  
***Food and Nutrition Service***  
***Benefit Redemption***  
***Division***  
***FY2003 Annual Report***

## Table of Contents

---

Introduction .....	2
Overview from the Director.....	3
Retailer Management Branch .....	4
Store Characteristics .....	5-16
Number and Percentage of Authorized Firms by Region .....	5
Number of Authorized Retailers - FY1998 - FY2003 .....	6
Percentage of Authorized Firms and Redemptions by Category .....	7
Redemptions, Number and Percentages by Firm Type for FY2003 .....	8
Authorized Firm Types by Region for FY2003 .....	9
Redemption Levels for Firm Types.....	10-13
Number of Authorized Firms and Redemptions by State .....	14-15
Percentage and Value of Food Stamp Benefits Redeemed by Region.....	16
New Authorization Activity.....	17
Monitoring Activity .....	18-21
Firms Removed from the FSP .....	18
Retail Sanction Actions Based Primarily on EBT Analysis.....	19
Disqualifications.....	19
SEAR.....	20-21
Action Taken Against Firms - CMPs.....	22
Retailer Investigations Branch.....	23
Historical Statistics.....	24
Electronic Benefit Transfer (EBT) Branch.....	25
EBT Status Map .....	26
EBT Issuances as Percent of Total FSP Issuance.....	27
EBT Redemptions versus Coupon Redemptions .....	28
Administrative Review Process .....	29
Administrative Review Workload and Outcomes.....	30
Special Projects Highlights .....	31-32

## Introduction

---

**T**his annual report contains information on the activities conducted by the Benefit Redemption Division of the Food Stamp Program. It also reports on the Food Stamp Program retailer related activities of regional offices and field offices of the Food and Nutrition Service.

The **Benefit Redemption Division (BRD)** consists of four branches:

- The **Electronic Benefit Transfer Branch (EBT)** is responsible for issuance related policies related to the Food Stamp Program;
- The **Retailer Management Branch (RMB)** is responsible for policies related to the participation of stores in the Food Stamp Program, the eligibility of foods that can be bought with Food Stamp benefits, and operational oversight of retailer related activities;
- The **Retailer Investigations Branch (RIB)** is responsible for conducting investigations of stores to ensure they are complying with Program rules;
- The **Administrative Review Branch (ARB)** is responsible for hearing appeals by stores of actions taken by the agency to enforce compliance with regulations.



## Overview from the Director

---

**F**iscal year 2003 was another busy year for those people involved in the issuance of benefits to food stamp recipients and the management of retailer participation in the Program. While we launched few new initiatives, we continued several and moved toward completing others.

In the issuance area, we continued our progress on completing the transition from using paper food stamp benefits to electronic benefits. By the end of the year we were over 90% complete. The transition will be done in fiscal year 2004. We also made strides working with states that are transitioning from one issuance contractor to another as they re-procure their issuance systems.

In the retail area we saw a continuation of the decline in the number of stores authorized to redeem benefits although the decline was much less than in the previous five years. The number of supermarkets as a percentage of authorized stores inched up, as did the proportion of the benefits they redeemed.

We are moving forward with our redevelopment of the computer system that we rely on to help manage our retail store activities. This new system, under design for the past couple years is now into its development phase and is set to be implemented in 2004. Hand in hand with this new system we are redeveloping our store application forms and making other changes in how we manage our tasks.

Ensuring that stores comply with rules remains an important focus of our operations. In July of 2003 the agency completed the third in a series of reports that

measures the prevalence of trafficking of food stamp benefits. The study estimated that in the 1999-2002 period, trafficking had dropped to \$395 million per year, which is less than half of the estimated trafficking when the first study was done in 1993. While this dramatic drop is gratifying, the overall level of trafficking remains a concern. So, we will continue our investigative efforts, aiming at examining more than 4,000 stores as we did in fiscal year 2003. We will also continue our efforts to develop new investigative techniques so that stores engaged in taking benefits from those who need them are stopped.

The successful achievement of the ambitious goals to reduce fraud and improve how benefits are issued to those in need is possible only through reliance on our greatest asset: the agency staff that work on these issues day in and day out through the year. Once again these fine people throughout the country have risen to each challenge thrown their way. Good job everyone.



## Retailer Management Branch

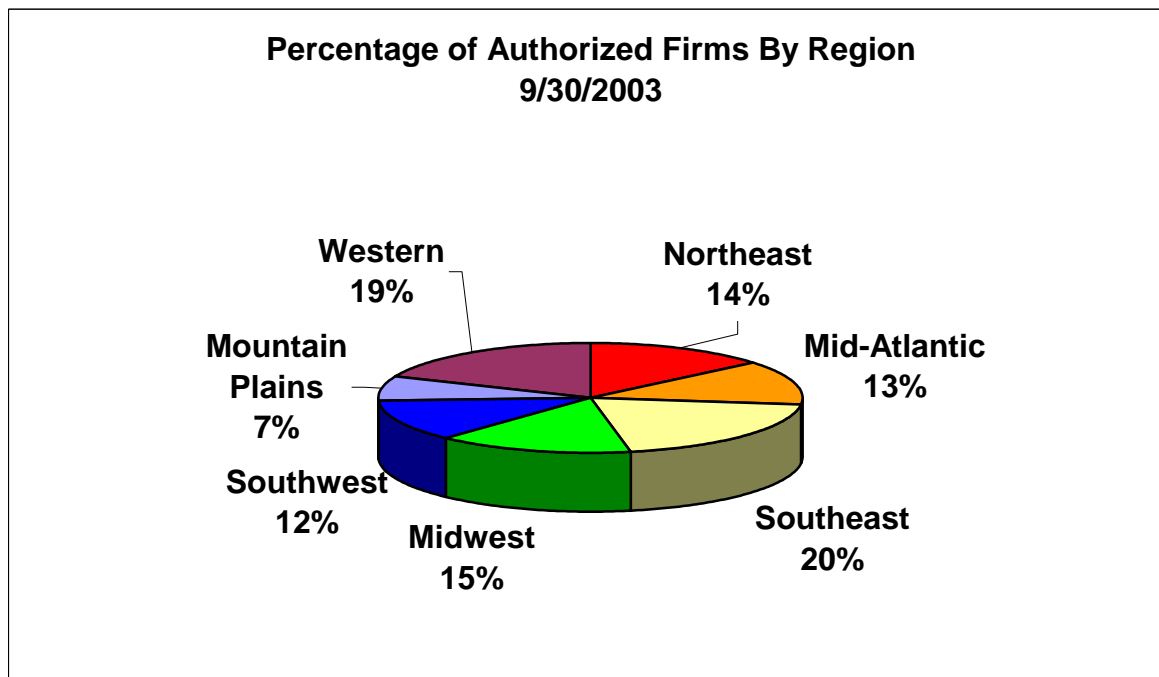
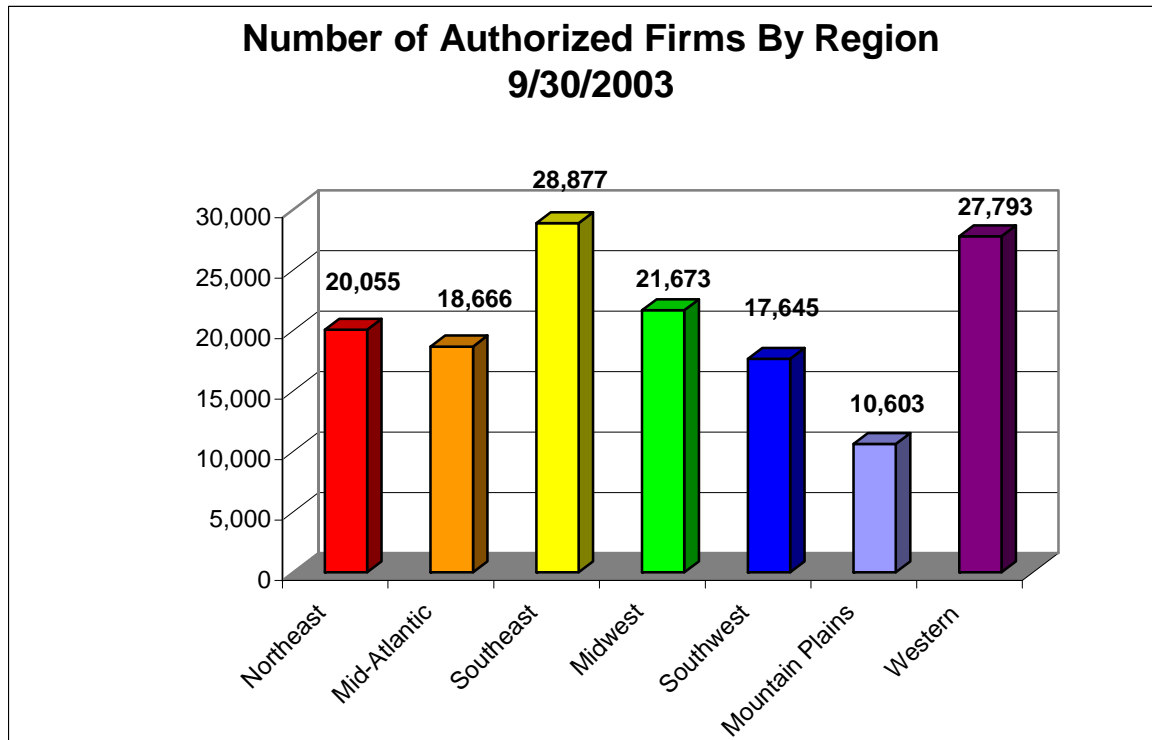
The Retailer Management Branch (RMB), of the Benefit Redemption Division, is responsible for the overall management and operations of retailer and financial institution participation in the FSP. Management responsibilities include the development of policy, legislation, and regulations related to: retailer eligibility; authorization and application processing; eligible foods; financial management issues such as claims and Civil Money Penalties (CMPs); program sanctions; and point-of-sale issues. In addition, retailer-related court suits, redemption system/financial institution policy, retailer program publications, and Freedom of Information Act (FOIA) requests are handled in the branch. Operational responsibilities of the RMB

include: management, development, and implementation of various automated systems related to retailer and redemption activities such as STARS; retailer information sharing; development of program retailer publications and forms; audit follow-up; development of retailer reauthorization procedures; management of the Store Visit Contract; and, whistleblower complaint tracking. RMB staff maintains the BRD Web Site and provides input for the FNS Internet Site. Policy and operational responsibilities also entail coordination and cooperation with many internal Agency and Departmental offices, as well as external contacts with other Departments, retailer trade associations and other industry groups.



