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FOOD ASSISTANCE

Reducing Food Stamp Benefit Overpayments and Trafficking





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The Honorable Pat Roberts
Chairman
The Honorable E (Kika) de la Garza
Ranking Minority Member
Committee on Agriculture
House of Representatives

This is the second of two reports that you requested on fraud, waste, and abuse in the U.S. Department of Agriculture's (USDA) Food Stamp Program. The report focuses on the current coupon-based system of delivering benefits, with specific emphasis on three issues: (1) the causes of benefit overpayments, (2) the adequacy of USDA's controls and procedures to prevent retailers' involvement in trafficking, and (3) the trafficking of food stamp coupons by program recipients.

Copies of this report are being sent to the Secretary of Agriculture, the Administrator of the Food and Consumer Service, and to other interested parties. Copies are available to others on request.

This work was performed under the direction of John Harman, Director, Food and Agriculture Issues, who can be reached at (202) 512-5138 if you or your staff have any questions. Major contributors to this report are listed in appendix I.

Keith O. Fultz
Assistant Comptroller General

Executive Summary

Purpose

The U.S. Department of Agriculture's (USDA) Food Stamp Program is one of the nation's largest welfare programs. In fiscal year 1994, about \$24 billion in food stamps was provided to over 27 million recipients, with the vast majority of the benefits provided in the form of food stamp coupons. There is ample evidence that the coupon-based system for delivering benefits is vulnerable to fraud, waste, and abuse, but there are no reliable data available to precisely determine the full extent of the problem. Available data from USDA show that errors in determining recipients' eligibility and benefit levels are resulting in nearly \$2 billion in benefit overpayments each year. In addition, a large, but unquantifiable, amount of food stamps is sold or used for nonfood purchases by recipients—generally referred to as trafficking. Because of these problems, the House Committee on Agriculture asked GAO to determine (1) why overpayment errors occur, (2) whether USDA's controls and procedures are adequate to prevent retailer involvement in trafficking, and (3) what can be done to reduce trafficking by food stamp recipients.

Background

The Food Stamp Program is administered by USDA's Food and Consumer Service in partnership with the states. The Food and Consumer Service provides nationwide criteria for determining who is eligible for assistance and the amount of benefits recipients are entitled to receive. The states are responsible for the day-to-day operation of the program, including meeting with applicants and determining their eligibility and benefit levels. State caseworkers rely on documentation provided by households and information obtained in interviews with the applicants in making these decisions. Recipients are normally certified to receive benefits for several months but are required to report changes in their income or household information that occur during the certification period that could change their benefit levels. The states' accuracy in determining applicants' eligibility and benefit levels is determined annually through the Food and Consumer Service's Quality Control System. States with error rates above certain levels are subject to federal fiscal sanctions, while states with error rates below certain levels are eligible for enhanced administrative funding.

The Food and Consumer Service, through its field offices, is responsible for authorizing retailers to redeem food stamp coupons as well as for monitoring program compliance by the 209,255 stores authorized to redeem coupons. The Food and Consumer Service and USDA's Office of Inspector General are responsible for investigating retailers suspected of violating program regulations—such as food stamp trafficking (termed

“retailer trafficking”). States have primary responsibility for investigating “recipient trafficking.”

GAO conducted its review in seven states that either have been successful in reducing benefit overpayments or are in the process of implementing programs to reduce overpayments. GAO reviewed efforts to reduce overpayments and combat trafficking in the three Food and Consumer Service regions in which the seven states were located.

Results in Brief

Overpayments result from state caseworkers’ and recipients’ errors that occur for a multitude of reasons. State officials told GAO that the complex Food Stamp Program regulations and the differences in eligibility and benefit determination criteria between regulations governing the Food Stamp and the Aid to Families with Dependent Children Programs are the primary reasons for caseworkers’ errors. State officials also said that recipient-caused overpayments are mostly the result of recipients either inadvertently or fraudulently providing inaccurate income and other information that affects their benefit levels and that these overpayments are difficult to prevent. Despite these obstacles, states GAO visited that have successfully reduced their error rates attribute their successes to the fact that they made a commitment to reduce errors. The desire to avoid fiscal sanctions or to receive enhanced funding provided much of the incentive for making this commitment. The Food and Consumer Service is working with states to help reduce errors and has taken a number of steps to simplify program regulations and reduce the differences between Food Stamp and Aid to Families with Dependent Children regulations. The Congress and the Food and Consumer Service are also considering changing the current system of incentives and sanctions for rewarding and penalizing states’ error rate performance. GAO agrees that simplifying eligibility determination requirements and providing greater incentives to states to reduce errors could improve food stamp payment accuracy.

Controls and procedures for authorizing and monitoring retailers that participate in the Food Stamp Program have not deterred nor prevented retailers from trafficking in food stamps. Primarily because of insufficient resources to make site visits to retailers, the Food and Consumer Service has not been able to prevent ineligible retailers from being approved to participate in the program. Furthermore, the Food and Consumer Service has not adequately monitored stores authorized to redeem food stamps to detect those that may be trafficking. The Food and Consumer Service has various initiatives under way to improve its authorization and

retailer-monitoring processes, many of which have been included in the House-passed Personal Responsibility Act of 1995; however, these initiatives do not include making additional resources available to monitor retailers.

Although data are not readily available to accurately estimate the amount of recipient trafficking, federal and state officials involved in policing the Food Stamp Program believe that trafficking is pervasive and that food stamps are often traded on the streets as a second currency. If the Food and Consumer Service can reduce the number of retailers that are trafficking food stamps through more aggressive on-site monitoring, greater enforcement actions, and stiffer penalties, it will be much more difficult for recipients to sell their benefits or use them for nonfood purchases.

Principal Findings

Causes of Overpayments and Efforts to Reduce Them

In fiscal year 1993, food stamp overpayments totaled over \$1.8 billion. Of these overpayments, 42 percent occurred because caseworkers did not accurately determine applicants' eligibility or the amount of food stamps that the individuals should receive. Federal and state program officials told GAO that caseworkers' errors occur for a multitude of reasons, including large caseloads, high turnover, inadequate training, and poor supervision. While sharing the view that a multitude of factors are at work, state program officials believe that the primary causes of caseworkers' errors are the complexity of the Food Stamp Program regulations and the differences in eligibility and benefit determination criteria between the Food Stamp Program and the Aid to Families with Dependent Children Program—which caseworkers are also tasked with administering. State officials told GAO that caseworker-caused overpayments could be significantly reduced if the Food Stamp Program eligibility and benefit determination regulations were simplified and made more congruous with the Aid to Families with Dependent Children Program regulations.

Recipient-caused overpayments, which accounted for 58 percent of all overpayments made in fiscal year 1993, are difficult to prevent. Caseworkers do not normally have the means necessary, nor the time, to verify applicant-furnished information prior to determining the eligibility to receive food stamps. Furthermore, many inadvertent recipient-caused

overpayments occur after eligibility and benefit levels have been determined when recipients fail to properly report changes in income or household information that affect benefit levels. GAO's analysis of the Food and Consumer Service's data shows that in fiscal year 1993, nearly two-thirds of all recipient-caused payment errors were linked to recipient income, and, in all seven states that GAO visited, recipients' failure to report increases in income after certification was a primary cause of overpayments.

Federal and state officials told GAO that state agencies' top management's commitment to reducing errors is essential to reducing overpayments. State agencies are using a variety of actions to reduce errors, such as improved caseworker training, improved supervision, and caseworkers' increased accountability for errors. States are also requiring certain recipients to be recertified more frequently, in an attempt to reduce recipient-caused overpayments. For example, the seven states that GAO visited were certifying recipients with fluctuating income for no more than 3 months. State officials that GAO met with said that if the Food and Consumer Service would eliminate or change its requirement that food stamp recipients report increases in monthly income exceeding \$25 to a higher dollar amount, overpayment errors would decrease significantly. About 20 percent of food stamp recipients have some earnings from work, and sometimes they earn additional income after their benefit levels have been determined. If the additional income exceeds \$25 in any month, the recipients' benefits must be adjusted to avoid an overpayment error. According to state officials, this reporting requirement was established in 1974 and has never been adjusted for inflation. Two of the states included in GAO's review—South Carolina and Texas—have received the Food and Consumer Service's waivers from the requirement. With the waiver, recipients no longer have to report a fluctuation in income—all they are required to report to caseworkers are changes in employer, wage rate, or employment status (e.g., changing from part-time to full-time). South Carolina officials told GAO that this waiver alone reduced the state's payment error rate by 2 percentage points, and Texas officials are expecting a similar reduction. GAO notes that while this waiver does help reduce error rates, it does so by redefining what is an overpayment and does not necessarily reduce program benefit costs. The Food and Consumer Service is reviewing the cost benefits of this waiver in the nine states that have been given this authority before proposing a change in the regulations or approving the waiver for additional states.

The Congress, in the Personal Responsibility Act of 1995, passed by the House on March 24, 1995, is currently contemplating fundamental changes to the federal food assistance structure, which includes a change in the method of determining sanctions, or penalties, against states having high error rates and increases the sanction amounts. Under present circumstances, the formula in this provision would subject to sanction those states that have error rates that exceed 10.3 percent. In view of the 1993 national error rate of 10.8 percent, more states could be sanctioned in the future if this provision is enacted unless states substantially improve their payment accuracy performance.

More Monitoring of Retailers Could Deter Trafficking

The Food and Consumer Service's procedures and process for authorizing retail stores to redeem food stamps are not adequate to prevent unscrupulous retailers from being authorized to participate in the Food Stamp Program. Furthermore, once stores are authorized, the Food and Consumer Service does not adequately monitor them to ensure that their owners do not traffick food stamps or violate other program regulations. Officials responsible for reviewing stores' applications and authorizing them to redeem food stamps told GAO that the single most effective deterrent to preventing ineligible retailers from being authorized is a preauthorization on-site visit. Such visits seldom occur, however, because the Food and Consumer Service's current procedures state that visits to stores prior to authorization should be the exception, rather than the rule. Managers from the eight Food and Consumer Service field offices that GAO visited said that, because of insufficient resources, their offices make few, if any, visits prior to authorizing a store to participate in the program. For example, field offices in the Southwest Region reviewed authorization applications from 9,564 stores in 1994, but only 269 on-site reviews were completed.

