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FOOD ASSISTANCE

Reducing Benefit
Overpayments in the Food
Stamp Program

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Mr. Chairman and Members of the Committee:

We are pleased to appear before you today to discuss our work on fraud, waste, and abuse in the U.S. Department of Agriculture's (USDA) Food Stamp Program. As you know, we have been working with this Committee, and its counterpart in the Senate, over the past year examining problems associated with the current coupon-based approach for delivering food stamp benefits; as well as the potential for alternative delivery approaches to address those problems. In our recent report to the Committee, Food Assistance: Potential Impacts of Alternative Systems for Delivering Food Stamp Program Benefits (GAO/RCED-95-13, Dec. 16, 1994), we presented the results of this work. At this time, I would like to submit a copy of the report for inclusion in the record.

At the Committee's request, we are currently conducting additional work aimed at exploring in more detail one of the problems with the current food stamp approach--namely providing recipients with more benefits than they are entitled to receive. Specifically, we are attempting to determine why such overpayments occur, and what the federal government and the states are doing to reduce the overpayment problem.

Our testimony today, Mr. Chairman, will focus on benefit overpayments that result from fraudulent, wasteful, or abusive practices or behaviors during the eligibility and benefit determination process and will draw on information presented in our recent report as well as information we have developed during our ongoing followup work. We will be discussing the role of the states in administering benefits, current benefit overpayment levels and trends, the causes of overpayments, the status of claims to recover overpayments, and USDA's and states' initiatives to reduce overpayment error rates.

In summary, hundreds of millions of dollars in food stamp benefits are being paid out each year to individuals that either

should not receive any benefits at all, or receive more benefits than they are entitled to receive. Based on USDA information, overpayments have increased in recent years to the point that in fiscal year 1993, the most current year for which data are available, about \$1.8 billion--or 8.29 percent--of the approximate \$22 billion in benefits were inappropriately issued. Most of these errors are attributed to inaccurate information provided by benefit recipients to state caseworkers either when they apply for benefits, or when they update information affecting their financial or household condition after they have been certified to be eligible for benefits. Both USDA's Food and Consumer Service (FCS), which is responsible for managing the program at the federal level, and numerous states have initiatives underway to reduce benefit overpayments. Some states are further along than others. In fact, some states have been successful in reducing overpayments to the extent that they have qualified for additional food stamp funding from USDA. Although there are numerous factors that have contributed to state successes in reducing overpayments, the single most critical factor seems to be the commitment of states' food stamp program managers to aggressively pursue the error rate problem. USDA has also worked with states to reduce error rates by granting states waivers to a number of program regulations that tend to exacerbate errors.

STATES ARE THE MAJOR PLAYERS IN PROVIDING BENEFITS

While the Food Stamp Program is under the federal purview of FCS, states carry out the actual day-to-day administration and operation of the program. State and local caseworkers take applications from heads of households seeking food stamp benefits and, through face-to-face discussions and reviews of households' composition and income information provided by the applicants, determine the eligibility and the amount of benefits to which households are entitled. Normally, a household is certified for benefits for a specified period of time--in some cases up to 12

months--which means that a household does not need to reapply for benefits each month. However, recipients are required to report changes in the composition of the household, household's income, or other pertinent information as changes occur during the certification period. Based on reported changes, state caseworkers make adjustments to the benefit amounts provided to the household.

The Food Stamp Program Quality Control (QC) System is one of the tools FCS uses to help monitor the states' performance in issuing benefits. Under the QC System, states must review a sample of their household cases each year to determine the accuracy of the eligibility and benefit determinations made by state caseworkers and the extent of payment errors--both overpayments and underpayments. FCS then reviews a subsample of each state's sample to ensure the accuracy of the states' efforts. FCS then establishes the official error rate for each state. From the states' error rates, FCS then determines the national error rate. If an individual state's error rate exceeds the national error rate by certain tolerances established by FCS, the state can be required to reimburse the federal government for a portion of the erroneous payments. On the other hand, states that have low error rates are eligible for additional reimbursements from the federal government--referred to as enhanced funding. In fiscal year 1993, 16 states exceeded the national error rate tolerances and 6 states had error rates low enough to receive enhanced funding.

CURRENT BENEFIT OVERPAYMENT LEVELS AND TRENDS

According to FCS's QC System, states made an estimated \$7.45 billion in food stamp overpayments for the 6-year period extending from fiscal years 1988 through 1993. As shown in table 1, the overpayments have steadily increased from approximately \$826 million in fiscal year 1988 to \$1.824 billion in fiscal year 1993. This represents a \$998 million, or 121-percent, increase over this 6-year period.

