



# **Food Stamp Electronic Benefit Transfer Systems**

## **A Report to Congress**

Prepared by:  
Food and Nutrition Service  
3101 Park Center Drive  
Alexandria, Virginia

October 2003

## Introduction

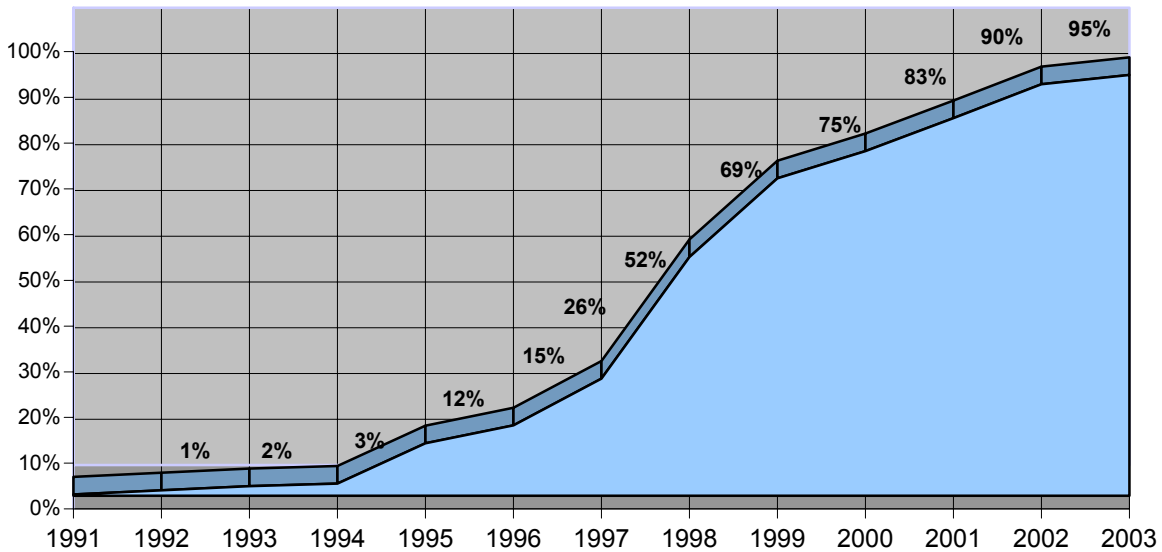
The Farm Security and Rural Investment Act of 2002, Public Law 107-171, Section 4111(b) requires the Secretary of Agriculture to submit a report on the status of Food Stamp Electronic Benefit Transfer (EBT) systems to the Committee on Agriculture of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate by October 1, 2003. Congress required the report to address:

- The status of use by each State agency of EBT systems;
- The number of vendors that have entered into a contract for an EBT system with a State agency;
- The number of State agencies that have entered into an EBT system contract with multiple EBT system vendors, and how responsibilities are divided among the various vendors;
- With respect to any State in which an EBT system is not operational throughout the State as of October 1, 2002, an explanation of the reasons why, how the reasons are being addressed, and the expected date of operation of an EBT system throughout the State;
- A description of the issues faced by any State agency that has awarded a second EBT system contract in the 2-year period preceding the date of the report (between October 2001 and September 2003), and the steps that the State agency has taken to address those issues;
- A description of the issues faced by any State agency that will award a second EBT system contract with the 2-year period beginning on the date of the report (between October 2003 and September 2005), and strategies that the State agency is considering to address those issues;
- A description of initiatives being considered or taken by the Department of Agriculture, food retailers, EBT system vendors, and client advocates to address any outstanding issues with respect to EBT systems;
- An examination of areas of potential advances in electronic benefits delivery in the 5 to 10 year period beginning on the date of the report (October 2003), including access to EBT systems at farmers' markets, the increase use of transaction data from EBT systems to identify and prosecute fraud, and fostering of increased competition among EBT system vendors to ensure cost containment and optimal service.

In December 2002, FNS published a notice in the Federal Register to solicit public comment on specific topics related to initiatives and advances in electronic benefits transfer (EBT) systems for the issuance of food stamp benefits. FNS received 24 comments from Food Stamp Program State agencies, retailer groups, hunger and nutrition groups, legal groups, and EBT processors. Where applicable, these comments have been incorporated in the report.

## Status of EBT System Implementation

As of August 2003, over 95% of Food Stamp Program (FSP) benefits were being issued through EBT to approximately 8.4 million households. In the 12 months leading up to August 2003, nearly 367 million EBT purchases totaling \$18.85 billion were processed through authorized retail locations. By October 2003, all States will be interoperable, in accordance with the Interoperability and Portability Act of 2000, with the exception of the two smart card States exempted under the Act.