## Store Characteristics

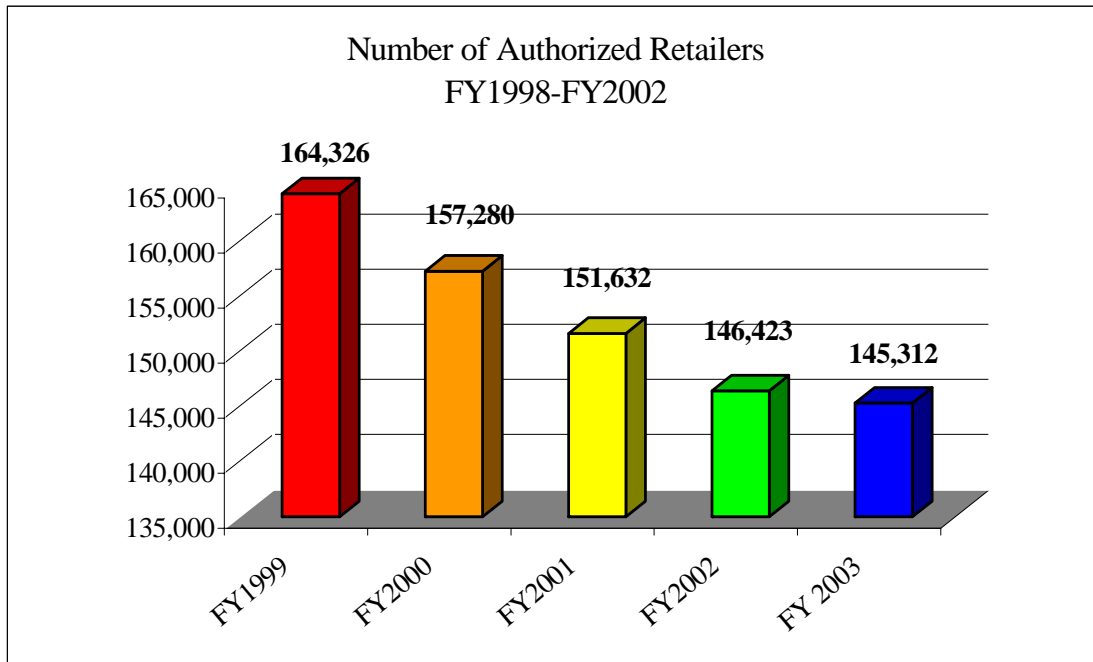
On September 30, 2003, there were **145,312** firms authorized to accept food stamp benefits.



Source: STARS Management Activity Report 12/18/03

## Store Characteristics

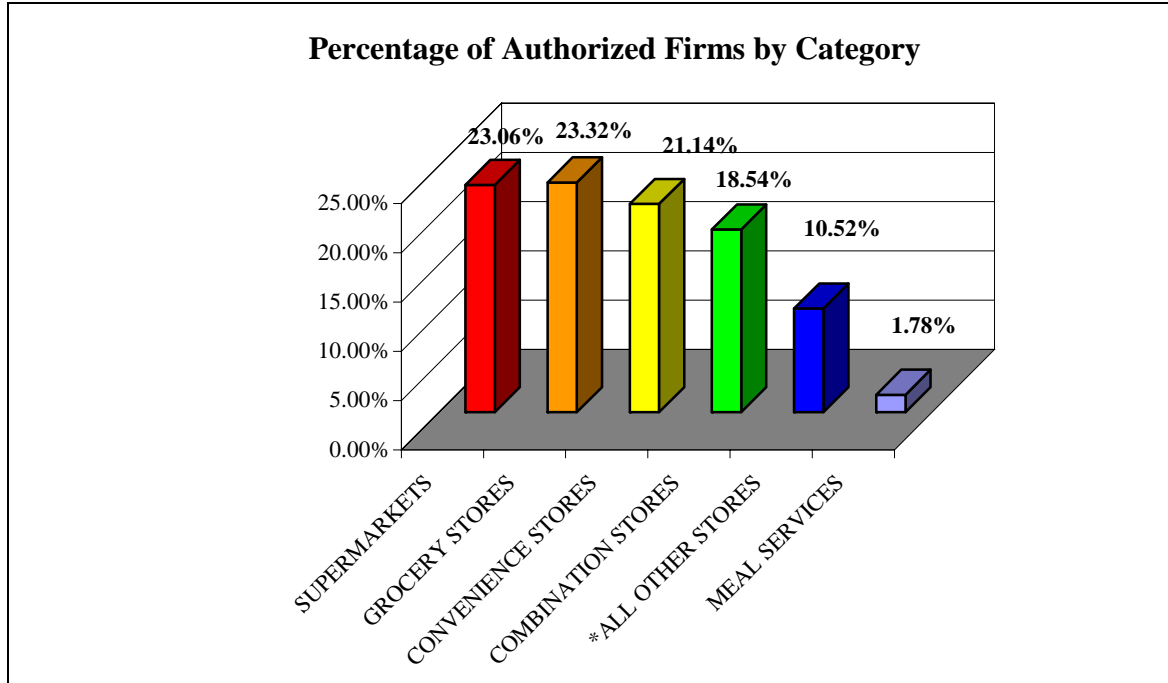
The number of authorized stores declined from FY1998 to FY2003, continuing a multi-year trend.



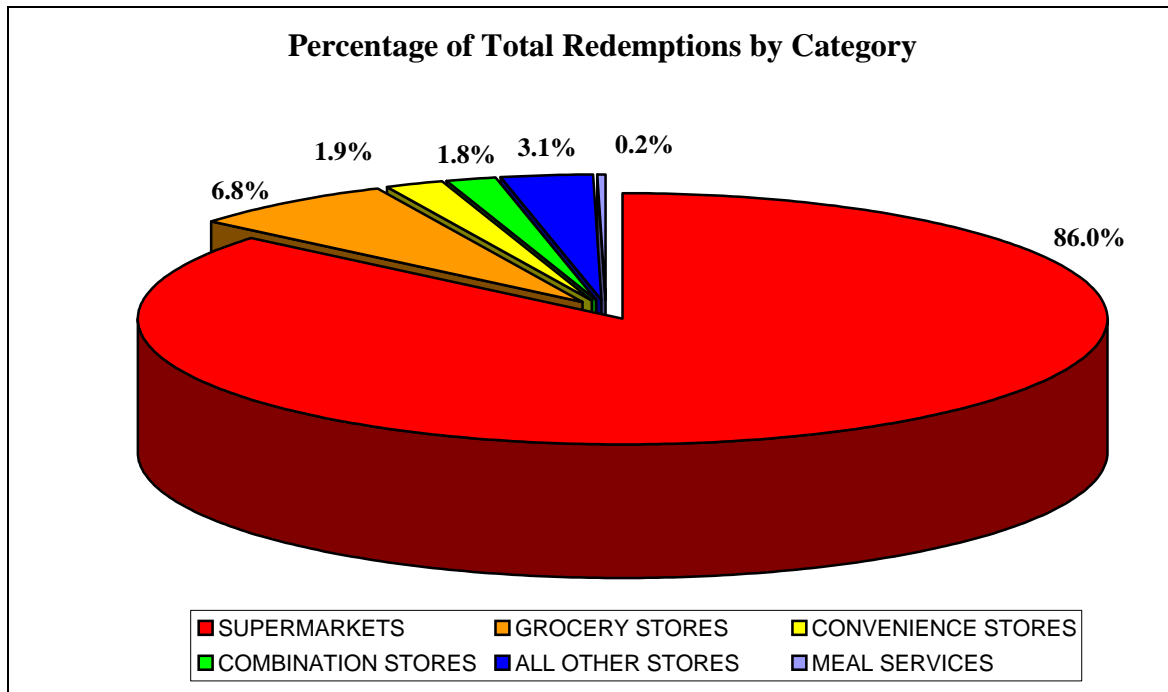
Source: STARS Management Activity Report 12/18/03

## Store Characteristics

There are 30 firm types used for classifying firms. The categories below represent the five categories that represent all firm types.



\*This category includes Specialty Food, Health/Natural Food, Non-Profit Food Buying Co-op, Military Commissary, Other Firms, and Route Sales.



Source: STARS Management Activity Report 12/18/03



## Store Characteristics

The following shows redemptions and the number of authorized firms by type for FY2003:

FIRM TYPE	REDEMPTION AMOUNTS	PERCENT TOTALS	AUTHORIZED FIRMS	PERCENT TOTALS
<b>RETAILER TYPES:</b>				
Supermarket	\$18,009,286,048	85.96%	33,510	23.06%
Small/Medium Grocery	\$1,427,945,461	6.82%	33,891	23.32%
Convenience Store	\$399,113,204	1.90%	30,719	21.14%
Produce Stand	\$40,424,260	0.19%	1,990	1.37%
Specialty Food	\$519,790,108	2.48%	11,562	7.96%
Health/Natural Food	\$14,647,676	0.07%	987	0.68%
Nonprofit Food Buying Coop	\$4,410,091	0.02%	222	0.15%
Military Commissary	\$16,693,197	0.08%	194	0.13%
Other Firm	\$53,071,065	0.25%	1,345	0.93%
Combination Grocery/Gas	\$165,114,928	0.79%	14,789	10.18%
Combination Grocery/Bar	\$1,003,672	0.00%	55	0.04%
Combination Grocery/Restaurant	\$10,767,467	0.05%	568	0.39%
Combination Grocery/Merchandise	\$49,241,950	0.24%	2,492	1.71%
Other Combination	\$147,335,175	0.70%	9,037	6.22%
Milk Route	\$1,630,354	0.01%	62	0.04%
Bread Route	\$365,190	0.00%	15	0.01%
Produce Route	\$1,071,873	0.01%	60	0.04%
Other Route	\$42,608,233	0.20%	838	0.58%
Farmers Markets	\$2,808,978	0.01%	308	0.21%
<b>Retailer Subtotal</b>	<b>\$20,907,328,931</b>	<b>99.79%</b>	<b>142,644</b>	<b>98.16%</b>
<b>WHOLESALEERS</b>	<b>\$1,862,967</b>	<b>0.01%</b>	<b>81</b>	<b>0.06%</b>
<b>Wholesaleers Subtotal</b>	<b>\$1,862,967</b>	<b>0.01%</b>	<b>81</b>	<b>0.06%</b>
<b>MEAL SERVICE TYPES:</b>				
Alcoholic Treatment	\$12,116,894	0.06%	591	0.41%
Drug Addict Treatment	\$13,293,695	0.06%	338	0.23%
Combination Treatment Center	\$3,157,568	0.02%	122	0.08%
Private Meal Delivery	\$248,524	0.00%	5	0.00%
Nonprofit Meal Delivery	\$164,426	0.00%	350	0.24%
Nonprofit Communal Dining	\$2,141,714	0.01%	659	0.45%
Private Communal Dining/Restaurant	\$129,459	0.00%	29	0.02%
Group Living Arrangement	\$8,648,783	0.04%	362	0.25%
Homeless Meal Provider	\$1,767,577	0.01%	112	0.08%
Battered Women & Children	\$69,665	0.00%	19	0.01%
<b>Meal Service Subtotal</b>	<b>\$41,738,304</b>	<b>0.20%</b>	<b>2,587</b>	<b>1.78%</b>
<b>TOTALS</b>	<b>\$20,950,930,201</b>	<b>100.00%</b>	<b>145,312</b>	<b>100.00%</b>