Table 1: Food Stamp Overpayments for Fiscal Years 1988-93

Dollars in billions

1988	1989	1990	1991	1992	1993	Total
\$0.826	\$0.85	\$1.03	\$1.21	\$1.71	\$1.824	\$7.45

The overpayment rate--that is the percentage of benefits overissued--also increased during this period. As shown in table 2 below, the rate has worsened in recent years, jumping 1.3 percentage points between fiscal years 1991 and 1993.

Table 2: Overpayment Rates for Fiscal Years 1988-93

1988	1989	1990	1991	1992	1993
7.41%	7.27%	7.35%	6.96%	8.19%	8.29%

As requested, we compared food stamp overpayment rates with the overpayment error rates for the Aid to Families with Dependent Children (AFDC) program. AFDC's overpayment rates, as shown in table 3, are less than those experienced in the Food Stamp Program. AFDC's rates ranged from 6.79 percent in fiscal year 1988 to 4.96 percent in 1991. The estimate for fiscal year 1992, the most recent year for which data are available, is 5.65 percent, although that number is not yet final. We do not have information to explain why the AFDC overpayment rate is less than that of the Food Stamp Program.

Table 3: AFDC Overpayment Rates for Fiscal Years 1988-92

1988	1989	1990	1991	1992
6.79%	5.70%	5.98%	4.96%	5.65%

CAUSES OF OVERPAYMENTS

As we point out in our recent report, overpayments occur for two reasons. First, the state caseworkers make errors in either determining an applicant's eligibility for benefits, or the appropriate level of benefits. Second, recipients make errors in providing information to the state caseworker regarding the recipient household's income, assets, or other pertinent information needed to determine the household's eligibility and benefits. Under FCS's QC System, recipient errors are further broken down as to whether the error was an inadvertent error in providing information to the caseworker, or whether the recipient intentionally provided wrongful information.

Because of the large increase in overpayments in recent years, we focused our overpayment analyses on fiscal years 1991 and 1993. As shown in table 4, in fiscal year 1991, state caseworker errors accounted for \$539 million (45 percent) of the approximately \$1.2 billion in overpayments, unintentional recipient errors accounted for \$390 million (32 percent) of the overpayments, and intentional participant errors accounted for \$274 million (23 percent) of the overpayments. In reviewing the fiscal year 1993 QC reports, our analysis indicates that caseworker-sourced overpayment errors decreased by 3 percentage points during this time frame while recipient-sourced overpayment errors increased by 3 percentage points. The increase in recipient errors resulted from an increase in the unintentional errors in reporting information to caseworkers.

Table 4: Caseworker and Recipient Overpayments for Fiscal Years 1991 and 1993

Dollars in millions

	Fiscal Year			
	1991		1993	
Source of overpayment error	Amount overpaid	Percent	Amount overpaid	Percent
Caseworkers	\$543	45	\$763	42
Recipients				
Unintentional	\$390	32	\$637	35
Intentional	\$274	23	\$424	23
Total recipients	\$664	55	\$1061	58
Total	\$1,207	100	\$1,824	100

In addition to determining who was responsible for an overpayment error, state QC officials are also tasked with categorizing what the caseworker or recipient actually did to cause the error. Our review of QC data for both fiscal years 1991 and 1993 indicates that about half the errors were caused by recipients either failing to report information to caseworkers, or reporting incorrect information to caseworkers. About one-fourth of the errors were attributable to caseworkers not thoroughly reviewing or taking timely action on information that had been provided by recipients; and in about 10 percent of the cases, the caseworker did not apply food stamp policies correctly in determining eligibility or benefit levels.

QC procedures also require state officials to determine the type of error made during their reviews. Our review of fiscal years 1991 and 1993 QC data, as shown in table 5, indicates that about two-thirds of the overpayments were linked to household income errors. The next largest type of error--about 14 percent--falls in the category of "nonfinancial" information. This category involves information on the composition of the recipient household; for example, the number, ages, and relationships of household members. The third largest type of error--about 11 percent--involved the determination of allowable deductions from a household's income to arrive at an adjusted household income for benefit determination purposes. For example, households with excessively high shelter expenses can deduct a portion of these expenses from their countable income--which has the effect of increasing their food stamp benefits.

