the states to

¹⁰If simplified reporting had not been implemented, FNS estimates suggest that the payment error rate would likely be 1.2 to 1.5 points higher. However, differences in policies and the prevalence of errors considerably affect the potential gains from simplified reporting. For example, effects are generally larger in states with policies that cover a large percentage of the caseload and in those states that do not have the waiver to act on all reported changes. FNS estimated that if all states adopted policies to maximize the impact of simplified reporting, the payment error rate reduction could have been larger, dropping by as much as 2.2 points.

simplify the application and reporting process.¹¹ Under the simplified reporting rule issued in November 2000 and expanded under the 2002 Farm Bill, most households need only report changes between certification periods if their new household income exceeds 130 percent of the federal poverty level. This simplified reporting option can reduce a state's error rate by minimizing the number of income changes that must be reported between certifications and thereby reducing errors associated with caseworker failure to act as well as participant failure to report changes.

FNS has taken several steps to increase payment accuracy, such as using its quality control system to provide sanctions and incentives to encourage states to reduce their payment error rates, tracking the success of state initiatives, and providing information needed to facilitate program improvement. FNS has long focused its attention on states' accountability for error rates through its QC system by assessing penalties and providing financial incentives. The administration of the QC process and its system of performance bonuses and sanctions is credited as being the single largest motivator of program behavior. In fiscal year 2005, 8 states were found to be in jeopardy of being penalized if their fiscal year 2006 error rates do not improve. Some states have expressed concern that they may improve their error rates and yet still be penalized because the national rate continues to drop around them. In addition, under its new performance bonus system, each fiscal year FNS has awarded a total of \$48 million to states, including \$24 million to states with the lowest and most improved error rates and \$6 million to states with the lowest and most improved negative error rate.¹²

¹¹The 2002 Farm Bill also gave states the option of adopting provisions that could simplify program administration and possibly reduce error rates. These options include simplifying income and resources, housing costs and deductions, reporting requirements, and utility allowances. See GAO, *Food Stamp Program: Farm Bill Options Ease Administrative Burden, but Opportunities Exist to Streamline Participant Reporting Rules among Programs*, GAO-04-916 (Washington, D.C.: September 2004).

¹²The remaining \$18 million was awarded for improvements not related to error rates—the highest and most improved ratio of food stamp participants compared with the number of persons in poverty and the highest percentage of timely completed applications. Also, in addition to monitoring the payment error rate, FNS estimates the rate at which eligible households are improperly denied benefits, which is called the negative error rate. According to a FNS QC official, this rate is not included in the national food stamp payment error rate because it counts the number of cases affected rather than the number of dollars given in error.

FNS has also taken many actions to track the success of improvement initiatives and to provide the information needed to facilitate program improvement. FNS managers and regional office staff use QC data to monitor states' performance over time, conduct annual reviews of state operations, and where applicable, monitor the states' implementation of corrective action plans. FNS, in turn, requires states to perform management evaluations to monitor whether adequate corrective action plans are in place at local offices to address the causes of persistent errors and deficiencies. In addition, in November of 2003, FNS created a Payment Accuracy Branch at the national level to work with FNS regions to suggest policy and program changes and to monitor state performance. The branch facilitates a National Payment Accuracy Workgroup with representatives from each FNS regional office and headquarters who use QC data to review and categorize state performance into one of three tiers.¹³ FNS has recommended a specific level of increasing intervention and monitoring approaches for each tier when error rates increase, and the FNS regional offices report to headquarters on both state actions and regional interventions quarterly.

FNS also provides and facilitates the exchange of information gleaned from monitoring by

- publishing a periodic guide to highlight the practices states are using to address specific problems;¹⁴
- sponsoring national and regional conferences and best practices seminars;
- training state QC staff;
- providing state policy training and policy interpretation and guidance; and
- supporting adoption of program simplification options.

Once promising state practices have been identified, FNS also provides funding to state and local food stamp officials to promote knowledge sharing of good practices.

¹³Tier 1 states have an error rate under 6 percent, and tier 2 states have an error rate of 6 percent or greater but do not fall into tier 3. States are assigned to tier 3 when the lower limit of their error rate estimate at the 90 percent confidence level is higher than 105 percent of the national error rate estimate.

