



United States
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Food and
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Office of
Analysis and
Evaluation

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

Review of FSP Redemption Integrity Initiatives

June 1998

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REVIEW OF FSP REDEMPTION INTEGRITY INITIATIVES

June 1998

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EXECUTIVE SUMMARY

Recent developments have led the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA) to re-assess the way that retailer participation in the Food Stamp Program (FSP) is managed. First, the replacement of the paper food stamp coupon method of benefit redemption with electronic benefits transfer (EBT) systems provides new opportunities to monitor retailers through in-store contacts and analysis of transaction data. Second, increased concern about the trafficking of FSP benefits for cash has led USDA to adopt a three-tiered strategy: increased scrutiny of retailers prior to authorization, enhanced monitoring and controls over authorized retailers, and strengthened sanctions for trafficking and other program abuses. Third, these developments have occurred in a context of diminishing FNS resources for retailer management.

The objective of this report is to synthesize the various initiatives that FNS has undertaken to improve the integrity of the FSP redemption process in the context of nationwide EBT implementation. The following questions were posed for the report:

- What are the major strategic directions in which FNS is moving in its efforts to increase redemption integrity? How do these strategies relate to the nationwide implementation of EBT in the FSP?
- What strategies is FNS pursuing in each of these directions? What initiatives have been undertaken to develop and implement these strategies, and what is their current status?
- What has been learned about the feasibility, potential or actual benefits, costs and other challenges, and limitations of these initiatives? How have these results and lessons been accumulated and interpreted? What evaluative processes are in place to learn from current and planned initiatives?

The report is organized around the three major strategic directions of FNS' redemption integrity initiatives: retailer authorization; retailer monitoring, investigation and sanctioning; and recipient investigation and sanctioning. The initiatives and their chief results are summarized below, followed by the more general conclusions arising from this review.

RETAILER AUTHORIZATION INITIATIVES

The first strategic direction that FNS is pursuing is: *detecting and excluding ineligible retailers through enhancements to the authorization and reauthorization processes*. The four initiatives in this direction aim to rid the FSP of stores that are not really in the business of selling food for home preparation and consumption, under the assumption that these stores are more likely to traffick or violate other FSP rules than legitimate, eligible food retailers. These initiatives are summarized in Exhibit ES-1.

Exhibit ES-1**SUMMARY OF RETAILER AUTHORIZATION INITIATIVES**

Initiative	Description
Retailer Pre-Authorization Visit Demonstration	Private contractors conducted in-person surveys of stores applying for initial authorization and reauthorization, in a test to prepare for nationwide use of this approach in FY 1997.
Use of Dun & Bradstreet Data	The Duns Market Indicators reports were obtained on new applicant retailers to validate and supplement self-reported information on the retailers' applications.
Demonstration of State Retailer Management in EBT-Ready States	State EBT project personnel in New Mexico and South Carolina temporarily assumed most of FNS' responsibilities for retailer authorization and oversight.
Analysis of Recent FSP Retailer Reviews	An FNS contractor analyzed lessons from FNS' recent experience with systematic, concentrated reviews (also known as sweeps) of authorized retailers by FNS Field Offices and state FSP agencies.

The retailer pre-authorization visit demonstration and the recent FSP retailer reviews were the most significant, both because they were the largest in scale, and because they most clearly identified viable approaches to strengthening the authorization process. Both initiatives are labor-intensive, so FNS' commitment to fulfill its Congressional mandate via contractor visits means that this approach will, in FY 1997 and probably beyond, largely take the place of Field Office store visits. The results reviewed for this report provide stronger evidence of cost-effectiveness for the Field Office sweeps (as measured by the proportion of visited stores withdrawn), but the contractor visit approach will be more sustainable as long as increasing Field Office staff is not an option.

The other two retailer authorization initiatives showed some promise, but each had significant limitations. The state retailer management demonstration proved that states could properly and efficiently perform basic retailer authorization functions, including store visits. To make this approach viable on a wider, ongoing basis, however, would require enhanced funding for the states and reorganization of FNS' retailer management processes. The use of commercially available data on retailers, such as the Dun & Bradstreet files, is appealing as a less labor-intensive way to get independent data on retailers, but few new stores are currently represented in the Dun & Bradstreet database.

RETAILER MONITORING, INVESTIGATION AND SANCTIONING INITIATIVES

FNS' second strategic direction is: *developing and utilizing new resources and methods for monitoring, investigating and sanctioning retailers that violate redemption rules.* These initiatives include new ways to identify potential program violators, new approaches to conducting retailer investigations, and alternative approaches to taking administrative action against program violators. The initiatives are summarized in Exhibit ES-2.

The most significant of these initiatives is the ALERT system, which is already transforming the use of EBT data for targeting retailer investigations and will be implemented nationally by late 1997. The demonstrated feasibility of using EBT transaction data to disqualify traffickers will, if widely implemented, greatly augment the capability to act on the intelligence provided by ALERT. The other particularly promising, but yet untested, source of information for investigations is the sharing of confidential information between FNS and law enforcement agencies, which not only would give FNS new information but could also involve other agencies, such as the Internal Revenue Service and its state counterparts, in the struggle against trafficking.

Both the concentrated Compliance Branch (CB) investigations and the State Law Enforcement Bureau (SLEB) agreements are quite significant advances in conducting investigations, albeit for different reasons. The concentrated CB investigations represent an effective use of the CB's limited resources to maximize their impact on selected areas, both in the number of investigations conducted and the resulting publicity. The SLEB agreements have a decidedly mixed record with respect to effectiveness, but in the states where this mechanism has been well-used it has shown the potential to tap a much greater pool of state and local

Exhibit ES-2

**SUMMARY OF RETAILER MONITORING, INVESTIGATION
AND SANCTIONING INITIATIVES**

Initiative	Description
Analysis of the Extent of Trafficking in the FSP	The FNS Office of Analysis and Evaluation used data from FNS Compliance Branch (CB) investigations to estimate the overall incidence of trafficking and the relative likelihood of trafficking by different types of retailers.
Update to the Violation Prone Profile	An FNS contractor used the same data from past CB investigations to construct a new statistical model for targeting future CB investigations.
Anti-fraud Locator using EBT Retailer Transactions (ALERT) System	An FNS contractor developed an automated system for analyzing EBT transaction data to identify potentially fraudulent retailer behavior.
Dun & Bradstreet Initiative	FNS contracted with Dun & Bradstreet (D&B) to explore whether D&B's data could be used to predict the likelihood that a store is engaging in FSP fraud.
Coupon Redemption Initiative	CB tested the use of information from the Coupon Information Center (CIC) on stores suspected of making fraudulent claims for manufacturers' cents-off coupons to target investigations of violating FSP rules.
Coordination with Law Enforcement Agencies	FNS is collaborating with law enforcement agencies on agreements to share information so that both FNS and the other agencies will be better able to target and conduct retailer fraud investigations.
Validation of Benford's Law	A contractor is working with FNS and state FSP agencies to test a statistical technique that may be useful for identifying suspicious EBT transactions.
Study of the State Law Enforcement Bureau (SLEB) Agreements	This study evaluated the agreements which enable states to obtain food stamp benefits from FNS for use in conducting investigations of food stamp trafficking.
Concentrated CB Investigations	CB brought all of its investigators together in a few selected areas to conduct large numbers of investigations in a brief span of time.
Expedited Release of Trafficking Cases by the USDA Office of Inspector General (OIG)	For the concentrated CB investigations, OIG expedited its review and release of cases referred by CB for possible escalation to the criminal level, thereby allowing FNS to take swifter administrative action.
Use of EBT Transaction Data to Disqualify Traffickers	FNS Field Offices have used this approach to save the expense and delay associated with conventional investigations.

investigative resources. The realization of this potential depends on improvements in coordination, targeting, accountability, and referrals of retailers for disqualification.

RECIPIENT INVESTIGATION AND SANCTIONING INITIATIVES

The third strategic direction that FNS is pursuing is: *targeting recipients through new methods and alliances to stigmatize and deter recipient involvement in trafficking*. This is a new direction for FNS that includes two kinds of initiatives: strategies for preventing and deterring recipient trafficking, and approaches to identify and sanction recipients who traffic. The recipient initiatives are summarized in Exhibit ES-3.

Exhibit ES-3

SUMMARY OF RECIPIENT INVESTIGATION AND SANCTIONING INITIATIVES

Initiative	Description
Recipient Food Stamp Trafficking Study	This basic research project tests new approaches to understanding the dynamics of recipient trafficking.
Assessment of Biometric Technology as an Anti-fraud Tool	This study will examine technologies that could, in the long run, be used as a more secure means of verifying identity for EBT transactions.
South Carolina Client Integrity Project	South Carolina is testing the use of EBT transaction data to disqualify recipients who traffick food stamp benefits.
Data Integrity Support Plan	A contractor developed a plan for technical assistance to states in the use of EBT data to identify suspicious transactions.
Sanctioning Recipients for Trafficking FSP Benefits	Maryland has used the Administrative Disqualification Hearing process to disqualify recipients suspected of trafficking on the basis of evidence from OIG's retailer investigations.

FNS has already placed these initiatives, along with recipient integrity demonstrations in Texas and New Mexico, in the context of a draft recipient integrity plan enumerating approaches for FNS and states to use to deter, detect and punish recipient trafficking in EBT systems. At present, little is known about the effectiveness of the few recipient integrity initiatives that have been implemented, but the last three initiatives in Exhibit ES-3 appear likely

to lead to wider-scale activity in the next few years, especially if the recipient integrity plan can serve as a catalyst.

ALLOCATION OF RESOURCES TO REDEMPTION INTEGRITY INITIATIVES

FNS has undertaken a number of studies to assess specific redemption integrity initiatives, but relatively little is known at present about the cost-effectiveness of the current allocation of resources. Among the redemption integrity initiatives examined for this report, FNS has allocated the most resources to contracted store visits, ALERT, Field Office sweeps, concentrated CB investigations, and state investigations under the SLEB agreements. The Field Office sweeps and concentrated CB investigations have most clearly justified their cost so far. There is good reason to expect that the payoff from ALERT will justify its cost. There is somewhat more uncertainty about the cost-effectiveness of the contracted store visits, which may nevertheless be the only practical way to meet FNS' mandate for pre-authorization store visits. The SLEB initiative is worthy of continued support because of its potential to leverage state and local resources, provided the necessary controls are implemented.

WORKLOAD MANAGEMENT ISSUES

The recent redemption integrity initiatives pose both a challenge and an opportunity for FNS. The challenge is to cope with the increased workload for FNS Field Offices, the CB, and the Administrative Review Branch. The opportunity is to make the most of FNS' new powers and verification capabilities by re-engineering retailer management processes. Options that should be considered include: automating or out-sourcing peripheral Field Office functions to allow more focus on the Field Offices' core activities; taking a more selective approach to reauthorization; simplifying store visits and refocusing them on verifying the type of business and gathering indicators of potential fraud; and providing training and technical assistance for new Field Office activities, such as review of stores' tax records.

COOPERATION WITH STATE AGENCIES

The combination of EBT implementation and FNS' redemption integrity initiatives is heightening the need for coordination between FNS and state FSP agencies. Store visits for eligibility reviews need to be coordinated with EBT implementation plans. Use of EBT data and

EBT cards for compliance investigations requires closer coordination between state and USDA investigators.

FNS' greatest challenge when working with state agencies is to promote state involvement while ensuring that the resulting activities are fully consistent with FNS goals and policies. The question of financial incentives is particularly challenging: the standard 50 percent financial participation by FNS does not appear to be enough to maximize state involvement. Enhanced funding would, however, require new legislation. The other main option, state use of recoupment of trafficked benefits from recipients, would entail regulatory changes and pose risks to the FSP's reputation and public support. The most accessible path to improving the cooperative relationship with state agencies in the area of redemption integrity is to establish enhanced, proactive lines of communication and oversight, while clearly conveying FNS' objectives and expectations for state performance and accountability.

REGULATORY ISSUES

FNS faces three regulatory challenges as it pursues its redemption integrity initiatives. First, new regulations to implement recently-granted retailer management powers will have to balance the mandate to eliminate retailer abuse with the rights and concerns of legitimate retailers. Second, the regulations and the procedures to implement them will need to be part of effective, efficient, dynamic approaches to retailer authorization and reauthorization. Third, FNS needs either to establish an enforceable, meaningful threshold of retailer eligibility or to reconsider its emphasis on detailed store eligibility reviews over retailer monitoring and investigations.

INFORMATION SYSTEM NEEDS

Many of the redemption integrity initiatives involve new sources of information. One challenge for FNS is to manage the new information, along with the existing logistical challenges of the documents required to support retailer applications. Possible solutions to these challenges include identifying paper documents that might be eliminated and application of electronic data-handling technology to improve the information flow. The other challenge is to provide for accountability and feedback on the acquisition and use of new information sources; FNS could meet this challenge through modifications to STARS or new tracking systems linked to STARS.

CHAPTER ONE

INTRODUCTION

The Food Stamp Program (FSP) provides \$22 billion a year in benefits to help low-income households buy food. Recipients can redeem their benefits at 190,000 authorized retail locations. At present, most FSP recipients get their benefits in the form of paper food stamp coupons.

The Food and Consumer Service (FNS) of the U.S. Department of Agriculture (USDA) has nationwide administrative responsibility for the FSP, including direct control over retailer participation and oversight of the state food stamp agencies. The state agencies certify recipients' eligibility and issue program benefits. Retailers must apply to FNS for authorization to redeem food stamp benefits, and they are periodically required to apply for reauthorization. FNS monitors participating retailers to ensure that they abide by program rules, most notably the requirement that benefits may be redeemed only by authorized retailers for eligible foods and not for other goods, services, or cash.

Recent developments have led FNS to reassess the way that retailer participation in the FSP is managed. The advent of electronic benefits transfer (EBT) systems is changing the way that the Program interacts with retailers. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandates that all states implement EBT for the FSP by the year 2002. 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) benefit transactions via point-of-sale (POS) equipment. This process requires interaction with FNS to obtain and update lists of authorized food retailers.

EBT implementation presents an opportunity to review all participating retailers to make sure that they meet FSP participation requirements and comply with program rules. Routine 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. EBT transaction data provide an important new resource for monitoring retailer redemption activity and to link retailers and recipients who engage in misuse of benefits.

Meanwhile, FNS is seeking new ways to improve the integrity of benefit redemption, placing particular emphasis on the problem of food stamp trafficking. Although the proportion of benefits illegally traded for cash appears to be modest (less than 4 percent, according to FNS estimates), this level of trafficking represents an \$815 million problem.¹ In recent years, as the FSP has grown, public concern about trafficking has increased. USDA has responded to this concern with a three-tiered strategy: increased scrutiny of retailers prior to authorization, enhanced monitoring and controls over authorized retailers, and strengthened sanctions for trafficking and other program abuses.

These developments have occurred in a context of diminishing FNS resources for retailer management. Cutbacks at the FNS Field Offices (FOs), 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 FOs became unable to visit the great majority of retailers applying for FSP authorization or reauthorization.² Furthermore, the investigative staff of the FNS Compliance Branch has been reduced from 54 to 46.

The objective of this report is to synthesize the various initiatives that FNS has undertaken to improve the integrity of the FSP redemption process in the context of nationwide EBT implementation. It answers the following questions:

- What are the major strategic directions in which FNS is moving in its efforts to increase redemption integrity? How do these strategies relate to the nationwide implementation of EBT in the FSP?
- What strategies is FNS pursuing in each of these directions? What initiatives have been undertaken to develop and implement these strategies, and what is their current status?
- What has been learned about the feasibility, potential or actual benefits, costs and other challenges, and limitations of these initiatives? How have these results and

¹ Theodore F. Macaluso, *The Extent of Trafficking in the Food Stamp Program*, Alexandria, VA: USDA Food and Nutrition Service, August 1995.

² Each year, FNS requires approximately one-quarter of authorized retailers to apply for reauthorization.

lessons been accumulated and interpreted? What evaluative processes are in place to learn from current and planned initiatives?

The next two sections of this chapter provide background information on the redemption process, the existing approaches to protecting the integrity of the process, and the relationship of EBT to redemption integrity. The chapter concludes with an overview of the strategic directions that are discussed in detail in the subsequent chapters.

1.1 BACKGROUND: CURRENT REDEMPTION PROCESS AND APPROACHES TO PROTECTING INTEGRITY

Redemption Process Elements and Vulnerabilities

The FSP redemption process begins when benefits have been authorized and made available to the recipient, either through the issuance of paper food stamp coupons or through the posting of benefits to an EBT system. The next step is the transfer of benefits from the recipient to the retailer, either physically through the exchange of coupons or electronically through the posting of transactions on the EBT system. In the coupon system, the coupons pass from the retailer to a financial institution (FI) and then to a Federal Reserve Bank branch; the final step is a credit to the Federal Reserve from the food stamp redemption account at the U.S. Treasury. Under EBT, the system operator performs a settlement process and sends a credit to the retailer's bank account through a concentrator bank, which settles with the USDA's Treasury account.

Both paper and EBT systems have vulnerabilities to benefit loss and diversion at each step in the redemption process, but the main concern of current FNS redemption policy—and of this report—is with the diversion of benefits from their intended use during the transfer between the recipient and the retailer. Benefits may be misused in any of the following ways:³

- A recipient exchanges benefits with an authorized retailer for cash or for non-food purchases;

³ A recipient's benefits may be taken and used without authorization by another person. This is a form of misuse, but the FSP holds the recipient responsible for controlling access to his or her benefits. EBT reduces the likelihood of unauthorized access by requiring the use of a personal identification number (PIN) along with the EBT card to access benefits.

- An unauthorized retailer or broker accepts benefits in exchange for goods or services;
- Benefits circulate among unauthorized parties as a hard-to-trace "second currency;"
- Unauthorized retailers or brokers exchange benefits for cash with authorized retailers; and
- Benefits are redeemed for food by authorized retailers that are not actually eligible to participate in the FSP (i.e., do not meet the legal definition of an eligible store).

The last form of misuse is not a criminal offense, because it involves authorized redemptions for food, but the integrity of the program is compromised and the risk of trafficking increases when participating stores do not meet the legal eligibility requirements.

Conventional Approaches to Ensuring Redemption Integrity

USDA has used several layers of defenses to prevent, detect, and terminate breaches of redemption integrity. The first line of defense is the FOs' role as gatekeeper, scrutinizing stores at the time of initial application and again during periodic reauthorizations. The Food Stamp Act allows FNS to deny an application or withdraw a store's authorization if the store does not sell food for home preparation and consumption (e.g., doughnut shops) or if the store does not meet one of two eligibility criteria: offering "on a continuous basis, a variety of foods in each of the four categories of staple foods..., including perishable foods in at least two of the categories; or (B) [having] more than 50 percent of the total sales of the establishment or route in staple foods."⁴ During the application and reauthorization processes, the FOs examine ownership and licensing documents to ensure that authorized stores are legitimate businesses and not owned by individuals barred from redeeming food stamp benefits. FOs also endeavor to prevent fraud through training sessions in which retailers are clearly told what practices violate program regulations, and what the consequences of such violations can be.

The second line of defense is the monitoring of redemption activity to detect indications of fraud. Under the coupon system, FNS has had two principal types of information for monitoring retailer participation: monthly FSP redemption totals (calculated during the redemption process) and total food sales reported by retailers. This information has been

⁴ Public Law 103-225, Subsection 201.

supplemented by accumulating complaints and tips about suspicious retailer activity from a "whistle-blower" hotline (maintained by the USDA Office of Inspector General), and from direct contacts with fellow retailers, recipients, and the general public. When FNS had a large field staff, they would make monitoring visits to retailers with suspicious redemption levels; such visits greatly diminished as the size of the field staff was reduced. Instead, FO staff came to rely primarily on referrals to USDA investigators when retailer redemption patterns were questionable.

Undercover investigations by the USDA Office of Inspector General (OIG) and the FNS Compliance Branch (CB) form the final line of defense against trafficking and other breaches of redemption integrity. FNS can disqualify a retailer or impose a civil money penalty for program violations, but the standard of proof has generally required that a CB or OIG agent make several undercover "buys" at the store. In larger cases, OIG may obtain sufficient evidence for criminal prosecution by a U.S. Attorney, or a CB investigation may provide the basis for the filing of a civil suit for damages under the False Claims Act. The process of conducting investigations and administering sanctions is very time-consuming and challenging, however, especially in criminal cases. With the size of the investigative force constrained by budgetary considerations, maintaining this line of defense poses a great challenge to USDA.

1.2 RELATIONSHIP OF EBT TO REDEMPTION INTEGRITY

The accelerating implementation of EBT has a number of important implications for FNS' efforts to enhance the integrity of the FSP redemption process:

- EBT provides technological means to deter and detect redemption fraud;
- The installation and maintenance of EBT equipment provide opportunities to gather independent information about stores through in-person visits;
- EBT changes the historic role of state agencies in the FSP by involving them in the redemption process, providing new opportunities to investigate and sanction both retailers and recipients who traffic;
- The opportunities to reduce redemption fraud depend in part on the extent of FNS and state involvement in the process of signing up retailers to accept EBT, equipping them, and training them; and

- Approaches to deterrence, investigation, and sanctioning must be adapted to the new patterns of benefit diversion made possible by EBT.

Technological Changes

EBT can deter redemption fraud by making it less physically vulnerable to abuse. Anyone seeking to redeem benefits must have system hardware and must be identified by the system as an authorized merchant. The recipient's EBT card (or card number) and PIN must be used to initiate the transaction. Thus, the simple street-level exchange of paper coupons for cash, ineligible goods, or services is no longer possible.

At the same time, the technology makes legitimate food stamp transactions less visibly different from other food purchases, thereby reducing the stigma of using food stamp benefits. In South Carolina and other states that have implemented EBT, redemptions have shifted toward larger stores that better serve the recipient (with lower prices and more selection) and have better internal controls against food stamp fraud. Although some of this shift is probably due to the removal of small, marginal stores during EBT implementation, the size of these shifts suggests that the reduction of stigma is a factor, too.

EBT facilitates fraud detection by providing a wealth of new data for redemption monitoring. The EBT system maintains accountability for individual redemption transactions, including the time, place, source of funds, and amount. This accountability means that, among other things, apparently trafficked benefits can be traced back to the recipient without the use of surveillance techniques.

In-Store Contacts During EBT System Implementation and Maintenance

FNS regulations require that retailers have the option of being provided the necessary POS equipment at no cost to the retailer. In the EBT systems that have been implemented to date, this requirement has meant that states converting to EBT have had to undertake responsibility for equipping and training retailers, although this responsibility has almost always been carried out through a contract with an EBT vendor.

The installation of EBT equipment establishes an additional FSP presence in previously authorized stores during implementation and in stores authorized after the initial roll-out. State or vendor personnel may visit stores to enroll retailers in the EBT system, conduct pre-

installation site surveys, perform installation, and conduct training. During these visits, they may detect store closures, changes of ownership, or signs of ineligibility or suspicious activity. Ongoing POS equipment maintenance performed by the EBT vendor can provide additional feedback on store conditions.

Changes in States' Role in the Food Stamp Program Resulting from EBT Implementation

EBT involves state agencies in the redemption process, giving them a greater stake in its integrity. In the past, states were solely responsible for program functions related to certifying recipients and issuing benefits, and had no involvement in the redemption process. As a result, most states have paid little attention to the problem of trafficking, even though most states have laws prohibiting trafficking in food stamp coupons.

With EBT, states may be more likely to recognize that trafficking is their problem as well as that of FNS, and to contribute resources to fight the problem. The state agency is responsible for the integrity of the EBT system, both to FNS and to the state taxpayers. States have a financial incentive in restricting retailer participation to eligible, legitimate stores as a way to hold down the cost of equipping and supporting the networks of POS terminals necessary for EBT.

The potential for greater state involvement in promoting the integrity of the FSP redemption process is especially valuable because of the states' role in certifying recipients and in investigating and sanctioning recipients who commit fraud. To fulfill this role, states have established networks of local offices: there are nearly 3,800 such offices nationwide, many of which have not only certification workers but fraud investigators as well.⁵ Thus, states are much better positioned geographically than FNS, which has only 70 FOs nationwide, to visit stores for authorization or investigative purposes.⁶ Furthermore, states have the information and the mandate to impose administrative sanctions on recipients, and to review the eligibility of recipients who indicate by trafficking that they place a low value on their benefits. State officials may also be better able to prosecute perpetrators of fraud (including recipients and retailers) below the large scale needed to justify action by the U.S. Attorneys.