Monitoring visits to the more than 209,000 authorized stores nationwide to ensure that they are complying with program rules are also the exception rather than the rule. In addition, reports on retailers' activities, such as total food sales and food stamp redemptions, are often untimely or inaccurate and of limited utility in identifying retailer trafficking. With regard to resources, Food and Consumer Service officials told GAO that there are only 46 investigators nationwide to conduct investigations of retailers suspected of trafficking or violating other program regulations. In fiscal year 1994, the Food and Consumer Service investigated 4,300 stores suspected of trafficking food stamps or violating other program rules. USDA's Inspector General also investigates stores suspected of trafficking

food stamps and devotes about 45 percent of its investigative staff years to these investigations.

The Food and Consumer Service is pursuing several initiatives to improve its authorizing and monitoring of retailers and thereby reduce food stamp trafficking. On March 1, 1995, the Secretary of Agriculture issued a statement calling for legislative changes to help identify unscrupulous store owners and prevent them from defrauding the program. The Personal Responsibility Act includes provisions giving the Food and Consumer Service a number of the authorities requested. The proposed legislation also directs that on-site visits be made to stores prior to their being authorized to accept food stamps by either Food and Consumer Service or state or local officials. While GAO agrees that the proposed changes would be beneficial, they do not address the resources needed to perform on-site visits at the time of retailer's authorization or monitoring visits after authorization. According to the Food and Consumer Service an additional \$19 million would be needed to make at least one annual on-site visit to nonsupermarkets that, according to Food and Consumer Service officials, are considered to be more prone to traffick food stamps.

Reducing Retailer Trafficking Should Deter Recipient Trafficking

Available law enforcement data indicate that a considerable amount of the food stamps issued each year is sold or used by recipients to purchase nonfood items. Because of the nature of this misuse and the fact that 27 million people receive food stamps each year, GAO was not able to precisely estimate the dollar value of trafficked benefits. The Food and Consumer Service, Inspector General, and state investigators were also unable to accurately estimate the amount of trafficking, but the investigators told GAO that recipient trafficking is profuse and that food stamps are often used as a second currency.

Inspector General and state investigators told GAO that it is not cost-effective to target for criminal investigation those recipients who misuse their food stamps; therefore, they target the retailers and individuals who are suspected of trafficking large quantities of food stamps. GAO agrees that if the number of retailers that traffick food stamps can be reduced, it will be more difficult for recipients to sell their benefits or use them for nonfood purchases.

Recommendation

In view of proposed legislation, GAO recommends that the Secretary of Agriculture direct the Administrator of the Food and Consumer Service to

determine the resources needed to incorporate on-site visits into its processes for authorizing and reauthorizing stores to accept food stamp benefits. This analysis should include a determination of the resources needed to effectively monitor stores once they are authorized to accept benefits and to investigate stores suspected of food stamp trafficking. The Secretary should consider the results of this analysis in the setting of departmental priorities and the allocation of resources, and provide this information to the Congress for its use in considering program reforms.

Agency Comments

In commenting on a draft of this report, the Administrator of the Food and Consumer Service did not believe that the resource analysis that GAO recommended to help reduce trafficking was necessary. Rather, the agency believes that the smarter use of new technology—especially the future use of electronic benefit transfer systems—along with the passage of its proposed retailer-related antifraud legislation will enable it to detect and remove violating stores more efficiently. Moreover, the agency believes that its antifraud proposals will help ensure that only legitimate stores are authorized to redeem food stamps.

GAO agrees that USDA's initiatives should help deter retailer trafficking of food stamps. However, GAO believes that it is important to consider that the effectiveness of the agency's legislative proposals in reducing trafficking is unproven at this time and will not be known until some time in the future. Also, GAO does not believe that the use of electronic benefit transfer systems will necessarily eliminate the need to conduct store visits. Instead, it will serve as a valuable supplementary tool in the effort to reduce trafficking. Furthermore, the implementation of electronic benefit systems is in its infancy, and nationwide implementation will not be completed for several years. In this context, GAO continues to believe that on-site visits to retailers should be included in any overall strategy to increase retailer's integrity and that the Food and Consumer Service should take the necessary steps to ensure that such visits are made.

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Abbreviations

AFDC	Aid to Families with Dependent Children
EBT	electronic benefit transfer
FCS	Food and Consumer Service
GAO	General Accounting Office
IEVS	Income and Eligibility Verification System
OIG	Office of Inspector General
QC	quality control
STARS	Store Tracking and Redemption System
USDA	Department of Agriculture

Introduction

The Food Stamp Program provides monthly benefits to millions of needy people who meet specific income, asset, and employment-related eligibility requirements. With federal benefit payments of about \$24 billion and an average monthly caseload of over 27 million individuals in fiscal year 1994, the program ranks as one of the nation's largest welfare programs and is by far the largest food assistance program.

There is abundant evidence that the coupon-based system used in delivering and redeeming food stamp benefits is vulnerable to fraud, waste, and abuse; however, the precise amount of losses that occur each year is unknown. Program data show that caseworkers' and recipients' errors occurring during the process of determining eligibility and benefit levels resulted in over \$1.8 billion in overpayments in fiscal year 1993. This amount represents a 121-percent increase in overpayments since 1988. In addition, although there are no data available to develop a precise estimate, the number of cases being prosecuted each year suggest that a significant number of the food stamps issued each year are sold or traded for nonfood items—referred to as trafficking—thereby diverting benefits from their intended use.

Food Stamp Program Administration

The Food Stamp Program is administered by the Department of Agriculture's (USDA) Food and Consumer Service (FCS) in partnership with state and local governments. The Congress established the current Food Stamp Program in 1964 to improve the nutrition of low-income individuals by increasing their food purchasing power. The program is federally designed and generally requires applicants to apply in person at a local food stamp or welfare office and meet numerous program requirements pertaining to their household composition, financial assets, employment requirements, and income to be eligible for monthly benefits. Benefits are generally provided in the form of food stamp coupons, which are issued to recipients in person or by mail.¹ Recipients then use their coupons to purchase food items at stores that have been authorized by FCS to redeem food stamps. Retailers deposit redeemed food stamps at financial institutions and are credited for their sales. Financial institutions then forward the redeemed stamps for credit through the banking system to the Federal Reserve—which destroys the coupons.

The Food Stamp Program is the cornerstone of USDA's food assistance programs, providing more benefits than all other federal food assistance

¹In some states, food stamp benefits are provided electronically through electronic benefit transfer technologies or provided in the form of cash.

programs combined. Although the household is the base unit to which food stamp benefits are issued, most of the people who benefit from the program are children or elderly persons. In addition, more than 20 percent of recipient households have some earnings from work, making the program a critical source of nutritional support for the nation's working poor.

Federal Role

The federal government funds all food stamp benefits and shares with the states in the administrative costs of distributing benefits to eligible recipients. The federal government pays all costs for printing the stamps, distributing the stamps to the states, and destroying the stamps after they are used. The government also pays all costs associated with approving and monitoring food stores authorized to redeem food stamps. In addition, the government pays roughly 50 percent of the costs incurred by the states in administering the program. These costs include certifying recipients for eligibility, distributing benefits to recipients, and conducting quality control activities.

FCS prepares Food Stamp Program regulations and provides technical assistance to the states. In addition, as part of its oversight responsibilities, FCS has established a Quality Control (QC) System to monitor states' determinations of individuals' eligibility for benefits and the level of those benefits. Under the QC System, states are required to review a sample of their food stamp cases to test the accuracy of eligibility and benefit level determinations made by their caseworkers. The states' error rate findings, a combination of overpayments and underpayments, are provided to FCS. FCS then reviews a subsample of each state's sample to ensure the quality of their efforts. After disagreements with the states' reported error rates are resolved, FCS determines the official error rate for each state. If a state's combined error rate (both overpayments and underpayments) exceeds a national tolerance level, calculated by FCS, then the state can be required to reimburse the federal government for a portion of the erroneous payments. On the other hand, if a state's combined error rate is less than 6 percent, the state may be eligible for enhanced federal funding.

FCS is also responsible for authorizing stores to redeem food stamps and for monitoring stores to ensure that they comply with Food Stamp Program regulations. Store owners suspected of engaging in food stamp trafficking or abusing other program regulations are referred to FCS' Compliance Branch for investigation. In addition to FCS' oversight

activities, USDA's Office of Inspector General (OIG) investigates retailers involved in illegally using food stamp coupons.

State Role

States have primary responsibility for the day-to-day administration and operation of the Food Stamp Program. Generally, a state welfare agency operates the program either directly or by delegating these responsibilities to a local government agency. Using FCS-established eligibility and benefit determination regulations, state and local government caseworkers take applications from households seeking food stamp benefits and, through face-to-face discussions and review of information provided by the applicants, determine recipient households' eligibility for food stamp benefits and the amount of benefits to which they are entitled.

Normally, a recipient is certified to receive food stamps for a specified period of time—usually between 3 and 12 months—which means that a recipient does not need to reapply for benefits each month. However, recipients must report changes in income, in the composition of their household, or other pertinent information as changes occur during the certification period. On the basis of reported changes, caseworkers make adjustments to the benefit amounts provided to the recipients.

The states also share in responsibilities regarding the integrity of the Food Stamp Program. Specifically, states are responsible for investigating and prosecuting individuals suspected of falsifying information in order to obtain food stamps and misusing their benefits—such as selling their benefits for cash or trading them for other nonfood items. Also, states sometimes work with FCS or the OIG in investigating retailer abuse in the program.

