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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Need For Greater Efforts To Recover Costs Of Food Stamps Obtained Through Errors Or Fraud

In fiscal years 1980 and 1981, about \$2 billion in food stamp benefits was over-issued and about \$500 million was under-issued because of State food stamp agency errors and recipient errors and fraud. The net drain on program resources could have provided benefits to about 1.7 million needy people for 2 years.

Without specific direction and emphasis from the Department of Agriculture, States collected only about \$20 million, or 1 cent of each overissued dollar, during the 2 fiscal years. Perceived obstacles to adjudicating alleged fraud through either court prosecutions or administrative hearings have limited States' fraud pursuit efforts.

The Congress has provided financial incentives and improved methods to increase States' collections and fraud pursuit, and the Department has made and plans other improvements. However, additional legislative and administrative initiatives are needed.



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D I G E S T

Administrative and legislative changes in the Food Stamp Program are needed to spur the States to (1) identify specific households receiving erroneous issuances of food stamp benefits and correct the benefit levels, (2) collect over-issued benefits, and (3) improve the pursuit of potential fraud.

The program, with Federal oversight by the Department of Agriculture's Food and Nutrition Service, provides benefits to about 22 million people through State agencies. In fiscal year 1982 the program cost about \$11.1 billion.

During fiscal years 1980 and 1981, the Federal Government lost about \$2 billion through State overissuances of benefits to households that (1) were not eligible or (2) received more than they should have. Concurrently, eligible households received about \$500 million less than they should have. The net drain on program resources could have provided food stamp benefits to about 1.7 million needy people for 2 years. The erroneous issuances resulted from administrative and recipient errors and fraud. Only about 1 cent of each overissued dollar was recovered.

In 1977 GAO reported that States could do more to identify and recover overissuances and adjudicate cases involving alleged fraud. (See p. 1.) This review was made to see if improvements had occurred since then.

MORE SPECIFIC OVERISSUANCE
CASES CAN BE IDENTIFIED

Using semiannual quality control results, the Service can project the total amount of over- and underissued benefits, but it has no reliable data on how many of these errors States identify with specific households.

States identify some errors as a by-product of routine procedures such as recertifications for continued benefits and quality control reviews of statistically selected samples of food stamp cases. Also, some States voluntarily use other

methods involving computer matching and error-prone profiles. Data in the six States GAO visited (California, Louisiana, New York, Pennsylvania, Texas, and Washington) indicated that compared with total estimated overissuances, relatively few specific cases have been identified. (See pp. 7 to 15.)

Computer matching to identify and ultimately recover specific overissuances holds considerable promise. Wage matching has been successfully used in the Food Stamp and other programs and is now required by statute in the Food Stamp Program. GAO's separate review of eight States showed that although almost 30 percent of food stamp overissuances had been due to errors in client-reported wages, large losses were also caused by such factors as incorrectly reported household size and persons receiving benefits as a member of two or more households. GAO identified computerized data bases that can be used to identify these types of errors.

Officials in the States GAO visited said they had not tried to identify more overissuance cases because there have been no requirements and few financial incentives. Legislation implemented in recent years provides financial incentives. Additional legislation enacted in 1981 and 1982 requires States to perform wage matching and develop procedures to detect and prevent multiple participation. (See pp. 15 to 19.)

The Service has emphasized preventing errors rather than identifying specific over- and underissuance cases. Error prevention is a high priority, and GAO has recommended ways to improve prevention in previous reports. However, identifying erroneous cases must not be ignored. Although it is not possible or practical to identify all erroneous issuance cases, much more can be done than has been done in the past. Large program savings can result from stopping overpayments and triggering claims establishment and collection. Conversely, underpayments can be restored. (See pp. 19 and 20.)

MORE OVERISSUANCES CAN BE RECOVERED

Although required to establish claims against households identified as receiving overissuances, States had not always done so. Nationally, claims established equaled about 6 percent of

total projected overissuances. Of the \$108 million in claims established in fiscal years 1980 and 1981, States collected only about 18 percent.

State officials told GAO that collection was difficult, and they saw limited benefit in establishing claims. They said that the wording of the Service's letter demanding repayment and the Service's regulations on when collection action is to be suspended inhibited collection and that few financial incentives to collect existed. The Service was revising these regulations. (See pp. 25 to 31.)

Recent legislation should encourage and enable States to collect more. It provides more financial incentives and, in the case of recipient-caused errors in nonfraud cases, requires offsets against benefits to households still in the program. The legislation does not authorize offsets for State-caused overissuances even though such authority exists in the Aid to Families with Dependent Children Program. The Service has been slow to implement the existing offset provisions. (See pp. 31 and 32.)

Allowing recovery of State-caused overissuances by offsets would facilitate collection. In fiscal year 1981 it would have increased the amount subject to this more efficient process to about \$500 million. (See p. 34.)

MORE POTENTIAL FRAUD COULD BE PURSUED

No one knows how much Federal money has been lost through recipient fraud, but program officials agreed that fraud is a serious and pervasive problem warranting greater concern and management attention.

About 16,000 cases of alleged recipient fraud were reported as being adjudicated during fiscal year 1981. During fiscal years 1980 and 1981, fraud claims comprised about \$16 million of the total established claims of \$108 million. However, available data suggests that fraud is much more prevalent. (See pp. 46 to 48.)

States did not investigate or adjudicate many identified cases of potential fraud because of the problems they perceived in pursuing them. For example, in New York City few investigations were made of almost 52,000 cases involving inaccurate reporting of income or individuals' receipt of multiple benefits, and none were referred for

adjudication. In California 14,000 potential fraud cases were investigated but only 242 were referred for adjudication. (See pp. 48 to 51.)

The States GAO visited cited food stamp fraud as a low priority for court adjudication. Their reasons included the more serious nature of other alleged crimes, the relatively small amounts in individual cases, and the difficulty of proving food stamp fraud. Since GAO's 1977 report, the Congress has authorized States to use an administrative fraud hearing process as an alternative to the court system.

Some States viewed the administrative process as an effective alternative when it was not feasible to use the courts. State officials said that factors such as burden-of-proof requirements and cost had limited their adjudication efforts, but neither they nor local officials provided an assessment of the impact of these perceived obstacles.

The Service is aware of the States' concerns about cost and evidence requirements and their reluctance to adjudicate alleged fraud administratively. But it had not acted in a concerted and comprehensive way to solve or lessen perceived barriers to State fraud pursuit. However, Service officials said that they had recently increased their interaction with State officials to promote pursuit of food stamp fraud. (See pp. 51 to 57.)

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that food stamp legislation be amended to (1) expand the use of offsets to cases involving agency-caused errors and (2) require States to take steps to recover overissuances from households no longer in the program. Also, the legislative and appropriations committees should direct the Secretary of Agriculture to inform them periodically on the status of efforts to identify and collect overissuances. (See p. 42.)

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

GAO recommends several actions the Secretary should take to improve Federal and State efforts to identify erroneous benefit issuance cases and collect overissuances. These include monitoring and assessing State actions; providing needed guidance and assistance to States; obtaining and

disseminating pertinent information; exploring and refining identification, collection, and fraud adjudication techniques; and requiring States to adopt the most effective methods for identifying and collecting overissuances and pursuing potential recipient fraud. (See pp. 21, 22, 42, 43, 58, and 59.)

Service and State implementation of GAO's recommendations will present opportunities for large cost savings. Actual savings will depend on how well States identify and pursue overissuances and correct erroneous cases.

AGENCY COMMENTS AND GAO'S EVALUATION

In response to GAO's recommendations, the Department discussed several existing and planned Service initiatives that should help improve overissuance recovery and fraud pursuit. (See app. I.)

However, the Department considered the regulations for identifying overissuance cases adequate and did not believe a specific requirement was needed. Although the Service believes its regulations implicitly require States to identify overissuances, program results clearly show that relatively few had been identified. Further, it was not clear that States perceived overt efforts to identify specific cases as a basic program responsibility. GAO believes the Service should modify its regulations to expressly require more attention to identifying households that received overissuances. (See pp. 22 and 23.)

The Department expressed reservations about amending legislation to require States to act to recover overissuances from the income and assets of households no longer receiving benefits. The Department preferred to allow States to select the most appropriate collection method but did not provide any specific relevant reasons why, in these instances, States should not be specifically required to take collection action.

GAO acknowledges that it is more difficult to collect from households no longer receiving benefits because external collection processes, rather than an internal offset process, must be used. However, since almost half of the total overissuances have been to households no longer eligible for benefits, it is very important that States take concerted collection action if it is cost beneficial to do so. (See pp. 43 and 44.)

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	The program's evolution and administration	1
	Objectives, scope, and methodology	3
	Budgetary impact of our recommendations	6
2	MORE SHOULD BE DONE TO IDENTIFY SPECIFIC CASES OF INCORRECT ISSUANCES OF FOOD STAMP BENEFITS	7
	Annual dollar losses have been substantial	7
	Techniques are available to identify specific overissuance cases	10
	Computer matching holds promise for increasing identification of erroneous cases	15
	Why more erroneous cases have not been identified	18
	Conclusions	20
	Recommendations to the Secretary of Agriculture	21
	Agency comments and our evaluation	22
3	MORE OVERISSUANCES CAN BE RECOVERED	25
	All identified overissuances have not been established as claims	25
	States have made limited efforts to collect established claims	28
	Additional Federal action is needed to enhance State collection activities	33
	Conclusions	41
	Recommendations to the Congress	42
	Recommendations to the Secretary of Agriculture	42
	Agency comments and our evaluation	43
4	EXTENT AND EFFICIENCY OF STATE FRAUD PURSUIT MUST BE STRENGTHENED	46
	No reliable estimates of program fraud exist	46
	More emphasis needed on investigating and adjudicating suspected recipient fraud	48
	States cite problems in prosecuting food stamp fraud	51

		<u>Page</u>
CHAPTER		
	The Service must improve its management and oversight of State fraud adjudication efforts	54
4	Legislative initiatives should help	55
	Conclusions	57
	Recommendations to the Secretary of Agriculture	58
	Agency comments and our evaluation	59
APPENDIX		
I	Letter dated November 19, 1982, from the Assistant Secretary for Food and Consumer Services, Department of Agriculture, and our evaluation	62

ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
ATP	authorization-to-participate
GAO	General Accounting Office
OIG	Office of the Inspector General
SSA	Social Security Administration
SSI	Supplemental Security Income
USDA	U.S. Department of Agriculture

CHAPTER 1

INTRODUCTION

Under the Food Stamp Program, administered nationally by the U.S. Department of Agriculture's (USDA's) Food and Nutrition Service, about \$2 billion in food stamp benefits was distributed during fiscal years 1980 and 1981 to households not entitled to them. State agencies administering the program distributed about \$8.7 billion in benefits in fiscal year 1980 and about \$10.6 billion in fiscal year 1981. According to State quality control reviews, about \$830 million and \$1.1 billion, respectively, of those benefits were issued to households that were either ineligible for the program or entitled to less than they received. About 1 percent of these overissuances was recovered. At the same time eligible participants did not receive about \$204 million and \$264 million, respectively, of benefits to which they were entitled. Although some benefits were being issued retroactively to households that received too little, adequate information to quantify the extent of this practice was not available.

In 1977 we reported that States recovered only about 1 percent of overissued benefits and that much more could be done to identify and recover the value of overissuances. 1/ This report discusses the results of our further look at erroneous issuances of benefits, the efforts that have been and could be made to identify them, the disposition of identified cases of overissuances through a claims and collection process, and the disposition of cases involving potential fraud. The report includes recommendations directed at increasing (1) the number of erroneous cases that can be identified and equitably adjusted, (2) the amount of overissuances collected, and (3) the amount of potential fraud pursued.