⁵ Source: Data compiled for the Evaluation of Expedited Issuance of the Food Stamp Program, 1993.

⁶ Count of FNS Field Offices includes satellite offices. Source: FNS, 1995 Field Office Directory.

Changes in the State Relationship to EBT Retailers

The expectation that EBT will result in more direct contact with retailers and more state involvement in the redemption process rests on an important assumption: that, as in all of the EBT systems implemented so far, the state assumes responsibility for equipping and training retailers, even if this responsibility is carried out through a contract with an EBT vendor. As more and more stores are equipped to accept bank-issued debit cards, the role of state agencies is becoming more focused on acting as a card issuer and leaving the responsibility for acquiring transactions and dealing with individual retailers to the organizations that provide these services in the commercial realm. This model has been advocated by the Federal EBT Task Force and embodied in the terms of the EBT vendor procurement undertaken jointly by the U.S. Treasury and the Southern Alliance of States (SAS).

The SAS approach to implementing EBT makes the retailer responsible for installing POS equipment and gaining access to the EBT system. The SAS EBT vendor does serve as the equipment deployer of last resort, but no retailer has to deal directly with that vendor. In this environment, the EBT vendor will have much less information about participating retailers, and the states will not have the kind of recruiting contacts with retailers that have been the norm. In large part to address this lack of access, the SAS states have undertaken to visit currently authorized stores before the EBT implementation process begins, in order to ensure that retailer rolls are up-to-date and purged of ineligible stores. (This initiative, which was fostered by the FNS Southeast Regional Office, is discussed in Chapter Two.)

This trend of emulating the practices of commercial electronic funds transfer (EFT) networks reduces the hands-on connection between the FSP and the retailer that marked early EBT systems, but adopting another feature of the commercial environment could provide a new layer of controls. The owners of commercial EFT service marks (the logos or "bugs" on debit cards) set standards for the merchants that are authorized to accept cards with those marks. Certain types of merchants are categorically excluded (because of high rates of charge-backs⁷ and other problems), and merchants can be individually rejected for poor credit histories. The EBT Task Force has proposed creation of a "Benefit Security" service mark as the national

⁷ A charge-back occurs when the card issuer rejects a previously-authorized credit transaction that is submitted for settlement, typically because the cardholder disputes the transaction with good cause.

symbol for EBT card acceptance (including state-issued and federally-issued cards). This move could provide the basis for similar merchant standards to be administered by the public-private partnership set up to control the service mark.

Adapting to New Patterns of Benefit Diversion under EBT

Another reason for caution in anticipating the benefits of EBT to FSP integrity is that new patterns of benefit diversion have appeared where EBT has been implemented. Even though trafficking under EBT is no longer a simple exchange of coupons for cash, investigations have shown that serious traffickers readily adapt to the new technology. Trafficking can be done by telephone, using the card number and PIN, which the cooperating retailer can enter without the physical presence of the card or the recipient. The recipient can even "bank" the EBT card with a trafficker, obtaining cash in anticipation of future benefits by turning the card over to the trafficker. To maintain the public perception that EBT represents an advance in program integrity, these threats must be addressed early. Thus, EBT poses new challenges as well as opportunities for FNS and state officials concerned with protecting the integrity of the FSP redemption process.

Managing the flow of EBT transaction data for use in redemption monitoring and investigations also poses new challenges. First, the sheer volume of the data, with ten or more transactions per case each month, requires strategic approaches to filtering out the most useful information. Second, the redemption data are no longer in FNS' exclusive control. The EBT processors accumulate the data, and they are under contract to the state agencies. In addition, USDA investigators need the cooperation of the state agencies and the processors to conduct undercover operations. FNS needs new strategies to manage EBT transaction data and the investigation process. As this report discusses, a number of current initiatives are already addressing these needs.

1.3 OVERVIEW OF REDEMPTION INTEGRITY INITIATIVES EXAMINED IN THIS REPORT

In the domain of redemption integrity, FNS' initiatives are moving in three interrelated strategic directions, each of which is the subject of a chapter of this report:

- Detecting and excluding ineligible retailers through enhancements to the authorization and reauthorization processes (Chapter Two);

- Developing and utilizing new resources and methods for monitoring, investigating, and sanctioning retailers that violate redemption rules (Chapter Three); and
- Targeting recipients through new methods and alliances to stigmatize and deter recipient involvement in trafficking (Chapter Four).

Each of the next three chapters begins by providing an overview of the strategic direction, the principal strategies in that direction, and relevant contextual information. Next, the related initiatives that implement the strategies are described and discussed; available documents containing further information and resource persons are referenced. Each chapter concludes by discussing the implications of the experience gained through the initiatives and the broader issues pertaining to the strategic direction. The concluding chapter of the report summarizes and discusses the major findings.

CHAPTER TWO

RETAILER AUTHORIZATION INITIATIVES

Retailer authorization is the "primary care" approach to maintaining retailer integrity. It emphasizes gathering baseline information, taking preventive measures, and monitoring the "vital signs" of a participating business. In recent years, FNS has experimented with a variety of approaches to improve the efficiency of the retailer authorization process and its effectiveness at protecting the integrity of the redemption process.

This chapter organizes those efforts under three main strategies:

- (1) Seeking alternative sources of information about retailers;
- (2) Exploring alternative administrative arrangements; and
- (3) Conducting intensive, targeted reviews of retailers in a specific area.

Section 2.1 places these strategies in the broader context of the role the retailer authorization process plays in protecting the integrity of the redemption process. Each of the subsequent sections addresses one of these strategies. The final section of the chapter ties together the various experiences and strategies to identify overarching themes and new directions for FNS' innovation.

2.1 RETAILER AUTHORIZATION AND THE INTEGRITY OF THE REDEMPTION PROCESS

The first and perhaps most important tool FNS has to ensure the integrity of the FSP benefit redemption process is the power to decide whether or not a retail store qualifies to participate in the program. The three main functions served by the authorization process are (1) to establish and verify the identify of retailers applying to participate in the program; (2) to assess retailers' eligibility to participate; and (3) to maintain up-to-date information on stores' ownership, sales, and eligibility.

Stores must apply to participate in the program initially, and most are expected to apply for reauthorization every two years.¹ In order to be authorized or reauthorized, a retailer must complete an application that requests information about the store, including type of store,

¹ Supermarket chain stores are subject to reauthorization every three years.

location of store, food inventory and services available at the store, and sales figures. FNS FO staff review the applications, request missing information, and attempt to identify stores that may be misrepresenting their food stock, their ownership, or their previous history with the FSP.

Retailer authorization is a critical tool for preventing fraud and abuse of FSP benefits during the redemption process. It allows the program to exclude businesses that, because they do not primarily sell staple food or have less than a sufficient amount and variety of staple foods, do not further the goals of the program. Retailer authorization also allows the program to exclude from participation individuals and firms with a track record of violating program rules. It thus provides a measure of deterrence, because stores that do a significant volume of legitimate food stamp business risk losing that business if they violate program rules.

The initial authorization allows the FSP to assess a retailer's ability to serve the most basic program purpose, i.e., providing food for home preparation. The identity of the store owner and the store itself are clearly established. FO staff also gather information about the store that can be useful later if the agency decides to investigate that retailer (e.g., detailed information about the location of the store, its layout, and its surroundings). A key underlying assumption is that stores with minimal food inventory and limited viability as a legitimate business are particularly likely to violate program rules. Excluding such stores from the program is seen as an important measure for limiting program abuse.

The reauthorization process allows the agency to make a determination that the retailer continues to meet the program guidelines. It is particularly useful in capturing changes in ownership and in the scale of operations (as identified in the sales figures provided by the retailer).

For all its utility, however, retailer authorization is a blunt instrument. The vast majority of retailers that apply to the program readily qualify and remain eligible at each subsequent reauthorization. The process relies heavily on information provided by the retailer with limited corroboration from other sources (e.g., social security card and business licenses). Because over 190,000 stores are currently authorized and an estimated 40,000 apply each year, the agency is inundated with information that in most cases merely confirms the obvious, i.e.,

that a particular grocery sells a fair amount of food.² Furthermore, because the eligibility criteria are open to a considerable degree of interpretation, FO staff will not deny an application unless they have clear evidence that a store is not adequately stocked, does not primarily sell staple foods, has lied on its application, or has previously been disqualified from participating in the program. In addition, in cases where an applicant is intending to defraud the program, a store could qualify either by making a small investment in a stock of food or by providing false information.

The task of sifting through the information provided by retailers is undertaken by the professional and clerical staff of the FOs. Their effectiveness is constrained by budget limitations that have reduced their numbers. Although the FOs are dispersed throughout the nation, they still have large geographic areas to cover, and their ability to visit stores is limited by tight travel budgets.

Finally, there is the question of administrative review. In order to ensure that retailers are treated fairly and are not subject to arbitrary or mistaken judgements by FO staff, retailers have the right to appeal a denial of authorization to participate in the FSP. Many FO staff feel that the standards set for administrative review are much too lenient, with the presumption that retailers are eligible unless the FO can provide documented evidence to the contrary. Administrative review staff contend that they are simply following policies established by the FSP and based in FSP legislation. To respond to national-level concerns about program integrity, FO staff would like to raise the standard of eligibility. They feel the administrative review process prevents them from using their professional judgment about a retailer's ability to further the purposes of the program. FO staff typically take special care to document their reasons for denying or withdrawing retailers, expecting that their documentation must meet the standards of administrative review.

Four FNS initiatives that have sought to enhance the retailer authorization process are discussed in this chapter. These initiatives are listed in Exhibit 2-1 under the strategies that they implement. Two of the initiatives represented different approaches to seeking alternative sources of information about retailers. The third initiative explored an alternative administrative

² The estimate of the number of applications is from the forthcoming Statement of Work for the FY 1997 store visit contract. This figure is difficult to estimate, because applications withdrawn by retailers are not tracked. Over 20,000 new authorizations are approved each year.

arrangement that integrated the retailer authorization process with the management of EBT system implementation and operations by two state agencies. The last initiative is an analysis of FNS' recent experience with intensive, targeted reviews of retailer eligibility.

Exhibit 2-1

**STRATEGIES AND INITIATIVES
TO ENHANCE RETAILER AUTHORIZATION**

Strategy 1: Seeking Alternative Sources of Information About Retailers

Initiatives:

- Food retailer pre-authorization visit demonstration
- Use of Dun & Bradstreet data in the retailer authorization process

Strategy 2: Exploring Alternative Administrative Arrangements for Retailer Authorization

Initiative:

- Demonstration of state retailer management in EBT-ready states

Strategy 3: Intensive, Targeted Review of Retailer Eligibility

Initiative:

- Analysis of recent FSP retailer reviews

2.2 SEEKING ALTERNATIVE SOURCES OF INFORMATION ABOUT RETAILERS

The primary sources of information that FNS has about retailers are the four-page application form and the two-page application supplement provided by the retailer. Key information about the prior FSP experience of either the store owner or location is available on the Store Tracking Redemption System (STARS). Until the mid-1980s, FNS would supplement and verify application information by sending FO staff to every food store that applied to the program. Because of budget cutbacks in recent years, FNS has not had sufficient resources to allow for visits to the vast majority of stores applying to participate in the FSP. As a result, only a very small percentage of stores that have applied in the last ten years have received a

store visit. Preauthorization store visits and visits to already-authorized stores are currently a subject of considerable discussion, experimentation, and planning within FNS.

All four initiatives discussed in this chapter involve store visits, either as a central purpose or a key tool. On-site reviews, however, are inevitably a labor-intensive approach to gathering retailer information. Stores are scattered widely. Some have unpredictable hours, and some are difficult to locate. Furthermore, although the visit to the store is useful for evaluating the store's inventory and general condition, it does not provide sales or other key business information. As a result, FNS has explored alternative sources of information on retailers that do not require FNS staff to visit stores. A recently-completed demonstration has explored the use of private contractors to conduct store visits to retailers. Another demonstration used a major business information service—Dun & Bradstreet—as an alternative source of information on retailers. Dun & Bradstreet maintains data on stores' ownership, creditors, suppliers, and other characteristics that could be used in lieu of store visits; in the process of assembling these data, Dun & Bradstreet sometimes visits stores.

Food Retailer Pre-Authorization Visit Demonstration

1. Strategy

The Pre-Authorization Visit Demonstration tested contractor-conducted store visits as an independent source of information for use by FNS FOs in making decisions on the authorization and reauthorization of retailers.

2. Overview

From June through September 1996, FNS conducted a four-month demonstration including 16 FOs in all parts of the country. The purpose was to determine whether FO staff could make adequate retailer eligibility decisions based on store information gathered during contractor store visits, and whether contractors could provide this information at a reasonable price. Supermarkets, other chain stores, and route vendors were excluded from the demonstration.

Contractors were required to take photographs of staple food items in each of the four major food groups, as well as of the store's entrance and cash registers. In addition, the contractors completed a corresponding checklist of staple food stock kept in the store as part of

their reports to the FO. General characteristics of each store were noted during the contractors' store visits, such as the number of registers and whether POS scanners were present.

FOs participating in the demonstration issued a "Call Order" to a contractor listing up to 20 stores to visit at a time. A total of 7,232 visits were ordered, with a range from 173 to 1,111 stores across the 16 FOs. At the average site, contractors conducted 98 visits for new authorizations and 354 visits for reauthorizations. Contractors charged from \$25 to \$120 per visit, with an average fee of \$70.

3. Assessment and Lessons Learned

Abt Associates is currently conducting a formal evaluation of the demonstration. The study consists of four principal elements:

- (1) An analysis of the disposition of store applications during the study period;
- (2) In-depth case reviews of a sample of completed actions at each site;
- (3) Observations of contractor and FNS stores visits at each site; and
- (4) A process study based on interviews with FNS Field and Regional Office staff and contractor representatives from each site.

The evaluation is not complete, but some preliminary findings are available. Although individual sites had problems with the quality and timeliness of contractor reports, contractor performance overall was quite good. In 96 percent of cases, FO staff were able to make retailer eligibility decisions based on contractor-supplied information and the retailer's application. Almost 90 percent of contractor reports were delivered on time, but timeliness problems did occur, either when the FO did not group the call order geographically, the contractor's call order receipt process was centralized, or the stores were located in rural areas. Quality problems were generally infrequent, but significant in a few sites; these problems included insufficient or poor-quality photographs, and checklists that were incomplete or inconsistent with photographs.

Funds are allocated in FY 1997 for broader implementation of a program to use contractors for preauthorization visits. As a result, the focus of the analysis has been on identifying best practices used by contractors and by FNS staff in assigning, conducting, and reporting on store visits. Some preliminary lessons are:

- Training of contractor reviewers was an important factor in quality. Reviewers trained directly by the FO were generally more reliable than those trained only by contractor supervisors.
- FOs were concerned that the extent and quality of information not only support a valid authorization decision, but also document the decision in case it was appealed and subjected to administrative review.
- Standards of acceptability for contractor deliverables varied significantly among the participating FOs. This variability led some offices to reject reports that others probably would have accepted.
- Establishing the initial procedures with contractors, dealing with poorly-performing contractors, and filling out forms for evaluation purposes created a significant administrative burden on the FOs participating in the demonstration. Smaller FOs have less capacity to accommodate this workload.
- Grouping call orders geographically and issuing call orders of sufficient size were important to the contractors' ability to conduct store visits in a cost-effective manner.

The evaluation has three main products. A report on preliminary findings was submitted to FNS in January 1997 and has been widely distributed within FNS. A draft guidebook for the FY 1997 store visit contractors, including model reports on three different types of stores, was submitted in March 1997; the final guidebook, expected in April, will be used as both a benchmark and a training package. A final report, due in May 1997, will augment the preliminary findings with information on administrative review activity and vendor costs. The final report will also compare the costs and benefits of contractor store visits to those of alternative strategies for obtaining information on retailers, primarily commercially-available data sources from Dun & Bradstreet and another organization that maintains data on food retailers, the Coupon Information Center. (See Chapter Three for a discussion of the FNS' initiative to use data from the Coupon Information Center for targeting compliance investigations.)

For more information:

Contact: Ken Offerman, FNS/OAE

Read: Logan, C.W., et al., *Retailer Preauthorization Visit Demonstration: Preliminary Report on Implementation and Operations*, Abt Associates Inc., Cambridge, MA, January 1997.

Use of Dun & Bradstreet Data in the Retailer Authorization Process

1. Strategy

Dun & Bradstreet (D&B), a business information service, provides an independent source of information on stores to validate and supplement application information during the authorization process.

2. Overview

Fourteen FNS FOs, two in each of the seven FNS regions, participated in a demonstration to explore the usefulness of D&B's Duns Market Indicators database for confirming or supplementing application information. During a two-month demonstration period, participating FOs forwarded copies of all new applications they received to D&B. Within two weeks of receiving a forwarded application, D&B provided the FO with a report on the firm, which the FO used in its assessment of the store's eligibility to participate. D&B drew on its extensive database for information on firms. If D&B did not have current information in its database on a firm, it gathered up-to-date information. The D&B report typically included information on a store's owner, its recent credit and payment experience with suppliers, and sales volume.

D&B did not have any existing record for one-third or more of the applicant firms, probably because many stores that apply for initial FSP authorization are new stores with little or no track record. The D&B demonstration did not include stores applying for reauthorization, for which the "hit rate" in the D&B files might have been better. Locating FSP applicant retailers in the D&B files was difficult, because there is no standard, reliable identifying number available to both FNS and D&B. An additional difficulty was that many stores lacked a trail of credit records from suppliers, because they purchase their stock with cash.

In cases where no record existed or the information was incomplete or obsolete, D&B interviewed the retailer by telephone and drew on secondary information sources. In a sample of 30 such stores, D&B conducted on-site reviews. The on-site reviewers did not use an inventory checklist, instead producing unstructured written reports informed by an understanding of FNS retailer eligibility criteria.

3. Assessment and Lessons Learned

Without a formal evaluation of the D&B demonstration, FNS' assessment of the demonstration has so far depended in large part on the judgment of FO staff about the usefulness of the data supplied by D&B. FO staff felt that, because a large portion of the D&B data was self-reported by the firm during a telephone interview or site visit, the information typically did not go beyond what the retailer had reported on the application for FSP authorization. Under pressure to meet the 30-day deadline for an application decision, FO staff saw the extra time required for the D&B review as a burden. In about 3 percent of the 300 cases sent to D&B for review, FO staff said that D&B supplied information that usefully supplemented the application. In two or three cases, the FO reported that the D&B information changed the decision that otherwise would have been made.

Use of the D&B data would represent a considerable cost to the program, in terms of time spent by FO staff as well as fees paid to D&B. Although estimates of D&B's fees are based on projected rather than actual costs, they range from \$35 to \$135 per case, depending on the volume and level of service purchased. The benefits of getting D&B information on every new applicant appear to be small relative to the cost, if (as was too often true in the demonstration) the information does not go beyond what is available on the retailer's application.

A review of the D&B demonstration is being conducted by KPMG Peat Marwick LLP (KPMG). KPMG submitted a summary of the demonstration to FNS in February 1996; by May 1997, the KPMG review will produce a set of recommendations regarding potential use of D&B data by FNS for retailer authorization and other purposes.

For more information:

Contact: Preston Mears, Benefit Redemption Division, FNS
Read: Bryce M. Gerlach, "Investigation Summary," Dun & Bradstreet Information Services, February 5, 1996.

2.3 EXPLORING ALTERNATIVE ADMINISTRATIVE ARRANGEMENTS FOR RETAILER AUTHORIZATION

Over the past two-and-a-half years, FNS has experimented with alternatives to the traditional arrangement whereby all retailer authorization functions are handled by FNS FO staff.

The experiment consisted of two parallel demonstrations of state administration of the retailer authorization function.

Demonstration of State Retailer Management in EBT-Ready States

1. Strategy

The retailer authorization function, and some monitoring and compliance functions, are shifted from federal to state administration, building on the states' working relationships with FSP-authorized retailers under EBT issuance systems.

2. Overview

FNS funded two-year demonstration projects in two states about to implement EBT statewide, to explore the feasibility of state administration in the area of retailer management. A primary purpose was to allow states to take advantage of any synergies between the EBT management function and the retailer authorization function. New Mexico and South Carolina received the funding, and the demonstrations covered the period when both states were implementing their EBT systems statewide (from early 1994 to early 1996). Both demonstrations covered only a part of each state, and in both cases, the state EBT project office took over the authorization and reauthorization activities normally conducted by the FNS FO. Both states made it a practice to visit all stores during the initial authorization process, and both sought to use store visits during EBT implementation to assess retailer eligibility. In New Mexico, but not in South Carolina, the state took on certain compliance functions of the FO (e.g., requesting investigations and administering sanctions). In South Carolina, the state developed an automated system for identifying suspicious redemption patterns, a precursor to the ALERT system discussed in Chapter Three.

The demonstrations encountered several problems. First, the work of authorizing and reauthorizing retailers was highly structured by FNS guidelines and regulations, which limited the states' opportunity for innovation and increased their reliance on the FNS FOs for information, training, and technical assistance. The states, especially South Carolina, tended to define retailer eligibility more restrictively than the FOs, but in most cases deferred to the FO's guidance in authorizing or not authorizing retailers. The demonstrations were particularly dependent on the FOs in their initial stages, and although the FOs were cooperative, they were

not "sold" on the value of the demonstrations (or informed of them in advance). Furthermore, both demonstration projects were in the midst of intensive EBT implementation campaigns that absorbed resources that might otherwise have been available for retailer management. The New Mexico project was stretched particularly thin, but South Carolina faced its own resource issue, because the development of the Retailer Management System database and interface proved more complex and time-consuming than anticipated.

3. Assessment and Lessons Learned

The demonstrations were studied in depth by Abt Associates as part of a formal evaluation. That research confirmed that the states were fully capable of performing the basic retailer management functions. At the outset of the demonstrations, FNS FOs were making very few store visits, whereas both states made visits to stores a high priority. The majority of the states' store visits were primarily for purposes connected with EBT implementation (and shared resources with the EBT projects), but the states' visits to every new applicant store were primarily for FSP retailer management purposes. Subsequent to the demonstrations, FNS FOs in both the Southeast and Southwest regions greatly increased the number of store visits they make, in response to a nationwide FNS directive.

The benefits of combining state retailer management with state EBT management were most clear during the implementation process, when the synergies from enhanced state involvement in retailer management were most apparent. These included better state access to retailer information, easier and tighter coordination between EBT and FSP retailer management, and enhanced detection of ineligible stores. The states had limited experience with retailer management *after* EBT implementation, but potential benefits include:

- Streamlined enrollment of new retailers into the FSP and EBT system;
- A single point of contact for retailers with FSP or EBT questions and problems;
- Completion of inventory checklists during EBT vendors' preinstallation 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).³

The costs for performing the retailer management functions were remarkably similar at each of

the demonstration sites, including the two state offices and four FNS FOs.

Both states maintained high levels of interest in continuing their roles in retailer management, but funding issues would have to be resolved before the states would be willing to take on this additional responsibility on a continuing basis. There is no evidence from these demonstrations that the states would do the routine, labor-intensive retailer management activities any more efficiently than FNS, but state retailer management could produce the benefits outlined above while freeing FNS Field Office staff to focus more on the more technically demanding tasks of monitoring retailers and administering sanctions. This gain might justify the enhanced funding that would probably be needed to gain widespread state involvement in retailer management.

There may, moreover, be more innovative ways to approach state retailer management than those tested under this project. Because the states were in the midst of EBT rollout, the

For more information:

Contact: Ken Offerman, FNS/OAE

Read: Logan, C.W. and P. Elwood, *Evaluation of Retailer Compliance Management Demonstrations in the EBT-Ready States and Related Initiatives: Final Report*, Abt Associates Inc., Cambridge, MA, December 1996 (clearance pending).

2.4 INTENSIVE, TARGETED REVIEW OF RETAILER ELIGIBILITY

After stores have been authorized, there is an ongoing need to maintain up-to-date information about the store. Has the store changed the scale of its operations? Has it changed ownership? Has it gone out of business? The reauthorization process can capture some of this information, but many FOs have not been able to keep up with the reauthorization process, and reauthorization typically relies on the retailer to report accurately and truthfully. Because many stores have not been visited recently and concern about the integrity of the redemption process has increased, in late 1994 FNS Regional Offices began to conduct concentrated and coordinated reviews of retailer eligibility in specific areas.

