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Evaluation

# Evaluation of Food Retailer Compliance Management Demonstrations in EBT-Ready States and Related Initiatives

FINAL REPORT

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# EXECUTIVE SUMMARY

This report documents the Retailer Compliance Management Demonstrations in EBT-Ready States. In these demonstrations, the state food stamp agencies in New Mexico and South Carolina assumed responsibility for managing the participation of food retailers in the Food Stamp Program, a task previously managed by the federal government. The report describes these ground-breaking demonstrations and evaluates their results.

## Background

The Food Stamp Program (FSP) provides benefits, in the form of paper food stamp coupons or their electronic equivalents, to increase the food-purchasing power of needy families. As the administering agency for the FSP, the Food and Consumer Service (FCS) of the U.S. Department of Agriculture (USDA) is responsible for the authorization, training, and monitoring of food retailers that agree to redeem FSP benefits. FCS strives to make the FSP as open as possible to legitimate retailer participation while protecting the integrity of the program from trafficking (the illegal sale of food stamp benefits for cash or nonfood items) and other types of redemption fraud and abuse.

Many of the day-to-day activities involved in meeting these objectives are assigned to the FCS Field Offices. These activities include processing applications from retailers wishing to obtain FSP authorization, reauthorizing retailers to participate every two to three years, withdrawing nonparticipating stores, providing FSP information to retailers, and enforcing compliance with program regulations.

Recent developments have led FCS to reassess the way that retailer management is carried out in the FSP and the potential roles of state food stamp agencies in this area. The advent of electronic benefits transfer (EBT) systems, which eliminate paper food stamp coupons, is changing the way that the Program interacts with retailers. As state agencies implement and operate their EBT systems, they (or their EBT vendors) must recruit, equip, and train retailers to accept EBT cards for food stamp (and, in most states, cash) benefits via point-of-sale (POS) equipment. This process requires interaction with FCS to obtain and update lists of authorized food retailers.

At the same time, FCS is seeking new ways to improve the integrity of benefit redemption, placing particular emphasis on the problem of food stamp trafficking. Routine state contacts with retailers in the course of EBT operations may provide an "on-the-ground" presence that can help ensure retailer compliance with program regulations. These changes have occurred in a context of diminishing FCS resources for retailer management, especially for visiting stores applying for authorization.

**Retailer Management Demonstration Objectives**

In May 1993, FCS solicited proposals to demonstrate "State Retailer Compliance Management in EBT-Ready States." The stated purpose of the Request for Applications (RFA) was "to explore the option of opening retailer management initiatives to States to pursue alternative approaches and initiatives with Food Stamp Program retailers".[1] The RFA was specifically targeted to EBT-ready states, on the premise that such states' involvement with retailer recruitment, training and management for their EBT projects would provide an opportunity for the states to assume broader retailer management roles. In addition to the control and simplification that the states would gain by participating in the demonstration, the availability of grant funds offered the states "an opportunity to defray some of the costs associated with implementation and operation of EBT systems."

The New Mexico Human Services Department (NMHSD) and the South Carolina Department of Social Services (SCDSS) received funding under the RFA, established cooperative agreements with FCS, and conducted retailer management demonstrations in selected areas. FCS contracted with Abt Associates Inc. to conduct an independent evaluation of these demonstrations.

**Evaluation Objectives and Design**

In evaluating the retailer management demonstrations, the principal objectives were:

- to describe demonstration implementation and operations;
- to compare state retailer management procedures in the demonstration sites with FCS procedures;

[1] *Request for Applications* FNS 93-024-ASW.

- to assess the states' retailer management performance, with comparison to FCS field office performance;
- to compare the administrative costs of demonstration activities with those of comparable FCS tasks; and
- to assess the demonstrations' implications for FCS retailer management policy and procedures.

The data for the evaluation were collected from the participating state agencies and, to provide points of comparison for the demonstrations, from four FCS Field Offices. Data were collected from the New Mexico and South Carolina Field Offices (the baseline offices). In addition, to provide data from settings unaffected by the demonstrations, the Little Rock, Arkansas Field Office served as a comparison site for the New Mexico demonstration, and the Jackson, Mississippi Field Office was the comparison site for the South Carolina demonstration. The principal data sources were three rounds of interviews in New Mexico and South Carolina with state and Field Office staff, one round of interviews at the comparison Field Offices, retailer management activity and participation data from FCS' computer system, and demonstration cost reports.

**Project Description: New Mexico**

Exhibit ES.1 provides a profile of the New Mexico retailer management demonstration. The NMHSD combined two principal activities in its retailer management demonstration:

(1) assumption of responsibility for all aspects of FSP retailer management available to the state under the terms of the demonstration, including authorizing, reauthorizing and disqualifying retailers, and making referrals to investigators, for seven counties; and

(2) integration of FSP retailer management for the demonstration area with statewide EBT retailer enrollment and liaison, both during and after EBT implementation.

New Mexico's EBT system had been fully operational in Bernalillo County (Albuquerque) since 1992. During most of the demonstration, NMHSD was in the process of implementing EBT in the remaining counties in the state. The half-time retailer management specialist assisted in the rollout by establishing contracts between the state and participating merchants and by visiting stores in advance of implementation. She performed these tasks for the last two demonstration counties placed on the EBT system, and also for the 25 nondemonstration counties subsequently

**Exhibit ES.1**

**RETAILER MANAGEMENT DEMONSTRATION SUMMARY: NEW MEXICO HUMAN SERVICES DEPARTMENT**

| | |
|---|---|
| **EBT Pilot Implemented:** | March 1992 |
| **Statewide EBT Rollout Began:** | January 1994 |
| **Retailer Management Demonstration Began:** | October 1, 1993 |
| **Demonstration Fully Operational:** | April 1, 1994 |
| **EBT Rollout in Demonstration Area Complete:** | September 1995 |
| **Retailer Management Demonstration Ended:** | March 31, 1996 |
| **Grant Amount:** | $66,780 |
| **Demonstration Area:** | 7 counties, including 591 retailers, or 46% of New Mexico's retailer population (as of January 1996) |
| **Staffing:** | One half-time employee, working exclusively on the demonstration project |
| **1995 Calendar Year Activity Level:** | Retailers as of January 1995: 600<br>New authorizations: 65<br>Re-authorizations: 215<br>Withdrawals: 69<br>Disqualifications: 1 |

converted to EBT.

Store visits were also an integral part of the first-time authorization process. Wherever feasible, the retailer management specialist visited stores before authorizing them; otherwise, she visited them within a month of authorization.

**Exhibit ES.2**

**RETAILER MANAGEMENT DEMONSTRATION SUMMARY: SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES**

| | |
|---|---|
| **Retailer Management Demonstration Began:** | January 1994 |
| **EBT Pilot Implemented:** | November 1994 |
| **Demonstration Fully Operational:** | January 1, 1995 |
| **Statewide EBT Rollout Began:** | March 1995 |
| **Statewide EBT Rollout Completed:** | December 1995 |
| **Retailer Management Demonstration Ended:** | January 4, 1996 |
| **Grant Amount:** | $180,000 |
| **Demonstration Area:** | 5 counties, including 620 retailers, or 19% of South Carolina's retailer population (as of December 1995) |
| **Staffing:** | 8 staff at the state EBT project office worked on the demonstration, of whom two were primarily assigned to the retail management project |
| **1995 Calendar Year Activity Level:** | Retailers as of January 1995: 769<br>New authorizations: 73<br>Reauthorizations: 512<br>(includes stores from 1994 and 1995 lists)<br>Withdrawals: 217<br>Disqualifications: 0 |

(3) development of a retailer management information system, including up-to-date redemption information, and a set of retailer fraud indicators.

Intensive work on EBT system development, testing, and implementation was ongoing throughout South Carolina's retailer management demonstration. SCDSS arranged for the EBT contractor (Citibank EBT Services) to fill out food inventory checklists during pre-implementation visits to stores. Demonstration staff participated fully in all aspects of implementation, including coordinating and conducting visits to all stores during the first days of implementation in each county. Development work on the retailer management database application continued throughout the demonstration period. The system was designed to generate a list of "fraud-prone" stores and to allow users to access the database by modem from remote locations. Printed

reports of fraud-prone retailers and limited online access were available in June 1995. More complete online capabilities were available in early 1996.

**Evaluation Results**

The demonstrations in New Mexico and South Carolina provided a revealing test of integrating retailer management for the FSP with EBT retailer liaison functions under state control. The main lessons of the retailer management demonstrations and their implications for future state involvement in retailer management are summarized below along four key dimensions: state performance of retailer management activities, interactions with EBT implementation and operations, impacts on retailer management activities and cost, and implications for future state involvement in retailer management.

***State performance of retailer management activities:***

- New Mexico and South Carolina successfully performed the principal retailer management functions normally performed by FCS Field Office staff: processing new authorizations and reauthorizations, withdrawing closed or ineligible stores, updating retailer information on STARS, and responding to retailer inquiries. New Mexico, unlike South Carolina, also performed routine retailer monitoring activities, such as reviewing reports on nonredeeming stores, and implemented administrative sanctions against retailers found to have violated program regulations.

- In both New Mexico and South Carolina, the state staff received a substantial amount of training from the FCS Field Offices. Both states relied on the FCS Field Offices for policy guidance. New Mexico HSD maintained a particularly close working relationship with the New Mexico Field Office throughout the demonstration.

- Both New Mexico and South Carolina visited all stores applying to participate in the FSP. During the demonstration period, both FCS Field Offices visited few such stores. (Subsequently, both Field Offices have dramatically increased the frequency with which they visit retailers.)

- South Carolina accomplished its goal of developing a computer system for retailer management and monitoring, but this achievement was eclipsed by similar FCS efforts at the national level. The development process, which extended throughout the demonstration period, was fraught with delays and technical problems.

***Interaction of retailer management functions and EBT implementation and operations:***

- The consolidation of EBT and FSP retailer management clearly improved state coordination and communication with the EBT vendor.

- The consolidation of EBT and FSP functions streamlined the process for retailers, allowing them to get the information they needed from a single source. At times, however, the demands of the EBT rollout process drew resources away from the retailer management activities, resulting in delays in responding to retailer inquiries, especially in New Mexico.

- New Mexico and South Carolina used the store visits made during EBT implementation to enhance the presence of the FSP among retailers. Especially in South Carolina, the EBT-related visits to stores provided an important opportunity to identify retailers that had gone out of business, changed ownership, changed their address, or changed their business in a way that affected their eligibility to participate in the program.

- South Carolina arranged for its EBT vendor to complete a food inventory checklist on questionable stores. Although all parties agree that the use of such a checklist is feasible and potentially valuable, the test of this process in South Carolina was too limited to prove its effectiveness. Checklists were completed only in parts of the state where the Field Office retained its retailer management responsibilities, and Field Office staff had difficulties acting quickly and decisively on the EBT vendor's information.

- In approaching questions of retailer eligibility, the states appeared to be more inclined than the Field Offices to deny marginal retailer applications and to withdraw marginal retailers identified during EBT rollout or reauthorization. State staff were acutely aware of the financial costs and the risks to EBT system integrity posed by the inclusion of marginal retailers, and less experienced than the Field Office staff with the difficulty of sustaining determinations of ineligibility through the administrative review process.

- There was, however, very limited evidence of any impacts on withdrawals resulting the states' store visits and their greater inclination to deny or withdraw marginal stores. The limitations of the evaluation precluded a conclusive determination as to whether the states had higher rates of withdrawn or denied applications. In South Carolina, the Field Office withdrew only 12 of the 31 stores outside the demonstration area that the state recommended for withdrawal based on information from the rollout process, suggesting that the state was indeed more aggressive but not necessarily right. In New Mexico, the state retailer management specialist deferred to the more conservative judgment of the Field Office when evaluating applications from stores that she considered marginal.

- There were clear synergies resulting from enhanced state involvement in retailer management during EBT implementation, including:

  - better state access to retailer information,

- easier and tighter coordination between EBT and FSP retailer management, and
- enhanced detection of ineligible or potentially noncompliant stores.

- The experience with state retailer management ***after*** EBT implementation was more limited and less conclusive, but several potential benefits emerged:
  - streamlined enrollment of new retailers into the FSP and the EBT system,
  - a single point of contact for retailers with FSP or EBT questions and problems,
  - completion of inventory checklists during EBT vendors' pre-installation visits to stores,
  - more timely information for the state and its EBT vendor on retailer withdrawals and disqualifications, and
  - better flow of information to and from the State Law Enforcement Bureau (SLEB).

***Measured impacts of retailer management demonstrations:***

- Differences among the study areas in the rate of new authorizations are small, and it is unlikely that the demonstrations had a significant influence on the rate of new authorizations.

- In both the state- and federally administered parts of South Carolina, stores were withdrawn at a very high rate compared to other Field Offices in both the Southeast and Southwest Regions. At the same time, fewer stores were withdrawn in both parts of New Mexico compared to other Field Offices.

- The timing of EBT implementation had a powerful impact on the rate of withdrawals, overwhelming any influence of the transfer to state retailer management.

- State labor costs for retailer management were remarkably similar to those of the FCS Field Offices, once differences in workload and EBT implementation activity are taken into account. The demonstrations had modest start-up costs, with the major exception of South Carolina's $171,000 in expenses for the development of the retailer management computer system and other project equipment.

***Implications for future state involvement in retailer management:***

- Both states continue to seek a strong role in retailer management in the FSP, although funding issues have prevented a continuation of the demonstrations. Both states submitted proposals to FCS to continue the demonstrations, and South Carolina sought to significantly expand the scope of its retailer management activity. FCS and the states, however, were unable to find a mutually acceptable funding arrangement to extend the demonstrations.

- States clearly are capable of assuming the more routine retailer management functions of the FCS Field Offices, freeing the Field Office staff to focus more on retailer monitoring and other compliance-related activities.

- States require a significant level of training and initial support from FCS if they are to take on retailer management responsibilities.

- In performing certain infrequent but important retailer management activities, states would benefit from technical assistance that could be provided by FCS staff. Examples include disqualifying retailers and supporting administrative review. Particularly sensitive and technical tasks, such as supporting judicial appeals, may be best handled by FCS staff.

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# CHAPTER ONE
# INTRODUCTION

This report documents the Retailer Compliance Management Demonstrations in EBT-Ready States. In these demonstrations, the state food stamp agencies in New Mexico and South Carolina assumed responsibility for managing the participation of food retailers in the Food Stamp Program, a task previously managed by the federal government. The report describes these ground-breaking demonstrations and evaluates their results.

## 1.1 BACKGROUND

The Food Stamp Program (FSP) provides assistance, in the form of paper food stamp coupons and electronically-stored benefits, to increase the food purchasing power of needy families. As the administering agency for the FSP, the Food and Consumer Service (FCS) of the U.S. Department of Agriculture (USDA) is responsible for the authorization, training, and monitoring of food retailers that agree to redeem FSP benefits. FCS strives to make the FSP as open as possible to legitimate participation by food retailers while protecting the integrity of the program from trafficking (the illegal sale of food stamp benefits for cash or nonfood items) and other types of redemption fraud and abuse.