Source: STARS Management Activity Report 12/18/03

## Store Characteristics

The following shows the 30 Authorized Firm Types by Region for FY2003:

FIRM TYPES	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	TOTALS
Supermarket	3,490	3,911	7,691	5,901	3,538	2,866	6,113	33,510
Small/Medium Grocery	8,025	5,170	4,463	4,460	3,258	1,835	6,680	33,891
Convenience Store	2,617	3,343	6,253	3,598	6,025	2,189	6,694	30,719
Produce Stand	311	283	496	203	138	117	442	1,990
Specialty Food	1,860	1,385	2,297	1,587	1,574	866	1,993	11,562
Health/Natural Food	219	122	121	113	31	126	255	987
Nonprofit Food Buying Coop	55	34	32	32	5	35	29	222
Military Commissary	11	27	54	8	25	16	53	194
Other Firm	85	63	171	51	87	119	769	1,345
Combination Grocery/Gas	1,184	1,938	4,164	2,822	1,259	1,222	2,200	14,789
Combination Grocery/Bar	1	26	6	2	2	2	16	55
Combination Grocery/Restaurant	37	127	147	72	51	26	108	568
Combination Grocery/Merchandise	135	561	546	86	457	192	515	2,492
Other Combination	1,500	1,289	1,848	2,019	873	434	1,074	9,037
Milk Route	10	9	4	7	6	14	12	62
Bread Route	4	1	0	0	2	1	7	15
Produce Route	2	13	17	2	9	2	15	60
Other Route	70	89	108	223	113	131	104	838
Farmers Market	26	54	19	9	8	51	141	308
Wholesaler	10	7	19			5	40	81
Alcoholic Treatment	70	37	50	58	30	71	275	591
Drug Addict Treatment	86	43	34	36	20	31	88	338
Combination Treatment Center	58		26	8	7	20	3	122
Private Meal Delivery	0	0	1	2	0	1	1	5
Nonprofit Meal Delivery	34	28	71	96	47	63	11	350
Nonprofit Communal Dining	68	48	135	185	62	114	47	659
Private Communal Dining/Restaurant	1			6	2		20	29
Group Living Arrangement	55	45	91	73	6	41	51	362
Homeless Meal Provider	16	13	13	14	10	13	33	112
Battered Women & Children	15	0	0	0	0	0	4	19
<b>TOTALS</b>	<b>20,055</b>	<b>18,666</b>	<b>28,877</b>	<b>21,673</b>	<b>17,645</b>	<b>10,603</b>	<b>27,793</b>	<b>145,312</b>

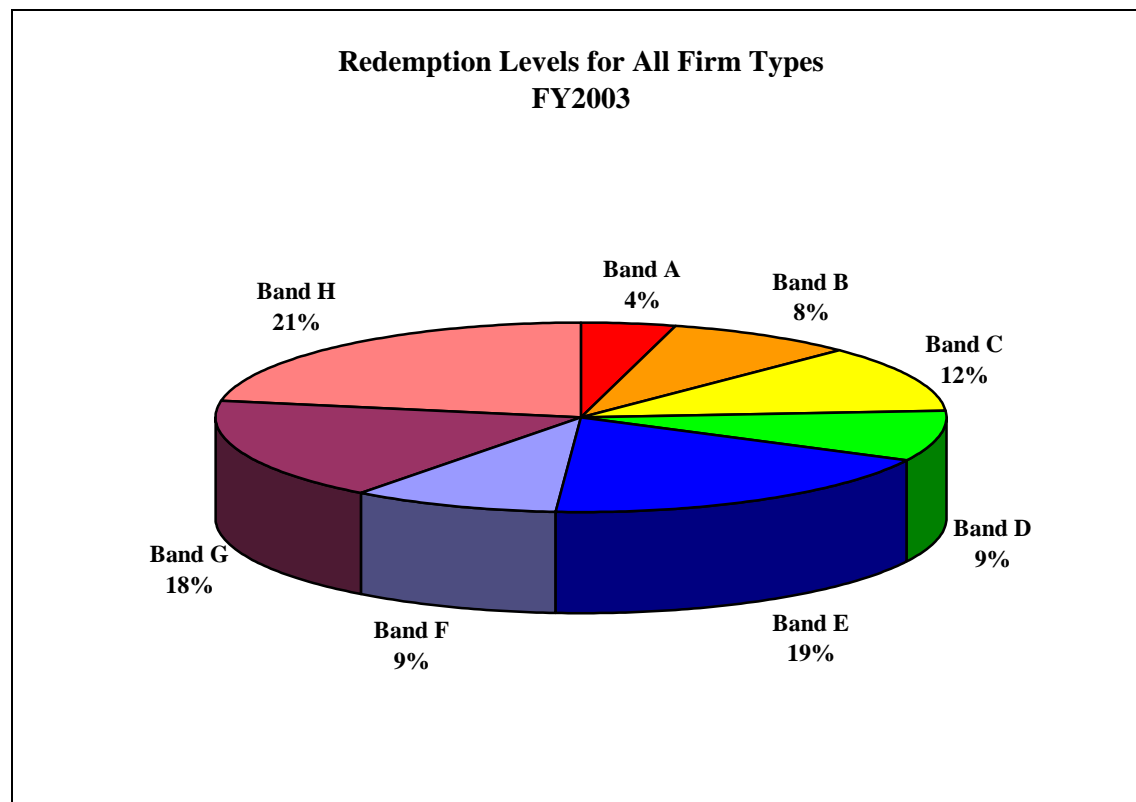
Source: STARS Management Activity Report 12/18/03

## Store Characteristics

### *Redemption Levels for Firm Types*

<b>Redemption Levels</b>	<b>Number of Firms</b>	<b>Percent</b>	<b>Average Monthly Redemption Range</b>
Band A	5,875	4%	\$0.00
Band B	12,220	8%	\$0.01 to \$99.99
Band C	16,717	12%	\$100.00 to \$299.99
Band D	12,253	9%	\$300.00 to \$499.99
Band E	27,099	19%	\$500.00 to \$1,249.99
Band F	12,985	9%	\$1,250 to \$1,999.99
Band G	25,643	18%	\$2,000.00 to \$7,499.99
Band H	32,250	21%	\$7,500 and more
<b>Totals</b>	<b>146,423</b>	<b>100%</b>	

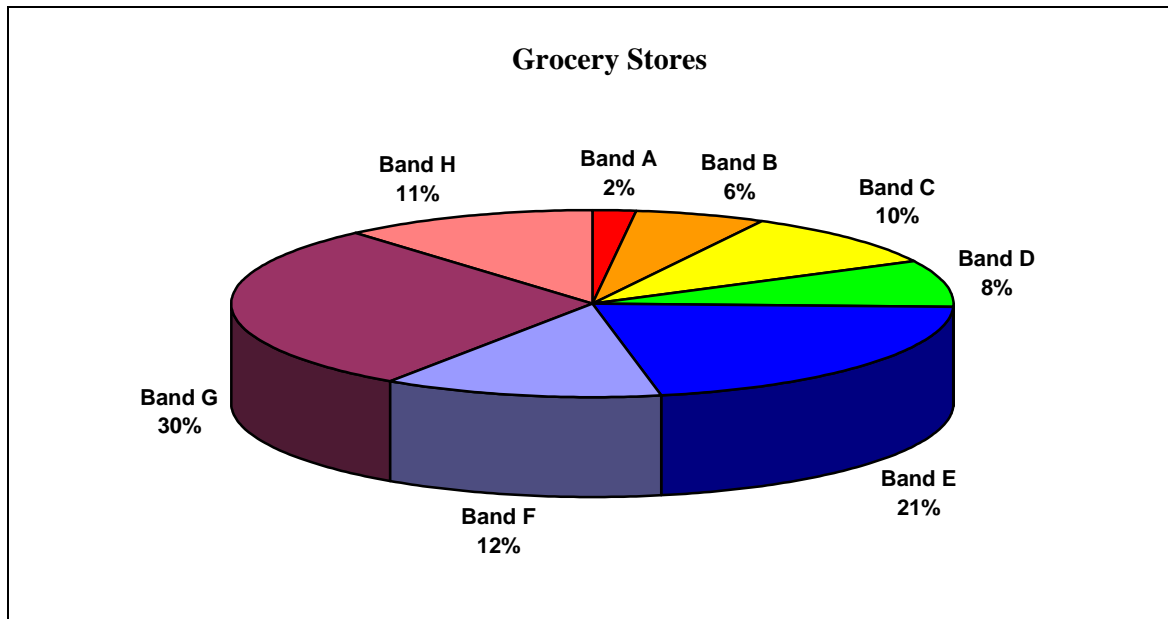
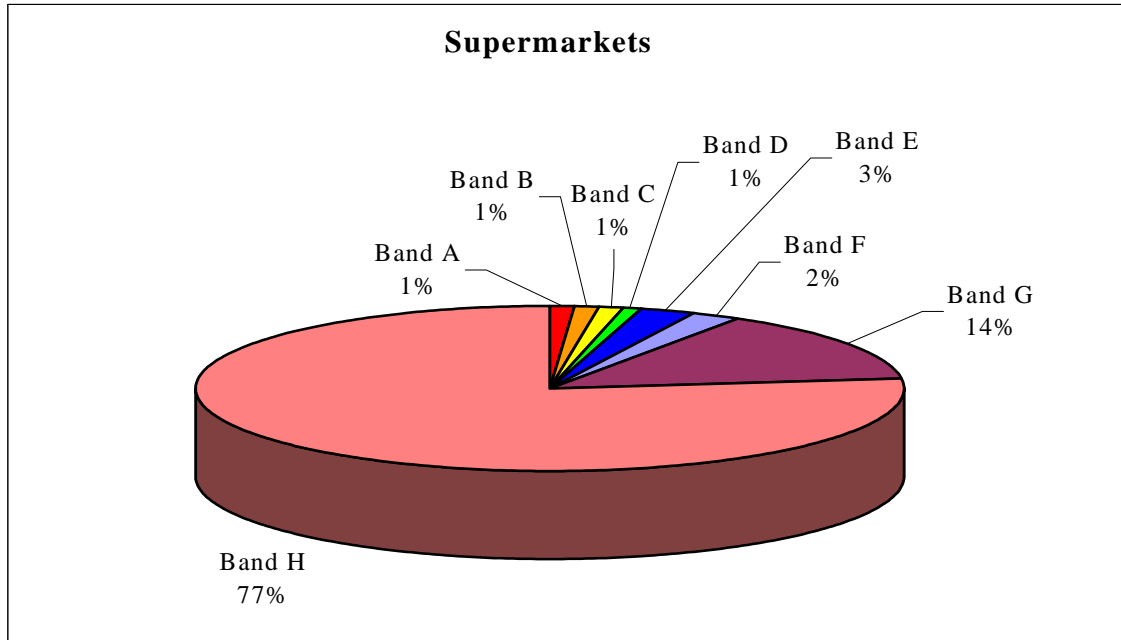
The aggregate % in each band is depicted below.