Prior GAO and Office of Inspector General Reports

On numerous occasions, we and the USDA OIG have reported on fraud, waste, and abuse in the Food Stamp Program. Since 1977, we have completed over 50 reviews of the program and on several occasions pointed out that waste and abuse were costing the federal government billions of dollars in food stamp overpayments. In 1990, we reported that reducing certain major types of overpayment errors, such as those associated with recipients' income, was very difficult for the states because state caseworkers did not have access to the information necessary to prevent these errors.²

²Food Stamp Automation: Some Benefits Achieved; Federal Incentive Funding No Longer Needed (GAO/RCED-90-9, Jan. 24, 1990).

In our most recent report and testimony on food stamp fraud before the House Agriculture Committee, we pointed out that the rate of overpayment errors had increased significantly in recent years and that by fiscal year 1993 overpayments exceeded \$1.8 billion.³ We also noted that 42 percent of the overpayments resulted from errors made by state and local caseworkers in determining recipients' eligibility and benefit levels. We also reported that 58 percent of the overpayments were the result of recipients' errors in reporting information to caseworkers at the time of application for benefits, or in updating information on changes in a recipients' household during the certification period. Of the fiscal year 1993 recipient-caused overpayment errors, about 60 percent were judged by state QC officials to have been inadvertent errors while about 40 percent were judged to have been deliberate, or suspected fraudulent, misrepresentations by the recipient in reporting household information.

Furthermore, we reported that, according to FCS' QC System data, about two-thirds of the overpayments occurring in 1993—regardless of whether the overpayment was caseworker- or recipient-caused—were linked to errors related to recipient income. The next largest source of overpayments, about 14 percent, involved errors associated with the composition of recipients' households, such as number, ages, and relationships of household members.

Objectives, Scope, and Methodology

The Chairman and Ranking Minority Member of the House Committee on Agriculture asked us to determine (1) why benefit overpayments occur, (2) whether USDA controls and procedures are adequate to prevent food retailer involvement in trafficking, and (3) what can be done to reduce trafficking by food stamp recipients.

In addressing these objectives, our first step was to determine how the Food Stamp Program currently works by reviewing applicable laws and regulations that govern how recipients' eligibility and benefit levels are determined, how food stores are approved to redeem food stamps, and how food stamps are to be redeemed by recipients. We then interviewed FCS and state officials to determine how the program was being implemented on a day-to-day basis. In accomplishing this step, we met with FCS officials at headquarters and at three of its seven regional offices. We also met with FCS field office officials in each of the three regional offices.

³Food Assistance: Potential Impacts of Alternative Systems for Delivering Food Stamp Program Benefits (GAO/RCED-95-13, Dec. 16, 1994) and Food Assistance: Reducing Benefit Overpayments in the Food Stamp Program (GAO/T-RCED-95-94, Feb. 1, 1995).

In addition to the FCS officials, we met with state and local agency officials responsible for operating the Food Stamp Program in seven states—all located within the three FCS regions we visited. Four of the states selected—Louisiana, Massachusetts, New Mexico, and South Carolina—were selected for review because they have been extremely successful in reducing error rates in recent years, and we wanted to learn how these states had lowered their error rates. South Carolina reduced its overpayment error rate from 11.66 percent in fiscal year 1986 to 7.87 percent in fiscal year 1993. Massachusetts reduced its overpayment error rate from 10.88 percent in fiscal year 1990 to 4.45 percent in fiscal year 1993. Louisiana's overpayment rate was 9.48 percent in fiscal year 1989, but by fiscal year 1993 the state had lowered the rate to 6.88 percent. New Mexico reduced its overpayment rate from 10.28 percent in fiscal year 1987 to 7.61 percent in fiscal year 1993.

We also visited three states that have historically had high overpayment error rates—Florida, New York, and Texas—to learn why overpayment errors have remained high. While all three states have experienced high error rates, they have undertaken recent initiatives to reduce errors.

At all the locations we visited, we reviewed pertinent documents, reports, and error-reduction plans. We also reviewed USDA OIG reports on why overpayment errors occur and what is being done to reduce these errors. We discussed overpayment issues with appropriate officials and obtained their opinions on why food stamp overpayments occur and what can be done to reduce overpayment errors. We also reviewed various state performance reporting data, including food stamp quality control reviews, management evaluations, and assessed how successful the states have been in reducing their overpayments. Additionally, we discussed food stamp overpayments and error-reduction activities with representatives from the American Public Welfare Association because of their interest in the Food Stamp Program.

In Florida, New York, and Texas, we visited two local offices responsible for operating the program in each state. In Florida, we visited two state district offices—Miami and Orlando—having high food stamp caseloads and overpayment error rates. New York has two separate error-reduction plans—one for upstate and one for New York City—we visited a local food stamp office in Albany and New York City. In Texas, we visited the two regional offices that serve the Dallas/Ft. Worth and south Texas areas because these offices have high food stamp caseloads and overpayments.

With regard to our overpayment objective, we relied heavily on data from FCS' QC System to determine the amounts of overpayments that result from various types of errors. While the QC System provides extensive data on the types of overpayment errors that occur and who makes overpayment errors, it does not specifically identify why these errors occur.

With regard to our second and third objectives, which focuses on efforts to curtail retailer and recipient trafficking, we met with FCS, OIG, and state/local program and law enforcement officials to discuss the extent of food stamp trafficking and what is being done to prevent this illegal activity. We reviewed FCS' controls and procedures for authorizing and monitoring retail stores that participate in the Food Stamp Program. This effort involved visits to not only the three regional offices responsible for the states included in our review but also eight FCS field offices within these regions. The field office is where applications from stores are reviewed and approved and some retailer monitoring activities are carried out. We also discussed the extent of trafficking with investigators from FCS' Compliance Branch and the OIG and reviewed the results of their investigations.

We conducted our review from November 1994 through May 1995 in accordance with generally accepted government auditing standards. USDA's comments on a draft of this report appear in appendix I.

State Management Commitment Is Key to Reducing Overpayments

Caseworkers' and recipients' errors cost the federal government over \$1.8 billion in overpaid food stamp benefits in fiscal year 1993, the most current year for which data were available. Caseworkers' errors, which accounted for 42 percent of the overpayments, occur for a multitude of reasons, but state officials said that the complex Food Stamp Program regulations and the differences between the Food Stamp Program and the Aid to Families with Dependent Children (AFDC) regulations are the primary contributing factors. States have taken a number of actions to reduce caseworkers' errors. Recipients' failure to accurately report household information, particularly income, cause 58 percent of the overpayment errors. While some states have reduced recipient-caused overpayments, it is more difficult for the states to prevent these errors from occurring.

States that have been successful in reducing overpayments attribute their success to the fact that top management is committed to overcoming the causes of the overpayments. The desire to avoid fiscal sanctions or to receive enhanced funding provided much of the incentive for making this commitment. FCS is also taking a number of actions to improve payment accuracy. The impact of FCS' actions on reducing overpayments is uncertain, but the positive experiences of the states that we visited in reducing error rates indicate that considerable improvement in reducing overpayments could be achieved nationwide.

Multitude of Factors Contribute to Caseworkers' Errors

While the Food Stamp Program QC System provides extensive data on the types of caseworker errors that result in overpayments, it does not identify "why" caseworkers make these errors. Officials in the states that we visited believe that the complexity of the Food Stamp Program and differences with the AFDC regulations are the largest hurdles to improving caseworkers' payment accuracy.

Reasons for Caseworkers' Errors

Caseworkers' errors accounted for \$763 million in overpayments in fiscal year 1993. We spoke with numerous FCS and state officials regarding the reasons caseworkers make errors when determining applicant's eligibility for benefits and the amount of benefits applicant's are entitled to receive.

Both FCS and the states describe a multitude of factors that contribute to the errors. These reasons include the following:

- There has been a substantial increase in program recipients in recent years. Between July 1989 and March 1994, the number of individuals participating in the Food Stamp Program rose by 51 percent. The caseload growth has occurred at a time when states have been unable to hire additional staff to handle the increased workload. Stretched resources have caused the workload of caseworkers to increase drastically.
- A high turnover of caseworkers causes state and local offices to have less experienced staff. High caseloads, stress, and low salaries have led to attrition.
- Complex Food Stamp Program regulations contribute to confusion in determining eligibility, which leads to errors.
- There are differing eligibility and benefit requirements for the various welfare programs caseworkers are tasked with administering. For example, caseworkers often authorize recipients for multiple programs, including food stamps, AFDC, and Medicaid.
- Inadequately trained caseworkers and poor supervision lead to errors.
- FCS officials believe that some states place a lower priority on the Food Stamp Program than on other programs they administer and commit less effort to reducing food stamp overpayments. This is because the federal government pays the entire amount of food stamp benefits, whereas in some other programs—such as AFDC—costs are shared. FCS and state officials also told us that competing demands of other social programs often affect a state’s ability to focus adequate people and resources on Food Stamp Program administration.

Of all these factors, state officials that we visited cited (1) the complexity of the Food Stamp Program regulations and (2) the differences between the Food Stamp Program regulations and the AFDC regulations as the primary causes of caseworkers’ errors. The officials believe that the program in itself is one of the more complex federal welfare programs and that caseworkers are prone to make mistakes when determining applicants’ eligibility and benefit levels.

The officials explained that in many states, the same caseworkers handle both AFDC and food stamp cases. They said that the probability of errors increases when caseworkers are responsible for processing applicants for both food stamp benefits and other benefit programs—particularly AFDC because of the differences in the eligibility rules and benefit levels between programs. For example, caseworkers must take into account liquid assets, household income, and household size when determining eligibility and benefits for both the Food Stamp Program and AFDC. However, the treatment of this basic information differs for both

programs. With regard to liquid assets, AFDC allows a family to possess assets of \$1,000, whereas the Food Stamp Program sets the maximum asset limit at \$2,000 per household (\$3,000 for households with an elderly member). The treatment of vehicles also is different. AFDC calculates the equity value of a vehicle and excludes the first \$1,500 from assets; however, the Food Stamp Program calculates the fair market value and excludes the first \$4,550. While both programs allow vehicles to be exempted from the eligibility and benefit determination process, the criterion for exempting vehicles is not the same for both programs.