Many of the day-to-day activities involved in meeting these objectives are assigned to the FCS Field Offices. Retailers wishing to obtain FSP authorization apply to the Field Offices, which review the applications and determine if the stores qualify to participate. The Field Offices also process the applications for reauthorization that participating retailers must submit every two to three years (depending on the type of store). In addition, when stores close, change ownership, cease to be eligible, or no longer redeem food stamp benefits, the FCS Field Office staff withdraw them from the FSP. Field Office staff also provide information on program regulations to authorized retailers, answer questions about program policy, and arrange for educational materials and redemption certificates to be delivered to retailers. To enforce compliance with program regulations, the Field Office staff monitor retailers' redemption activity, receive and follow up on allegations of fraud, and impose disqualifications or monetary penalties in cases of documented program violations.

Recent developments have led FCS to reassess the way that retailer management is carried out in the FSP and the potential roles of state food stamp agencies in this area. The advent of electronic benefits transfer (EBT) systems is changing the way that the program interacts with retailers. As state agencies implement and operate their EBT systems, they (or their EBT vendors) must recruit, equip and train retailers to accept EBT cards for food stamp (and, in most states, cash) benefits via point-of-sale (POS) equipment. This process requires interaction with FCS to obtain and update lists of authorized food retailers. (Future EBT systems may involve states with a broader array of retailers and sellers of food and services, such as Medicaid providers and WIC vendors.)

At the same time, FCS is seeking new ways to improve the integrity of benefit redemption, placing particular emphasis on the problem of food stamp trafficking. Routine state contacts with retailers in the course of EBT operations may provide an "on-the-ground" presence that can help ensure retailer compliance with program regulations.

These changes have occurred in a context of diminishing FCS resources for retailer management. Cutbacks at the FCS Field Offices, including the closures of some satellite offices, have substantially reduced the staff resources available for retailer management from nearly 1,000 staff working full-time in 1976 to 350 staff spending (on average) only a fraction of their time on retailer management. A notable result of these staff reductions, and the accompanying reductions in travel budgets, was that the Field Offices became unable to visit the great majority of retailers applying for FSP authorization or reauthorization.

## 1.2 Retailer Management Demonstration Objectives

In May 1993, FCS solicited proposals from states wishing to demonstrate "State Retailer Compliance Management in EBT-Ready States." The stated purpose of the Request for Applications (RFA) was "to explore the option of opening retailer management initiatives to States to pursue alternative approaches and initiatives with FSP retailers".[1] The RFA was specifically targeted to EBT-ready states, on the premise that such states' involvement with retailer recruitment, training, and management for their EBT projects would provide an opportunity for the states to assume broader retailer management roles. In addition to the control and simplification of EBT retailer management that the states would gain by participating in the

[1] *Request for Applications*, FNS 93-024-ASW.

demonstration, the availability of grant funds offered the states "an opportunity to defray some of the costs associated with implementation and operation of EBT systems."

The New Mexico Human Services Department (NMHSD) and the South Carolina Department of Social Services (SCDSS) received funding under the RFA, established cooperative agreements with FCS, and conducted retailer management demonstrations in selected areas. To obtain an independent evaluation of these demonstrations, FCS contracted with Abt Associates Inc.[2] The evaluation also included a study of State Law Enforcement Bureau (SLEB) agreements, under which FCS authorizes states to use food stamp coupons in trafficking investigations.[3]

## 1.3 Evaluation Objectives and Design

In evaluating the retailer management demonstrations, the principal objectives were:

- to describe demonstration implementation and operations;
- to compare state retailer management procedures in the demonstration sites with FCS procedures;
- to assess the states' retailer management performance, with comparison to FCS field office performance;
- to compare the administrative costs of demonstration activities with those of comparable FCS tasks; and
- to assess the demonstrations' implications for FCS retailer management policy and procedures.

To provide points of comparison for the demonstrations, data were collected from four FCS Field Offices. In each state, data were collected from the Field Office that had previously served the demonstration area: the Albuquerque, New Mexico and Columbia, South Carolina Field Offices. These two "baseline" offices still managed retailer participation in the rest of their respective states; the New Mexico office managed retailer participation in a portion of Texas as well.

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[2] FCS contract no. 53-3198-4-021.

[3] Leo M. Allman and Christopher W. Logan, *Study of State Law Enforcement Bureau Agreements*, Cambridge, MA: Abt Associates Inc., September 1996.

To provide data from settings unaffected by the demonstrations, the Little Rock, Arkansas Field Office served as a comparison site for the New Mexico demonstration, and the Jackson, Mississippi Field Office was the comparison site for the South Carolina demonstration. The comparison sites were selected for their similarity to the demonstration sites along the dimensions of region, number of authorized firms, retailer mix, and workload per staff-year.

The data sources for the evaluation were:

- three rounds of in-person interviews with demonstration personnel and other state EBT project staff;
- three rounds of in-person interviews with FCS personnel in the baseline Field Offices;
- one round of in-person interviews with FCS personnel in the comparison Field Offices;
- telephone interviews with FCS Regional Office personnel involved with the demonstrations;
- retailer authorization and participation data from the Store Tracking and Redemption Subsystem (STARS) of the FSP Integrated Information System; and
- demonstration cost reports prepared by state staff.

For state and federal program administrators, the results of this demonstration provide valuable lessons on an alternative approach to FSP retailer management. They may not necessarily predict, however, what might happen if other states assumed retailer management responsibilities. The demonstration had some important limitations that necessitate caution in interpreting the observed differences across sites.

The evaluation was based on data from a set of case studies. The number of assessed sites was small (comprising two state agencies and four FCS Field Offices), and the states sought the opportunity to participate. Moreover, state retailer management was implemented along with EBT. This connection was one of the objectives of the demonstration, but it posed analytic difficulties in separating the effects of EBT and state retailer management on the patterns of retailer authorization and redemption activity, both in the demonstration sites and in the balance of New Mexico and South Carolina. As a result, a number of the findings are suggestive, not conclusive, and differences arising from state retailer management may have been masked by greater influences from EBT implementation.

## 1.4 Organization of Report

The next two chapters describe the history of the retailer management demonstrations in New Mexico (Chapter Two) and South Carolina (Chapter Three). In Chapter Four, each state's approach to retailer management is described. This chapter also compares the principal features of the states' procedures with those of the Field Offices. Chapter Five examines three dimensions of demonstration outcomes—activity levels, costs, and retailer participation changes—through comparisons with the four Field Offices in the study. The concluding chapter of the report, Chapter Six, summarizes the lessons and other implications of the demonstrations with respect to future retailer management activity, both by states and by FCS.

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# CHAPTER TWO
# PROJECT IMPLEMENTATION: NEW MEXICO

This chapter presents a description of the New Mexico Retailer Compliance Management Demonstration and a discussion of the implementation process. Section 2.1 describes the area included in the demonstration. Section 2.2 discusses the project origins, and Section 2.3 focuses on demonstration startup. Section 2.4 addresses the interaction of EBT implementation and the state's retailer management activities, and Section 2.5 discusses the return to FCS management of retailer participation in the demonstration area.

A description of state and FCS retailer management procedures is contained in Chapter Four.

## 2.1 SITE DESCRIPTION

The seven-county area included in the New Mexico demonstration encompasses a wide geographic area. Over 590 retailers, or 46 percent of New Mexico's FSP-authorized retailers, were included in the demonstration area. The seven counties, Bernalillo, Doña Ana, Sandoval, San Juan, Santa Fe, Torrance, and Valencia, contain one large metropolitan area, Albuquerque, and many very sparsely populated rural areas. The state's EBT system had been fully operational in Bernalillo County (Albuquerque) since 1992. During much of the demonstration, however, NMHSD was implementing EBT in the remaining counties in the state. Statewide rollout began in late 1993, and the final set of counties went live on EBT in August 1995. Exhibit 2.1 presents key dates in New Mexico's retailer management demonstrations, including milestones in the EBT implementation process.

## 2.2 PROJECT ORIGINS

The New Mexico demonstration was conceived by NMHSD EBT project director. He recognized in the RFA the opportunity to take advantage of synergies that might come from combining EBT project management and FSP retailer management in a single state agency. After learning of the RFA less than a week before an application was due to FCS, he quickly planned the demonstration, established a budget, gained departmental approval, and submitted an application. The state retailer management demonstration in New Mexico included the following

**Exhibit 2.1**

**NEW MEXICO DEMONSTRATION CHRONOLOGY**

| Date | Event |
|---|---|
| May 1993 | FCS issues RFA for "State Retailer Compliance Management in EBT-Ready States." |
| June 1993 | NMHSD submits application to FCS. |
| October 1993 | Two-year demonstration period begins. |
| December 1993 | NMHSD hires retailer management specialist. |
| January 1994 | Statewide Expansion Phase I: EBT implementation completed for retailers in Sandoval, Valencia, Torrance, and San Juan Counties.[a] |
| March 1994 | FCS notifies demonstration-area retailers of change to state administration. New Mexico Field Office (NMFO) retailer files transferred to NMHSD. |
| April 1994 | NMHSD takes over responsibility for all aspects of retailer management in demonstration area. |
| May 1994 | FCS Minneapolis Computer Support Center (MCSC) assigns a STARS identification number and password to NMHSD. |
| June 1994 | NMHSD mails 1994 reauthorization applications to retailers. |
| August 1994 | NMHSD gains full STARS capability. |
| September 1994 | Statewide Expansion Phase II: EBT implementation completed for retailers in Santa Fe and Doña Ana Counties.[a] |
| November 1994 | NMHSD gains access to the FCS electronic mail system. |
| December 1994 | Statewide Expansion Phase III: EBT system implementation completed for retailers in seven counties ***not*** included in the retailer management demonstration.[a] |
| March 1995 | Statewide Expansion Phase IV: EBT system implementation completed for retailers in four counties ***not*** included in the retailer management demonstration.[a] |
| June 1995 | NMHSD mails 1995 reauthorization packets to retailers. |
| July 1995 | FCS receives proposals from SC and NM to extend the demonstration. |
| August 1995 | Statewide Expansion Phases V and VI: EBT system implementation completed for retailers in 13 counties ***not*** included in the retailer management demonstration. All retailers in NM are now on the EBT system.[a] |
| September 1995 | FCS approves a six-month, no-cost extension of the NM demonstration. |
| March 1996 | NMFO notifies retailers in the demonstration area of the return of FSP retailer management responsibility to the NMFO. NMHSD returns retailer files to the Field Office. |
| April 1996 | Demonstration ends. NMFO resumes retailer management activity in the demon- |

key elements:

- a half-time staff person supervised by the EBT project director,
- a service area of seven counties, including New Mexico's largest county (containing the city of Albuquerque) and most of the state's other metropolitan counties; and
- integration of FSP retailer management functions for the demonstration service area with responsibility for statewise EBT retailer enrollment and liaison, both during and after EBT implementation.

The concept behind the demonstration, bringing together EBT and FSP retailer management functions in one agency, appealed to NMHSD for several reasons. First, the NMHSD project director was concerned that the state was "out of the loop" on actions such as retailer disqualifications. For example, the Field Office might know about negative findings from a compliance investigation and might even have notified a retailer that he or she was going to be disqualified. Retailers can appeal disqualification actions, however, and FCS will take action only when the appeals, or the time limits governing the appeal rights, have been exhausted. The state and its EBT vendor were learning of such actions only after they had been officially implemented, which increased the risk of loss or unauthorized use of deployed EBT equipment, for which the state was potentially liable. Additionally, through its visits to stores during EBT implementation, NMHSD had encountered stores that were obviously ineligible for participation in the FSP, but still authorized. The state wanted to resume the practice of making regular visits to FSP-authorized stores and to have the ability to remove ineligible stores from the system.

In September 1993, NMHSD received word that it had been awarded $66,780 for a two-year demonstration. FCS and NMHSD established a cooperative agreement that called for the retailer management demonstration to begin in October 1993 and end in September 1995.

## 2.3 STARTUP

Shortly after establishing the cooperative agreement, the EBT project director began recruiting for the half-time retailer management position budgeted in the proposal. The retailer management specialist began work December 23, 1993.

The NMFO had only recently learned of the project. In reviewing New Mexico's proposal for statewide EBT expansion, Field Office staff noticed a reference to a retailer management demonstration project. The NMFO initially viewed the project as an encroachment

on their area of responsibility and expertise, and resented headquarter's failure to consult with, or even inform, Field Office staff of this major change to their mandate. Further, FCS Field Office staff could hardly be faulted for viewing the project as a potential threat to their job security. Despite the awkward beginning, Field Office staff played a crucial role in the successful launch of the retailer management demonstration.

The state's retailer management specialist spent her first months in on-the-job training, with the Field Office staff as her trainers. NMFO staff provided instructions in FSP regulations and procedures.[1] NMFO provided a complete set of forms, including both standard-issue FCS forms and forms developed locally. Importantly, it was through the Field Office that the NMHSD retailer management specialist gained access to and training on the STARS system.[2]

In January 1994, the state requested access to STARS, a necessary condition for authorizing and deauthorizing retailers to participate in the FSP. There were two elements necessary for NMHSD to have routine access to STARS. First, the state needed special communications software that would allow a PC to dial in to the system. Second, because the security features of STARS restrict access to the system, NMHSD needed a system identification number (ID) and password that would allow the appropriate level of access. Initially, FCS staff were concerned that the state would have access to data on all retailers in the state, not just those in the seven-county demonstration area. FCS determined, however, that it was not feasible to restrict access to specified counties (because STARS security features are set up on a Field Office basis, not a county basis).

Initially, NMFO provided training to New Mexico's retailer management specialist using an NMFO ID and password to access the STARS system. In May 1994, the Minneapolis Computer Services Center (MCSC) assigned a STARS ID and password to NMHSD. The communications software needed to dial in to the system, however, was not operational until

[1] There was some confusion about which version of the FSC-318 Handbook NMHSD should use. The NMFO was using for guidance a draft of the Handbook that had not been officially approved, because it was part of authorizing legislation held up in Congress. NMFO felt they could not release the draft Handbook to NMHSD, however, because it was still technically a draft version and had not been published for distribution outside the agency. NMHSD wanted to follow the latest set of guidelines and to follow closely NMFO procedures in most areas. Although NMHSD had only the "old" version of the handbook, information on the new guidelines was readily available from NMFO.

[2] STARS, the Store Tracking and Redemption Subsystem of the FSP Integrated Information System, is the nationwide system for maintaining information on FSP retailer authorization and redemption activity.

August 1994. In the intervening months, Field Office staff allowed the state's retailer management specialist to access STARS from the Field Office, using the NMHSD ID and password. These visits by the retailer management specialist to the NMFO provided an opportunity for exchanging information and further technical assistance.

In March 1994, FCS sent a letter to all FSP-authorized retailers in the seven-county demonstration area, announcing that effective April 1, NMHSD was the designated retailer point-of-contact for the FSP. On March 30, 1994, NMFO transferred its retailer files for the demonstration counties to NMHSD.