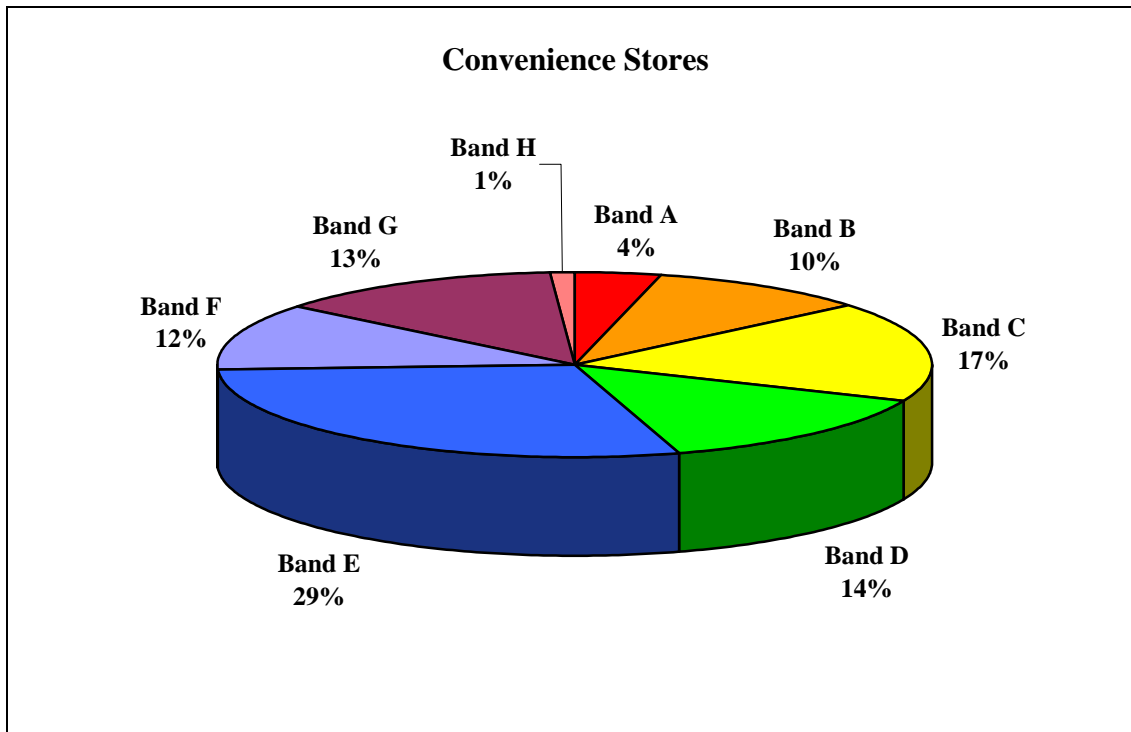
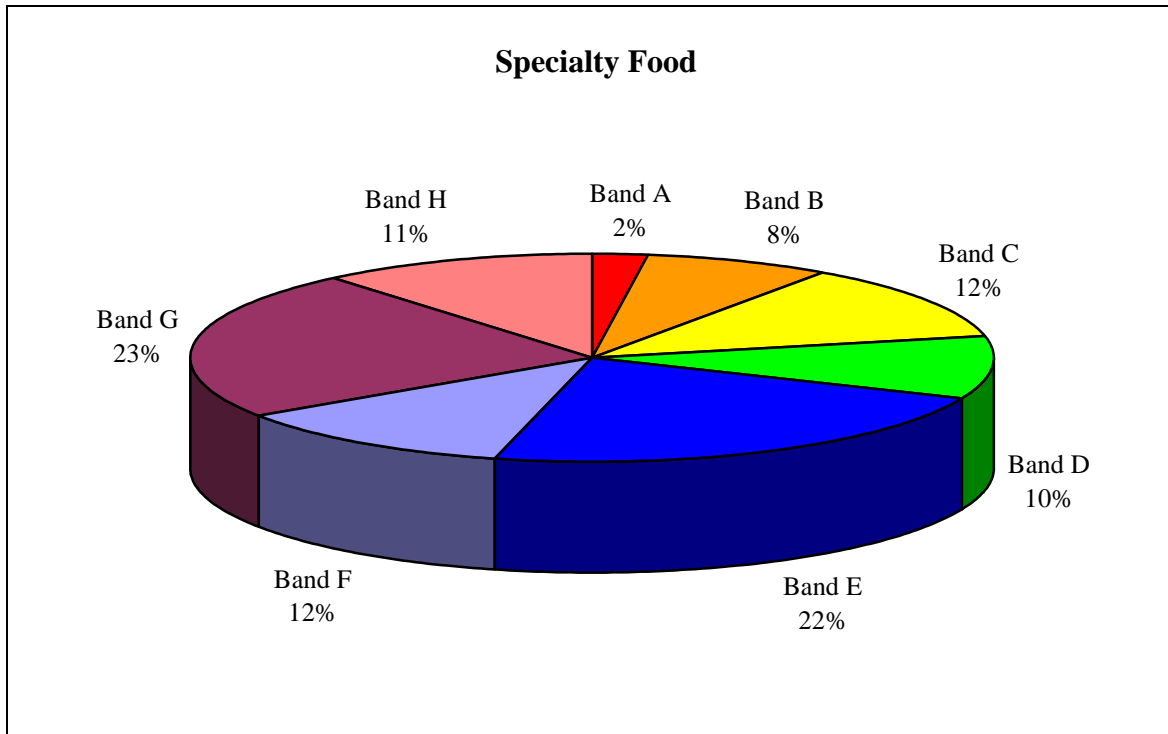
Source: STARS Management Activity Report 12/18/03

## Store Characteristics

Firms that represent 86% of the total authorized firms and 98% of the food stamp benefit redemptions are shown below.



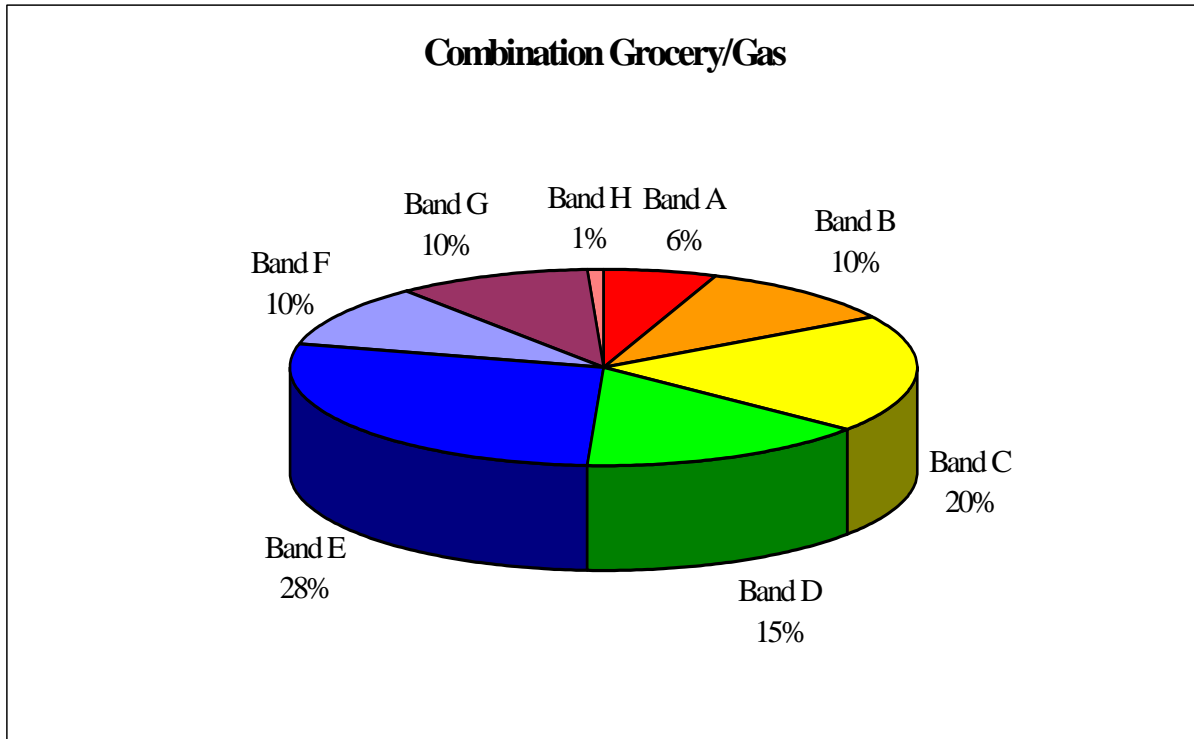
## Store Characteristics



Source: STARS Management Activity Report 12/18/03

## Store Characteristics

---



Source: STARS Management Activity Report 12/18/03

## Store Characteristics

The following shows the Number of Authorized Firms and Redemptions by State:

Region Name	State Name	Number of Authorized Firms	Total Redemption Amt
Northeast	Connecticut	1,374	\$158,260,307
	Maine	1,303	\$121,619,396
	Massachusetts	2,558	\$249,643,496
	New Hampshire	490	\$47,714,483
	New York	13,179	\$1,622,198,307
	Rhode Island	721	\$64,893,398
	Vermont	430	\$29,559,774
<b>Regional Totals</b>		<b>20,055</b>	<b>\$2,293,889,162</b>
Mid-Atlantic	Delaware	398	\$49,385,438
	District of Columbia	363	\$54,047,511
	Maryland	2,215	\$285,482,899
	New Jersey	3,512	\$334,617,971
	Pennsylvania	6,620	\$771,105,929
	Virgin Islands	154	\$18,454,625
	Virginia	3,558	\$362,216,641
	West Virginia	1,846	\$203,760,188
	<b>Regional Totals</b>		<b>18,666</b>
Southeast	Alabama	2,505	\$463,344,912
	Florida	7,645	\$981,544,621
	Georgia	3,939	\$771,395,925
	Kentucky	3,129	\$491,765,805
	Mississippi	2,364	\$348,489,444
	North Carolina	3,748	\$630,145,643
	South Carolina	2,106	\$439,795,960
	Tennessee	3,441	\$694,138,740
<b>Regional Totals</b>		<b>28,877</b>	<b>\$4,820,621,051</b>
Midwest	Illinois	5,357	\$1,010,121,762
	Indiana	2,560	\$486,079,649
	Michigan	4,810	\$758,338,132
	Minnesota	1,900	\$192,945,294
	Ohio	5,123	\$850,749,850
	Wisconsin	1,923	\$221,040,003
<b>Regional Totals</b>		<b>21,673</b>	<b>\$3,519,274,690</b>