States that did not make the October 2002 deadline have made significant inroads this year toward completing the goal of statewide EBT implementation. By October 2003, Food Stamp EBT systems will be operational statewide in every State except California and Guam. As of October 2003, California will be approximately 57% operational, with statewide conversion expected to be complete by September 2004. Guam is expected to have an EBT system implemented by June 2004.

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## EBT Primary Vendors

Primary vendors and subcontractors provide EBT system services to the majority of State agencies. As discussed in the following section, several State agencies act as the prime contractor, and negotiate individual contracts for various EBT system services. Currently, there are 6 primary vendors with State EBT contracts, and 6 vendors providing the actual EBT host transaction processing. The primary vendors include Affiliated Computer Services (ACS), Citicorp Electronic Financial Services (EFS), eFunds

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(formerly Deluxe Data), GM Group<sup>1</sup>, Northrop Grumman, and Stored Value Systems (SVS). EBT host processing services may be provided by the primary vendor, or may be subcontracted. However, there has been a trend away from these partnering relationships in re-procurements. Vendors providing host processing for EBT transactions include Citicorp EFS, eFunds, Northrop Grumman, Transactive<sup>2</sup>, Total System Services (TSYS), and SVS.

<b>State</b>	<b>Prime</b>	<b>Processor</b>
Alabama	eFunds	eFunds
Alaska	Citibank	eFunds
Arizona	Citibank	eFunds
Arkansas	ACS	ACS
California	Citibank	Citibank
San Bernardino	eFunds	eFunds
San Diego	eFunds	eFunds
Colorado	Citibank	Citibank
Connecticut	Citibank	Citibank
Delaware	eFunds	eFunds
DC	ACS	Citibank
Florida	Citibank	Citibank
Georgia	Citibank	Citibank
Guam	Citibank	Citibank
Hawaii	Citibank	Citibank
Idaho	Citibank	Citibank
Illinois	ACS	ACS
Indiana	Citibank	Citibank
Iowa	ACS	ACS
Kansas	eFunds	eFunds
Kentucky	Citibank	eFunds
Louisiana	Citibank	Citibank
Maine	ACS	ACS
Maryland	Citibank	Citibank
Massachusetts	Citibank	eFunds
Michigan	Citibank	Citibank
Minnesota	eFunds	eFunds
Mississippi	ACS	Total System Services
Missouri	eFunds	eFunds
Montana	TRW	State
Nebraska	Citibank	Citibank

<sup>1-2</sup> GM Group is the primary vendor for Puerto Rico, and Transactive is the processor. Puerto Rico operates its Nutrition Assistance Program under a block grant from FNS.

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<b>State</b>	<b>Prime</b>	<b>Processor</b>
Nevada	Citibank	Citibank
New Hampshire	Citibank	eFunds
New Jersey	eFunds	eFunds
New Mexico	Citibank	Citibank
New York	Citibank	Citibank
North Carolina	eFunds	eFunds
North Dakota	Citibank	Citibank
South Dakota	Citibank	Citibank
Ohio	Citibank	Stored Value Systems
Oklahoma	ACS	Citibank
Oregon	eFunds	eFunds
Pennsylvania	Citibank	Citibank
Rhode Island	Citibank	eFunds
South Carolina	Citibank	Citibank
Tennessee	Citibank	eFunds
Texas	State	Northrup Grumman
Utah	eFunds	eFunds
Vermont	Citibank	eFunds
Virgin Islands	Citibank	Citibank
Virginia	Citibank	Citibank
Washington	Citibank	Citibank
West Virginia	Citibank	Citibank
Wisconsin	Citibank	Citibank
Wyoming	State	Stored Value Systems

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### States with Multiple EBT Vendors

State agencies have entered into a variety of contract arrangements with multiple EBT vendors. In the majority of cases, State agencies receive a full package of EBT services from the primary vendor and the vendor’s subcontractors. In other cases, State agencies break off pieces of the full package and negotiate separate contracts, such as for the purchase of EBT cards. State agencies may perform certain EBT services in-house to control costs or to meet the needs of State operations. Those in-house services may include such functions as retailer training and management, EBT card distribution and management, and customer service.

#### State as Prime Contractor

Three State agencies – Montana, Texas, and Wyoming – have entered into contract relationships with EBT contractors, but have taken on many of the roles and responsibilities normally assumed by a primary contractor. Portions of the following

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State descriptions are taken from the *EBT Alternative Analysis*, August 2000. A complete copy of the analysis is available at <http://www.fns.usda.gov/fsp/EBT/>.

Montana: In Montana, TRW, Inc. is the primary contractor and the State acts as the EBT processor. Montana contracted with TRW to build and support the EBT authorization platform that provides the functionality for on-line EBT transaction processing. The system is PC-based and runs in-house on State computer equipment, and is monitored by State Computer Operations personnel. Other necessary EBT system functions are provided through additional contracts with existing service providers. The system Montana has designed is less expensive and smaller in scale than other systems currently in existence, but sufficient to handle the relatively small recipient caseload in the State. This approach may serve as an alternative for States with caseloads of less than 100,000. The system, which is in the public domain, can be made available to other smaller States that are looking for an alternative EBT solution.