Analysis of Recent FSP Retailer Reviews

1. Strategy

Focus retailer integrity efforts by doing intensive reviews of store eligibility in specific geographic areas.

2. Overview

In FY 1995, FNS began conducting systematic, concentrated reviews of authorized retailers. These reviews, often called "sweeps," were conducted for a variety of reasons, but perhaps most important was an attempt to enforce the new eligibility criteria mandated by the

Food Stamp Improvement Act of 1994.⁴ Changes in the FSP retailer eligibility criteria raised the possibility that some authorized retailers might no longer meet the FSP eligibility requirements, and should be reevaluated against the new criteria.

These reviews fall into four categories: regional office sweeps, retailer reviews concurrent with EBT implementation, joint OIG/FNS reviews, and state-administered reviews. The regional office sweeps and the EBT-implementation phase reviews were the earliest initiatives. In late 1995, KPMG examined four regional sweeps and one EBT-implementation phase review. The joint OIG/FNS reviews grew out of an OIG audit and took place in one city in each region. The state-administered reviews were conducted in the summer of 1996 in the Southeast region.

Regional Office Eligibility Sweeps. In late 1995 and early 1996, KPMG conducted an Analysis of Recent FSP Retailer Review. The initial objective of KPMG's analysis was to clarify both the nature and the degree of success of recent regional attempts at retailer review by looking at a sample of recent efforts identified by FNS: the Mid-Atlantic Regional Office's (MARO) *Philadelphia* review, the Southeast Regional Office's (SERO) *South Carolina* review, the Southeast Regional Office's (SERO) *Fulton County* review, the Northeast Regional Office's (NERO) *Bridgeport/Hartford* review, and the Western Regional Office's (WRO) *Los Angeles County* review. Subsequent to KPMG's analysis, more eligibility sweeps were conducted in each of the seven regions.

The Bridgeport/Hartford, Los Angeles, and Philadelphia projects utilized conventional sweeps, i.e., concerted efforts to visit and evaluate targeted subsets of stores within specific geographic areas. The Fulton County, Georgia project did not initially involve site visits, relying instead on review of retailer documentation obtained by mail. The South Carolina project was an entirely different effort, designed to take advantage of opportunities for retailer review created by state implementation of EBT. Ultimately, the aim of all five projects was to identify retailers currently authorized to participate in the FSP that were ineligible, and to

⁴ Under Public Law 103-255, §§201, an eligible store is one that "sells food for home preparation and consumption and (A) offers for sale, on a continuous basis, a variety of foods in each of the four categories of staple foods ..., including perishable foods in at least two of the categories; or (B) has over 50 percent of the total sales of the establishment or route in staple foods."

withdraw those stores from the program. Exhibit 2-2 summarizes key information about each of these reviews.

The Mid-Atlantic Regional Office's Philadelphia Review. The Philadelphia FO conducted the first area sweeps in the country between October and December 1994. The main goals were to improve FSP integrity and eliminate marginal retailers that did not meet the eligibility criteria.

The Philadelphia area sweep initially targeted stores with a high ratio of redemptions to gross food sales reported in STARS, primarily focusing on stores located within Philadelphia County. Later, the FO switched to targeting by store type. Reviews were conducted by two FNS staff, each performing store reviews alone and on a part-time basis. Reviewers completed an inventory checklist for each store visited. No supporting documentation was requested from retailers during the sweep. Photographs of store inventory were taken where deemed necessary. The FO estimated that the average total time per store review was 1 to 1.5 hours, including preparation, visit, and follow-up correspondence. Some retailers were angered by the review process, and several store owners complained to members of Congress.

The Southeast Regional Office's Fulton County Review. In Fulton County, the Georgia FO initially relied on record reviews alone in the expectation that such reviews would not require the financial or personnel resources needed for on-site reviews. The record review process, however, was obstructed by policy and procedural impediments, and was eventually replaced by conventional sweeps.

The record review process initially involved comparing food sales reported on state sales tax forms to reported food stamp redemptions. Because food is a taxable item in Georgia, the state requires that exempt food stamp sales must be reported. Letters were sent to 381 targeted stores requesting that they provide sales tax information. Stores that did not respond to the request for additional documentation within the allotted time were withdrawn from the FSP. Information on reported sales was compared to redemption data tracked in STARS. If a discrepancy was apparent, the store was asked to submit additional documentation that could support the redemption level.

The FO encountered several problems during the record review process. First, many of the stores did not respond to the documentation request within the allotted time. Retailers withdrawn for this lack of response stood a high chance of being reinstated if the retailer

Exhibit 2-2

SUMMARY OF RETAILER REVIEWS ASSESSED BY KPMG

Site:	MARO: Philadelphia County	SERO: South Carolina	SERO: Fulton County, Georgia	NERO: Bridgeport and Hartford, Connecticut	WRO: Los Angeles County
Type of effort	In-store eligibility review in a specific geographic area	In-store eligibility review in the context of EBT implementation	Record reviews of stores in a specific geographic area	In-store eligibility review in a specific geographic area	In-store eligibility review in a specific geographic area
Purpose	Improve FSP integrity and eliminate retailers that do not meet eligibility criteria	Take advantage of in-store presence during EBT implementation to remove ineligible and out-of-business stores	Identify potentially fraudulent retailers for investigation	Improve retailer compliance with FSP regulations. Sweeps used to conduct pilot test of NERO's store selection methodology	Identify and remove stores that did not meet FSP eligibility criteria or that had changed ownership
Dates performed	October to December 1994	November 1994 through December 1995	January to March 1995	September 1995	October to November 1995 (8 days)
Staff used	Philadelphia FO program specialists	EBT vendor field staff, state EBT project staff, SERO and SC FO staff	Georgia FO	NERO staffers and staff from various FOs	Personnel from the LA FO, WRO, OIG, and OGC
Review strategy	In-store review using eligibility checklist	EBT vendor staff identified problem stores during pre-installation visits; state and vendor staff also used eligibility checklist during post-implementation visits	Requested documentation of food sales in the form of state sales tax forms; compared these to STARS redemption data for discrepancies	In-store review using eligibility checklist	In-store review using eligibility checklist; photos only taken in follow-up visit to selected stores
In-store procedures used	Reviewers used an inventory checklist to determine if store met new eligibility requirements	Vendor and state staff completed inventory checklist during a post-implementation visit; about mid-way through the process, vendor staff began filling out an inventory checklist during pre-installation visits	Not applicable	Designed to be non-confrontational; NERO store evaluation form and HQ evaluation form used to compare for ease of use	Site teams used single-page evaluation form; inventory sheet, contained within, was only filled out if store was considered marginal in any one category. If deemed necessary, photos were taken and during subsequent return visit

Exhibit 2-2 (continued)

SUMMARY OF RETAILER REVIEWS ASSESSED BY KPMG

Site:	MARO: Philadelphia County	SERO: South Carolina	SERO: Fulton County, Georgia	NERO: Bridgeport and Hartford, Connecticut	WRO: Los Angeles County
Stores targeted	By category; primarily focused on combination stores (e.g., gas/grocery stores)	No targeting	All stores in county	High-redeemers and one or more of the following: located in problematic areas, zero-redeemers in STARS within preceding 6 months, convenience stores, small grocers, combination stores	Used STARS data to developed "high risk profile" based on store category and turnover
Stores excluded		One major supermarket chain that did not require POS installation	Supermarkets with over \$2,000,000 in gross sales, zero-redeemers, stores under investigation	Recently-authorized or under investigation	
Number of reviews/ stores visited	215 stores visited	Approximately 4000 stores visited	All stores in pilot county; additional documentation requested from 381 stores for which initial document review indicated discrepancy with STARS data	191 of 197 targeted stores visited	2,138 stores visited
Results of effort	76 withdrawals 7 appeals 4 overturned on appeal	1,113 withdrawals	41 voluntary withdrawals 107 involuntary withdrawals 22 appeals	83 withdrawals 28 appeals	638 withdrawals 253 appeals 104 RFIs

ultimately provided the requested documentation. Second, stores that did supply the requested supporting documentation within the allotted time often did so in an unsorted and unwieldy manner, placing an extra burden on FO staff. Third, stores withdrawn based on sales tax information were also often reinstated as a result of the administrative review process; under FSP legislation at the time, FNS could request from a store only documentation that related to eligible sales.⁵ The FO found that these procedural and policy considerations ultimately restricted its ability to conduct the record review as originally envisioned. Because of the uncertain results and the high level of staff effort required, the SERO determined that the documentation review was not a viable option. As a result, SERO switched to on-site visits to identify and remove ineligible or fraudulent retailers from the list of authorized stores.

The Northeast Regional Office's Bridgeport/Hartford Review. Bridgeport and Hartford were selected as the sites for the first northeastern retailer sweep because of their high concentration of stores and their location on major interstate highways.

Stores were visited by teams of two, each supplied with a package of materials that included four items: (1) a printout of store authorization dates, store location, and owner name; (2) evaluation forms; (3) local maps with directions; and (4) cellular phones for safety purposes. Visits, which averaged 15 minutes in duration, were not announced in advance. On-site procedures were designed to prevent confrontational situations that might arise from lengthy visits or too many questions. No charge letters resulted from the sweep, but two retailers were recommended for further investigation by either the Compliance Branch or the OIG.⁶

The Western Regional Office's Los Angeles County Review. The Los Angeles County retailer review covered the entire Los Angeles County, with all on-site reviews completed in eight days in October and November 1995. The LA sweep was designed to be a "cooperative and friendly" effort, largely in an attempt to improve relations with retailers that may have been damaged as a result of a prior OIG sweep in Alameda County. To this end, the OIG assigned five auditors for a full week to help with planning and, later, with the sweep itself.

⁵ Section 833 of Public Law 104-193 (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996) specifically authorizes the U.S. Secretary of Agriculture to require retailers to submit copies of income and sales tax filings when applying for participation or continued authorization in the program.

⁶ Another sweep was conducted in Connecticut in August 1996.

WRO first developed a high-risk profile based mainly on store type and turnover. A letter, offered in six languages, was sent out to all LA County stores outlining the new FSP retailer regulations and warning of potential review visits in the near future. The sweep was performed by twelve two-person teams, each with one FNS employee and either an auditor or investigator from the OIG. Cameras were not utilized, because the OIG felt the use of cameras might put the reviewers at physical risk. Reviewers could indicate on the review form that photographs were necessary, and an investigator would return later to photograph the store.

EBT Implementation Phase Review. *The Southeast Regional Office's South Carolina Review.* These retailer reviews were conducted as part of the county-by-county EBT implementation process. Citibank, the state's EBT contractor, conducted an on-site survey of all authorized retailers prior to installation of EBT-capable POS terminals.

Citibank found that the retailer database built from STARS data was inaccurate in many respects. It included many stores that were out of business, had changed ownership, or had been assigned new addresses in the process of equipping parts of South Carolina with "911" emergency telephone service. The eligibility reviews were designed to piggy-back on the site surveys typically conducted prior to the installation of POS terminals at participating retailers. Citibank filed a problem report with the state either if the store did not exist, if the owner was not that identified in the database, if the owner did not wish to continue participation in the FSP or FSP EBT, or if the store did not appear to meet eligibility requirements. The state EBT team logged the reports. For the five counties included in the State Retailer Management demonstration (described above in Section 2.2), the state's retailer management specialists would review and resolve the problem report without forwarding the case to the FNS FO. Problem reports on stores outside the demonstration area were forwarded daily, by fax, to the FNS Columbia FO for evaluation and resolution.

A second in-store visit to each authorized store was made during the first days that the EBT system was "live" in a county. These visits were conducted primarily by EBT project and Citibank staff, although FO and SERO staff occasionally participated. During these implementation phase site visits, field staff would complete an eligibility checklist on those stores that did not clearly meet FSP eligibility requirements.

The South Carolina review was hampered by a lack of capacity at the FO to handle problem reports, and by poor coordination between the FO and the state. Nevertheless, by

removing a large number of ineligible and out-of-business stores from the FSP, the effort clearly improved the integrity of the redemption process in South Carolina. In this case, the EBT vendor filled out retailer eligibility checklists at no cost to the state on an experimental basis. In the future, states should expect that additional contractor effort beyond standard EBT functions will entail additional costs.

Joint FNS/OIG Sweeps. The joint FNS/OIG reviews were conducted in each FNS region as follow-ups to earlier OIG efforts. Only stores identified by OIG as marginal cases—neither clearly eligible nor ineligible—were included. This approach resulted in a highly-targeted set of reviews, with a correspondingly high rate of withdrawals. The follow-up visits served an additional purpose of promoting a dialogue between OIG and FNS staff about the "gray areas" of the eligibility assessment process.

State Reviews of Retailers in the Southeast Region. The statewide reviews in the Southeast Region represent an alternative approach, with a rather different character than the reviews studied by KPMG. In light of plans to implement EBT throughout the region, every state in the region agreed to use state staff to conduct in-store retailer reviews of a majority of the retailers in each state.

The SERO state reviews drew on staff other than FNS Regional and FO staff to a much greater degree than the other retailer reviews, were much less targeted, and were much larger in scale. By September 1996, all eight states in the region had completed visits to a majority of the FSP-authorized retailers in the state. Reviewers used an eligibility checklist, but did not take photos. In Florida, Kentucky, and North Carolina, reviews were conducted by eligibility staff at the county-level food stamp agencies. In Mississippi, a combination of state fraud investigators and county-level administrative supervisors conducted store reviews. In Georgia, reviews were conducted by a combination of SERO staff and community action agency staff. Tennessee assigned state fraud investigation staff to the retailer reviews, and in Alabama, the state food stamp agency contracted with the state WIC agency to conduct the retailer reviews. (The South Carolina effort is described above.)

Although a formal assessment of the state reviews is not available, they have potential as an inexpensive alternative to store visits by FNS or contractor staff. Most states relied on staff already present in all parts of the state, saving on travel time and travel expenses. The systems for training the state reviewers, assigning stores to reviewers, and evaluating the work

of the reviewers were fairly *ad hoc*. FO staff generally could not track the reviews in detail, let alone assess the quality of each review. Overall, SERO staff indicated that the state reviews were valuable because of the large number of stores reviewed; however, individual reviews varied considerably in quality. In the two states participating in the Preauthorization Visit Demonstration (Florida and North Carolina), the FNS FOs used the state reviews as a preliminary screening device, assigning stores for which the state visit was inconclusive to the contractor for an in-store review. (Outside the demonstration area in Florida, the follow-up visit is conducted by FO staff.) The FOs expected that 20 percent of the stores visited by the state would require such follow-up.

3. Assessment and Lessons Learned

The two sources of information for evaluating the various types of retailer reviews are KPMG's report and a quantitative summary of the reviews put together by Benefit Redemption Division (BRD) staff. In April 1996, before the state-administered reviews in the Southeast Region were underway, BRD staff assembled a summary of information available on recent sweeps. Exhibit 2-3 summarizes the results for each of the three types of reviews other than the state-administered reviews.

Exhibit 2-3

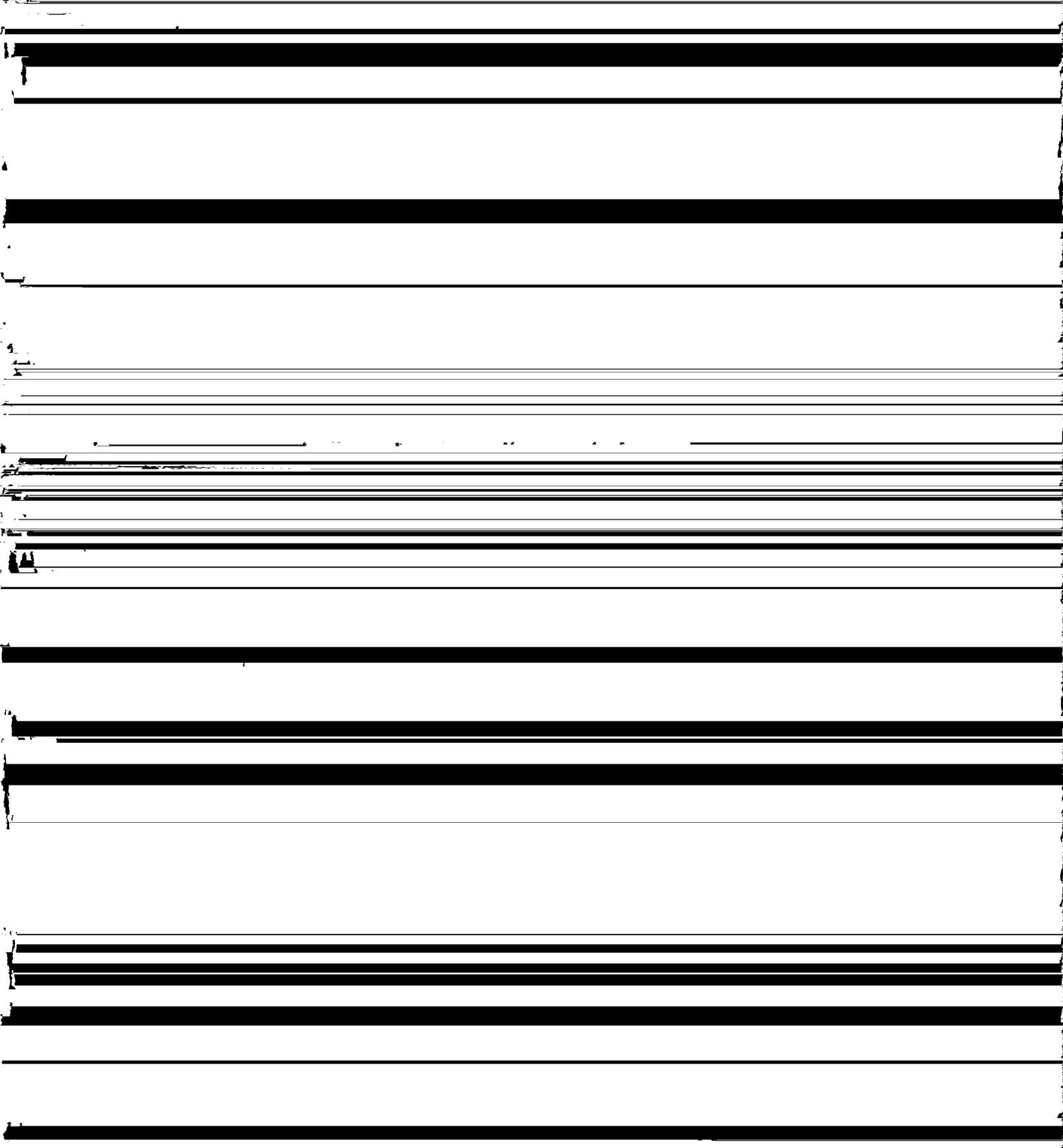
APRIL 1996 SUMMARY OF RETAILER REVIEWS

Type of Review	Number of Reviews	Retailers Reviewed	Percent With-drawn or Disqualified	Percent with RFI Issued ^a	Percent Still under Review
Conventional sweeps	8	6,577	20%	3%	6%
Joint OIG/FNS reviews	14	1,667	49%	6%	1%
EBT-implementation	2	4,800	18%	< 1%	0%

^a RFI = Request for Investigation

The final withdrawal rate is considered the key indicator of the sweep's effectiveness. The three traditional sweeps were generally considered to be successful, but the record review undertaken in SERO was not. The South Carolina project was also successful in withdrawing a large number of retailers. The joint FNS/OIG reviews had the highest rates of withdrawals

and referrals for investigation. The high hit rates are a result of the high degree of targeting for these reviews, which were actually follow-ups to an earlier set of OIG reviews. Finally, no information is available on the withdrawal rate for the state success



If FNS wants to replicate the South Carolina results without their attendant difficulties, attention must be paid to improve communication between the state and the FO, and to provide the FO with adequate resources to process stores under review. Some EBT systems will not require installation of POS devices, and therefore will not present the opportunity of preinstallation visits. (Although in South Carolina, visits to all stores equipped by Citibank were also made *after* installation.)

For more information:

Contact: Preston Mears

Read: KPMG, *Analysis of Recent FSP Retailer Reviews*,
draft dated February 1996.

2.5 SUMMARY

The question underlying all of the initiatives discussed in this section is, "How can the agency efficiently administer the authorization and reauthorization process, so that it can be most effective in protecting the integrity of the program within budget constraints?" There are at least four major components of this question:

- (1) What information is used to assess retailers' eligibility?
- (2) How is that information obtained?
- (3) Who uses the information to determine retailers' eligibility?
- (4) What sort of assessment should be made of the eligibility of already-authorized stores?

The final part of this chapter discusses the initiatives described above in light of each of these questions.

Information Used to Establish Eligibility for Program Participation

Until recently, the standard practice at FNS FOs has been to rely on two primary sources of information to evaluate a retailer's eligibility. The first is the application form and any discussion with the retailer about the information on the form. The second is the STARS

system, which is used to learn about previously-authorized stores having the same location or store owner, as indicated on the new application. FOs have been supplementing the primary sources by requiring some additional information from retailers, including copies of their social security cards and relevant business licenses. The usefulness of the business licenses varies considerably, depending on the practices of the state and local governments that issue them. In Florida, for example, all food retailers (except produce stands) must obtain permits from the state Department of Agriculture. The state will not issue the permit until the store is open for business and an inspector has visited the store. As a result, the Florida FNS FO, which requires retailers to provide copies of their state Department of Agriculture permits, has a reasonable assurance that all retailers actually have stores and are open for business. Some FOs have asked store owners to provide photographic identification, but this cannot be required.

A key concern in assessing a retailer's eligibility is obtaining independent verification of the food inventory. The main sources of information for verifying that a retailer has an adequate stock of staple foods are in-store reviews, photographs, and receipts of various kinds for the purchase of food. Other key facts subject to verification are the ownership of the firm and sales figures.

Method of Obtaining Information

To supplement the application information, FNS staff have to some extent revived the practice of visiting stores that apply for FSP authorization. The 1996 Personal Responsibility and Work Opportunity Act mandates that FNS visit stores prior to authorization, although the agency has considerable latitude to exclude certain stores from this requirement. These preauthorization visits are highly labor-intensive, particularly because of the travel time required to visit stores at a great distance from the FO. As a result, the agency has begun to consider alternative ways to gather information on the store inventory, the ownership of the store, and the store's volume of sales.

Several of the recent initiatives particularly relate to who actually conducts the various activities required to gather information on retailers. In the initiatives discussed in this chapter, three different types of staff have been involved: FNS staff, contractor staff, and state agency staff.

The Preauthorization Visit Demonstration has shown that contractors can play a role in gathering on-site information on stores, and the evaluation will address the question of how efficient and effective the contractors were. The use of contractors certainly increases the overall number of store visits that can be made within current staffing levels, although some FO staff feel that the contractor visits are less useful than visits by FNS staff.

The Dun & Bradstreet demonstration tested alternative sources of information on retailers that would help corroborate the self-reported information provided on the application. It showed that a major business information service can provide supplementary information on retailers to a variety of FOs, but it raised doubts about the cost-efficiency of this approach. In addition to business information services such as D&B, state and federal agencies are potential sources of information to supplement and verify information obtained from the applicant. Here, the agency faces legal obstacles to sharing identifying information on retailers with other agencies. Recent legislation has addressed some of these barriers, but implementation awaits the completion of various rulemaking processes.⁸

Who Administers Retailer Authorization?

The furthest departure from current practice is to move the authorization function out of FNS' hands altogether, as was tested in the State Retailer Management Demonstrations in South Carolina and New Mexico. These demonstrations established that states can perform this function, but they did not convincingly demonstrate that a switch to state administration would result in improved efficiency or effectiveness (though neither did they preclude that possibility). Unlike the state sweeps, the demonstration projects did not have the time or resources to use state or local government networks to gather information on retailers.

⁸ In addition to the 1996 Personal Responsibility and Work Opportunity Act, rulemaking is under way for several other recent laws. The Food Stamp Improvements Act of 1994 contains provisions that involve the sharing of information with other federal and state agencies. Under the Privacy Act, FNS must establish a new system of record-keeping to allow the agency to share certain information with other agencies, and FNS must notify retailers of its intention to conduct computer matches with other agencies.