THE PROGRAM'S EVOLUTION AND ADMINISTRATION

In May 1961 the Federal Government began a small, experimental antihunger program in eight U.S. counties. Public concern had been aroused by reports of severe malnutrition in those counties and other parts of the United States. That pilot program, which served 150,000 low-income people and cost American taxpayers \$13 million the first year, was the beginning of today's Food Stamp Program, which operates in the 50 States, the District of Columbia, Guam, Puerto Rico, 2/ and the U.S. Virgin Islands. In fiscal year 1981--some 20 years after that small pilot program began--it cost the Federal Government about \$11.3 billion (including administrative and other operating costs) to help a monthly

1/"The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished" (CED-77-112, July 18, 1977).

2/On July 1, 1982, Puerto Rico started operations under a block grant approach.

average of over 22 million people buy food. Current estimates indicate that the program cost about \$11.1 billion in fiscal year 1982. The Federal Government bears the cost of all benefits and shares administrative costs with the States.

The Food Stamp Program was originally authorized by the Food Stamp Act of 1964. In 1977 the Congress rewrote the program's legislation and enacted the Food Stamp Act of 1977. Since then various amendments have been enacted to improve the program and strengthen its integrity--the most recent being the Omnibus Budget Reconciliation Acts of 1981 and 1982 and the Agriculture and Food Act of 1981.

The Secretary of Agriculture has established uniform national standards of eligibility for a household's participation in the program. Households that apply and meet all specific requirements are certified as eligible to participate and are entitled to a specific level of benefits--generally in the form of food coupons (stamps), which are accepted by authorized food stores in exchange for food. These stamps are ultimately redeemed by Federal Reserve Banks for cash.

The Food and Nutrition Service is responsible for administering and supervising the program and for developing program policies, regulations, plans, procedures, and requirements and for approving State operation plans. The Service's seven regional offices provide program administration direction to the State agencies within their respective geographic areas of responsibility.

State agencies, through their local offices, are responsible, under Service-approved State operation plans, for certifying households as eligible to participate in the program and issuing coupons to those households. States are required to establish claims for all identified overissuances and initiate collection procedures for those meeting a minimum collection criteria. Additionally, regulations encourage States to pursue potential fraud either administratively or judicially. 1/

1/For the purposes of this report, the definition of fraud will be that used in current Service regulations 7 CFR 273.16(b) (1982): "For purposes of determining at an administrative fraud hearing whether or not fraud was committed, fraud shall consist of any action by an individual to knowingly, willfully and with deceitful intent: (1) Make a false statement to the State agency, either orally or in writing, to obtain benefits to which the household is not entitled; (2) Conceal information to obtain benefits to which the household is not entitled; (3) Alter ATP's [authorizations-to-participate] to obtain benefits to which the household is not entitled; (4) Use coupons to buy expensive or conspicuous nonfood items such as alcohol or cartons of cigarettes; (5) Use or possess improperly obtained coupons or ATP's; or (6) Trade or sell coupons or ATP's."

State agencies may either administer the program directly through State welfare agencies or supervise its administration by county or city welfare agencies. Both the Service and the State agencies have program monitoring responsibilities.

As part of its monitoring responsibility, each State is required to establish a quality control review of a statistically selected sample of food stamp cases. These reviews are made continuously by each State's quality control review branch to assess whether only those who are eligible participate and whether they receive the proper amount of benefits. Reviews are conducted of

- active cases to determine if households are eligible and have received the correct coupon allotment and
- cases involving a denial or termination of benefits to determine the validity of that decision.

Review results are accumulated at 6-month intervals and reported to the Service.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review objectives were to

- determine the extent and adequacy of procedures used to identify erroneous food stamp benefit issuances,
- assess the adequacy of procedures for establishing claims and making collections of overissued food stamp benefits, and
- determine the use made of the administrative fraud hearing process as a method of adjudicating fraud.

Our work was done at Service headquarters in the Washington, D.C., area; at three of its seven regional offices; and in two States in each of the three regions. Our criteria for State selection included program size, differing management structure (State supervised versus State operated), geographic dispersion, and potential for varied program activity management. States covered by the three regional offices--Mid-Atlantic in Robbinsville, New Jersey; Southwest in Dallas, Texas; and Western in San Francisco, California--accounted for 51 percent of the food stamp benefits issued nationwide in fiscal year 1981. The six States we visited--California, Louisiana, New York, Pennsylvania, Texas, and Washington--accounted for 55 percent of benefit outlays in the three regions and 28 percent of nationwide benefit outlays in fiscal year 1981.

In the Mid-Atlantic, Southwest, and Western Regions, we selected New York, 1/ Texas, and California, respectively, for indepth work because they were the three largest States 2/ in terms of fiscal outlay. New York and California food stamp operations are State supervised; Texas has a State-operated program. We did our work in New York at State offices in Albany and New York City and at local program offices in New York City. In Texas we did work at State offices in Austin and Dallas, and in California we did work at the State office in Sacramento and the county office in Los Angeles. New York City and Los Angeles County are the largest locally managed individual programs in New York and California.

We reviewed applicable Federal laws, regulations, and implementing instructions relating to the identification of erroneous issuances, claims establishment and collection, and the administrative fraud hearing process. We reviewed records and interviewed program personnel at the State and local levels and reviewed rules, regulations, and implementing criteria for compliance with Federal laws and regulations. In addition, we reviewed recently enacted and pending laws and regulations and discussed their actual or potential program impact with Service and State officials to determine whether they will be, or could be, effective in increasing the number of overissuances identified, collected, and pursued for fraud.

We also reviewed records and interviewed program personnel in Harrisburg, Pennsylvania; Baton Rouge, Louisiana; and Olympia, Washington. These States had the second largest programs in the Mid-Atlantic, Southwest, and Western Regions, respectively.

We reviewed reports on various Federal and State management evaluations and other special reviews, studies, and audits, including USDA's Office of the Inspector General (OIG) audits, to determine if they had found deficiencies in identifying and collecting overissuances and pursuing fraud. We discussed the results of these studies and reports with Service headquarters officials.

We obtained the views of Federal, State, and local government program officials on problems associated with identifying erroneous issuances, the claims process, and the administrative fraud hearing process. We also discussed with them alternative methods and techniques to identify and collect more overissuances. At the Federal level we also discussed current and proposed plans to assist States to identify and collect more overissuances and more aggressively pursue and adjudicate fraud. Most statistics

1/During our review (Oct. 1, 1981) oversight responsibility for New York was transferred from the Service's Mid-Atlantic Region to its New England Region.

2/Puerto Rico, also in the Mid-Atlantic Region, had the largest program but was not selected because of its impending change to a block grant cash program which became effective July 1, 1982.

in this report are for fiscal years 1980 and 1981 because that was the most current data available at the time of our review. To the extent practical, we have added fiscal year 1982 statistics.

To estimate the extent of nationwide, regional, and State overissuances, we used State-executed, Service-validated quality control review results and projected them over the universe of benefits issued in fiscal years 1980 and 1981. Comprehensive statistics on the extent of identified overissuances were not maintained. We used Service-accumulated data on claims established to estimate the amount of overissuances actually identified. Overall data was not available on the extent of potential fraud, but we tried to get some indications of this from State-generated statistics, our past reviews, OIG audits, and other reports.

We determined the causes of erroneous food stamp benefit issuances based on other ongoing work. We analyzed the results of quality control reviews in eight States (Arkansas, California, Maryland, Michigan, Mississippi, Nevada, Ohio, and Texas). These States had about 26 percent of the total Food Stamp Program caseload and distributed about 25 percent of the program benefits issued in fiscal year 1980. In preparation for our March 1982 testimonies on the Food Stamp Program, 1/ we categorized the causes of errors, selected specific cases from the various error categories to discuss with State and county officials in the eight States, and determined the dollar impact of the error for each element in the eligibility and benefit determination process.

We coordinated our work with the Office of Technology Assessment, the Congressional Budget Office, and the Congressional Research Service. We made our review in accordance with generally accepted government auditing standards.

In addition, we met with Service officials several times between September 1981 and October 1982 to discuss our findings and the need for increased Service attention to the matters discussed in this report. Although our selection of States and regions for review was not designed to be statistically representative of all the States and regions that operate the Food Stamp Program, we believe that the results of our work demonstrate serious programmatic conditions requiring prompt attention. We recognize that many provisions of recently enacted legislation directed at improving the identification and collection of overissuances and fraud pursuit were not operational during the 2-year period covered by our review and that their implementation may substantially improve program operations. However, even if these provisions operate as intended, additional opportunities remain for legislative and management initiatives to reduce Federal losses.

1/Testimony before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture, on Mar. 24, 1982, and the Senate Committee on Agriculture, Nutrition, and Forestry on Mar. 29, 1982.

BUDGETARY IMPACT OF OUR RECOMMENDATIONS

For fiscal year 1981 estimated program overissuances were \$1.1 billion with only about \$10 million recovered. Implementing the recommendations contained in this report should substantially improve States' identification and collection of overissuances and the pursuit of fraud.

Through routine program operations or special initiatives, States can identify specific cases involving over- or underissuances. Because program statistics show that overissuances exceed underissuances by four to one, the net effect of identifying and subsequently correcting benefit levels for erroneous cases should result in substantial cost avoidance. For those cases involving overissuances, claims are to be established and collection activity taken consistent with program regulations.

Although we believe that the potential savings through cost avoidance and increased collections are large, no adequate basis exists for estimating how effectively the Service and the individual States will carry out our recommended improvements. Their success in achieving savings also depends on congressional action to facilitate or require more aggressive collection procedures. Finally, it would be very difficult to isolate the effect of efforts to implement our recommendations from the impact of recently implemented or recently passed provisions of the Omnibus Budget Reconciliation Acts of 1981 and 1982.

Costs avoided could result in reductions in spending for the Department of Agriculture, Food and Nutrition Service, Food Stamp Program appropriation account (05-84) 12-3505 in the Food and Nutrition Assistance (605) budget subfunction. Recoveries would be deposited in the receipt account for miscellaneous recoveries and refunds (05-84) 12-3099 under the 605 budget function.

Legislative and administrative actions are needed to implement our recommendations. The House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry need to take legislative action to amend the Food Stamp Act of 1977, as amended. The Subcommittee on Agriculture and Related Agencies, House Appropriations Committee, and the Subcommittee on Agriculture, Rural Development, and Related Agencies, Senate Appropriations Committee, need to monitor program spending and budgetary savings when reviewing appropriations requests. The Secretary of Agriculture needs to take aggressive administrative action to implement our recommendations.

CHAPTER 2

MORE SHOULD BE DONE TO IDENTIFY SPECIFIC CASES OF INCORRECT ISSUANCES OF FOOD STAMP BENEFITS

In fiscal years 1980 and 1981, the Federal Government lost about \$2 billion because States (1) issued food stamps to ineligible households and (2) overissued food stamps to eligible households. During this period, eligible households were not issued an estimated \$500 million in benefits. Some of the overissuances were recovered and some of the underpaid recipients received retroactive benefits. However, the net drain on program resources was about \$1.5 billion. In a time of budgetary restraint and high unemployment which can lead to more applications for food assistance, the amount lost is equivalent to providing food assistance benefits to about 1.7 million needy people for 2 years. Despite Service emphasis on error prevention and Service-mandated program operations that are intended to detect erroneous issuances, program growth and continued high error rates have resulted in increasing benefit overissuances and underissuances. Moreover, the Service has not aggressively encouraged States to identify ineligible households and those receiving incorrect amounts of assistance. Also, neither the Service nor the States we visited had good information on how much of the incorrect issuances had been identified with specific cases so benefit levels could be adjusted and underissuances restored or collection of overissuances initiated. Indications are that the amount identified is relatively small.

Using routine program operations, States identified some cases that had issuance errors, but additional techniques that could have helped to identify more cases were not routinely used. More aggressive and effective Federal and State efforts are needed to identify and correct issuance errors--to stop future losses, recover overissuances, and provide deserving recipients with the proper benefit amounts. Legislation enacted in recent years requires States, and gives them additional financial incentives, to more aggressively identify incorrect issuances, adjust benefit levels, and collect overissuances. However, the Service needs to provide more effective oversight, guidance, and technical assistance to States.

ANNUAL DOLLAR LOSSES HAVE BEEN SUBSTANTIAL

Although Federal losses in the Food Stamp Program can occur in a number of ways, most occur from problems in the certification process through which a household's eligibility and benefit level are determined. These losses are measured on a national level by the results of the States' quality control reviews.