Table 5: Overpayments by Type of Error
for Fiscal Years 1991 and 1993

Dollars in millions

	Fiscal Year			
	1991		1993	
Type of overpayment Error	Amount overpaid	Percent	Amount overpaid	Percent
Income	\$ 800	66	\$1,220	67
Nonfinancial	170	14	259	14
Deductions	129	11	180	10
Resource	81	7	128	7
Other	27	2	37	2
Total	\$1,207	100	\$1,824	100

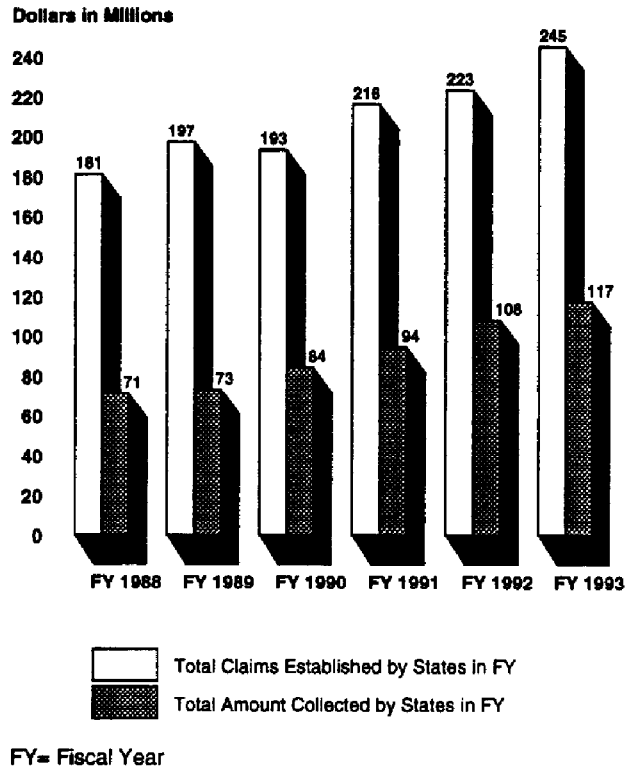
STATES ESTABLISH FEW CLAIMS
FOR COLLECTING OVERPAYMENTS

FCS' regulations require states to establish claims against all recipients identified as receiving more food stamps than they are entitled to receive. Our analysis of states' claims data shows, however, that the amount of overpayment claims established by states is far less than the amount of overpayments estimated to have been made as a result of the QC System reviews. For example, for fiscal years 1988 through 1993, the states established \$1.25 billion in claims out of the more than \$7.4 billion in food stamp overpayments estimated through the QC System.

FCS and state officials said that the amount of overpayments determined by the QC System is an estimate based on a statistical sample completed during the QC review. However, the amount of claims established by states reflects overpayments that have been specifically identified and recorded by state program officials. Unfortunately, states are able to identify and pursue only a small percentage of the overpayments that are estimated to occur.

The amount of claims states actually collect is lower still. For fiscal years 1988 through 1993, states collected about \$548 million in overpayments--about 44 percent of the dollar value of the claims they established during this time frame. Figure 1 compares the states' collections with all claims.

Figure 1: Overpayment Claims and Collections for the Food Stamp Program for Fiscal Years 1988 to 1993



As part of our work we have not assessed the reasons why states collect such a small percentage of overpayments. However, another project in GAO is currently reviewing state agencies' efforts in recovering overpayments for three social welfare programs--one of which is the Food Stamp Program. A separate report on the results of this review is expected to be issued this year.

FCS' INITIATIVES TO REDUCE OVERPAYMENTS

FCS has recently embarked on a number of new initiatives to reduce errors that cause both overpayments and underpayments. For example, FCS reported that it had recently formed a core team at the headquarters level to work exclusively on the development and coordination of payment accuracy issues. A national conference was

held on November 16-17, 1994, with state food stamp officials to discuss these issues. FCS plans to perform additional data analysis and use this information to assist states in developing payment accuracy initiatives. As part of its recent initiatives, FCS also is setting aside \$1 million in fiscal year 1995 for state and federal error reduction activities in addition to the \$379,000 it has earmarked for its State Exchange Program. The State Exchange Program provides funds that allow states and local agencies to travel to other localities to observe and share information on methods proven to reduce overpayments. FCS headquarters has also asked each of its seven regional offices to develop plans to reduce error rates within the states in their regions.

As a separate initiative, FCS is seeking to improve the collection of claims associated with overpaid recipients. Currently FCS is using the Federal Income Tax Refund Offset program to collect overpayments that have not been paid back voluntarily by recipients or collected by other means. It also plans to test federal salary offsets as a means of collecting overpayments in 1995.