Assessing the Eligibility of Already-Authorized Stores

The assessment of already-authorized stores cannot be addressed without considering the reauthorization process. Most stores are reauthorized every two years, regardless of their geographic location. The intensive, targeted retailer reviews in 1995 and 1996 were particularly valuable because store visits have not been conducted in recent years. Certainly if store visits become standard procedure during reauthorization, the original reason for conducting the intensive retailer reviews will be obviated. If the agency decides to use store visits as a tool in the reauthorization process, careful targeting of stores will be necessary to make the visits cost-effective.

Most of the retailer reviews discussed in Section 2.3 were targeted both geographically and through selecting the stores in the targeted area at highest risk of falling short of the eligibility standards. In contrast, the pre-EBT reviews and the state-administered sweeps were much less targeted. Where the states have made resources available, broader reviews have been possible. Without such extraordinary resources, targeting of the store visits is necessary to make the most of the available resources.

The question of reviewing the eligibility of already-authorized stores can thus be reduced to a question of how best to deploy FNS resources. The current *status quo* is to rely on the reauthorization application for most stores, and use geographically-targeted sweeps to focus resources for on-site reviews of one set of high-risk stores at a time. The main problem with this approach is that most stores are in areas that have not been subject to a sweep, and there may not sufficient resources to conduct sweeps in every area of the country. If resources do not allow such an approach, the agency may want to integrate the sweeps with the reauthorization process. During reauthorization, specific stores could be selected for intensive review, including store visits and review of sales documentation, based on location and store characteristics (such as store type, ownership, and redemption patterns). Effective targeting could sharply narrow the number of stores at which intensive review is required, and the routine reauthorization process would capture gross changes in store ownership or reported sales at stores that fall outside the targeting profile. Of course, any such intensive reviews represent an increase in the overall effort expected of the FO. Some enhancement of resources or productivity would be necessary.

New Avenues for Innovation

Interwoven among the four aspects of the authorization process considered above are several topics that suggest a need for further experimentation and innovation. One is the general topic of how FNS FOs process applications. Second is the matter of the tools that FO staff have to store and access information on their review of retailer applications. Third is the fundamental definition of what is an eligible store.

Processing of Applications. Perhaps the processing, rather than the gathering, of application information is a fruitful avenue for innovation. FNS staff in the Southeast region, reflecting on the use of contractors for conducting store visits, have suggested that aspects of the reauthorization process other than the store visit could be efficiently outsourced. This raises the question of what aspects of the authorization process require the professional expertise of the Food Program Specialist (FPS). For instance, even though it is possible for program staff to make eligibility determinations with photographs and checklists provided by other sources, it may be valuable for professional staff to visit stores so that they pick up all the signals available through an on-site review and maintain an FNS presence in the retailer community. Are FPSs tied up with authorization and reauthorization paperwork instead of doing more strategic monitoring of retailers? Answering these questions would require an in-depth analysis of these processes, what the component tasks accomplish, and the time and effort requirements; such an analysis is beyond the scope of this report, but would provide valuable insights on how to use currently available resources most efficiently to process applications. In-house FNS working groups have done some work along these lines, but a more systematic review would provide a better basis for the choices that FNS faces in allocating its resources.

Managing Information. A review of methods for processing applications would not be complete without a thorough assessment of the information systems used by FO staff. Although STARS is well-suited to recording information about retailers and their eligibility status, it is not designed to track the application receipt and review process. As an outgrowth of the Pre-Authorization Visit Demonstration, the need for an automated system to track the assignment of store visits to contractors has been identified. Booz-Allen Hamilton is currently conducting a feasibility analysis for FNS of linking such a system to STARS.

Individual FOs have developed automated application tracking systems on an *ad hoc* basis. Perhaps a store visit tracking system will establish the basis for an application database

with broader capabilities. For instance, an application information system might also have the capacity to store information about the many applications that retailers withdraw, rather than going through the formal denial process. FNS currently has no readily available information about applicants to the program who are not authorized. Data about retailers that withdraw their applications or are denied authorization would help FNS analyze the authorization process and the workload of FNS FOs.

Defining Eligibility Standards. The authorization and reauthorization processes could be made both more effective and more efficient if the definition of an eligible store were more clearly articulated and more consistently applied. Efforts to use staple food inventory information obtained in store visits have heightened the importance of making sure that policy officials, FO staff and Administrative Review officers share a common understanding of the eligibility criteria. At present, some FOs miss opportunities to exclude potentially ineligible stores, others struggle with eligibility decisions on marginal stores, and still others have seen substantial numbers of decisions reversed in Administrative Review. FNS is constrained by the limitations of the statutory language and by the need to balance the FSP's needs with those of the retailer community, but current efforts to issue a clarifying regulation have the potential to reduce the level of uncertainty about what is an eligible food store. It will be equally important for FNS to make sure that those responsible for applying the refined eligibility criteria understand the underlying intent and the expectations of the FNS leadership regarding what can be accomplished through the enforcement of the standards.

CHAPTER THREE

INITIATIVES FOCUSING ON RETAILER MONITORING, INVESTIGATION, AND SANCTIONING

Many of the strategies identified in the previous chapter have their roots in the effort to prevent retailer fraud, on the premise that stores that do not meet eligibility criteria are at high risk to commit fraud against the program. This chapter focuses on recent FNS initiatives to determine which stores are actually committing fraud, and to take action against those retailers.

Over the past decade, the total value of food stamps redeemed nationally has risen significantly. At the same time, FNS has seen its work force trimmed and its budget reduced. It is not surprising, then, that concern about the integrity of the redemption process has risen in recent years. One of the initiatives described in this chapter produced estimates that 9 percent of retailers traffic and that 4 percent of benefits are trafficked. Although these percentages are small, they represent an enormous potential compliance caseload of 18,000 retailers.¹

Although maintaining the integrity of the FSP is one of the agency's primary objectives, FNS is not primarily a law enforcement agency. FNS has an investigative arm, the Compliance Branch (CB), but FNS can take only administrative action on the basis of CB investigations. To investigate and prosecute criminal violations of program rules, FNS relies on other agencies. The lead agency for the investigation of the most severe program violation—trafficking of FSP benefits—is the USDA Office of Inspector General (OIG). Because trafficking of FSP benefits can be a lucrative criminal activity, it is appropriate for a law enforcement agency to have primary responsibility. For FNS, however, this means that the most powerful sanctions for addressing the biggest threat to program integrity lie outside the agency.

A simplified model of the investigation process begins with CB, which generally conducts the initial investigation of a retailer suspected of trafficking or other program violations (such as the selling of FSP-ineligible items). If the initial investigation finds that the retailer is trafficking, CB refers the case to OIG for possible escalation to a criminal investigation. OIG,

¹ Source: *The Extent of Trafficking in the Food Stamp Program*, FNS Office of Analysis and Evaluation, August 1995. In FY 1996, approximately 200,000 retailers participated in the FSP.

which also has many other activities to investigate, chooses specific cases to investigate from among the CB referrals and other sources of leads. When an investigation is complete, OIG informs FNS of the outcome.

Under a Memorandum of Understanding (MOU) between OIG and CB, CB must refer all suspected trafficking cases to OIG, and FNS is barred from taking any administrative action against any referred cases until OIG has released the case. Cases are typically released either after OIG declines to conduct an investigation, after an OIG investigation finds no significant violations, or, in cases where a violation is identified, after any criminal proceedings are complete. After OIG releases a case, FNS can permanently disqualify the retailer or impose a civil money penalty if there is sufficient evidence of trafficking.

CB has a staff of 46 investigators, spread across five Area Offices around the nation. The original mission of CB was focused on program violations other than trafficking. In recent years, CB investigators have concentrated their efforts more on trafficking, working in coordination with OIG. In the 1996 fiscal year, CB conducted 4,635 investigations and identified 1,333 sanctionable violations, including 743 trafficking cases.

OIG has approximately 250 investigators, who typically spend 30 to 45 percent of their time on FSP trafficking cases. In 1993, for example, OIG conducted 783 investigations and won convictions in 750 cases. More recently, OIG has been able to complete as many as 1,000 investigations in a year.

CB and OIG investigations, and the administrative and criminal sanctions that result, are the primary mechanisms used to combat trafficking. Other resources are available, including investigators from state and local agencies and the U.S. Secret Service. Another powerful weapon is the False Claims Act, which allows the U.S. Department of Justice to pursue financial penalties against retailers fraudulently redeeming FSP benefits. Nevertheless, there is clearly a mismatch between the suspected scale of the trafficking problem and the resources available to address the problem.

Although there was some hope that EBT implementation would make trafficking obsolete, traffickers have very quickly adapted to the new technology. EBT may limit and deter some trafficking, especially street trafficking, but it does not prevent retailers and recipients from collaborating systematically to misuse benefits. Nevertheless, EBT radically changes the information available to investigators; EBT data can, in addition, provide a basis for direct

administrative action as an *alternative* to conventional undercover investigations. These features of EBT have the potential to revolutionize FNS' approach to identifying, investigating, and sanctioning retailers who traffic in FSP benefits. Recent events have intensified FNS' mandate to eliminate trafficking, and EBT offers a powerful new set of tools with which to do so.

FNS' efforts to make use of EBT data have been primarily focused on the antecedents and the *sequelae* to trafficking investigations, i.e., referring stores for investigation and taking administrative action against stores found to have violated program rules. This chapter organizes FNS' recent initiatives in this arena into three sections, corresponding to three steps in the investigation process:

- (1) Identifying potential program violators,
- (2) Investigating violators, and
- (3) Taking administrative action against program violators.

The initiatives are listed in Exhibit 3-1.

Exhibit 3-1

INITIATIVES FOCUSED ON RETAILER MONITORING, INVESTIGATION, AND SANCTIONING

Strategy 1: Identifying Potential Program Violators

- Analysis of the extent of trafficking in the FSP
- Update to the Violation-Prone Profile
- Anti-Fraud Locator using EBT Retailer Transactions (ALERT)
- Dun & Bradstreet initiative
- Coupon redemption initiative
- Coordination with law enforcement agencies
- Validation of Benford's Law

Strategy 2: Investigating Violators

- Study of State Law Enforcement Bureau (SLEB) agreements
- Concentrated CB investigations

Strategy 3: Taking Administrative Action Against Program Violators

- Expedited OIG release of trafficking cases
- EBT transaction data as a basis for disqualifying retailers

3.1 IDENTIFYING POTENTIAL PROGRAM VIOLATORS

A critical factor in protecting the integrity of the redemption process is identifying potential program violators. This is particularly challenging because misuse of benefits is typically a victimless crime, i.e., both buyer and seller of FSP benefits are willing participants in the transaction. Without a victim, there is little chance the crime will be reported. Instead, investigations typically originate with tips from members of the community, often when a pattern of fraudulent activity is well-established. Furthermore, investigating program violators has traditionally been a labor-intensive endeavor. Investigative effort must be targeted to focus on the most egregious offenders in order to conserve resources and to avoid provoking privacy concerns among legitimate retailers. This section presents a set of initiatives designed to improve the agency's ability to identify program violators and target investigative resources.

Analysis of the Extent of Trafficking in the FSP

1. Strategy

Analyze FNS data on the outcome of investigations for program planning purposes.

2. Overview

This analysis exercise builds on the data integration and analysis conducted for the

Update of the Violation Prone Profile, discussed below. For the VPP analysis, FNS' contractor assembled a file of all investigations tracked by the CB's Area Offices on the Store Investigation Monitoring System (SIMS). That file included only stores referred for investigations to the CB, and thus is not representative of the population of FSP-authorized stores. To compensate for this lack of representativeness, the SIMS data were weighted to reflect the national incidence of each store type (defined in terms of five categories of characteristics). This approach tells us the likelihood of a positive outcome if the SIMS file had included each type of store in the same frequency as the national FSP-authorized retailer population.

This analysis yielded an estimate that trafficking occurs in 9 percent of FSP-authorized stores. Next, an estimate of the value of benefits involved in trafficking was built up by calculating the value of benefits trafficked by each store type. For each store type, a calculation was based on the percentage of stores involved in trafficking, the average annual volume of

redemptions. For FY 1993, the report estimates that \$815 million in benefits were trafficked, about 4 percent of the \$21 billion in benefits issued nationally that year.

The differences in the estimated incidence of trafficking among store types, and the implications for the value of benefits trafficked by store type, are particularly important findings. Two variables stand out as critical to the incidence of trafficking and the value of benefits trafficked. The first is store type: supermarkets and large groceries are much less likely than other stores to be involved in trafficking. Second is the type of ownership: publicly-owned stores have a much lower incidence of trafficking than privately-owned stores. When these influences are combined, the differences among stores are dramatic. Supermarkets, especially those owned by public corporations, have a rate of trafficking that approaches zero. At the other end of the spectrum, over 15 percent of stores other than supermarkets that are privately-owned are involved in trafficking.

The powerful implication of these findings is that trafficking is relatively low at the stores where most benefits are redeemed. Conversely, the categories of stores with a small share of total redemptions have a relatively high rate of trafficking. For instance, specialty stores account for under 4 percent of redemptions; however, with a trafficking rate of over 17 percent, they account for 14 percent of all benefits trafficked. Small grocery stores have a trafficking rate of almost 13 percent and account for over 15 percent of trafficked benefits, despite the fact that fewer than 6 percent of FSP benefit redemptions take place at these stores.

3. Assessment and Lessons Learned

Any study of illegal behavior faces the dilemma of how to gather empirical information about behaviors that people are trying to hide from official view. This analysis has produced a useful "ballpark" figure for the incidence and value of food stamp trafficking for the entire program and for each store type, yet, as the technical discussion suggests, the analysis rests on some fragile assumptions.

The estimates are based on the group of stores chosen for investigation, not a representative sample of authorized stores. Violators are clearly over-represented in this group compared to the retailer population as a whole. Second, the analysis presumes that positive outcomes are identical with trafficking. In other words, it assumes that CB successfully identified all stores that were trafficking, and that the number of traffickers avoiding detection

was insignificant. Finally, the SIMS data used for this analysis pertain only to the incidence of trafficking among investigated stores and the quantity of benefits trafficked during the investigation; SIMS does not have information about the total value of benefits trafficked by the retailers that were investigated. No empirical evidence is available to support the assumptions made about the percentage of a trafficking retailer's redemptions that resulted from their trafficking, a critical element in the calculation of the value of food stamp benefits trafficked.

More refined estimates of the prevalence of food stamp trafficking will require a firmer empirical foundation. Strategies such as those undertaken to study food stamp trafficking among clients (as discussed in Chapter Four) may also have value in studying retailer behavior.

For more information:

Contact: Ted Macaluso, Office of Analysis and Evaluation
Read: T. Macaluso, *The Extent of Trafficking in the Food Stamp Program*, August 1995.

Update to the Violation Prone Profile

1. Strategy

Develop an improved statistical model to assist investigators in identifying retailers most likely to commit program violations.

2. Overview

FNS has been using a statistical model of retailers, the Violation-Prone Profile (VPP), to identify stores likely to commit program violations. Originally developed in 1984, the VPP came to be viewed by investigators as of only limited value, mainly for identifying supplemental targets in an area where investigations based on stronger indicators already had been planned. This perception was confirmed by an analysis in which stores were grouped according to the source of the investigation that led to their inclusion in the SIMS data set. Over half the investigations were based on a Request for Investigation (RFI) or the VPP score (as generated by the original 1984 model). The highest rates of trafficking, however, were among

investigations based on leads, the High Redeemer list, or a whistle-blower.² The highest rates of successful three-buy investigations³ were based on leads, RFIs, the High Redeemer list, and whistle-blower complaints. Although the VPP was the reason for 30 percent of all investigations, it was a much less reliable source of positive investigations than any of the alternatives. This conclusion must be viewed with some care, however, because SIMS allows only one source to be identified for each case, so investigations that were initiated on the basis of the VPP as well and other sources were not counted as VPP-based.

In 1993, FNS contracted with MACRO International to assist CB and OAE in updating the VPP.⁴ Separate analytic efforts attempted to predict two different outcomes: three-buy investigations and trafficking. The model basically entails matching SIMS data on three-buy and trafficking outcomes as dependent variables with store characteristics drawn from STARS and the U.S. Census. Independent variables used to predict a violation were grouped into three categories:

(1) Redemption patterns

- Monthly time series of redemptions
- Overall redemptions of a retailer
- Redemption patterns in the neighborhood in which the retailer is located

(2) Retailer characteristics

- Type of store
- Size of store

(3) Location characteristics

There is a clear pattern of variability among certain characteristics that can be used to build a statistical model to predict program violations. Gross sales, the redemption/gross sales ratio, certain types of ownership, and information about the area in which the retailer is located

² Whistle-blowers are individuals who call the FO or the OIG hotline to report that a store is trafficking.

³ A successful three-buy investigation is one in which the investigator buys ineligible items at the store on at least three separate occasions.

⁴ The VPP update was part of a contract for a broad-ranging study of retailer characteristics. Although the broader study was not aimed at informing redemption integrity initiatives, it will provide a wealth of general information on food stamp retailer characteristics. See Appendix A for a summary of this study.

are important factors. Although the specifics of the statistical model, including the variables and the modeling techniques used, are confidential, the end result is a model that has significant advantages over its predecessor. Both the statistical techniques and the data used in the modeling are improved, and the model is designed to estimate separately a store's likelihood of trafficking and selling ineligible items. Unlike the old model, the new VPP generates scores that allow the ranking of stores by the probability of violations. The new VPP was implemented in March 1996; VPP scores for all authorized stores are generated quarterly from STARS and made available to SIMS users at FNS headquarters and all CB area offices. Additional work is planned to complete the integration of the new VPP with STARS, so that all STARS users will have access to VPP scores.

3. Assessment and Lessons Learned

It is too early to assess the utility of the updated VPP. Although the new model is likely to have superior predictive power to its predecessor, two key questions about the VPP remain to be answered. First, do investigators actually use the updated VPP to plan investigations? Second, is the updated VPP effective in targeting investigations, i.e., is there a high rate of positive outcomes among stores investigated because of their high VPP score?

The current tracking mechanism, SIMS, has some limitations as a tool for making these assessments. One problem is the fact that there may be more than a single factor in the decision to target a store for investigation, but the tracking system only records one such source. Another greater problem has to do with how the VPP is used. Investigators typically prefer to use leads and whistle-blower complaints to target investigations. Because investigations are typically conducted intermittently over several weeks, investigators try to work on several cases concurrently in the same general area. An area is chosen because there are strong leads on one or more stores; however, there is often a need to fill out the investigator's docket with more stores. This is the role the VPP has typically played, i.e., helping investigators target stores to work in a specific area in addition to the cases chosen because of leads.

Therefore, the investigators are not necessarily choosing the stores with the highest VPP scores in the nation, or even in a particular region. In fact, in the specific area where an investigator is working, it can happen, especially in rural areas, that the stores with the highest VPP scores in the area would not be considered high scorers in a larger context. If high-scoring

stores are investigated for other reasons (at least according to SIMS) or low-scoring stores investigated because of their proximity to other investigations (but attributed to the VPP in SIMS), the rate of positive investigations for stores targeted on the basis of the VPP may not be indicative of the true predictive power of the VPP.

To offset this problem, CB plans to compare the VPP scores of all stores with positive and negative investigations, once a full year of results have been accumulated. This analysis, planned for the fall of 1997, will take advantage of the fact that, unlike the old VPP, the new VPP allows meaningful comparisons of average scores across different groups of stores.

As with the old VPP, CB expects to use the new VPP to supplement the targets identified through RFI's and other non-statistical sources. It is in this context that CB will determine whether the new VPP represents a real improvement over the old VPP. CB expects that the new VPP will prove more useful than its predecessor, but CB does not expect that the VPP will become more important than other bases of investigations.

The next initiative represents a very different quantitative tool for targeting investigations that may become a preferred targeting strategy for investigators. The new information available from EBT systems may, as these systems are implemented, make the VPP increasingly obsolete.

For more information:

Contact: Bruce Clutter, Compliance Branch
Read: *Violation Prone Profile Update Analysis*, Macro International Inc., July 1995 (confidential).

ALERT

1. Strategy

Use EBT redemption data to identify stores trafficking in food stamp benefits, as a basis for both criminal investigations and administrative action against retailers.

2. Overview

The Anti-fraud Locator using EBT Retailer Transactions (ALERT) system is an automated system for analyzing EBT transaction data to identify potentially fraudulent behavior. EBT systems record information about individual transactions that is not available under the coupon system. At minimum, data available about each transaction include the recipient card number, the total value of the transaction, and the time and terminal at which the transaction took place. Investigators can make good use of this information, but they need tools such as ALERT to cope with the great volume of such data generated by EBT systems. EBT data can be used in two different ways: to investigate leads from other sources, and to generate leads. For the latter function, an automated system for combing through the transaction data is essential.

ALERT screens the EBT transaction data, identifying stores with high scores based on weighted factors and a set of four criteria. In designing the screening mechanism, FNS received input from staff who had been using EBT transaction data for investigative purposes. The four pre-defined criteria include a dollar amount criterion, a multiple transaction criterion, a depleted balance criterion (few transactions to deplete recipient's account), and a threshold criterion (redemptions exceed a threshold for a particular store). ALERT reports were made available to FNS Regional and Field Offices, CB Area Offices, and OIG investigators by late 1996. These users have already found the printed reports generated by the system to be of great value in identifying stores with suspicious patterns of transactions.

The on-line component of the system, which allows interactive queries and analysis of selected transaction data, is currently available in the Mid-Atlantic and Southwest Regions; in each Region, access is provided to CB, USDA OIG, FNS Regional Office staff, and FOs serving areas with EBT issuance. By the fall of 1997, all seven Regions are expected to have on-line access to ALERT.

3. Assessment and Lessons Learned

Although the ALERT system clearly represents a new and powerful tool for FO staff and investigators in identifying and disqualifying violators, the impact of the system will depend on how it is used. The only assessment of the system that is currently planned is an internal review of CB cases targeted on the basis of ALERT; this review, which is expected to occur in

late 1997, will be part of a broader review of results for all bases of investigations used by CB. To facilitate this review, CB uses the "source of investigation" field in its SIMS database to flag each investigation based on ALERT data.

An indication of the potential value of ALERT comes from the system's first use in a concentrated investigative sweep. In November 1996, CB investigators used ALERT as one of the principal sources for a three-week period of concentrated investigations in Hudson County, New Jersey. These investigations were part of Operation Five Points, which is discussed in more detail later in this chapter. The New Jersey investigations caught 121 merchants committing food stamp violations, the highest total among the five major urban sites in this operation.

The potential usefulness of ALERT extends beyond the targeting of compliance investigations. Perhaps the most revolutionary aspect of ALERT is its emerging use by FOs as the direct basis for charging retailers with violations, without the intervening step of requesting a CB investigation. User feedback and outcome monitoring of this use of ALERT, which is discussed later in this chapter, will be just as important as the results of investigations by CB and OIG to the ongoing assessment and refinement of this highly important new tool.

For more information:

Contact: Preston Mears
Read: *ALERT Overview*, FNS Benefit Redemption
Division, September 1996.

Dun & Bradstreet Initiative

1. Strategy

Use Dun and Bradstreet (D&B) data to target monitoring and investigation efforts.

2. Overview

In July 1995, FNS contracted with D&B for a series of tasks designed to explore the value of using business information service data in its retailer authorization, monitoring, and investigation efforts. D&B maintains records on millions of business establishments. Each record can include up to 1500 distinct data elements, covering the identity and background of

owners, credit and payment experiences with suppliers, store size and location, and sales information. The first step in this demonstration effort was a high-level analysis of matches between the D&B data and two FNS databases, STARS and SIMS. The purpose was to explore the feasibility of comparing and analyzing data on stores from the two sources, with the ultimate aim of developing a model that would use D&B data as independent variables in a statistical model predicting program violations among retailers.

Several different methods were used to assess the viability of this approach. The first step was to match the STARS database with the D&B data and determine how many retailers appeared on both lists. As a second step, Benefit Redemption Division (BRD) staff reviewed D&B reports on a sample of 42 of the FNS-authorized stores. BRD took particular interest in the value of the data for use in making eligibility determinations on new stores. Although the review was inconclusive, BRD decided to proceed with the field demonstration effort described in Chapter Two. At the same time, FNS asked D&B to perform an initial set of univariate analyses of the data in order to assess the feasibility of building a more sophisticated multivariate model. The analysis focused on stores authorized or re-authorized after 1990 because the information in the STARS database on those stores was more current, and thus much more reliable, than the information on stores that had not been recently authorized or reauthorized.