## Store Characteristics

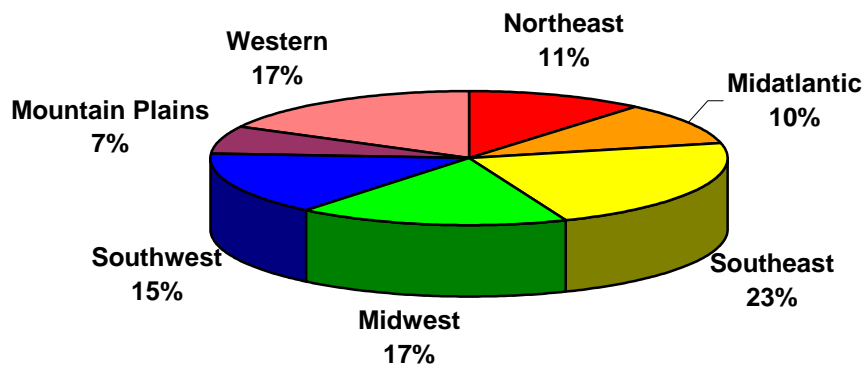
Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Southwest	Arkansas	1,475	\$307,134,741
	Louisiana	3,353	\$677,047,844
	New Mexico	1,011	\$181,817,212
	Oklahoma	2,109	\$353,125,780
	Texas	9,697	\$1,849,338,513
<b>Regional Totals</b>		<b>17,645</b>	<b>\$3,368,464,089</b>
Mountain Plains	Colorado	1,396	\$203,143,273
	Iowa	2,026	\$148,648,590
	Kansas	1,052	\$140,267,855
	Missouri	2,744	\$556,665,329
	Montana	647	\$67,284,015
	Nebraska	734	\$90,056,271
	North Dakota	449	\$37,271,699
	South Dakota	571	\$47,051,698
	Utah	739	\$94,807,392
	Wyoming	245	\$24,079,619
<b>Regional Totals</b>		<b>10,603</b>	<b>\$1,409,275,741</b>
Western	Alaska	458	\$63,917,557
	Arizona	2,268	\$479,930,680
	California	17,608	\$1,762,193,821
	Guam	263	\$51,583,947
	Hawaii	850	\$154,855,942
	Idaho	529	\$76,511,392
	Nevada	794	\$115,057,387
	Oregon	2,140	\$366,536,091
	Washington	2,883	\$389,747,446
	<b>Regional Totals</b>		<b>27,793</b>
<b>National Totals</b>		<b>145,312</b>	<b>\$20,950,930,201</b>



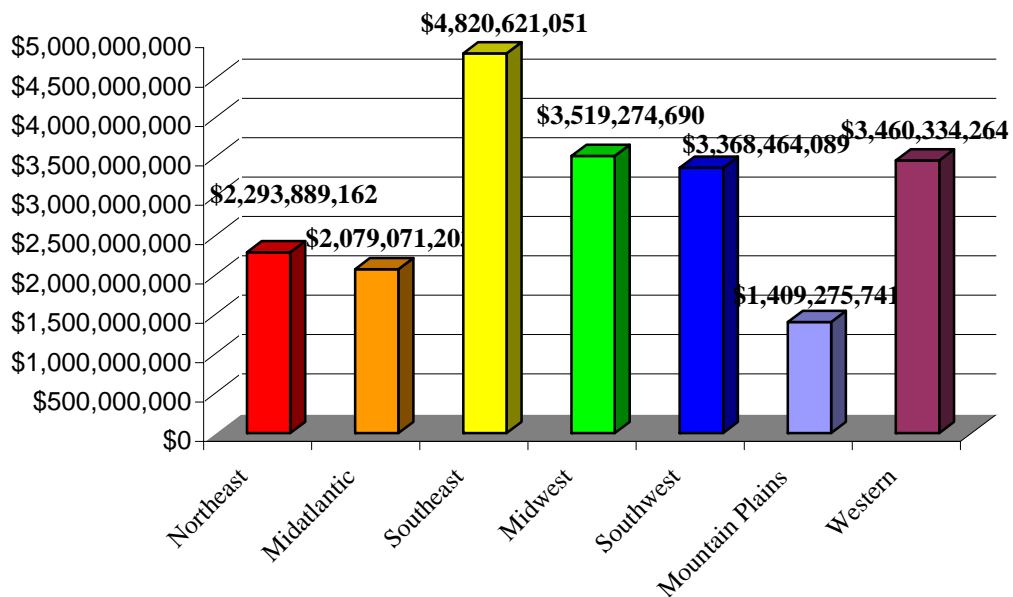
## Store Characteristics

In FY2003, Authorized Firms Redeemed **\$21,323,238,615** in food stamp benefits.

**Percentage of Food Stamp Benefits Redeemed by Region**



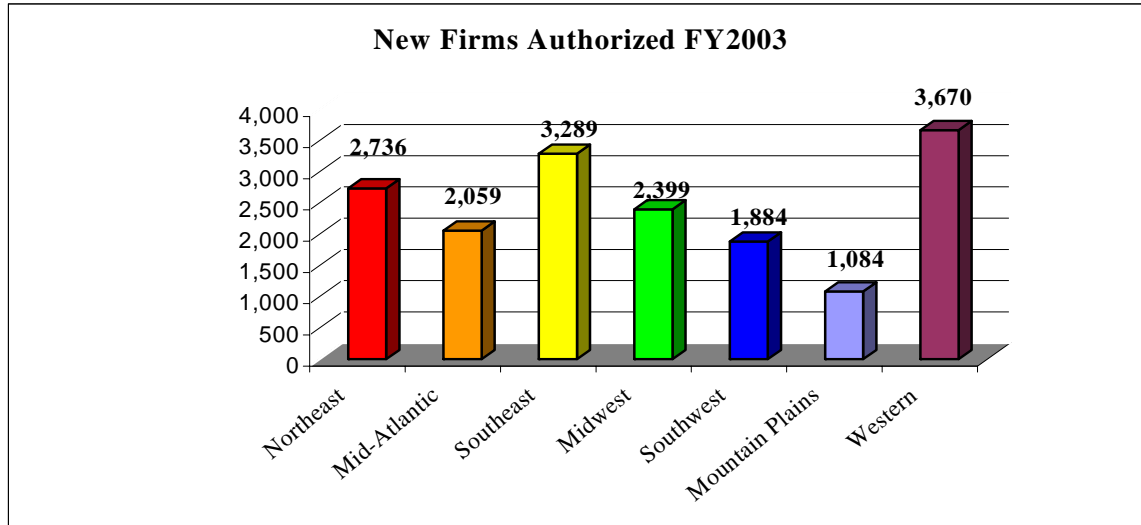
**Value of Food Stamp Benefits Redeemed by Region**



Source: STARS Management Activity Report 12/18/03

## New Authorization Activity

In FY2003, there were 17,121 new firms authorized to accept food stamp benefits. The new firms authorized were distributed among the regions as follows:



Fiscal Year	New Store Authorizations By Region							Total New Authorizations
	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	
1998	2,846	2,474	3,963	2,133	2,346	1,000	3,632	18,394
1999	2,896	2,041	3,127	2,056	2,130	1,061	3,413	16,724
2000	3,202	2,000	3,417	1,892	1,767	843	3,077	16,198
2001	2,943	2,362	3,641	2,770	2,314	884	2,990	17,904
2002	2,430	2,054	3,357	2,150	2,169	951	3,228	16,339
<b>2003</b>	<b>2,736</b>	<b>2,059</b>	<b>3,289</b>	<b>2,399</b>	<b>1,884</b>	<b>1,084</b>	<b>3,670</b>	<b>17,121</b>

Store authorization work involves authorizing new stores, and reinstating and reauthorizing stores. This total activity is shown below.

REGION	New Authorizations	Reinstated	Reauthorized	TOTAL
NERO	2,736	154	3,548	6,438
MARO	2,059	175	4,064	6,298
SERO	3,289	186	4,500	7,975
MWRO	2,399	185	4,812	7,396
SWRO	1,884	152	3,602	5,638
MPRO	1,084	59	3,436	4,579
WRO	3,670	220	6,546	10,436
<b>Totals</b>	<b>17,121</b>	<b>1,131</b>	<b>30,508</b>	<b>48,760</b>

Source: STARS Management Activity Report 12/18/03

## Monitoring Activity

### *Firms Removed from the Food Stamp Program*

In FY2003, the number of firms that left the FSP totaled 19,567. These firms left either by voluntarily withdrawing or as a result of adverse actions by FNS to remove them from the FSP.

REASON FOR REMOVAL FROM FSP					
Region	Voluntary Withdrawal	Involuntary Withdrawal	Term Disqualification	Permanent Disqualification	Total
Northeast	2,059	747	205	135	3,146
Mid-Atlantic	2,397	354	58	83	2,892
Southeast	2,935	426	146	211	3,718
Midwest	2,103	490	51	169	2,813
Southwest	1,945	319	57	52	2,373
Mountain Plains	1,027	133	27	7	1,194
Western	2,600	692	93	46	3,431
<b>TOTAL</b>	<b>15,066</b>	<b>3,161</b>	<b>637</b>	<b>703</b>	<b>19,567</b>

Source: STARS Management Activity Report 12/18/03

***Voluntary Withdrawal:*** Usually occurs due to changes in ownership of the store, or the nature of the business changes, and it no longer meets the eligibility standards so the owner withdraws.

***Involuntary Withdrawal:*** Can occur when the nature of the firm's business changes and FNS finds out and withdraws the store's authorization, or because the store had no redemption activity.

***Disqualified:*** Disqualified permanently or for a specified term for noncompliance with the Food Stamp Act and the FSP Regulations.

