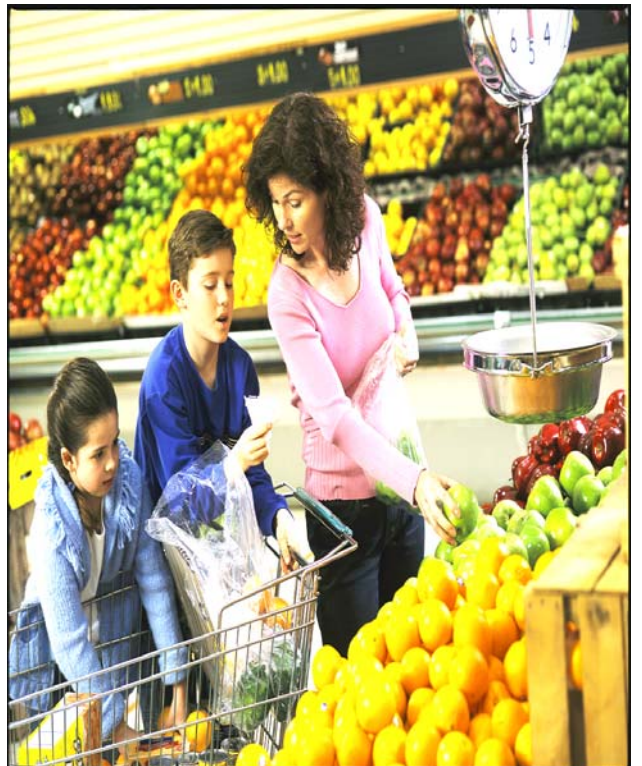




# Benefit Redemption Division 2004 Annual Report



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## Introduction

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**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

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**F**iscal Year 2004 was a very big year for the Division as well as for those regional and field staff involved with our work. This Annual Report for Fiscal Year 2004 provides an exceptional picture of the amount and quality of work produced by headquarters, regional and field staff to accomplish our mission. Each Branch, as well as regional and field staff, can be very proud of the many activities accomplished this past fiscal year.

From the issuance side, the transition from the use of paper food coupons to electronic benefits was completed. Full implementation of EBT was a significant milestone celebrated in June 2004. As a result, food stamp coupons are no longer produced and large coupon inventories have been destroyed. However, EBT work continues to be significant with state re-procurements and, in some cases, overseeing the transition from one EBT contractor to another.

In the retailer arena, the development, training, and implementation of the new web-based retailer management system – STARS II -- was completed. This new system has been well received, it is easier to maintain and enhance, and it positions us to provide more on-line services for retailers. For the first time in a decade, we have also seen the number of licensed retailers begin to trend upward. Close to 153,000 retailers were participating in the program at the end of the fiscal year, an increase of over 7,000 licensed firms. Additionally, Food Stamp Program outreach efforts were expanded. Retailers were encouraged to assist us in promoting the Program with potential recipients through various activities. Partnerships with State and local retailer

organizations will continue to increase as we move forward.

Our investigative efforts continued at a very high rate, as over 5,000 stores were investigated, with 41% of the stores found to be violating the Program regulations. Investigative techniques continue to improve as our sophisticated automated systems provide a wealth of information to assist us in this area. A key to investigator success is the ability to use their field experiences to refine their techniques in using these automated systems.

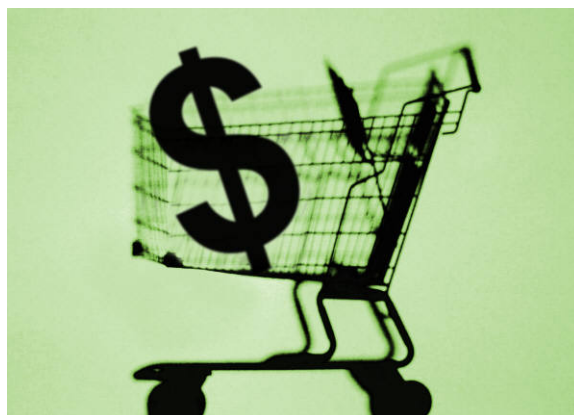
The staff that reviews appeals from retailers of actions taken against them was very busy completing over 600 appeals. The review officers continue to produce quality work and will continue to look for ways to streamline their procedures to provide a more timely response to retailers.

The progress that was made during FY 2004 in issuance, retailer management, investigations and appeals would not have been possible without the effort of all FNS staff working in these areas. The success that BRD experienced in FY 2004 is the direct result of the energy, creativity, and dedication of these staff.


## Retailer Management Branch

**T**he 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 development, implementation, and management of various automated systems related to retailer and redemption activities such as the Store Tracking and Redemption System (STARS), retailer

information sharing, development of 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 retailer portion of FNS internet site. Policy and operational responsibilities also entail coordination and cooperation with internal Agency and Departmental offices, as well as external contacts with other Departments, retailer trade associations, and industry groups.



**We Accept  
Food Stamp  
Benefits**





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or call: (202) 720-5964 (voice and TDD).

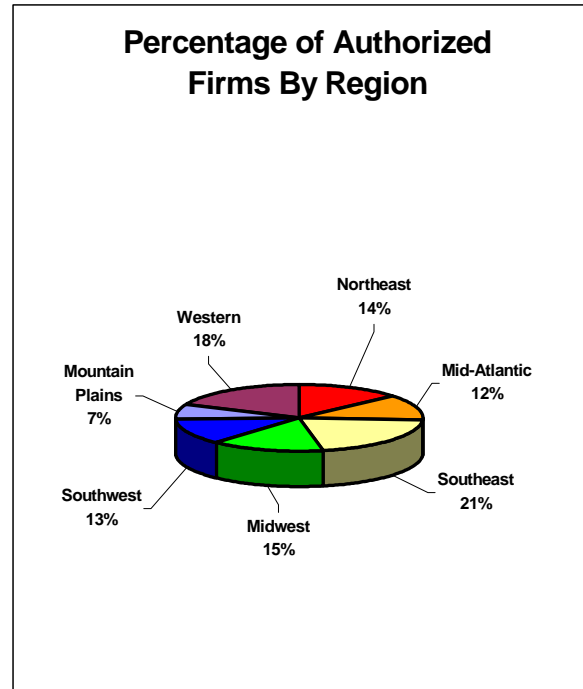
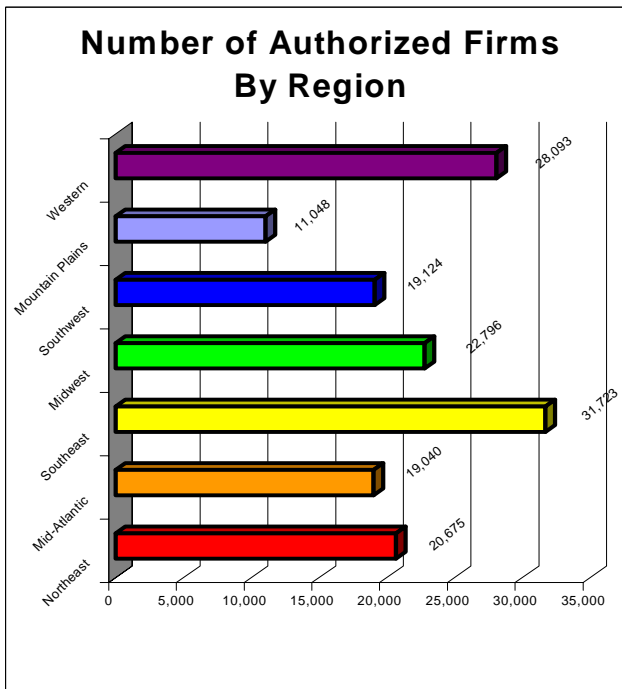
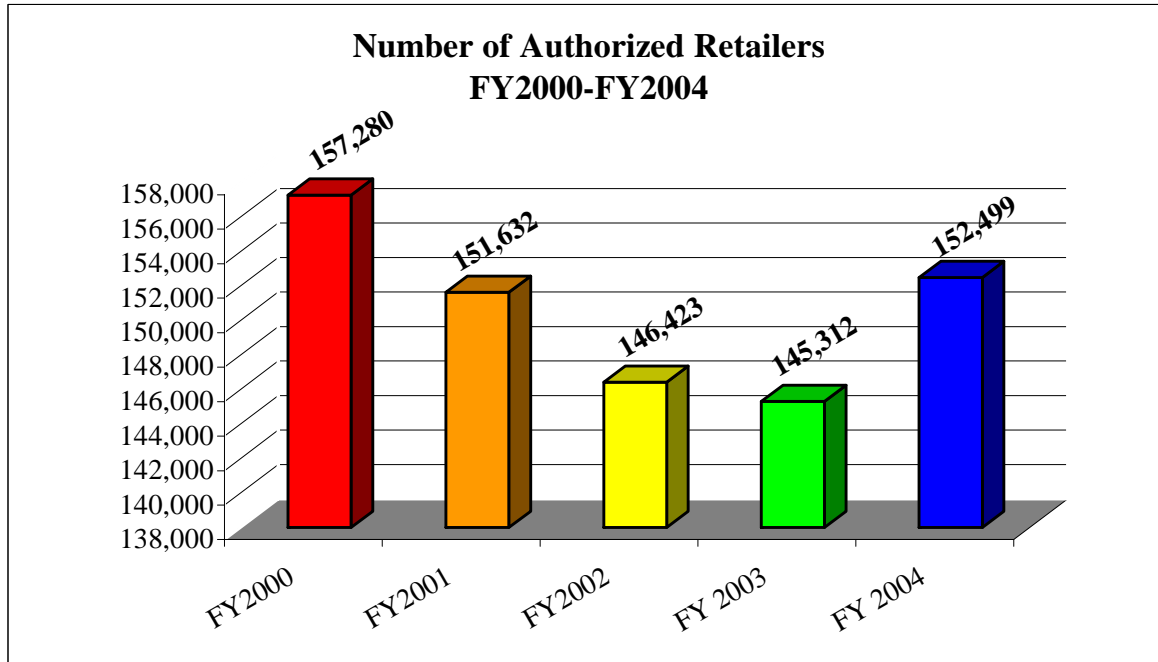
For information on applying for food stamp benefits, call 1-800-221-5689