Also, the definition of a food stamp beneficiary unit and an AFDC beneficiary unit differ. The basic food stamp beneficiary unit is the household. A food stamp household can either be an individual living alone or several individuals living together who customarily purchase food and prepare meals together. Individuals who are members of the same household must apply together, and the income, expenses, and assets of all members are counted in determining the household's eligibility and benefit allotment. Conversely, the AFDC beneficiary unit is defined as being made up of at least one dependent child, the child's parents and siblings (by blood or adoption), and possibly other caretaker relatives living with the child and/or family. For example, a mother, her two children, and a nonfamily-related companion live and prepare meals together. For the Food Stamp Program, all four people are included in the household, and the household's total expenses and income, including the companion's, are counted. The AFDC assistance unit would be the mother and her two children. The companion's income would not be included in determining AFDC benefits.

In the Food, Agriculture, Conservation and Trade Act of 1990 (P.L. 101-624), the Congress authorized a Welfare Simplification and Coordination Advisory Committee to review the federal government's four major assistance programs—food stamps, AFDC, Medicaid, and housing. In its report, one of the committee's objectives was to examine the difficulties experienced by program administrators in providing timely benefits efficiently to all who are qualified to receive them. In its June 1993 report to the Congress,⁴ the committee recommended establishing uniform rules and definitions to be used by all needs-based programs in making their eligibility determinations, including: common definitions of countable income, allowable deductions, resources, and household composition. The report identifies 57 differences between the Food Stamp and AFDC Programs that were compiled by program administrators with

⁴Time for A Change: Remaking the Nation's Welfare System, (June 1993).

the help of the American Public Welfare Association. According to the committee report, some of the differences are rooted in statute and only congressional action can eliminate them. Others are disparities in regulations and could be addressed by the federal agencies.

States' Initiatives to Reduce Caseworkers' Errors

The seven states we visited have used a variety of initiatives to reduce error rates. The most important factor in reducing errors seems to be a commitment by state officials to aggressively pursue reductions in the error rate. State officials told us that their motivation to reduce error rates stems from their desire to either reduce the possibility of being sanctioned for having high error rates or to receive enhanced funding for reducing their error rates below 6 percent. States have demonstrated their commitment to reducing food stamp benefit errors in a variety of ways, including

- restructuring state administration of the Food Stamp Program,
- holding management and caseworkers more accountable for error reduction,
- conducting more detailed analyses of local error data,
- targeting supervisory reviews on error-prone cases, and
- improving caseworker training.

FCS and state officials told us that because states use a variety of initiatives to lower overpayments, and because so many factors can effect a state's performance, there is no way to determine precisely the impact any one of these initiatives has in reducing caseworkers' overpayment errors.

Restructuring State Program Administration

Louisiana, Massachusetts, and South Carolina recently restructured their state Food Stamp Program in ways that give the state more control and ability to address overpayment problems. For example, Louisiana reorganized the welfare office in New Orleans, which had high error rates. Louisiana also realigned its field and program staff positions to more effectively cover the needs of the whole state. Massachusetts reduced the number of food stamp offices by almost half—from 80 offices to 44. South Carolina officials told us that they restructured the administration of their program by requiring local program offices to begin reporting to state-level program offices rather than to local welfare boards.

More Accountability for Error Reduction

Some states that we visited are emphasizing accountability and holding officials more responsible for overpayments as a means to reduce caseworker overpayments. For example, Texas, in September 1994,

implemented a process that establishes accountability for food stamp payment accuracy at the regional management level. It is now part of the regional managers' performance expectations to lower the region's errors, and according to state program managers, their jobs could be in jeopardy if the region's errors are not lowered. Louisiana, Massachusetts, and South Carolina are also emphasizing payment accuracy by identifying staff who have made errors and emphasizing to them during formal discussions the consequences of their mistakes. The management commitment in these three states has been very effective and has contributed to these states reducing their error rates in fiscal year 1994 to 6 percent or less—the level at which they may be eligible for enhanced funding.

Additional Analysis of Local Office Error Rates

Four states that we visited, Florida, Massachusetts, New York, and Texas, have devoted special staff to reviewing additional recipient cases in local offices to gather more data on the cause of caseworkers' errors at the local level. The statewide QC process does not provide local offices with sufficient data to determine the error rate performance of their caseworkers. The additional local review process provides information on local office error rates and data on the types of errors occurring at each location. These special staff also help the local offices develop corrective actions for the errors that are occurring in their location.

According to Massachusetts officials, the reviews (1) help state-level management officials know which local offices are having problems; (2) establish a healthy competition among offices to achieve lower rates; and (3) encourage workers to be more careful, knowing that their cases could be selected for review. New York City officials reviewed approximately 13,000 cases in fiscal year 1994, which allowed them to provide error data to all 53 city offices. In addition to determining error rate data, New York City has a team of organizational research analysts that helps offices operate more efficiently. The analysts assist the offices in developing office-specific corrective action plans based on their findings. New York City officials said that these and other initiatives have been quite successful in reducing and maintaining the city's error rate during a time of staff shortages and restricted budgets. The city's combined error rate was reduced from a high of 15 percent in fiscal year 1989 to 10 percent in fiscal year 1993.

Targeting Error-Prone Case Types for Supervisory Review

Both New Mexico and South Carolina have enhanced their case review processes by targeting cases with characteristics that have the highest probability of error for supervisory review. In New Mexico, over 50 percent of the dollar errors involve earned income. For that reason, all

supervisory reviews in the state are targeted to recipient households having earned income. Supervisors in South Carolina are examining certain error-prone aspects of the case file such as earned income and household composition. These reviews, in both states, stress caseworker accountability, identify weaknesses, and correct possible overpayments. Supervisors can identify error trends and problems in the application of program regulations, as well as help determine the training needs of individual workers.

Training Caseworkers to Avoid Errors

Several states that we visited have emphasized training as a method of reducing caseworkers' errors. Louisiana recently revised its training courses for both new and experienced workers. For example, the state requires experienced workers to be retrained every 2 years on program regulations that are difficult to apply or lead to caseworker errors. New Mexico similarly developed a refresher training course that focuses on deficiencies identified through QC reviews. South Carolina is also providing training on error-prone areas for its experienced workers.

Recipients' Errors Are Difficult to Prevent

Our review of FCS' QC System data for fiscal year 1993 shows that over half of the overpayments, about \$1 billion, were caused by recipients either failing to report information to caseworkers or reporting incorrect information to caseworkers. Most recipient-caused overpayments involve the misreporting of income. In the states that we visited, recipients not reporting changes in their income or withholding sources of income from caseworkers was one of the leading causes of all overpayments. Recipients' errors are more difficult for states to control than caseworkers' errors because caseworkers are dependent upon the accuracy of information reported by the recipient. The information available to caseworkers does not enable them to discover all types of unreported income or other resources, such as motor vehicles, or to always accurately determine household composition, which includes establishing the living and eating arrangements of all household members. State officials conducting QC reviews, on the other hand, have the time necessary to do more extensive reviews of the information provided by recipients—including detailed income verifications and home visits to verify household information.

Recipient-Caused Errors Mostly Involve Erroneous Income Reporting

FCS' QC System data classifies the type of errors made by recipients into the following five categories:

- income reporting, such as wages and salary information;
- nonfinancial reporting, such as household composition;
- resources reporting, such as bank accounts;
- deduction reporting, such as expenses for medical care and shelter costs that can be deducted from household income in determining benefits; and
- other errors.

Our analysis of the QC System data for fiscal year 1993 shows that nearly two-thirds of the erroneous payments caused by recipients were related to an error in reporting household income. According to the QC System, sometimes these errors occurred at the time a recipient applied for benefits, and sometimes they were the result of a recipient not reporting household income changes after they were certified to receive benefits. For example, changes in income exceeding \$25 a month are generally required to be reported to caseworkers, who then recalculate the recipients' benefit levels.

Because of the high incidence of income-related errors, we focused our review primarily on the reasons recipients made income-reporting errors and what is being done to reduce these errors. Using the QC System, we divided our analysis into two parts: (1) errors that were judged to have been committed inadvertently by the recipient and (2) errors that were judged to be deliberate income misrepresentations by the recipient.

Most Inadvertent Errors Due to Recipients Not Reporting Changes After Certification

The greatest amount of inadvertent recipient overpayments occur as a result of recipients not reporting changes in their households after they are certified to receive benefits—especially changes in income. Fiscal year 1993 FCS QC System data show that 62 percent of all overpayments caused by inadvertent recipient errors occurred after certification. According to Food Stamp Program regulations, households are required to report the following changes in their households within 10 days of the date the change becomes known to the household:

- changes in the sources of income, or in the amount of gross monthly income, that exceed \$25;
- changes in household composition, such as the addition or loss of a household member;
- changes in the household's residence and in shelter costs;
- the acquisition of a motor vehicle; and
- increases in household assets that result in the total household assets reaching or exceeding \$2,000.

When a recipient reports any of the above changes, caseworkers must determine if the change affects their eligibility and recalculate the recipient's benefit levels. The above events can result in a change in the amount of benefits that recipients are eligible to receive. Thus, when recipients do not report this information, payment errors may occur, and these errors are reflected in a state's error rate. According to program regulations, caseworkers are to explain these reporting requirements to recipients at the time they are certified to receive benefits. Recipients are given a form for reporting changes. The form outlines the civil and criminal penalties for hiding or providing false information.

State and local government officials that we talked with said that recipients do not report changes in their households for a variety of reasons. For example, some recipients have difficulty in understanding the Food Stamp Program requirements. Furthermore, recipients receiving both food stamp and AFDC benefits often confuse the different reporting requirements for each program. Second, some recipients wait until their recertification interviews to report changes to caseworkers. Third, the recipients do not have time to report changes to the office or are unable to get through to a caseworker when they try to report changes by telephone. Finally, some recipients intentionally do not report changes in their households so that their benefits will not be decreased. State program officials told us that it is often difficult to determine the recipients "intent" for not reporting post-certification changes, so these cases are usually documented as inadvertent recipient error.