FCS is also approving states' requests for waivers of food stamp regulations. According to FCS officials, selective use of waivers can help reduce the error rate in several ways. For example, in many states the caseworkers handling food stamp household applications for benefits also handle AFDC applications. Because of the differences in eligibility requirements, the caseworkers sometime apply the wrong program criteria in determining eligibility and benefits for food stamps. Waiving certain food stamp requirements can increase the consistency between food stamp and AFDC eligibility and benefit determination regulations, and thereby reduce the chance of errors.

Also, FCS has waived some time-consuming procedural requirements that have served to burden caseworkers. As a result, caseworkers are able to spend more time on fewer tasks and thus reduce the chance of errors. For example, waivers have been given to 16 states allowing caseworkers to forgo a number of face-to-face interviews with recipients when they are recertifying recipients for program benefits. An annual face-to-face interview is still required, but the requirement to conduct a face-to-face interview with a recipient as many as four times a year is reduced to only one meeting. Finally, six states have been given permission to waive the program requirement that recipients report changes of \$25 or more in monthly income between certification periods to their caseworkers. Under the \$25 rule, caseworkers would have to recalculate recipient benefits if a recipient's income increased by \$25 or more during the certification period. Instead, recipients are now only required to report a change in their source of employment, wage rate, or employment status to their caseworkers. Thus, caseworkers need not recalculate benefits as often, and recipients and caseworkers are not held accountable for failing to report or recalculate benefits due to changes in recipient income.

According to information provided to us by FCS, the agency has approved 185 waivers for 48 states involving 27 separate parts of the Food Stamp Program regulations. As can be seen from the above examples, a number of the waivers granted simply change the rules governing how official error rate and overpayment amounts are calculated. In this way, the reduced error rates and overpayments generated by the waivers may not translate into reduced payments to recipients or reduced program costs.

SOME STATES HAVE BEEN SUCCESSFUL
IN REDUCING OVERPAYMENTS

Some states have been more successful than others in reducing errors that lead to overpayments. According to FCS officials, no

single quantitative factor seems to make the difference in whether a state has a low or high overpayment rate. They told us that their analysis of national data, such as the size of states' caseloads, the ratio of recipients to caseworkers, the ratio of administrative funds to caseload, and geographical factors does not show a strong relationship to a state's error rate. Our limited analysis of state data indicates that there is a correlation between the amount of money spent in certifying recipients and low error rates--but the correlation is very weak. The only factor that seems to make a difference, according to FCS officials, is the commitment by state officials to aggressively pursue reductions in the error rate.

In an effort to learn more about how states have managed to reduce their error rates, or how they plan to do so, we visited three states--Louisiana, South Carolina, and New Mexico--and obtained information from another state--Alabama--that have been successful in reducing overpayments. We also visited Texas, which has historically had a high error rate but is in the process of implementing a program to reduce its errors. Based on the work done to date, we can offer the following information on the states we examined.

Louisiana

In fiscal year 1989, Louisiana's overpayment error rate was 9.5 percent. By 1993, the state reduced its overpayment error rate to about 6.9 percent. For fiscal year 1994, the state is projecting its error rate to be even lower. According to Louisiana officials, the state's primary motivation for reducing error rates is the desire to avoid fiscal sanctions.

To reduce its error rate, Louisiana made a series of changes to the way it operated the Food Stamp Program. First, state managers placed more emphasis on the state's program, including (1)

mandating that both experienced and newly hired personnel attend a series of training seminars, (2) developing a computer system that is expected not only to be a significant aid in food stamp error prevention, but also to provide all staff with immediate access to policy revisions in the program, (3) putting a series of approved Food Stamp Program waivers in place, and (4) establishing more state offices in areas that had high error rates.

To date, the state has trained approximately 500 staff. The remaining staff are expected to have completed their training by mid-1995. Furthermore, Louisiana currently has 10 waivers approved by FCS. According to Louisiana officials, some of these waivers will reduce the amount of time a caseworker spends on the certification process. The time saved can be devoted to some other aspect of the Program. For example, one waiver allows program staff to certify households with elderly or disabled members for 24 months instead of the normal 12-month certification period. This waiver is expected to generate a significant reduction in work for caseworkers because approximately 60,000 households will now be certified for 24 months.

South Carolina

South Carolina reduced its overpayment error rate from 11.66 percent in fiscal year 1986 to 7.87 percent in fiscal year 1993, and state officials anticipate the rate will be even lower in fiscal year 1994. State officials attribute their success in lowering the overpayment rate to two basic factors (1) upper level management's commitment and (2) FCS-approved waivers from program regulations.