Exhibit 3-2 below describes the number of stores used in the feasibility analysis.

Exhibit 3-2

STORES USED IN THE D&B FEASIBILITY ANALYSIS

FNS-authorized stores	200,578
D&B records on authorized stores	150,445
Stores authorized or reauthorized after 1990	28,812
D&B records on stores authorized or reauthorized after 1990	15,586
Stores investigated by FNS	16,203
D&B records on stores authorized or reauthorized after 1990 and investigated by FNS	580
D&B records on stores authorized or reauthorized after 1990 with positive investigations	65

3. Assessment and Lessons Learned

The key document for assessing this effort is D&B's report on the effort dated January 1996. D&B's assessment was that, although a model using the D&B data would have some predictive power, the small number of stores with positive outcomes that could be used in the model limited its usefulness. A major limiting factor was the lack of a common identifier to facilitate matches between the STARS database and the D&B files; if FNS had the DUNS identifier for the stores, the rate of finding matches might have been substantially higher. (The more widely-used identifiers in STARS, namely Social Security numbers and IRS Employer Identification Numbers, could not be used because are not consistently available in D&B data and are subject to strict confidentiality controls.) D&B recommended building over time a more current database of investigated stores, with the goal of using the data in a statistical model to predict program violations. The concept of using a source such as D&B to build a risk profiling model is clearly appealing, given the increasingly sophisticated use of such models by lenders in the private sector. As mentioned in Chapter Two, FNS has requested an assessment of the D&B demonstration by KPMG, which is expected to provide recommendations on future uses of D&B data by May 1997.

For more information:

Contact: Preston Mears, Benefit Redemption Division
Read: *Food Stamp Fraud Study*, Dun & Bradstreet
Information Services, N.A., January 1996
(confidential).

Coupon Redemption Initiative

1. Strategy

Use information on stores suspected of making fraudulent claims for manufacturers' cents-off coupons to target investigations of violating FSP rules.

2. Overview

The Coupon Information Center (CIC) is funded in part by major food manufacturers. The organization maintains profiles on stores that redeem manufacturers' cents-off coupons.

Coordination with Law Enforcement Agencies

1. Strategy

Through sharing information with federal, state, and local agencies, both FNS and the law enforcement agencies will be better able to target and conduct investigations.

2. Overview

Food stamp legislation and other federal laws govern the agencies' ability to share information on potentially fraudulent retailers. In coordination with the Financial Crimes Information Network, sponsored by the U.S. Treasury, FNS has joined in an effort to ease the regulatory restrictions on information sharing, while safeguarding the privacy of sensitive information provided by retailers. Through inter-agency agreements and new regulations, this effort is intended to give FNS the capability to conduct computer matching programs with various entities. FNS is also in the process of implementing new authority granted in the Food Stamp Improvements Act of 1994 and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. These powers include the following: sharing confidential retailer data with state and federal law enforcement agencies investigating specific violations of any state or federal laws; requiring applicant firms to submit copies of federal and state tax filing documents; and requesting retailers' authorization to verify tax information (including Social Security Numbers and Employer Identification Numbers) with appropriate agencies.

3. Assessment and Lessons Learned

These innovations in the laws governing information exchange with law enforcement agencies are potentially of great importance to FNS's efforts to protect the integrity of the redemption process. Because the agency has limited capacity to investigate retailers, it has much to gain from this opportunity to leverage the resources of law enforcement agencies such as the IRS and the FBI to pursue its targets. The IRS, for example, is much better equipped (in terms of investigative powers and capabilities) to audit retailers' financial records as a means of establishing evidence of trafficking and other fraud. Even if investigations by outside agencies do not produce proof of direct violations of FSP regulations, criminal convictions on other charges can provide a basis for withdrawing stores under rules concerning business integrity.

Over the coming years, FO and CB staff will be exploring the most productive avenues for information sharing that have become available, or will become available, under the new

regulations. Given the focus on enabling FNS to act, the potential of the information exchange capabilities has not yet been tested; the operational phase of this initiative will come in 1997. There are currently no mechanisms in place to assess the impact of these changes.

For more information:

Contact: Suzanne Fecteau, Benefit Redemption Division

Validation of Benfords' Law

1. Strategy

Develop and apply a statistical technique for identifying suspicious food stamp transactions.

2. Overview

The FNS EBT program office has contracted with Booz-Allen and Hamilton Inc. (Booz-Allen) to validate the use of Benfords' law as a tool to support retailer and client fraud investigations. Benfords' law is a statistical algorithm that determines the likelihood that patterns of numbers are human-generated rather than random. This algorithm creates the potential to identify suspicious transactions, even when retailers are manipulating transaction amounts to avoid detection by transaction analysis methods that are triggered by large or even-dollar transactions. The algorithm has been successfully utilized by the State of Texas to predict the likelihood of a successful investigation among a list of retailers; these predictions matched very closely with the actual investigative results (which were obtained prior to the test).

For this effort, Booz-Allen plans to work with two or more states, including Texas. Data generated by the algorithm will be collected from both states. Booz-Allen will develop a spreadsheet tool for using Benfords' law and make recommendations to FNS about its appropriate use in identifying fraudulent EBT transactions. The project will entail five phases:

- (1) ***Provide the current spreadsheet to participating states.*** Booz-Allen will work with FNS to provide the current spreadsheet tool to the designated states and assist the states in using it. The states will run the algorithm against EBT transaction data and provide Booz-Allen with weekly results.

- (2) **Collect and analyze fraud data.** Over a two-month period, data will be collected on a weekly basis from the states. Based on these results, Bayesian statistics will be used to generate a minimum and a maximum range for producing valid results. Attempts will be made to "trick" the algorithm using false transaction sets.
- (3) **Update the current spreadsheet.** Booz-Allen will modify the current spreadsheet tool to incorporate a new reporting feature identifying individual transactions in a textual format. Additional matching capability will be added to enable the program to identify multiple transactions against the same primary account number (PAN). This information could provide insight on client integrity issues.
- (4) **Recommend best fit for ALERT system.** Booz-Allen will hold technical discussions with the ALERT system vendor to determine the best technical solution for the integration of Benfords' law into the ALERT system. Based on these discussions and the design review, Booz-Allen will produce a recommendation and high-level design for incorporating the algorithm in the ALERT system.
- (5) **Document results.** A final document on the algorithm will be produced as a guide for potential users. The guide will include sections on the algorithm's weaknesses, the minimum required number of transactions to produce a statistically valid result, and recommendations on the best use of the tool (e.g., in conjunction with other methods).

3. Assessment and Lessons Learned

This initiative will be assessed by FNS' EBT program office in its deliberations about including Benfords' law as a tool for identifying suspicious transactions in the ALERT system. Booz-Allen has encountered some difficulty in getting the cooperation of processors, because they are busy implementing EBT systems. No results are yet available for review.

For more information:

Contact: Karen Walker, EBT Section, BRD
Read: SOW for Booz-Allen Task Order 37

3.2 INVESTIGATING VIOLATORS

The first initiative in the area of investigations presented here takes aim at the crucial issue of investigative resources. State law enforcement agencies have investigative staff whose efforts overlap at times with the work of CB and OIG investigators pursuing trafficking

violations. State participation in investigating trafficking cases has great potential to increase the resources available for these cases, especially in light of the current limitations on federal resources.

Study of State Law Enforcement Bureau Agreements

1. Strategy

State Law Enforcement Bureau (SLEB) agreements enable FNS to provide states with food stamp benefits to use in conducting investigations of the illegal selling, buying, and redemption of food stamp coupons in the underground economy.

2. Overview

The federal resources to address the problem of food stamp coupon trafficking are limited. The USDA OIG devotes a significant portion of its 250 investigators' time to trafficking, but these investigators are spread nationwide and focus on major cases that will be acceptable for prosecution by the US Attorney's Office. Because food stamp benefit trafficking often coincides with other criminal activity, particularly drug trafficking, SLEBs are potential partners in investigating cases of interest to FNS and OIG. In addition, SLEB investigations are the only realistic option for investigating "street" trafficking and other trafficking by parties other than authorized retailers: these cases are generally too small for OIG, and CB is restricted to investigating authorized retailers.

FNS funded an initiative that began in 1989 to use SLEB agreements to increase the scope and effectiveness of investigations into food stamp coupon trafficking. In 1994, FNS contracted with Abt Associates to study the SLEB agreements initiative.⁵ The study describes and analyzes the 32 SLEB agreements that FNS had signed with states before June 1995. Data collection efforts included six case studies of states with active SLEB agreements and a survey of all 32 participating states.

Although all the SLEB agreements have the common purpose of conveying food stamp benefits to states for investigations related to the trafficking of benefits, the states have established a diverse set of arrangements to manage the investigations. FSP agencies manage

⁵ The SLEB study was included in the same contract as this report. Systems Planning Associates conducted the SLEB study under subcontract to Abt Associates.

the SLEB agreement in 25 states; in the other seven states, the managing agency is typically the Department of Public Safety or the Attorney General's office.

The level of activity under the SLEB agreements varies dramatically, from states that have generated no SLEB agreement activity at all to states that regularly conduct SLEB agreement investigations in an organized campaign against trafficking. Exhibit 3-3 summarizes the level of activity among the SLEB agreements as of September 1996.

Exhibit 3-3
INVESTIGATION ACTIVITY LEVELS
UNDER SLEB AGREEMENTS

Activity Level	No. of States
Extensive SLEB activity	6
Regular SLEB activity	4
Periodic SLEB activity	11
No recent activity (FY 94 or FY 95)	4
No activity at all	7
Total SLEB agreements	32

Because each state presents a different set of circumstances, a different arrangement for administering the SLEB agreement, and a different approach to using the food stamp benefits in investigations, it is difficult to generalize about what makes for more active and effective SLEB agreements. The most active states tended to be larger states where direct control of the trafficking investigations resided with a central state agency rather than with local law enforcement agencies.

Strong leadership and commitment on the part of the SLEB agreement administrators were common elements among the ten most active states. Commitment of state resources to the SLEB agreement in some of the active states was considerable, including the assignment of full-time state staff to trafficking investigations.

The most critical reasons for states having less-active SLEB agreements were insufficient resources and lack of interest on the part of the law enforcement community. A key

factor was the reduction of FNS' share of fraud control funding from 75 to 50 percent. In states that lacked a state statute making food stamp benefit trafficking a crime, law enforcement agencies and prosecutors are especially reluctant to get involved in trafficking cases. In contrast, several states have lowered the felony level in their trafficking statutes. Felony charges are useful when cases are to be plea-bargained, and felony convictions carry built-in sanctions (e.g., store disqualification) even if defendants are not sent to jail.

The actual investigations are conducted by both state and local law enforcement officials. SLEB agreement investigations varied in scope, from short-term "buy/bust" investigations to long-term investigations of major complex trafficking operations. There is a surprising degree of randomness in where, how, and by whom trafficking investigations are conducted in states where SLEB agreement-generated investigations are not centrally controlled. Many such investigations are not producing results. Using food stamp coupons in "sting" operations or making drug buys generally resulted in the arrest of individuals who were not retailers, trafficking brokers, or recipients.

In most states, FNS Regional Office staff were key to the implementation of the SLEB agreements. The agreements typically call for the FNS Regional Office to approve the use of food stamp benefits in specific investigations. In some states and FNS Regional Offices, however, there is little assessment of targets submitted for approval by state and local law enforcement agencies. The relationship between food stamp coupon and drug trafficking has created some ambiguity in the targeting of SLEB agreement investigations. Some state and FNS Regional Offices have approved investigations that appear to have been focused on drug law enforcement. Some investigations have been conducted outside the spirit, if not the letter, of the SLEB agreement, including sting operations that do not target retailers or known traffickers.

There is often disagreement between FNS and state staff as to how penalties should be applied to individuals and firms found to have been involved in food stamp coupon trafficking as a result of SLEB agreement investigations. FNS FOs want prompt referrals for administrative action, but state prosecutors are often reluctant to make referrals until criminal proceedings are complete, because of concern that FNS action could jeopardize the criminal case. For this and other reasons, submission of data from states to initiate disqualification processes against retailers is inconsistent. As a result, few retailers have been disqualified as the result of SLEB investigations.

The Food Stamp Accountability Report (FNS-250), which is the principal mechanism for reporting SLEB agreement activity, is not providing FNS with accurate, sufficiently detailed, or timely data on food stamp coupons used in trafficking investigations. Also, the data that were posted to the accounting system did not show sufficient detail to allow FNS to monitor the states' use of food stamp coupons in trafficking investigations.

Finally, EBT implementation is changing the nature of the SLEB agreements. Traffickers have applied their illegal craft to the new EBT systems with surprising speed, but state and federal staff are making good progress in adjusting their investigative routines to the new technology. Texas and New Mexico are working jointly with the USDA OIG and CB on EBT trafficking investigations.

3. Assessment and Lessons Learned

The following practices have contributed to the effectiveness of SLEB agreement operations in the most active states:

- Dedicating state positions to trafficking units;
- Involving all welfare fraud investigators in trafficking investigations on at least a part-time basis;
- Working directly to assist the USDA OIG on trafficking cases, as an alternative to the SLEB agreement process;
- Providing special funding for trafficking projects;
- Maintaining strong relationships with prosecutors;
- Developing a standard case format;
- Working with other agencies within the state, such as liquor control and lottery boards, to apply penalties to food retailers engaged in trafficking;
- Generating publicity about trafficking cases as a deterrent for other traffickers;
- Transferring SLEB agreement monitoring to the FNS FOs; and
- Conducting trafficking workshops and regional conferences, and providing state-to-state technical assistance.

Taken together, the survey and case study results lead to the following major recommendations:

- At the regional and state levels, FNS should develop a hierarchy of trafficking targets. All SLEB investigations should be targeted at retailers or designed to follow leads to retailers.
- FNS should continue to support the states that are active and those states with the potential to expand their SLEB agreement investigations.
- FNS should foster better interagency communication through regular planning meetings with state agencies and through more direct channels for OIG and CB approval of SLEB agreement investigations.
- There should be more control at the state level of SLEB agreement-generated investigations conducted by local law enforcement agencies. Law enforcement agencies should be approached only in those areas where quantitative data and intelligence indicate that trafficking is an apparent problem; only agencies in these targeted areas would be automatically eligible for matching funds from FNS.
- FNS staff should work with the states to make the best use of the available options for imposing penalties on individuals and firms found to be involved in trafficking.
- FNS should amend SLEB agreements in states that are active in conducting trafficking investigations to cover EBT trafficking investigations, and negotiate EBT-only SLEB agreements with other states.
- FNS headquarters, the FNS Regional Offices, and the states should collect more information about SLEB agreement operations and outcomes. The most comparable indicator of performance is the number of investigations with positive outcomes (i.e., when an individual or firm is referred to the courts or federal or state administrative processes). Data collection should cover case dispositions, administrative costs, and detailed accountability for food stamp coupon use.

For more information:

Contact: Lindy Haffey, Compliance Branch
Ken Offerman, OAE

Read: L.M. Allman and C.W. Logan, *Evaluation of Food Retailer Management Demonstrations in EBT-Ready States and Related Initiatives: Study of State Law Enforcement Agreements*, September 1996.

Concentrated CB Investigations

1. Strategy

CB assigns all of its investigators to brief, concentrated sweeps of large numbers of retailers in a few selected areas, to increase the productivity and deterrent value of the investigations.

2. Overview

Two recent operations have concentrated the CB's investigators in selected cities. The intent of these sweeps was to investigate and take action against retailers committing violations in targeted areas at levels not possible when investigators are spread out throughout the regions. The first, called Operation Trident, was conducted in March 1996; the locations were Jacksonville, Florida; Seattle, Washington; and Tidewater, Virginia. Of the 798 stores targeted, 359 were found to have violated program rules; 82 stores trafficked food stamps. An effective media relations strategy resulted in nationwide publicity, including a live press conference, other television coverage, and widespread newspaper reports. The second CB sweep, Operation Five Points, targeted 900 retailers in Detroit, Jersey City, Los Angeles, Miami, and New Orleans, during a three-week period in November 1996. (Unlike Operation Trident, Operation Five Points allowed each CB Area Office to conduct its own sweep.) This operation caught 403 stores violating, including 119 stores caught trafficking. As with Operation Trident, publicity was an integral part of the process, including a January 31, 1997 press release with statements by the USDA Secretary and the Under Secretary for Food, Nutrition, and Consumer Services. The second operation attracted less media attention than the first, perhaps because the investigations were in larger cities.

3. Assessment and Lessons Learned

This is not a demonstration: there is no specific mechanism for assessing its impact or success. CB headquarters staff indicate that they believe such sweeps are an important tool, and they plan to conduct similar sweeps in the future. They are more satisfied with the results of Operation Five Points, because of the higher proportion of stores caught trafficking (13 percent versus 10 percent in Operation Trident.) The numbers of investigations in each operation are very large for a three-week period: Operation Trident represented 17 percent of the 4,635 CB investigations in FY 1996. This concentration of investigations undoubtedly increases the

potential to generate a deterrent effect by attracting publicity; it may also help to energize CB investigators for the less glamorous but equally important work that they do individually or in smaller groups. Sweeps consume substantial amounts of scarce travel funds, however, so CB can afford only one such operation each fiscal year. Follow-through to impose sanctions will be critical to the ultimate effectiveness of the CB sweeps; as discussed below, FNS has taken an important step to expedite this part of the process.

3.3 TAKING ADMINISTRATIVE ACTION AGAINST PROGRAM VIOLATORS

To stop the misuse of FSP benefits, it is insufficient, of course, to simply identify traffickers; FNS must remove traffickers from the program. Two recent initiatives focus on taking administrative action against traffickers.

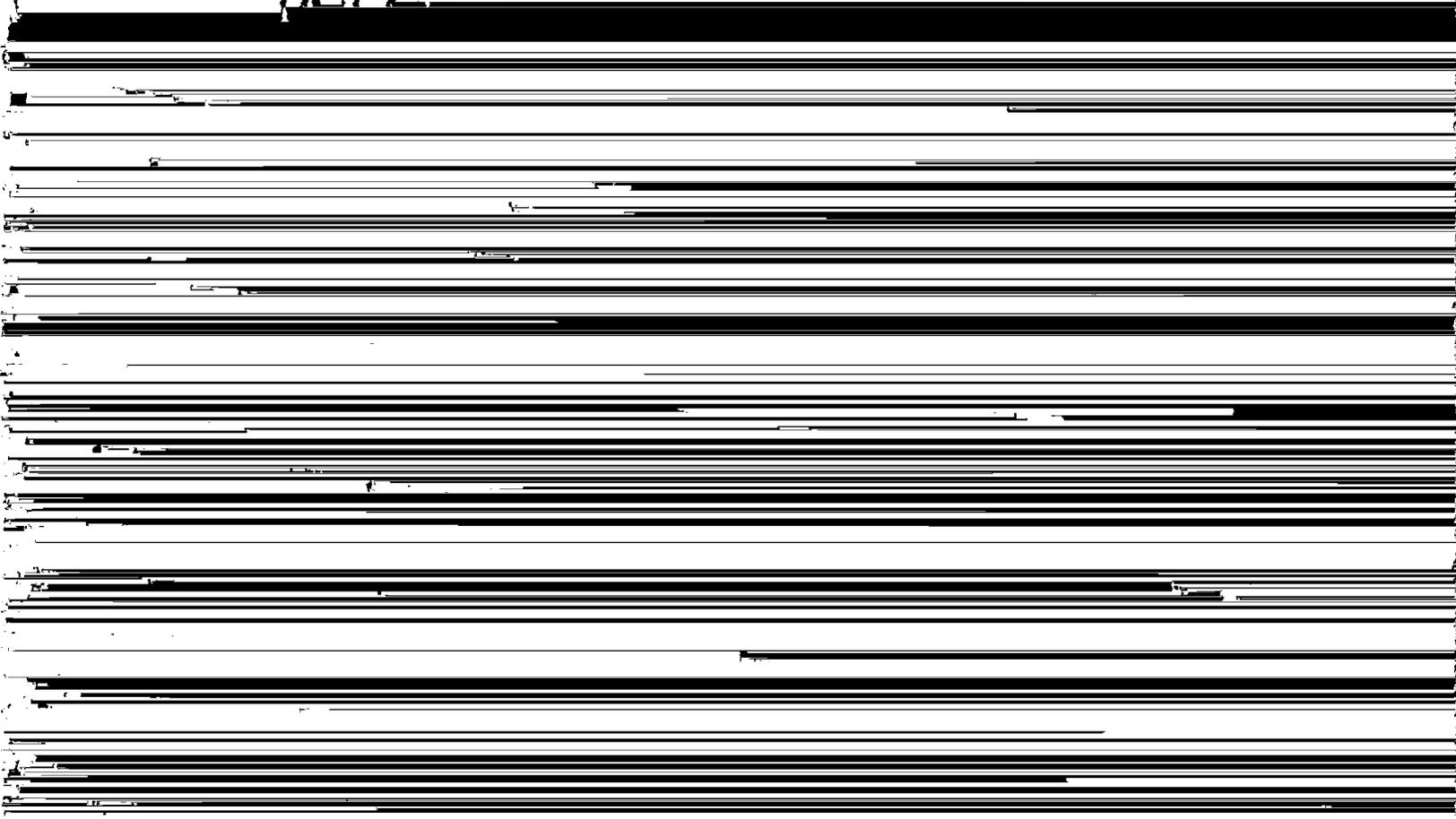
Expedited OIG Release of Trafficking Cases

1. Strategy

Expedited OIG release of cases allows FNS to take swifter administrative action following CB investigations, resulting in a higher profile and greater deterrence effect.

2. Overview

For Operation Trident and Operation Five Points, FNS convinced OIG not to conduct



escalation process appears unlikely. The other limitation of this strategy is that it reduces the number of cases available for criminal investigations—with their potential for a high pay-off in fines, other sanctions, and deterrent value—in exchange for swifter, surer administrative sanctions that also have lower visibility.

EBT Transaction Data as a Basis for Disqualifying Retailers

1. Strategy

Traffickers are disqualified based on EBT transaction data, saving the expense and delay associated with a conventional investigation.

2. Overview

With the implementation of EBT, it is possible to identify patterns of redemption characteristic of trafficking, such as an extraordinary number of even-dollar transactions or very rapid transactions. Program staff in the Mid-Atlantic and Southeast Regions have analyzed EBT transaction data and identified numerous candidates for investigation. Because the number of potential traffickers identified in this manner far exceeds the capacity of investigators in those regions, program staff have taken administrative action against some retailers (while referring others for investigation).

Each region has developed its own strategy for making the best use of the EBT transaction data. Staff at the Towson FO in Maryland routinely make unannounced store visits to stores identified as potential violators. The purpose of the visits is to determine if there are unusual circumstances that explain the suspicious redemption pattern. For instance, some meat markets sell large packages of meat with a high, even-dollar value.⁶ If the site visit does not provide a legitimate reason for the suspicious redemption behavior, the FO sends a letter to the retailer, charging the retailers with trafficking and notifying them that, unless they can justify their suspicious transactions, they will be permanently disqualified from the FSP. Early on, the FO attempted to assess a penalty in the amount of benefits trafficked. This practice was curtailed because the financial penalty increased the likelihood the retailer would appeal the disqualification. The Office of the U.S. Attorney made it clear that they would not prosecute

⁶ In some cases, retailers have admitted to using FSP as payment for credit accounts. Although this is a violation of program rules, it is not considered as serious a violation as trafficking or selling ineligible items.

this type of case; as a consequence, there was little chance the retailer would ever be compelled to pay the penalty.

The Columbia FO in South Carolina takes a somewhat different approach. In South Carolina, FO staff use a database application developed by the state EBT project to target retailers with patterns of suspicious transactions. The FO staff also make store visits to look for legitimate explanations for suspicious transaction data. If no legitimate explanation is evident, the FO sends a letter to the suspected retailer requesting an in-person interview at the FO to discuss the redemption activity. The letter indicates the type of documentation the FO would consider sufficient to dispel their suspicions. In many cases, retailers have admitted to trafficking during the interviews.