¹⁴U.S. Department of Agriculture, Food and Nutrition Service, *Payment Accuracy in the Food Stamp Program* (Alexandria, Va.: September 2004).

Despite the progress in reducing payment errors, future similar error rate reductions may prove challenging. The three major causes of errors have remained the same over time and are closely linked to the complexity of program rules and reporting requirements. As long as eligibility requirements remain so detailed and complex, certain caseworker decisions will be at risk of error. Moreover, participant-caused errors, which constitute one-third of the overall national errors, are difficult to prevent and identify.

Estimates Suggest Trafficking Has Declined, but FNS Could Further Enhance Program Integrity

Since the early 1990s, trafficking has declined by about 74 percent. FNS estimates that between 2002 and 2005, about \$241 million in food stamp benefits was trafficked annually, or about 1.0 cent per dollar of benefits issued. Trafficking occurs more frequently in small convenience stores, and often, we found, between store owners and food stamp recipients with whom they were familiar. FNS has taken advantage of EBT and other new technology to improve its ability to detect trafficking and disqualify retailers who traffic, while law enforcement agencies have investigated and referred for prosecution a decreasing number of traffickers, instead focusing their efforts on fewer high-impact investigations. Despite the progress FNS has made in combating retailer trafficking, the Food Stamp Program remains vulnerable because retailers can enter the program intending to traffic and do so, often without fear of severe criminal penalties, as the declining number of investigations referred for prosecution suggests.

FNS Estimates Suggest That the Rate of Food Stamp Trafficking Has Declined and That It Occurs More Frequently in Smaller Stores

The national rate of food stamp trafficking declined from about 3.8 cents per dollar of benefits redeemed in 1993 to about 1.0 cent per dollar during the years 2002 to 2005, as shown in table 1. Overall, the estimated rate of trafficking at small stores is much higher than the estimated rate for supermarkets and large groceries, which redeem most food stamp benefits. The rate of trafficking in small stores is an estimated 7.6 cents per dollar and an estimated 0.2 cents per dollar in large stores.

Table 1: FNS Estimates Suggest That the Trafficking Rate Has Declined

Calendar year period	Estimated trafficking rate percentage	Food stamp benefits issued annually (Millions of dollars)	Estimated amount of benefits trafficked annually (Millions of dollars)
1993	3.8	21,100	812
1996-1998	3.5	19,627 ^a	657
1999-2002	2.5	16,139 ^a	393
2002-2005	1.0	23,213 ^a	241

Source: FNS studies and GAO calculation.

^aFNS reported that it annualized redemption data over the period of the study but did not provide the annualized figures. We calculated the 3- and 4-year average of benefits redeemed for comparative purposes.

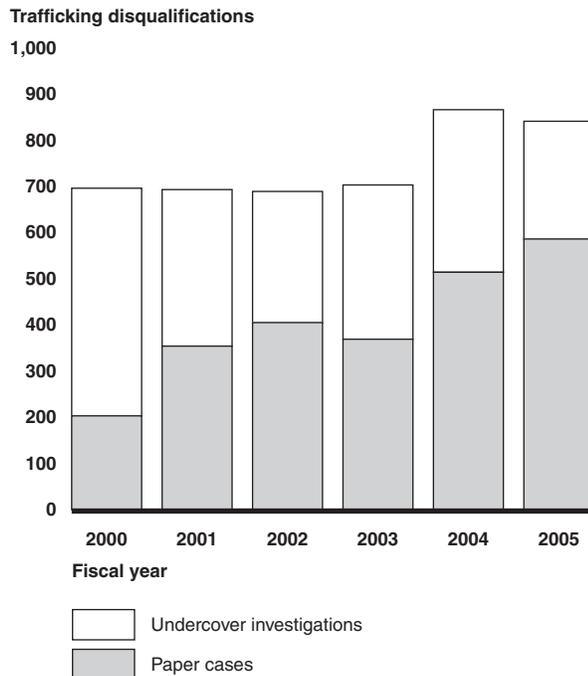
FNS Has Taken Advantage of New EBT Data to Improve Retailer Monitoring, while Other Federal Entities Have Focused on Fewer High-Impact Investigations