For these reviews each State selects a statistical sample of households that were granted or denied program participation. The case files for these households are reviewed by an independent

State unit, and the accuracy of both the eligibility determination and the amount of benefits actually issued is checked through a detailed verification process. The results of these State reviews provide a statistical basis for projecting the percentage of dollars that were overissued and underissued in the Food Stamp Program eligibility and benefit determination process. The following table shows the national projected results of quality control reviews for fiscal years 1980 and 1981.

Projected Errors in Food Stamp Benefit Payments (note a)

	<u>Total benefits</u>	<u>Overissuances</u>	<u>Underissuances</u>
Fiscal year 1980:			
Dollars (note b)	\$8,691,015	\$826,516	\$204,239
Percent	100	9.5	2.4
Fiscal year 1981:			
Dollars (note b)	\$10,629,914	\$1,078,316	\$264,021
Percent	100	10.1	2.5
Total:			
Dollars (note b)	\$19,320,929	\$1,904,832	\$468,260
Percent	100	9.9	2.4

a/We made the projections using Service data.

b/000's omitted.

Certification errors are not the only causes of losses. We have estimated that the Service loses at least \$12 million a year through duplicate issuances of authorization cards, which can be exchanged for food coupons, and about \$20 million a year through reported losses and theft of food coupons mailed to participating households. ^{1/} Additional losses occur because of multiple participation in the program; that is, persons participating as part of more than one household in the same or other food stamp office. Although the Service has not estimated the total loss resulting from multiple participation, the results of recent computer matches in New York City and Washington, D.C., indicate it is quite extensive.

Further program losses occur through such things as third-party fraud and employee fraud and theft. According to USDA's OIG, about \$800,000 of claims for such losses were established during the first 9 months of fiscal year 1982.

^{1/}"Millions Could Be Saved by Improving Integrity of the Food Stamp Program's Authorization-To-Participate System" (CED-82-34, Jan. 29, 1982) and letter to Representative E. Thomas Coleman (B-207127, CED2-242, July 16, 1982).

Reasons for overissuances
of food stamp benefits

Most overissuances of food stamp benefits occur because of errors in reporting or determining income--earned and unearned. In a separate study completed earlier and used as a major source of information for our March 1982 congressional testimonies on the Food Stamp Program (see footnote, p. 5), we reviewed the causes of eligibility and benefit errors in eight States for the 6-month quality control period October 1, 1980, through March 31, 1981. We compiled the following table from State quality control data. It shows the percent of incorrect payments caused by errors in major categories of eligibility determination and benefit level criteria and the results of determinations by State quality control workers as to whether the errors were participant or agency caused.

Incorrect Issuances as a Percentage of Total Issuances

<u>Category</u>	<u>Participant caused</u>	<u>Agency caused</u>
Earned income (wages)	28	8
Unearned income (other income supplement pro- grams, interest, and dividends)	13	9
Household size	12	4
Resources	8	1
Other	<u>9</u>	<u>8</u>
Total	<u>70</u>	<u>30</u>

Errors can occur when the head of a household initially applies for program benefits, when a recipient household's case is reexamined to verify its eligibility for continued assistance, or at some interim time when a change in household circumstances or program provisions affects benefit levels but is not reported or acted on. Recipient errors primarily involve failure to accurately, completely, or promptly report financial circumstances; for example, intentionally or unintentionally claiming that some or all household members are unemployed when they are, in fact, wage earners. The problem of misreporting is exacerbated because the food stamp agency often does not have an easy, reliable way to verify the accuracy of reported information. State officials said that these kinds of errors occur because of either willful misrepresentation or a misunderstanding by the participant of what should be reported.

Agency errors occur primarily because agency workers do not follow through on information provided by participants or other sources. For example, the same State or local agency generally administers both the Food Stamp and Aid to Families with Dependent Children (AFDC) programs, and in many offices the same worker

handles both cases. Therefore, when a participant reports an increase in income to such a caseworker during AFDC recertification, the participant is considered to have satisfied the obligation to report the income change for the Food Stamp Program. However, the caseworker sometimes adjusts the AFDC case but fails to adjust the food stamp case. State officials said this can happen because of heavy workloads or a tendency among workers to place a lower priority on food stamp cases than on AFDC cases. Some agency errors also occur because of incorrect interpretations of regulations and clerical errors.

TECHNIQUES ARE AVAILABLE TO IDENTIFY SPECIFIC OVERISSUANCE CASES

States are required to identify duplicate issuances of authorization cards. They also identify some erroneous issuances as a by-product of other routine program procedures. These include periodic recertification reviews and ongoing quality control reviews. Periodic reviews by the Service and State agencies and audits by USDA's OIG have also identified some specific cases of erroneous issuances. In addition, numerous States have voluntarily used computer matching on a periodic or ad hoc basis to identify potential erroneous issuances in the Food Stamp Program, and some States have used error-prone profiles in other income maintenance programs to identify potential erroneous payments.

However, neither the Service nor the States have given much attention to identifying specific cases because the Service has emphasized error prevention rather than detection. Also, neither could tell us how many specific cases of overissuances and underissuances had been identified Service-wide or statewide because such statistics had not been maintained. They suggested that the number and amount of the claims that had been established and reported on the monthly claims report represented the extent to which overissuances were identified because States are required to establish claims on all identified overissuances. Establishing claims involves completing the necessary administrative paperwork to trigger collection action. About \$108 million worth of such claims, representing about 6 percent of the amount of overissuances projected on the basis of quality control data, was established nationwide in fiscal years 1980 and 1981. As discussed in chapter 3, however, we believe this estimate is low because we determined that claims have not been established for all identified overissuances.

All six States we visited were periodically recertifying recipient households and making quality control reviews, authorization card reconciliations, and some special reviews. All six States also were doing some computer matching--mostly wage matching. Some of the States could provide information on the results of some individual techniques. However, none could give us an overall picture of how many erroneous issuances had been or were being identified each year by each of the various routine procedures or special techniques available. All they could say was

that probably only a small percentage of all overissuances are actually identified. A discussion of these procedures and techniques follows.

Recertification reviews

The Service requires periodic recertification reviews to determine whether participating households are still eligible for the program and, if so, the amount of benefits to which they are entitled. Eligibility workers usually do this by interviewing recipients and rechecking the various eligibility elements, such as income and household size. Although recertification's primary purpose is to establish continued program eligibility and benefit amounts, the process also enables errors in past eligibility or benefit level determinations to be detected--usually in three ways.

1. Information becomes available that was not available at the time of the previous certification. For example, wage data required to be reported by employers to the State--which is usually 3 to 6 months old--may show that members of a participating household that had reported no income at the time of its previous certification actually had been working at the time.
2. A household may not have reported a change in circumstances that occurred since its last certification. It will either be reported at the time of recertification or it will be discovered through the eligibility worker's verification efforts.
3. Clerical errors are discovered.

Officials in several States we visited said they believed that more overissuances are identified during recertification reviews than by any other method. However, because they did not keep records on this, they could not say how many were actually identified.

Quality control reviews

Each State is required to review a statistically selected sample of cases every 6 months to determine the type and extent of program errors. Specific cases of erroneous issuances are identified during these reviews; however, because the number of cases reviewed in each State every 6 months is relatively small (about 54,000 cases nationwide out of almost 8 million cases), only a small number of specific cases with errors are identified. For example, in fiscal year 1980 specific cases of overissuances identified in the quality control samples totaled \$852,000 out of the projected total overissuances of \$827 million.

Authorization card reconciliation

Each State is required to reconcile redeemed authorization cards with a master file of participating households to

identify duplicate or otherwise improper transactions. This reconciliation should identify all households that received and redeemed an altered card or more than one card in a given month. The six States we visited were identifying overissuances caused by duplicate issuance of authorization cards. However, our January 1982 report (see p. 8) on duplicate authorization cards and several OIG audits have disclosed that some States had not identified all overissuances that resulted from duplicate authorization card transactions.

Audits and special reviews

Program reviews by the Service and the States, including management evaluations and special casefile reviews, and audits by USDA's OIG have also identified some specific cases of erroneous issuances. Statistical information was not available on the amount of overissuances identified as a result of special reviews. OIG audit reports issued during fiscal year 1981 and the first 9 months of fiscal year 1982 for selected locations identified \$16 million of overissuances. Included in this total are both projected and specifically identified overissuance cases.

Computer matching

Computer matching involves comparing a computerized base of data elements on program participants with one or more computerized data bases available from other sources to identify participants for whom different information is shown for common data elements (such as wages or household size and composition). For example, using program participants' names, social security numbers, and/or other identifiers, earnings information reported by participants can be matched with State wage records to see if the participants reported correct information to program caseworkers. Any discrepancies identified ("hits") must then be further checked to establish whether erroneous issuances of program benefits actually occurred.

Computer matching is particularly useful because it enables a State or local jurisdiction to identify large numbers of potentially erroneous issuances at a relatively low cost. However, staff resources are required to verify whether the hits obtained through matching represent actual erroneous issuances. Computer matching also requires that computer systems and program records be compatible so that the necessary computer matching program can be run.

Although at the time of our review the Service did not require computer matching, four of the six States we visited-- Texas, Louisiana, Pennsylvania, and New York--had computer matched various data bases to identify questionable food stamp cases. All four States had matched employer-reported wage data with participant-reported income data to detect unreported earned income. New York City in particular had started regularly matching its food stamp cases with various wage and other income data bases. Texas and Louisiana had also matched food stamp participant

information with Social Security Administration (SSA) benefit data. In addition, Texas had carried out special matches such as matching its food stamp recipient files with New Mexico's to ~~detect multiple participation.~~ Officials in Texas and Louisiana said they believe that matching techniques are cost effective in identifying erroneous cases but did not have hard data to support their belief.

The other two States--California (some counties only) and Washington--had identified some questionable food stamp cases using computer matching but such identification had been either coincidental or the result of a special one-time effort or project. For example, Los Angeles County, California, and Washington State both were using computer matching in their AFDC programs. Program officials told us that although the results were used primarily for AFDC purposes, they also were used in the Food Stamp Program. Neither California nor Washington, however, had established procedures for specifically identifying questionable food stamp cases through systematic computer matching.

Transfer of information between AFDC and food stamp caseworkers

If a household has been declared ineligible or has been identified as having received an overpayment in the AFDC program, a food stamp overissuance also is likely. When a household receives both AFDC and food stamp benefits, the same caseworker generally handles both cases and should look for an overissuance in the food stamp case if an overpayment was discovered in the AFDC case. However, some States or counties have different workers handle each case, and the AFDC caseworker would need to report any overpayment information to the food stamp caseworker for appropriate adjustment of food stamp benefits. Statistical information was not available on the amount of food stamp overissuances identified as a result of AFDC actions.

Error-prone profiles

Error-prone profiles are analytical tools that can provide management with a more systematic approach for identifying potential overissuances and targeting resources for correcting such cases. By using statistical analysis, particular combinations of case characteristics can be developed to channel administrative efforts and resources to cases most likely to contain an error. Case characteristics for use in developing an error-prone profile can be taken from available program quality control data, computerized case master files, and input of experienced caseworkers. Such profiles can then be used to

- earmark certain cases for expanded review/verification during or after initial application and
- screen active cases to identify for special recertification review those which are more error prone.

Of the States we visited, New York and Pennsylvania had projects to identify those eligibility factors which are error prone so that increased verification could be made to prevent overissuances, and Texas was conducting a pilot test of error-prone profiles. The other three States were not using error-prone profiles to help identify food stamp overissuances, although they were considering their use.

Other programs have used error-prone profiles to reduce their error rates. Particularly notable is the Supplemental Security Income (SSI) program which has used such profiles since 1979 to identify certain cases for more thorough recertification reviews. SSI program officials in New York said that the profiling system and other program changes have contributed to reducing the program's payment error rate.