Texas: A company named Transactive developed the first EBT system in Texas. After the contract expired in 2001, the State was faced with Transactive's plan to leave the EBT market. Texas began to look at alternatives to purchasing EBT services that would provide the best interest and best value for the State. In particular, the State analyzed the methodology for procuring and operating an EBT system based on current models, and explored models not yet in use. The *Texas EBT Alternatives Analysis* (January 1999) provided technical, programmatic, and funds management evaluations of eight different approaches to procuring EBT services. Upon completion of the analysis, the State made the decision to become the prime EBT contractor, taking over the management and coordination of up to three contractors for three outsourced EBT functions. The State negotiated a contract with Transactive to lease the EBT software, and contracted separately with Northrup Grumman, Affiliated Computer Systems, and GTECH to provide central processing, retailer management, and call center services.

Wyoming: Toward the end of Wyoming's smart card pilot phase, the State released an RFP for a statewide, full service EBT vendor. The bid responses the State received were not considered to be within a viable price range, so the State decided to act as its own prime contractor. A new RFP was developed to identify services in separate functional areas, and to identify in detail the responsibilities of the State and the responsibilities of the contractors. Contractors were encouraged to team with potential subcontractors and to respond to multiple functional areas to reduce the State's contract management responsibilities. The State EBT Project Team, consisting of staff from the Food Stamp and WIC Programs, now manages the resulting eight contracts.

### State as Prime: Pros and Cons

The *EBT Alternatives Analysis* (August 2000) found that States acting as the prime contractor have experienced the following advantages and disadvantages to the approach:

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### Pricing

- Advantage – The State may receive more favorable pricing based on increased vendor competition. The State may benefit from economies of scale such as shared services, e.g., commercial call center services shared with private corporations.
- Disadvantage – It may be more difficult to translate separate functional pricing for evaluation purposes. Depending upon the size of the State, the State may not receive premium services from the vendor. For example, the State procurement of card stock directly from the vendor.

### Ease of preparation of a procurement vehicle

- Advantage – None
- Disadvantage – An increased level of effort is required to issue multiple RFPs (or to define separate requirements within one RFP) and to define roles and responsibilities within the project.

### Programmatic

- Advantage – The State is able to assess the level of service and have greater control over costs during ongoing operations.
- Disadvantage – The State must act as project manager over multiple vendors.

### Technological approach

- Advantage – The State is able to separately pursue or test advanced technologies, such as smart cards as additional or optional services.
- Disadvantage – The State must coordinate with multiple vendors when pursuing additional or optional services. The State may have to perform on a 24-hour basis as the intermediary between vendors.

While States acting as the prime contractor have found that they can gain efficiencies by letting multiple contracts for EBT services, contract management is more complex and requires staff resources for oversight purposes. As a result, most States opt to procure turnkey EBT systems.

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### **States not Implemented by October 1, 2002**

Seven State agencies had not completed implementation of a statewide EBT system by October 1, 2002: California, Delaware, Guam, Iowa, Maine, West Virginia, and the Virgin Islands. These States received waiver approval from FNS to extend the EBT implementation deadline (Waiver authority per the Personal Responsibility and Work Opportunity Reconciliation 1996, Section 825(a)(i)(1)(A) Implementation.--Not later

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than October 1, 2002, each State agency shall implement an electronic benefit transfer system under which household benefits determined under section 8(a) or 26 are issued from and stored in a central databank, unless the Secretary provides a waiver for a State agency that faces unusual barriers to implementing an electronic benefit transfer system). As part of the waiver approval, States were required to submit a schedule for EBT implementation with key milestones identified. FNS worked closely with these States to provide technical assistance as necessary and to monitor their progress.

These State agencies have made significant progress toward EBT implementation. All but Guam have implemented pilots or have achieved statewide implementation since the October 1, 2002 deadline. All of these States are on schedule to achieve statewide EBT implementation by September 2004.

States that did not meet the October 1, 2002 implementation deadline faced a variety of issues including high EBT costs in comparison to paper issuance costs, lack of sufficient staff resources, lack of technical expertise, and competing priorities.

The following provides descriptions of the issues that may have delayed implementation, and the current status of each State:

Delaware experienced delays due to changes in a State-required technological approach (from optical laser to magnetic stripe card technology), non-responsiveness from the bidder community, and cost-prohibitive bids. A State procurement ruling allowed the State to pursue a sole-source contract with eFunds. Delaware began pilot operations in June 2003, and is scheduled to complete statewide rollout by September 2003.

Guam was delayed due to a number of internal impediments including a territory budget crisis, Y2K problems, and competing priorities relative to the implementation and maintenance of the Food Stamp eligibility system. Guam expects to sign a contract with Citicorp and to be fully implemented statewide by June 2004.