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## Store Characteristics

On September 30, 2004, there were **152,499** firms authorized to accept food stamp benefits. The number of authorized stores increased by 7,187 in fiscal year (FY) 2004. This is the first increase in more than a decade.



Source: STARS Management Activity Report 10/23/04

## Store Characteristics

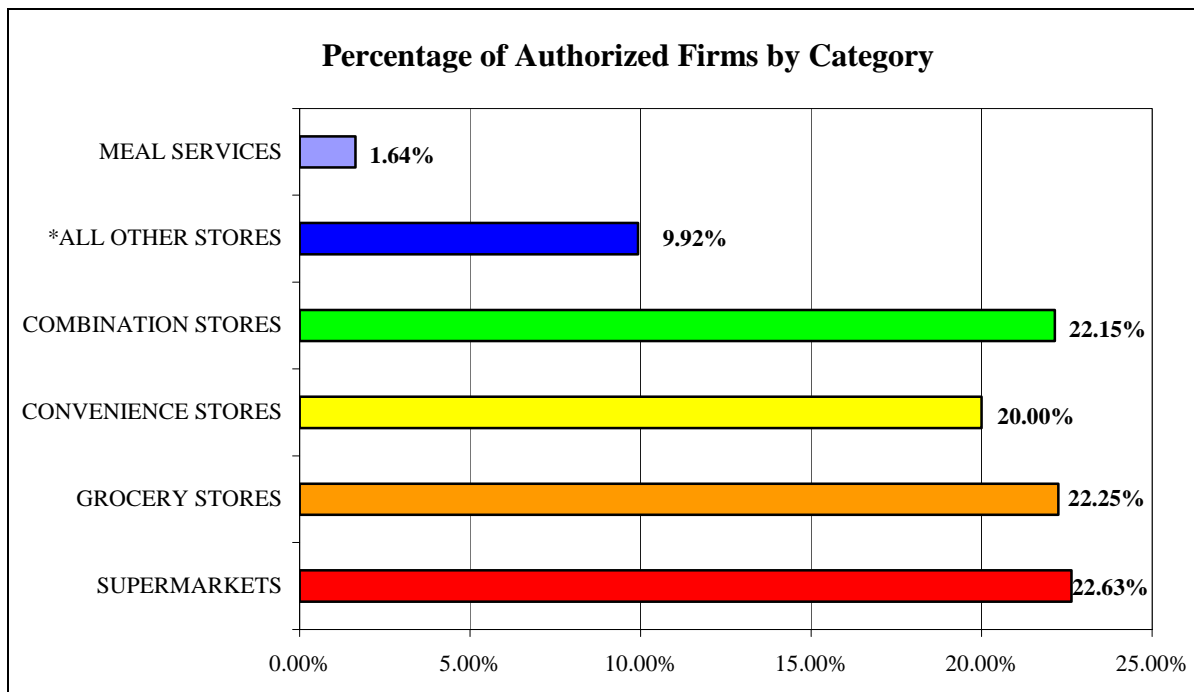
Participating firms are classified by firm type. There are currently 30 firm types used to categorize these firms. Below are the firm types and number of authorized stores by region in FY 2004:

Firm Types	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	Total
Supermarket	3,629	4,002	7,824	5,960	3,560	2,886	6,652	34,513
Small/Medium Grocery	8,347	5,088	4,394	4,530	3,219	1,785	6,564	33,927
Convenience Store	2,653	3,253	6,286	3,574	5,947	2,107	6,674	30,494
Produce Stand	236	269	505	189	136	113	380	1,828
Specialty Food	1,870	1,326	2,274	1,655	1,619	859	1,966	11,569
Health/Natural Food	215	119	128	117	34	117	231	961
Nonprofit Food Buying Coop	51	27	31	26	7	37	26	205
Military Commissary	11	27	53	8	25	16	46	186
Other Firm	85	69	159	45	84	156	692	1,290
Combination Grocery/Gas	1,178	1,923	4,178	3,166	1,392	1,219	2,250	15,306
Combination Grocery/Bar	1	24	5	2	2	1	15	50
Combination Grocery/Restaurant	38	129	159	75	51	27	109	588
Combination Grocery/Merchandise	163	953	2,748	581	1,688	717	926	7,776
Other Combination	1,618	1,453	2,432	2,221	1,058	491	779	10,052
Milk Route	9	7	3	6	5	12	6	48
Bread Route	2	1	10		3	1	5	13
Produce Route	1	14	14	3	8	2	12	54
Other Route	60	83	121	207	116	122	95	804
Farmers Market	38	53	18	7	6	35	132	289
Wholesaler	2	7	23	1		4	2	39
Alcoholic Treatment Center	63	36	48	52	29	35	274	537
Drug Addict Treatment Center	82	44	41	34	21	31	97	350
Combination Treatment Center	59	0	24	11	7	18	3	122
Private Meal Delivery	0	0	1	2	0	0	0	3
Nonprofit Meal Delivery	37	27	45	75	42	57	14	297
Nonprofit Communal Dining	72	47	102	150	48	147	45	611
Private Communal Dining/Restaurant	0	0	1	2	1	0	24	28
Group Living Arrangement	124	46	93	86	6	38	45	438
Homeless Meal Provider	16	13	12	11	10	15	26	103
Battered Women & Children Shelter	15	0	0	0	0	0	3	18
<b>Totals</b>	<b>20,675</b>	<b>19,040</b>	<b>31,723</b>	<b>22,796</b>	<b>19,124</b>	<b>11,048</b>	<b>28,093</b>	<b>152,499</b>

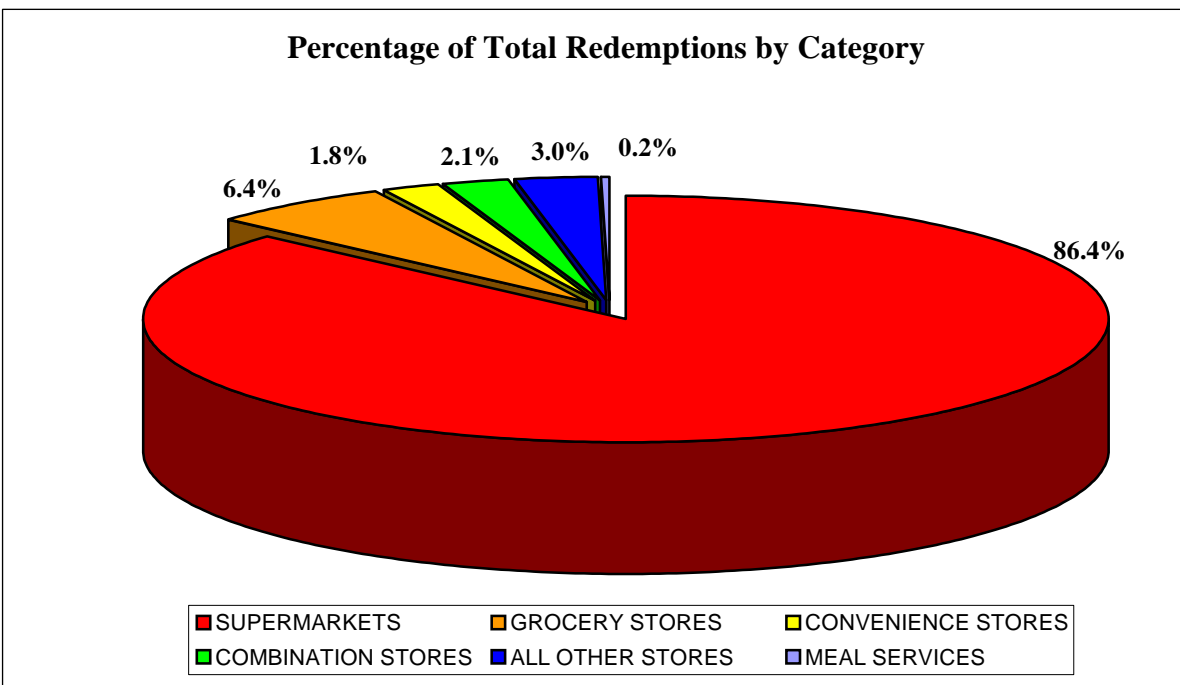
Source: STARS Management Activity Report 10/23/04

## Store Characteristics

Below are the major firm type categories and redemptions by category.