## Monitoring Activity

### *Retail Sanction Actions Based Primarily on EBT Analysis:*

Region	Permanent Disqualification	Temporary Disqualification	CMP	Warning Letter	Total Sanctions	Totals
NERO	37	4	0	35	41	117
MARO	46	4	1	215	51	317
SERO	39	23	8	114	70	184
MWRO	103	2	0	18	105	123
SWRO	45	26	9	139	80	219
MPRO	1	0	0	3	1	5
WRO	11	1	0	1	12	25
<b>Totals</b>	<b>282</b>	<b>60</b>	<b>18</b>	<b>525</b>	<b>360</b>	<b>990</b>

Source: EBTDQFY2003.pkm

### *Disqualifications:*

PENALTY BREAKDOWN BY FISCAL YEAR			
Fiscal Year	Permanent Disqualification	Term Disqualification	Total Firms Disqualified
1999	976	284	1,260
2000	696	561	1,257
2001	693	696	1,389
2002	689	818	1,507
<b>2003</b>	<b>703</b>	<b>637</b>	<b>1,340</b>

Source: STARS Management Activity Report 12/18/03

## Monitoring Activity

---

### *Retailer Operations – Activity Tracking*

#### SEAR

The Store Eligibility Accuracy Rate (SEAR) is a measure of how well FNS is doing in ensuring that only stores that meet the Food Stamp Program's eligibility criteria accept food stamps. To date there have been five SEAR measurements, Fiscal Years 1999, 2000, 2001, 2002, and 2003.

SEAR takes place during a two-month period each year. Data is collected on a nationwide, randomly selected, statistically valid sample of stores.

SEAR results for the last five years are shown below:

Fiscal Year	# of Authorized Firms	% Eligible	% Ineligible
1999	164,467	98.3%	1.7%
2000	157,353	98.5%	1.5%
2001	151,709	99.0%	1.0%
2002	146,423	99.0%	1.0%
<b>2003</b>	<b>145,312</b>	<b>99.2%</b>	<b>1.0%</b>

Source: Annual SEAR Reports

## Monitoring Activity

### *Retailer Operations – Activity Tracking*

Regional SEAR findings are shown below.

Region	FY2003		FY2002		FY2001	
	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible
Northeast	20,055	99.2%	22,359	100%	21,261	99.6%
Mid-Atlantic	18,666	98.7%	20,658	99.2%	19,946	99.2%
Southeast	28,877	99.4%	33,315	98.1%	30,711	98.3%
Midwest	21,673	98.9%	23,093	100%	22,860	100%
Southwest	17,645	100%	19,376	99.0%	18,779	98.0%
Mountain Plains	10,603	100%	11,175	99.2%	10,859	99.2%
Western	27,793	98.6%	27,304	99.4%	27,293	99.0%
<b>TOTAL</b>	<b>145,312</b>	<b>99.2%</b>	<b>146,423</b>	<b>99.1%</b>	<b>151,709</b>	<b>98.9%</b>
Region	FY2000		FY1999			
	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible		
Northeast	22,334	100%	22,119	100%		
Mid-Atlantic	20,663	97.4%	22,426	99.5%		
Southeast	33,371	98.5%	35,471	99.0%		
Midwest	23,090	99.2%	24,334	98.8%		
Southwest	19,385	98.9%	20,927	98.4%		
Mountain Plains	11,171	96.4%	11,404	97.2%		
Western	27,329	98.8%	27,786	95.7%		
<b>TOTAL</b>	<b>157,353</b>	<b>98.5%</b>	<b>164,467</b>	<b>98.3%</b>		

Source: Annual SEAR Reports

## Action Taken Against Firms

### *Civil Money Penalty*

**A** Civil Money Penalty (CMP) is imposed against an authorized firm in lieu of disqualification or against a disqualified owner who sells his/her store before the expiration of the disqualification period. FNS collected \$1.29M in civil money penalties in FY2003. There are three different types of CMPs:

#### **A. Hardship**

Used in place of disqualification in those situations in which the disqualification would cause a hardship, not just an inconvenience, to recipients.

#### **B. Trafficking**

A Trafficking CMP is imposed in lieu of a permanent disqualification for firms trafficking in the FSP. Firms must meet specific eligibility criteria and be approved by FNS.

#### **C. Transfer of Ownership**

A transfer of ownership CMP is imposed against an owner who sells his/her store prior to completion of a disqualification period or payment in full of a hardship or trafficking CMP.

### **CMPs Established during FY2003**

#### **Hardship CMP**

	<b>CMPs Established</b>	<b>CMP Amounts Assessed</b>
Northeast	14	\$113,322
Mid-Atlantic	13	\$66,590
Southeast	82	\$485,778
Midwest	17	\$84,572
Southwest	12	\$46,342
Mountain Plains	13	\$28,945
Western	24	\$92,630
<b>Total</b>	<b>175</b>	<b>\$918,179</b>

#### **Trafficking CMP**

	<b>CMPs Established</b>	<b>CMP Amounts Assessed</b>
Northeast	1	\$6,500
Mid-Atlantic	0	\$0
Southeast	1	\$40,000
Midwest	2	\$38,120
Southwest	0	\$0
Mountain Plains	0	\$0
Western	1	\$29,385
<b>Total</b>	<b>5</b>	<b>\$114,005</b>

#### **Transfer of Ownership CMP**

	<b>CMPs Established</b>	<b>CMP Amounts Assessed</b>
Northeast	7	\$219,714
Mid-Atlantic	1	\$9,528
Southeast	2	\$28,262
Midwest	16	\$445,831
Southwest	7	\$138,022
Mountain Plains	0	\$0
Western	12	\$430,666
<b>Total</b>	<b>45</b>	<b>\$1,272,023</b>

Source: STARS Management Activity Report  
12/18/03

## Retailer Investigations Branch

The Office of the Inspector General (OIG) has responsibility for all investigative activity in the U.S. Department of Agriculture (USDA). However, authority to conduct retailer compliance investigations within the Food Stamp Program was delegated to the Food and Nutrition Service (FNS). In January 1977, the Retailer Investigations Branch (RIB), formerly named the Compliance Branch (CB), was formed to carry out the investigative function within FNS.

Organizationally, RIB is part of the FSP headquarters office. RIB has four (4) out-stationed Area Offices (located in Chicago, Dallas, Memphis and Trenton), each managed by a Compliance Officer-in-Charge.

Investigations are conducted by a nationwide staff of investigators. All RIB investigators receive professional training at the Federal Law Enforcement Training Center at Glynco, Georgia.

RIB concentrates its investigations on stores with larger amounts of food stamp redemptions. Its priority has been to conduct investigations of trafficking (the exchange of food stamp benefits for cash, generally at a discount rate of about 50 cents on the dollar) or sale of ineligible goods.

During FY2003, RIB conducted investigations of 4,453 firms nationwide. Over 39% (1,637) of these investigations documented evidence of FSP violations. Yearly food stamp redemptions for these 1,637 firms totaled \$69.8M. Of the 1,637 positive investigations, RIB investigators uncovered trafficking in 334 firms with annual redemptions of \$19.3M.

In FY2003, RIB, in addition to ongoing investigative activity, conducted eight mini-task force investigative operations in: Anchorage and Bethel, AK; Mesa, Phoenix, and Tucson, AZ; Miami and Tampa, FL; Atlanta, GA; Southeastern KY; Central NC; and Milwaukee, WI.





## Retailer Investigations Branch Historical Statistics

### *Investigations*

FISCAL YEAR	TOTAL STORES INVESTIGATED	TOTAL POSITIVE INVESTIGATIONS	PERCENTAGE OF TOTAL
1999	4,622	2,005	43.4%
2000	4,592	1,894	41.2%
2001	4,232	1,628	38.5%
2002	4,108	1,646	40.1%
<b>2003</b>	<b>4,453</b>	<b>1,637</b>	<b>39.9%</b>

FISCAL YEAR	TOTAL NON-TRAFFICKING CASES	TOTAL TRAFFICKING CASES	PERCENTAGE OF POSITIVE
1999	1,521	484	24.1%
2000	1,401	493	26.0%
2001	1,289	339	20.8%
2002	1,362	284	17.3%
<b>2003</b>	<b>1,303</b>	<b>334</b>	<b>20.4%</b>

Source: AIMS Annual Report 10/2003

## Electronic Benefit Transfer (EBT) Branch

In July 1993, the Secretary challenged all States to initiate planning activities for food stamp EBT by the end of 1996. This was based on evidence that EBT was a better issuance method for Program recipients. In addition, EBT saved administrative costs, helped stores and banks handle food stamp benefits, and provided valuable new tools to combat fraud. EBT has been shown through FNS evaluations to be a better system for recipients, retailers, banks and government administrators. In 1996, Welfare Reform legislation mandated that all States implement EBT by October 2002. FNS assesses and analyzes 78 million EBT transactions per month. As of September 2003, 95.68 percent of FSP benefits were issued via EBT.

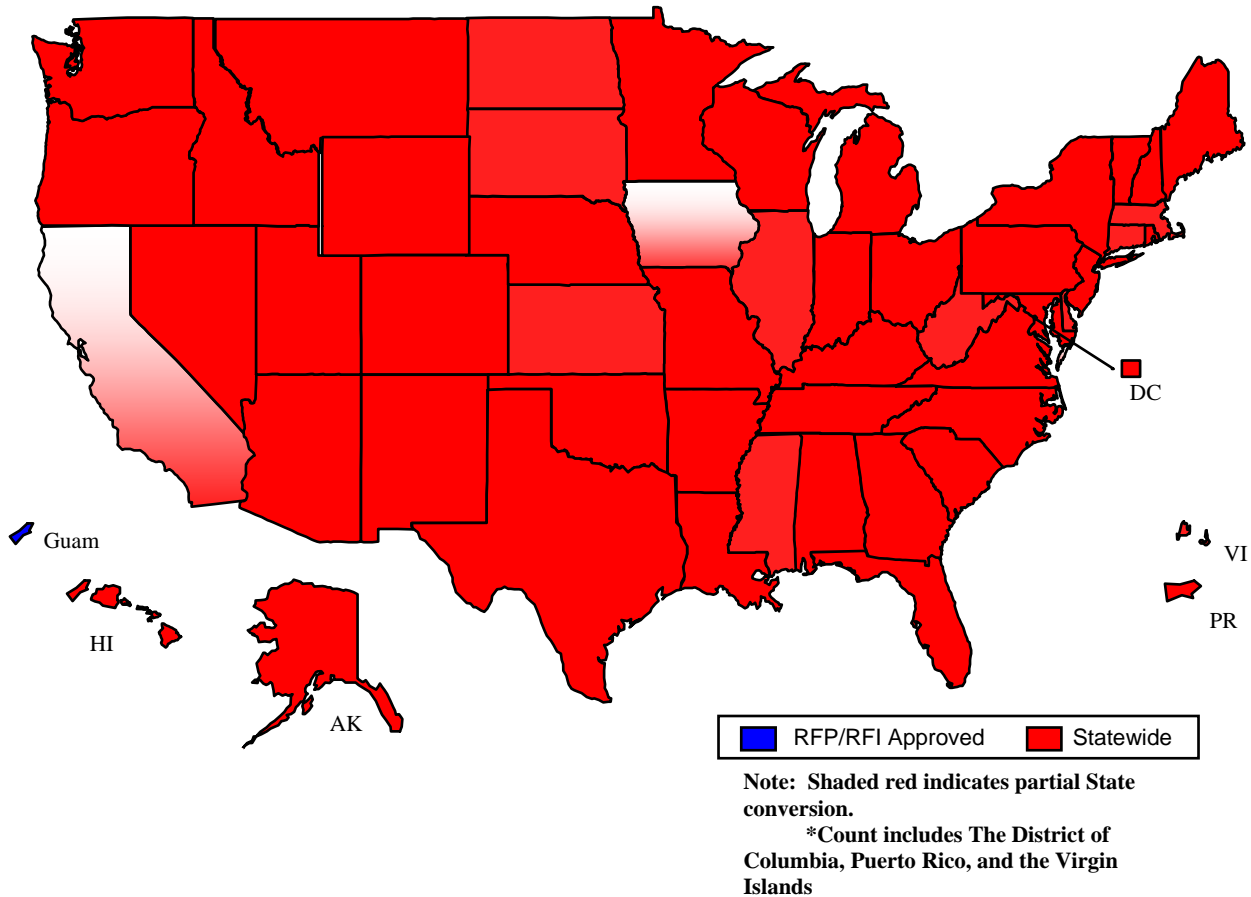
The EBT Branch is tasked with making nationwide EBT a reality. The EBT Branch resolves policy issues related to the implementation and operation of EBT systems and disseminates the policy through rulemaking and other means. The staff reviews for approval the States' Advanced Planning Documents and Requests for Proposals for EBT contract procurement. The staff also reviews EBT system designs and attends acceptance testing to be sure the systems are ready before they are put into production.