Iowa operated a small, voluntary EBT pilot demonstration for several years beginning April 1993 prior to pursuing statewide implementation. There were implementation delays due to internal procurement and processing restrictions in the State, and non-responsiveness from the EBT contracting community. The State issued several RFPs between December 1997 and January 2002, and signed an EBT contract in August 2002. System implementation began in June 2003, and the State is on schedule to be fully implemented statewide by October 2003.

Maine was part of the Northeast Coalition of States (NCS), a coalition of New England States including Connecticut, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. After extensive negotiations, Maine was unable to complete a contract with Citicorp prior to the expiration of the coalition pricing. The State issued a separate RFP for EBT in March 2002, and selected Affiliated Computer Systems, Inc., (ACS). Maine successfully completed EBT statewide implementation in June 2003.



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West Virginia joined the Southern Alliance of States (SAS) in October 1998, but was unable to contract under the SAS procurement vehicle because the timeframe for accepting the negotiated pricing had expired. Because the pricing had expired, the State was required to negotiate with Citicorp separately. A contract with Citicorp was approved by FNS in July 2001. The pilot began in September 2002, with statewide implementation completed in May 2003.

The Virgin Islands was challenged by a number of obstacles including concerns with island-wide infrastructure, and the potential for natural disasters. Due to these issues, FNS commissioned an EBT feasibility study prior to the State moving forward with an EBT procurement. The Virgin Islands released an RFP in June 2001, received bids in September 2001, and entered into a contract with Citicorp in January 2002. The territory began EBT system implementation in October 2002, and completed implementation in November 2002.

California had already begun pilot operations for their EBT system by October 2002, however statewide implementation will not be completed until September 2004. The county government structure and unique county design requirements led to a long planning and procurement process. Given the complexities of implementing an EBT system in California's unique environment, San Bernardino and San Diego moved forward with a 2-county pilot procurement in 1996. Pilot operations began in both counties in 1997. In 1998, the State began planning for the statewide EBT system procurement. The State was also simultaneously developing the implementation plan for the State's four separate eligibility systems that would need to interface with the EBT system. By October 2003, the EBT system will be operational in 34 of 58 counties, representing 57% of the total State Food Stamp caseload.

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### **EBT Issues October 2001 to 2003**

States awarding EBT contracts in the 2-year period between October 2001 and September 2003 faced a variety of issues including rising EBT contract costs, lack of sufficient staff resources and technical expertise, shrinking State budgets, competing priorities, and the lack of competition among EBT vendors. Examples of steps that State agencies have taken to address these issues are as follows:

#### Price Restructuring

Many States restructured their contract costs to make contractor billing more equitable for the State and EBT vendors. Rather than establishing a simple fixed cost for EBT services, these States have established a variety of variable costs for components of the EBT system. Costs can vary based on the number of Food Stamp households, the number of retailers, unique features of the State interface, and reporting requirements. These changes have helped control costs. However, the variations make it very difficult

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to compare pricing from State-to-State. It seems, however, that changing the pricing model has created a stronger business case for the EBT market.

### Services Evaluation

The Northeast Coalition of States (NCS) released a Request for Information (RFI) to EBT vendors to gather information to help the States evaluate the effectiveness of their current EBT system process, and to identify ways to gain efficiencies in the system. NCS received responses from 3 companies: Citicorp, eFunds, and ACS. This information has been shared with all State agencies.

### RFP Restructuring and Standardization

As States move forward to procure services for second-generation EBT systems, FNS and States are making an effort to restructure and standardize RFPs. Standardization will encourage competition by making it easier and less costly for vendors, particularly those new to EBT, to respond to multiple RFPs. Standardization may also help to achieve economies of scale in EBT overall, because the more similarities there are between State system requirements the more EBT becomes an off-the-shelf product. Standard RFPs will facilitate RFP development for the States, and facilitate the review of RFPs for FNS.

Efforts to achieve RFP standardization are as follows: Alabama has written a modular RFP, which allows other States to easily modify the document for their own needs. Missouri used the Alabama model for their procurement, and FNS has encouraged others to do so as well. FNS and States have formed a Standard Language Workgroup to develop standard language for State RFPs. The standard language will address Federal requirements and will help to minimize the time involved in the Federal review and approval process. The FNS Extranet is currently being used as a tool for States and FNS to collaborate on RFPs and to share procurement documents.

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## **EBT Issues October 2003 to 2005**

States awarding EBT contracts in the 2-year period between October 2003 and September 2005 will continue to face similar issues as previous EBT procurements. However, the competition outlook has much improved. States are typically receiving 2 or 3 bids whereas in the previous period some States received only a single bid. The larger issues for EBT continue to be shrinking State budgets and rising Food Stamp caseloads.