With the implementation of EBT, FNS has supplemented its traditional undercover investigations by the Retailer Investigations Branch with cases developed by analyzing EBT transaction data. The nationwide implementation of EBT has given FNS powerful new tools to supplement its traditional undercover investigations of retailers suspected of trafficking food stamp benefits. FNS traditionally sent its investigators into stores numerous times over a period of months to attempt to traffic benefits. However, PRWORA gave FNS the authority to charge retailers with trafficking in cases based solely on EBT transaction evidence, called “paper cases.” A major advantage of paper cases is that they can be prepared relatively quickly and without multiple store visits.

These EBT cases now account for more than half of the permanent disqualifications by FNS (see fig. 4). Although the number of trafficking disqualifications based on undercover investigations has declined, these investigations continue to play a key role in combating trafficking. However, as FNS’s ability to detect trafficking has improved, the number of suspected traffickers investigated by other federal entities, such as the USDA Inspector General and the U.S. Secret Service, has declined. These entities have focused more on a smaller number of high-impact

investigations. As a result, retailers who traffic are less likely to face severe criminal penalties or prosecution.¹⁵

Figure 4: As Trafficking Disqualifications Based on EBT Data Have Increased, Those Based on Undercover Investigations Have Decreased



Source: FNS.

Despite the Progress That Has Been Made against Trafficking, Vulnerabilities Still Exist in the Program

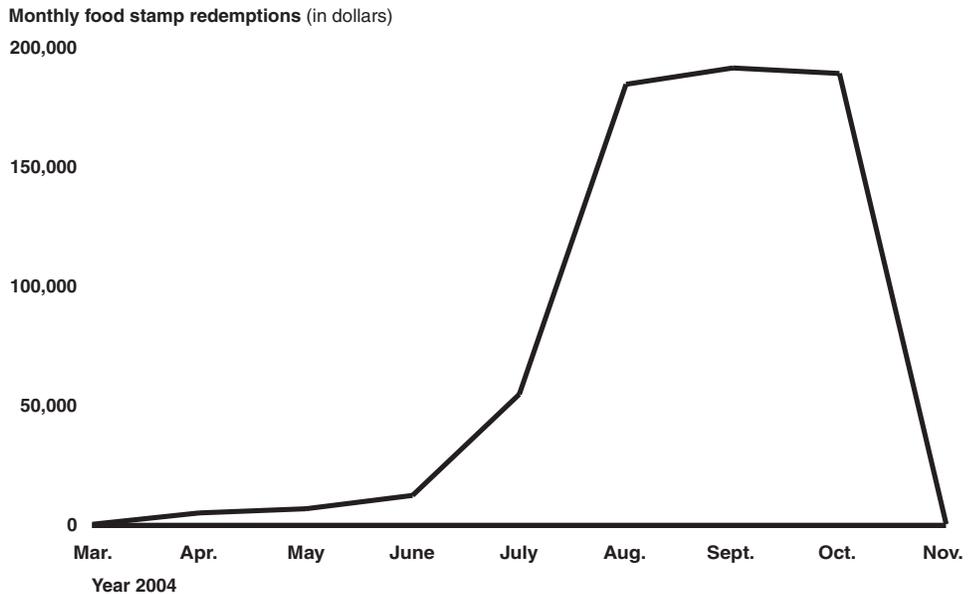
Despite the progress FNS has made in combating retailer trafficking, the Food Stamp Program remains vulnerable because retailers can enter the program intending to traffic and do so, often without fear of severe criminal penalties, as the declining number of investigations referred for prosecution suggests. FNS field office officials told us their first priority is getting stores into the program to ensure needy people have access to food, and therefore they sometimes authorize stores that stock limited

¹⁵When trafficking is proved, FNS penalizes the store owners, usually by permanent program disqualification. In limited circumstances, traffickers may receive civil penalties. These penalties may be imposed if the retailer had taken proper measures and can prove he was not involved in trafficking. Civil money penalties may also be imposed against disqualified owners who sell their stores before the expiration of the disqualification period, because they have not completed their program suspension penalty.

food supplies but meet the minimum requirements in areas with few larger grocery stores. However, once authorized, some dishonest retailers do not maintain adequate food stock and focus more on trafficking food stamp benefits than on selling groceries, according to FNS officials, and 5 years may pass before FNS checks the stock again unless there is an indication of a problem with the store.