According to state officials and our analysis of state QC data, the failure to report changes in income of \$25 or more is a major cause of inadvertent recipient overpayments in all of the states that we visited. State officials said that the \$25 reporting requirement is not practical for recipients who generally have fluctuating income. A recipient need work only a few extra hours during a month to earn an additional \$25 or more. The officials said that the reporting requirement should be eliminated or at least raised to a more realistic amount. Furthermore, state officials pointed out that the \$25 amount was established in 1974 and has never been adjusted for inflation.

States' Efforts to Reduce Inadvertent Recipient Errors

The states that we visited are attempting a variety of efforts to control inadvertent recipient errors. These efforts include:

- conducting group recertifications to ensure that all recipients are informed of the requirement to report changes,
- contacting recipients during their certification period to determine if there have been any changes in their households, and
- certifying recipients with fluctuating earnings for shorter periods to shorten the amount of time that overpayments can occur.

In addition to states' efforts, FCS can and has waived the requirement that recipients report fluctuations in their income of \$25 or more in nine states. FCS is considering a change in the regulations to eliminate the \$25 reporting requirement and is evaluating information received from some of the states with the waiver to determine the extent to which program costs might be affected.

Group Recertifications

Local offices in some states are using group recertifications. Generally, caseworkers provide recipients information on the reporting requirements on an individual basis. With group recertifications, a caseworker provides the reporting requirements to a group of recipients. New York City officials believe that group recertification better ensures that all recipients are receiving the same information—thereby eliminating the possibility that a caseworker did not provide the reporting requirements to a recipient. State officials also told us that group recertification helps caseworkers reduce the time they must spend with recipients.

Contacting Recipients During the Certification Period

Local offices in various states are conducting “Project Recall” activities where caseworkers telephone recipients during the certification period to determine if there have been any changes in a recipient’s household or income. The officials said that Project Recall reminds recipients that they need to report any changes and that their case is being followed. For example, officials in a Texas office contacted over 6,500 recipients in fiscal year 1994. The telephone calls resulted in about 1,500 households having their benefits lowered or terminated.

Shorter Certification Periods Reduce Overpayments

States are trying to reduce recipient overpayments by having shorter certification periods for recipients with earnings. The longer the certification period, the more likely that the recipient will have an income change during the certification time frame that will affect benefit levels. FCS regulations require that households be assigned certification periods based on the predictability of the household’s circumstances. Households with unstable incomes are to be certified for no more than 3 months, while households with stable incomes can be certified for 6 months or longer. Both Texas and Florida have had high error rates because their

certification periods were too long for recipients with unstable incomes. These states were certifying such recipients for 6 months or longer.

Of the seven states that we visited, all now have 3-month certification periods for recipients with unstable incomes. According to state officials, the shorter certification period means that the caseworker has more frequent contact with the recipients—four recertification interviews a year—and can obtain updated information from recipients with unstable incomes that do not report changes when they occur. By discovering the recipients' changes sooner, overpayments will be decreased. Texas officials estimate that 3-month certifications for recipients with unstable incomes will reduce the state's error rate by 1.5 percent.

Waiver Redefines Income Reporting Requirements

As mentioned earlier, fluctuations in a recipient's income of \$25 or more that is not reported is a major factor in overpayments. Two states that we visited, South Carolina and Texas, requested and received permission from FCS to waive this program requirement and replace it with an alternate reporting requirement. With this waiver, recipients are required only to report a change in their source of employment, wage rate, or employment status (e.g., changing from part-time to full-time). Thus, unreported recipient income of \$25 or more during a certification period is no longer considered an overpayment.

According to South Carolina officials, this waiver lowered the state's error rate by 2 percentage points. Texas implemented this waiver in September 1994, and state officials likewise anticipate that the waiver will reduce the state's error rate by 2 percentage points.

Some Recipients Defraud the Program

According to FCS' QC data, 24 percent of the overpayments in fiscal year 1993, totaling \$424 million, were a result of recipients intentionally misrepresenting household information to caseworkers. Examples of intentional misrepresentation include withholding information on employment or bank accounts. Because the Food Stamp Program relies on self-reported information, it is hard for caseworkers to detect these violations at the time of certification.

The best way for states to decrease recipient fraud is to verify more recipient-reported information before certifying them to receive benefits. However, this is a timely and expensive effort. Four of the seven states that we visited conduct investigations prior to certification, including home visits, of some recipients. These states, Florida, New York, South

Carolina, and Texas conducted over 58,000 front-end investigations in fiscal year 1993. These investigations can be cost-effective. For example, Texas conducted 3,000 front-end investigations in fiscal year 1994 and, as a result, did not issue \$4.8 million in benefits that it otherwise would have.

We also found that after certification, some counties in various states conduct home visits and telephone recipients to verify information as part of their error-reduction initiatives. For example, one Texas region conducted over 5,500 home visits in fiscal year 1994. As a result, about 900 households had their benefits denied and 640 had their benefits lowered. Program officials told us that these efforts correct overpayments that may be occurring and deter client fraud in the area by establishing a presence in the community.

According to Food Stamp Program regulations, each state is to institute an automated system that helps caseworkers verify reported information by matching the data with other sources. This system is called the Income and Eligibility Verification System (IEVS). The system contains earned and unearned income information, such as unemployment compensation and Internal Revenue Service information, maintained by federal and state agencies. FCS requires state agencies to periodically compare their food stamp case income information with information contained on IEVS. The data-matching process helps verify reported income, and it helps identify income that the applicant failed to report.

State officials told us that while the system enables them to match recipient's names with wage reports, its use is reduced because the information is not timely. Under the system, employers report earnings information to the states on a quarterly basis. Thus, employment information from the IEVS is usually 3 to 6 months old at the time the applicant applies for food stamps; accordingly, caseworkers are not always able to prevent errors at the time of certification. However, caseworkers are able to use the IEVS to detect discrepancies in income later in the certification period and avoid further overpayments.

Some states are working to provide caseworkers with better information to help them verify recipient information. For example, in 1993, Massachusetts began requiring all employers to report to the state all new employees within 14 days of their hiring. Unreported employment was the state's biggest single error leading to overpayments. With this requirement, food stamp officials are now matching their recipient data base with the state's Department of Revenue employment information. Because the

computer matches are done after certification, the matching does not prevent recipients who do not report employment from receiving benefits. However, it does detect the unreported employment quicker thereby lowering the length of time recipients get overpayments and the state's error rate. As a result of the state's effort, recipients' errors caused by misreported wages and salaries dropped from 8.6 percent in fiscal year 1992 to 2.7 percent in fiscal year 1993.⁵

Some states have better access to recipients' bank records for verifying recipient information. For example, New York and Massachusetts both require banks to provide the state with recipients' bank records at no cost. New York caseworkers contact several local banks to verify recipient asset information. Massachusetts has been able to conduct computer matches of recipient-reported data with bank records to verify asset information provided by recipients. We noted in Massachusetts that there were no reported asset overpayments in the first 9 months of fiscal year 1994. Officials in South Carolina told us that they do not have the authority to obtain recipients' bank records at no cost. As a result, caseworkers do not routinely investigate recipients' bank records because banks charge as much as \$25 for each inquiry. The officials said that recipients misreporting assets is a significant cause of errors.

FCS Has Initiated Efforts to Reduce Overpayments

FCS has recently embarked on a number of initiatives to reduce errors that cause both overpayments and underpayments. These initiatives include

- focusing FCS management attention on error reduction,
- reducing the differences between the food stamp and AFDC programs,
- granting states waivers from program requirements, and
- evaluating new incentives to offer states to reduce their error rates.

FCS' emphasis on error-rate reduction represents a clear signal to the states that the accuracy of program eligibility and benefit levels must be improved. However, some of its initiatives may simply be modifying or removing regulatory requirements that lead to erroneous payments and may not result in reductions in program costs.

Focusing Management Attention on Error Reduction

FCS increased its management attention and focused on error reduction during fiscal year 1995. FCS has taken a number of actions demonstrating commitment to reducing errors in the Food Stamp Program. For example,

⁵This statistic is for food stamp recipients only. Massachusetts has separate statistics for recipients receiving both food stamps and AFDC.

the FCS Administrator has assembled a core team at the headquarters level to work exclusively on the development and coordination of payment accuracy issues. In addition, a national conference was held on November 16 and 17, 1994, with state food stamp officials to discuss benefit payment issues. At the conference, the FCS Administrator set a national goal of lowering the payment error rate by 1 percent in fiscal year 1995. Also, FCS has set 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. Last, FCS regional offices have been instructed to work more aggressively with states to reduce their error rates. In response to this effort, each of the seven FCS regional offices have developed error-reduction plans for the states in their jurisdiction.

Reducing the Differences Between the Food Stamp and AFDC Programs’ Regulations

FCS is working to eliminate some of the differences between the food stamp and AFDC regulations by approving waivers and changing food stamp regulations. By increasing the consistency between food stamp and AFDC eligibility and benefit determination regulations, FCS staff believe the chances of caseworker error will be reduced. FCS has worked with the Department of Health and Human Services to change many of the differences in the programs. FCS has published several proposed or final rules that reduce inconsistent requirements between the programs. For example, FCS has simplified regulations regarding recipient residency; certification periods; self-employment income received from taking in boarders or providing daycare services; student income and eligibility; utility expense reimbursements; and reporting changes in medical expenses.

Granting Waivers From Program Requirements

In October 1994, FCS offered states the opportunity to apply for waivers from 27 separate parts of the Food Stamp Program regulations to help them reduce time-consuming procedural requirements. FCS has approved workload and error-reduction waivers for all states and Guam. Since October, FCS has revised regulations that will make many of the waivers permanent.

According to FCS, all of the waivers could have an indirect impact on error rates. As mentioned earlier, one of these waives the requirement for recipients to report certain monthly income changes of \$25 or more during

the period for which they are certified to receive benefits. FCS has also granted waivers to 16 states that decrease the number of face-to-face recertification interviews with recipients from as many as four times a year to only one meeting. Reducing the number of interviews will free caseworker time needed to plan and conduct interviews and should allow caseworkers more time to focus on reducing their errors as well as recipient errors.