## 2.4 Retailer Management During EBT Expansion

The NMHSD retailer management office consisted of the one half-time specialist in an office near the state's EBT project office. The retailer management specialist reported directly to New Mexico's EBT project director and operated with considerable autonomy. The office was staffed four hours per day. At other times, the EBT project secretary or an answering machine received calls.[3] The retailer management office had access to STARS and the FCS electronic mail system. The FCS New Mexico Field Office regularly forwarded electronic mail on retailer management topics to NMHSD.[4]

The NMHSD retailer management specialist maintained a close working relationship with the FCS Field Office throughout the demonstration, and relied on the FCS Field Office staff for guidance when handling new or difficult situations. One food program specialist at the Field Office had considerable expertise with the retailer aspects of the FSP (she was the only Field Office staff member with sufficient tenure to have conducted store visits herself). That program specialist therefore took the lead in working with New Mexico's retailer management specialist, helping her develop store visit procedures and observing her initial visits. After gaining experience, the NMHSD retailer management specialist continued to rely on NMFO for assistance in special situations, such as handling a disqualification or an appeal of a denied application. The

[3] Initially, when the retailer management specialist was not in the office, all calls were forwarded to the EBT project office. This volume of retailer-related calls was too great for the already stretched EBT project office. The answering machine relieved the burden on the EBT project office, but it meant that callers had to wait for a return phone call.

[4] NMHSD was able to access the FCS cc:mail system after November 1994.

NMHSD retailer management specialist also typically consulted with NMFO on cases in which a store was only marginally qualified to participate in the program.

The FCS Field Office made it clear to NMHSD that, because responsibility for the demonstration counties and their retailer management files would be returning to the FCS Field Office after two years, the project should be operated consistently with existing Field Office procedures. As a result, many procedures at the demonstration office were identical to those followed by the Field Office. Chapter Four discusses in greater detail those areas of retailer management activity in which the demonstration office followed a procedure that differed to some extent from the procedures established at the FCS Field Office.

The NMHSD retailer management specialist found that her retailer management responsibilities and EBT implementation responsibilities took more of her time than the 20 hours per week for which she had been hired. As a result, she routinely worked extensive (unpaid) overtime. In hindsight, NMHSD's project director feels the state underestimated the complexity of the retailer management function. Because the demonstration was planned quickly in order to meet the deadline for the funding application, NMHSD staff were not able to thoroughly investigate all aspects of the functions they proposed to take over from the Field Office. A key oversight was the reauthorization process. NMHSD did not realize that stores were reauthorized biannually, and did not account for the staff time necessary to perform this set of retailer management activities when it established the demonstration budget.

**EBT Implementation**

The retailer management specialist, along with a NMHSD EBT project staff member, was responsible for establishing merchant agreements with all retailers in counties where EBT was to be implemented, both within and outside the seven demonstration counties. The two staff members visited each store one or two weeks before the scheduled implementation date in each county. The purpose of the visit was to make sure that the retailer knew how to operate the equipment and was otherwise ready for implementation.

These EBT implementation responsibilities accounted for a significant share of the retailer management specialist's overall responsibilities from July 1994 to August 1995, during which time 25 counties were added to the state's EBT system. The retailer visits during EBT rollout would occasionally require the retailer management specialist to be away from the

Albuquerque office for a week at a time, with only an answering machine to take calls from retailers. This resulted in a delayed response to some retailer inquiries, which was frustrating for retailers who wanted an immediate response to their inquiries, and also to the EBT vendor and the FCS Field Office, to whom retailers would turn when they did not reach someone who could help them at NMHSD.

In addition to their EBT implementation purposes, these store visits had some value from a retailer management perspective. Stores occasionally had questions about FSP issues. The retailer management specialist was often the first representative of the FSP to visit the store in many years. In a few cases, she encountered stores that were no longer eligible to participate or that raised her suspicions. In coordinating with the Field Office, the retailer management specialist either obtained updated application information or requested an investigation.

## 2.5 Return to FCS Administration

In the summer of 1995, NMHSD submitted to FCS a proposal to extend the retailer management demonstration for one year, requesting additional funding at a level that would allow the retailer management specialist to increase her hours from 20 to 30 hours per week. FCS declined the request for additional funding, but approved a six-month, no-cost extension. On April 1, 1996, NMHSD returned its delegated food stamp retailer management responsibilities to the FCS Field Office. New Mexico's EBT project continues to be responsible for liaison with retailers and the FCS Field Office regarding the addition or removal of retailers from the EBT system and other EBT retailer management matters.

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# CHAPTER THREE
# PROJECT IMPLEMENTATION: SOUTH CAROLINA

This chapter presents an overview of the South Carolina demonstration. Section 3.1 describes the area included in the demonstration. Section 3.2 discusses the origins of the project. The period before the demonstration was fully operational is the focus of Section 3.3. Section 3.4 examines a key component of the demonstration, the development and implementation of a computer-based Retailer Management System. Section 3.5 addresses the interaction of EBT implementation and the state's retailer management activities, and Section 3.6 discusses the return to FCS management of retailer participation in the demonstration area.

## 3.1 SITE DESCRIPTION

The South Carolina retailer management demonstration included five counties: Berkeley, Charleston, Darlington, Dorchester, and Florence. The area included the highly-urbanized area of Charleston, as well as some very rural parts of South Carolina. The demonstration involved 620 retailers, or 19 percent of the FSP-authorized retailers in South Carolina.

SCDSS awarded a contract for EBT services to Citibank EBT Services in early 1994, with a pilot scheduled for Darlington County in November 1994. SCDSS established an ambitious agenda for statewide rollout, with new counties going live monthly, starting March 1, 1995, and ending December 1, 1995. Exhibit 3.1 presents a chronology of the retailer management demonstration, including key events in the EBT implementation process.

## 3.2 PROJECT ORIGINS

The SCDSS retailer management project temporally spanned two leadership teams at the SCDSS EBT Project. The RFA was received and the demonstration planned in May and June 1993. The individual who was then managing the EBT project negotiated a cooperative agreement with FCS that called for SCDSS to receive a grant of $180,000 for a two-year demonstration project to begin in October 1993. In April 1994, SCEDSS created and filled a new position of EBT administrator, a position to which all EBT project staff reported. In September 1994, the previous project manager left the agency, and leadership of the retailer management demonstration passed to a staff member, who for several years had played a key role

**Exhibit 3.1**

**SOUTH CAROLINA PROJECT CHRONOLOGY**

| Date | Event |
|---|---|
| May 1993 | FCS issues RFA for "State Retailer Compliance Management in EBT-Ready States" |
| July 1993 | SCDSS submits proposal to FCS |
| October 1993 | Cooperative agreement begins |
| January 1994 | SCDSS awards EBT vendor contract to Citibank EBT Services |
| April 1994 | Paul Brawley becomes EBT administrator |
| August 1994 | Retailer management specialist hired |
| November 1994 | EBT pilot implemented in Darlington County (a demonstration county). SCDSS begins 1994 reauthorization process |
| January 1995 | SCDSS takes on full responsibility for retailer authorization and withdrawal in demonstration counties |
| March 1995 | EBT Implementation Phase I (Charleston County, a demonstration county) |
| April 1995 | EBT Implementation Phase II (including two demonstration counties, Berkeley and Dorchester) |
| June 1995 | EBT Implementation Phase IV (bringing last retailer management demonstration county, Florence, onto the EBT system).[a] SCDSS demonstrates RMS system |
| July 1995 | SCDSS submits proposal to extend and expand the retailer management demonstration. SCDSS installs test version of RMS on a PC at the South Carolina Field Office |
| September 1995 | FCS and SCDSS agree to three-month, no-cost extension of the demonstration |
| December 1995 | EBT Implementation Phase X completes the statewide rollout of EBT |
| January 1996 | FCS South Carolina Field Office resumes retailer management responsibility for demonstration area |

[a] There were ten phases for EBT implementation in South Carolina. Only three implementation phases (I, II, and IV) and the pilot phase involved demonstration counties.

in planning EBT system implementation.

SCDSS included the following three components in its retailer management demonstration:

(1) state management of retailer participation in the FSP in five counties,

(2) integration of FSP retailer management with statewide EBT implementation activities, and

(3) development of a retailer management information system, including up-to-date FSP-authorization and redemption information and a set of retailer fraud indicators.

## 3.3 STARTUP

As in New Mexico, the South Carolina demonstration relied on significant training and information sharing from the local Field Office. The South Carolina Field Office (SCFO) learned about the demonstration when SCDSS contacted the office in the process of preparing its response to the RFA. Like the New Mexico Field Office staff, the South Carolina FCS staff were concerned about being left out of the process and about the future implications of the demonstration for the FSP and for themselves. Nevertheless, SCFO staff took a very professional approach, providing all the information and training that the state requested. Local and national FCS staff made it clear to SCDSS that they expected the FCS Field Office to resume its retailer management duties at the end of the demonstration period and that, consequently, FCS expected SCDSS to follow established procedures closely.

During the summer of 1994, FCS Regional and Field Office staff became concerned that SCDSS showed few signs of being ready to manage retailer participation in the five demonstration counties, as called for in the cooperative agreement.[1] The Field Office initiated a series of meetings designed to encourage SCDSS to establish procedures and prepare for its new role. The retailer management demonstration's startup activities were characterized by competition for scarce resources and consequent delays. In particular, the demonstration was hampered by the intensive effort by EBT project staff to prepare for the pilot of the EBT system. In addition, the

[1] The SCDSS proposal called for SCDSS to take on retailer authorization responsibilities in phases, starting in Darlington County in February 1994, with the final demonstration counties to come under SCDSS jurisdiction in April 1995.

change in project leadership and a focus on the technical requirements of the Retailer Management System (RMS) system delayed the start of demonstration operations.

SCDSS hired a retailer management specialist in August 1994. This individual spent much time during her first months on the job at the South Carolina Field Office getting hands-on training on the use of the STARS system and retailer management procedures in general. Finally, in November 1994, SCDSS took on its first retailer management function by mailing out reauthorization packets to retailers in the five demonstration counties. In January 1995, SCDSS took on the full set of retailer management functions called for under the cooperative agreement.

Gaining STARS access, an essential ingredient of retailer management, was problematic in South Carolina, as it had been in New Mexico. SCDSS needed more than just the basic Field Office access to STARS. Their planned retailer data system (and indeed their EBT system) relied on updated information on newly-authorized and withdrawn retailers. To facilitate this update, MCSC (the site of STARS operations) needed to generate a file that SCDSS could download daily. The technical problems of developing this functionality were not themselves daunting, but gaining access to the programming resources at MCSC, at a time when STARS was undergoing other modifications, took several frustrating months. As a consequence, this capability was not fully operational until January 1995. The basic STARS access needed for routine authorizations and withdrawals, however, was available to SCDSS earlier, in November 1994.

The retailer management demonstration in South Carolina was coupled with a less mature EBT project than the project in New Mexico. New Mexico was one of the pioneers of EBT, with a system serving the Albuquerque area since 1992. In contrast, South Carolina implemented its EBT system on a pilot basis in Darlington County at about the mid-point of the two-year demonstration period. SCDSS had also proposed a more ambitious retailer management project than NMHSD because, in addition to managing retailer authorization, the state planned to develop an innovative tool for monitoring retailer activity and identifying retailer fraud. The RMS data system required a major development effort, and thus competed for staff resources with the EBT system development effort. As a result, the RMS system development was delayed until after the pilot EBT system was successfully implemented in November 1994.

## 3.4 RETAILER MANAGEMENT SYSTEM DATABASE

As noted, a major component of the SCDSS demonstration was the development of a database application called the Retailer Management System. Housed in a high-capacity PC, the RMS has played a critical and continuing function in EBT system operations, as well as providing a tool for compliance monitoring and targeting investigations.

Each day, the RMS computer dials up the MCSC and downloads a file that contains newly-authorized or newly-withdrawn retailers in South Carolina. This information is used to update both the SCDSS RMS and Citibank's EBT retailer database. SCDSS staff telecopy a list of newly-authorized and withdrawn stores to Citibank each day. SCDSS also receives from Citibank each day an electronic file with information on all EBT transactions for the preceding day. These data are used to update the RMS and to create a weekly redemption file that is sent to the MCSC by courier.

The key output of the RMS has been a fraud-prone profile, which ranks retailers based on a combination of indicators such as a high number of even-dollar transactions. The algorithm used was developed in consultation with FCS Regional and Field Office staff and with representatives of several investigative agencies. Staff at the FCS Regional and Field Office have used the RMS to identify candidate stores for further research, which they conduct through direct access to the transaction information on the Citibank EBT system. On the basis of the Citibank transaction data, FCS has charged retailers with program violations and targeted stores for criminal investigation.[2]

The RMS also allows users to make queries based on any of the individual indicators that are components of the fraud-prone profile. Another feature of the RMS is the ability for remote users to access the system via modem. With SCDSS' assistance, both the FCS Field Office and the Southeast Regional Office have acquired the necessary hardware and software and can dial up the RMS system.

SCDSS encountered delays and other challenges that limited the usefulness of the RMS during the demonstration. The system as originally proposed was a software module that would reside on the SCDSS mainframe computer. In 1994, SCDSS decided instead to develop the

[2] Within FCS, investigations of program violations are normally conducted by the Compliance Branch. Both New Mexico and South Carolina had previously established State Law Enforcement Bureau (SLEB) agreements with FCS, authorizing the states to use food stamp coupons in undercover trafficking investigations. The demonstrations did not give the states any new investigative authority.

system on a PC and to use new, high-powered database software recently developed for the PC environment. The first RMS programming priority was to develop the capacity to update automatically redemption data and FSP authorization data on the system. The EBT control system provided the RMS system with daily redemption data with minimal difficulty. The FSP authorization data, however, were available was only from MCSC. Initially, SCDSS had difficulty getting access to the decisionmakers at FCS who could facilitate the request for special programming work at MCSC.

Once the programming resources were made available, there were still technical hurdles to overcome. SCDSS' programming resources were also heavily committed at this time to another effort, i.e., the implementation of the EBT system itself. Therefore, the SCDSS programming work did not begin until late October. Finally, in January 1995, six months after making its initial inquiries, SCDSS was able to download the necessary information from STARS.

The next system development challenge was to define a set of indicators for use in the proposed fraud-prone profile. Here the problem was one of communication between SCDSS and

system to be unstable, frequently "locking up," and causing much frustration. The RMS, like all the computers at the SCDSS office, used a different operating system, OS/2, than the computers at FCS. No RMS documentation was available to users, and both the system designer and users often lacked the time and patience for training on a new and complex system.

FCS staff made little use of the RMS's remote access capabilities before the end of the demonstration in December 1995. As an interim measure, SCDSS provided printouts of the fraud-prone profile, which ranked stores according to a set of indicators of suspicious redemption patterns. FCS Field Office staff were able to use this list to identify stores for further investigations.

By early 1996, a more stable version of the RMS was operational at SCDSS, the FCS South Carolina Field Office, and the FCS Southeast Regional Office. FCS staff used the RMS in their retailer integrity efforts, using the fraud prone profile to identify stores for an in-depth analysis of redemption patterns based on data drawn directly from the EBT system. By the end of February 1996, FCS staff had used the RMS to take action on 16 stores with suspicious redemption patterns. In most of the cases, SCFO initially requested that the store owner come to the Field Office to discuss their FSP redemptions. One of the 16 had been referred to the Compliance Branch for investigation, and 9 were disqualified (including 7 permanent disqualifications).[3] The RMS ultimately has proven to be a valuable tool, but FCS staff expect it will be superseded by a recently-developed national system for gathering and analyzing EBT redemption data.