Oversight of retailers' entry into the program and early operations is important because newly authorized retailers can quickly ramp up the amount of food stamps they traffic, and there is no limit on the value of food stamps a retailer can redeem in 1 month. At one field office location where retailers are often innovative in their trafficking schemes, FNS officials noticed that some retailers quickly escalated their trafficking within 2 to 3 months after their initial authorization. As shown in figure 5, one disqualified retailer's case file we reviewed at that field office showed the store went from \$500 in monthly food stamp redemptions to almost \$200,000 within 6 months. Redemption activity dropped precipitously after the trafficking charge letter was sent to the retailer in late October of 2004. In its application for food stamp authorization, this retailer estimated he would have \$180,000 of total annual food sales, yet the retailer was redeeming more than that each month in food stamp benefits before being caught in a Retailer Investigations Branch investigation.

Figure 5: Food Stamp Redemptions of a Newly Authorized Store Disqualified for Trafficking



Source: GAO analysis of FNS case file.

FNS has made good use of EBT transaction data. However, FNS has not conducted the analyses to identify high risk areas and to target their compliance-monitoring resources to the areas of highest risk. For example, our analysis of FNS's database of retailers showed that of the 9,808 stores permanently disqualified from the Food Stamp Program, about 35 percent were in just 4 states: New York, Illinois, Texas, and Florida, yet about 26 percent of food stamp recipients lived in those states. However, FNS headquarters officials did not know the number of program specialists in the field offices in these states who devote a portion of their time to monitoring food stamp transactions and initiating paper cases.

In addition, some retailers and store locations have a history of program violations that lead up to permanent disqualifications, but FNS did not have a system in place to ensure these stores were quickly targeted for heightened attention. Our analysis showed that, of the 9,808 stores that had been permanently disqualified from the program, about 90 percent were disqualified for their first detected offense. However, 9.4 percent of the disqualified retailers had shown early indications of problems before being disqualified. About 4.3 percent of these retailers had received a civil

money penalty, 4.3 percent had received a warning letter for program violations, and 0.8 percent had received a temporary disqualification.¹⁶ Most of these stores were small and may present a higher risk of future trafficking than others, yet FNS does not necessarily target them for speedy attention.

Further, some store locations may be at risk of trafficking because a series of different owners had trafficked there. After an owner was disqualified, field office officials told us the store would reopen under new owners who continued to traffic with the store’s clientele. As table 2 shows, our analysis of FNS’s database of retailers found that about 174, or 1.8 percent, of the store addresses had a series of different owners over time who had been permanently disqualified for trafficking at that same location, totaling 369 separate disqualifications. In one case, a store in the District of Columbia had 10 different owners who were each disqualified for trafficking, consuming FNS’s limited compliance-monitoring resources.

Table 2: Some Store Locations Have Had Multiple Retailers That Engaged in Trafficking

Number of different owners at same address disqualified	Number of disqualified addresses
2	162
3	10
5	1
10	1
Total	174

Source: GAO analysis of FNS data.

Our analysis of the data on these stores with multiple disqualified owners indicates that FNS officials found this type of trafficking in a handful of cities and states. Almost 60 percent of repeat store locations were in 6 states, and 44 percent were in 8 cities, often concentrated in small areas. For example, 14 repeat store locations were clustered in downtown areas

¹⁶Civil money penalties may be imposed against a store in lieu of disqualification. FNS collected almost \$1.7 million in civil money penalties in fiscal year 2005. Also, warning letters are sent for lesser violations of program regulations such as charging food stamp recipients higher prices than other customers or when the evidence is too limited to warrant a disqualification. Temporary disqualifications are generally for selling ineligible goods such as paper plates, tobacco, or alcohol or providing credit to food stamp recipients.

of both Brooklyn and Baltimore. However, it is not clear whether these data indicate heightened efforts of compliance staff or whether trafficking is more common in these areas. Regardless, early monitoring of high-risk locations when stores change hands could be an efficient use of resources.

