

GAO

Report to the Ranking Minority
Member, Committee on Agriculture,
Nutrition, and Forestry, U.S. Senate

January 2002

**FOOD STAMP
PROGRAM**

**Implementation of
Electronic Benefit
Transfer Systems**

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

20020118 235



G A O

Accountability * Integrity * Reliability



United States General Accounting Office
Washington, DC 20548

January 16, 2002

The Honorable Richard G. Lugar
Ranking Minority Member
Committee on Agriculture, Nutrition,
and Forestry
U. S. Senate

Dear Mr. Lugar:

This report addresses your request for information on the progress made by states in implementing electronic benefit transfer (EBT) systems for delivering benefits in the Food Stamp Program. In fiscal year 2001, the U.S. Department of Agriculture (USDA) provided about \$15.5 billion in food stamp benefits to a total of about 17.3 million recipients. Until the mid-1990s, most recipients used benefits provided in the form of paper coupons to purchase allowable food, but currently about 80 percent of all benefits are provided electronically. Recipients receiving their benefits electronically use cards, much like debit cards, to pay for their groceries at the checkout counter, and the benefits used are deducted from the recipients' monthly allocation.

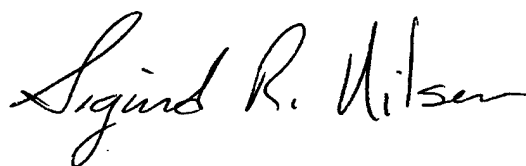
You asked us to determine (1) the status of states' efforts to implement statewide EBT systems and to make them interoperable and portable, (2) any barriers impeding nationwide implementation of EBT systems, and (3) any strategies that USDA's Food and Nutrition Service (FNS) or the states have used to overcome barriers to EBT implementation. As agreed with your office, we examined the actions taken by the FNS and the 53 jurisdictions—the 50 states, the District of Columbia, Guam, and the Virgin Islands—that are required to implement EBT systems to deliver food stamp benefits. We conducted our work from August 2001 through December 2001 in accordance with generally accepted government auditing standards. On December 18, 2001, we briefed your staff on the results of our work. This report formally conveys the document used at that briefing.

In summary, we found that 46 of the 53 jurisdictions will likely meet the October 1, 2002, deadline for having implemented a statewide EBT system. Thirty-nine states plus the District of Columbia had achieved statewide EBT system implementation by October 2001. Six other states had signed EBT contracts and were on track to achieve statewide implementation by October 2002. It appears that 7 jurisdictions will likely not meet the

October 1, 2002, deadline for statewide EBT system implementation. Overall, we did not identify any principal technical barriers impeding the statewide implementation of EBT systems that are interoperable and portable.

We are sending copies of this report to the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry, the Secretary of Agriculture, and will make copies available to others upon request. If you or your staff have any questions about this report, please contact me on (202) 512-7215 or Ron Wood on (202) 512-2608. Dan Jacobsen and Jill Yost also made key contributions to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Sigurd R. Nilsen". The signature is written in a cursive style with a large initial 'S'.

Sigurd R. Nilsen
Director, Education, Workforce,
and Income Security Issues

Briefing Slides



FOOD STAMP PROGRAM: Implementation of Electronic Benefit Transfer (EBT) Systems

**Briefing for Minority Staff of Senate Committee on Agriculture,
Nutrition, and Forestry**



Overview

- Objectives
 - Scope and Methodology
 - Summary of Results
 - Background
 - Status of States' Implementation of EBT
 - Barriers to EBT Implementation
 - Strategies to Bring All States into Compliance
-

2



Objectives

- Describe the status of states' efforts to implement statewide EBT systems and make them interoperable and portable;
- Identify principal barriers impeding nationwide implementation of EBT systems; and
- Identify strategies that the Food and Nutrition Service (FNS) or states have used to overcome barriers to EBT implementation.



Scope and Methodology

- Analyzed laws and regulations on EBT and pertinent documents from FNS headquarters and regional offices and from selected states.
- Interviewed FNS officials responsible for EBT implementation, officials in states that have not yet implemented statewide systems that are interoperable and portable, and vendors for EBT systems.
- Our work was conducted from August 2001 through December 2001 in accordance with generally accepted government auditing standards.



Summary of Results

- Forty-six of the 53 jurisdictions have met or are on schedule for implementing EBT statewide by October 2002.
- Most jurisdictions will have interoperable and portable EBT systems by October 2002.
- There are no technical barriers impeding statewide implementation of EBT.



Background: Food Stamp Program (FSP)

- The primary source of nutrition assistance for low-income Americans-- 7.45 million households were provided about \$15.5 billion in benefits during fiscal year 2001.
 - Administered by the U.S. Department of Agriculture's FNS in partnership with the states.
 - FNS funds the full cost of food stamp benefits and pays about half the cost of state administration, develops policies and regulations, authorizes retailer participation, and monitors retailer compliance.
 - States handle day-to-day operation and management, including certifying eligibility of participants, delivering the benefits, and monitoring recipients' compliance.
-

6



Background: Role of EBT Systems in Food Stamp Benefit Delivery

- EBT now delivers about 80 percent of food stamp benefits.
- With EBT, recipients use a plastic card, much like debit cards, to pay for their food at the checkout counter at an authorized retail store.
- Each recipient must enter a unique personal identification number into a terminal and the benefits used are deducted from the household's allocation.



Background: Statutory EBT System Deadlines for the States

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) requires each state to implement a statewide EBT system for distributing food stamp benefits by October 1, 2002.
- The EBT Interoperability and Portability Act of 2000 (Public Law 106-171) requires that states' EBT systems be interoperable (capable of processing each other's cards) and food stamp benefits be portable (useable in any state) by October 1, 2002.
- These requirements apply to 53 jurisdictions--the 50 states, the District of Columbia, Guam, and the Virgin Islands.