There are currently two types of EBT systems in operation; the online, magnetic stripe card system and the offline, smart card system. The online system works very similar to a debit card system. Instead of food stamp benefits in the form of paper coupons, recipients are issued an EBT card that can be used at a FNS authorized retail store. Clients run their EBT card through a point-of-sale device at the checkout counter and then enter their Personal Identification Number (PIN) in order to access their benefits to pay for the food purchase. The receipt tells recipients the dollar amount left in their account for their next shopping trip. Ongoing benefits are directly posted through the State-administering agency to a household's account on a monthly basis. The main variation of the offline system is that benefits are loaded directly into a computer chip on the recipient's EBT card instead of onto an online accounting system that is linked to, but separate from, the card. Only Ohio and Wyoming operate offline systems at this time.



## Electronic Benefit Transfer (EBT) Branch

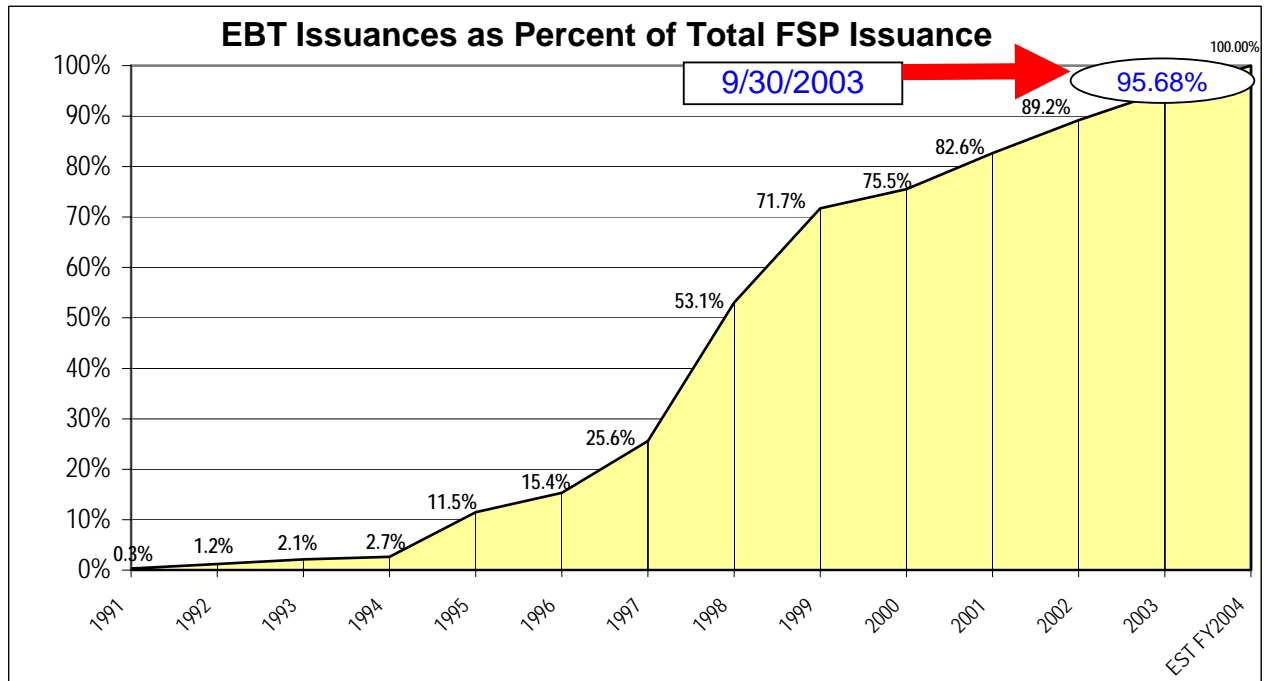
### FSP EBT- September 2003



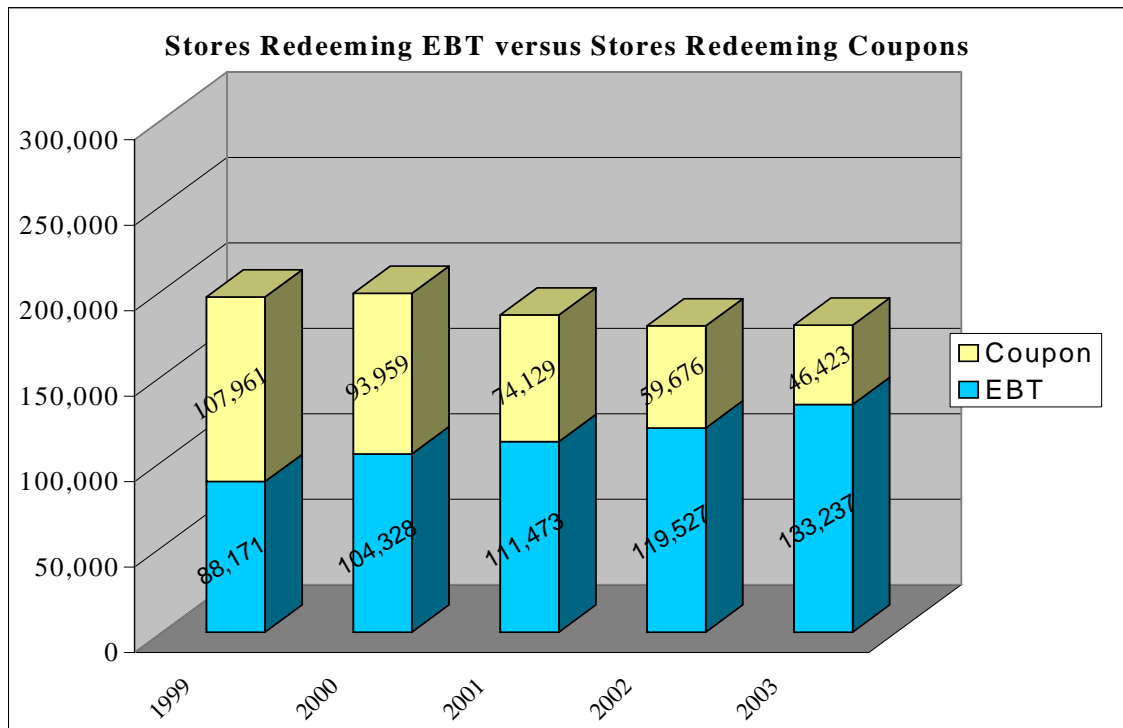
As of September 30, 2003, 50 States, the District of Columbia, Virgin Islands, and Puerto Rico have online EBT systems; 51 are Statewide. California and Iowa had begun Statewide rollout, and Guam was in the developmental stage. Two of the States, Ohio and Wyoming, use off-line smartcard technology.

## Electronic Benefit Transfer (EBT) Branch

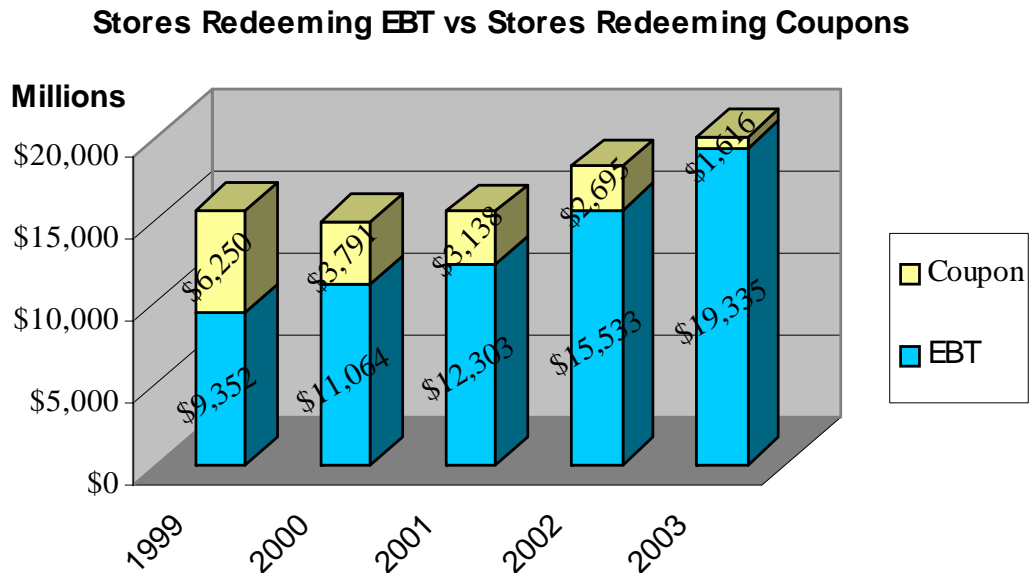
Most of the EBT systems deliver both food stamp benefits and cash assistance programs. More than 95 percent of food stamp benefits are being delivered by the EBT systems.



## Electronic Benefit Transfer (EBT) Branch



\*Some stores redeem both electronic and paper benefits.