In addition, states' lack of focus can facilitate vendor trafficking. Paper cases often identify recipients suspected to have trafficked their food stamp benefits with a dishonest retailer, and some FNS field offices send a list of those recipients to the appropriate state. In response, some states actively pursue and disqualify these recipients. However, FNS field offices do not always send lists of suspected individual traffickers to states or counties administering the program, and not all states investigate the individuals on these lists. Instead of focusing on food stamp recipients who traffic their benefits, states are using their resources to focus on recipients who improperly collect benefits, according to FNS officials. This inaction by some states allows recipients suspected of trafficking to continue the practice, and such inaction also leaves a pool of recipients ready and willing to traffic their benefits as soon as a disqualified store reopens under new management.

Finally, FNS penalties alone may not be sufficient to deter traffickers. The most severe FNS penalty that most traffickers face is disqualification from the program, and FNS must rely on other entities to conduct investigations that could lead to prosecution. For example, in the food-stamp-trafficking ramp-up case previously cited, this retailer redeemed almost \$650,000 of food stamps over the course of 9 months before being disqualified from the program in November 2004. As of August 2006, there was no active investigation of this retailer.

Concluding Observations

Improper food stamp payments and trafficking of benefits have declined in a time of rising participation, and although progress has been made, ensuring program integrity will continue to be a fundamental challenge facing the program. We found that payment error rates have declined substantially as FNS and states have taken steps to improve payment accuracy and that future reductions may prove challenging. Attention from top USDA management as well as continued support and assistance from FNS will likely continue to be important factors in further reductions. In addition, if error rates continue to decrease, this trend will continue to put pressure on states to improve because penalties are assessed using the state's error rate as compared with the national average. We also found that FNS, using EBT data, has made significant progress in taking advantage of new opportunities to monitor and disqualify traffickers.

However, a more focused effort to target and disqualify these stores could help FNS meet its continuing challenge of ensuring that stores are available and operating in areas of high need while still maintaining program integrity. Given the size of the Food Stamp Program, the costs to administer it, and the current federal budget deficit, achieving program goals more cost-effectively may become more important. FNS and the states will continue to face a challenge in balancing the goals of payment accuracy, increasing program participation rates, and the need to contain program costs.

To reduce program vulnerabilities and better target its limited compliance-monitoring resources, we recommended in our October 2006 report on trafficking that FNS develop additional criteria to identify stores most likely to traffic; conduct risk assessments, using compliance and other data, to systematically identify stores and areas that meet these criteria, and allocate resources accordingly; and provide more targeted and early oversight of stores determined most likely to engage in trafficking.

To provide further deterrence for trafficking, we recommended that FNS work to develop a strategy to increase the penalties for trafficking, working with the Inspector General as needed, and consider developing legislative proposals if the penalties entail additional authority.

To promote state efforts to pursue recipients suspected of trafficking and thereby reduce the pool of recipient traffickers, we recommended that FNS ensure that FNS field offices report to states those recipients who are suspected of trafficking, and revisit the incentive structure to encourage states to investigate and take action against recipients who traffic.

Department of Agriculture officials generally agreed with our findings, conclusions, and recommendations but raised a concern regarding our recommendations on more efficient use of their compliance-monitoring resources. They stated that they believe they do have a strategy for targeting resources through their use of EBT transaction data to identify suspicious transaction patterns. We believe that FNS has made good progress in its use of EBT transaction data. However, it is now at a point where it can begin to formulate more sophisticated analyses. For example, these analyses could combine EBT transaction data with other available data, such as information on stores with minimal inventory, to develop criteria to better and more quickly identify stores at risk of trafficking.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions that you or other members of the Committee may have.

**GAO Contact and
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Acknowledgments**

For future contacts regarding this testimony, I can be contacted at (202) 512-7215. Key contributors to this testimony were Diana Pietrowiak and Cathy Roark.

Related GAO Products:

Food Stamp Trafficking: FNS Could Enhance Program Integrity by Better Targeting Stores Likely to Traffic and Increasing Penalties. [GAO-07-53](#). Washington, D.C.: October 13, 2006.

Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs. [GAO-06-347](#). Washington, D.C.: April 14, 2006.

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