As a way to leverage EBT system costs over multiple programs and to facilitate efficiencies in public program service delivery, States continue to partner with programs such as Temporary Assistance for Needy Families (TANF) and Child Support to share in the costs of EBT. Currently, 36 States include TANF in their EBT systems. There appears to be increased interest among other programs such as Medicaid eligibility, Refugee Assistance, State Government Assistance, etc., as electronic services delivery becomes more widespread. (Appendix 1)

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### System Security

As technology advances, FNS expects that future EBT systems will be designed, and that transactions will be processed using Internet applications and communication protocols. Several States have already implemented web-based Internet applications for administrative functions, and there are plans for the development and implementation of web-based applications for client account access. In preparation for these advances, and to protect States from potential cyber threats, FNS is currently updating the EBT Security Guidelines. Last updated in May 1999, the revised EBT Security Guideline will contain information for establishing system security requirements, and for Internet application testing and evaluation.

### State Transitions

States will eventually need to competitively procure new EBT contracts. If a new vendor wins, the State faces many changes. A new interface is needed between the State eligibility system and the new EBT host. Staff will need retraining on EBT operations. There may be new card activation devices, PIN selection devices, administrative terminals and software changes for State and local offices. Retailers will enter into new agreements for government supplied point-of-sale terminals, and point-of-sale terminals are deployed unless the State owns them or the new contractor acquires them from the old contractor. Third party processors (TPPs) have to re-certify and re-route transactions to the new EBT host. Customer Service numbers change for retailers and possibly recipients. Recipients see little or no change unless the State wants a new card design. The major change and most intense concern is the database conversion to reformat, transfer, and load all records to the new host computer. The old contractor stops all processing and there are 6-13 hours of work before the new contractor can come on-line.

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## **Initiatives to Address Issues**

In partnership with food retailers, EBT system vendors, and client advocates, FNS has undertaken several initiatives to address outstanding EBT issues.

### Guidance for State Agencies

FNS contracted with Phoenix MAXIMUS to research and prepare a report analyzing possible changes FNS and States could make to existing EBT implementation and system models to increase competition among EBT vendors, facilitate system implementation nationwide, and lower the cost of EBT in general. Completed in August 2000, the report contains useful information on “best practices” and alternatives for EBT contracting and pricing models. Since releasing the report, FNS has participated in numerous meetings to brief State agencies on how alternative pricing models and changes to RFP requirements could make EBT more efficient and marketable to new vendors. As a result, we are now seeing alternative pricing in RFPs and contracts.

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### Foster Competition

To foster competition, FNS offered to conduct EBT acceptance tests for new companies willing to develop systems prior to winning an EBT procurement. The test was offered by FNS to those contractors that met certain requirements attesting to their readiness to participate in an acceptance test. Transaction Payment Systems (TPS) responded to the offer, successfully developed an EBT system, and passed the acceptance test. The company's EBT software is currently being used in four States.

### National EBT Councils

FNS actively participates on national councils such as the National Automated Clearing House Association (NACHA) Electronic Benefits and Services (EBS) Council, and the Electronic Funds Transfer Association (EFTA) EBT Industry Council. Members on both councils include representatives from the electronic funds transfer (EFT) industry, the Food Marketing Institute, and State and Federal governments. Participation on national councils has facilitated information sharing, and the development and implementation of national standards and procedures across the various EBT stakeholder groups.

### National Standards

FNS actively participates as members of national standards associations such as the American National Standards Institute (ANSI) X.9 committee for electronic transaction processing. The development and implementation of standards for EBT transaction processing has led to the successful implementation of national interoperability, facilitates retailer participation particularly for large chains with locations in multiple States, and has enabled the analysis of EBT transaction data to identify fraudulent activities.

### National Conferences

FNS works with State agencies to plan and participate in the annual Food Stamp EBT Directors meeting. These meetings are limited to State and Federal staff so that attendees may openly discuss and address EBT issues or problems from a government perspective. Meetings are a mix of general sessions and workshops. At the most recent meeting, topics included fraud issues, transition planning from one EBT system to another, and cost containment strategies.

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## **Advances in EBT: Farmers' Markets, Fraud, Competition**

### **Farmers' Markets**

As EBT systems have expanded to become the predominate method for redeeming Food Stamp Program benefits nationwide, FNS continues to examine alternative approaches to deliver food stamp benefits at farmers' markets and other non-traditional retailers. Most farmers' markets and produce stands do not have the necessary infrastructure, such as telephone lines and electricity, to implement the same type of EBT system found at permanent retail locations. Farmers' markets wishing to redeem food stamp benefits

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typically use the manual voucher process that requires a telephone call to EBT customer service to obtain an authorization number for the purchase, followed by retailer submission and State processing of the paper voucher for settlement and payment.