Status of States' Implementation of EBT

[also, see map on p. 11]

Forty-six of the 53 jurisdictions will likely meet the October 1, 2002, deadline for having implemented a statewide EBT system:

- 40 (39 states plus the District of Columbia) had achieved statewide EBT system implementation by October 2001.
- 6 other states--Indiana, Mississippi, Montana, Nebraska, Nevada, and Virginia--had EBT contracts and were on track to achieve statewide implementation by October 2002.



Status of States' Implementation of EBT

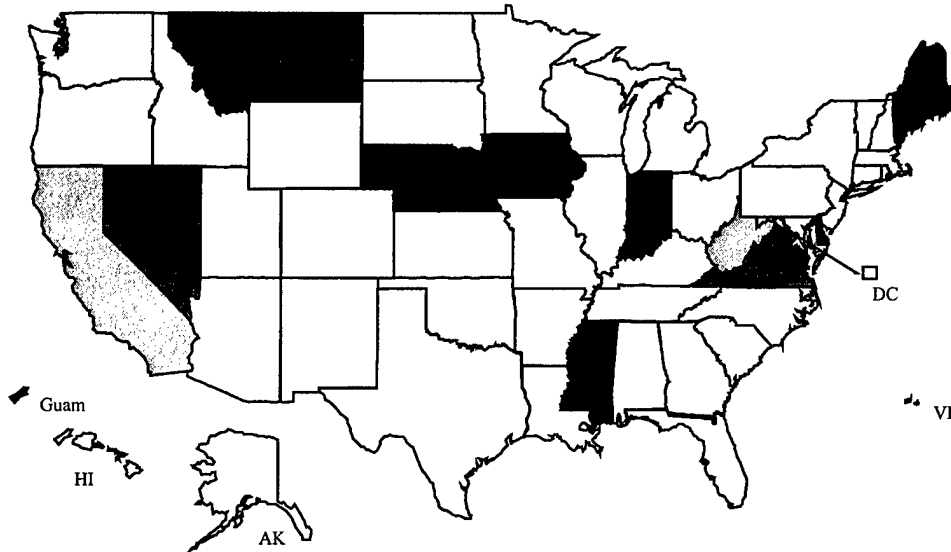
[also, see map on p. 11]

Seven jurisdictions will likely not meet the October 1, 2002, deadline for statewide EBT system implementation.

- West Virginia and California have EBT contracts and should comply by July 2003 and November 2004, respectively.
- Virgin Islands is negotiating an EBT contract and may or may not implement an EBT system by the deadline.
- Delaware, Guam, Iowa, and Maine do not yet have EBT contracts, but intend to implement systems after the deadline.
- All 7 jurisdictions plan to have interoperable and portable systems upon statewide implementation.



Electronic Benefit Transfer (EBT) Statewide Implementation



□ EBT implemented (40)	■ EBT by 10/2002 (6)
▨ EBT after 10/2002, with contract (2)	■ EBT after 10/2002, no EBT contract (5)



Status of States' Implementation of EBT

[also, see map on p. 14]

Of the 46 jurisdictions expected to meet the October 1, 2002, deadline for statewide EBT system implementation:

- 36 (35 states plus the District of Columbia) had interoperable and portable EBT systems by October 2001.
- 6 states--Indiana, Mississippi, Montana, Nebraska, Nevada, and Virginia--will have interoperable and portable EBT systems when their systems are implemented statewide.
- 4 states--Illinois, Ohio, Texas, and Wyoming--are exempt by Public Law 106-171 from having to provide interoperable and portable systems by the deadline.



Status of States' Implementation of EBT

[also, see map on p. 14]

Exemptions from the interoperability and portability deadline:

- Illinois and Texas are exempt because their current EBT contracts were entered into prior to October 16, 2000. Their exemptions continue until the current contracts expire or are extended.
- Ohio and Wyoming are exempt because they use EBT smart cards which are not currently compatible with the EBT systems used by all other jurisdictions.



Barriers to EBT Implementation

Overall, we did not identify any technical barriers impeding the statewide implementation of EBT systems.

- In fact, 46 jurisdictions have implemented EBT systems or are on track to do so.
- Delaware, Guam, Iowa, and Maine have made the least progress toward achieving EBT implementation. They distribute about 1.7 percent of food stamp benefits nationally.
- These jurisdictions have delayed their implementation, in part, due to concerns over the higher cost of EBT over the old paper coupon system of food stamp benefit delivery.



Barriers to EBT Implementation

- EBT saves the federal government time and money because the process of printing, safeguarding, distributing, accounting for, and destroying the coupons is eliminated.
 - Some states have stated that EBT has increased their cost to administer the food stamp program.
 - Furthermore, an EBT system creates an electronic record of each food transaction, making it easier to identify and document instances of food stamp fraud or abuse.
-



Strategies to Bring All States into Compliance

FNS is working with the five jurisdictions that lack EBT system contracts to assure that they:

- have established reasonable plans to achieve full EBT implementation and
- are making reasonable progress toward meeting their established EBT development milestones.

In August 2000, FNS completed a study entitled “Electronic Benefits Transfer Alternatives Analysis” that addressed the limited competitive environment in the EBT market. FNS is considering various options for addressing the problems noted in the study.

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily e-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
P.O. Box 37050
Washington, D.C. 20013

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

Visit GAO's Document Distribution Center

GAO Building
Room 1100, 700 4th Street, NW (corner of 4th and G Streets, NW)
Washington, D.C. 20013

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm,
E-mail: fraudnet@gao.gov, or
1-800-424-5454 or (202) 512-7470 (automated answering system).

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G. Street NW, Room 7149,
Washington, D.C. 20548