The Service plans to use
error-prone profiles

The Service has begun to plan for the use of error-prone profiles permitted by its January 13, 1981, final regulations. Service officials told us that when the Service's automated quality control system 1/ is in place nationwide, they plan to develop and use a nationwide error-prone profile to determine if and how food stamp legislation, regulations, or policy need to be changed to increase program integrity and facilitate program administration. The Service also plans to include in its automated system several statistical computer software packages that individual States could use to develop error-prone profiles from quality control data.

During fiscal year 1982 the Service funded demonstration projects in three States--Texas, New Mexico, and North Carolina--that were to use error-prone profiling to assist in developing methods to make certifications and recertifications more effective in preventing errors by directing limited resources to areas needing more attention.

--The Texas project was to try to identify the least error-prone cases so that their certification periods could be extended.

--New Mexico was working with an error-prone profile to develop effective techniques for verifying cases and reported household data more likely to be in error.

1/Currently, States report quality control sample review results to the Service and the Service compiles summary statistics. The automated system, using remote terminals, will allow States to feed this same information into a centralized computer system.

--The North Carolina project was to use an error-prone profile to identify cases for which greater verification would be done by a special unit.

In addition, the Service has recently proposed regulations to rescind the requirement for Service approval of State-developed error-prone profiles. Service officials believe this should encourage States to develop and use profiling as a management technique.

COMPUTER MATCHING HOLDS PROMISE FOR
INCREASING IDENTIFICATION OF ERRONEOUS CASES

The Federal Government is emphasizing computer matching to help identify and recover overpayments. In March 1981 the President established the Council on Integrity and Efficiency. One of the council's projects is to facilitate and improve the use of computer matching. According to the project's director,

"Potential cash recovery alone indicates that computer matches are cost effective. This is without including future cost avoidance, correcting payment errors, removing ineligible claimants from benefit rolls or deterring fraud * * *."

The director pointed out, however, that computer matching has not yet been used as a regular feature of program management and operation except in the AFDC program.

Use of wage matching is now being
emphasized in the Food Stamp Program

The Agriculture and Food Act of 1981, enacted December 22, 1981, requires States to match wage and benefit payment data maintained by either the State employment agencies or SSA with the income reported by participating households to Food Stamp Program caseworkers. Final regulations were issued on November 5, 1982, with the provisions to be effective January 1, 1983.

USDA's OIG has strongly supported computer matching. In October 1981 congressional testimony, the Inspector General urged that wage matching be made mandatory in the Food Stamp Program and cited the results of an OIG audit using computer-assisted wage matching in Memphis and Nashville, Tennessee. According to the Inspector General, computer matching would "purge the food stamp rolls of ineligible participants and significantly reduce overissuances to eligible households."

Service officials responsible for program development and research and analysis activities told us they believe that once wage matching is undertaken programwide, much of the overissuances projected on the basis of quality control review results will be identified because the single largest category of error detected by quality control is unreported earned income. USDA officials

also believed that computer matching would determine inaccurate reporting of information. In response to our January 1982 report, 1/ the Assistant Secretary for Food and Consumer Services said that "general public knowledge of the availability and utilization of these tools may reduce the occurrence of incorrect or fraudulent reporting."

Service officials from the State Operations Division and the Program Development Division told us that they had several projects underway to get information on States' use of computer matching.

- The Service contracted with Stanford Research Institute to look at wage matching techniques in nine States. The work will include determining the methodologies, financing, and cost effectiveness of the States' matches.
- A Service task force began work in April 1982 to identify computer techniques that can be used for verification purposes.
- The Service has completed a survey of States to determine how extensively wage matching is used in the Food Stamp Program. The survey results, showing that 40 States use some wage matching, have been distributed to the Service's regional offices for dissemination to the States.

These officials told us that the Service intended to compile the information obtained from these projects and disseminate it to the States to facilitate implementation of mandatory wage matching.

Although information on the results of statewide food stamp wage matching was not available at the six States we visited, New York City and Los Angeles County had some information on the results of food stamp and AFDC wage matching they had done. This information provides an indication of the potential impact that wage matching can have in eliminating incorrect food stamp benefit issuances and collecting overpayments.

- From July 1980 to June 1981, wage matches of AFDC cases in New York City identified over 11,000 cases of overpaid AFDC benefits. In over 4,000 of these cases, benefits were terminated and the cases were closed. A city official said that this information was also used to terminate or redetermine benefits for many food stamp cases.
- In July and August 1981, New York City identified over 3,700 food stamp overissuances as a result of wage matching. More than 3,000 of these cases were closed.

1/"Legislative and Administrative Changes To Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions" (HRD-82-9, Jan. 14, 1982).

--Los Angeles County regularly matches AFDC cases with wage records and had identified about 5,000 AFDC cases with potential erroneous payments totaling about \$500,000 quarterly. Eligibility workers also check for potential food stamp overissuances when checking for AFDC overpayments.

Other types of matching can be done

Our analysis of quality control results from the eight States we reviewed in connection with our March 1982 testimonies (see p. 5) showed that almost 30 percent of overissuances were due to participants' failure to report all household earned income. However, the analysis revealed that large amounts of losses also were caused by other factors which wage matching will not identify. These include multiple participation in the program, incorrectly reported household size, unreported unearned income, and unreported resources. Federal agencies and States use or plan to use the different types of matches shown below to detect ineligible participants or benefit overpayments in the Food Stamp and other programs caused by items other than inaccurately reported earned income.

Multiple participation can be detected by matching names, addresses, social security numbers, and other identifiers of household members with those of other households in the same location or by matching casefiles from one State or local food stamp office with those from adjacent or other States or offices.

Incorrect household size can be detected by matching food stamp files with Federal medical assistance files, State death records, city or county school enrollment records, State motor vehicle drivers' license records, and State and local prison records.

Unreported earned income can be detected by matching food stamp files with data files for other income transfer or benefit programs, such as the AFDC, SSI, or unemployment compensation programs.

Unreported resources can be detected by matching food stamp files with real estate tax rolls, State motor vehicle data files, and interest and dividend information from State or Federal tax returns. Access to Federal tax information would require an amendment to the Internal Revenue Code such as we recommended in our January 1982 report. (See footnote, p. 16.) Likewise, access to State income tax information may require changes to State laws.

Recent legislation requires systems to identify multiple participation

The Omnibus Budget Reconciliation Act of 1982, approved September 8, 1982, requires each State food stamp agency to establish

a control system and take periodic action to verify that no individual is receiving food stamps in more than one jurisdiction in the State. According to the conference report (H. Rept. 97-759), the conferees expected prompt implementation but recognized that all States may not currently have the computer capability to immediately initiate a comprehensive statewide system. They contemplated, however, that each State would proceed to develop one. They also indicated that in the interim, all States were expected to implement systems commensurate with their current capabilities.

WHY MORE ERRONEOUS CASES HAVE NOT BEEN IDENTIFIED

Service officials have been working to improve program integrity through a number of avenues designed to reduce errors in the certification process and lessen the incidence of duplicate issuances of authorization cards. However, thus far, the Service has not established a clear policy emphasizing the need to identify specific overissuance cases. Service headquarters officials did not believe any need existed to specifically require identification of overissuance cases for subsequent claims collection and fraud pursuit efforts. However, officials in the States we visited told us that they had not tried to identify more overissuance cases because there have been no legal requirements and few financial incentives to do so. In addition, Service officials told us that except for wage matching efforts, they had placed little or no emphasis on identifying cases in error. Even though financial incentives included in recently implemented legislation should encourage more identification of these cases, we believe that requiring States' attention to such management responsibilities is very appropriate.

Recently implemented legislative incentives

In our 1977 report on program overissuances (see p. 1), we concluded that a lack of financial incentives was a basic underlying cause of the States' poor performance in identifying overissuances. We reported that it costs the States money to identify overissuances and that they could not retain any of the money recovered. During this review, some Service and State officials indicated that the lack of financial incentives continued to be an inhibiting factor in States' efforts to identify more erroneous cases. Legislation enacted or implemented in recent years, however, could encourage more State efforts.

Retention of collections

The Omnibus Budget Reconciliation Act of 1981, enacted August 13, 1981, authorizes States to retain 25 percent of the recipient-caused overissuances they recover. Although this provision's primary intent is to encourage States to collect overissuances (and States said it would do that), it should also encourage States to identify more overissuances so that collection action can be started. The Department implemented this provision on June 1, 1982, retroactive to January 1, 1982.

Increased cost sharing for computer systems

To encourage computer matching, a provision of the 1980 food stamp amendments, enacted May 26, 1980, increased to 75 percent the Federal share of costs incurred by State agencies in developing, installing, or upgrading computerized systems. Although many States already have computerized systems, this provision should benefit States and local agencies without such systems or with inadequate systems. Final implementing regulations were issued June 11, 1982.

Other incentives

The 1980 food stamp amendments, effective January 23, 1981, provided for increased Federal sharing of program administrative costs (above the regular 50-percent rate) for States maintaining or reducing their error rates by a specified percentage. At the same time the Congress provided for a sanctioning system, enabling the Service to hold States liable for the cost of all errors above a specified target. In March 1982 we testified (see footnote, p. 5) that (1) higher rates of administrative cost reimbursement authorized by law as an incentive for reducing error rates had had little effect on food stamp errors or overissuances nationally, (2) currently authorized sanctions provided little hope for quick reduction of error rates, and (3) increasing the States' financial responsibility for program errors would provide a major incentive for better administering the Food Stamp Program.

Legislation passed in September 1982 authorizes the Secretary to reduce a State agency's federally funded share of administrative costs if, based on quality control review results, the State's error rate exceeded 9 percent of its issued benefits for 1983, 7 percent for 1984, and 5 percent for 1985. Program operations and design officials told us that such legislation would provide a major incentive for States to identify and eliminate overissuances before quality control reviews identify them and include them in the computation of a State's error rate.

The Service has not emphasized identification of erroneous cases

A Service headquarters official in the State Operations Division told us that instead of emphasizing the identification of erroneous cases, the Service has concentrated on preventing and correcting causes of errors. States are required to analyze their quality control results, identify the types of errors occurring most frequently, and identify possible causes of those errors. The State then must develop and implement a corrective action plan to eliminate the problems.

Service officials in the three regions we visited said that they also were emphasizing error prevention and not the identification of errors that had already occurred. Western Region

officials responsible for carrying out program operations told us that the Service does not monitor whether the States actually seek to identify individuals who received overissuances. They said they see their role as preventing overissuances rather than identifying them. Regional Service officials said that although they had no supporting evidence, they believe it is more cost effective to help States reduce and prevent errors than to help States identify individuals and subsequently collect the over-issued benefits from them.

Southwest Region operations officials told us that they had not made any concerted effort to help States improve overissuance identification. However, they said some assistance on overissuance identification had been given to States in the region but only when requested. We noted no recent requests from any of the States for such assistance. Performance reporting officials for the Mid-Atlantic Region said that although most States in the region were voluntarily conducting wage matches, the Service had provided little technical assistance or support for such activities.

CONCLUSIONS

About \$2 billion was lost during fiscal years 1980 and 1981 because Food Stamp Program benefits were overissued. The Service and the States can take steps to drastically cut these losses, but specific cases in error need to be identified before this process can begin. During the period we reviewed, only a small fraction of erroneous benefit issuance cases were specifically identified.

We recognize that error prevention should logically be a priority goal of the Service, but as long as errors persist and assuring the accuracy of household-supplied data for determining eligibility continues to be difficult, identifying specific overissuance cases has potential for large savings. Identifying specific erroneous issuance cases results in savings and other benefits because it (1) stops overpayments from continuing and enables the State agency to either remove an ineligible household from the program or adjust the benefits on an overissued or underissued case, (2) triggers the process of establishing claims and initiating collection action, and (3) identifies potential recipient fraud for future investigations. It also allows identifying households that received less than they should have, thus enabling States to carry out regulations that require restoration of certain underissuances. Thus, although the primary thrust should continue to be directed to avoiding errors at the outset--during initial certification and recertification--more attention and effort is needed on identifying erroneous issuance cases that slip through the certification process--especially given the program's high error rate.