\*This category includes Specialty Food Stores, Health/Natural Food Stores, Non-Profit Food Buying Co-ops, Military Commissaries, and Routes.

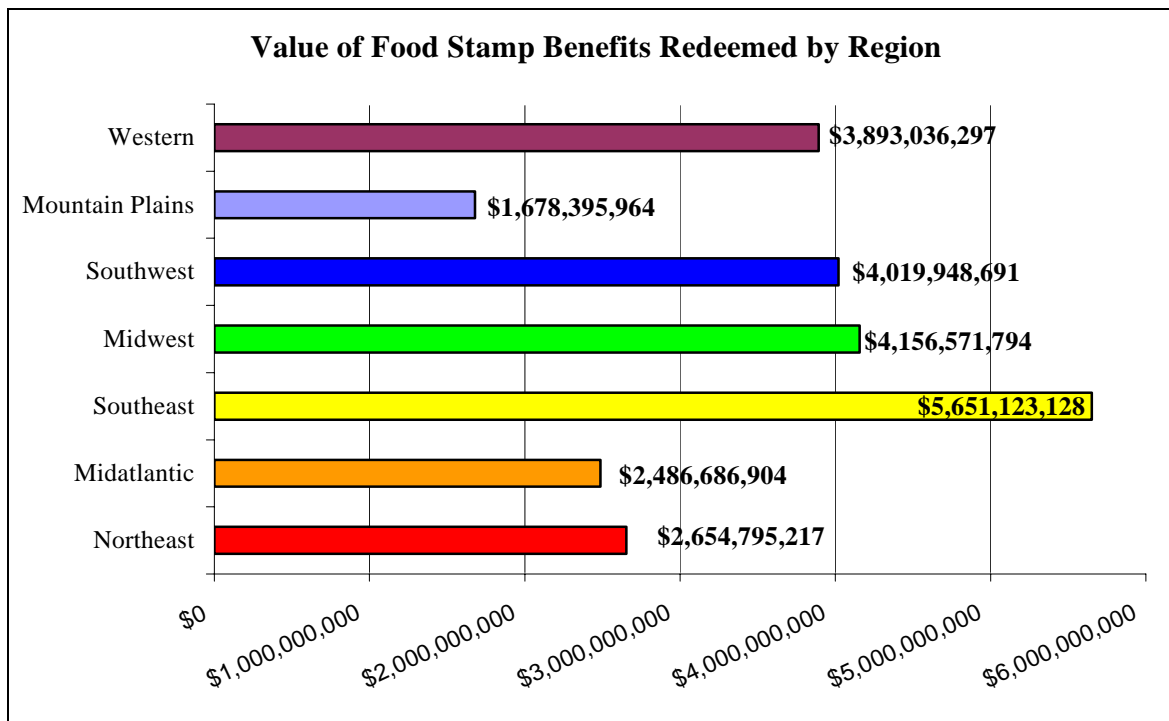
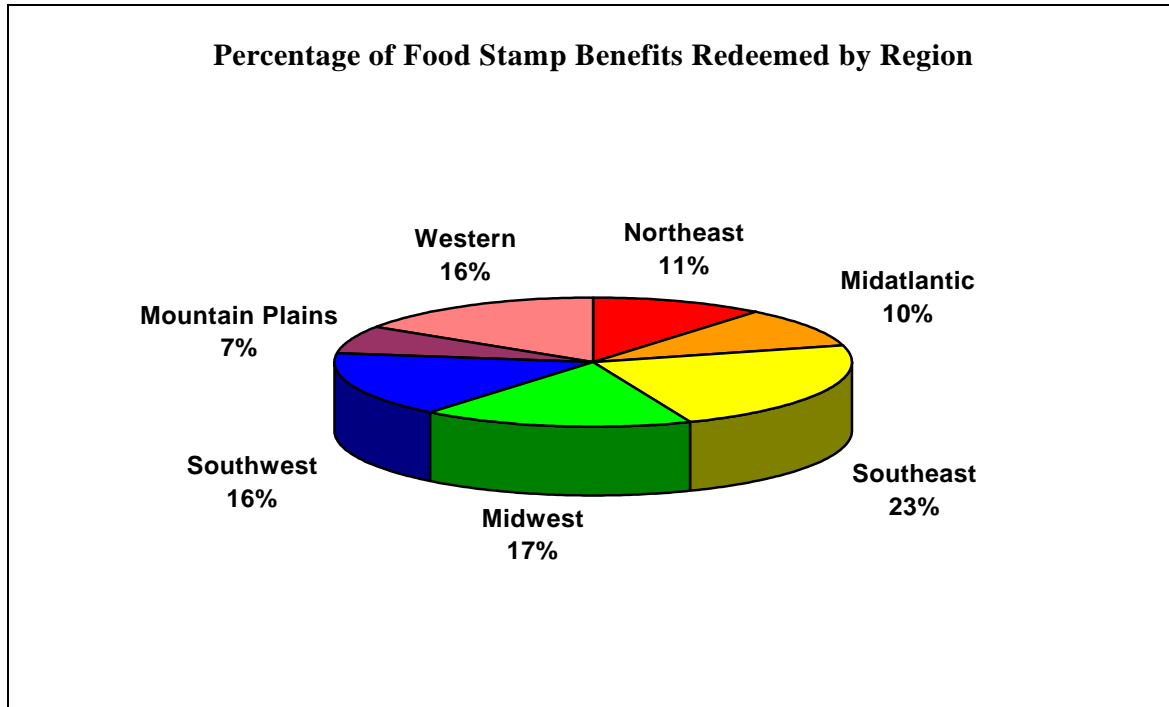


Source: STARS Management Activity Report 10/23/04



## Store Characteristics

Firms redeemed \$24,540,557,995 in food stamp benefits in FY2004.



Source: STARS Management Activity Report 10/23/04

## Store Characteristics

The following shows the number of authorized firms and total redemptions by state:

Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Northeast	Connecticut	1,434	\$195,360,726
	Maine	1,245	\$136,052,619
	Massachusetts	2,785	\$304,068,164
	New Hampshire	529	\$53,089,912
	New York	13,488	\$1,864,860,220
	Rhode Island	764	\$69,885,517
	Vermont	430	\$31,478,059
<b>Regional Totals</b>		<b>20,675</b>	<b>\$2,654,795,217</b>
Mid-Atlantic	Delaware	387	\$58,746,763
	District of Columbia	365	\$62,022,402
	Maryland	2,235	\$326,679,116
	New Jersey	3,688	\$382,128,439
	Pennsylvania	6,833	\$929,667,124
	Virginia	3,551	\$491,294,767
	Virgin Islands	129	\$19,169,384
	West Virginia	1,852	\$216,978,908
<b>Regional Totals</b>		<b>19,040</b>	<b>\$2,486,686,904</b>
Southeast	Alabama	2,882	\$509,516,400
	Florida	8,327	\$1,249,031,696
	Georgia	4,571	\$922,475,807
	Kentucky	3,281	\$549,450,983
	Mississippi	2,462	\$380,226,952
	North Carolina	4,134	\$753,138,501
	South Carolina	2,286	\$501,780,036
	Tennessee	3,780	\$785,502,753
<b>Regional Totals</b>		<b>31,723</b>	<b>\$5,651,123,128</b>
Midwest	Illinois	5,769	\$1,199,573,288
	Indiana	2,810	\$559,316,066
	Michigan	5,201	\$887,906,378
	Minnesota	1,943	\$237,771,264
	Ohio	5,148	\$1,001,984,899
	Wisconsin	1,925	\$270,019,899
<b>Regional Totals</b>		<b>22,796</b>	<b>\$4,156,571,794</b>