While farmers' markets and produce stands represent less than 2% of our authorized retailers with 2,737 authorized nationwide, they are vital participants in the Food Stamp Program. They offer food stamp recipients access to locally grown, farm-fresh, nutritious produce, and help small farmers. Between 1996 and 2000, the number of farmers' markets, produce stands and produce routes dropped in number from 7,068 to 3,019, approximately a 57% reduction. During this same period, there was a reduction in other categories of food retailers as well. For example, small/medium groceries reduced in number by 34% and in benefits redeemed by 47% over this same period. For all retailer groups, over this same period, there was a 30% reduction in number of stores and a 34% reduction in benefits redeemed. While there has been a decline in the number of participating farmers' markets, this is not inconsistent with retailer trends overall.

FNS has approved projects in States as a way to advance our understanding, as well as the EBT community's understanding, of issues and possible solutions. The projects test alternative solutions to the manual voucher process. Generally, State Agencies have implemented variations on two alternatives: paper scrip or token, and wireless handheld EBT terminals to process EBT transactions when stationary point-of-sale (POS) terminals are not viable.

### *Scrip or Token Projects*

Several States have implemented a solution using a paper scrip or token system. Recipients exchange food stamp benefits from their EBT accounts for scrip at a central location in the farmers' market. The recipients can then use the scrip to pay for food stamp eligible items at individual farmer locations in the market. Before approving any scrip project, the market has to demonstrate secure storage of the scrip, methods for preventing fraud, and a mechanism for allowing recipients to refund unused scrip back into their EBT food stamp accounts.

The first of these scrip projects, the Hilo Market in Hawaii, was successful from its inception. Completed in 1999, our evaluation of this project found that after Hawaii implemented EBT, food stamp purchases at the farmers' market fell 98%. After implementing the scrip process, food stamp purchases at the farmers' market rebounded to within 50% of pre-EBT purchases. Sixty-six percent of food stamp recipients surveyed at the market indicated that they shopped at the Hilo market at least once or twice a week. All of the food stamp recipients surveyed found scrip easy to use, and nearly half (48%) said they purchased between \$10 to \$20 worth of scrip at a time for same day purchases. The evaluation suggests that scrip will work in a market environment like the one found in Hilo where a market manager has access to a telephone, is willing to manage the scrip process, and handles a moderate volume of

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business. The evaluation also suggests that scrip may not be the most appropriate option for more urban areas with higher volume and larger transaction amounts.

The scrip option is a good interim solution for markets to participate in EBT, and is consistent with the way individual farmers conduct cash transactions. However, the scrip solution has some drawbacks, as cited from respondents to the December 2002 Federal Register notice:

- Due to the lack of communication infrastructure or electricity, many markets do not have a location to make a scrip system an acceptable solution.
- Markets incur the cost to print and issue the scrip.
- Lack of sufficient staff or cash on hand to pay farmers at the end of the day.
- Processing scrip adds steps that could stigmatize recipients and discourage them from shopping.

Despite these potential issues, scrip systems have proven to be a good alternative to manual vouchers. FNS will continue supporting paper alternatives such as scrip until viable technical solutions can be found. The following is a list of scrip projects operating in the 2003 growing season:

Hawaii: The Hilo farmers' market project has been operational since 1998.

Illinois: The Institute for Community Resource Development (ICRD) in Chicago sponsors a scrip project in the Austin farmers' market. Although there was not a high volume of EBT redemptions during the 2002 season, the Austin farmers' market will continue with its scrip demonstration project during the 2003 season.

Kentucky: In July 2003, the Portland farmers' market began using a token-based EBT system. The Portland farmers' market is responsible for developing and producing its own unique tokens according to State guidelines. The tokens are available for purchase in \$1.00 increments.

Massachusetts: In July 2003, the New Bedford farmers' market implemented a scrip-based EBT system. The Federation of Massachusetts Farmers' Markets, in concert with the United Way, is responsible for developing and producing the unique scrip. The scrip is available for purchase in \$2.50 increments.

Washington: Six markets are operating EBT scrip systems in the Seattle, Olympia and Friday Harbor areas. Five other markets are considering implementing EBT scrip systems for the 2004 market season.

### *Wireless Projects*

Four States—Arizona, California, New York and Wisconsin—are currently using wireless equipment at farmers' markets. FNS and the entire EBT community are

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watching these projects closely. New York is of particular interest because it has been experimenting with wireless solutions since 2000. The project in New York shows substantial promise, enabling as many as 35 farmers in New York City and 46 farmers upstate to participate successfully. The project offers farmers a real opportunity to accept benefit payments from food stamp and cash assistance households. The critical users, the farmers, are telling us they are very pleased with the point-of-sale equipment now in use and are gaining confidence in the reliability of this technology.

In October and November of 2002, New York conducted an evaluation to better understand the impact of wireless technology for EBT at farmers' markets. The evaluation found that the majority of farmers were able to successfully conduct EBT transactions, and most farmers rated the project as "favorable". A majority rated the overall convenience of using terminals for EBT transactions from "excellent" to "good", and most of the farmers indicated that the terminals have significant potential to increase sales and profits.