3. Assessment and Lessons Learned

An assessment of this approach will be greatly facilitated by the fact that both Regional Offices are keeping a careful record of their administrative actions. Between December 1994 and December 1996, MARO sent charge letters to 103 retailers. Fifty permanent disqualifications and ten one-year disqualifications were imposed. As of late December 1996, approximately 30 cases were still in administrative review, and ten had gone to judicial review. None of the cases taken to judicial review had been overturned.

By the end of February 1996, the Columbia FO had taken action on 16 stores with suspicious transaction patterns. One of the 16 was referred to CB for investigation, and nine were disqualified. Of the remaining six cases, three received warning letters, one was withdrawn, one explained the redemption patterns satisfactorily, and the outcome of one case was not available for this report.⁷

One clear lesson that has emerged is the importance of a careful, in-depth visit to the suspect store, in order to determine what it stocks, how it is set up, and how it operates. These visits can sometimes provide legitimate explanations for transaction patterns that raise suspicions of fraud. In addition, the FO staff need a careful strategy for confronting the retailer with sufficient evidence to obtain an admission of fraud without revealing too much about the indicators used to detect the fraud. The BRD staff responsible for implementing ALERT are

⁷ As of March 1997, the South Carolina FO had charged 55 retailers on the basis of EBT data. The dispositions of these cases were not available.

closely monitoring this process; they and the FOs will accumulate a good deal of valuable expertise that would benefit other FOs as they adopt this important strategy. The modest resources to organize and integrate these lessons would be well spent.

3.4 CHAPTER SUMMARY

Although the magnitude of the FSP benefit trafficking problem is daunting, there is reason to expect that, with the current level and configuration of resources, FNS can do more. An increase in the impact of its efforts would have three principal sources:

- (1) Widespread implementation of EBT, and the concomitant capability to track individual FSP benefit transactions;
- (2) Improved inter-agency coordination and cooperation on trafficking investigations; and
- (3) Greater access to private and government data on food retailers.

Widespread EBT Implementation

Widespread EBT implementation has powerful implications for fraud detection, investigation, and sanctioning—implications that are just now being explored on several fronts. The following are some initial results:

- (1) ALERT, based on EBT transaction data, will likely replace the VPP, based on retailer characteristics and more aggregated redemption data, as the main *statistical* method for targeting investigations. Leads from FOs, whistle-blowers, and law enforcement agencies will likely remain a very important method of targeting investigations. Whether ALERT becomes the primary method will depend on how well it meets the needs of investigators.
- (2) EBT adds new tools for use once investigations are in progress, such as the ability to track the use of a particular card and to pinpoint the time of a transaction. None of the initiatives discussed above pertains directly to such uses of EBT data, but this is clearly an emerging area of activity for fraud investigators such as OIG and CB.⁸
- (3) EBT transaction data allows a new kind of investigation, one based solely on transaction information without any undercover work. This method has had good

⁸ For example, some investigators have used EBT transaction data to track the movements of traffickers.

results in the pursuit of administrative, rather than criminal, penalties. Because this has been pursued by program staff, rather than investigative staff, it brings a whole new set of resources to bear on compliance work.

Inter-agency Cooperation on Investigations

There are two issues here: gaining the support of law enforcement agencies to crack down on FSP benefit trafficking, and effectively following up on the investigations with administrative action. FNS identifies and disqualifies substantial numbers of program violators through CB investigations, but FNS relies on other agencies to conduct criminal investigations of misuse of benefits. Although OIG has made trafficking a priority for its investigators, the need for additional investigative resources is clear. The best hope for major, additional resources is among the states. States must be persuaded to make FSP benefit trafficking a priority, but, at the same time, better controls need to be established to ensure that state investigations truly advance the goals of the FSP. To realize the potential of state investigative activity, effective working relationships and coordination of effort must be fostered among FSP program staff, federal and state investigators, and state prosecutors. Greater FO involvement in the SLEB oversight process, as has been done in the Southeast Region, is one promising approach to improved state—federal cooperation; the key is to have a designated liaison for each state with a mandate to bring together the appropriate FNS, OIG, and state officials. The question of funding for state investigators must also be addressed: the loss of enhanced funding for fraud control has led a number of states to curtail or end their trafficking investigations. In the current fiscal climate, the best option is for FNS to use its discretion to arrange start-up funding, as was done in California.

A key problem in the relationship between FNS and the investigative agencies is related to the scale of the criminal operation targeted. At one end of the spectrum are large, sophisticated networks of traffickers. At the other end is the retailer who engages in a low level of opportunistic trafficking (individual recipients engaging in trafficking are the subject of Chapter Four). USDA OIG clearly seeks to identify the largest traffickers in its investigative work. Its investigations, and the work of other federal investigators such as the Secret Service, are focused on winning convictions in federal court. Each federal prosecutor has established a minimum level of benefits trafficked for cases it will consider taking to court. Although these

levels vary from region to region, they effectively define the scope of USDA OIG's investigative work. A similar dynamic is at work for state investigators. They must convince state's attorneys to bring cases to court, and the state's attorneys have an (explicit or implicit) threshold value below which they will not take on a case.

The dilemma, then, is what becomes of the cases that are not large enough to attract the attention of federal or state prosecutors. The standards of evidence for taking administrative action are naturally much lower than those required for criminal action. It therefore follows that virtually all criminal cases, and all the cases where the evidence is compelling but the scale too small for judicial action, should ultimately result in administrative action. Some investigators and prosecutors are wary of administrative action, however, because they fear the administrative action could damage their criminal case. As a result, the administrative action is often delayed, attenuating both the direct impact on the violator and the deterrent effect; sometimes, especially in state investigations under the SLEB agreements, sanctions never happen at all.

The agreement with OIG to expedite the clearance process for the CB sweeps represents a solution for the majority of cases, which may involve felony level of trafficking but are not large enough to justify the expense of criminal investigations. Similar understandings might be established between SLEB officials and FNS FOs. Another approach that FNS should promote is linkages between SLEB investigations and administrative sanctions available to the states, namely cancellation of liquor licenses and lottery permits.

Alternative Sources of Data on Food Retailers

Three of the initiatives discussed in this chapter involve access to data on food retailers. The agency has experimented with two private sources, Dun & Bradstreet and Coupon Information Center. D&B assessed the feasibility of developing a tool for identifying high-risk retailers. The initial feasibility analysis suggested that there were too few overlapping data points between D&B's files and FNS' SIMS data to support such a model, but there might be ways to improve the rate of matches between these sources. In any event, there may be little demand for such a tool if the ALERT system produces more leads than investigators can use. The CIC data were used to generate leads as well; although the results of the investigations have not been fully analyzed, they do not suggest that the CIC data represent an important new resource.

At present, both the D&B and CIC data appear to be more useful for authorization and reauthorization purposes than for targeting CB investigations. The presence of a store in D&B files might be used as an indicator that the firm is well-established and needs only a cursory review (and not a store visit or other intensive measures) during reauthorization. CIC maintains its own files on all retailers that are authorized to redeem manufacturers' coupons, including results of visits to selected stores; the usefulness of these files to FNS FOs might be worth investigation. In both these cases, the cost of acquiring the data is a critical element that would depend on the form and content of the requests. Computerized reports of selected data can be relatively inexpensive (especially when compared to store visits); full in-depth reports containing entire retailer files will tend to be much more expensive.

Government data sources hold even more promise, especially information on Social Security numbers, federal tax identification numbers, and state sales tax filings. Recent legislation has opened up access to this information and made it possible for FNS to share information on retailers with other agencies. The agency must establish ground rules for the exchange of data with other agencies, and it must establish procedures for making the most productive use of that data.

Management Issues

In order to assess the impact of each of its efforts in the area of retailer investigation and sanctioning, FNS will need good information on investigations. A review of SIMS may yield opportunities to improve the system's capacity to provide readily the information needed to conduct investigations, implement sanctions, and monitor the outcomes of both processes.

Estimates of the size of the trafficking problem suggest that the total resources available are insufficient, not just by a small percentage, but by an order of magnitude. Although each of the three avenues for improvement discussed above holds great promise for raising the productivity of FNS' efforts to address the misuse of benefits, the question of scale remains. These approaches offer important, but incremental, increases in the effectiveness of FNS' efforts. It may be unrealistic to expect that, even under a best-case scenario where all these initiatives yield excellent results, their combined effect will result be more than a modest reduction in trafficking. Such a reduction would nonetheless represent a real success, especially if FNS' initiatives help rid the FSP of the worst offenders.

CHAPTER FOUR

INITIATIVES FOCUSING ON INVESTIGATING AND SANCTIONING RECIPIENTS

Although FNS has responsibility for the overall direction of the FSP, the state FSP agencies administer the aspects of the program that pertain to recipients. As a result, although FNS FOs have considerable responsibilities for the retailer side of the program, their responsibilities do not include the recipient role in the redemption process.

State FSP agencies approach FSP fraud as part of their larger efforts to address fraud in AFDC, Medicaid, and other state-administered public welfare programs. The value of AFDC and Medicaid benefits is high, and states contribute a share of those benefits. Fraud in the eligibility process (often common to several of these programs) is a priority for states. Furthermore, recipients are frequently seen as victims of trafficking, not as perpetrators, especially by the mass media. As a result, states have not typically devoted significant resources to action against recipients who engage in benefit trafficking. Meanwhile, the division of administrative responsibilities between the federal and state agencies has largely precluded any major FNS effort to identify, prosecute, or sanction recipients who participate in FSP trafficking.

Nevertheless, the initiatives presented in this chapter suggest this historical pattern is beginning to change. This change is timely, because increasing numbers of cash assistance recipients will become more dependent on FSP benefits as time limits and other restrictions imposed by recent welfare reforms are implemented. When these recipients face new difficulties paying rent and other expenses, they will be more tempted to traffic their FSP benefits.

The principal factor motivating the new interest in the recipient's role in trafficking is the advent of EBT. States are now more directly involved in the redemption process, and card-based EBT systems make it possible to track suspicious transactions back to the original recipient of those benefits—the original cardholder. Furthermore, states that have invested resources and political capital in implementing EBT may have more at stake when recipient fraud is made public.

The most visible sign of a change in attitude toward recipients' trafficking is that recent state investigations have made recipients their primary targets. In the short history of EBT trafficking investigations, sanctions against recipients have been a by-product of a retailer investigation: when a retailer was caught trafficking, the EBT transaction data also pointed to the recipients who had been the trafficker's customers. Several recent demonstrations, however, have been directed primarily at the recipient side of trafficking. FNS and the State of California jointly sponsored a set of demonstration projects in 1994-1995, under the state's SLEB agreement. The California projects established teams of investigators that focused their efforts on street traffickers, ensnaring in the process both the recipients and the retailers who deal with the intermediaries.¹ In South Carolina, recipients have been elevated to equal status with retailers as targets in the investigation process, under a demonstration initiated with FNS funding in late 1995. (The South Carolina demonstration is discussed in this chapter.)

New Mexico and Texas have recently received FNS funding for demonstrations in which recipients are the exclusive focus of the investigation.² Both states will conduct sting operations on a pilot basis. In New Mexico, an undercover agent will act as a "broker," i.e., an intermediary who buys FSP benefits from recipients and then sells them to retailers. Texas has proposed a larger and more elaborate sting operation. Undercover investigators will set up a simulated retail establishment and make it known that they will redeem FSP benefits for cash. This operation will have the capability of videotaping fraudulent transactions for use as evidence in criminal proceedings.

Investigations are only one aspect of FNS' approach to recipient trafficking. In October 1996, an FNS task force completed its work on a Recipient Integrity Plan. Although this draft plan is subject to further review, it represents the most comprehensive perspective on the agency's efforts in the arena of recipient integrity, including both ongoing efforts and new proposals. The plan is organized into three main sections: management actions, disqualification and prosecution actions, and regulatory and legislative actions. The main themes of the plan are to stress client education, to streamline administration of claims and referrals for investigations,

¹ See Allman and Logan, *op. cit.*, Appendix C for a case study of the California SLEB initiative.

² These demonstrations were not selected for formal review in this report, because they had not been approved at the time the list of initiatives was formulated.

to ensure that transaction data are available from all EBT systems, and to modify regulations to allow for claims against recipients for EBT trafficking.

Whereas the Recipient Integrity Plan focuses on the things the agency can do in the immediate future, the focus of this chapter is on recent FNS efforts that are already underway, in the form of special initiatives. These initiatives, which are listed in Exhibit 4-1, are grouped under the following strategies, each of which is the subject of a section of the chapter:

- Preventing and deterring recipient trafficking (Section 4.1)
- Identifying and sanctioning recipients who traffic (Section 4.2)

The chapter concludes with a summary of the lessons and issues identified through these initiatives.

<p style="text-align: center;">Exhibit 4-1</p> <p style="text-align: center;">STRATEGIES TO COMBAT RECIPIENT TRAFFICKING</p> <p>Preventing and Deterring Recipient Trafficking</p> <ul style="list-style-type: none">• Recipient food stamp trafficking study• Assessment of biometric technology as an anti-fraud tool <p>Identifying and Sanctioning Recipients Who Traffic</p> <ul style="list-style-type: none">• South Carolina client integrity project• Data integrity support plan• Sanctioning recipients for trafficking

4.1 PREVENTING AND DETERRING RECIPIENT TRAFFICKING

The draft of the Recipient Integrity Plan emphasizes the importance of communicating to clients the rules that govern FSP benefit use and misuse and the consequences of violating the rules. Both the eligibility assessment process and the card issuance and training process offer a variety of important opportunities for educating clients about the problem of benefit trafficking.

FNS' policy making in this area will soon be informed by the results of research on the characteristics of recipients who traffick and the circumstances that occasion the trafficking. A

major study sponsored by FNS is nearing completion, as described below. This basic research will inform efforts to prevent and deter trafficking of FSP benefits.

Recipient Food Stamp Trafficking Study

1. Strategy

Basic research to inform the development of strategies to reduce trafficking of FSP benefits.

2. Overview

The Recipient Food Stamp Trafficking Study seeks to increase FNS' knowledge concerning recipient food stamp trafficking, as well as to assist FNS in its continuing efforts to increase program integrity. The study, conducted by Mathematica Policy Research (MPR) under contract to FNS, is exploratory in nature, utilizing both quantitative and qualitative techniques.

Currently, there are no systematic data on the incidence of trafficking among food stamp recipients. The OAE report on the extent of trafficking focused exclusively on retailer involvement in trafficking: the estimate that 4 percent of benefits are trafficked implies that at least 4 percent of recipients traffic, but the actual figure is probably higher (presuming that most recipients who traffic spend at least a portion of their benefits on food). In 1991, FNS released a report on the feasibility of developing a system for national estimates of the extent of food stamp trafficking. The report found that "there are no existing data on prevalence or dollar magnitude of trafficking for any geographic areas." For this and other reasons, the researchers found that the only feasible approach was to survey a nationally-representative sample of food stamp recipients, with supplementary analysis of aggregate data on benefit loss and redemption.³

estimate had a wide band of uncertainty because a large percentage of recipients did not answer the question.⁴

Furthermore, little is known, beyond the personal experience of investigators and other program officials, about recipient motives for trafficking in food stamps. With more understanding of the dynamics of trafficking, FNS may develop strategies that can reduce recipients' "demand" for trafficking (i.e., their willingness to exchange FSP benefits for cash).

Exhibit 4-2 summarizes the research questions addressed by the trafficking study. The primary focus is the first question, i.e., exploring a survey-based methodology for the study of trafficking. To the extent the methodology proves to be viable, the other research questions will also be addressed.

The data collection for the study, which is already completed, had three phases: (1) sampling and instrument development, (2) survey administration and analysis, and (3) in-depth follow-up interviews with recipients, key informants, and FSP agency staff.

Three sites were chosen through a combination of purposive and probability sampling techniques. Within sites, survey respondents were chosen randomly from food stamp agency case files. Four pre-survey focus groups were conducted with current FSP participants randomly selected from agency files for the study sites. Based on information obtained from the focus groups, the survey instrument was revised and pretested in January 1995. The final survey protocol included social, economic, and demographic characteristics associated with food stamp trafficking behavior of recipients and their households.

The survey was fielded in the fall and winter of 1995-96. With 719 completed interviews, the sample is large enough to permit statistically sound conclusions about food stamp trafficking behavior, motivations, and conditions under which this behavior occurs. Because this is an exploratory study, no attempt will be made to generalize results to the universe of food stamp recipients.

⁴ Christopher W. Logan *et al.*, *The Evaluation of the Expanded EBT Demonstration in Maryland: Volume 2, System Impacts on Program Costs and Integrity*, Cambridge, MA: Abt Associates, Inc., May 1994, p. F-5. The two waves of surveys yielded estimates of 13 and 15 percent of recipients in Maryland that trafficked their benefits in any given month. The primary purpose of the survey question was to estimate the impact of implementing EBT on the incidence of trafficking, not to estimate the absolute magnitude of trafficking under either the coupon system or EBT.

Exhibit 4-2

**RESEARCH ISSUES ADDRESSED BY THE RECIPIENT FOOD STAMP
TRAFFICKING STUDY**

- Is it possible to gain reliable data on recipient trafficking through surveys? What measurement and analysis issues are relevant and how can they be resolved?
- What are the social, demographic and economic characteristics of recipients and their communities associated with engaging in trafficking behavior?
- What are the motives for recipient food stamp trafficking? Under what conditions does this activity take place?
- To what extent is recipient food stamp trafficking a coping mechanism to extend limited economic resources to obtain necessities, rather than items such as drugs and guns?
- To what degree does trafficking stem from occasional cash-flow crises? From ongoing budget allocation decisions?
- Within multiple-adult households, who engages in trafficking? Who uses the goods and services?
- How do food stamp buyers and sellers establish contact with each other? What is the street cash value of benefits and how is it established? Including cash, what goods and services are most commonly 'bought' with food stamps?
- To what extent is the recipient trafficking exchange based on coercive rather than collaborative interactions?

For the post-survey data collection, MPR drew a purposive subsample of respondents to the trafficking survey that was large enough to accommodate 15 post-survey discussion groups of eight to ten individuals each. The focus groups provided an opportunity to examine, in greater depth, how recipients think and speak about food stamp trafficking, as well as an opportunity for cognitive testing of the survey questions. In addition, non-structured interviews were conducted with known intermediaries who are linked to the community in which the post-survey discussion group participants reside and/or shop. The interviews will provide insight into the dynamics of trafficking from the perspective of the street-level trafficker. MPR also conducted non-structured interviews with state and local FSA staff in the post-survey data

collection sites to test the survey results against the perceptions of these knowledgeable observers.

MPR will also analyze the feasibility of conducting a similar survey on a representative sample of the food stamp population. For this analysis, MPR will examine both the reliability of the survey instruments and the costs and benefits of proceeding with a nationally representative sample.

3. Assessment and Lessons Learned

This study will yield new information for FNS on two levels. First, it tests a survey-based method for studying recipient fraud in the FSP. Second, if the method has validity, it will yield information about how and why recipients traffic their FSP benefits. A draft report on the study is due to FNS in the summer of 1997. Preliminary deliverables expected in early 1997 include a summary of the instrument construction and cost data report and a memorandum on survey results.

For more information:

Contact: Sharron Cristofar, FNS OAE

Read: Statement of Work, Recipient Food Stamp Trafficking Study

Assessment of Biometric Technology as an Anti-Fraud Tool

1. Strategy

Assess the potential of emerging identification technology to prevent fraud in the FSP.

2. Overview

In order to learn how states are currently using or planning to use biometric technology in the benefit eligibility process, FNS contracted with Ron Lewis and Company to conduct an exploratory study. Technologies such as finger-imaging hold promise for identifying instances where multiple FSP cases are fraudulently established for a single household. The study is organized around four issues of primary concern:

- What is the current state of the technology and its application to identification programs aimed at preventing fraud?

- To what extent would a finger-imaging requirement for FSP participation be a barrier to program participation?
- To what extent would a finger-imaging requirement for FSP participation be a deterrent to duplicate participation?
- What would be the cost of using finger-imaging to reduce fraud in the FSP?

The study has three basic elements: (1) discussions with staff at five to seven states who are planning to deploy biometric technology to deter and detect eligibility fraud; (2) interviews with system vendors and manufacturers of biometric equipment; and (3) an evaluation of a pilot project employing biometric technology. The study began in September 1996, and the State of Texas, which launched a pilot test of a finger-imaging program in October 1996, agreed to participate in the evaluation.

3. Assessment and Lessons Learned

This study is explicitly designed to address the use of biometric technology in preventing eligibility fraud, not redemption fraud. Finger-imaging and other biometric technologies, however, have the potential to be applied as verification procedures at the point of sale, in lieu of Personal Identification Numbers (PINs). This study will provide the agency with an understanding of current technology and its application by state welfare agencies. As the technology gains wider acceptance, it has the potential over the long run to become a part of FNS's retailer integrity program. Although a final report is not expected until 1998, interim technical reports may be produced in 1997.

For more information:

Contact: Sharron Cristofar, FNS OAE

Read: Scope of Work for the Assessment of Biometric
Technology as an Anti-Fraud Tool

4.2 IDENTIFYING AND SANCTIONING RECIPIENTS WHO TRAFFIC FSP BENEFITS

South Carolina Client Integrity Project

1. Strategy

Use EBT transaction data to establish cases against clients who are trafficking food stamp benefits and to disqualify clients found to be guilty of trafficking.

2. Overview

South Carolina's Department of Social Services (SCDSS), in conjunction with the FNS Southeast Regional Office, has developed an EBT anti-fraud project to identify benefit trafficking and to establish operational procedures that ensure client integrity. The plan for this project originally included three basic elements: (1) penalizing individuals guilty of trafficking with disqualification from FSP participation; (2) establishing claims against recipients for trafficked EBT transactions; and (3) assisting other government agencies in identifying and pursuing retailer violations by providing documentation regarding EBT transactions. Only the first of these elements is discussed in depth here. The third element is an extension of the Retailer Management System for analyzing EBT transaction patterns, which was discussed in Chapter Two.

The second element, establishing claims against recipients, was not implemented. SCDSS had hoped to pursue financial claims against recipients identified as trafficking FSP benefits and to retain some of the money returned by recipients to fund further investigative efforts. FNS blocked this aspect of the project after determining that FSP regulations did not authorize this type of claim against recipients.⁵

EBT makes it possible to track individual transactions to a specific recipient and retailer and to detect fraudulent activity more quickly and accurately than is possible under the food coupon system. To take better advantage of this capability, SCDSS' Claims Division used FNS demonstration funds to hire three investigators. Funding for the program became available in October 1995, and a kickoff meeting was held February 1996.

For the demonstration, Claims Division staff initiate investigations based on three sources: (1) referrals from the FNS FO of recipients identified during retailer investigations; (2) tips from the general public and SCDSS staff; and (3) a computer-based tool for identifying cases of suspected recipient fraud (discussed further below). Currently, FNS is the primary source of leads for investigations of recipient trafficking pursued by the SCDSS Claims Division.

⁵ Claims against *retailers* found to have trafficked benefits are specifically authorized under the regulations, as are claims against individual recipients who receive benefits for which they are not eligible.

Under the demonstration, investigators follow normal Claims Division procedure, putting together case information and presenting it at Administrative Disqualification Hearings (ADH). As is typical with ADH proceedings, recipients are encouraged to sign a consent agreement with the agency, in which the recipient admits guilt in the current case and the agency agrees not to pursue criminal penalties against recipients for the current case or any previous violations. South Carolina typically seeks a one-year disqualification in these cases.

As part of this demonstration, SCDSS is developing an automated system to identify recipients with suspicious EBT transactions. The indicators involve the timing of transactions and dollar amounts inconsistent with legitimate benefit redemptions.⁶ The design of this computerized client monitoring tool differs from that of the Retailer Management System discussed in Chapter Two in that the client monitoring system will link transactions by card number, rather than by retailer. The development of the client monitoring system, undertaken by the SCDSS EBT Project Office, was substantially behind schedule as of December 1996. The system was not yet available as a source of leads for the Claims Division investigators.

3. Assessment and Lessons Learned

FNS has contracted with Booz-Allen & Hamilton Inc. (Booz-Allen) to evaluate the South Carolina client integrity project. The evaluation objectives are (1) to describe and evaluate the South Carolina initiative, including the state's monitoring of EBT food stamp recipients; (2) to assess possible causes for variations in performance; and (3) to assess the potential implications of national EBT implementation on recipient integrity monitoring. This evaluation will also attempt to provide cost estimates for these activities and to evaluate the transferability of these practices to other states with EBT, including the necessary policy and regulatory framework. The first of several rounds of data collection for the study is partially complete. The final report is due in January 1998.