These changes can affect error rates because they change the requirements states must abide by in managing the program. However, the error-rate reductions attributed to these regulatory changes may not directly translate into reduced benefit payments or a reduction in program costs. For example, waiving the \$25 postcertification income reporting requirement may lower a state's error rate by eliminating a leading cause of overpayments. However, there may not necessarily be a corollary decrease in the total benefits issued to households. It may be that the administrative costs associated with enforcing this requirement and recalculating benefits may exceed the savings in benefit costs that would result from complying with this regulation. In this regard, FCS is awaiting results from the nine states that have been granted this waiver and will conduct a cost analysis of this change before proposing regulatory changes or approving additional waivers.

Evaluating Incentives for States to Reduce Their Error Rates

FCS is preparing a legislative proposal to offer states additional incentives to reduce their error rates. The incentives would provide additional money to states that reduce their error rates below the national average and in future years maintain error rates below the national average.

Congressional Actions to Reduce Payment Errors

Incentives for states to improve the accuracy of food stamp benefit payments were first legislated in the Food Stamp Act of 1977. In this act, states reducing their error rates below 5 percent were rewarded with additional administrative funding. In the early 1980s, the Congress revisited the issue and added incentives to reduce errors but also mandated that a state repay some benefits to the federal government if its error rate exceeded the national average.

Since the Food Stamp Act Amendments of 1980, the Congress, on four different occasions, has changed the food stamp statutes to address state payment accuracy. With each revision, different combinations of incentives and sanctions to reduce errors, as well as different approaches

to determine sanctionable error rates, have been adopted. Sanctions have included a state returning a portion of the benefits issued or reducing a state's reimbursements for administering the program. Incentives have included the opportunity for states to earn additional, and differing, percentages of administrative funds for low error rates—depending on the level of error rate achieved. In addition to changing incentives and sanctions, the method for determining error rates has changed. For example, previously only overpayment errors were used to calculate error rates, later, the Congress directed that both overpayment and underpayment errors be used to determine state error rates.

The Congress has varied the way in which sanctionable error rates are determined. In the early 1980s, the Congress established specific numerical target error rates that states were to achieve to avoid sanctions. Later, the Congress allowed the sanctionable error rate to be determined by averaging the error rate experiences of the states. In 1988, the Congress used the lowest annual national error rate ever achieved plus 1 percent as the baseline for determining sanctions. States exceeding this tolerance level were required to repay a percentage of benefits issued equal to the percentage amount that they exceeded the tolerance level. Later, in 1993, the Congress changed the sanctionable error rate from the lowest national annual error rate ever achieved to an error rate based on the national average for the current year. A state sanction is calculated based on the degree the state exceeds the sanction. There is no 1 percentage point tolerance; however, the determination of the sanction is based on a sliding-scale calculation. This sliding-scale method of calculating the sanction has the effect of reducing the amount of sanctions for states near the national tolerance level while increasing the sanction for states exceeding the tolerance by a greater margin.

FCS data indicate that congressional efforts to reduce errors have produced limited results. For example, few states have been able to achieve error rates that would qualify them for enhanced funding. According to FCS, no more than eight states received enhanced funding in any year during the 14-year period between 1980 and 1993. The states that did qualify for enhanced funding received about \$56 million in additional funds.

During this same period, almost all states were sanctioned for high error rates, totaling about \$857 million. Under current statutes, sanctioned states are given the choice of making payments to the federal government for the sanctioned amounts or reinvesting these funds in initiatives to improve their payment accuracy. However, as a result of legal challenges

and congressional action, states have ultimately been held accountable for a reduced portion of the sanctioned amounts. For example, only about \$51 million of the sanctions have been collected or reinvested by states in improving the food stamp payment accuracy.

The Congress, in the Personal Responsibility Act of 1995 (H.R. 4), passed by the House of Representatives on March 24, 1995, is currently contemplating fundamental changes to the federal food assistance structure, which includes a return to the 1988 standard for determining state sanctions for food stamp payment errors. Under current circumstances, the formula in this provision would make subject to sanctions states that exceed a 10.3-percent error rate. In view of the national error rate for 1993 of 10.8 percent, more states will probably be sanctioned in the future, and the amount of the sanctions will likely increase, unless states substantially improve their payment accuracy performance.

Conclusions

The experiences of the states that we visited, some with historically high error rates, clearly indicate that food stamp error rates can be reduced. The primary factor in lowering error rates in these states appears to be the willingness of states to focus on reducing overpayments and making a commitment to do so. The major motivation for states to reduce overpayments seems to be linked to the desire to either avoid federal sanctions for high overpayments or to “earn” additional funding for their states by having low error rates.

FCS’ increased commitment to reduce payment errors should send a clear signal to states that the accuracy of food stamp benefit payments must be improved. While these initiatives are steps in the right direction to improving payment accuracy, it is difficult to determine if they will be sufficient to motivate states to do a better job in determining recipients’ eligibility and benefit payments and the bottom-line impact they will have on reducing overpayments. For example, states that are historically not above the sanction level or reasonably close to the enhanced funding level may not be willing to make the necessary commitment. In these instances, a different incentives/sanctions package may be needed.

With regard to FCS initiatives to simplify and grant waivers to Food Stamp Program regulations, while they may be beneficial in reducing payment errors, caution should be exercised to ensure that these regulatory changes are the result of sound business decisions aimed at (1) removing

nonessential or burdensome administrative regulatory processes or (2) updating program requirements to reflect current conditions and are cost-effective in terms of program benefit and administrative costs.

FCS is considering a legislative proposal to provide additional incentives to states that lower their error rates. At the same time, the Congress is considering changes to Food Stamp Program legislation that would tighten sanctions against states with high error rates. It is difficult to predict the impact these changes could have on state payment accuracy, if enacted, because of the past experience in enforcing sanctions. However, the changes are options that could have positive impacts on reducing payment errors and are worth exploring.

More Monitoring of Retailers Could Help Deter Trafficking

The precise extent of food stamp trafficking by retailers and recipients is unknown, but law enforcement officials believe that billions of dollars of food stamps are trafficked each year. Existing FCS controls and procedures have not proven effective in reducing retailer involvement in food stamp trafficking. Stores that do not meet eligibility criteria are being authorized to redeem food stamps, and once admitted, FCS' monitoring process is inadequate to detect retailers that violate program regulations during their period of certification. The major weakness in FCS' process is its lack of resources to make site visits to stores to ensure that they meet program eligibility criteria and comply with basic program regulations. FCS' resources are insufficient to investigate all of the retailers suspected of trafficking. FCS has various initiatives underway to improve its authorization and monitoring of food stores and is proposing additional actions. However, these initiatives do not include providing additional resources to make site visits.

With regard to recipient trafficking or other recipient misuses of program benefits, it would be difficult and expensive to eliminate these program abuses. As long as food stamp coupons are used for delivering benefits and are available for use as a second currency, recipient misuse will likely continue. FCS efforts to reduce the number of violating retailers, however, should make it more difficult for recipients to use their benefits for nonfood purchases.

The Extent of Food Stamp Trafficking Is Unknown

Due to the difficulty in collecting data, neither federal nor state officials know the extent to which recipients and retailers are trafficking or misusing food stamp benefits. As cited in our December 1994 report (see ch. 1), estimates of trafficking run as high as 10 percent of benefits issued—or over \$2 billion annually. This estimate has been widely reported in the media, but we were unable to corroborate the estimate. Program officials and law enforcement officials involved in policing the Food Stamp Program believe that recipient trafficking is pervasive, and food stamps are often traded on the streets as a second currency. However, the officials have not conducted any definitive studies on trafficking. At the same time, it is clear that trafficking is occurring. For example in fiscal year 1993, FCS found 841 retailers involved in trafficking food stamps.

FCS Controls Are Inadequate to Prevent Ineligible Stores From Being Authorized to Accept Food Stamps

FCS has a comprehensive process for collecting information on stores applying for authorization to redeem food stamps. However, this process relies almost totally on the integrity of applicant retailers to accurately report information on their stores and business activities. While FCS' authorization process allows on-site visits to corroborate retailer-reported information, such visits are the exception rather than the rule. Based on our visits to FCS field offices and review of OIG reports, it appears that stores are not visited prior to authorization primarily because FCS has assigned a relatively low priority and devoted few resources to retailer monitoring.

Retailer Authorization Is Principally a Paper Process

The authorization of retail stores to accept food stamps is delegated to FCS' seven regional offices. The regional offices have in turn delegated this responsibility to its field offices. According to FCS regional officials, the process of authorizing and reauthorizing stores for participation in the Food Stamp Program is similar at every FCS field office. A five-part FCS application is provided to retailers requesting authorization to redeem food stamps. The application calls for the retailer to provide detailed information on the store and its business activity. For example, the retailer must provide information on the location and address of the store; estimated or actual sales; types of foods offered for sale; and ownership information, such as employee identification number and owner social security number.

Field office personnel review the applications for completeness and conformity to program regulations and determine if supplemental data are required from the retailer. At the eight FCS field offices we visited, personnel generally ask for more information than required by the program regulations, such as picture identification, sales and ownership records, and naturalization and passport documentation. Other supplemental information the offices request can include such items as operating and/or beverage licenses, health inspection certificates, and income tax statements. Incomplete applications are returned to the retailer with instructions for providing the missing information. Field office personnel will discuss the incomplete application with the applying retailer over the telephone. If the additional information is not forthcoming, the field office personnel will deny the application. The retailer may reapply at any time. When an application is determined to be complete, field office personnel have 30 days in which to process and approve or disapprove it.

Retailers must also be given training on the program. In some field offices, the retailer is instructed to attend a 1- to 2-hour training session given by field office personnel on program requirements and procedures, such as how to redeem coupons, products that cannot be purchased with food stamp coupons, and penalties for inappropriate or illegal uses of the coupons. In other field offices, retailer authorization training occurs by telephone or through the mail or by individual instruction. In either event, the owner is not certified to accept food stamps until the training is completed.