Some of the problems reported by farmers included failed transactions, the terminal not retaining the battery charge sufficiently, and insufficient wireless signal strength at particular markets. Although several problems were reported, overall the farmers were very supportive of the concept of wireless technology for EBT, and believed that implementation of the technology would increase sales of fresh fruits and vegetables.

While the use of wireless handheld card readers is an attractive solution for farmers' markets, the equipment is more expensive compared to stationary POS equipment at traditional retail locations. In a 1998 study conducted by the FNS Office of Analysis, Nutrition, and Evaluation, it was found that the cost to outfit a farmer or mobile food retailer with a wireless EBT unit was about 2-3 times higher than the cost to outfit a traditional Food Stamp EBT retailer (e.g., \$1,000 to \$1,200 vs. \$400 per retailer). The 2003 equipment costs in New York were within this range as well. It is noteworthy that other costs come into play beyond the transaction costs a State already bears, including the cost for cellular communications carrier and an additional per transaction cost to administer the process.

### *Wireless Project Descriptions*

Arizona: Two farmers' markets in Prescott and Tucson process EBT transactions using wireless equipment. The Prescott Market utilizes battery powered wireless devices and operates during the summer months. This project was delayed last year during the pilot by two months and only operated for 3 weeks before the growing season ended. The Tucson Market operated during the winter months.

California: Since October 2002, California has been demonstrating the use of wireless Point of Sale technology at several farmers markets and open-air produce stands throughout the State. Wireless devices are issued to individual farmers or produce stands

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that are FNS authorized. The state will continue to evaluate this application of wireless point-of-sale technology through June 2004.

New York City: For the fourth year, farmers located throughout the five boroughs of New York City have an option to use wireless equipment provided through the New York Farmers' Market Federation. The equipment has been made available through funds from the Department of Agriculture, Agricultural Marketing Service. The equipment and access is provided at no cost for cash and Food Stamp EBT. Many farmers also offered credit and debit services through these terminals.

New York State: In an effort to expand the New York City wireless pilot to upstate New York, forty-six wireless, handheld EBT terminals have been provided to farmers and vendors in multiple farmers' markets in Western New York. The markets are located in Rochester, Buffalo, Niagara Falls, and North Tonawanda. The terminals were made available with \$100,000 in funds provided by USDA Food and Nutrition Service as part of earmarked funding in the 2002 Federal Appropriations. The New York State Department of Agriculture and Markets in partnership with the New York State Office of Temporary Disability Assistance and the Farmers' Market Federation of New York are administering this federally funded demonstration project. Wireless EBT terminals will be used to accept food stamps at markets in the four selected cities through December 31, 2003.

Wisconsin: The Milwaukee Hunger Task Force (MHTF), the Fondy farmers' market in Milwaukee, and the Wisconsin Department of Health and Family Services are working together to pilot a wireless EBT farmers' market project at the Fondy Market in Milwaukee. This pilot program will operate from July to October 2003. Six authorized farmers will participate in the pilot.

### **Retail Fraud**

EBT has revolutionized the way that FNS combats fraud in the program. Because of the data available from the EBT system, we now have an audit trail of transactions which was not available in the paper system. In response to the availability of Food Stamp transaction data, FNS successfully developed and implemented an automated system to manage the EBT data and assist in detecting fraud. The *Anti-fraud Locator using EBT Retailer Transactions* (ALERT) application monitors and tracks electronic retail transactions, and identifies potentially high-risk retailers based on patterns in transaction data commonly associated with trafficking. This information is used to better target investigations. In certain instances, administrative cases are initiated in which retailers are charged with trafficking based solely on suspicious patterns in the transaction data. The retailers are given an opportunity to explain the transactions, and those that cannot provide a legitimate explanation of the transactions are disqualified.

ALERT assesses and analyzes over 65 million individual EBT transactions per month to identify retail firms with suspicious patterns of food stamp benefit redemptions. As a



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result, the government has been better able to target its compliance efforts on stores with concrete evidence of violations. During the 2002 fiscal year, the Agency sanctioned 792 stores based on the administrative case process.

In July 2003, FNS released a report entitled, *The Extent of Trafficking in The Food Stamp Program: 1999 – 2002*. The report provides improved estimates of trafficking using outcomes of both investigative and EBT-based administrative cases. It indicates that EBT data is progressively becoming an important source for finding evidence of trafficking. Increasingly, retailers are being sanctioned based on EBT case data rather than as a result of an undercover investigation.

FNS plans to release a request for information (RFI) to obtain information from the Information Technology industry on ways to enhance the analytical capabilities available through ALERT. Information on additional or alternative analytic tools may assist the agency in making improvements to the ALERT system.