## 3.5 Retailer Management During EBT Expansion

The SCDSS retailer management demonstration was fully integrated with its EBT implementation effort. The two retailer management specialists were full-time, permanent members of the state's EBT project staff, with significant responsibilities in the roll-out effort. These two staff played a role analogous to the food program specialists at an FCS Field Office. Both SCDSS specialists made store visits and determined retailers' eligibility for the FSP. The junior specialist managed STARS data entry and retailer files. Other members of the EBT

[3] Of the remaining six cases, three received warning letters, one was withdrawn after failing to respond to the request for a meeting, one explained the redemption patterns satisfactorily, and one case was still pending at the time the information for this study was provided.

project staff, including clerical staff and the project's senior computer programmer, also worked on the retailer management demonstration.

EBT implementation was intertwined with the demonstration at many levels. The list of authorized South Carolina retailers on FCS' STARS database had obsolete information and included many stores that were no longer eligible for participation in the FSP. This situation resulted in an intensive effort, first by the SCDSS EBT office and later by the FCS South Carolina Field Office, to resolve questions raised about individual retailers.

In the course of implementing the EBT system, representatives of South Carolina's EBT vendor (Citibank EBT Services) made a "pre-installation" visit to each store to verify its location, get a merchant agreement signed, and complete a site survey.[4] Citibank and SCDSS found that a large number of authorized retailers had either closed, changed ownership, or otherwise had a significant change in their eligibility status. Furthermore, in many rural parts of South Carolina, the rural route system of addresses had recently been converted to street addresses to support adoption of 911 emergency phone service. In this process, new addresses were assigned to many authorized stores, making their addresses on the STARS system obsolete.

The pre-installation visits often resulted in "problem reports," which were essentially a request by the EBT vendor for confirmation of the store's eligibility to participate in the FSP. When the vendor staff could not locate stores, they submitted problem reports to verify the stores' locations and status. When the problem was not the existence or location of the store, but its eligibility for participation in the FSP, the EBT installers encountered a dilemma—should they install the EBT equipment in a potentially ineligible store? The EBT vendor did not have the authority to make an on-the-spot eligibility assessment, and the FCS Field Office (or, in demonstration areas, the SCDSS retailer management specialists) did not have the benefit of visiting the store in making an eligibility determination. All parties were concerned about protecting the new EBT system from abuse (and bad publicity). Furthermore, the vendor was at risk for the additional expense of removing a terminal, or even losing a terminal altogether if a store was later deemed ineligible. In the end, the EBT installers chose not to install the EBT equipment in certain stores they felt were clearly ineligible to participate in the FSP.

[4] In contrast, the merchant agreement to participate in the EBT system in New Mexico was between the state and the retailer, and state staff were responsible for establishing the agreements with retailers. In both states, the approach to the merchant agreement was established before the demonstration was planned, and the basic approach was unaffected by the demonstration.

In the process of working with Citibank and the FCS Field Office on retailer eligibility criteria, SCDSS sought to operationalize the concept of "ample variety" that is part of the eligibility criteria for retailer participation in the FSP. The program definition may have been adequate for trained FCS program specialists, but it left too much room for interpretation to be used by the vendor's field representatives, who had no special knowledge of FSP regulations and policies.

The FCS Southeast Regional Office provided SCDSS with guidance in the form of a food inventory checklist. At SCDSS' request, Citibank agreed to have its field representatives complete the food inventory checklists, which were then used by SCDSS and Field Office retail management staff as evidence regarding the stores' eligibility for participation in the FSP. The checklists were also used by SCDSS and vendor staff who made visits to all stores in the first few days after the EBT system was implemented in a county.

In retrospect, Citibank staff had reservations about the value of their participation in the eligibility assessment process. There were several cases in which Citibank chose not to equip a store because it seemed to be ineligible for participation in the FSP. Months later, Citibank learned that these stores were to be authorized for participation in the program. EBT installers then had to return to the area and bring the store onto the EBT system. This "backfilling" was costly to the EBT vendor, because the installation process had to be concentrated in a limited area at any one time to achieve cost efficiencies.

SCDSS and the FCS Field Office divided the responsibility for handling problem reports generated by the pre-installation visits according to the geographic areas where they had retailer management responsibility. Citibank sent all problem reports to SCDSS, which passed on the reports to be handled by the Field Office and reported the results back to Citibank. In the early months of EBT implementation, most of the retailers were in the demonstration area, so the SCDSS retailer management specialists handled most of the problem reports. (The exception to this pattern was the Darlington County pilot site, where the FCS Field Office handled the problem reports because the SCDSS retailer management team was not yet in place and lacked STARS access.) Once the five demonstration counties were live on the EBT system, new problem reports were primarily for retailers in the area managed by the FCS Field Office.

Ultimately, 1,330 problem reports were generated, of which 1,115 were handled by the Field Office. The Field Office withdrew 897 stores from the FSP based on the problem reports;

the Field Office found these stores to be closed, ineligible, under new ownership, or no longer willing to participate. SCDSS did not separately track withdrawals based on problem reports, but many of the state's 217 withdrawals resulted from this process. The sheer volume of the problem reports overwhelmed the capacity of the Field Office and required extensive interaction between the SCDSS retailer management staff and Field Office staff. To help the Field Office resolve the large number of problem reports, a staff member of the SERO was assigned to work in Columbia for several weeks.

Retailer integrity was a major theme of the SCDSS demonstration effort, even though, unlike New Mexico, South Carolina did not take up the option to assume responsibility for compliance-related activities as part of the demonstration. South Carolina's approach emphasized the "front-end" activities of authorization and reauthorization, and the development of the RMS. The major technique used to strengthen the integrity of store authorizations and reauthorizations was the state's practice of making store visits to retailers applying for FSP authorization and to some stores applying for reauthorization. As noted earlier, the state adopted a food inventory checklist developed by SERO as a way to document store conditions observed during these visits.

Over the course of the demonstration, some tension developed between the FCS Field Office and SCDSS over a difference between the two agencies in their approach to assessing retailers' eligibility for participation in the FSP. SCDSS was quicker to deny FSP participation to stores whose eligibility was in question. FCS staff appeared to value the goals of client access and retailer due process more highly than did the state. SCDSS staff were frustrated when FCS did not withdraw stores identified by Citibank as potentially ineligible, and felt the Field Office was too cautious and too overwhelmed by the volume of problem reports to make a careful and timely assessment. For their part, FCS Field Office staff felt that the EBT vendor had a pecuniary self-interest in limiting the number of terminals installed and may have inappropriately discouraged unsophisticated merchants in rural areas from participating in the program. FCS Field Office staff may also have been more aware than SCDSS staff of the likelihood of successful appeals to the FCS Administrative Review Officers. Although it seems likely that both SCDSS and the FCS Field Office were making eligibility assessments consistent with the broad language of the Food Stamp Act, each office clearly brought different emphases to their review of questionable stores.

## 3.6 END OF THE DEMONSTRATION

In July 1995, SCDSS submitted to FCS a proposal to extend and expand the retailer management demonstration. The proposed expansion would have allowed the state to continue its retailer management activity in the five original demonstration counties for two more years, brought an additional dozen counties under the state's retailer management authority, enhanced the state's role in compliance monitoring, and added remote functionality to the RMS system. As with New Mexico, FCS declined to fund the new proposal, and arranged a three-month, no-cost extension of the existing cooperative agreement instead.

On January 4, 1996, the FCS Field Office retrieved the retailer files from the SCDSS office and began the process of integrating the new information into their filing system. Both of the retailer management specialists have continued to work on the EBT project staff as part on a new initiative funded by FCS, the Client Integrity Project. In this initiative, SCDSS will establish coordinators at SCDSS field offices who will use EBT transaction data to identify and charge clients suspected of trafficking their food stamp benefits. SCDSS will maintain and enhance the RMS to facilitate this new demonstration project.

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# CHAPTER FOUR

# STATE AND FIELD OFFICE PROCEDURES FOR RETAILER MANAGEMENT

This chapter examines basic retailer management procedures in the two demonstrations. It begins in Section 4.1 with an description of key retailer management procedures at FCS Field Offices. Section 4.2 presents an overview of procedures followed by NMHSD, and Section 4.3 does the same for SCDSS. Section 4.4 draws on interviews with FCS Field Office staff in each of the demonstration sites and two comparison sites to examine differences in retailer management procedures. The levels of retailer management activity in each site are discussed in Chapter Five.

## 4.1 KEY RETAILER MANAGEMENT ACTIVITIES

The FCS Field Offices are the primary points-of-contact for retailers who currently participate in the FSP and those who want to participate. Retailers wishing to obtain FSP authorization request an application from the Field Offices. Retailers submit the applications by mail, in most cases. FCS Field Office staff review the application for completeness, and request documentation or other confirmation to verify information provided by the retailer. FCS Field Office staff also provide information to retailers about FSP regulations and procedures. These discussions often take place by telephone, but many Field Offices also conduct group training and information sessions with new applicants, which provide an opportunity for in-person discussions. After an eligibility determination has been made, Field Office staff enter the appropriate information onto STARS via a modem-link to the FCS processing center. Retailers must apply for reauthorization, usually by submitting an abbreviated application with up-to-date information on the store. FCS Field Offices mail out reauthorization packets prepared by MCSC, receive the completed applications, enter the new information onto STARS, and follow up with retailers who fail to return the reauthorization applications.

FCS Field Offices must also withdraw stores from the FSP when they cease to be eligible. Stores typically become ineligible when they close or change ownership. Field Office staff also answer questions on program policy and arrange for educational materials and redemption certificates to be delivered to retailers. Field Offices play a key role in retailer

integrity efforts through their review of reports on FSP redemption activity generated by MCSC. MCSC provides each Field Office with a list of authorized stores that have redeemed no FSP benefits (the non-redeemer report), a list of stores redeeming more FSP benefits than their reported food sales would warrant (the high-redeemer report), and a list of redemptions by unauthorized stores (known as the "Fast Freddy" report). MCSC also generates monthly reports on redemptions by all authorized retailers in each Field Office territory. Field Office staff use this information to identify potentially ineligible or noncompliant stores. For example, the nonredeemer report helps the Field Office identify stores that have gone out of the retail food business.[1] Because these defunct stores have authorization numbers on STARS, they are a potential source of fraud. Regular review of the non-redeemer report is necessary because many authorized retailers do not notify FCS when they go out of business.

Field Offices also receive and follow up on reports of alleged violations of FSP regulations, and they take administrative action against retailers committing fraud against the program. In cases of serious fraud, FCS Field Offices support the criminal and civil cases brought against retailers.

The Request for Applications that structured the demonstrations in New Mexico and South Carolina listed the retailer management activities performed by the Field Offices and allowed the states to choose which activities to include in the demonstration.[2] The states were not given the option to undertake direct investigative activities (i.e., making compliance buys) or support for judicial review of eligibility actions. NMHSD chose to take on all the activities on the FCS list, whereas SCDSS chose to take on all ***except*** the compliance-related activities of monitoring retailers and sanctioning those found to have violated program regulations. SCDSS opted instead to provide FCS and other investigators with a new monitoring tool, the RMS. Both states proposed to integrate the traditional FCS Field Office activities with the EBT implementation activities that have usually been performed by the states. Exhibit 4.1 summarizes the retailer management activities performed by the typical FCS Field Office and the activities taken on by each of the states participating in the demonstration.

[1] The report is typically generated once a year, but Field Offices can request updated lists more frequently.

[2] Appendix A lists the retailer management functions identified in the Request for Applications.

**Exhibit 4.1**

**RETAILER MANAGEMENT FUNCTIONS**

| Function | FCS Field Office | SCDSS | NMHSD |
|---|---|---|---|
| Authorization, reauthorization, withdrawals, updates | ♦ | ♦ | ♦ |
| Retailer monitoring | ♦ | | ♦ |
| Investigations, sanctioning | ♦ | | ♦ |
| Support EBT retailer enrollment, installation, and start-up | | ♦ | ♦ |

The RFA encouraged state FSP agencies to "explore the possibility of teaming with their WIC state agency in terms of retailer management activities in the area of authorization, monitoring, high risk data collection and compliance investigation/buys." Although state WIC agencies typically exchange some information about the authorization status of retailers with FCS Field Offices, the potential exists for more extensive collaboration and cost-sharing between the two programs. Neither New Mexico nor South Carolina took up this option. In both cases, there was little routine interaction between state WIC program staff and the EBT project staff running the retailer management demonstrations and no effort to increase coordination of retailer management activities for the two programs.

## 4.2 New Mexico Human Services Department Retailer Management Procedures

The distinctive feature of NMHSD's approach to retailer management was that all activities were conducted by a single half-time staff person. Making a virtue of necessity, the NMHSD retailer management specialist offered FSP-authorized retailers in the demonstration area a single point-of-contact, providing information on FSP policies, processing FSP applications and withdrawals, and completing EBT merchant agreements with retailers.

### Retailer Authorization

Because there was only one staff person, the division of labor between a clerk-receptionist and a food program specialist that typically exists at FCS Field Offices was not

present at the NMHSD retailer management office. The retailer management specialist would either take a call regarding authorization in person or respond to a message. When she was out of the office for an extended period of time, she would forward her phone to the EBT project office. The clerks there could take messages or refer high-priority calls to the EBT project director.

The retailer management specialist had a fairly in-depth conversation with each potential applicant before sending out an application. The retailer management specialist felt that callers often "didn't really know what they wanted." People would call and say they wanted EBT access, but it would turn out that they were not yet authorized retailers. Others would call and request an FSP application when they really wanted EBT equipment that AFDC recipients could use to access their benefits.

The initial conversation also played a screening function. Some retailers would call and request an application, but in the course of a brief conversation, it would become quite evident that they were not qualified. Other retailers changed their minds about applying when they learned that retailer management staff would be visiting their store and that sales and redemption information would be reviewed. Although this sort of exchange may also occur at some FCS Field Offices, a distinctive feature of the one-person NMHSD office was that a retailer's initial contact was with the person who would ultimately evaluate the application.

NMHSD's policy was to visit the store of every new applicant for food stamp authorization. In most cases, there were multiple contacts and even multiple store visits in the process. Typically, the retailer management specialist made an initial unannounced visit to the store to assess its eligibility, verify information, and request any information missing from the application. (In response to an initiative from the SWRO, an inventory checklist was employed after October 1995.)

Usually, there was a second conversation with the store owner or manager, either in person (if it was convenient to do so) or over the telephone. During the second conversation the retailer management specialist reviewed the retailer guidebook, discussing FSP regulations and procedures and also addressing any EBT issues. If she made the second contact at the store, she delivered the authorization packet.

For stores that were a great distance away from the Albuquerque office, visits for several stores were generally conducted on a single overnight trip. In some cases, this meant that stores

were visited ***after*** they had been authorized. In these cases, retailers were advised that their authorization was conditioned on the outcome of the follow-up visit. The visits typically were made within a month of the authorization, and it was never necessary to withdraw a store based on information gathered during the visit.