Source: STARS Management Activity Report 12/18/03

## Administrative Review Process

---

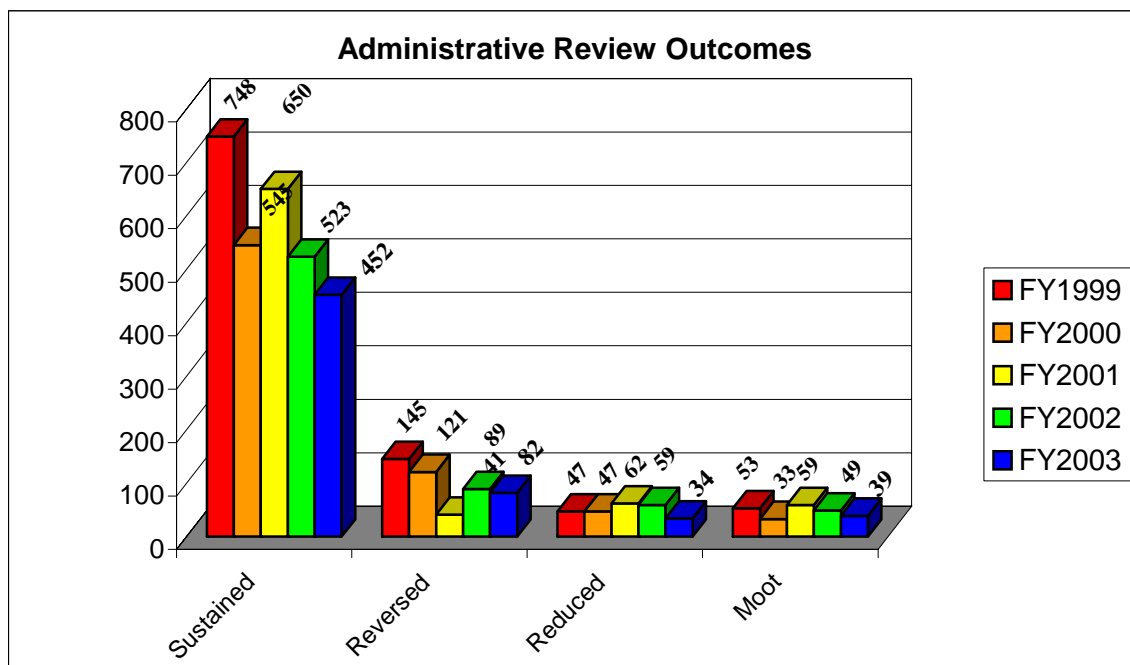
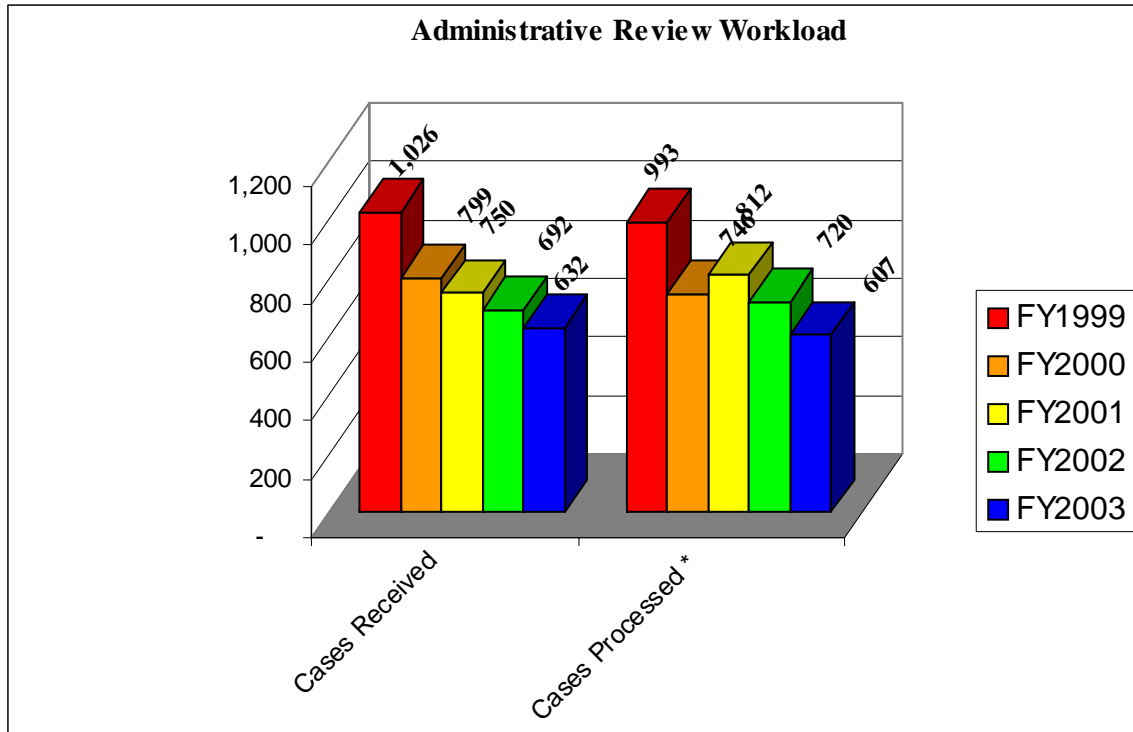
**R**etail food stores and other eligible institutions that are the subject of certain adverse actions taken by an FNS field office can appeal for an administrative review of that action. Such appeals are received and processed by the Administrative Review Branch (ARB). Along with the branch chief, there are currently four Administrative Review Officers (AROs) designated by the FNS Administrator to conduct administrative reviews and make final determinations. The purpose of the review is to ensure that the field office action under appeal is consistent with the law and regulations governing the Program. AROs have the authority to reverse or otherwise alter any field office decision found to be in error or inconsistent with FNS policy. The decision is the final administrative action of the USDA and subject only to judicial review. Following are the actions that can be appealed:

- (1) Denial of an application or withdrawal of authorization to participate in the Program;
- (2) Disqualification from the Program with certain exceptions;
- (3) Imposition of a monetary fine or Civil Money Penalty (CMP);
- (4) Assertion of a Fiscal Claim;
- (5) Denial of part or all of a claim submitted against FNS; or,
- (6) Forfeiture of all or part of a collateral bond.



# Administrative Review Process

## Administrative Review Workload and Outcomes



Source: Administrative Review Branch

## Special Projects Highlights

---

**E**ach year the Benefit Redemption Division undertakes several priority projects that focus on improving retailer operations. The Special Projects Highlights Section of this report provides information on projects conducted in FY2003. In many cases the projects involve significant input from our partners.

### Coupon Phase Out

**D**ue to the EBT mandate, FNS is rapidly eliminating the use of paper food coupons. Many States have already closed out their coupon inventory completely and more will be doing the same in the upcoming year. Additionally, implementation of interoperability in all States in 2003 except for Wyoming and Ohio minimizes the need for coupon conversions. FNS stopped producing coupons in 2002 and in 2003 destroyed the majority of coupons housed at the storage facility in Tennessee. FNS maintains a limited inventory based on projected needs for California and Guam. California has implemented EBT in more than half the State and will finish in June 2004. Guam is scheduled to begin later this year and will finish by September 2004.

### Watch List Gets the Job Done!

**T**hat was the recent evaluation of the work group that conceived of the Watch List three years ago. The implementation of the Watch List at the beginning of Fiscal Year 2003 ushered in a new paradigm for managing potential violating stores. It enables the agency to address ALL potential violating stores, provides reports for managers to understand what the work is, tracks progress on cases, and ensures focus on the most egregious violators. Field offices are now responsible for examining every store on the Watch List, the pool of suspicious stores drawn from the ALERT system. These examinations usually entail first ascertaining which stores warrant no further action due to false ALERT scans generated by business peculiarities or other extenuating circumstances, then initiating paper cases on the most egregious remaining stores, and, finally, submitting RFIs on the rest. In this way, all stores on the Watch List are addressed and attributed with either open paper cases or onsite investigations, or closed for no further action. Nationally, the universe of stores on the Watch List averages over 10,000 stores monthly. About 75% of all RIB investigations (roughly 3,400 per year) now arise from Watch List generated RFIs. Improvements to the Watch List, recommended by the Watch list work group and the Parameter Coordinators, have either already been implemented or are currently underway. Among these include a clarification of the various definitions of NFA codes designating no further action. In addition, Watch List reports have also been supplemented by various external ad hoc reports that show what some of the trends have been over the past year. These can be found online on the BRD Intranet at:  
[http://www.home.fnsnet/brd/system\\_resources/reports.htm](http://www.home.fnsnet/brd/system_resources/reports.htm)



## Special Projects Highlights

---

### Transition Guide

This year, FNS and Booz Allen Hamilton developed guidelines for State agencies called “Electronic Benefits Transfer (EBT) System Transition Guide.” The publication provides guidance, recommendations, best practices, and lessons learned to States involved in an EBT system transition. The guide is available on the EBT Partner web.

### STARS I & II

The Store Tracking and Redemption System (STARS) is the major system that supports the retailer management and Food Stamp benefit redemption accountability responsibilities of the Agency. It is used by most offices in the Agency’s Headquarters, Regional and Field Office structure, and by several organizations in the Department. The legacy system came online in the early 1990s, and has outgrown its technical and administrative environments and needs to be replaced. STARS I will be replaced with STARS II in the first few weeks of FY2005. Following extensive functional re-definitions, requirements and design work, actual software development began late in FY2003. In FY2004, development continues, with independent Quality Assurance testing; and, the year will end with user training and full system deployment in preparation for roll-out when the FY2004 work is closed out in the legacy system.

### Retailer Outreach

Our first in-house mailer, *Food Stamp Notes*, was finalized and sent to all authorized retailers in the Program. This new mailer provides critical updates on the Program and raises retailer awareness of the outreach campaign. We plan to publish this on a biannual basis. We continue to exhibit at local and national trade shows in our ongoing efforts to build and strengthen retailer partnerships. Participation in national trade shows for FY2003, include the National Association of Convenience Stores’ Annual Convention, in February 2003 (Las Vegas, NV), and two of Food Marketing Institute’s MarketTechnics; one held in February (Dallas, TX), and the other in May (Chicago, IL). In addition, we solicited feedback from EBT associations and State agencies to see how third party processors could get involved in the outreach campaign and to obtain feedback for our EBT fact sheet, currently in revision.

### Interoperability

The Electronic Benefit Transfer Interoperability and Portability Act of 2000 mandates that all State EBT systems be interoperable by October 2002 or once the State’s current EBT contract expires, whichever comes later. The Act also provides for 100 percent Federal funding, up to an annual limit of \$500,000, for switching and settlement costs associated with interstate EBT food stamp transactions. Thirty-eight State agencies requested funding and were paid approximately \$315,000 for FY2003 interoperability services.