### **Competition**

Lack of competition among EBT contractors has become less of a problem for States currently. New EBT vendors are successfully entering the market, and prices have declined and stabilized over the last 2 to 3 years.

In 2001, Texas selected Northrup Grumman, Affiliated Computer Systems (ACS) and GTECH to provide central processing, retailer management and call center services, replacing Transactive as the EBT contractor. Also in 2001, Mississippi selected Lockheed IMS, which is now ACS, for its EBT vendor. ACS has teamed with Total System Services (TSYS), a new vendor to EBT with experience in credit and debit transaction processing. Montana elected to operate an in-house system and contracted with TRW to provide systems and technical support. eFunds, formerly Deluxe Data, is the primary vendor for 11 States, and the GM Group is the EBT vendor for Puerto Rico.

While the range of EBT vendors has increased substantially during the past several years, Citicorp Electronic Financial Services (EFS) continues to hold the majority of State EBT contracts. FNS expects that as States re-procure for the next round of EBT contracts, new vendors entering the EBT market will continue to increase the level of competition.

To foster competition, FNS will encourage States to streamline the EBT re-procurement process, and to stagger the release of RFPs so the potential bidders have adequate time to prepare responses. FNS will continue to encourage States to utilize standard model RFPs and to increase competition by making it easier and less costly for vendors, particularly those new to EBT, to respond to multiple RFPs.

### Summary

The Food Stamp Program is now almost paperless. Nineteen out of every 20 dollars are now issued and redeemed electronically. EBT is on course toward successful, nationwide implementation by September 2004. Currently, 8.4 million households redeem \$1.7 billion in food stamp benefits every month via EBT. As we reflect upon EBT's success over the past 20 years, beginning with the first demonstration project in Reading, Pennsylvania in 1984, it is evident that this technology has radically changed the face of the Food Stamp Program. It has brought increased dignity and security to recipients and increased efficiencies to retailers and banks redeeming Food Stamp benefits. In addition, the availability of EBT data has greatly enhanced government oversight of the Food Stamp Program.

EBT's success is in large part due to the use of partnerships and collaborations at every step of the process. Federal and State governments have been able to work together with the private sector to make government better while serving the needs of all the stakeholders involved. While the path to implementation has not been without problems, we have managed to resolve issues as they arose in partnership with the stakeholder community. Going forward, we will continue this approach, working with States, advocates, the retailer community, and the electronic funds transfer industry as Food Stamp Program needs and EBT technologies evolve.

**EBT Partners**

State	Food Stamps	TANF	WIC	General Assistance	Other Programs
AK	X	X			Adult Assistance
AL	X	X			
AR	X	X			
AZ	X	X			State Programs, Job Training Payments
CA	X	X		X	Refugee Assistance, General Relief
CO	X	X			Aid to the Disabled, Old Age Pension, Low Income Energy, Child Care Assistance, Child Welfare
CT	X	X			State Supplemental
DC	X	X			Interim Disability Allowance
DE	X				
FL	X	X			Refugee Assistance, State Cash Assistance, Food Stamp Employment and Training, Independent Living for Teens in Foster Care
GA	X	X			Refugee Assistance
GU	X	X			
HI	X	X		X	Repatriates, Child Care, First to Work Employment and Training
IA	X				
ID	X	X			State Supplemental, Child Support
IL	X	X		X	Aid to the Aged Blind and Disabled, Refugee Repatriation Assistance, Child Support Pass Through
IN	X	X			
KS	X	X		X	
KY	X				
LA	X	X			
MA	X	X			Emergency Assistance for the Elderly, Disabled, and Children
MD	X				Temporary Case Assistance
ME	X	X			
MI	X	X			State Family Independence Program, State Disability Assistance, Refugee Assistance, Low Income Energy Assistance Program, Repatriate Assistance
MN	X	X			State Cash Programs
MO	X	X			
MS	X	X			
MT	X	X		Pilot	Child Support, Unemployment
NC	X				
ND	X				
NE	X				
NH	X	X			Old Age, Aid to Needy Blind, Aid to Permanently and Totally Disabled
NJ	X	X			
NM	X	X	Pilot	X	Time and Attendance, Refugee Assistance, Institutional Care
NV	X				
NY	X	X			
OH	X		Pilot		
OK	X	X			Day Care
OR	X	X			
PA	X	X		X	FSP, TANF, State funded general assistance, Child care, Medicaid eligibility
RI	X	X			
SC	X				
SD	X				
TN	X	X			
TX	X	X	Pilot	X	Simplified Nutritional Assistance Program
UT	X	X		X	Refugee Assistance, Medical Transportation, Food Stamp Cash Out, Child Care
VA	X				
VI	X				
VT	X	X		X	Essential Person, Child Support
WA	X	X		X	Refugee Assistance, Consolodated Emergency Assistance
WI	X				
WV	X	X			
WY	X		X		