South Carolina's management efforts centered on strengthening communication lines with the local county Food Stamp Program offices. State officials accomplished this by increasing contact with, and the training of, state-and local-level supervisors and

case workers; upgrading and enhancing their management information systems in every local office; and changing their administrative processes to simplify benefit determination, promote quality through management and team building, and increasing local agencies' responsibilities for preventing errors. State officials credited the combined effect of all these changes for improving the state's overpayment error rate.

In addition to internal programmatic and management changes, state officials obtained two waivers from FCS that they believe contributed to lowering overpayments. The first waiver eliminated the requirement that certain recipients must report monthly income changes of \$25 or more between certification periods to local food stamp offices. According to South Carolina officials, recipients' failure to properly report income is the largest single contributor to the state's error rate. Elimination of this income-reporting requirement significantly reduces the opportunity for these types of errors to occur. South Carolina officials added that this waiver alone has lowered their error rate by 2 percentage points.

The second waiver permits certain recipients to be recertified for benefits by mail on a quarterly basis instead of requiring them to come to the local food stamp office. This eliminates the requirement for caseworkers to have face-to-face interviews with recipients every 3 months. As a result, according to state officials, caseworkers now have more time to input changes in status reported by recipients between certification periods, which result in more accurate case records and determinations of recipient benefits.

Texas

Texas historically has had high error rates: its food stamp overpayment rate was above the national average for 5 of the 6

years during the fiscal year 1988 to 1993 period. The state's overpayments in these years represented 11 percent of the total overpayments nationwide. Because of its high error rates and the threat of fiscal sanctions, Texas announced a management plan in February 1994 that establishes accountability for food stamp payment accuracy at the state's regional management level. Since announcing the management plan, the state's overall error rate declined from 14 percent to less than 12 percent for fiscal year 1994.

In addition, the state obtained the same waiver as South Carolina concerning the reporting requirements for changes in recipients' income. Texas implemented this waiver in September 1994, and state officials anticipate that the waiver will reduce the state's error rate by 2 percentage points. The state also implemented a mandatory 3-month certification period for recipients with unstable household situations, such as fluctuating income. According to state officials, the shorter certification period for these recipients will reduce the error rate by another 1.5 percent because caseworkers will be obtaining recipients' income information more frequently than when the recipients were being certified for 6 months or longer.

New Mexico

New Mexico reduced its overpayment error rate from a high of 10.3 percent in fiscal year 1987 to a low of 5.2 percent in fiscal year 1991. The rate increased to 7.6 percent in fiscal year 1993, but the state expects the error rate to be lower in 1994. According to New Mexico officials, the most important factor in lowering error rates is the state's management commitment to operate a quality Food Stamp Program. Recently, New Mexico used several initiatives to lower its error rate. First, New Mexico implemented 3-month certification periods for all food stamp households with fluctuating income. According to state officials,

the shorter certification period reduced the error rate, although the extent of the effect was unknown. Second, additional supervisory case reviews were conducted on error-prone cases, such as those involving recipients who work. Third, New Mexico has requested the same recipient income reporting waiver that South Carolina and Texas have been granted.

Other state error reduction efforts include (1) forming several teams of state and local officials to address error rates; (2) using additional state funding to create positions in four high-error-rate food stamp offices to conduct special error reduction activities (such as contacting recipients by phone to determine their current financial and household circumstances and to verify and correct information in the case file before it becomes an error); and (3) undertaking initiatives, such as allowing caseworkers to interview more than one recipient at the same time, to help caseworkers manage their workload.

Alabama

In fiscal year 1986, Alabama had the highest overpayment error rate in the country--12.6 percent. However, the state managed to drastically reduce overpayment errors so that by fiscal year 1989, its error rate was 3.8 percent. In fact, Alabama's overall error rate was so low that year, and the next 2 years (1990 and 1991), that the state received enhanced funding from FCS. State data indicate that the overpayment error rate for 1994 should remain low.

Alabama officials believe that the key to lowering error rates involves a commitment by all staff, but especially by upper management. Reflecting this increased management commitment to aggressively pursue the problem, the state targeted county departments with high error rates for special review. Also, the state's program managers required that error rates become a

significant factor in performance ratings for county directors, supervisors, and workers as well as state staff. Furthermore, according to information we have obtained, establishing monthly reporting, particularly for cases that contain fluctuating weekly income, was a major factor in the state's error reduction. Finally, Alabama implemented a long-range plan to train every caseworker worker and supervisor in the state on basic food stamp policy and the eight most error prone elements of the benefit determination process.

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Mr. Chairman, this concludes our prepared statement. We would be pleased to answer any questions that you or the other members may have.

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