**Reauthorization**. All aspects of the reauthorization process (mail-out, review, and data entry) were performed by the lone retailer management specialist. The FCS Field Office simply divided the New Mexico reauthorization list and packets into two groups, one for the demonstration area and one for the Field Office area. (Starting in February 1995, the FCS New Mexico Field Office was responsible for 26 Texas counties, in addition to the 25 New Mexico counties outside the demonstration area.) The 1994 reauthorization project came shortly after NMHSD had taken over responsibility for the demonstration area. For both the 1994 and 1995 reauthorization efforts, NMHSD added a letter on NMHSD stationery to the pre-stuffed reauthorization packets provided by MCSC. With the new shorter form in 1995, the process was very much streamlined. For stores that had been visited in the process of EBT implementation, there was no effort to require additional documentation when processing reauthorization applications.

### Retailer Monitoring and Compliance Management

The demonstration office performed all routine monitoring activities on the same schedule as the FCS Field Office. When the Field Office received a STARS report, such as a list of high redeemers or nonredeemers, Field Office staff copied the list, identified the retailers in the demonstration area, and gave the annotated list to NMHSD.

Following Field Office practice, the retailer management specialist maintained a list of newly authorized and withdrawn stores. Each month, she forwarded the list to the WIC central office in Santa Fe and to seven WIC Field Offices. The WIC central office sent NMHSD and NMFO an updated list of WIC-authorized vendors each quarter.

**Handling Complaints of Retailer Violations.** NMHSD closely followed the FCS Field Office's procedure in recording all complaints regarding retailer violations on a complaint log (provided by the Field Office). The response depended on the nature of the complaint. For minor complaints, the retailer management specialist usually called the retailer and discussed the

followed up with a store visit. For more serious issues, such as a retailer charging tax on food stamp benefit purchases or accepting ineligible items, she routinely made a store visit. If there was suspicion of trafficking, she did not make a direct contact with the store, but instead referred the retailer for investigation by the NMHSD Inspector General (NMHSD IG), the office designated under the State Law Enforcement Bureau agreement. The NMHSD IG typically did not respond to a single complaint about a retailer accepting ineligible items, because the IG's priority was to pursue trafficking investigations. In some cases, the NMHSD IG did investigate repeated complaints of noncriminal violations of FSP regulations.

**Coordination with Investigative Agencies.** The NMHSD retailer management specialist typically did not make referrals directly to NMHSD IG. Rather, she generally referred complaints to her supervisor, the EBT Project Manager, who forwarded all complaints that he received to the IG's office. The majority of retailer fraud complaints forwarded by the EBT Project Manager to the IG came through the EBT Help Desk, which received them directly from retailers, recipients and county office staff. Referrals for investigations were done in the form of telephone calls, not via the more structured written referral process used by FCS.

NMHSD IG contacted the retailer management office directly when seeking information for an investigation. Investigators would call the NMHSD office for information or visit the office to review files. The retailer management office also had occasional contact with the USDA OIG investigator in Albuquerque and would share information with him, but referrals were generally made to NMHSD IG.

**Interface with Electronic Benefit Transfer System**

On a day-to-day basis, the main retailer management interaction with the EBT system was to advise the EBT vendor of new authorizations and changes in the status of existing retailers. The retailer management specialist was responsible for establishing a merchant agreement between the state and the retailer. Once new stores were authorized, the vendor would set up the merchant on the EBT database. The merchant's designated EBT transaction acquirer had 10 days after the authorization notification to install EBT equipment. In the occasional cases when a large chain was opening a new store, more extensive coordination with the EBT vendor would be required to ensure that the store was able to do EBT transactions on opening day.

Many retailers would contact the retailer management office when they had a question, whether it was EBT-related or FSP-related, because the retailer management specialist had visited many stores and was involved with both EBT rollout and FSP authorization. The retailer management specialist estimated that she spent approximately 20 percent of her time responding to such inquiries, and that one-third of the inquiries were about EBT issues (and thus could have been handled by the state's EBT Help Desk). Although there was some overlap of responsibility with the Help Desk, it certainly made sense to retailers to be able to speak with one person who understood both aspects of the system. In many cases, the retailer management specialist was able to simplify and clarify a potentially confusing situation for retailers, thereby facilitating access to both the FSP and the EBT system.

## 4.3 South Carolina Department of Social Services Retailer Management Procedures

In contrast to the one-person retailer management office at NMHSD, the retailer management specialists are SCDSS were full-fledged members of the EBT Project staff. The retailer management project thus had the benefit of administrative support and up-to-date office equipment. Key elements of the retailer management process, such as a log for tracking applications, were maintained on computer files accessible to all project staff over the office's computer network. Also available over the office computer network was the RMS system developed as part of the demonstration.

### Authorization of Retailers

**First-time Authorization**. From the outset of the demonstration, SCDSS made store visits a priority. When retailers called the EBT Project Office to request an application, they were sent an application and instructions to call back to make an appointment for a store visit. Applications could not be returned by mail and could only be submitted during an in-person visit to the store by SCDSS staff. During the pre-authorization visit, an SCDSS retailer management specialist completed a food inventory checklist, reviewed the application, and asked about any missing or questionable information. The retailer was required to produce a business license and social security card for verification purposes. If the retailer appeared to qualify, the SCDSS retailer management specialist would provide a copy of the relevant FSP regulations and discuss

FSP policies and EBT issues. The retailer was told that notice of an eligibility determination would be sent within 30 days.

Although SCDSS closely followed the guidelines established by the FCS Field Office for processing applications, SCDSS developed its own system for tracking applications. A tracking file was established on a personal computer (PC), maintained by a clerk, but available over the office's local area network to other EBT project staff. (A similar system was used for tracking reauthorizations and the "problem reports" described below.)

**Reauthorization**. SCDSS extensively screened the list of retailers due for reauthorization, which was generated by the FCS MCSC. SCDSS compared the FCS reauthorization list to its in-house retailer management database and removed withdrawn stores. The FCS Field Office also removed certain retailers from the list, presumably because they were under investigation.

Clerical staff mailed pre-stuffed and pre-addressed reauthorization packets provided by FCS after adding an SCDSS cover letter. A clerk recorded the returned applications on a PC-based tracking system that was separate from the RMS. A retailer management specialist reviewed the applications, followed up on missing information, and entered the new information on STARS.

SCDSS visited all non-chain stores on the 1994 reauthorization list. For the 1995 reauthorization, SCDSS decided that store visits would be the exception, not the rule, because so many stores had recently been visited as part of the EBT implementation process. Therefore, in conducting the 1995 reauthorization, SCDSS visited only the stores in the demonstration counties about which some question regarding eligibility had been raised during EBT implementation.

**Retailer Monitoring and Compliance Management**. In South Carolina, the FCS Field Office retained responsibility for the compliance-related "back-end" activities related to retailer management (i.e., the STARS monitoring reports, reports on investigations and sanctions). Retailer integrity was clearly a major focus of the SCDSS demonstration effort, but the state's approach emphasized the front-end activities of authorization and reauthorization and the development of a retailer database as a tool for use by investigative agencies.

Because the FCS Field Office had not handed over responsibility for compliance matters to SCDSS, SCDSS did not review and follow up on the STARS monitoring reports. Similarly,

SCDSS had no formal procedure or log for recording complaints regarding retailers, which were forwarded verbally to the FCS Field Office.

**Coordination with Investigative Agencies.** When SCDSS retailer management staff suspected retailer fraud, they would make a referral through the deputy EBT project director to the SCDSS Division of Investigation (DOI). As the designated agency under the SLEB agreement, the DOI was responsible for coordination with federal investigators, including the provision of EBT cards and accounts for investigations. The compliance specialist at the FCS Field Office was the official point of contact with the federal investigative agencies, under authority delegated by the FCS Southeast Regional Office.

### Interface with Electronic Benefit Transfer System

Part of the RMS system, described in Chapter Three, involves a daily download of changes made by FCS or SCDSS retailer management staff to the STARS database. SCDSS uses this file to provide the EBT vendor with information about newly-authorized and newly-withdrawn stores in all parts of South Carolina. As a result, FCS Field Office staff do not have to communicate directly with the EBT vendor about changes in retailer authorization status.

## 4.4 Comparison of Procedures

This section examines how the specific retailer management procedures employed by each demonstration site compare to those followed by FCS Field Offices. For comparison purposes, we look in detail at retailer management procedures at two FCS Field Offices for each demonstration: the baseline FCS Field Office (normally serving the demonstration area) and a comparison FCS Field Office in the same region and of approximately the same scale as the baseline Field Office. For this study, three site visits were conducted to each demonstration site. At each of these site visits, information was also collected on procedures at the baseline FCS Field Office. Data on procedures at the comparison sites were collected during a single site visit to each comparison Field Office toward the end of the demonstration.

For the New Mexico demonstration, the procedures followed by the state can be compared to both the New Mexico Field Office and the Arkansas Field Office. Because the NMHSD retailer management specialist was trained in FSP procedures by the Field Office staff, and because retailer management procedures are highly structured by the *FCS-318 Handbook*,

there was more similarity than difference in the approach taken by the three offices in the Southwestern region. The principal areas of difference in procedures are presented in Exhibit 4.2. Although NMHSD used many of the forms and procedures developed by the New Mexico Field Office, NMHSD did not maintain records about requests for applications or applications received. The Arkansas Field Office has developed a specific form on which to record information about a retailer requesting an application, which is then kept on file. Like the New Mexico Field Office, the Arkansas Field Office tracks applications on a personal computer.

Store visits are a key component of NMHSD's approach to retailer management. All stores are visited, and the vast majority are visited before being authorized. Both FCS Field Offices only recently resumed routine store visits, and both only visit those stores deemed at risk for eligibility or compliance problems. For stores ***not*** visited in person, the New Mexico Field Office conducts telephone interviews with a store owner or manager to verify application information and to review the information on FSP rules and procedures provided in the authorization packet. The Arkansas Field Office also uses telephone interviews, but supplements them with mandatory retailer training sessions.

In general, NMHSD's operating style entailed more direct contact and less paperwork than either of the FCS Field Offices. A case in point is the approach taken to requests for investigations (RFIs) involving stores suspected of program violations. Both FCS Field Offices follow FCS procedure for RFIs, whereby Field Office staff prepare and submit a highly structured written request to the regional office, which forwards the RFI to the Compliance Branch. NMHSD requested investigations by calling the state investigative office and discussing the case over the telephone.

For the South Carolina demonstration, we compared retailer management procedures at SCDSS, the South Carolina Field Office, and the Mississippi Field Office. Exhibit 4.3 presents key areas where procedures differed. In South Carolina, the state converted the system of paper logs used by the South Carolina Field Office to an automated system based on word processing software residing on a networked PC. The Mississippi Field Office did not have a centralized tracking mechanism for either requests for applications or for the applications themselves before approval.

Both FCS Field Offices used regional grocer education meetings to review applications and train retailers in FSP rules and procedures. SCDSS relied on store visits; state retailer

management specialists accepted the application, requested additional information, and provided information to retailers in a single, in-store meeting. SCDSS was the only one of the six sites to use reauthorization as an occasion to visit stores (only "questionable" stores were visited during the 1995 reauthorization effort). The Arkansas Field Office regularly supplemented the reauthorization list with additional stores to make sure up-to-date information was available on all stores (and to bring all stores with a single owner on to the same reauthorization schedule).

Unlike NMHSD, SCDSS did not assume responsibility for retailer monitoring and sanctioning. SCDSS related information on retailers suspected of fraud to the state's Division of Investigation with a telephone call, whereas the FCS Field Offices made written requests for investigation to the Compliance Branch. Although SCDSS did not have a formal responsibility for the compliance aspects of retailer management, the office was very attuned to retailer integrity issues. Investigators from USDA OIG and the Compliance Branch were quite active in South Carolina during the demonstration, in contrast to New Mexico, which saw very little investigative activity during the demonstration. The South Carolina demonstration happened to coincide with a major multi-agency effort to identify and prosecute stores trafficking in food stamps in the Charleston area. Furthermore, there were simply more investigators working FSP fraud cases in South Carolina than there were in New Mexico.

## 4.5 CHAPTER SUMMARY

At the outset of the demonstrations, in early 1994, both the South Carolina and New Mexico demonstrations were quite innovative in their proposal to use store visits in the retailer authorization process. By the end of the demonstrations, however, in early 1996, the baseline and comparison FCS Field Offices in both regions had begun routinely visiting at least some stores as part of the retailer authorization process. The other procedural innovations by the states streamlined the process somewhat, but the range of innovation was limited to a large degree by the need to conform to FSP regulations and established Field Office procedures. The states proved that they could effectively implement FSP policies for retailer participation, but converting to state administration had only modest impact on retailer management procedures.

As discussed in Chapter Three, SCDSS and the South Carolina Field Office were occasionally at odds in the application of retailer eligibility criteria. In New Mexico, the differences between the state and the field office in interpreting the regulations governing retailer

**Exhibit 4.2**

**HIGHLIGHTS OF RETAILER MANAGEMENT PROCEDURES IN THREE SOUTHWEST REGION SITES**

| Questions | New Mexico Human Services Department (Demonstration) | FCS New Mexico Field Office (Baseline) | FCS Arkansas Field Office (Comparison) |
|---|---|---|---|
| ***First Time Authorizations*** | | | |
| How are requests for applications tracked? | No tracking | Cover letter and contact sheet kept on file | "Kit request form" kept on file |
| How are applications tracked once received? | No tracking | Computerized log | Computerized log after application is substantially complete |
| Are stores visited before or soon after authorization? | All stores visited before or soon after authorization | In 1996, began visiting stores targeted as "high risk" | Since Fall 1995, visiting 40% of applicants, targeting based on telephone interviews |
| How are retailers trained in FSP rules and procedures?[a] | During store visit or follow-up phone call | Telephone conversation | Grocer education meetings |
| ***Reauthorizations*** | | | |
| What stores are visited during reauthorization? | None | None | None |
| Who processes and enters reauthorization forms? | Retailer Management Specialist | Clerk or FPS | FPS |
| ***Retailer Compliance Management*** | | | |
| What records of complaints against retailers are kept? | Note in retailer file and entry on paper complaint log | Note in retailer file and entry on paper complaint log | Note in retailer file and entry on paper complaint log |
| What research is done on complaints before referring retailers for investigation? | Call or visit to store | Call retailer, review redemption data, complete FCS-238 contact sheet | Call retailer, review redemption data, complete FCS-238 contact sheet |
| To whom are referrals for compliance investigation made? | NMHSD Inspector General (designated SLEB) | FCS Compliance Branch; occasionally to USDA OIG | FCS Compliance Branch |
| How are referrals for compliance investigation made? | Telephone call | Written RFI | Written RFI |

**Exhibit 4.2** ***(continued)***

**HIGHLIGHTS OF RETAILER MANAGEMENT PROCEDURES IN THREE SOUTHWEST REGION SITES**

| Questions | New Mexico Human Services Department (Demonstration) | FCS New Mexico Field Office (Baseline) | FCS Arkansas Field Office (Comparison) |
|---|---|---|---|
| | ***Retailer Monitoring*** | | |
| What special monitoring efforts have been undertaken? | In Fall 1995, began making monitoring visits to randomly- selected stores (in response to Southwest Regional Office initiative) | In Fall 1995, began making monitoring visits to randomly-selected stores (in response to Southwest Regional Office initiative) | Requests and reviews STARS monitoring reports on monthly basis; added stores to reauthorization process |
| Who researches retailers identified by MCSC as non-redeemers and how often is this done? | Retailer management specialist works lists generated semi-annually by MCSC | FPS works list generated semi-annually by MCSC | FPS works list generated semi-annually by MCSC |
| Who researches retailers identified by MCSC as high redeemers and how often is this done?[b] | Retailer management specialist works lists generated annually by MCSC | FPS works list generated annually by MCSC | FPS works list generated monthly by MCSC at Field Office request |

*NOTE:* FPS = Food Program Specialist; MCSC = FCS Minneapolis Computer Support Center

[a] All sites provided retailers with a standard "authorization packet" that included a booklet of relevant program regulations.