A number of procedures are available for States to use in identifying erroneous issuance cases. Although some States and jurisdictions had been doing more than others in this regard,

there generally had been a low level of interest in identifying erroneous issuance cases until the recent enactment of legislative provisions for wage matching and detection of multiple participation.

Although it is not possible or practical to identify all erroneous issuance cases, much more can be done than has been done in the past. The Service needs to ensure that increased and effective attention is given to this area, including providing guidance to the States and local agencies in how best to go about identifying overissuances at the least cost. We believe that computer matching of various eligibility factors has the potential for economically identifying more erroneous issuance cases.

Wage matching is now required by law and has been implemented through Federal regulations. However, other routine program procedures and periodic sweeps through program casefiles with computer matches of other household-reported data elements can identify additional program errors and losses.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary:

- Issue regulations specifically requiring States to identify and correct erroneous issuance cases, either (1) as a by-product of routine program procedures required for other purposes (such as recertifications) and/or (2) through computer matching and other specific identification techniques that can detect multiple program participation and discrepancies in household-reported eligibility/benefit data. These regulations should require that each State, as a minimum, identify erroneous issuances caused by classes of eligibility criteria that quality control results or other available information shows as causing substantial dollar errors in that State. Adequate implementation of this aspect of State operations should be specifically considered by the Service in determining whether administrative sanctions are warranted.
- Explore with the States ways in which error-prone profiles could be used, in conjunction with computer matching and other identification techniques, to pinpoint household circumstances which have high error potential so that States' administrative resources can be directed toward corrective actions that will result in maximum benefits.
- Require the Service to solicit, compile, and distribute to the States information on the availability of different kinds of data files that could and should be used to verify household data items that have a major bearing on program eligibility and benefit levels.

--Require the Service to revise the present claims report received from the States monthly to include information on the number and value of erroneous issuance cases identified through each of the various identification methods that are available. This information should be assessed and distributed to inform States of the effectiveness of the different identification methods being used.

Implementing these and other recommendations in this report, although requiring some expenditures, will result in significant cost savings through reduced overissuances and increased collection of claims. We believe that it is reasonable to assume that achievable savings should offset any increased expenditures and allow these recommendations to be accomplished within the Service's budgetary limitations.

AGENCY COMMENTS AND OUR EVALUATION

USDA agreed (see app. I) that the gap between projected overissuances and claims established and collected should be closed, a process which must begin with identifying specific overissuance cases. It said that the Service had already taken steps toward closing this gap through its primary emphasis on preventing overissuances from occurring, and therefore it did not believe that it was necessary to issue regulations specifically requiring States to identify and correct overissuances. USDA described the Service's current regulatory approach as adequate to identify overissuances and specifically mentioned several existing and soon-to-be-implemented procedures which allow such identification. These include items such as the requirement to establish claims on all identified overissuances, recertification reviews, quality control reviews, wage matching, and monthly reporting.

These procedures for routine or special efforts to verify the accuracy of household-supplied information are valuable tools which can and should be used to identify overissuances as a by-product of certification efforts. Except for wage matching and monthly reporting, these procedures have been in effect for years and have not closed the gap. As long as eligibility determination and benefit level errors continue because of problems in verifying household-reported information, identifying specific overissuance cases has potential for large savings. The approximately \$1 billion overissued during fiscal year 1981 shows that potential.

We believe that requiring identification and correction of overissuance cases is a valid and necessary step for improving collections, reducing errors, and enhancing program integrity. Taken cumulatively, current regulations could be presumed to require diligent State efforts to identify and take actions to collect overissuances. However, information discussed in this report on the extent of efforts being made to establish and collect claims and discussions with some State officials leave serious doubt that States perceive overt efforts to identify specific overissuance cases for collection action as a basic program

responsibility. Only 6 percent of all projected overissuances are identified for collection purposes and, as discussed on page 18, officials in the States we visited told us that they had not tried to identify more overissuance cases because there have been no legal requirements and few financial incentives to do so.

Several legislative and regulatory changes have been made in the last several years to provide financial incentives; however, we believe further Service action is necessary to modify its program regulations to clearly establish State responsibility for identifying specific overissuance cases. We agree that the Service's highest priority should be to prevent errors from occurring, but existing high error rates demonstrate the need for the Service to focus more attention and more specific efforts to identify and correct the large numbers of overissuances that continue to occur.

Also, as an integral part of our recommendation that States be required to identify and correct overissuances, we recommended that as a minimum, States should identify erroneous issuances caused by classes of eligibility criteria which have caused substantial dollar losses in the past. We realize as pointed out by USDA, that States already know which categories of eligibility data cause major dollar errors. We are simply recommending that as part of a requirement to identify and correct overissuance cases, States should, as a minimum, be directed to concentrate their efforts on those error categories that result in the greatest dollar losses. USDA's comments did not address the feasibility of using this information to give sharper focus to States' efforts to identify specific cases with incorrect benefit levels. USDA also did not comment on our recommendation that the Service evaluate States' performance in identifying overissuances as a basis for determining whether administrative sanctions are warranted.

On our recommendation that the Service explore the uses of error-prone profiles in conjunction with other identification techniques to identify overissuances, USDA pointed out that the Service has funded demonstration projects using error-prone profiles to prevent errors and planned to develop national error-prone profiles using its Automated Quality Control System. The report acknowledges the Service's efforts to use profiles to improve the States' initial certification and recertification processes to prevent errors. We believe the Service also needs to consider the potential for error-prone profiles for identifying specific active cases more likely to have overissuances. Error-prone profiling may be one approach to implementing our recommendation that States, as a minimum, be required to identify and correct existing cases in high dollar loss categories.

In response to our recommendation that the Service solicit, compile, and distribute to States information on various data files that could be used for verification purposes, USDA concurred that fostering ongoing communication among the States could be an effective source of technical assistance. It said that the Service

planned to collect and disseminate data on successful techniques for eliminating fraud, waste, and abuse. We support the Service's efforts to collect and disseminate such information and believe that a continuous flow of information between the Service and States could help improve prevention, identification, and collection efforts. The Service also needs to ensure that similar data compiled for verification purposes by other agencies is provided to State food stamp agencies.

USDA agreed with the importance of assessing the effectiveness of States' methods for identifying overissuances and establishing claims. However, it said it did not believe that it would be technically feasible to modify its monthly or quarterly claims report to obtain data on the number and value of erroneous issuance cases identified through each of the various identification methods. We believed that the Service's revision of its claims report form would provide it with an opportunity to concurrently incorporate this data requirement into that form and eliminate the need for additional reporting instruments. However, other methods for collecting this data--which USDA said the Service was examining--could satisfy the thrust of our recommendation.

CHAPTER 3

MORE OVERISSUANCES CAN BE RECOVERED

Relatively few overissued food stamp benefits have been recovered. During fiscal years 1980 and 1981, States recovered about \$20 million, or about 1 percent of the projected \$2 billion overissued for those years. Although States established about \$108 million in claims during this period, many were not collected. ^{1/} In addition, States identified many more overissuances but did not establish claims against households. Differing priorities, lack of staff resources, State-perceived difficulties with Service regulations, and lack of financial incentives contributed to States' failure to establish and collect claims. The \$20 million recovered in fiscal years 1980 and 1981 represents only about 19 cents of each dollar of established claims and only about 1 cent of each dollar of overissuances.

The Omnibus Budget Reconciliation Act of 1981 provided the States with offset authority to facilitate collection of recipient-caused overissuances, as well as financial incentives to pursue claims more aggressively. Although these provisions should result in increased collections of established claims, additional initiatives, such as permitting the collection of agency-caused overissuances through offset, are needed to further enhance States' abilities to recover overissuances. Also, the Service must heighten its emphasis on collections by

- issuing final regulations to implement the August 1981 legislation,
- monitoring States' performance in establishing and collecting claims,
- analyzing existing statistical data and management and independent reports to identify and address weaknesses in claims establishment and collection activities, and
- providing technical assistance and guidance in identifying and using existing or alternative collection techniques.

ALL IDENTIFIED OVERISSUANCES HAVE NOT BEEN ESTABLISHED AS CLAIMS

Millions of dollars of overissuances have not been collected because States have not established claims against all households

^{1/}Preliminary data provided by the Service during November 1982 showed only marginal increases in the dollar amounts of claims established and collected during the first half of fiscal year 1982. The Service estimated that, projected over 2 years, claims established would approach \$126 million and collections would approach \$24 million.

identified as receiving overissued benefits. In accordance with Service criteria, when the State determines that a household received more benefits than it was entitled to, a nonfraud claim must be established. If an overissuance is subsequently adjudged to be due to fraud, a fraud claim is established. Unless claims are established, collection activity cannot be initiated.

In our 1977 report (see p. 1), we said that local food stamp offices had not placed much emphasis on establishing claims. In 1981 we reported 1/ that the District of Columbia had not established claims for certain types of erroneous coupon issuances. Also, USDA's Inspector General has identified not establishing claims as a major problem in the Food Stamp Program.

Service, State, and local program officials acknowledged that not all identified overissuances are established as claims. They cited several reasons, discussed below, why this is not done consistently.

More claims should be established

The \$108 million in claims established against households for overissued benefits during fiscal years 1980 and 1981 was about 6 percent of the projected \$2 billion overissued in this 2-year period. As shown in the table on the following page, the three Service regions we visited established claims totaling about \$68 million, or 7 percent of projected overissuances for those regions, in fiscal years 1980 and 1981.

As discussed in chapter 2, data on specific cases of identified overissuances is not available. As a result, we could not determine the number or value of claims that should have been established based on these identified overissuances. However, our analysis and discussions with Service and State officials showed that States had not established claims for all identified overissuances in accordance with Service regulations. Several State officials told us that the benefits of establishing claims were limited because Service regulations made collection difficult.

Service and OIG reports issued during fiscal years 1980 and 1981 showed that at least five Western Region States--Alaska, Arizona, California, Hawaii, and Washington--had not established claims for all identified overissued benefits. Insufficient staff or worker errors were the reasons cited in some of the reports as to why most of these claims had not been established. In Washington, Service reports showed that claims had not been established in 6 (25 percent) of 24 cases in which fraudulent conduct had been proven. In this case no clear indication existed as to why claims were not established.

1/"Improved Collections Can Reduce Federal and District Government Food Stamp Program Costs" (GGD-81-31, Apr. 3, 1981).

Claims Established in Fiscal Years 1980 and 1981

<u>Region and State</u>	<u>Projected overissuances</u>	<u>Claims established</u>	<u>Percent of projected overissuances established as claims</u>
	----- (millions) -----		
Mid-Atlantic:			
New York	\$196.4	\$13.0	6.6
Pennsylvania	76.1	1.2	1.6
Other States	<u>301.4</u>	<u>25.3</u>	8.4
Total	<u>573.9</u>	<u>39.5</u>	6.9
Western:			
California	70.5	10.4	14.8
Washington	16.7	1.5	9.0
Other States	<u>62.0</u>	<u>3.8</u>	6.1
Total	<u>149.2</u>	<u>15.7</u>	10.5
Southwest:			
Texas	88.5	7.3	8.3
Louisiana	47.9	3.1	6.5
Other States	<u>53.2</u>	<u>2.1</u>	3.9
Total	<u>189.6</u>	<u>12.5</u>	6.6
Total	<u>\$912.7</u>	<u>\$67.7</u>	7.4
Programwide	\$1,910.7	\$108.2	5.7

In California, we reviewed 179 cases that Los Angeles County officials had identified through quality control reviews, authorization card reconciliations, wage matching, and other methods as containing overissuances or underissuances. The judgmental process we used for selecting cases for review does not allow conclusions regarding the overall efficiency of the county's claims establishment and benefit restoration procedures. However, in at least 40 cases (22 percent)--13 of which had been identified through quality control reviews--claims had not been established or benefits restored due to apparent weaknesses in processing food stamp claim determination documents.