Stores participating in the program must periodically reapply to update their authorization certificate by making a new application and providing updated sales data and other store information for retail monitoring. The frequency of FCS' reauthorization process varies by the type of stores. Major supermarkets are reauthorized every 3 years. All other stores—convenience, small grocery, and privately owned neighborhood stores—are reauthorized every 2 years. According to FCS officials, smaller retailers are reauthorized more frequently because FCS and OIG officials have identified them as the ones more likely to violate program regulations than larger supermarkets.

The reauthorization process mirrors the process used to initially authorize stores. Retailers seeking reauthorization submit an application form to the field office, which reviews the form for completeness and the appropriateness of the store to continue to be authorized to accept food stamps. In addition, field offices check the information in the reauthorization application with information on the store contained in FCS' Store Tracking and Redemption System (STARS). The STARS is the major repository of information on each store that is authorized to redeem food stamps. The system contains information submitted by the retailer in the initial application as well as information on the redemption history of the store. Field office officials compare the sales reported by the retailer against the redemption history of the store. This analysis allows them to identify stores whose redemptions are high in relationship to total food sales. FCS officials told us that in such cases the retailer might be contacted by field office personnel to provide an explanation as to why the disparity exists between their sales and food stamp redemptions. Failure to provide requested information may result in the withdrawal of the store's approval to participate in the program.

FCS data show that 32,815 stores, or 16 percent of the authorized stores, were withdrawn from the program as a result of the reauthorization

process in fiscal years 1992 and 1993. According to FCS officials, data on withdrawn stores includes stores that are no longer open for business, stores that fail to meet program criteria, and stores that no longer wish to participate. FCS does not maintain information specifically on how many of the withdrawn stores failed to meet program criteria.

On-Site Visits Are Not Normally a Part of the Authorization and Reauthorization Processes

According to FCS officials responsible for authorizing stores, they rely almost exclusively on self-reported information provided by the retailers and information in STARS in making decisions to authorize or reauthorize a store to redeem food stamps. While FCS procedures provide for on-site visits to retailer stores to verify provided information, field office officials told us that they make few on-site visits. We found that neither FCS headquarters nor two of the three FCS regions that we visited had any overall data on the number of on-site visits made to stores prior to authorization. We did find information on retailer visits in FCS' Southwest Region, however. Regional records indicated that out of 9,564 applications received in 1994, 269 on-site reviews were completed.

FCS officials told us that on-site reviews are the most effective way to prevent inappropriate stores from being authorized to accept food stamps. Through on-site reviews, officials are able to visually verify that stores are legitimate retailers with ample food inventories. However, the officials said that they do not have sufficient personnel and resources to make store visits. In the 1970s, FCS' policy required periodic on-site visits of retailers. FCS officials told us that at that time approximately 1,500 staff years were devoted to this effort. Since that time, the policy has changed to no longer require on-site visits, and the associated resources have been reduced.

According to FCS officials, there are 323 staff responsible for all field office activities. In addition to authorizing and reauthorizing retailers, these staff have other responsibilities. For example, they are tasked with conducting management evaluations of state food stamp programs; monitoring and evaluating the school feeding programs; conducting quality control reviews of recipient case files; monitoring tribal commodities programs; completing administrative processing of retailers that the FCS Compliance Branch has confirmed violated program regulations; and various other duties assigned to them by the individual regions.

Field office officials in all three regions that we visited told us that additional personnel alone would not be sufficient to enable them to make

on-site visits. Additional funds for travel to stores would also be required. For example, the Dallas field office is responsible for monitoring about 5,700 stores, spanning 136 counties from the Louisiana border in the east to El Paso in far west Texas. The office receives between 100 and 130 new applications monthly. The workload is managed by five full-time employees and two part-time students. The Dallas field office also reviews child and adult day care programs, oversees food distribution warehouses, monitors compliance for the food assistance programs, and investigates civil rights complaints.

Two states that we visited—New Mexico and South Carolina—have approved FCS pilot programs allowing them, rather than FCS, to authorize retailers. At the time of our visit, New Mexico had a part-time employee conducting its retailer authorizations. In addition to the part-time employee, the state is relying heavily on a private contractor installing point-of-sale terminals in retail stores that are to be used in its new Electronic Benefit Transfer (EBT) system for delivering food stamp benefits to detect problem stores. Furthermore, New Mexico officials told us that they did not intend to continue the project unless they receive 100-percent federal funding. While South Carolina officials said that they would like to continue authorizing stores after the pilot project ends in December 1995, they are not prepared to fund the program sufficiently to do on-site visits.

Stores Are Not Adequately Monitored to Ensure That They Comply With Program Rules

FCS' primary methods for monitoring stores once they are authorized consists of reviewing computer-generated reports showing the activities of the stores and on-site investigations by the FCS Compliance Branch. Our discussions with field office personnel disclosed that they depend most heavily on three computer reports which, in addition to STARS, (1) identify potential trafficking by analyzing the ratio of food stamp redemptions to total food sales; (2) list stores that have been disqualified from the program, but have continued to redeem food stamps; and (3) identify various characteristics that are commonly found in stores that have trafficked in food stamps and/or committed other serious program violations.

Our review indicates that all of these reports have limitations as tools for monitoring retailers. Also, in March 1992, an OIG audit of FCS' retailer monitoring system found that the computer reports used most often by

field offices were inaccurate, unverified, or outdated.⁶ Field office personnel basically agree with the OIG's findings. However, the personnel maintain that because no other information is available they continue to use these exception reports for monitoring stores, even though they are often untimely and in some cases inaccurate.

FCS officials also told us that there are problems with STARS that slows its response time and makes it cumbersome to use. The officials added that because the STARS report organizes stores by type of store in geographical locations, not alphabetically, it is difficult and time-consuming to use. FCS and OIG personnel believe that existing computer reports are inadequate for identifying a reportedly large, but unknown, number of stores trafficking in food stamps that are not authorized by FCS to accept food stamps. FCS and OIG personnel know that these stores exist because they are occasionally discovered in investigations of other recipients and stores, as well as from informants.

The OIG also found in its 1992 audit that field office personnel seldom performed monitoring visits. FCS does not maintain data on the number of on-site visits made to monitor stores after they are authorized. In discussing this issue with field office officials, we were told that few on-site visits are made because they do not have the time and resources necessary to make visits. The FCS and OIG officials that we spoke with told us that the lack of federal presence in the field through on-site visits compromises the integrity of the program.

We asked FCS regional and field office officials what additional resources would be needed to conduct more monitoring visits of authorized stores. The officials told us that they had not developed estimates of the additional personnel and travel funds needed to perform such visits. In discussing the cost to make on-site retailer visits with FCS headquarters officials, we were told that about \$19 million would be needed to make an annual visit to nonsupermarket retail stores. Nonsupermarket stores are considered by FCS officials to be more prone to traffic food stamps than supermarkets. This estimate is based on: visiting 200,000 stores annually; with an FCS' official visiting 3 stores per day; an average work year of 221 days; at an average cost of \$62,000 per person, which would include salary, benefits, and travel.

⁶Food Stamp Program-Authorizing and Monitoring of Retailers, USDA OIG, Audit Report 27600-0008-Ch (Mar. 31, 1992).

Staff Shortages Result in Suspected Violators Avoiding Investigation

In addition to authorizing stores to redeem food stamps and monitoring their performance in complying with program regulations, FCS is responsible for investigating stores suspected of trafficking food stamps or violating other program regulations. FCS has only 46 investigators nationwide to conduct these investigations. Investigations are initiated by field office personnel based on citizen or retailer complaints and FCS monitoring of reports. Field office personnel refer complaints about stores with suspicious activity to FCS' Compliance Branch for investigation. Once investigated, Compliance Branch personnel determine whether the case is to be administratively processed or forwarded to the OIG for criminal investigation. Table 3.1 shows the number of stores that the Compliance Branch investigated during the past 5 years.

Table 3.1: FCS Compliance Branch Investigations for Fiscal Years 1990 to 1994

	1990	1991	1992	1993	1994
Stores investigated	5,447	4,984	4,848	4,644	4,300
Stores found to be trafficking	358	531	763	841	902

As table 3.1 shows, there has been a decline in the number of stores investigated during this 5-year period. Compliance Branch officials told us that staff limitations have prevented them from investigating all retailers suspected of program violations. However, table 3.1 shows that the number of stores found to be trafficking increased from 358 in fiscal year 1990 to 902 in fiscal year 1994.

In instances where large amounts of food stamps are suspected of being trafficked, the Compliance Branch refers these cases to the USDA OIG for criminal investigation. The OIG also receives referrals from citizens and local law enforcement officials. OIG officials in two regions told us that they investigate about 10 percent of the cases referred to them by the Compliance Branch and other sources. OIG information shows that its food stamp investigation caseload has fluctuated between 1990 and 1994, but the amount of OIG time spent investigating these cases has steadily increased from 35 to 45 percent of their investigative workload over the same time period.

FCS and OIG officials told us that civil and criminal investigations are very resource-intensive and that, due to a shortage of investigators, many suspect stores are not investigated for program violations such as trafficking. Furthermore, field office personnel tell us that they refer only the most significant cases for investigation to the Compliance Branch. According to field office officials, no records are kept of the number of

potential cases not referred for investigation. Instead of referring these cases to the Compliance Branch, field office personnel give the stores a warning.

USDA Is Pursuing Numerous Initiatives to Improve Retailer Integrity

On March 1, 1995, the Secretary of Agriculture issued a statement on a number of new initiatives to reduce food stamp trafficking. The statement called for several legislative changes to help identify unscrupulous retailers during the authorization process and keep them from defrauding the program. While these proposed legislative changes should help improve retailer integrity in the program, they do not address the problem of insufficient staff to authorize and monitor stores and pursue investigations of retailers suspected of violating program regulations.