[b] Following standard procedure, MCSC supplies all FCS Field Offices once a year with a list of retailers whose monthly redemptions are greater than 90 percent of the total food sales recorded on STARS. Field Office staff research each case, typically requesting updated sales information. Field Offices can request interim reports, as the Arkansas Field Office does. The more frequent reports allow for a more rapid response to potential cases of fraud.

**Exhibit 4.3**

**HIGHLIGHTS OF RETAILER MANAGEMENT PROCEDURES IN THREE SOUTHEAST REGION SITES**

| | South Carolina Department of Social | FCS South Carolina | FCS Mississippi |
|---|---|---|---|

**Exhibit 4.3 *(continued)***

**HIGHLIGHTS OF RETAILER MANAGEMENT PROCEDURES IN THREE SOUTHEAST REGION SITES**

| Questions | South Carolina Department of Social Services (Demonstration) | FCS South Carolina Field Office (Baseline) | FCS Mississippi Field Office (Comparison) |
|---|---|---|---|
| How are referrals for compliance investigation made? | Telephone call | Written RFI | Written RFI |
| ***Retailer Monitoring*** | | | |
| What special monitoring efforts have been undertaken? | Developed RMS database application as a monitoring tool | Under SERO initiative, requested sales documentation for retailers with a high rate of redemptions, used RMS fraud profile as basis for charge letters and referrals for investigations | Under SERO initiative, requested sales documentation for retailers with a high rate of redemptions |
| Who researches retailers identified by MCSC as non-redeemers and how often is this done? | Retailer management specialist works lists generated semi-annually by MCSC | FPS works list generated semi-annually by MCSC | FPS works list generated semi-annually by MCSC |
| Who researches retailers identified by MCSC as high redeemers and how often is this done?[b] | No SCDSS involvement; Columbia Field Office annually works list for entire State | FPS works list generated annually by MCSC | FPS works list generated annually by MCSC |

*NOTE:* FPS = Food Program Specialist; MCSC = FCS Minneapolis Computer Support Center

[a] All sites provided retailers with a standard "authorization packet" that included a booklet of relevant program regulations.

[b] Following standard procedure, MCSC supplies all FCS Field Offices once a year with a list of retailers whose monthly redemptions are greater than 90 percent of the total food sales recorded on STARS. Field Office staff research each case, typically requesting updated sales information. Field Offices can request interim reports, as the Arkansas Field Office does. The more frequent reports allow for a more rapid response to potential cases of fraud.

eligibility were less intense. Nevertheless, both states had a tendency to be more ready than the FCS Field Offices to deny authorization or reauthorization to stores of questionable eligibility. Within the limited time frame and scope of the demonstration, however, it is difficult to assess what impact that difference may have made.

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# CHAPTER FIVE

# RETAILER MANAGEMENT ACTIVITY, RESOURCES, AND RESULTS

In evaluating the retailer management demonstrations, we considered three outcome dimensions:

- the level of retailer management activity;
- the cost of retailer management and other functions performed; and
- the changes in FSP participation by retailers.

Each of these dimensions is an important aspect of the basic question of how well the states performed their retailer management responsibilities, encompassing considerations of productivity, efficiency, and effectiveness. Therefore, we compared the demonstrations with the four Field Offices in the study along the dimensions of activity, cost, and retailer participation.

## 5.1 RETAILER MANAGEMENT ACTIVITY

The demonstrations were compared with the Field Offices on three measures of retailer management activity: new authorizations, withdrawn firms, and disqualified firms. All three of these activities contributed to the retailer management workload in the study sites, along with retailer monitoring and support activities that occur more frequently but generally require less effort for each episode of activity (e.g., answering retailer questions about FSP policy). The chosen indicators are also the prime activities for which data could be obtained from STARS, allowing an unobtrusive and consistent means of measuring activity in all sites.

Exhibit 5.1 summarizes the average monthly rates of retailer management activity in the demonstrations, the baseline and comparison Field Offices, and the Southeast and Southwest regions. All values are averages from February through December 1995, the period when both demonstrations were operational and all Field Offices had stable service areas. The activity data have been normalized as rates per 100 currently authorized retailers, to facilitate comparisons

**Exhibit 5.1**

**RETAILER MANAGEMENT ACTIVITY RATES FOR DEMONSTRATION, BASELINE AND COMPARISON FIELD OFFICES, AND REGIONS (February-December 1995, Averages)**

| Location | Total Authorized Firms | Monthly Rates per 100 Authorized Firms | | |
|---|---|---|---|---|
| | | New Authori-zations | Withdrawals | Disqualifi-cations |
| New Mexico Demonstration | 568 | 0.88 | 0.77 | 0.02 |
| FCS New Mexico Field Office[a] | 1,643 | 0.93 | 1.05 | 0.01 |
| FCS Arkansas Field Office | 2,610 | 0.91 | 1.58 | 0.06 |
| Southwest Region[b] | 28,602 | 1.07 | 1.71 | 0.07 |
| South Carolina Demonstration | 664 | 0.91 | 2.42 | 0.11[c] |
| FCS South Carolina Field Office[a] | 3,052 | 0.81 | 3.04 | 0.09 |
| FCS Mississippi Field Office | 4,161 | 1.14 | 1.48 | 0.12 |
| Southeast Region[b] | 47,942 | 0.97 | 1.50 | 0.08 |

*SOURCE:* Store Tracking and Redemption Subsystem (STARS), Food Stamp Program Integrated Information System.

[a] Data for baseline FCS Field Offices (South Carolina and New Mexico) exclude demonstration retailers and activities.

[b] Regional data include retailers and activities in the demonstration sites and the areas served by the baseline and comparison Field Offices. Therefore, the regional data represent averages against which the individual site data can be compared.

[c] Disqualifications for retailers in the South Carolina demonstration were performed by FCS South Carolina Field Office.

across sites serving different numbers of firms. As indicators of the scale of operations in each site, the total number of firms is provided.

As Exhibit 5.1 shows, the South Carolina demonstration had a slightly higher rate of new authorizations per 100 currently authorized firms than the South Carolina Field Office (0.91 versus 0.81), whereas the New Mexico demonstration had a slightly lower authorization rate per 100 firms (0.88 versus 0.93). All four of these sites had authorization rates below their respective regional averages, perhaps because the presence of EBT systems discouraged applications from marginal retailers.

The use of store visits might be expected to reduce authorization rates in the demonstration sites relative to other sites, but the data do not bear out this supposition. The lack of a consistent pattern of demonstration-Field Office differences across the two regions suggests

that these differences are more related to geography than to the use of store visits or other procedural factors.[1]

The greatest difference in activity across the study sites was in the rate of withdrawals of authorized firms. The South Carolina Field Office was the most active with over three withdrawals per 100 firms—twice the average for the Southeast region. The South Carolina demonstration had the second-highest monthly withdrawal rate by far, whereas the New Mexico demonstration had the lowest withdrawal rate at only 0.77 per 100 firms. The withdrawal rates in the Arkansas and Mississippi Field Offices were about average for their respective regions.

EBT implementation appears to have played the largest role in these cross-site differences. The period of analysis coincided with the rollout of the EBT system throughout South Carolina, with the exception of the Darlington County pilot site, where the EBT system went live in November 1994. As discussed in Chapter Three, a large number of inactive and ineligible stores were identified during EBT implementation in South Carolina, chiefly through the problem reports submitted by the EBT system vendor. The lower rate of withdrawals in the South Carolina demonstration (relative to the Field Office territory) is probably due to the fact that the withdrawals associated with EBT implementation in Darlington County (one of the five demonstration counties) had already taken place by February 1995, whereas all of the Field Office territory was converted to EBT between March and December 1995.

Differences in the timing of EBT implementation may also explain the difference in withdrawal rates between the demonstration and the Field Office in New Mexico. All of the 1995 EBT implementation activity in New Mexico took place outside the demonstration site, and the Texas portion of the Field Office's territory also underwent EBT implementation during this period. Thus, during this time period, only the Field Office dealt with withdrawals resulting from EBT implementation. Both New Mexico sites had substantially lower withdrawal rates than the Arkansas Field Office. This difference may be due to a more stable retailer population in New Mexico, but the aggressive approach to non-redeemers by the Arkansas Field Office—in part as preparation for the coming of EBT—probably was a factor as well.

[1] The evaluation did not have access to data on the rates at which applications are denied or withdrawn, which would have provided another test of the effectiveness of state store visits relative to the screening techniques used by the Field Offices. The evaluation relied on STARS for uniform data on retailer management, and denied or withdrawn applications are not recorded on STARS.

The rate of disqualifications varied little between the demonstration sites and the baseline Field Offices in New Mexico and South Carolina. The slightly higher rates in the demonstration sites most likely reflect decisions about where investigators chose to target their efforts, rather than any demonstration effects (especially in South Carolina, where the state took no responsibility for disqualifications). A relatively low level of investigative resources in New Mexico, plus the fact that a major sting operation by the NMSHD Inspector General had recently concluded, led to the relatively low level of disqualifications throughout the state in 1995, especially as compared to disqualification rates throughout the region.

## 5.2 RETAILER MANAGEMENT COSTS

The considerable differences in approach between the demonstrations in New Mexico and South Carolina are highlighted by the comparison of total reported demonstration costs in Exhibit 5.2, which is based on the claims for grant funds submitted to FCS. From the beginning of the two demonstrations through December 1995 (when the South Carolina demonstration ended), South Carolina spent $248,272—nearly five times as much as New Mexico, even though the South Carolina demonstration served only about 17 percent more retailers. The principal source of the cost difference between the demonstrations was the development of South Carolina's RMS computer system, which required much of the $156,286 in expenditures for equipment, software and data processing service consultants, as well as a substantial portion of the project labor cost.[2] Another difference between the demonstrations was in travel costs, which were much lower in New Mexico because of cost-sharing with the EBT project, the concentration of stores within an easy drive of the state office, and strenuous efforts to minimize hotel costs on out-of-town trips.

For cost comparisons between the demonstrations and the Field Offices, the best available measure is the ***labor resource cost of retailer management***, including salaries and fringe benefits. For all sites, this measure is based on interview data: the demonstration cost reports did not include all staff performing retailer management duties, and the Field Offices did not have any procedures to track staff time (or other costs) for retailer management separately

[2] The equipment cost for the RMS could not be separated from the rest of the demonstration equipment cost in South Carolina, because some of the equipment was used for both routine retailer management and RMS operations.

**Exhibit 5.2**

**TOTAL REPORTED DEMONSTRATION COSTS BY LINE ITEM (October 1993-December 1995)**

| | South Carolina | New Mexico |
|---|---|---|
| Salaries and fringe benefits | $76,040 | $40,007 |
| Data processing service consultants | 22,965 | 0 |
| Telephone | 498 | a |
| Postage | a | 550 |
| Supplies | 2,620 | 490 |
| Travel | 10,984 | 1,322 |
| Overhead[b] | 1,844 | 7,650 |
| **Total Operating Cost** | **114,951** | **50,019** |
| Equipment and software | 133,321 | 3,846 |
| **Grand Total[c,d]** | **$248,272** | **$53,865** |
| Number of authorized firms[e] | 664 | 568 |

*SOURCES:* Demonstration invoices and supporting documents

[a] Included in overhead.

[b] South Carolina charged overhead only for July-December 1995, and then only for temporary staff, which accounted for 11 percent of total salaries and benefits. New Mexico charged overhead only for October-December 1995, although this figure can be considered to represent four months' overhead for the 0.72 FTE of staff on the project.

[c] South Carolina invoices total $200,163. The difference from these figures arises from a recalculation of equipment cost to reflect equipment in use for demonstration activities. This recalculation was performed by SCDSS for evaluation purposes. Final costs may differ once the grant close-out process is complete.

[d] New Mexico costs for January-March 1996, which totalled $13,963, are excluded for this comparison.

[e] Monthly average, February-December 1995.

from other functions. Therefore, the interviews obtained quarterly estimates of time, by function, in 1995 in the demonstration sites and the New Mexico and South Carolina Field Offices; for the Arkansas and Mississippi Field Offices, we obtained a single set of estimates for October through December 1995.[3] Because of considerable differences in accounting for nonlabor direct costs and overhead across the sites, we limited the comparisons to labor costs and did not attempt to construct the full resource cost of retailer management.

[3] We did not attempt to obtain retrospective time estimates for the year in the comparison offices, because we were concerned that recall over such a long period would not be sufficiently reliable.

Exhibit 5.3 shows the 1995 labor resource cost by activity for the New Mexico and South Carolina sites. Each site's total cost is shown and broken down into four activities: retailer management (encompassing all routine, ongoing activities performed by the typical Field Office), EBT implementation (including the resolution of problem reports), other (non-retailer-related) Field Office activities, and (for the South Carolina sites) retailer database development. These costs are not standardized by any measure of size.

The South Carolina Field Office, the largest of these four sites, had the highest labor cost, both overall and for retailer management, followed by the New Mexico Field Office. The smallest site, the New Mexico demonstration, had the lowest labor costs in all categories.

The high cost of labor for "other" (non-retailer management) activities in the New Mexico Field Office is quite striking, in light of the usual expectation that retailer management is the Field Offices' primary mission. In 1995, New Mexico Field Office staff spent an estimated 61 percent of their time on non-retailer management activities, whereas the South Carolina Field Office staff sent only 7 percent of their time on this activity category. Both Field Offices had the same responsibility for responding to civil rights complaints regarding any FCS program. The New Mexico Field Office had responsibility for overseeing WIC program administration by the seven participating Indian Tribal Organizations in New Mexico, plus some child nutrition program oversight responsibilities. The South Carolina Field Office, on the other hand, was temporarily relieved (by the Southeast Regional Office) of responsibility for the Summer Feeding Program and other nutrition programs in which sponsors operate under direct FCS supervision. The combination of EBT implementation, the retailer management demonstration, and a high level of compliance investigations forced the South Carolina Field Office to focus almost exclusively on retailer-related activities.[4]

To control for the differences in the number of firms served across sites, Exhibit 5.4 presents the retailer management labor resource costs and hours per firm, along with the number of firms in each site. These figures tell a much different story than the totals: when the retailer management costs are normalized, both demonstrations are found to be more expensive (on a per-retailer basis) than the baseline Field Offices. The cost difference is very large (93 percent) in

[4] The extreme difference in the reported level of non-retailer management labor cost between the New Mexico and South Carolina Field Offices may also be the result of differences between respondents. As

**Exhibit 5.3**

**TOTAL LABOR RESOURCE COST BY ACTIVITY**
**(January-December 1995)**

| Site | Retailer Management Activities[a] | EBT Implementation[b] | Other Field Office Activities[c] | Retailer Database Development | Total |
|---|---|---|---|---|---|
| New Mexico Human Services Department (demonstration) | $28,157 | $5,297 | n/a | n/a | $33,454[d] |
| FCS New Mexico Field Office | 72,486 | n/a[e] | $115,365 | n/a | 187,851[f] |
| South Carolina Department of Social Services (demonstration) | 56,046 | 8,783 | n/a | $37,781 | 102,611[g] |
| FCS South Carolina Field Office | 133,660 | 81,996 | 16,673 | 726 | 233,055[f] |

*SOURCE:* Demonstration cost reports, FCS personnel data, and interviews with demonstration and FCS staff.