The OIG has reported problems with claims establishment practices in three Southwest Region States--Arkansas, Louisiana, and New Mexico. For example, in May 1980 it reported that Louisiana had not established claims for over 1,400 cases involving unreported income. We tested Texas' claims establishment practices and found that claims were not being established for overissuances

when fraud may have occurred. A State official told us that food stamp office workers do not routinely establish claims for cases involving potential fraud until after an investigation is completed.

This practice is not consistent with Federal regulations that require States to establish nonfraud claims for cases involving potential fraud. If fraud is subsequently adjudicated, the claim is to be reclassified as a fraud claim. Although we found no problems in Texas in the establishment of claims for reasons other than potential fraud, a State official told us that all claims may not be established due to staff shortages or food stamp worker attitudes. She said that for an overissuance of less than \$35, the worker may not establish a claim because collection activity does not have to be initiated. She indicated that the worker may, in such cases, give priority to other duties.

Service records for the Mid-Atlantic Region showed that six States--Delaware, Pennsylvania, Puerto Rico, the Virgin Islands, Virginia, and West Virginia--had not ensured that claims were being established. Also, New York City officials told us that they had not established claims for overissued benefits identified through the quality control or recertification processes. In addition, we determined that the city had not established claims for almost 52,000 overissuances identified through various computer matches. However, our review of internal reports and case files indicated that future benefits had been either adjusted or terminated for these cases. Almost 170,000 other overissuances resulting from duplicate authorization cards had been established as claims but, according to city officials, this action had been taken only because of the insistence of USDA's OIG. City officials told us that they did not establish more claims because they placed a higher priority on preventing and closing or rebudgeting overissuance cases.

In Pennsylvania, State reviews during 1981 showed that 12 of 30 food stamp project areas had not established claims for all identified overissuances.

STATES HAVE MADE LIMITED EFFORTS TO COLLECT ESTABLISHED CLAIMS

During fiscal years 1980 and 1981, over \$88 million (82 percent) of the \$108 million in established claims was not recovered. According to Service regulations, State agencies must initiate collection on each nonfraud claim unless the claim is less than \$35 or the household cannot be located.

Service data showed that collection statistics in the regions and States we visited were comparable to programwide data as shown in the table on the following page.

Combined Claims and Collection Statistics
for Fiscal Years 1980 and 1981

<u>Region and State</u>	<u>Claims established</u>	<u>Amount collected</u>	<u>Amount not collected</u>	<u>Percent of claims not collected</u>
	----- (millions) -----			
Mid-Atlantic:				
New York	\$13.0	\$.4	\$12.6	97
Pennsylvania	1.2	.1	1.1	88
Other States	<u>25.3</u>	<u>5.8</u>	<u>19.5</u>	77
Total	<u>39.5</u>	<u>6.3</u>	<u>33.2</u>	84
Western:				
California	10.4	2.2	8.2	79
Washington	1.5	.2	1.3	87
Other States	<u>3.8</u>	<u>.8</u>	<u>3.0</u>	79
Total	<u>15.7</u>	<u>3.2</u>	<u>12.5</u>	79
Southwest:				
Texas	7.3	1.6	5.7	79
Louisiana	3.1	.6	2.5	80
Other States	<u>2.1</u>	<u>.3</u>	<u>1.8</u>	83
Total	<u>12.5</u>	<u>2.5</u>	<u>10.0</u>	80
Total	<u>\$67.7</u>	<u>\$12.0</u>	<u>\$55.7</u>	82
Programwide	\$108.2	\$19.7	\$88.5	82

Program officials believe Service regulations inhibited collections

Service, State, and local program officials agreed that collection rates were low, but they cited several regulations and other factors that they said impeded or affected collection activities. For example, they said that according to Service regulations, letters demanding repayment must include the statement that

" * * * if a household falls behind in making payments or is unable to pay the claim, the household's eligibility or level of benefits will not be affected."

The officials said that this required wording in effect told overpaid recipients that they did not have to repay the overissuances.

Additionally, a March 1979 booklet about the Food Stamp Program, published by a research and action group in Washington, D.C., advised food stamp recipients that they did not have to make restitution for receiving too many benefits. Food stamp officials in

Washington State and Los Angeles County, California, said that although they could not provide any specific examples, they believed that local legal aid societies and/or client advocacy groups also had been telling recipients that they did not have to pay food stamp claims. Officials in Louisiana said that one of the primary reasons for the low collection rate was that food stamp recipients knew the State had little recourse against them because of the wording in the demand letter.

Officials also cited Service regulations governing the suspension of collection actions as inhibiting claims collection. After a claim is established, States are required to initiate collection action for each claim that exceeds \$35 except when the State agency has evidence that the household cannot be located. For each claim subject to collection, the State agency must send the household a letter demanding repayment. If the household does not respond, additional letters are to be sent at reasonable intervals, such as 30 days, until the recipient repays or agrees to repay or the criteria for suspending claims collection action are met. Efforts to collect a claim are to be suspended when the State agency determines that

- the household is financially unable to pay the claim,
- little likelihood exists that the household will pay the claim,
- the household cannot be located, or
- the cost of further collection action is likely to exceed the amount that can be recovered.

The point at which claims collection was suspended in the States covered in our review varied. For example, Washington suspended collection action after sending four demand letters. Los Angeles County and New York City suspended collection of some claims after sending only one demand letter. Los Angeles County officials said that the cost of subsequent demand letters exceeded the amount recoverable. However, in December 1981 they began to send followup demand letters.

New York City routinely suspended the collection of food stamp claims against households also receiving AFDC benefits that did not respond to the first demand letter. Instead of making individual determinations of households' ability to repay over-issuances, as required by the Service, the city automatically classified such recipients as unable to pay and suspended further collection action. A New York State official told us that because the regulations did not specify the circumstances under which a recipient should be deemed unable or unlikely to repay, that determination was left to the local offices. Washington State officials said that at least one of the suspension criteria can be applied to almost any nonfraud claim.

Although the demand letter and suspension regulations may have limited aggressive collection action in the past, the Service has proposed regulations that should help reduce problems stemming from the demand letter and suspension regulations. On June 21, 1982, the Service issued proposed regulations to implement the improved recovery of overpayments provisions of the Omnibus Budget Reconciliation Act of 1981. These proposed regulations would permit States to develop their own demand letters and would not require inclusion of any specific language. Additionally, the proposed regulations would allow suspension of claims collection only when the household cannot be located or the cost of further collection action is likely to exceed the amount that can be recovered. According to a Service official, these regulations were scheduled to be finalized by February 1983.

States lacked financial incentives to collect claims

Officials in some of the States we visited said that an insufficient financial incentive was another reason their collection activities had not been more aggressive, particularly for claims stemming from other than recipient fraud. In general, the Service pays for all benefit costs and half of all administrative costs, including those associated with efforts to collect overissuances.

Several incentives exist for pursuing collection of overissuances in fraud cases. State agencies can apply for and receive 75-percent reimbursement of the administrative costs of investigative work needed to establish fraud. In addition, if the recipient is found, through either the courts or an administrative fraud hearing, to have committed fraud, the State may keep half the amount it subsequently collects.

In contrast, the law and Service regulations in effect during the period we reviewed did not permit States to retain any of the amounts they recovered on nonfraud claims. Officials in California and Texas cited this as a reason for not aggressively pursuing nonfraud claims. A California official told us that there was actually a financial disincentive to collect such claims because States had to pay 50 percent of the administrative costs associated with collecting claims but were unable to keep any portion of what they collected.

New legislation should encourage and enable States to collect more

The Omnibus Budget Reconciliation Act of 1981, enacted in August 1981, allows States to retain 25 percent of the total amount collected on overissuances resulting from nonfraud recipient errors. This provision, which the Service implemented on June 1, 1982, effective retroactively to January 1, 1982, provides States with some financial incentive to more aggressively pursue claims.

In addition to the retention provision, the act requires an offset procedure for collecting overissued benefits in nonfraud cases that are not the result of agency error. This procedure provides that States will be required to reduce a recipient household's monthly benefit by whichever is greater--10 percent or \$10. This reduction would be applied automatically if the household is participating in the program and does not respond within 30 days to a letter demanding repayment.

Also, for a case in which fraud has been determined, the household of the individual found to have committed fraud or intentional misrepresentation will be held responsible for repaying the overissuance and will have to agree to repayment in cash or to a reduction in its monthly allotment. Because regulations implementing this legislation have not been finalized, existing regulations govern. These regulations do not hold the household responsible for repayment either in cash or reduced allotments unless the individual found to have committed fraud becomes a member of the household after the required disqualification period. Therefore, the disqualified individual's household may continue to receive benefits and is not responsible for repaying the overissuances. The 1981 act is intended to prevent this by requiring collection of the overissuance from the household through either cash repayments or offsets against future benefits.

Delays in developing and promulgating regulations to implement the Reconciliation Act's offset provision had limited States' ability to recover millions of dollars of overissued food stamp benefits. Neither the offset provision nor the revision in procedures for recovering fraud claims had been implemented. Although the act was passed in August 1981, proposed rules to implement these provisions were not issued until June 22, 1982. The Service planned to issue a final rule by February 1983.

Service officials told us that delays were due to the long process of drafting regulations, obtaining legal and Office of Management and Budget reviews, and then making recommended changes. However, we noted that the Service issued regulations as early as September 1981 to implement other provisions of the act aimed at restraining program cost growth. Also, the Department of Health and Human Services was able to issue interim final regulations in September 1981 to implement an expanded offset provision contained in the same act for the AFDC program.

In addition to the Omnibus Budget Reconciliation Act of 1981, the Debt Collection Act of 1982 (Public Law 97-365, approved Oct. 25, 1982) resulted in several changes to increase the efficiency of debt collection by the Federal Government. This legislation, which applies to delinquent food stamp claims, authorizes such collection actions as deducting amounts from the pay of any Federal employee with delinquent Federal debt and imposing processing, handling, and penalty charges on delinquent debt.

Need for systems to track all claims

To maximize the use of an offset procedure for both fraud and nonfraud claims, States must have adequate accounting procedures to keep track of all claims against households. This would be particularly important in the case of claims against nonparticipating households. If the records showed that they reentered the program before fully repaying the overissuance, their benefits could be subject to offset. Collection techniques to recover overissuances from households that do not reenter the program are discussed later in this chapter.

The establishment of a system by each State for tracking recipients who have received overissuances also would be essential for collecting from those who move out of the food stamp jurisdiction in which the overissuance was received. Existing Service regulations neither require nor preclude interstate collection activity. The Service's position on this issue is to encourage such State collection action in such a way that the States involved coordinate their efforts so that only one State is pursuing a claim at any given time. In proposing regulations in June 1982 on interstate claims collections, the Service said that States should attempt to collect claims from those who have moved, and it proposed that the State which overissued the benefits have the first opportunity to collect. The other State may attempt to collect if the issuing State does not intend to take prompt action. In any event, the collecting State would retain the State share of any collections made. We believe these proposed regulations outline a workable set of procedures for such collection activity but, depending on States' collection efforts and amounts involved, the Service may subsequently need to establish a more assertive policy on the matter and require that these collection initiatives be taken.

ADDITIONAL FEDERAL ACTION IS NEEDED TO ENHANCE STATE COLLECTION ACTIVITIES

Although major legislative provisions aimed at improving the recovery of overissuances were enacted in 1981, hundreds of millions of dollars in overissuances still are not subject to these provisions. These include overissuances caused by (1) State agency error and (2) all overissuances made to households no longer receiving Food Stamp Program benefits, regardless of how the overissuance occurred.

As discussed on the following pages, additional legislation directed at these types of overissuances could further aid State collection efforts. In addition, several collection techniques used in other Federal programs could also be used in the Food Stamp Program. It would be helpful if the Service placed more emphasis on recovering overpayments by exploring such additional collection techniques, sharing the information with the States, providing needed technical assistance, and using available statistical data and reports as management tools to identify problems with claims

establishment and collection and to devise appropriate corrective measures.

The Service has begun to address the numerous problems with claims collection. Although these actions are a step forward, the Service should implement its initiatives and our recommended actions promptly and aggressively consistent with its management responsibilities for the Food Stamp Program.