Some of the major legislative changes requested include:

- requiring retailers to provide sales and income tax filing documents when applying for authorization along with permission for FCS to verify such information with other agencies;
- requiring a 6-month waiting period before reapplication by a store that does not meet initial eligibility criteria;
- allowing FCS to set time limits for retailer authorization, including shorter authorization periods for questionable retailers;
- suspending stores charged with trafficking while their cases are pending administrative or judicial review thereby preventing them from continuing to abuse the program during the appeals process;
- suspending stores charged with trafficking on the basis of electronic benefit transfer transaction data;
- expanding forfeiture authority to allow the seizure of property used by traffickers in felony food stamp transactions of \$5,000 or more, including property gained with the proceeds of illegal transactions;
- permitting permanent disqualification of retailers who intentionally falsify their applications;
- increasing the penalties for recipient trafficking; and
- disqualifying stores from participating in the Food Stamp Program that have been disqualified from participating in the Special Supplemental Nutrition Program for Women, Infants, and Children.

In addition to seeking legislative changes, FCS plans to expand retailer monitoring capabilities for states using EBT technologies to deliver food stamp benefits. FCS is currently testing the use of automated EBT exception reports to identify suspicious transaction patterns by retailers and

recipients. By the end of 1995, FCS expects to have in place an automated system for analyzing EBT transaction data and producing exception reports of suspected violators for all states with EBT operations. FCS is also providing states that use EBT a checklist for evaluating retailer's eligibility while installing EBT terminals in the store. Also, FCS is requesting authority to share retailer-provided social security and employer identification numbers with state investigative and law enforcement agencies in order to detect illegal retailer activity.

The Personal Responsibility Act (H.R. 4) includes provisions giving FCS a number of the authorities it has requested. While these authorities should help FCS' enforcement capabilities, on-site visits to retailers applying for authorization to redeem food stamp benefits is crucial to preventing unscrupulous retailers from being authorized to accept food stamps. The proposed act also provides for on-site visits of food stores by FCS or state or local officials before stores are authorized to redeem food stamps. However, neither the act, nor FCS, address the issue of monitoring retailers once stores are authorized to participate in the program nor does either address the need for additional resources to investigate retailers suspected of violating program regulations.

FCS has indicated that it has plans to increase the monitoring of retailers, but it has not specifically said how these plans will be carried out nor what resources will be needed to implement them. To the extent that FCS may be required to make preauthorization store visits, and/or decide to increase its efforts to monitor and investigate retailers, it will need to reassess its resource needs and allocations.

Improvements in the Monitoring of Retailers Should Help Reduce Recipient Trafficking

Detecting and preventing recipient trafficking is normally the responsibility of the states under Food Stamp Program regulations. State and federal officials told us that with 27 million recipients in 11 million households currently receiving food stamp benefits, the costs of preventing individual recipients from trafficking exceeds the cost of the benefits being trafficked. The officials believe that recipient food stamp trafficking is widespread, but they have no data to verify this belief. Because of the difficulties in detecting recipient trafficking—and the cost involved to do so—state officials told us that they generally do not pursue recipient trafficking. Some state program officials prefer to focus their limited resources on preventing, detecting, and prosecuting violating stores, which they believe will have a greater impact on reducing total recipient trafficking than by attempting to pursue violators individually.

While reducing the number of violating stores will not completely eliminate recipient trafficking, making it more difficult to find sources for trafficking food coupons will discourage the illegal use of food stamps.

Conclusions

Regardless of whether food stamp benefits are issued in the form of coupons, electronically through electric benefit transfer technologies, or in the form of cash, some unknown number of the approximately 27 million recipients are going to use their benefits for other than the intended purpose of buying food. Controlling the misuse of benefits can be a costly undertaking requiring a significant amount of resources at the federal and state levels.

An effective approach for controlling trafficking is to root out retailers that redeem food stamps for other than legitimate food items. The 209,000 stores authorized to redeem food stamps represent the only gateways through which food stamp coupons can enter the banking system and be redeemed by the federal government. Without these gateways, recipient traffickers as well as other third-party traffickers have no means to “redeem” their coupons for nonfood purposes. Thus, reducing the number of retailers that traffic food stamps would close the gateways by which illegally used benefits make their way back to the banking system for redemption. Furthermore, monitoring and controlling the 209,000 retailers is easier than trying to monitor and control the behavior of approximately 27 million recipients.

FCS is pursuing several initiatives to improve its authorizing and monitoring of retailers, including requesting additional legislative authorities, and thereby reduce food stamp trafficking. The Personal Responsibility Act includes provisions giving FCS a number of the authorities requested. While the proposed changes would be beneficial, they do not address the resources needed to perform on-site visits at the time of retailer authorization or for monitoring visits after authorization. Such visits are considered to be an effective mechanism in preventing retailer involvement in trafficking.

Recommendation

In view of proposed legislation, we recommend that the Secretary of Agriculture direct the Administrator of FCS to determine the resources needed to incorporate on-site visits into its processes for authorizing and reauthorizing stores to accept food stamp benefits. This analysis should include a determination of the resources needed to effectively monitor

stores once they are authorized to accept benefits and to investigate stores suspected of food stamp trafficking. The Secretary should consider the results of this analysis in the setting of departmental priorities and the allocation of resources, and provide this information to the Congress for its use in considering program reforms.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Administrator of the Food and Consumer Service did not believe that the resource analysis that we recommended to help reduce trafficking was necessary. Rather, the agency believes that the smarter use of new technology—especially the future use of electronic benefit transfer systems—along with the passage of its proposed retailer-related antifraud legislation will enable it to detect and remove violating stores more efficiently. Moreover, the agency believes that its antifraud proposals will help ensure that only legitimate stores are authorized to redeem food stamps.

We agree that USDA's initiatives should help deter retailer trafficking of food stamps. However, we believe that it is important to consider that the effectiveness of the agency's legislative proposals in reducing trafficking is unproven at this time and will not be known until some time in the future. Also, we do not believe that the use of electronic benefit transfer systems will necessarily eliminate the need to conduct store visits. Instead, it will serve as a valuable supplementary tool in the effort to reduce trafficking. Furthermore, the implementation of electronic benefit systems is in its infancy, and nationwide implementation will not be completed for several years. In this context, we continue to believe that on-site visits to retailers should be included in any overall strategy to increase retailer integrity and that the Food and Consumer Service should take the necessary steps to ensure that such visits are made.

Agency Comments and Our Evaluation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Mr. John W. Harman
Director
Food and Agriculture Issues
Resources, Community and Economic
Development Division
United States General Accounting Office
Washington, D.C. 20548

JUN 01 1995

Dear Mr. Harman:

We have reviewed the Draft Report, Food Assistance: Reducing Food Stamp Benefit Overpayments and Trafficking (GAO/RCED-95-198). At our meeting with Mr. James Fowler at the Food and Consumer Service (FCS) on May 31, 1995, FCS also 1) discussed reasons to believe that payment accuracy in the Food Stamp Program (FSP) can be improved within existing certification rules and 2) discussed and provided written comments on a variety of technical issues. The purpose of this letter is to provide formal Agency comments to the single recommendation of the report that were expressed at the May 31st meeting.

See comment 1.

GAO Recommendation (from Draft Report)

"GAO recommends that the Secretary of Agriculture direct the Administrator of FCS to determine the resources needed to incorporate on-site visits into its processes for authorizing stores to accept food stamp benefits. This analysis should also include a determination of the resources needed to effectively monitor stores once they are authorized to accept benefits, and to investigate stores suspected of food stamp trafficking. Should the Secretary and the Administrator determine that the Department has insufficient resources to fund these efforts, we recommend that the Secretary include these needs in the Department's annual budget request to the Congress."

See comment 2.

FSP Response

As you know, on May 23, 1995, Secretary Glickman announced the Administration's FSP reform proposals. These proposals include a 13-point plan announced in March 1995 which is aimed at ensuring that only legitimate stores participate, improving USDA's ability to monitor stores, and strengthening penalties against those who violate FSP regulations. Reference to these proposals is made on pages 59-61 of the Draft Report. Also included in the reform

See comment 3.

Appendix I
Agency Comments and Our Evaluation

Mr. John W. Harman

2

package are proposals to remove barriers to electronic benefits transfer (EBT) which would accelerate nationwide implementation of EBT.

Taken together, these proposals will provide needed tools to better ensure only legitimate stores are authorized and to improve the monitoring of participating stores within our current resources. We expect to realize more efficiencies in resource management by taking advantage of existing and evolving technologies, including EBT expansion and computer matching and information sharing agreements with other Federal and State law enforcement and investigative agencies. These technologies, combined with our program integrity proposals, will allow us to better target existing resources and to identify and remove violating firms more efficiently. This will free-up needed resources to conduct more on-site visits to questionable applicants during the process of authorizing and re-authorizing stores.

In conclusion, we believe that smarter use of current resources and technology, along with passage of our proposed comprehensive anti-fraud legislation, will help us achieve a level of program integrity that preserves the public trust and better serves America's food and nutrition needs for the future.

We appreciate the opportunity to provide comments to the Draft Report. Please let us know if we may be of assistance in preparing the final report.

Sincerely,



William E. Ludwig
Administrator

GAO's Comments

1. FCS suggested a number of technical changes to update and clarify certain information provided in the report. We have incorporated the agency's comments where appropriate.
2. After consideration of agency comments, we modified the latter part of this recommendation to recommend that the Secretary provide the results of the Department's resource analyses to the Congress for its use in considering program reforms.
3. We agree that USDA's initiatives should help deter retailer trafficking of food stamps. However, we believe that it is important to consider that the effectiveness of the agency's legislative proposals in reducing trafficking is unproven at this time and will not be known until some time in the future. Also, we do not believe that the use of electronic benefit transfer systems will necessarily eliminate the need to conduct store visits. Instead, it will serve as a valuable supplementary tool in the effort to reduce trafficking. Furthermore, the implementation of electronic benefit systems is in its infancy, and nationwide implementation will not be completed for several years. In this context, we continue to believe that on-site visits to retailers should be included in any overall strategy to increase retailer integrity and that the Food and Consumer Service should take the necessary steps to ensure that such visits are made.

Major Contributors to This Report

Robert A. Robinson, Associate Director
James A. Fowler, Assistant Director
James G. Cooksey, Project Leader
Syrene Mitchell, Evaluator
Patricia Sari-Spear, Evaluator
Leigh M. White, Evaluator

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