[a] Retailer management activities include authorization, reauthorization, withdrawing stores from participation, disqualifications, monitoring redemptions, recording and investigating complaints, training and providing information to retailers on FSP rules and procedures, and other ongoing interactions related to retailers' FSP participation.

[b] EBT implementation includes processing EBT merchant agreements and problem reports, planning and conducting store visits related to EBT implementation, and resolving merchant questions or problems regarding EBT system involvement.

[c] Other Field Office Activities include all duties not related to retailer management or EBT implementation. Management time is allocated across all field office activities.

[d] New Mexico total includes all retailer management specialist time, both paid and unpaid, and unbilled time for oversight by the EBT Project Manager. All of the retailer management specialist's EBT implementation time in 1995 involved stores outside the demonstration area.

[e] FCS New Mexico Field Office role in EBT implementation was minimal and could not be separated from retailer management.

[f] Field office totals represent the entire staffing of these offices.

[g] South Carolina demonstration totals exclude EBT implementation time outside the demonstration area, but include staff time that was not charged against the demonstration grant.

South Carolina, but much smaller (12 percent) in New Mexico.

In comparing the state and Field Office costs in South Carolina, looking at the ongoing retailer management costs in isolation overstates the true difference. The South Carolina Field Office spent $26.87 per firm on EBT implementation in 1995, nearly all on processing and resolving the EBT vendor's reports of closed, ineligible and unlocatable stores. Much, if not all, of this cost would have been spent (perhaps over a longer period) even if the EBT system had not been implemented, during the course of the reauthorization process and normal retailer

monitoring. In contrast, the state spent only $13.23 per firm on retailer-related EBT implementation activity within the demonstration area, and much of this activity involved preparing for and conducting the store visits to monitor the first days of live EBT operation.[5] Nevertheless, the state's approach to retailer management, with its emphasis on store visits, was more expensive than that of the Field Office, especially when the higher level of activity in the Field Office is factored in.

In New Mexico, too, the differences in activity levels must be considered when comparing the state and Field Office retailer management costs. If the state had authorized stores at the Field Office's higher rate, the added effort for in-person visits would have driven up the state's cost, though not by a large margin.

The retailer management cost and hours per firm for all six study sites, including the Arkansas and Mississippi comparison offices, are presented in Exhibit 5.5. The source data are for October through December 1995, but they are annualized for comparison to Exhibit 5.4.[6] As discussed previously, the cost data collection in the comparison offices was limited to the three-month period leading up to the interviews.

As in the costs for the full year, the data in Exhibit 5.5 indicate that the South Carolina DSS had the highest retailer management cost per firm, whereas the South Carolina Field Office had the lowest. The South Carolina Field Office cost would be the highest, however, if retailer management and EBT implementation costs were combined, because the annualized EBT implementation cost for this period was $40.44 per firm. The Mississippi Field Office had the highest pure retailer management cost of any of the four Field Offices; this office also had the highest rate of store visits for new authorizations among the Field Offices. The retailer management costs for the New Mexico and Arkansas Field Offices are very similar to those of the South Carolina Field Office; these three offices shared the same basic approach of visiting selected "high-risk" applicants.

All four of the sites included in both Exhibit 5.4 and Exhibit 5.5 show higher retailer management costs for the last quarter of 1995 than for the year as a whole. In the two state

[5] The EBT implementation costs for the South Carolina DSS in Exhibit 5.2 do not include retailer-related EBT activity outside the demonstration or non-retailer-related implementation activity.

[6] This approach provides a better basis for comparing costs across all six study sites, but it does mean that the annualized demonstration of field office cost numbers in Exhibit 5.5 do not match the annual cost numbers in Exhibit 5.4.

## Exhibit 5.4

## LABOR DEVOTED TO RETAILER MANAGEMENT, PER FIRM (January-December 1995 annual total)

| Site | Labor Resource Cost | Labor in Hours | Number of Firms[a] |
|---|---|---|---|
| New Mexico Human Services Department (demonstration) | $49.57 | 2.23 | 568 |
| FCS New Mexico Field Office | 44.12 | 1.99 | 1,643 |
| South Carolina Department of Social Services (demonstration) | 84.41 | 4.42 | 664 |
| FCS South Carolina Field Office | 43.79 | 2.06 | 3,052 |

*SOURCE:* Demonstration cost reports, FCS personnel data, and interviews with demonstration and FCS staff.

[a] Number of firms is monthly average, February-December 1995. See Exhibit 5.3 for additional notes.

## Exhibit 5.5

## LABOR DEVOTED TO RETAILER MANAGEMENT, PER FIRM (October-December 1995 data, annualized)

| Site | Labor Resource Cost | Labor in Hours | Number of Firms[a] |
|---|---|---|---|
| New Mexico Human Services Department (demonstration) | $62.97 | 2.78 | 568 |
| FCS New Mexico Field Office | 50.75 | 2.33 | 1,630 |
| FCS Arkansas Field Office | 51.22 | 2.87 | 2,610 |
| South Carolina Department of Social Services (demonstration) | 92.48 | 5.48 | 620 |
| FCS South Carolina Field Office | 50.34 | 2.40 | 2,751 |
| FCS Mississippi Field Office | 64.57 | 3.15 | 4,161 |

*SOURCE:* Demonstration cost reports, FCS personnel data, and interviews with demonstration and FCS staff.

[a] Number of firms is monthly average, October-December 1995. See Exhibit 5.3 for additional notes.

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# ADDENDUM

The attached pages (49 to 51) have been included to correct an error which appears in the printed text referring to the "Labor Resource Cost" in Exhibit 5.4 and Exhibit 5.5.

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*SOURCE:* Demonstration cost reports, FCS personnel data, and interviews with demonstration and FCS staff.

[a] Number of firms is monthly average, February-December 1995. See Exhibit 5.3 for additional notes.

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**LABOR DEVOTED TO RETAILER MANAGEMENT, PER FIRM**
**(October-December 1995 data, annualized)**

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*SOURCE:* Demonstration cost reports, FCS personnel data, and interviews with demonstration and FCS staff.

[a] Number of firms is monthly average, October-December 1995. See Exhibit 5.3 for additional notes.

demonstration offices, the higher cost represents a shift of resources formerly devoted to EBT implementation and (especially in South Carolina) preparations for the end of the demonstration. For the New Mexico and South Carolina Field Offices, the increase reflects a renewed emphasis on retailer integrity, especially on store visits for new authorizations. The comparison Field Offices, too, reported that their level of retailer management effort in the October-December period was higher than in previous quarters, but this difference was not quantified.

## 5.3 CHANGES IN RETAILER PARTICIPATION

To seek possible evidence of demonstration impacts on retailer integrity, we examined two measures of retailer activity: ***the number of authorized firms (by store type and overall) and the percent of benefits redeemed by supermarkets.*** A decrease in the number of the most fraud-prone types of stores (i.e., those other than supermarkets and chain convenience stores) could be an indication that better retailer management is forcing out violators, both by removing authorized stores and by deterring potential violators from completing the application process. Similarly, an increase in the percent of benefits redeemed by supermarkets, where program violations are considered to be least frequent, could be indicative of a reduction in food stamp trafficking. These are, at best, suggestive indicators of the risk of retailer fraud, but they are the most comprehensively available data.

As can be seen in Exhibit 5.6, both the demonstration and the Field Office in South Carolina experienced large reductions (16 to 21 percent) in the total number of authorized firms between February and December, 1995. The reduction was greatest among grocery stores and "nontraditional" stores (route vendors, treatment facilities, etc.), but all store types except supermarkets experienced reductions of 10 percent or more. The overall reduction in firms in both South Carolina sites, and the difference between them, echo the earlier findings of a higher rate of withdrawals in the Field Office's territory, perhaps due to the EBT effect having already occurred in one of the five demonstration counties. In New Mexico, the low rates of change in the number of authorized firms matches the earlier finding of low withdrawal rates; the exception to this pattern is the sizable reduction in the number of nontraditional stores, even though these stores were not specifically targeted for review by the state or the Field Office.

With the exception of the New Mexico demonstration site, all of the study sites and their regions saw increases in the percent of food stamp benefits redeemed in supermarkets during

**Exhibit 5.6**

**CHANGE IN NUMBER OF AUTHORIZED FIRMS BY STORE TYPE AND OVERALL February-December 1995**

| | Convenience Stores | Grocery Stores | Non-Traditional Stores | Other Stores | Supermarkets | Total Firms |
|---|---|---|---|---|---|---|
| New Mexico Demonstration | -1.97% | 5.13% | -12.12% | 4.46% | 3.70% | 0.34% |
| FCS New Mexico Field Office[a] | 2.16 | 0.00 | -13.53 | -1.99 | -3.00 | -1.41 |
| Arkansas Field Office[a] | -3.64 | -5.06 | -9.09 | -8.32 | 0.80 | -4.66 |
| Southwest Region[b] | -4.45 | -7.97 | -18.67 | -6.32 | -1.54 | -6.03 |
| South Carolina Demonstration | -10.25 | -28.68 | -37.88 | -14.04 | -0.85 | -15.53 |
| FCS South Carolina Field Office[a] | -23.59 | -31.63 | -32.37 | -14.50 | -0.41 | -20.59 |
| FCS Mississippi Field Office[a] | -7.53 | -7.54 | -15.90 | -2.12 | -2.27 | -4.98 |
| Southeast Region[b] | -6.71 | -9.26 | -13.44 | -4.13 | -0.15 | -5.93 |

*SOURCE:* Store Tracking and Redemption Subsystem (STARS), Food Stamp Program Integrated Information System.

[a] Data for baseline FCS field offices exclude demonstration retailers and activities.

[b] Regional data include demonstration retailers and activities.

1995 (see Exhibit 5.7). Once again, the South Carolina Field Office led the group in showing the largest change (6 percentage points), and both baseline Field Offices showed larger gains in their territories than occurred in the demonstration areas. The increase of 3.4 percentage points in the South Carolina demonstration was, however, greater than in any other site except the South Carolina Field Office. Clearly, the EBT implementation process in South Carolina must have played a part in this change, either by culling out ineligible non-supermarkets (as evidenced in the drop in the number of authorized firms) or by encouraging recipients to redeem more of their benefits at supermarkets. The difference in effects between the South Carolina Field Office and the demonstration might be due to procedural improvements in the state's store visits during the latter phases of EBT implementation, which were conducted in the Field Office's territory. An

**Exhibit 5.7**

**CHANGE IN SUPERMARKET PERCENT OF TOTAL FOOD STAMP BENEFIT REDEMPTIONS**
**February-December 1995**

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# CHAPTER SIX

# LESSONS OF THE RETAILER MANAGEMENT DEMONSTRATIONS

The demonstrations in New Mexico and South Carolina provided a revealing test of integrating retailer management for the FSP with EBT retailer liaison functions under state control. In this chapter, we summarize the lessons of the retailer management demonstrations and their implications for future state involvement in retailer management.

**New Mexico and South Carolina successfully performed the Field Offices' principal retailer management functions, with substantial training and technical assistance from the Field Offices.**

The demonstrations proved that states can learn and carry out the FSP retailer management functions of authorization, reauthorization, monitoring, training and support, withdrawal, and disqualification. Successful performance of these functions required that the states learn a complex web of regulations and procedures, and acquire competence in the use of STARS. The on-the-job training and ongoing technical assistance provided by both Field Offices were critical to the states' success. Field Office support was particularly important in New Mexico, because of the limited support available to the retailer management specialist through the NMHSD EBT project office.

The states' success in performing FSP retailer management functions was clearest in the more routine areas of first-time authorization, reauthorization, and voluntary withdrawals. Both states performed these functions in a timely, procedurally-correct manner. Other than the use of store visits, the states made only modest innovations in these functions. FSP regulations and the temporary nature of the demonstration constrained further innovation.

Only one state, New Mexico, demonstrated the full array of Field Office functions, including review of STARS high-redeemer reports and disqualifications; the latter was so infrequent that Field Office assistance was required each time a store was disqualified. It should be noted, however, that the Field Offices in the study generally delegated this sensitive task to a retailer compliance specialist.

**The consolidation of EBT and FSP retailer management into a single point of contact clearly improved coordination and communication with the EBT vendor, but the impact on retailers' ease of access was mixed.**

During and after EBT implementation, the state retailer management staff in both sites served as the single point of contact for all retailer management issues involving the EBT vendor. All parties—the states, the Field Offices, and the vendors—felt that this arrangement improved communications. The vendors clearly preferred having a single point of contact to the conventional division of labor between states and Field Offices, although one vendor felt that having retailer management functions based in a single location was more important than having all functions within one organization.

Bringing the FSP retailer management processes within the EBT project team did simplify the retailer enrollment and withdrawal processes, but the states never fully took the place of the Field Offices from the retailers' perspective. The enrollment and withdrawal processes in New Mexico were particularly streamlined, because the NMHSD retailer management specialist took responsibility for both the FSP application and the EBT merchant agreement. This "one-stop shopping" approach worked well, except when the lone retailer management specialist was in the field during her EBT rollout trips. These functions remained separate in South Carolina, but the constant communications between SCDSS and vendor EBT project staff helped ensure smooth service to retailers. In both sites, according to both vendors and EBT staff, many retailers lacked a clear awareness of the state's expanded role during the demonstration and continued to rely on the Field Offices for FSP information and support.

**New Mexico and South Carolina used the opportunity of store visits during EBT implementation to enhance the presence of the FSP among retailers. The states identified ineligible or problematic stores during these visits, but most of the withdrawals during EBT rollout were the result of EBT vendor activity.**

The demonstrations enabled the states to add the FSP mission of retailer service and integrity to the basic EBT retailer recruitment, training, and installation process. For some retailers, the presence of a FSP representative was a valuable opportunity to get needed information or even encouragement to participate in the FSP. At the other end of the scale of retailer integrity, both states identified suspicious stores during their implementation visits and took appropriate followup steps.