## Store Characteristics

Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Southwest	Arkansas	1,619	\$350,110,461
	Louisiana	3,579	\$750,976,404
	New Mexico	1,029	\$216,044,789
	Oklahoma	2,237	\$391,135,829
	Texas	10,660	\$2,311,681,208
<b>Regional Totals</b>		<b>19,124</b>	<b>\$4,019,948,691</b>
Mountain Plains	Colorado	1,405	\$250,340,702
	Iowa	2,028	\$181,998,250
	Kansas	1,212	\$159,253,061
	Missouri	3,025	\$660,720,173
	Montana	617	\$78,002,602
	Nebraska	766	\$110,835,608
	North Dakota	428	\$41,105,927
	South Dakota	548	\$51,085,490
	Utah	776	\$119,586,751
	Wyoming	243	\$25,467,400
<b>Regional Totals</b>		<b>11,048</b>	<b>\$1,678,395,964</b>
Western	Alaska	459	\$63,596,371
	Arizona	2,399	\$566,480,893
	California	17,519	\$1,992,289,887
	Guam	252	\$48,659,369
	Hawaii	864	\$151,458,460
	Idaho	525	\$91,250,062
	Nevada	801	\$123,563,510
	Oregon	2,245	\$401,925,534
	Washington	3,029	\$453,812,209
	<b>Regional Totals</b>		<b>28,093</b>
<b>National Totals</b>		<b>152,499</b>	<b>\$24,540,557,995</b>

## Store Characteristics

The following shows total redemptions by firm type for FY 2004:

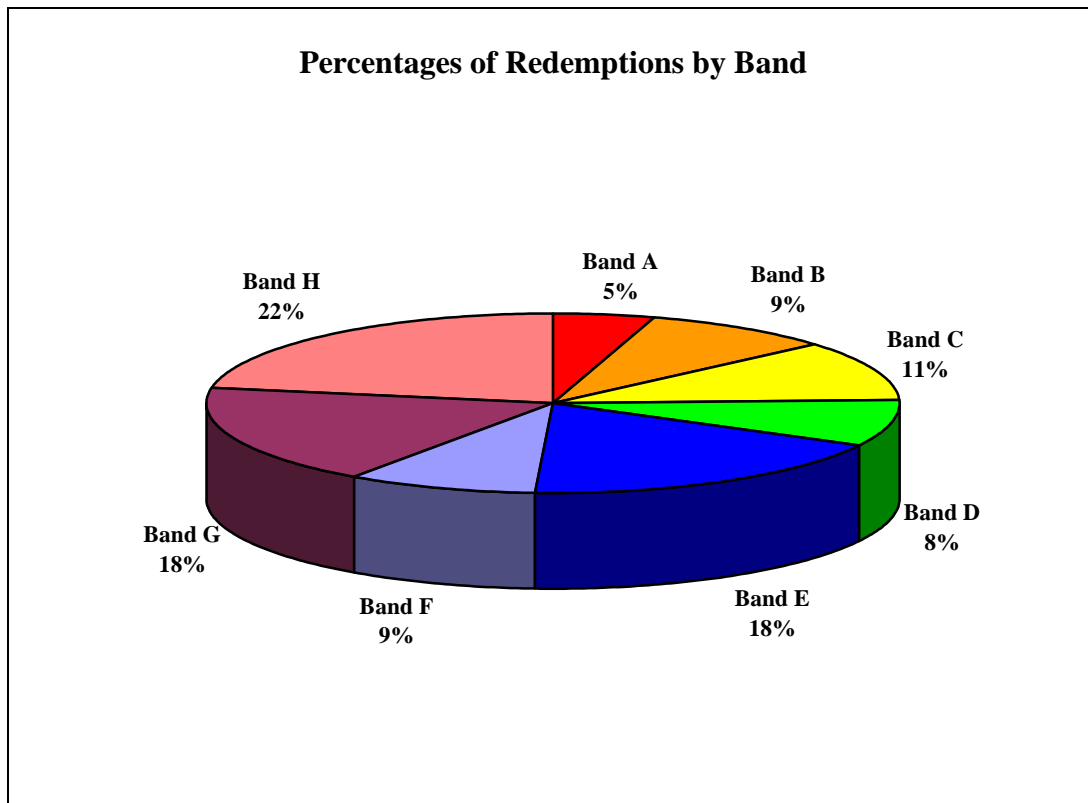
Firm Type	Total Redemption Amounts	Percent Totals	Authorized Firms	Percent Totals
<b>RETAILER TYPES:</b>				
Supermarket	\$21,086,843,358	85.93%	34,513	22.63%
Small/Medium Grocery	\$1,645,062,167	6.70%	33,927	22.25%
Convenience Store	\$458,648,489	1.87%	30,494	20.00%
Produce Stand	\$37,866,997	0.15%	1,828	1.20%
Specialty Food	\$587,851,834	2.40%	11,569	7.59%
Health/Natural Food	\$15,490,617	0.06%	961	0.63%
Nonprofit Food Buying Coop	\$5,869,368	0.02%	205	0.13%
Military Commissary	\$21,011,028	0.09%	186	0.12%
Other Firm	\$52,765,895	0.22%	1,290	0.85%
Combination Grocery/Gas	\$200,933,274	0.82%	15,306	10.04%
Combination Grocery/Bar	\$724,955	0.00%	50	0.03%
Combination Grocery/Restaurant	\$14,329,056	0.06%	588	0.39%
Combination Grocery/Merchandise	\$61,053,983	0.25%	7,776	5.10%
Other Combination	\$248,565,190	1.01%	10,052	6.59%
Milk Route	\$1,659,329	0.01%	48	0.03%
Bread Route	\$212,688	0.00%	13	0.01%
Produce Route	\$441,931	0.00%	54	0.04%
Other Route	\$47,909,942	0.20%	804	0.53%
Farmers Markets	\$2,709,828	0.01%	289	0.19%
<b>Retailer Subtotal</b>	<b>\$24,489,949,930</b>	<b>99.79%</b>	<b>149,953</b>	<b>98.33%</b>
<b>WHOLESALEERS</b>	\$2,059,100	0.01%	39	0.03%
<b>Wholesalers Subtotal</b>	<b>\$2,059,100</b>	<b>0.01%</b>	<b>39</b>	<b>0.03%</b>
<b>MEAL SERVICE TYPES:</b>				
Alcoholic Treatment Center	\$13,852,041	0.06%	537	0.35%
Drug Addict Treatment Center	\$15,508,269	0.06%	350	0.23%
Combination Treatment Center	\$3,555,918	0.01%	122	0.08%
Private Meal Delivery	\$300,292	0.00%	3	0.00%
Nonprofit Meal Delivery	\$159,654	0.00%	297	0.19%
Nonprofit Communal Dining	\$2,519,712	0.01%	611	0.40%
Private Communal Dining/Restaurant	\$711,449	0.00%	28	0.02%
Group Living Arrangement	\$10,066,126	0.04%	438	0.29%
Homeless Meal Provider	\$1,819,493	0.01%	103	0.07%
Battered Women & Children Shelter	\$56,012	0.00%	18	0.01%
<b>Meal Service Subtotal</b>	<b>\$48,548,965</b>	<b>0.20%</b>	<b>2,507</b>	<b>1.64%</b>
<b>Totals</b>	<b>\$24,540,557,995</b>	<b>100.00%</b>	<b>152,499</b>	<b>100.00%</b>

Source: STARS Management Activity Report 10/23/04

## Store Characteristics

### *Redemption Levels*

<b>Redemption Levels</b>	<b>Number of Firms</b>	<b>Percent</b>	<b>Average Monthly Redemption Range</b>
Band A	7,087	5%	\$0.00
Band B	13,528	9%	\$0.01 to \$99.99
Band C	16,779	11%	\$100.00 to \$299.99
Band D	12,654	8%	\$300.00 to \$499.99
Band E	27,455	18%	\$500.00 to \$1,249.99
Band F	13,719	9%	\$1,250 to \$1,999.99
Band G	27,201	18%	\$2,000.00 to \$7,499.99
Band H	34,076	22%	\$7,500 and more
<b>Totals</b>	<b>152,499</b>	<b>100%</b>	

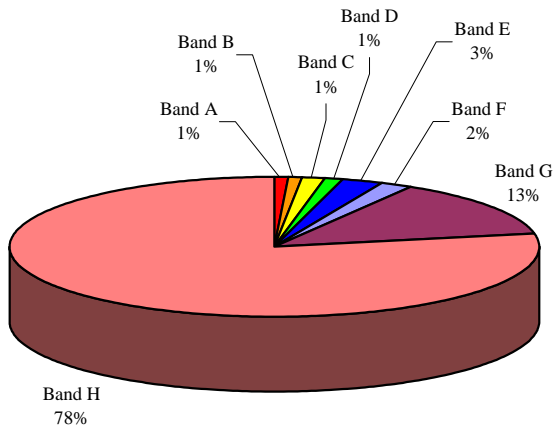


Source: STARS Management Activity Report 10/23/04

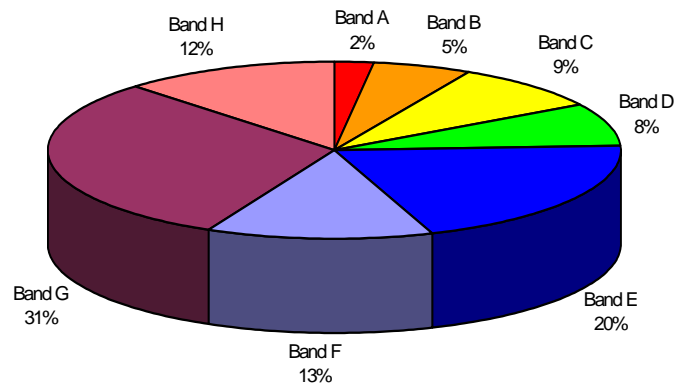
## Store Characteristics

Supermarkets, grocery stores, convenience stores, and grocery/gas locations comprise 86% of the 152,499 authorized firms. These four firm types redeemed 98% of all food stamp benefits.