As part of its work for FNS, Booz-Allen will also explore the technical and administrative feasibility of implementing "lock-in" and "lock-out" features in an EBT system, both in South Carolina and elsewhere. Under such a system, a state would be able to limit a specific recipient's use of EBT to one or more designated stores (lock-in) or prevent a specific

⁶ The specific indicators are confidential; design information is available from the documents cited at the end of this section.

recipient from shopping at designated stores (lock-out). The appeal of this approach lies in its ability to minimize the likelihood of abuse without adversely affecting children and other members of the household who are not involved in trafficking. This aspect of Booz-Allen's work entails substantial cooperation and support from EBT system processors. The effort has been delayed because the system processors are coping with an overwhelming workload resulting from concurrent EBT implementation in many states.

For more information:

Contact: Karen Walker, FNS EBT Section

Read: "Evaluation Plan for the South Carolina Electronic Benefits Transfer Retailer/Client Program Integrity Project," Booz-Allen & Hamilton, Inc., 29 July 1996.

"Evaluation and Technical Support Work Plan for the South Carolina Electronic Benefits Transfer Retailer/Client Program Integrity Project," Booz-Allen & Hamilton, 8 March 1996.

"Plan of Operation Electronic Benefits Transfer Retailer/Client Program Integrity Project," South Carolina Department of Social Services, 14 September 1995.

Data Integrity Support Plan

1. Strategy

Provide technical assistance to states in the use of EBT data to identify suspicious transactions.

2. Overview

Booz-Allen has recently undertaken a task to provide assistance to South Dakota, on behalf of FNS, for state-level recipient integrity efforts. The four-phase effort identified multiple options for providing states with automated tools that will allow them to use their transaction data for compliance purposes.

Phase One of the task involved the collection of data to define the individual federal and state requirements for filtering transaction data. Booz-Allen first reviewed the technical documentation on the ALERT system, conducted interviews with the ALERT development team,

and observed a demonstration of the data produced by the ALERT system. Next, interviews were conducted with both FNS and the State of South Dakota staff. Finally, documentation was collected on the State of South Dakota's capability to support the ALERT system.

During Phase Two, Booz-Allen defined a specific set of system requirements. These requirements pertain to both FNS and the state, and include both technical and procedural requirements. Technical requirements include system size, capacity, and computational processing. Procedural requirements include configuration management, security, and federal-state coordination.

Phase Three involved identifying various technical implementation options and the procedures required to support each option. These options were presented both for the specific case of South Dakota and more generically for other states. Specifically for South Dakota, Booz-Allen made recommendations for hardware, software, telecommunications, and supporting processes appropriate for South Dakota's existing infrastructure.

The final phase of the project entailed the documentation of findings and conclusions. In September 1996, Booz-Allen provided the FNS EBT program office with a draft document for review and comment.

3. Assessment and Lessons Learned

Booz-Allen's work for South Dakota has resulted in a manual that will be widely applicable for states at various stages in the process of implementing EBT systems. The manual brings together the work conducted under the contract. A test of its usefulness will be the extent to which states use the manual as they implement EBT systems and launch redemption integrity efforts to support the new issuance systems.

For more information:

Contact: Karen Walker, FNS EBT Section

Read: Final Report currently under FNS review

Sanctioning Recipients for Trafficking

1. Strategy

Use information gathered in the process of investigating retailers suspected of trafficking FSP benefits to remove the recipients involved from the FSP.

2. Overview

As the first statewide experience with EBT, the Maryland EBT project has been a laboratory for learning about the integrity of the redemption process under EBT issuance. In 1994 and 1995, the USDA OIG conducted extensive investigative efforts in Baltimore, using a combination of EBT data and surveillance. Although the investigations focused on retailers, they produced information on a large number of recipients as well. As of August 1996, approximately 9,000 recipients had been referred to the Baltimore City Department of Social Services (DSS) for administrative action as a result of these investigations, and OIG expects to refer another 7,500 cases.⁷ More recently, investigations in Prince George's County have resulted in 1,226 referrals to the Prince George's County DSS.

These recipient trafficking referrals represent a significant new workload for the county agencies. Previously, Maryland DSS offices handled very few recipient trafficking cases. Baltimore DSS has now established a new set of procedures for handling these cases. So far, approximately 7,500 cases have been processed through the state's Administrative Disqualification Hearing (ADH) system. In most of the 2,109 cases resulting in disqualification penalties, recipients have agreed to sign an Administrative Disqualification consent agreement. Few actual hearings have been held, and FNS staff reported only one case where a disqualification was overturned. About 5,400 cases were still pending as of December 1996.

None of the cases has been referred to the courts for prosecution. Experience in Maryland indicates that states' attorneys offices would be extremely reluctant to accept a large volume of cases charged with the minor offense of selling FSP benefits.

3. Assessment and Lessons Learned

⁷ These 16,500 individuals would represent about 4 percent of the approximately 375,000 persons receiving FSP benefits in Maryland, a remarkable level for this kind of sanctioning initiative.

Three. Taking a step back from the very specific recommendations included in the Recipient Integrity Plan, we can see there are several unresolved, basic questions about recipient fraud that are important to the agency's response to recipient fraud. What does it mean about recipients' eligibility for participation in the FSP if they choose to sell FSP benefits for cash? Are they so desperate that they can't afford food? Or are their food needs met without FSP benefits, making the FSP benefits an unnecessary surplus? Are the dynamics of recipient trafficking similar for all types of recipients, or are there different dynamics at work in different types of households? Are there "trafficking-prone" FSP recipients?

The Recipient Trafficking Study will provide lessons on what research methods can be used to answer these questions. Even as the theoretical underpinnings of a policy toward recipient fraud are being developed, however, FNS and the state FSP agencies must proceed within the current knowledge and policy framework. That framework presents the agency with a set of four strategic dilemmas.

First, *targeting compliance activity on recipients to some degree competes with the traditional emphasis on retailers*. In the past, the requirements for the investigation and prosecution of retailers have taken precedence over the investigation and sanctioning of recipients. Investigators may be unwilling to take time away from retailer investigations to provide the information needed to put together cases against recipients. This is not simply a question of how to allocate limited resources, however. Investigators may be unwilling to release information on recipients before all judicial proceedings related to a retailer fraud case are complete, because of concern that administrative action might jeopardize the criminal proceedings.

The resolution of this dilemma lies to a large extent outside of FNS' domain. USDA OIG and the various SLEB agencies may be unwilling to devote investigative resources to pursuing recipient fraud and to expend administrative resources on processing sanctions and appeals of sanctions against recipients. If FNS wants to make recipient fraud a priority, it will have to persuade these agencies to do the same. The interest in recipient integrity shown by New Mexico, South Carolina, South Dakota, and Texas provides some encouragement about prospects for state involvement.

The second dilemma FNS encounters in aggressively pursuing recipient fraud is that *taking sanctions against one member of a household may harm the well-being and self-*

sufficiency of other members of the household, especially children. The FSP is concerned with the nutritional well-being of all members of a low-income household, and with the self-sufficiency of such households. When a member of the household is disqualified, some of the impact of the reduction in benefits may fall on the other household members. Disqualification from the FSP could result in a loss of job training opportunities for what might be the household's primary earner; criminal action could have even more severe impact on future earnings and self-sufficiency. As states try to resolve these competing aims, FNS may need to provide guidance and technical support.

Deterrence is a key element of the effort to limit benefit trafficking by recipients, but deterrence brings with it the third of our four dilemmas. *Deterrence results from publicity around successful cases against recipients who traffic. The publicity is a double-edged sword, however, because it reminds the public of the problem of food stamp fraud at the same time it communicates to recipients (and the public) that measures will be taken to identify and sanction violators.* State prosecutors may be reluctant to have these cases in the public eye, fearing criticism for working on these small-scale, "victimless" crimes, when the public is more concerned about other, more dangerous types of crime. Yet without the threat of criminal prosecution, recipients are less likely to cooperate when faced with trafficking charges in the administrative disqualification process. Without this cooperation, the administrative process is likely to be slower and program sanctions less credible as a deterrent to recipient trafficking.

Finally, there is the critical issue of resources. *Enhanced FNS funding for state anti-fraud efforts is no longer available, and many states are not devoting resources to the problem of recipient trafficking under the current funding structure.* The South Carolina client integrity project proposed to solve the resource problem by funding its operations in part on the basis of revenues from claims against recipients for misusing their benefits. As discussed earlier, this did not prove to be a viable source of revenue under existing FSP regulations. Although the regulations may be changed to permit claims to recover trafficked benefits, as proposed in FNS' client integrity plan, the states will still face a challenge in gaining the cooperation of the state attorneys to enforce claims if they cannot be recovered through recoupment. Because claims against low-income individuals have such a low likelihood of success, state attorneys are unwilling to take them to court. The real impact from increased compliance activity targeting recipients is likely to be the deterrence of future violations by both the specific individuals

identified and other recipients who may have felt that trafficking benefits was an acceptable or at least safe activity.

These four dilemmas must be addressed within a rapidly changing policy context. The welfare reform legislation of 1996 has powerful implications for the state agencies that administer the FSP. The implications are both positive and negative, in the short run, for FNS' efforts to increase the attention paid to recipient trafficking. In the short run, state agencies are scrambling to redesign their welfare programs, responding to pressure from governors, legislatures, and the public. This may detract from the states' ability to work together with FNS on issues of recipient fraud. On the positive side of the ledger, restrictions on the availability of FSP benefits may reduce the amount of trafficking arising from eligibility fraud. For example, the elimination of automatic eligibility for emergency FSP benefits for homeless individuals may reduce the number of these recipients who obtain benefits fraudulently (e.g., by applying in multiple jurisdictions) and then traffic those benefits. There is no systematic information on the importance of emergency benefits for the homeless in trafficking, but anecdotal evidence suggests that this group includes a particularly visible set of traffickers in many areas. In the long run, the increased autonomy and accountability of the states in running their public assistance programs may lead the states to a level of responsibility for preventing FSP benefit abuse more commensurate with the effort that the states devote to ensuring the accuracy and security of benefit issuances.

CHAPTER FIVE

CONCLUSIONS

This report has presented a wide variety of initiatives intended to help FNS strengthen the integrity of the redemption process. In this chapter, we summarize the main conclusions regarding the initiatives' implications for FNS' efforts to ensure that food stamp benefits are redeemed by certified recipients at legitimate, authorized food stores for eligible food products. We pay particular attention to the relationships between the initiatives and EBT implementation, highlighting both how EBT implementation shapes the context for the initiatives and how the initiatives can enhance EBT system integrity.

The following discussion returns to the questions posed in Chapter One and provides the highlights of the answers to these questions. The first section provides an assessment of the significance of the initiatives, in terms of their demonstrated results and potential value. The second section summarizes the sources of operational-level lessons derived from the initiatives, including formal technical assistance documents and evaluation reports. The chapter concludes with a discussion of the strategic implications of the initiatives in four areas—resource management, cooperation with state agencies, regulations, and information system needs—followed by a final assessment.

5.1 ASSESSMENT OF REDEMPTION INTEGRITY INITIATIVES

The initiatives described in this report range widely in terms of approach, from the basic research represented by the recipient trafficking study to the hands-on processes of the sweeps by FO, state, and CB personnel. In geographic scale, they range from single-site tests, such as the South Carolina recipient integrity demonstration, to the comprehensive survey for the SLEB study. Some have produced clearly positive results, whereas others have not; still others are not sufficiently developed at this time to form conclusions about their potential.

Retailer Authorization Initiatives

Exhibit 5-1 provides a condensed summary of the retailer authorization initiatives discussed in Chapter Two. For each initiative, the exhibit identifies the initiative's current

Exhibit 5-1

**RETAILER AUTHORIZATION INITIATIVES:
RELATIONSHIP TO EBT AND IMPLICATIONS FOR REDEMPTION INTEGRITY**

Initiative	Current Status	Relationship to EBT	Implications for Redemption Integrity
Food Retailer Pre-Authorization Visit Demonstration	Demonstration ended. Preliminary report submitted, final report and guidebook for contractors to come in early 1997; evaluation ends August 1997. Nationwide initiative with \$4.2 million available for FY 1997.	Approach to enhance screening of currently authorized retailers prior to EBT implementation and of new retailers prior to installation and training. Possible synergy with EBT implementation process and ongoing installation/training process.	Major new resource for FOs to meet congressional mandate for store visits. New workload for FOs to manage contractors and review reports. Need for coordination with state EBT implementation and installation/training process for new retailers.
Use of Dun & Bradstreet Data in Authorization Process	Demonstration ended, final report submitted.	Approach to enhance screening of currently authorized retailers prior to EBT implementation and of new retailers prior to installation and training.	Limited value relative to cost because of low percentage of new stores currently represented in Dun & Bradstreet database. Could help flag stores that do not need in-depth review.
Demonstration of State Retailer Management in EBT-Ready States	Demonstration ended, final report submitted.	Extension of new state role as retailer liaison for EBT system participation.	Potential to improve retailer service and to allow FNS to focus more on compliance enforcement. Would require FNS leadership to work out organizational and financial issues.
Analysis of Recent FSP Retailer Reviews	Revised report submitted, focusing on description and best practices.	Lessons for pre-EBT reviews and for leveraging EBT implementation process to gain added information for program integrity purposes.	Provides resource document for FNS planning and technical assistance to states. Results show that careful targeting of store visits can greatly increase yield (proportion of visited stores withdrawn).

status, its relationship to EBT implementation, and its implications for FNS efforts to strengthen redemption integrity.

To bolster the retailer authorization and reauthorization processes, which make up the first line of FNS' defenses against trafficking and other benefit misuse, FNS has made a strategic commitment to store visits. This commitment is reinforced by the congressional mandate to visit all stores before authorizing them, except for those that FNS deems low-risk. FNS has already conducted concentrated eligibility reviews in a large number of sites; the recent reviews conducted by the states in the Southeast Region and by the contractors in the pre-authorization visit demonstration add to FNS' accomplishments in this domain. With the prospect of tens of thousands of contractor visits funded in FY 1997 (and more if funding is available in later years), FNS is building a massive, albeit decentralized, base of independent, first-hand information on the stock and other key characteristics of authorized stores. As the contractors' store visits help meet the congressional mandate, the contractor-provided information will enable FOs to make more informed decisions about applications for authorization and reauthorization.

Of the four retailer authorization initiatives reviewed for this report, three were conceived and executed as demonstrations. The pre-authorization visit demonstration proved that the use of contractors for store visits was viable; the difficulties that were encountered provided a substantial body of lessons that are being put to use. The state retailer management demonstration showed that states could effectively integrate routine authorization and reauthorization processes into their roles as the liaison to the retailers for EBT system participation, but the demonstration also made clear that FNS would have to address organizational and financial issues before this approach could be widely implemented. The Dun & Bradstreet demonstration, which offered an alternative to store visits in the use of a commercial retailer database, indicated that the value of this approach was limited relative to its cost in staff time and vendor fees, but that more selective use of commercial data to identify well-established stores at low risk of trafficking might be worthwhile if technical issues can be resolved.

The main link between these initiatives and the EBT implementation process is that they enhance FNS' ability to screen retailers before they are placed on the new EBT systems. Pre-EBT reviews focused on retailer eligibility are very useful as a means to remove inactive and ineligible stores before the FSP makes the investment (directly or indirectly) to equip them for

EBT. Although EBT vendors could conceivably add food inventory checklists to their pre-installation visits to stores, as Citibank did in South Carolina, issues of cost and liability constrain the viability of this approach.

The principal issues that have emerged from the retailer authorization initiatives are, first, managing the new workload created by the store visits; second, tracking store visits and their results; and third, resolving the problems posed when FNS FOs use information on food inventory to make eligibility decisions under current law and policy on retailer eligibility. These issues are discussed later in this chapter.

Retailer Monitoring, Investigation and Sanctioning

The initiatives to improve FNS' means of monitoring, investigating, and sanctioning retailers are summarized in Exhibit 5-2. The most significant of these initiatives is the development of the ALERT system. ALERT is already transforming FNS' approach to the use of EBT data for monitoring redemptions, targeting investigations, and imposing sanctions. By late 1997, ALERT will be implemented on a national scale; FNS' use of this capacity will increase as more EBT systems come on line. ALERT's effectiveness at identifying good targets for investigation has not yet been formally assessed, but FNS will soon have a substantial body of experience that could and should be used to do so. A closely related initiative is the innovative use of EBT transaction data as a basis for disqualifying retailers, a very promising approach that augments FNS' main thrust of using undercover investigations to catch traffickers.

Several other initiatives have tested ways to identify potential traffickers and other violators in the absence of data on individual food stamp transactions. Only one of these initiatives has progressed to a reasonably clear conclusion: the Dun & Bradstreet data do not appear to be a viable basis to predict a store's likelihood of trafficking, based on the very low number of matches between Dun & Bradstreet files and FNS' records of stores proven to have trafficked. The updated Violation Prone Profile (VPP) is still too new for any conclusions about its effectiveness. It has the potential to improve the effectiveness of CB investigations, but ALERT is likely to make the VPP obsolete. The CB is currently reviewing results on the small-scale test of targeting investigations on stores identified by the Coupon Information Center; at present, there has been no decision on the future use of this information source.

Exhibit 5-2

**RETAILER MONITORING, INVESTIGATION, AND SANCTIONING INITIATIVES:
RELATIONSHIP TO EBT AND IMPLICATIONS FOR REDEMPTION INTEGRITY**

Initiative	Current Status	Relationship to EBT	Implications for Redemption Integrity
Analysis of the Extent of Trafficking in the FSP	Completed.	Identification of high-risk retailer types complements new monitoring methods based on EBT transaction data.	Scale of problem is modest relative to size of FSP but large relative to resources for compliance enforcement. Reinforces practice of focusing away from supermarkets and other chain stores.
Update to Violation-Prone Profile	Completed and implemented. CB plans review of experience in late '97.	Possible complement or additional component for new monitoring methods based on EBT transaction data.	Usefulness constrained by limited investigative resources; likely to be made obsolete by ALERT.
Anti-fraud Locator using EBT Retailer Transactions (ALERT)	Operational in Mid-Atlantic and Southwest regions; nationwide implementation expected by late 1997.	Main initiative to facilitate use of EBT data for retailer monitoring and investigations.	Great promise to improve ability to detect trafficking. Requires coordination with states over control and use of data. Widespread use would transform and probably increase retailer monitoring effort.
Dun & Bradstreet (D&B) Initiative	Completed; review and recommendations pending.	Potential complement to new monitoring methods based on EBT transaction data.	Not cost-effective because D&B records and FNS investigation data rarely overlap. Reinforces need to rely on FSP data for targeting investigations as best available source on all participating stores.
Coupon Redemption Initiative	Test completed; internal review underway.	Potential complement to new monitoring methods based on EBT transaction data.	Opportunity for public-private partnership to promote FSP redemption integrity.

Exhibit 5-2 (continued)

**RETAILER MONITORING, INVESTIGATION, AND SANCTIONING INITIATIVES:
RELATIONSHIP TO EBT AND IMPLICATIONS FOR REDEMPTION INTEGRITY**

Initiative	Current Status	Relationship to EBT	Implications for Redemption Integrity
Coordination with Law Enforcement Agencies	Rulemaking in progress; opportunities opened by recent legislation.	More information-sharing could strengthen investigations based on EBT transaction data.	Opportunities to gain new sources of retailer information and to involve new partners in compliance enforcement.
Validation of Benford's Law	In progress.	New tool for manipulating EBT data—addresses second-generation fraud issues.	If effective, will need to be integrated into ALERT. Potential use by states raises need for coordination and technical assistance.
Study of State Law Enforcement Bureau (SLEB) Agreements	Final report published.	EBT makes SLEBs more important, increases need for coordination and accountability; allows fresh start where SLEB process has not been well-received.	Augments investigative capacity in active states. Improvement in scope and effectiveness possible if FNS provides more oversight and funding.
Concentrated CB Investigations	Two sets of sweeps completed; CB plans to conduct one set each year.	Advent of EBT data may lead to proliferation of targets; concentrated approach deals with problem by focusing on specific geographic areas.	Possible model for including states in joint investigations with CB. Targeting of areas for concentrated investigations needs to be coordinated with plans for store visits for eligibility reviews.
Expedited OIG Release of Trafficking Cases	Done on a trial basis in conjunction with concentrated CB investigations.	Approach to ensure prompt removal of traffickers from EBT system.	Speeds up administrative action to maximize visibility and deterrence effect of concentrated investigations. Will not change OIG's handling of most trafficking cases.
EBT Transaction Data as a Basis for Disqualifying Retailers	Done on trial basis in Maryland and South Carolina—no evaluation; new legislation supports approach.	New approach to retailer integrity bypassing conventional investigations.	Policy and procedures need to be developed. New dimension to FO monitoring role.

Each of the two initiatives in the area of conducting compliance investigations has been large-scale and has resulted in substantial numbers of traffickers being caught. The State Law Enforcement Bureau (SLEB) agreements have involved 27 states in conducting trafficking investigations; substantial results have been achieved in ten states, with three of these states reporting 40 or more trafficking convictions. The CB has added investigative sweeps to its activities, conducting concentrated operations in eight different locations in 1996; these sweeps netted over 200 firms that trafficked.

The SLEB investigations differ radically from the CB sweeps in approach and in their

Exhibit 5-3

**RECIPIENT INVESTIGATIONS AND SANCTIONING INITIATIVES:
RELATIONSHIP TO EBT AND IMPLICATIONS FOR REDEMPTION INTEGRITY**

Initiative	Current Status	Relationship to EBT	Implications for Redemption Integrity
Recipient Food Stamp Trafficking Study	Final report in progress.	Includes one EBT site to examine dynamics of trafficking there.	Foundation for strategic planning, educational and prevention efforts by FNS and states.
Assessment of Biometric Technology as an Anti-fraud Tool	Study in progress.	Possible application of biometric identification to make trafficking more difficult, facilitate restrictions to benefit use (lock-in, lock-out).	Possible future policy issues regarding EBT security requirements and regulations governing recipient access to authorized stores.
South Carolina Client Integrity Demonstration	Demonstration and evaluation in progress; final report due in January 1998.	Model for utilizing EBT data to identify and sanction recipients for trafficking; exploration of lock-in, lock-out options. Potential implications for future EBT system requirements.	Raises need for consideration of policy on use of claims process and targeting of recipient investigations, in light of financial incentives posed by state retention of claims collections.
Data Integrity Support Plan	Recommendations provided for South Dakota; draft documentation of findings submitted.	Addresses technical issues for states to make use of EBT data for recipient integrity purposes.	Tool for technical assistance to states. Presents technical requirements for FNS to facilitate state use of EBT data.
Sanctioning Recipients for Trafficking FSP Benefits	Experience gained in Maryland—no formal evaluation.	Provides case study of approach for following up when retailer investigations identify recipients who traffic.	Highlights importance of administrative disqualification process, potential need for technical assistance to states.

good chance that several of them will lead to wider-scale initiatives within the next few years. These are:

- Recipient integrity demonstrations in South Carolina, New Mexico, and Texas;
- The data integrity support plan for state use of EBT data to detect and respond to recipient trafficking; and
- Use of the Administrative Disqualification Hearing (ADH) process to sanction recipients for trafficking, as pioneered in Maryland.

To this group of initiatives must be added the recipient integrity plan now undergoing review at FNS. When this plan is finalized, it will have the potential to be the catalyst for involving numerous states as active participants in efforts to stop recipient trafficking. The number of states now rolling out EBT systems creates a window of opportunity to bring recipient integrity strategies in on the "ground floor" of the new systems.

FNS' research studies of the underlying dynamics of recipient trafficking and the future uses of biometric technology are not expected to have such near-term effects, but they may strengthen the foundations of future policy and program initiatives. The biometric technology study is only the first step in what would be a long path to implementation of this technology as the mode of identification for EBT card use, but the commercial payments industry is clearly interested in this application.

Legislative Changes

An equally important, transforming initiative that does not appear in the preceding exhibits is the set of 1996 legislative changes that give FNS an array of new powers to prevent, detect, and punish retailer fraud, including more time to review applications, time-limited authorizations, access to tax information, administrative action based on redemption and transaction data, immediate imposition of sanctions, and authority to seize assets used in trafficking. The legislative changes also strengthen the hand of the states in preventing and punishing recipient trafficking, including measures to improve controls over EBT card access, increased penalties for trafficking, and an increase in the proportion of claims against recipients that states may retain.