Expanded use of offset procedures would facilitate States' recovery of overissuances

The reduction in benefits (offset) provision of the Omnibus Budget Reconciliation Act of 1981 specifically excepts its use for collecting overissuances from households still receiving food stamp benefits if the overissuances were caused by State agency error. No such exception is made in the act regarding reductions in monthly benefits to recover overpayments in the AFDC program.

We testified during March 1982 that Food Stamp Program offset provisions could be revised to conform with AFDC legislation, which provides for offsetting for overissuances caused by agency errors as well as household errors. We also said in our July 16, 1982, comments on H.R. 6394--a bill to amend the Food Stamp Program--that expanding use of the offset technique to include recoveries from all households still receiving food stamp benefits could further assist State recoveries of overissued benefits.

Lack of authority to reduce current food stamp benefits to recover overissuances caused by State agency errors seriously impedes the collection of significant amounts of overissued benefits. To the extent that households that receive agency-caused overissued benefits remain in the program, the amounts owed--which could be substantial--could be subject to an expanded offset provision if the households involved were identified.

Quality control results show that about \$500 million, or half of all overissuances in fiscal year 1981, was received by households that continued to participate in the program. No quantitatively valid measurement of how much of the \$500 million was attributable to agency or client error exists. However, a separate study we completed in eight States showed that about 30 percent of total incorrect issuances were caused by local food stamp agencies. Regardless of the exact percentage attributable to clients or local agencies, if all participating households that received overissuances in fiscal year 1981 had been identified and made subject to offset, the amount subject to this more efficient collection process would have been increased to about \$500 million. Even households that received overissuances but subsequently left the program would have been subject to offset if and when they re-entered the program. State program officials with whom we discussed this matter agreed that the offset procedure should apply to all participating households that have not fully repaid the overissued benefits they received regardless of whether the overissuances were agency or recipient caused.

Additional collection techniques
are available and needed to supplement
the offset provision

Implementation of offset authority for all overissuances, coupled with an adequate accounting system to ensure its use at every opportunity, would solve a major collection problem. However, collection of both agency-caused and recipient-caused overissuances from households no longer participating in the program would remain a problem. Although some nonparticipating households may reapply for and receive benefits in the future, thus becoming subject to the offset provision, some may not.

Recovery from nonparticipating households was not specifically addressed in the Omnibus Budget Reconciliation Act of 1981, but Senate Report 97-128 on the Food Stamp and Commodity Distribution Amendments of 1981 (June 2, 1981) by the Senate Committee on Agriculture, Nutrition, and Forestry shows that it was intended that "nothing would preclude the State from seeking to collect overissuances through other means * * *" from persons who no longer receive food stamps. The Congress has gone a step further in the AFDC program by requiring, under section 402(a)(22)(B) of the Social Security Act, that in the case of an overpayment to any individual who is no longer receiving aid, recovery shall be made by appropriate action under State law against the income or resources of the individual or the family.

The Omnibus Budget Reconciliation Act of 1982, enacted in September 1982, permits States to use alternative means, other than cash repayment and benefit offset, to recover fraud and non-fraud overissuances. The Senate Committee on the Budget (S. Rept. 97-504, July 26, 1982) indicated that these alternative means could include State income tax offset systems. Although the act authorizes States to use alternative means to collect overissuances, they are not required to do so.

Proposed Service regulations to implement provisions of the Omnibus Budget Reconciliation Act of 1981 have recognized the intent of Senate Report 97-128 to pursue all claims by including language permitting States to pursue other collection actions, as appropriate, to obtain restitution of a claim against any household that fails to respond to a written demand letter. However, the Service has not developed any guidance or information on how to accomplish this.

We identified techniques being used in other programs that also could be used in the Food Stamp Program to increase collections from households not subject to offset. These include State retention (interception) of State income tax refunds, Federal interception of Federal tax refunds, use of small claims courts and collection agencies, and generally more aggressive collection procedures.

Tax intercept. Intercepting State income tax refunds has been proven successful and cost effective in collecting delinquent debts owed to States. Oregon is credited with first implementing a setoff program (setting off taxpayer liabilities against any refund due from individual income tax) in 1971. The legal basis for this activity is the common law remedy of setoff. Since then other States have established setoff programs. The Office of Management and Budget identified 17 States ^{1/} which used this procedure to collect delinquent debts owed them. We contacted seven of these States--California, Georgia, Michigan, Minnesota, Montana, Oregon, and Utah--and determined that most collections these States made through offset were for delinquent child support payments. These States also collected other debts in accordance with their respective laws.

In some States, such as Oregon, Montana, and Minnesota, the law is general and permits offset for all forms of delinquent debts owed the State. In other States the law is specific as to the type or types of debt that can be recovered through the intercept program. For example, Georgia's law permits offset only for debts incurred in connection with patient care, medical assistance, and public assistance in addition to child support. Some States require an interim step--a court-ordered judgment such as through a small claims court--to legitimize the debt before all or a portion of State income tax refunds can be retained to satisfy debts to the State.

In three of the seven States we contacted--Michigan, Montana, and Oregon--the tax intercept program was used for delinquent food stamp debt. California officials told us that they planned to start intercepting refunds to recover Food Stamp Program claims in 1983. They said that they had not used this technique previously because food stamp claims did not involve State money. Legislation allowing States to keep some of the amounts collected had influenced their decision to expand tax offsetting to food stamp claims. In addition, Georgia's Department of Human Resources had requested that its State legislature, during its 1983 session, expand the State tax intercept program to include the Food Stamp Program.

Oregon officials told us that since about October 1980 they had retained State income tax refunds to recover delinquent food stamp fraud claims. At the time of our review, the offset procedure was used only to collect fraud claims because of the financial incentive of retaining 50 percent of fraud claims collected. However, the officials told us that as soon as the Omnibus Budget Reconciliation Act of 1981 provision allowing States to retain 25 percent of nonfraud recoveries was implemented, they would expand their offset program to include these claims as well.

^{1/}Alabama, California, Georgia, Idaho, Illinois, Indiana, Iowa, Maryland, Michigan, Minnesota, Montana, New Jersey, North Carolina, Oregon, Utah, Virginia, and Wisconsin.

Oregon, Michigan, Montana, and California experiences indicate that the benefits of offsetting exceed the costs. Oregon officials were unable to provide specific statistics but estimated that food stamp fraud claims totaling about \$25,000 had been recovered by offsetting income tax refunds. Oregon's intercept program cost \$200,000 in 1979 and collected \$2.4 million in delinquent debts from all its programs. In 1980 Oregon collected \$3.7 million at a cost of about \$222,000. We previously evaluated the Oregon program in July 1980 and found it to be highly effective. 1/

Michigan collected over \$2 million in 1981 using this technique at a cost of \$60,000 to \$70,000. Collections included about \$8,600 in food stamp recoveries. According to Michigan officials, the only requirement for intercepting refunds was that the debt be established and the amount clearly defined--either through a court order or an agreement to repay signed by the debtor.

Montana's program was created to centralize collection of all debts owed the State. Its tax refund interception program had grown from \$26,000 collected in 1979 to \$222,345 in 1981. The associated 1981 costs were about \$42,000. Food stamp collections are included in the totals, but separate statistics were not available.

California had intercepted tax refunds to recover child support claims since 1979. According to one State official, tax intercepting had been very cost effective.

The Federal Government could also use this technique. In March 1979 we issued a report 2/ demonstrating the feasibility of keeping Federal tax refunds to recover delinquent debts. Effective with the Omnibus Budget Reconciliation Act of 1981, the Internal Revenue Service is permitted to intercept Federal income tax refunds to collect delinquent child support obligations from those whose families are collecting public money from the AFDC program. This act also authorizes the interception of unemployment benefits for child support. New York State officials estimated that under the tax interception program, which started with refunds of 1981 taxes made in 1982, they could collect as much as \$27.6 million from about 14,000 New York City parents who were delinquent in their child support payments.

Senate bill 2352 contained two provisions that were considered but not adopted during 1982. One provision would have authorized intercepting Federal tax refunds to recover uncollected food stamp overissuances. The other would have permitted States

1/"Oregon's Offset Program for Collecting Delinquent Debts Has Been Highly Effective" (FGMSD-80-68, July 17, 1980).

2/"The Government Can Collect Many Delinquent Debts by Keeping Federal Tax Refunds as Offsets" (FGMSD-79-19, Mar. 9, 1979).

to establish systems for intercepting unemployment compensation benefits to recover uncollected food stamp claims. Both provisions would have permitted States to retain 50 percent of such recoveries.

Small claims courts. Some States require use of small claims courts as an interim step to implement tax interception. However, we found that small claims courts also were being used as a direct debt collection tool. For example, Sacramento County, California, reported that it had successfully used small claims courts to collect outstanding food stamp claims for about 3 years. According to a county official, about 750 cases involving food stamp claims were processed through small claims courts in fiscal year 1981. Although no dollar statistics were available, the official estimated that of the \$115,000 of recovered food stamp overissuances that year, probably 40 to 50 percent was collected through the use of small claims courts. Also, other food stamp claims may have been settled voluntarily because overpaid recipients knew they could be taken to court.

Debt collection centers. In response to the administration's emphasis on debt collection, the Social Security Administration had established debt collection centers around the country. As of January 1982, 48 such centers existed. These centers were staffed with personnel trained to recover overpayments to social security and SSI benefit recipients. Also, profiles had been developed that identified cases in which the debt appeared collectible so that such cases could be pursued more aggressively. SSA was also determining whether it had sufficient authority to assess interest and/or administrative costs as penalties for late installment payments. SSA also planned to submit legislative proposals in fiscal year 1983 to allow offset of an overpayment made in one SSA program against benefits received from another SSA program. SSA's overall objective was to collect about \$386 million more in fiscal year 1982 than the estimated \$644 million collected in fiscal year 1981.

Credit bureaus and private collection agencies. New Jersey had referred names of individuals who defaulted on student loans to credit bureaus so that creditors could consider their indebtedness before extending them further credit or assigning them a credit rating. A State official attributed the very substantial increase in collections on defaulted student loans to using this approach. For example, a person obtained employment with a large corporation in New York City at an annual salary of \$25,000 and applied for a credit card. He was denied the card because of his defaulted educational loan. Subsequently, the person started making repayments to New Jersey's Higher Education Assistance Authority until the loan was repaid.

Federal agencies, as well as individual States, had used private collection agencies. The Department of Education had successfully collected on delinquent student loan accounts through such agencies. Montana, which used private collection agencies for all

accounts because of a lack of State staff to collect debts, reported that 13 percent of the debts submitted to them were collected.

We have supported aggressive collection actions. In a 1979 report 1/ we concluded that agencies could collect more debts faster by implementing certain commercial practices that made sense and seemed adaptable. These included:

- Reporting to credit bureaus, where appropriate, debts being paid in installments and delinquent debts.
- Using private debt collection agencies where authorized.

Also, in a 1981 report 2/ we said that:

"Strong collection efforts reduce error rates by serving as a deterrent to people who might otherwise try to obtain benefits to which they are not entitled."

Service should provide more technical assistance to the States to address collection problems

Service headquarters and regional officials were aware that local food stamp agencies had not routinely established and collected claims for identified overissuances. Service regional officials' evaluations of State operations, State management evaluations, and USDA's OIG had reported on State and local agency failures to adequately establish claims and collect overissuances. However, the Service had not used this information to identify and address States' problems in the collection area.

We reviewed 26 OIG audit reports issued in fiscal years 1980 and 1981 which specifically addressed the claims area. Claims problems were reported in 17 reports. Identified problems included no claims system, insufficient followup on overdue claims, and claims not being established. In addition, the Inspector General's semiannual report to the Congress for April through September 1980 said that the failure to establish and collect recipient claims was one of the most frequently noted deficiencies in State and local Food Stamp Program administration.

Service officials said that the regional office staff assisted each State in preparing corrective action plans to address specific audit findings by the OIG and deficiencies identified by management

1/"The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices" (FGMSD-78-59, Feb. 23, 1979).