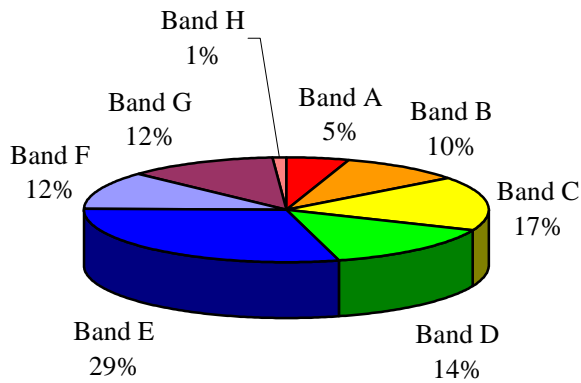
### Supermarkets



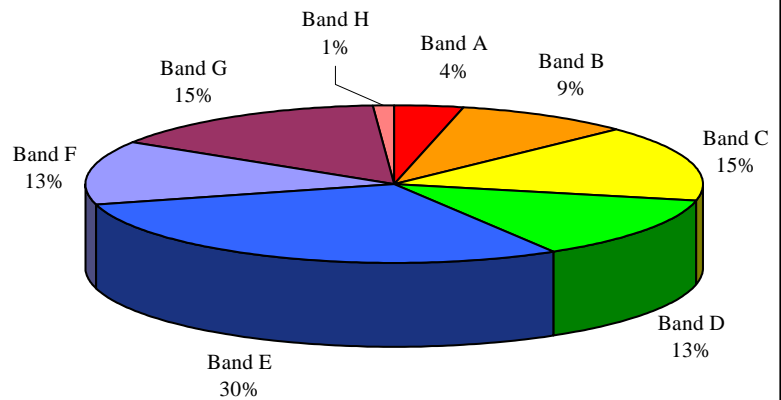
### Grocery Stores



### Combination Grocery/Gas

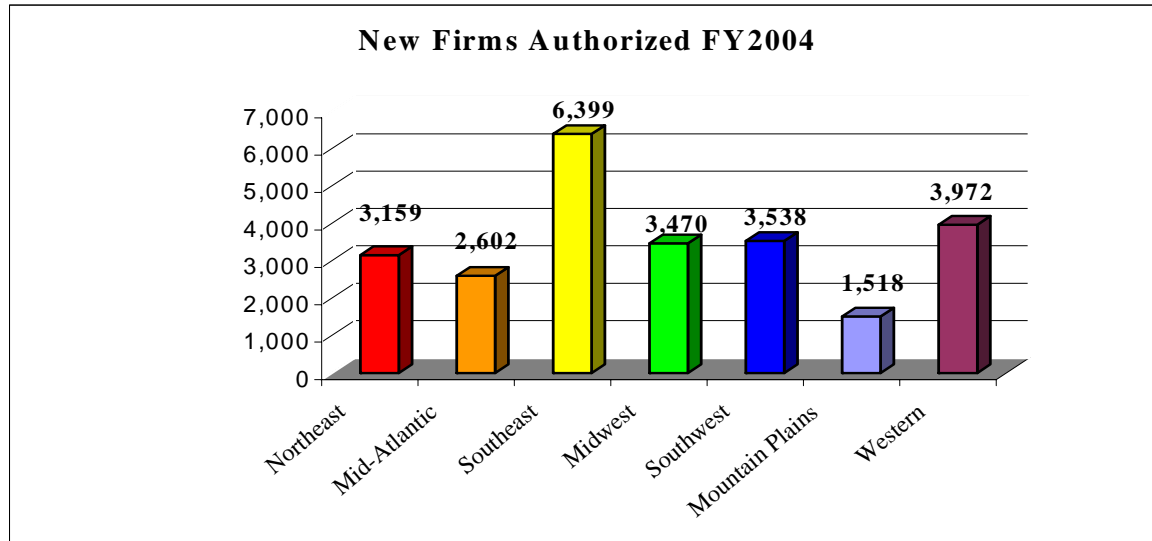


### Convenience Stores



## New Authorization Activity

In FY 2004, there were 24,658 new firms authorized to accept food stamp benefits. The number of new firms authorized by region follows:



Fiscal Year	New Store Authorizations By Region							Total New Authorizations
	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	
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
2003	2,736	2,059	3,289	2,399	1,884	1,084	3,670	17,121
<b>2004</b>	<b>3,159</b>	<b>2,602</b>	<b>6,399</b>	<b>3,470</b>	<b>3,538</b>	<b>1,518</b>	<b>3,972</b>	<b>24,658</b>

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

Region	New Authorizations	Reinstated	Reauthorized	Total
NERO	3,159	137	3,246	6,542
MARO	2,602	192	4,517	7,311
SERO	6,399	182	5,139	11,720
MWRO	3,470	233	5,104	8,807
SWRO	3,538	119	3,250	6,907
MPRO	1,518	73	2,575	4,166
WRO	3,972	178	6,266	10,416
<b>Totals</b>	<b>24,658</b>	<b>1,114</b>	<b>30,097</b>	<b>55,869</b>

Source: STARS Management Activity Report 10/23/04

## Monitoring Activity

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### *Retailer Operations – Activity Tracking*

#### SEAR

**T**he 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 six SEAR measurements, Fiscal Years 1999, 2000, 2001, 2002, 2003, and 2004.

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

National SEAR results for the last five years are shown below:

<b>Fiscal Year</b>	<b># of Authorized Firms</b>	<b>% Eligible</b>	<b>% Ineligible</b>
2000	157,353	98.5%	1.5%
2001	151,709	99.0%	1.0%
2002	146,423	99.0%	1.0%
2003	145,312	99.2%	1.0%
<b>2004</b>	<b>152,499</b>	<b>98.8%</b>	<b>1.2%</b>

Source: Annual SEAR Reports



## Monitoring Activity

### *Retailer Operations – Activity Tracking*

**R**egional SEAR findings are shown below.

Region	FY2004		FY2003		FY2002	
	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible
Northeast	20,675	99.6%	20,055	99.2%	22,359	100%
Mid-Atlantic	19,040	98.4%	18,666	98.7%	20,658	99.2%
Southeast	31,723	98.6%	28,877	99.4%	33,315	98.1%
Midwest	22,796	99.7%	21,673	98.9%	23,093	100%
Southwest	19,124	98.3%	17,645	100%	19,376	99.0%
Mountain Plains	11,048	98.6%	10,603	100%	11,175	99.2%
Western	28,093	98.3%	27,793	98.6%	27,304	99.4%
<b>Totals</b>	<b>152,499</b>	<b>98.8%</b>	<b>145,312</b>	<b>99.2%</b>	<b>146,423</b>	<b>99.1%</b>
Region	FY2001		FY2000			
	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible		
Northeast	21,261	99.6%	22,334	100%		
Mid-Atlantic	19,946	99.2%	20,663	97.4%		
Southeast	30,711	98.3%	33,371	98.5%		
Midwest	22,860	100%	23,090	99.2%		
Southwest	18,779	98.0%	19,385	98.9%		
Mountain Plains	10,859	99.2%	11,171	96.4%		
Western	27,293	99.0%	27,329	98.8%		
<b>Totals</b>	<b>151,709</b>	<b>98.9%</b>	<b>157,353</b>	<b>98.5%</b>		

Source: Annual SEAR Reports

## Monitoring Activity

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

In FY 2004, the number of firms that left the FSP totaled 18,732. These firms left either by voluntarily withdrawing or as a result of adverse actions by FNS.