Allocation of Resources to Redemption Integrity Initiatives

The costs of the initiatives were not part of the data collection for this report, so we can only make some qualitative observations about the current distribution of resources. The bulk of FNS' spending on redemption integrity operations is on FO and Regional Office operations, the CB, and the STARS system. The budgets for the latter two cost centers are exclusively committed to redemption integrity, but an uncertain portion of FO and Regional Office expenses goes to other purposes. Several of the initiatives, most notably the FNS eligibility and compliance sweeps, have been conducted solely with these resources. The state sweeps and SLEB agreement investigations have been supported by an unknown but probably substantial sum of state funds, with matching funds from FNS. The largest commitments of additional funding in the current fiscal year are to the contracted store visits and the ALERT system. The rest of the initiatives have been, by comparison, modest in scale and, presumably, in cost.

An important question is: what has been learned that might help FNS determine whether a different distribution of resources would yield better results? This question breaks down to the following issues:

- Which initiatives have demonstrated enough value to justify increased funding and wider implementation?
- Which initiatives should receive steady funding, because of promise or actual results?
- Which should be curtailed or eliminated, based on their results to date?

Until FNS has more experience with the contracted store visits and ALERT, there is no clear basis to determine whether the funding for these initiatives is appropriate. There is good reason to expect that the payoff from ALERT will justify its cost. There is somewhat more uncertainty about the cost-effectiveness of the contracted store visits. The demonstration evaluation has not answered this question because it was not structured to determine the overall effectiveness of the visits; technical difficulties have precluded analyses of relative approval rates across different types of stores, which would be a first step toward determining if visits could be targeted. The expenditure on contracted store visits can be justified as the only practical way to meet a program requirement. Nevertheless, FNS would be much better positioned to justify and optimize its spending on contracted store visits if it established a reliable system for tracking

store visits and their results. Formal cost-effectiveness analysis would not be feasible unless FNS used a randomized design (an approach rejected for the demonstration), but variation in the proportion and mix of stores visited across FOs could yield some suggestive information.

Considering the initiatives that have been conducted primarily by FOs, the largest effort has been devoted to conducting eligibility reviews and to ordering and reviewing contractor store visit reports. The FY 1996 directive for FOs to increase their own pre-authorization store visits was not assessed as an initiative for this report, but also represented a significant use of FO resources. The contractor store visit initiative will largely take the place of FNS store visits, both for new authorizations and for existing stores, but it is worth noting that the FO eligibility reviews produced fairly high rates of withdrawals that would justify their continuation if resources were available.

Of the non-FO initiatives in this report, only a few initiatives have already yielded clear results:

- The CB sweeps have demonstrated enough success to justify current commitments of resources; if additional travel funds could be made available, expansion of this initiative would be worthy of consideration but would require closer review of the results.
- The SLEB initiative is worthy of continued support, provided the necessary controls are implemented. FNS has only indirect control over spending on this initiative through the investigation approval process and other oversight.
- The state retailer management initiative remains an interesting option for the future, but there are no immediate prospects for further activity.

For the rest of the initiatives, the results of current or planned analyses should be examined before making changes in resource allocation.

5.2 OPERATIONAL-LEVEL LESSONS

The initiatives described in this report have yielded a substantial body of operational-level lessons, i.e., practical conclusions about how to implement and improve mechanisms to strengthen redemption integrity. Rather than present what would be a lengthy summary of the lessons themselves, this section focuses on the extent to which these lessons have been assembled and made accessible to operational-level staff at FNS and the state agencies.

Several documents containing operational lessons have been drafted or completed. Exhibit 5-4 lists these documents, their subject matter, and their current status. Each of these documents can be of considerable use to its intended audience; all but the first document would need distribution to state agencies and follow-through by FNS to ensure their maximum impact.

Exhibit 5-4

DOCUMENTS PROVIDING OPERATIONAL LESSONS FOR STRENGTHENING REDEMPTION INTEGRITY

Document	Subject	Status
Guidebook for Store Visit Contractors	Procedures for contractors conducting pre-authorization visits, including sample reports	Draft submitted March 1997
Practices and Methodologies Facilitating Effective and Cost Efficient Performance of Retailer Reviews	Guidance for FNS or state staff conducting concentrated retailer eligibility reviews: preparation, execution and follow-up	Revised draft submitted November 1996
Study of State Law Enforcement Agreements	Includes summary of best practices of states with the most active SLEB agreements, and descriptions of the six most active SLEB initiatives	Released September 1996
Data Integrity Support Plan	Guide for states to assess options and technical requirements for use of EBT transaction data	Draft submitted September 1996

In addition to these more practitioner-oriented documents, several formal evaluation documents on redemption integrity initiatives are or will be available in the near future. The evaluation of the retailer pre-authorization visit demonstration has produced a preliminary report and will provide a more complete assessment of the results of contractor visits. The final report on the state retailer management demonstrations provides lessons for future cooperation between FNS and states along these lines. An assessment of the potential use of Dun & Bradstreet data for retailer authorization and other purposes will be available in mid-1997. Finally, the evaluation of the South Carolina recipient integrity demonstration will produce a report in early 1998.

5.3 STRATEGIC IMPLICATIONS

The review of FNS' redemption integrity initiatives points to the following implications for FNS' strategic planning:

- The new opportunities in this area require the commitment of FNS resources, posing the question of how to trade off these opportunities with existing work plans and approaches.
- In the emerging EBT environment, FNS will need to work more closely with state agencies.
- The formulation and implementation of regulations will play a critical role in realizing the new opportunities.
- Effective, strategic management of redemption integrity initiatives will require enhancements to existing information systems.

Workload Management Issues

All of the redemption integrity initiatives carry the potential to create additional work for the FNS FOs, either directly or indirectly. FO staff will have to review and respond to new information sources for retailer authorization and monitoring, most notably pre-authorization visits, ALERT, and information shared by other government agencies. Concentrated retailer reviews consume substantial amounts of FO time, even if outside help is available for the field phase of the process. Use of ALERT is likely to increase FO sanction activity, either in direct response to suspicious transaction patterns or as a result of more effective investigations. Even recipient integrity initiatives may carry a requirement for the FOs to coordinate state investigations of recipients with USDA investigations of retailers.

Two other types of staff also face increasing workloads as pre-authorization visits, ALERT, and other redemption integrity initiatives are implemented. The CB investigators will need to devote more attention to the selection of targets as the availability of data (from ALERT, store visits, and other sources) on potential targets grows. Meanwhile, an increase in the rate of denied retailer applications, withdrawals, and disqualifications—the potential positive outcome of these initiatives—would increase the workload of the Administrative Review Branch. This latter impact would be especially notable in the early stages of the new initiatives, as

Administrative Review Officers familiarized themselves with the new policies, data sources, and procedures.

Under current budget constraints, FNS managers have three main options for coping with these workload impacts:

- Shifting resources from functions other than retailer management (e.g., reassigning management evaluation reviews from the FOs to Regional Office personnel);
- Eliminating or simplifying existing retailer management activities (e.g., reducing the number of stores subject to reauthorization to focus more resources on the remaining stores); and
- Investing in process analysis, automation, or training to increase productivity (e.g., scanning equipment to reduce data entry efforts).

Ideally, these options would be examined in the context of a strategic planning process that examined the agency's priorities, the current deployment and productivity of staff and other resources, and ideas from all levels about how to reconfigure those resources. The challenge of using the new powers and verification creates an opportunity for FNS to re-engineer the agency's retailer management processes. Without a strategic approach to the resource management issues, the new redemption integrity initiatives will not reach their potential, and managers at all levels will be pressed to attain their goals.

As a starting point for such a process, the researchers offer the following observations:

- In addition to the core retailer management functions of authorization, reauthorization, monitoring, and administering sanctions, FO staff must respond to requests for applications and Redemption Certificates, and answer questions from retailers unrelated to their eligibility. FNS should examine possibilities for centralizing, automating, or outsourcing these peripheral retailer management activities, not to reduce FO staff but to focus them more on their core functions.
- Responsibilities related to EBT implementation, especially verification and updating of retailer information, will demand and should get high priority at all levels. Preventive steps to prepare for EBT, including coordination with EBT vendors and use of contractor visits or sweeps, will pay off in less effort to respond to crises during periods of intensive roll-out activity.
- A more targeted approach to reauthorization, with longer cycles for lower-risk stores, should be seriously considered. FNS should assess whether the FSP can be better served by a thorough examination of fewer stores, including contractor

store visits and obtaining credible sales data, than by more rapid but superficial processing of a large number of stores.

- FNS may need to reassess the type and quantity of information collected in contractor store visits. The need for this assessment depends in part on FNS' ability to clarify retailer eligibility standards. In the pre-authorization visit demonstration, FO staff used all of the information provided by the contractors, but they frequently found it difficult and time-consuming to make eligibility decisions on this basis under current policy. If the focus were instead on verifying the type of business and gathering indicators helpful in predicting fraud (e.g., store size for comparison to norms of sales volume per square foot), fewer photographs and less detailed inventory checklists would be needed, reducing the time required to review the reports.
- Any review of retailer management processes should include an assessment of needs for training and technical assistance to make the most of FNS' new opportunities. For example, training in auditing methods may be helpful to staff who must review financial records provided by retailers. Where FOs face high volumes of financial data to review, temporary assignment of experienced auditors may be a good solution. Basic investigative techniques, particularly interviewing, constitute another area where training might be beneficial, particularly in preparation for using EBT data as the basis for disqualifying retailers.

Cooperation with State Agencies

As discussed in Chapter One, EBT implementation brings a need for greater coordination of retailer management activities between FNS and the states. FNS' redemption integrity initiatives will heighten the need for interactive planning, ongoing communication, and effective oversight in several areas, including store visits, use of EBT data for compliance purposes, conduct of investigations, and imposition of penalties on retailers and recipients.

FNS' retailer authorization initiatives clearly need to be coordinated with state EBT implementation plans. Without coordination, store visits for eligibility reviews by FNS contractors or staff could duplicate or conflict with pre-implementation site surveys by states or their EBT vendors; conversely, a cooperative approach could enhance the value of the visits. Contracting with states for store visits is not a realistic option for the FY 1997 phase of this initiative, but this approach might be a viable way to get states more involved in retailer management and could even reopen the possibility of states taking over other retailer authorization tasks. FNS should at least follow up with the states that have already conducted

sweeps to determine their interest in future involvement in store visits; preliminary exploration of interest in other states also would be worthwhile.

As EBT and ALERT are implemented, state and USDA investigators will need to coordinate their work even more closely, because each party controls access to a valuable investigative resource. (In addition to the raw EBT transaction data, states control access to investigative accounts and to tips from the EBT processor's recipient and retailer service personnel.) At the same time, the potential of ALERT to improve the targeting of investigations increases the importance of making the best use of all available investigative resources. The possibility of pursuing sanctions against retailers or recipients without undercover investigation adds yet another dimension to the need for coordination in the compliance enforcement area.

Aside from the effort required to coordinate redemption integrity initiatives with the states, this environment poses several management challenges for FNS. Perhaps the largest of these is the issue of cost-sharing. Many of the state initiatives have been supported by enhanced FNS funding or outright grants. Conversely, when states have faced the prospect of continuing these initiatives with the standard 50 percent FNS participation, they have curtailed or dropped the initiatives, as evidenced in both the state retailer management demonstration and the SLEB agreement process. The lack of enhanced fraud control funding is also an impediment to effective use of the administrative disqualification process to sanction recipients. Enhanced funding on a permanent basis would require legislative action.

State agencies have proposed self-funding recipient integrity operations, but these approaches are problematic because they rely on the recycling of benefits, either by shifting funds within the EBT system (as was proposed for the Texas sting but rejected by FNS) or by recoupment from recipients (which is prohibited under current regulations). The latter approach would provide an effective incentive for pursuing recipient traffickers if the regulations were changed as proposed in the recipient integrity plan, especially with the increase in claims retention rates for the states that was authorized by the 1996 welfare reform legislation. There is some risk, however, that financing anti-fraud efforts with collections from recipients could generate adverse public reaction and lead states to drop those efforts. Although the current climate of public opinion is favorable to taking a strict approach to recipient fraud of all kinds, FNS should consider whether the potential gains from this approach are worth the risks to the FSP's reputation and support.

terms of results) than has been the case with coupon-based investigations under the SLEB agreements. FNS will, however, have to balance its need for control with the states' legitimate concerns for autonomy and avoiding burdensome paperwork.

Regulatory Issues

The preceding discussion has raised issues regarding the regulation of state redemption integrity initiatives and the financial arrangements in support of those initiatives. FNS also faces the need and opportunity to issue regulations to implement the new retailer management powers granted by recent legislation. In formulating and implementing these regulations, FNS will face the challenge of balancing its mandate to eliminate retailer abuse of the FSP with the rights and concerns of legitimate retailers. This challenge will extend to all levels, including the FO staff that may have to defend requests for sensitive financial information.

At the same time, FNS will need to examine carefully the management and staffing implications of new regulations and procedures. For example, indiscriminate use of time-limited authorizations could increase the already heavy reauthorization workload without having a material effect on the number of marginal or high-risk retailers in the FSP. FNS staff at all levels will need to collaborate on a holistic approach to integrate new powers and information sources into effective, efficient, dynamic approaches to retailer authorization and reauthorization.

A long-standing regulatory issue—the definition of an eligible store—has considerable significance for pre-authorization visits and other retailer authorization initiatives. The preliminary results from the retailer pre-authorization visits demonstration suggest that the lack of a clear, enforceable definition of an eligible store could significantly undermine the potential of this initiative and other efforts to exclude stores that do not meet the spirit of the law. If it is not possible to establish an effective, meaningful threshold of eligibility, either under current law or through legislative action, then it will be hard to justify the allocation of resources to conducting detailed store eligibility reviews instead of to retailer monitoring, support for trafficking investigations, and administration of sanctions.

Information System Needs

A common thread among many of the redemption integrity initiatives is the use of new sources of information: store visit reports, financial information from government agencies and commercial sources, and both raw and processed EBT transaction data. One challenge is how to manage the acquisition, use, and storage of this information. The array of documents required to support retailer applications already poses logistical challenges for the FO staff that must receive, review and file the materials; additional information will increase these challenges. This issue raises two questions for FNS: Can some of the information requirements currently filled with paper documents be eliminated? Can electronic data entry and storage technology be used to improve the information flow? As a first step, store visit contractors could file portions of their reports electronically, retaining their original hard-copy survey forms and submitting only the photographs in paper form.

The other information system challenge posed by the redemption integrity initiatives is the question of how to ensure that the actions taken to acquire and use new information sources are tracked, both to ensure accountability for specific actions and to provide feedback for ongoing reassessment of FNS strategy. STARS is being modified to allow recording of store visits, but this is only the most basic item that needs to be tracked. Based on the present review and related research, FNS should be able to track electronically the following events involving retailers, for operational and evaluation purposes:

- Receipt of application
- Receipt of supporting document from the retailer or third-party sources (identified by type, such as business license or food purchase receipts)
- Receipt and approval or rejection of contractor report (with reason for rejection)
- Withdrawal of application, including reason and FO role (e.g., retailer versus FO initiation of withdrawal)
- For denial of application and for withdrawal of authorized retailers, specific reasons (e.g., failure to document sales)
- Referral of retailer by state or EBT vendor personnel for reasons of possible ineligibility or fraud

- Identification of retailer through review of EBT data as exhibiting suspicious transaction patterns
- Identification of retailer suspected of trafficking because of transactions with recipient suspected of or sanctioned for trafficking
- Steps in the processing of stores referred for investigation from the initial referral and associated reason through final disposition by investigators
- Actions taken based on SLEB investigations
- Requests for administrative review, their status, and their final disposition.

Inclusion of these data in STARS or a linked data system would greatly facilitate the use of automatic "ticklers" to ensure timely and accurate follow-through (e.g., reminders to follow up on overdue reports from store visit contractors). At a more systemic level, electronic storage of this information would facilitate the management of the new initiatives, both for policy decisions at FNS headquarters and for workload management at the Regional and Field Office levels. Periodic assessments such as the one conducted for this document may still be necessary, but built-in feedback would greatly enhance FNS' ability to realize the potential of its diverse and innovative efforts to strengthen the integrity of the FSP redemption process.

Final Assessment and Issues

FNS and the states are in the midst of a period of innovation and transformation with respect to their roles in and approaches to the food stamp benefit redemption process. EBT implementation has taken a quantum leap in the last two years. Meanwhile, both FNS and the states have produced a diverse and productive array of initiatives to strengthen the integrity of the redemption process. Some of these initiatives are already on their way to becoming integral parts of nationwide FSP operations; others have been useful tests of interesting approaches that did not prove fruitful. Some of the most interesting initiatives are still under way and have not yet yielded conclusive results.

FNS has responded energetically and creatively to both the heightened public concern over trafficking and the changes accompanying the arrival of EBT. To build on the progress made so far and make the best use of the new opportunities, FNS can draw on the present

review. Below, we present some important questions to be considered and, to the extent possible, some suggested answers.

1. What does FNS expect to achieve by pursuing each of the three strategic directions?

As discussed at the beginning of this report, benefit misuse in the FSP takes a variety of forms, although the process almost always begins with a recipient and ends with an authorized retailer. FNS' current redemption integrity strategy focuses primarily on the end of the process—the retailer's acceptance of food stamps for cash or ineligible items—both for institutional reasons and because the retailer is the one who actually redeems the food stamps with the government. Retailer integrity is the focus of two of FNS' three strategic directions. The recipient's role in trafficking is a secondary but growing area of emphasis, as represented in the third strategic direction.

The retailer authorization and reauthorization initiatives rest on a major assumption: that enforcing retailer eligibility standards will increase program integrity by excluding marginal firms seeking to participate in the FSP primarily to traffic or sell ineligible items (e.g., combination gas/grocery stores that seek authorization so that they can illegally accept food stamps for gasoline purchases). This assumption has intuitive appeal and it has empirical support from particularly egregious trafficking cases involving "fronts" and phantom stores (retailers retaining their authorization after their food stores are closed so that they can continue to traffick).

Some investigators and FO staff, however, question how strong the link between retailer eligibility and integrity actually is, pointing to numerous cases in their experience where traffickers operated well-stocked stores and sold substantial amounts of staple foods. Therefore, it will be important for FNS to establish firmer evidence regarding this fundamental assumption. To this end, FNS should examine the combined results of store visits and investigations for stores where both have been conducted (including marginal stores that are allowed to operate but are referred for investigation). If retailer eligibility is not a good predictor of integrity, FNS may wish to reassess its substantial commitment of resources to store visits.

Less attention is devoted to intermediaries, despite the fact that these intermediaries concentrate trafficked benefits and tend to deal with the more hard-core traffickers among the retailer population. Finding these intermediaries requires criminal investigations and is outside

the scope of FNS' powers, but such investigations are a necessary part of a truly comprehensive attack on trafficking, particularly on criminal enterprises that distribute trafficked benefits over a large number of retailers to evade detection. The SLEB agreement experience suggests that FNS should be very cautious about offering financial support for investigations of trafficking intermediaries, but it is certainly to the agency's advantage to promote law enforcement interest through inter-agency task forces and other indirect means.

The initiatives targeting recipient trafficking reflect two distinct approaches: the *reactive* approach in Maryland and the *proactive* approach in South Carolina (also in New Mexico and Texas). A state that takes the reactive approach treats recipient sanctions as part of the follow-through to retailer investigations: the objective is to fulfill the state's responsibility to disqualify recipients identified by other agencies (such as OIG) as having trafficked. In contrast, a state taking the proactive approach seeks out recipients who traffic, both to remove them from the FSP and *to make an example of them* as a way of deterring others from trafficking. Deterrence requires publicity and, as previously discussed, publicity can also draw public attention to the problem and sympathy for the sanctioned recipients. The reactive approach, with its more limited objective, reduces the risk of adverse public reaction; it is also easier for FNS to manage so that issues of fairness in the targeting of investigations do not arise. Finally, a proactive approach may raise expectations for success that cannot be met, given the limitations of the ADH process.

2. *What kinds of initiatives have not been tried but might be worthwhile?*

This report points to potential initiatives that have not been tested but are clearly feasible and worthy of consideration for commitments of FO staff time or grant funds on an exploratory basis. These include the following: information exchange with the IRS and state tax authorities; promotion of links with state lottery and alcohol control boards to add license removal to the array of administrative sanctions; and closer links between FOs, EBT retailer liaison, and WIC vendor management staff.

3. *What can be done to enhance FNS' base of knowledge for planning and managing redemption integrity initiatives?*

All of the initiatives discussed in this report have contributed to FNS' strategic assets of information and programmatic options. A substantial number have received or will get formal

assessments of various kinds, ranging from the simple tabulation of sweeps' results to the full-scale evaluations of the state retailer management demonstrations, the SLEB agreements, the pre-authorization visit demonstration, and the South Carolina recipient integrity demonstration. Other important initiatives have not included provision for systematic assessment of their costs and effectiveness, most notably the VPP update, the ALERT system, the use of EBT transaction data to disqualify retailers, and coordination with law enforcement agencies for information-sharing. CB does have plans to review the results of its investigations with the updated VPP and ALERT, but its resources for analysis are quite limited.

Earlier in this chapter, specific data were identified that would be worthwhile to track. More generally, there is a need for an overall strategy to define what FNS needs to know about redemption integrity activities and how that information will be accumulated. This report is a first step at bringing together the many different information-gathering activities under way. An ongoing process of periodic evaluation would be even more beneficial. In addition to organizing and synthesizing the lessons learned, this process would also help ensure that plans are made to gather the needed information on upcoming initiatives, and it would provide ideas for future initiatives gleaned from what has been tried. The data sources for this process would include FNS' computer systems, hard-copy retailer files, and expert input from operational FNS staff at all levels.

Ongoing assessment of FNS' redemption integrity activities calls for data systems flexible enough to support the varied analyses that might be needed. The analysis for this report did not include the kind of systematic assessment of FNS data systems that would be helpful in this regard, but it is clear that two key systems, STARS and SIMS, are designed for operational use and not to support analysis. In the future, the combination of store visit results and EBT transaction data will offer the possibility of building a new generation of models for predicting and detecting retailer fraud; to realize this possibility, FNS will need to build the necessary capability into the store visit tracking system and ALERT. FNS has developed a basic capability to download and analyze STARS data, and further development in this direction—combined with capturing the new data elements that link initiatives to their results—would help provide a sound foundation for FNS to make the most of its redemption integrity initiatives.

Appendix A

**SUMMARY OF AUTHORIZED FOOD RETAILER
CHARACTERISTICS STUDY**

APPENDIX A
SUMMARY OF AUTHORIZED FOOD RETAILER
CHARACTERISTICS STUDY

1. STRATEGY

Basic research about the characteristics of FSP-authorized retailers to support program design.

2. OVERVIEW

The retailer characteristics study consisted of several inter-related efforts undertaken by MACRO International in close coordination with OAE staff. The empirical basis for the studies was a 1994 national survey of a representative sample of FSP-authorized retailers. For 2,354 retailers in 40 Primary Study Areas, a physical assessment of the store and its stock and a detailed interview with a store manager were conducted. Study areas were cross-tabulated by store type, location, and income area. From these data, FNS has produced three technical reports, with a fourth, summary volume currently in review.

Technical Report I: Food Retailer Readiness for Electronic Benefit Transfer

Authorized retailers were assessed on indicators that may reflect a readiness for EBT or other electronic transaction systems and on their perceptions of EBT. Findings include:

- Only 28 percent of retailers not currently equipped for EBT had heard of EBT.
- Most stores other than supermarkets lacked electronic infrastructure such as ATMs and debit transaction systems.
- The most frequently-cited advantages of EBT were not having to handle coupons, better accounting, and quicker transfer of funds. The major disadvantage cited was the possible cost of the equipment. In all, about three-quarters of respondents cited advantages, and more than 60 percent cited disadvantages.
- Overall readiness, in terms of both the infrastructure for implementing EBT and retailer attitudes, was high for supermarkets, convenience stores, and gas/grocery stores. Large grocery stores demonstrated a lower level of readiness, but were well-disposed to implement EBT. Small groceries and specialty stores were not