The most visible results, in terms of withdrawn stores during EBT implementation, came from the vendor's reports on problem stores in South Carolina. A major consequence of the large number of retailer withdrawals (for all reasons) was that the EBT vendor installed 800 fewer POS terminals than specified in its contract with SCDSS. In the final months of the South Carolina demonstration, the use of food inventory checklists enhanced this process, though the lack of capacity at the Field Office limited the effectiveness of this tool. Although the state's involvement in the demonstration led to the adoption of the checklist, the feasibility of using checklists did not depend on the state's assumption of responsibility for FSP authorization.

**The demonstrations highlighted the pressures of EBT implementation on states, FCS and EBT vendors, and pointed out the competing priorities when FSP and EBT retailer management are combined.**

In both sites, the state retailer management staff had to cope with the competing demands of meeting EBT implementation schedules and keeping up with their retailer management responsibilities. In New Mexico, these competing demands resulted in lapses of FSP retailer service when the retailer management specialist was conducting her pre-implementation store visits, leaving the Field Office and even the vendor to fill the gap. In South Carolina, both the state and the Field Office focused a great deal of energy on tracking and resolving the vendor's retailer problem reports, a task made more urgent by the rapid pace of EBT implementation. These experiences point out the need to anticipate and manage competing demands if FSP and EBT retailer management are combined in the future.

A more subtle tension between FSP and EBT objectives arose when questions of retailer eligibility arose, both during EBT implementation and in the ongoing authorization process. The states brought to these decisions an acute awareness of the financial costs of including marginal retailers in the EBT system and a very proprietary attitude toward the integrity of "their" EBT systems. These factors probably contributed to the states' more aggressive stance toward the denial of marginal retailer applications, and to the disagreements that arose between the states and the Field Offices over the eligibility of certain stores.

The impact of EBT implementation on state retailer management was heightened by the timing of the demonstration. In South Carolina, there was no post-implementation period in which the state could focus on retailer authorization and monitoring activities. Even in New Mexico, where the demonstration continued for six months after all retailers had been converted

to EBT, the opportunity for the state to develop a stable process of ongoing retailer management was diminished by uncertainties about whether and for how long the state would continue that process. A longer post-implementation phase would have provided a much clearer picture of how capable the states might be at sustaining an effective and innovative process of protecting the integrity of the FSP redemption process.

**The demonstrations highlighted the feasibility and challenges of state involvement in pre-authorization store visits.**

When the demonstrations were conceived, the states' plans to conduct pre-authorization visits were seen as a potential means to fill an important void in retailer management activities. New Mexico and South Carolina proved the feasibility of a particular approach to this role: training and empowering state staff to act in place of FCS Field Office staff. The limitation of this approach (heightened by the constraints of a demonstration) was that only one or two staff in each site were able to conduct the visits, so they faced similar travel costs and logistics to those of the Field Offices. The states were able to conduct pre-authorization visits when the Field Offices could not, but only because FCS had provided demonstration funds for this purpose. When FCS made store visits a priority in the latter part of the demonstration, the Field Offices substantially increased their level of store visit activity.

The South Carolina project also demonstrated the use of a store survey checklist by the EBT ***vendor*** during pre-installation visits. Most of this activity was implementation-related. As noted in Chapter Three, this process posed several challenges, especially the need for timely, decisive followup by the Field Office. There was little evidence as to whether the outcome of the authorization process was affected by the vendor completing pre-installation checklists for new stores, in part because of the limited time period in which this approach was tested. Nevertheless, the South Carolina vendor clearly demonstrated the feasibility of this option. Both EBT vendors identified contractual issues, including funding and liability, that would need to be addressed if the completion of a checklist were added to their formal responsibilities.

**South Carolina accomplished its goal of developing a computer system for retailer management, but the process highlighted the inherent challenges and limitations of state efforts in this area.**

South Carolina produced a computer system (the RMS) to maintain and manipulate data on retailer authorization and redemptions, including detailed EBT transaction data. The state faced resource management and technical issues in developing the RMS. As a result, the RMS was delivered well behind schedule, underdocumented, and subject to breakdowns, but it was usable enough to generate solid leads for investigative and administrative action.

The larger challenge, however, was that the state—which had chosen not to take on retailer compliance responsibilities—was developing a system that needed to be integrated with FCS computer systems and with the needs and methods of FCS and other federal fraud investigators. The lack of a truly integrated project team not only contributed to the delays and other difficulties encountered, but also diminished the understanding and sense of ownership among those responsible for retailer integrity that would have helped realize the potential of the RMS. Even with greater teamwork between SCDSS and FCS, the potential of the RMS probably would still have been constrained by the limited FCS staff resources available to develop facility with the system and explore its capabilities. The appeal of the RMS to federal investigators was eclipsed by FCS' development of a similar EBT transaction analysis system at the national level.

**EBT implementation had very substantial effects on retailer management activity and retailer participation in South Carolina, but the effects in New Mexico were less clear and modest at best.**

Among the six sites in the study, the New Mexico demonstration had the lowest rate of store withdrawals from February through December 1995, the South Carolina demonstration had the second-highest, and the South Carolina Field Office had the highest. The presence and timing of EBT implementation appeared to be the prime cause of this variation, especially throughout South Carolina where FSP participation by non-supermarkets—the most fraud-prone types of stores—declined dramatically. The fact that the New Mexico Field Office had a somewhat higher withdrawal rate than the New Mexico demonstration site may have been due to differences in the timing of EBT implementation: the EBT system had been operating in the largest county of the demonstration site for years, whereas the Field Office experienced EBT rollouts throughout its portion of the state and in its portion of Texas as well. The after-effects of EBT implementation may have contributed to the marked decline in FSP participation by New Mexico's nontraditional retailers (route vendors, treatment centers, etc.).

**The demonstrations did not have any discernible effects on retailer authorizations, withdrawals, or disqualifications, but the circumstances of the demonstrations preclude a definitive conclusion on this question.**

The use of store visits during EBT implementation and ongoing retailer authorization in the demonstrations might have been expected to reduce the rate of new authorizations and increase the rates of store withdrawals and disqualifications, but the data do not bear out this supposition. In South Carolina, however, the substantial effects of EBT implementation could have overshadowed any demonstration effect. Moreover, in both sites, the store visits during implementation were statewide, so the lack of a difference between the demonstration sites and the Field Offices does not mean that these efforts did not enhance the EBT effect.

**State labor costs for retailer management were remarkably similar to those of the FCS Field Offices, once differences in workload and the role of EBT implementation activity were taken into account.**

The states had higher labor costs per retailer for ongoing retailer management than the Field Offices, and South Carolina had substantially higher per-retailer costs for this function than all other sites. When retailer-related EBT implementation costs were included, however, the South Carolina Field Office had the second-highest labor cost per retailer for the 1995 study period and the highest cost for the last quarter of 1995. Much of the cost difference between the two South Carolina offices and the rest of the sites was probably due to the withdrawals and update activity arising from EBT implementation, compounded by the compression of nearly two years' reauthorization activity into the operational year of the demonstration. The higher labor costs in the New Mexico demonstration, when compared with those of the New Mexico and Arkansas Field Offices, provide some indication that the emphasis on store visits modestly increased retailer management costs.

**The states took definite steps to limit the number of marginal stores authorized to participate in the FSP. Both states, like the Field Offices, were hampered by the difficulty of justifying the withdrawal of marginal stores under current regulations.**

Both states took specific measures designed to limit the number of marginal stores in their EBT systems, going beyond the standard Field Office practices in place at the outset of the demonstration. SCDSS was particularly aggressive in getting information about stores and using it to encourage marginal retailers to withdraw applications or withdraw from the program. (Like

the Field Offices, the states often encouraged a voluntary withdrawal as a quicker alternative to a denial or disqualification.) Unlike the SCFO, SCDSS visited all stores seeking initial authorization. Stores already authorized to participate were visited twice during the EBT rollout process. Stores subject to re-authorization before EBT roll-out (and a small number of marginal stores already on the EBT system) were also visited as part of the re-authorization process. Retailers could only submit an application during a visit to the store by SCDSS staff, sending a clear message that an in-store review was part of the application process.

As the roll-out process progressed, SCDSS visited stores outside the demonstration area, where the SCFO had retained all retailer management responsibilities. The differences in attitude and interpretation of the eligibility criteria between the Field Office and the state were evident in 31 cases of marginal stores outside the demonstration area that SCDSS recommended for withdrawal based on information from the roll-out process. In 19 of these cases, the Field Office decided not to withdraw the stores; the other 12 were withdrawn. It is difficult to know in these cases whether SCFO was more cautious because of its experience with administrative review, its inability to visit the stores in person, or a lack of confidence in vendor-provided information, or other reasons. Perhaps with more experience the state would have learned that it too had to be more cautious in dealing with marginal stores. Certainly SCDSS showed a willingness to interpret retailer eligibility criteria in a way that excluded more marginal stores than the SCFO would have excluded.

In New Mexico, the state's potential to reduce the number of marginal stores in the FSP was limited by the reliance of the NMHSD retailer management specialist on advice and assistance from the NMFO in evaluating marginal stores. NMHSD had more information than NMFO about stores because of store visits during the roll-out process and because of its policy of visiting all stores making applications for initial authorization to participate in the program. Because of the limitations of the evaluation design, it is unclear if that additional information resulted in more withdrawals, withdrawn applications, or denials of marginal stores. Although the roll-out of EBT likely drew attention to some marginal stores, the focus of NMHSD's store visits during this process was on ensuring that retailers were trained and ready to perform EBT transactions.

Neither demonstration provided quantitative evidence of an impact on the number of marginal stores in the FSP. Nevertheless, both states gave all new applicants and a large

proportion of currently authorized retailers (including current retailers outside the demonstration counties) the kind of scrutiny that the FCS Field Offices provided much less often: personal visits by state or vendor staff trained to observe and document inadequate inventories of staple foods and other indicators of marginal stores. This accomplishment alone represented a significant advance in promoting the integrity of the FSP in these states.

**The states retained some retailer management functions at the end of the demonstration and were willing to keep more. Future state participation in retailer management is clearly an option, although funding issues have to be resolved.**

Both states continued to be active in retailer management after the end of EBT implementation and the demonstration. New Mexico continued to take responsibility for merchant agreements. South Carolina retained the responsibility to provide updates on retailer authorizations, changes, and withdrawals to the EBT contractor, using the automated notification process from STARS established for the demonstration.

Both states were sufficiently interested in ongoing involvement in retailer management to submit proposals for extensions of the demonstration. New Mexico proposed to continue the demonstration in the same counties (but at a higher level of effort) for one year. South Carolina made a more ambitious proposal of a two-year extension accompanied by an expansion of the territory and further automation. Both states settled for no-cost extensions when FCS decided not to fund either proposal; neither state was willing to continue the full set of retailer management activities under conventional 50 percent FCS funding. Nevertheless, both states remained positive about the feasibility and value of participating in retailer management, and they left open the possibility of a future compromise regarding the extent of federal funding.

**There were clear synergies from the enhanced state involvement in retailer management during EBT implementation, with benefits for both the states and FCS. The experience with state retailer management after EBT implementation was more limited and less conclusive, but potential benefits for retailer access and integrity emerged.**

During EBT implementation, the states' enhanced role in retailer management had three

- easier and tighter coordination between EBT and FSP retailer management, with all retailer needs addressed by the EBT project team; and

- value added to store visits during EBT rollout, including FSP technical assistance to retailers and detection of ineligible or potentially noncompliant stores.

The states' enhanced role in implementation did give rise to some disputes over the eligibility of marginal stores, but clearer rules and more training would have largely eliminated this problem. Other than the cost of equipping and training the state retailer management staff, realizing the benefits of enhanced state participation in retailer management during implementation required little if any additional FSP resources.

The experience with state retailer management in the aftermath of EBT implementation was mainly gained from the last months of the New Mexico demonstration. The potential benefits of ongoing state involvement in FSP retailer management that emerged in New Mexico were:

- streamlined enrollment of new retailers into the FSP and the EBT system;

- a single point of contact for retailers with FSP or EBT questions and problems;

- more timely information for the state and its EBT vendor on retailer withdrawals and disqualifications, albeit with FSP rules regarding appeal procedures still constraining the ability to act sooner on this information; and

- better flow of information to and from the SLEB, enhancing the effectiveness of state investigations in a state with very limited federal investigative resources.

In South Carolina, the enhanced state involvement with retailer management during ongoing EBT operations also streamlined retailer enrollment, but the most promising result was the addition of the inventory checklist to the EBT vendor's site surveys. The relatively high cost of ongoing retailer management in South Carolina suggests a possible downside to state involvement, but further experience clearly would be necessary before any definitive conclusions could be reached on the cost-effectiveness of state retailer management.

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# APPENDIX A

# RETAILER MANAGEMENT FUNCTIONS IDENTIFIED IN THE REQUEST FOR APPLICATIONS

The Request for Applications (RFA) for the demonstration identified the following retailer management functions as ones that could be included in the demonstration.

- Evaluation of current EBT capabilities of authorized stores.
- Processing of all retailer requests for authorization and reauthorization, including:
  - Providing application packets upon request;
  - Reviewing application forms for completion and following up on incomplete or inconsistent information;
  - Verification of questionable information;
  - If deemed necessary, conducting pre-authorization/reauthorization onsite visits for the purpose of resolving questionable applications;
  - Review of past FSP/WIC history;
  - Determining eligibility based on Food Stamp Act and regulations;
  - Notifying firms of decision to deny or approve participation;
  - Providing training to approved new applicants and providing FCS and any state-designed informational and training materials;
  - Inputting all required data into the national FCS retailer database; and
  - Withdrawing firms which no longer meet eligibility criteria, advising the firm of such action and the right to administrative review, and deleting the firm from the national FCS retailer database (Note: administrative review of withdrawn actions will be retained by FCS).
- Ongoing retailer monitoring, training and technical assistance, including:
  - Reviewing computer generated monitoring reports, including EBT system transaction data, to identify potential violators;
  - Conducting on-site visits for monitoring and educational purposes as deemed appropriate and evaluating the effectiveness of retailer training;

— Resolving all complaints about retailers from participants and the general public, as well as the USDA Hotline Complaint System;

— Referring suspicious firms to FCS Compliance Branch for investigation;

— Responding to inquiries from retailers and the general public;

— Responding to retailer requests for technical assistance, including policy questions and requests for written materials and training aids;

— Updating the retailer database with changes reported by authorized firms;

— Arranging for emergency supplies of redemption certificates retailers use to deposit coupons at financial institutions;

— FSP/WIC coordination and information sharing regarding retailer status and activity; and

— Conducting initial and ongoing state staff training.

- Sanction activity, including:

— Coordinating with FCS Compliance Branch staff on compliance investigations;

— Reviewing FCS and USDA Inspector General investigative reports on violating retailers;

— Determining appropriate sanction (disqualification, civil money penalty, fine) and advising firm of determination and right to administrative review. (Note: FCS will retain the administrative review function and the collection of civil money penalties and fines);

— Determining the amount of any fiscal claim against the firm (Note: FCS will retain the claims collection function); and

— Inputting all required data into the national FCS retailer database on investigative findings and resultant sanction activity on each individual case.

FCS further indicated that it would retain responsibility "for all retailer investigations including high risk identification and compliance buys." The RFA went on to say that "State agencies may offer to assist FCS by doing some of the identification work by sharing EBT system generated data."