REASON FOR REMOVAL FROM FSP					
Region	Voluntary Withdrawal	Involuntary Withdrawal	Term Disqualification	Permanent Disqualification	Total
Northeast	1,718	730	60	193	2,701
Mid-Atlantic	2,064	162	113	95	2,434
Southeast	2,772	644	161	207	3,784
Midwest	2,032	261	55	252	2,600
Southwest	1,812	248	79	64	2,203
Mountain Plains	978	127	34	9	1,148
Western	2,592	1,132	92	46	3,862
<b>Totals</b>	<b>13,968</b>	<b>3,304</b>	<b>594</b>	<b>866</b>	<b>18,732</b>

Source: STARS Management Activity Report 10/23/04

***Voluntary Withdrawal:*** Generally occurs due to changes in store ownership, changes in the nature of the business, or firm closings.

***Involuntary Withdrawal:*** Occurs when FNS determines that a store no longer meets the basic eligibility requirements for authorization, or because the store had no redemption activity.

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

## Monitoring Activity

### *Sanction and Compliance Actions:*

Sanction Actions: include permanent and non-permanent (term) disqualification actions, hardship, and trafficking civil money penalties (CMP)

Compliance Actions: include all sanction actions as well as official warning letters

Region	Permanent Disqualification	Non-Permanent (term) Disqualification	Hardship or Trafficking CMP	Total Sanction Actions	Official Warning	Total Compliance Actions
<b>NERO</b>	203	56	19	278	116	394
<b>MARO</b>	94	102	17	213	108	321
<b>SERO</b>	206	154	55	415	131	546
<b>MWRO</b>	246	50	23	319	137	456
<b>SWRO</b>	52	70	27	149	131	280
<b>MPRO</b>	6	37	12	55	80	135
<b>WRO</b>	34	87	50	171	177	348
<b>Totals</b>	<b>841</b>	<b>556</b>	<b>203</b>	<b>1,600</b>	<b>880</b>	<b>2,480</b>

### *Disqualifications:*

PENALTY BREAKDOWN BY FISCAL YEAR			
Fiscal Year	Permanent Disqualification	Term Disqualification	Total Firms Disqualified
2000	696	561	1,257
2001	693	696	1,389
2002	689	818	1,507
2003	703	637	1,340
<b>2004</b>	<b>841</b>	<b>556</b>	<b>1,397</b>

Source: STARS Management Activity Report 10/23/04

- Other:**
- **Transfer of Ownership (sale of store) civil money penalties: 48**
  - **Fines for Unauthorized Acceptance of Food Stamp Benefits: 27**
  - **Fiscal Claims: 25**

## 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 FY2004. There are three different types of CMPs:

#### **A. Hardship**

A hardship CMP is imposed in place of disqualification in 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 permanent disqualification if a firm meets specific criteria relative to owner/manager involvement, and employee training.

#### **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 FY2004**

#### **Hardship CMP**

	<b>CMPs Established</b>	<b>CMP Amounts Assessed</b>
Northeast	19	\$102,532
Mid-Atlantic	17	\$84,065
Southeast	52	\$318,999
Midwest	21	\$130,856
Southwest	26	\$157,208
Mountain Plains	12	\$41,934
Western	48	\$230,084
<b>Totals</b>	<b>195</b>	<b>\$1,065,677</b>

#### **Trafficking CMP**

	<b>CMPs Established</b>	<b>CMP Amounts Assessed</b>
Northeast	0	\$0
Mid-Atlantic	0	\$0
Southeast	3	\$90,000
Midwest	2	\$35,000
Southwest	1	\$10,000
Mountain Plains	0	\$0
Western	2	\$66,820
<b>Totals</b>	<b>8</b>	<b>\$201,820</b>

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

	<b>CMPs Established</b>	<b>CMP Amounts Assessed</b>
Northeast	4	\$105,137
Mid-Atlantic	0	\$0
Southeast	5	\$145,611
Midwest	26	\$806,928
Southwest	2	\$16,080
Mountain Plains	2	\$25,701
Western	9	\$307,222
<b>Totals</b>	<b>48</b>	<b>\$1,406,679</b>

Source: STARS Management Activity Report  
10/23/04

## 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 Supervisory Investigator-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 FY2004, RIB conducted investigations of 5,017 firms nationwide. Investigations target suspicious stores. As a result, over 41% (2,076) of these investigations documented evidence of FSP violations. Yearly food stamp redemptions for these 2,076 firms totaled \$83.2M. Of the 2,076 positive investigations, RIB investigators uncovered trafficking in 352 firms with annual redemptions of \$17.7M.

Nationally, food stamp trafficking has been decreasing over time. The most recent estimates show that trafficking represents 2.5 cents of every benefit dollar.

In FY2004, RIB, in addition to ongoing investigative activity, conducted nine mini-task force investigative operations in: Chicago, Jacksonville, Louisville, Los Angeles, El Paso, Miami, Memphis, New York City, and Philadelphia.



## Retailer Investigations Branch Historical Statistics

### *Investigations*

<b>Fiscal Year</b>	<b>Total Stores Investigated</b>	<b>Total Positive Investigations</b>	<b>Percentage of Total</b>
2000	4,592	1,894	41.2%
2001	4,232	1,628	38.5%
2002	4,108	1,646	40.1%
2003	4,453	1,637	36.8%
<b>2004</b>	<b>5,017</b>	<b>2,076</b>	<b>41.4%</b>

### *Breakdown of Positive Investigations*

<b>Fiscal Year</b>	<b>Total Non-Trafficking Cases</b>	<b>Total Trafficking Cases</b>	<b>Percentage of Positive</b>
2000	1,401	493	26.0%
2001	1,289	339	20.8%
2002	1,362	284	17.3%
2003	1,303	334	20.4%
<b>2004</b>	<b>1,724</b>	<b>352</b>	<b>17.0%</b>

Source: AIMS Annual Report 10/2004

## Electronic Benefit Transfer (EBT) Branch

**E**BT is the system used to deliver food stamp benefits electronically to recipients and was implemented nationwide, as of June 2004. EBT first began in October 1984 with a demonstration project in Reading, Pennsylvania. In 1996, Welfare Reform legislation mandated all States implement an EBT system for food stamp benefit delivery by October 2002. The EBT Systems Interoperability and Portability Act of 2000 further required all States' EBT systems be interoperable by October 2002 so that recipients could use their EBT cards across State lines.

The EBT Branch disseminates policy and resolves policy issues related to benefit issuance, including the implementation and operation of EBT systems. The EBT branch also reviews State agencies' Advanced Planning Documents, Requests for Proposals, and EBT system designs to ensure compliance with FSP EBT regulations prior to system acceptance and operation. In addition, the EBT branch provides State agencies with general EBT contract support. General contract support includes providing State agencies with direction, coordination, information, and technical support during EBT procurement,

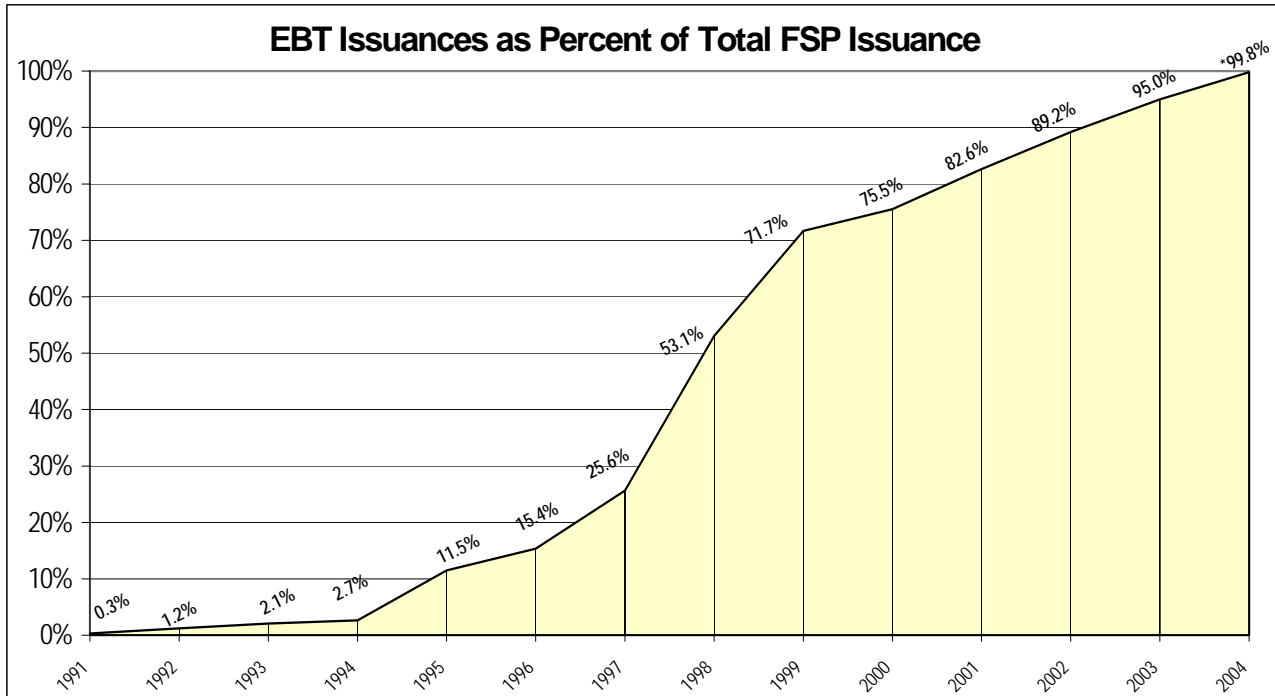
testing, and operational phases as well as supporting the transition from one EBT vendor system to another.

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 any FNS authorized retail food 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

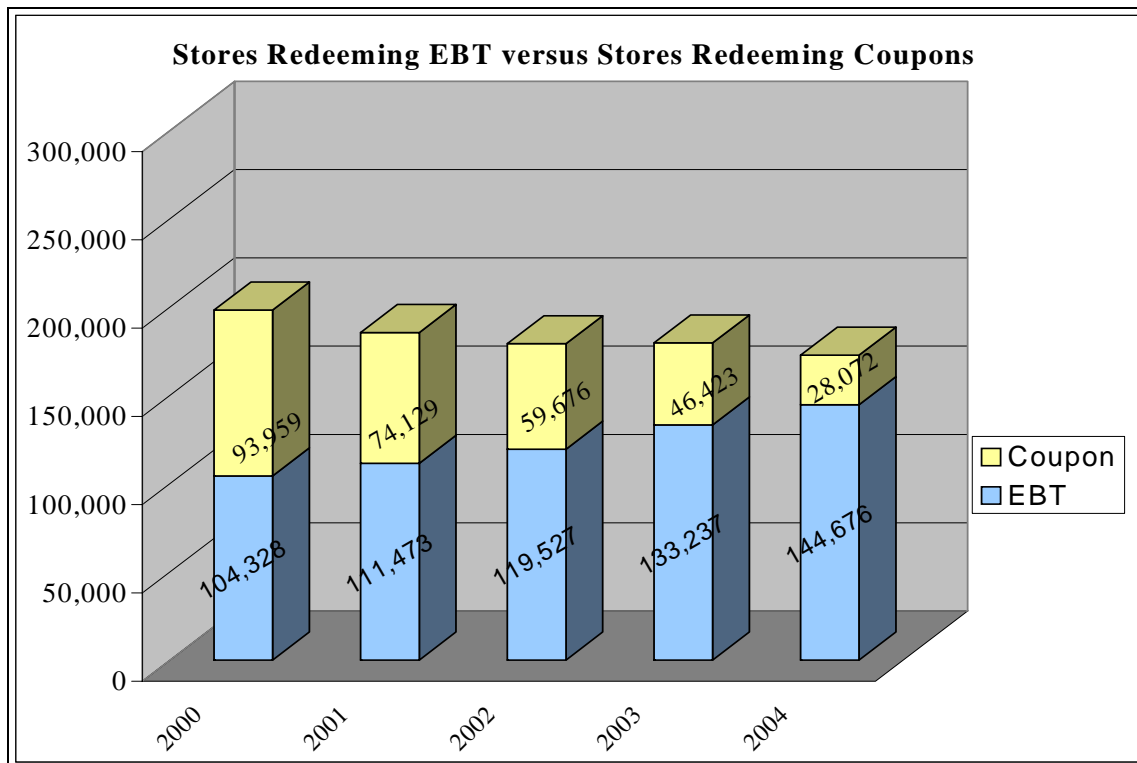
Most of the EBT systems deliver both food stamp benefits and cash assistance programs. More than 95 percent of food stamp benefits are being delivered by the EBT systems.



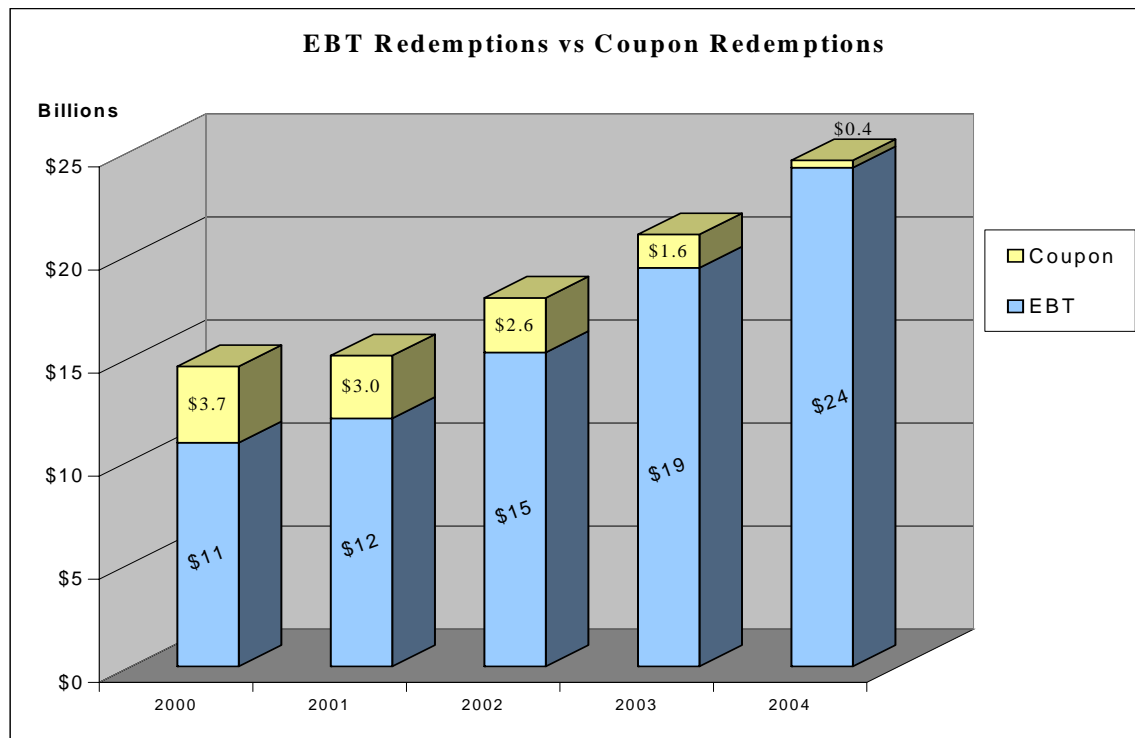
\*Approximately 0.2% of food stamp benefits are cash issuances under SSI and WRI waivers.



## Electronic Benefit Transfer (EBT) Branch



\*Some stores redeem both electronic and paper benefits.



Source: STARS Management Activity Report 10/23/04

## Administrative Review Branch

**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.



### Penalties for Violation of the Food Stamp Program



- Penalties Include:**
- Permanent disqualification** when the owner or employees purchase or traffic in food stamp benefits, or for a third sanction.
  - Three to five year disqualification** for the sale of non-food items, such as alcoholic beverages or tobacco.
  - One year disqualification** for accepting food stamp benefits for payment of credit accounts.
  - Six month to three year disqualification** for the sale of non-food items, such as, but not limited to: soap, paper products, medicines, etc.

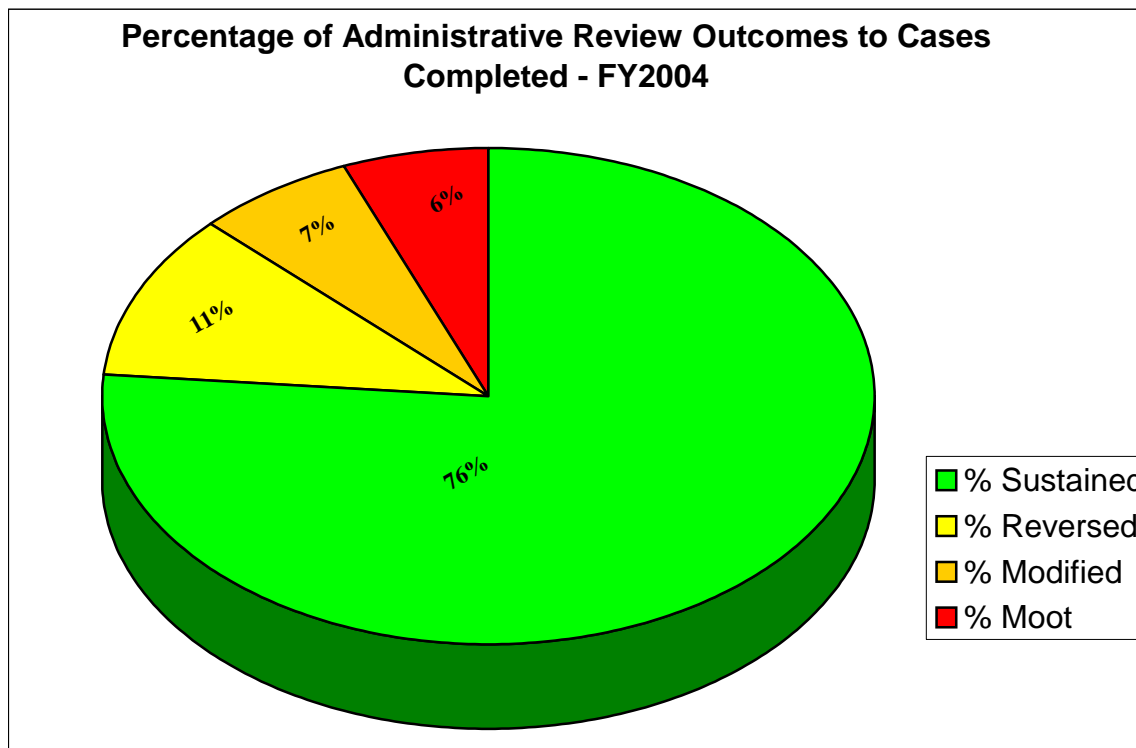
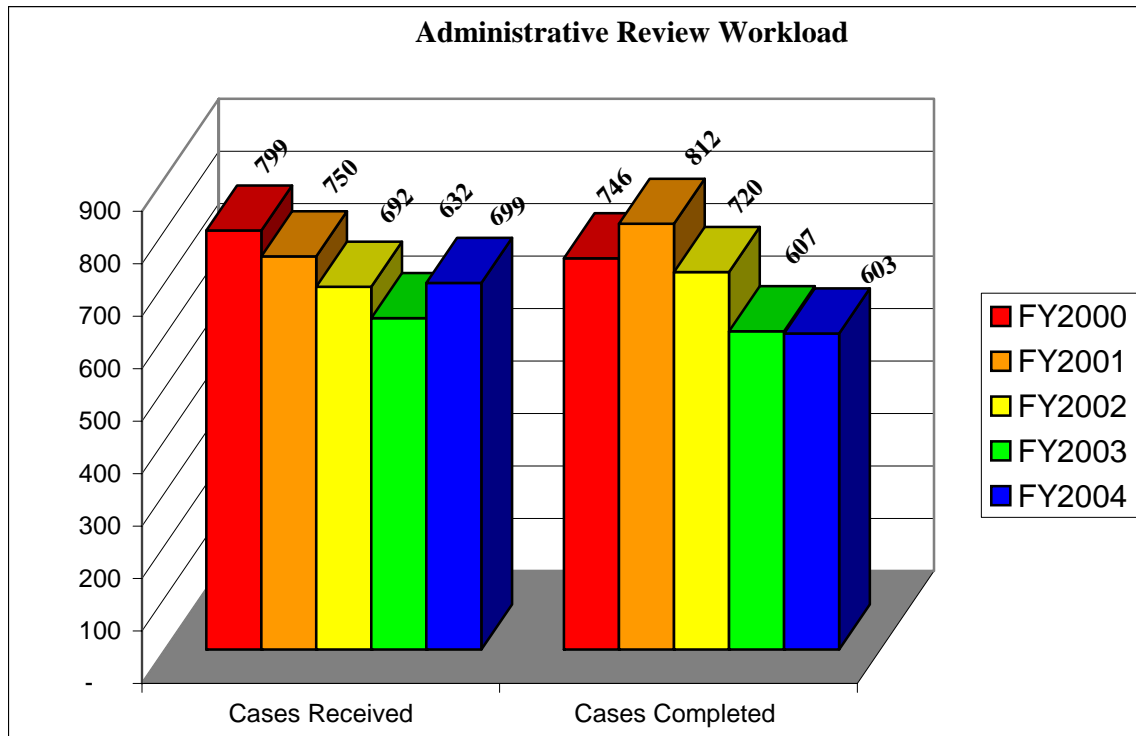


The Food Stamp Program is available to all eligible persons regardless of race, color, religion, sex, national origin, age, political beliefs or disability.  
United States Department of Agriculture • Food and Nutrition Service  
FNS 136 • Revised March 2002



# Administrative Review Process

## Administrative Review Workload and Outcomes



Source: 609-S and 611-S

## Special Projects Highlights

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**E**ach year the Benefit Redemption Division undertakes several priority projects that focus on improving retailer operations and EBT issuance. The Special Projects Highlights Section of this report provides information on projects conducted in FY2004. In many cases the projects involve significant input from our partners.

### STARS

**T**he store Tracking and Redemption System (STARS) supports the federal government's management of retailer participation in the Food Stamp Program. It is used by Headquarters, Regional, and Field Offices and by several oversight and investigative organizations in the Department. It is also used by State agencies for WIC vendor monitoring. The legacy system came online in the early 1990s. In FY 2004 it was successfully replaced by an entirely new, web-based system that will be easier to maintain and enhance in the future. The older STARS functionality was also increased to bring disparate systems together in one, shared database and to improve organizational accountability. The new platform also provides for future e-gov relationships with major chain stores, inviting them to apply and withdraw their firms online in STARS; this streamlines work for both our corporate customers and the Field Offices.

### Anti-Fraud Locator using EBT Redemption Transactions (ALERT)

**A**LERT enables the Department to identify patterns of non-compliance with FSP regulations and law evident from the electronic record of transactions that occur when people use their benefits. The current system has been in operation since 1996; although, it has had several enhancements added as technologies have evolved and user access improved. A new 5-year contract for the ALERT system was awarded to Alta Systems, Inc. The new contract provides for major new tools by partnering with Statistical Analytic Systems, Inc. At the same time, the contract will continue the pattern analysis, reports and tracking used by FNS field offices, RIB staff and USDA OIG investigators.

### Coupon Phase Out

**D**ue to the full implementation of EBT, FNS is rapidly eliminating the use of paper food coupons. FNS stopped producing coupons in 2002 and in 2003 destroyed the majority of coupons housed at the storage facility in Tennessee. In September 2004, FNS and the Bureau of Engraving (BEP) completed the destruction of all coupons stored at BEP. Per a one-year agreement with FNS, BEP stored \$148M in coupons as a reserve in case of delays in the EBT roll-outs of Guam and California. Most State agencies have also closed out their coupon inventory, leaving only five State agencies with coupon inventory on hand.

## Special Projects Highlights

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### Interoperability

The Electronic Benefit Transfer Interoperability and Portability Act of 2000 mandates that all State EBT systems be interoperable. The Act also provides for 100 percent Federal funding, up to 100 percent of the cost of food stamp transactions. Thirty-five State agencies requested funding and were paid approximately \$356,000 for FY2004 interoperability services.

### Retailer Outreach

In 2004, BRD expanded its retailer outreach efforts by publishing the second issue of *Food Stamp Notes*, a mailer distributed to all authorized retailers in the Program. BRD created additional partnerships with State and local organizations; and attended retailer trade shows to answer questions, provide technical assistance and distribute promotional items for the Food Stamp Program. This past year, BRD exhibited at three national trade shows - National Association of Convenience Stores (NACS), National Grocers Association (NGA), and the Food Marketing Institute (FMI) May show. In addition, regional and field office staff exhibited at several local shows throughout the year, such as the Krasdale Trade Show for Supermarkets and Retailers in New York and a show sponsored by the California Grocer's Association in Las Vegas. BRD's focus for FY 2004 was to engage stores in outreach activities that promote participation in the Food Stamp Program. This was carried out on a national basis by BRD staff and at the local level through FNS regional and field office staff with great success. As a result, numerous pre-screening and promotional events were organized throughout the country. The events were staffed by FNS employees and volunteers and typically involved a partnering (community) organization in the planning of the event. For FY 2005, BRD will continue to work with stores to implement more food stamp outreach activities. We also hope to include nutrition education activities, where appropriate, to compliment the release of USDA's new dietary guidelines and food guidance system.

### Nationwide EBT Implementation

In June 2004, the Food and Nutrition Service celebrated the nationwide completion of EBT implementation during the Annual National EBT Directors' Conference of State EBT directors and federal representatives in Washington, D.C.

During the three-day conference, State and federal representatives gave presentations and held workshops on a variety of ongoing EBT issues. USDA's Secretary, Ann Veneman, along with the Chairman of the Subcommittee on Department Operations, Oversight, Nutrition and Forestry, Gil Gutknecht (R-MN), also spoke at a morning press conference during the meeting to announce the end of the "paper era." Other speakers included Eric Bost, Under Secretary for the Food, Nutrition and Consumer Services and Kate Coler, Deputy Under Secretary. Finally, at an evening ceremony, awards were presented to the States and several organizations for their contribution to EBT implementation.