2/"More Vigorous Action Needs To Be Taken To Reduce Erroneous Payments to Recipients of the Aid to Families With Dependent Children Program" (GGD-82-15, Nov. 9, 1981). This report dealt with AFDC payments in the District of Columbia.

evaluations. Although this is a necessary procedure to correct specific problems in a specific State, the identified deficiencies also need to be viewed collectively to determine if program-wide claims problems exist. However, Service officials told us they had not done this.

In addition to the information in management and audit reports, the Service had statistical information on States' claims and collection activities that could have been analyzed and used to identify problems. However, this was not done until late 1981.

States report their monthly claims establishment and collection activity--number of cases and dollar amounts--to an accounting section within the Service where administrative costs due the States are decreased to reflect overissuances collected and retained by the States. In October 1981 the Service's State Operations Division made the first use of this information for claims management purposes. It identified 11 States or other administering jurisdictions 1/ that appeared to have the best collection rates and sent them a questionnaire soliciting information on their collection techniques. On May 26, 1982, the Service sent its regional offices a summary of the results. The summary contained a general description of how these 11 were pursuing collections and expressed the hope that it would prove useful in encouraging States to improve their claims collection operations.

The Service's initiative in this area is a start in providing information and technical assistance to States in the collection area. We believe that more such studies and analyses should be done and the results used as a means of providing technical assistance and guidance to the States. However, before this is done, the Service should assure itself that the information being analyzed is accurate. In the States we visited, State-reported data on claims establishment and collection was not always accurate. For example:

- Many State reports contained mathematical errors.
- Pennsylvania reported overissuances in cases involving potential fraud as fraud claims before such claims were adjudged to be fraud. (Regulations require that potential fraud claims be classified as nonfraud claims until fraud is adjudged.)
- Pennsylvania did not report over 30,000 claims which had been established. New York City failed to report over 15,000 claims.

1/California, Guam, Hawaii, Iowa, Kansas, Montana, North Dakota, Ohio, Puerto Rico, Texas, and Virginia.

- Until August 1981 New York City reported the value of non-fraud claims based on an average monthly issuance amount rather than the actual value of the claims.
- Washington State did not report the establishment of individual claims under \$35 as the Service required.
- Some California counties had not properly completed the required claims and collection reports.

CONCLUSIONS

Hundreds of millions of dollars in overissued benefits have been lost annually because States have not systematically established claims for all identified overissuances and aggressively pursued recoveries. The Service has not required States to follow its regulations that claims be established for all identified overissuances and that at least some minimal level of State effort be exerted to recover amounts erroneously issued. Further, lack of Federal financial incentives, legislative restrictions on collection methods, perceived barriers to collection in Service regulations, and limited use of alternative collection strategies also have played major roles in restricting not only collection activity, but the amounts actually recovered.

The Service has been aware of the minimal successes in States' recovery of overissuances, but it has not used the information available to it to identify specific weaknesses in the recovery process and take definitive steps to promote improvements in State commitment and recovery techniques. Recent Service initiatives to solicit information on State claims and collections techniques signal the Service's intent to start improving its management of these program aspects.

Legislation implemented in June 1982 provides the States with a financial incentive to collect nonfraud participant-caused overissuances by allowing the States to keep 25 percent of the amounts recovered. This same legislation requires the use of offset procedures, which will increase the recovery of participant-caused overissuances from those households still participating in the program. When final regulations implementing this provision are issued, some of the perceived collection barriers in existing Service regulations also will be removed.

Expanded use of the offset provision for agency-caused overissuances would allow easier recovery of significant additional amounts of erroneous benefits paid to food stamp households that are still participating in the program. Also, because the Service does not believe it needs to require States to aggressively pursue the recovery of overissuances from households no longer participating in the program, legislation is needed to insure increased efforts to collect these amounts. Collection methods and techniques, such as Federal and State income tax intercept, private collection agencies, and small claims courts, that are available and used in other programs could be used to collect overissuances from

households no longer receiving Food Stamp Program benefits. Service assistance to help States identify and implement these techniques is needed. This could also take the form of seeking additional legislation to permit use of expanded and alternative collection methods.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress:

- Amend the Food Stamp Act of 1977, as amended, to require recovery of overissuances by reducing monthly benefits of recipient households regardless of the reason for the improper issuance. To accomplish this, we suggest that section 13(b)(2) be amended by deleting the phrase "and claims arising from an error of the State agency."
- Add a new section 13(b)(3) to require States to promptly take all necessary steps to recover any overissuances from households no longer participating in the program. We suggest that the new section 13(b)(3) read as follows: "(3) For any overissuance to an individual or household no longer receiving food stamp benefits, State agencies shall take appropriate action under State law against the income or resources of the individual or household to recover such overissuance." "Appropriate action" should include consideration of whether the recovery and deterrent benefits involved justify the associated collection costs.

We further recommend that in view of the large dollar amount of overissued benefits, the legislative and appropriations committees direct the Secretary of Agriculture to evaluate and inform them of the results of any legislative changes and administrative efforts to improve the identification and collection of overissuances and the potential impact of any additional initiatives being considered in this area. This could be done in conjunction with the Department's periodic reauthorization and appropriation hearings.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary:

- Evaluate each State's performance in establishing and collecting claims. Such evaluations should reveal individual State's, as well as programwide, strengths and weaknesses in the claims establishment and collection process and provide a basis for a Service determination of whether administrative sanctions are warranted. As a minimum, these evaluations should include:

1. A review of the information in States' Status of Claims Against Households reports to assure that all claims and collection activity is reported accurately.

2. Systematic reviews of Department OIG reports, State management evaluations, and other analytical reports and statistical information on States' success in claims and collection activity.
3. Onsite reviews of the effectiveness of each State's collection techniques, especially the required offset procedure.

--Provide technical assistance, based on evaluation and monitoring efforts and other available information, to improve State claims establishment and collection activity as may be needed. Such assistance should include but not be limited to:

1. Advice and help to States in developing appropriate accounting systems and controls needed to use the offset procedures most effectively, particularly in cases involving amounts owed from prior periods of households' participation.
2. Identification and dissemination of available information on alternative and innovative collection techniques that States use in other programs (and that some States may use in this program) which could be used, or used more, to enhance collection of food stamp overissuances not subject to offset authority.
3. Assistance in implementing alternative collection strategies that hold promise for good results. For example, this might include assisting in the development of model State legislation to authorize State retention of State income tax refunds to recover overissuances.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our recommendation that the Congress amend food stamp legislation to require reducing benefits to recover overissuances from participating households regardless of the reason for the improper issuance, USDA said that the Service would examine the feasibility, effectiveness, and impact of such a measure before recommending that the Congress adopt it. We believe that the recovery of improperly issued program benefits regardless of cause would not differ procedurally from the presently required offset procedure for client-caused overissuances. As noted in this report, States are required to use offset procedures in the AFDC program--which is very similar in its administration to the Food Stamp Program--regardless of the cause of the overissuance.

On our recommendation that a new section 13(b)(3) be added to the Food Stamp Act of 1977, as amended, USDA said that States already have the authority to recover overissuances in any way

that is not in conflict with State law. USDA also said that the Service prefers to identify and provide States with descriptions of successful collection techniques that they may use at their option. USDA said that it is more effective to allow States to choose the collection method that is appropriate to their administrative structure.

As pointed out earlier (see p. 35), although States are permitted to use alternative means of collection, they are not mandated to do so. We believe that to ensure more aggressive collection efforts, States should be required to take any and all appropriate actions, as may be permitted under individual State law, to collect outstanding claims. Such a change would make food stamp legislation consistent in intent with that which already exists for the AFDC program. Because our recommendation does not contemplate requiring States to use any specific collection strategy, States would be free to select the most appropriate collection procedure. As a result, the Service would still have a role in identifying and providing to States descriptions of successful collection techniques.

In response to our recommendation that the Service evaluate each State's performance in establishing and collecting claims, USDA said that claims activity was (and had been for the past 2 years) an area of primary emphasis in program administration. It said that in 1981 the Service's review of State agency claims reports identified which States were most successful in establishing and collecting claims and which were least successful. States that had the best collection records submitted information on their more successful techniques. The Service compiled and sent this information to its regional offices. USDA also said that the Service was revising its recipient claims report and that the form would be automated to facilitate review and analysis of the data submitted.

In addition, USDA said that the Service planned to restructure its Family Nutrition Programs headquarters administrative staff. One unit would be responsible for exploring successful techniques for eliminating and preventing fraud, waste, and abuse. USDA said that this unit would concentrate on vulnerable program areas such as overissuance and claims activity. According to USDA, this group also would be responsible for correlating claims data with audits, investigations, and State agency reviews and for many of the technical assistance and information dissemination activities of the Operation Awareness initiative. (See pp. 66 to 68 for USDA's detailed description of Operation Awareness.)

The Operation Awareness initiative and the Service's restructuring were not fully operational when USDA commented on our draft report. However, we believe that these initiatives are a start by the Service in addressing problems involving recovery of overissuances. As indicated on page 40, the Service's 1981 initiative to disseminate information on States' collection techniques was a start toward providing technical assistance to States. However,

this initiative was not an evaluation or analysis of how well the States individually or collectively were doing in establishing and collecting claims. The extent to which Operation Awareness may include an effective evaluation element is uncertain. We believe that evaluations of State performance are necessary to provide the Service with a basis for any actions that may be needed to enhance States' abilities to recover federally financed benefits that should not have been issued.

On our recommendation that the Service provide the States with technical assistance, USDA said that the Service's regional offices provide such assistance as needed. However, it said that the Service planned to greatly increase the resources devoted to technical assistance by restructuring Service headquarters staff and by accumulating and disseminating information. USDA explained that the proposed Operation Awareness initiative is aimed at information sharing among States within the program as well as identifying techniques that may be adapted from other programs. We believe that once implemented, these initiatives can contribute to enhancing State collection activities.

In our draft report we included proposals to expedite issuance of final regulations to (1) require use of offset procedures and (2) as discussed in chapter 4, expand the use of disqualification penalties available under the administrative fraud hearing process. Both of these provisions had been adopted in the Omnibus Budget Reconciliation Act of 1981. According to a Service official, the Service planned to issue these regulations by February 1983. This will be nearly 18 months after the 1981 act was passed. However, USDA said that beginning with the current fiscal year, it had established a goal of issuing regulations within 6 months following passage of a law. Accordingly, we are not making recommendations on these matters.

CHAPTER 4

EXTENT AND EFFICIENCY OF STATE

FRAUD PURSUIT MUST BE STRENGTHENED

The Service needs to develop a coordinated, concerted, and comprehensive strategy to help States pursue food stamp fraud. Service officials agreed that recipient fraud is a serious problem meriting more extensive management effort. They told us that they had increased their interaction with State officials to promote the pursuit of food stamp fraud. Pursuing food stamp fraud is difficult because it requires stringent evidence and it involves several different agencies at the State level. However, we believe the Service needs to be more concerned with ways to promote or require more State pursuit of cases involving potential fraud and to effectively address State problems that are inhibiting more assertive approaches to the fraud issue. The Congress has passed a number of initiatives expressly to further fraud pursuit by providing financial incentives and facilitating the adjudication process. Full implementation of this legislation should help foster greater levels of effort in this area.

To establish an effective management approach to fraud pursuit, the Service will need to develop an informed estimate of the extent of recipient fraud and devise strategies (including levels of efforts needed) to adequately address it. The Service will also need to address some of the recommendations in our 1977 report (CED-77-112). These included

- establishing reporting requirements to secure information on all phases of fraud pursuit, particularly the results of those efforts;
- monitoring States' actions to ascertain if State performance is adequate to achieve target levels of fraud pursuit; and
- providing more guidance to States on handling suspected recipient fraud.

The guidance provided States needs to be based on assessments of State concerns regarding barriers to adjudicating cases of alleged food stamp fraud, the cost effectiveness of State efforts, evidence requirements, and reluctance to adjudicate cases involving allegations of fraud on an administrative level.

NO RELIABLE ESTIMATES OF PROGRAM FRAUD EXIST

No one knows how much Federal money is being lost through recipient fraud in the Food Stamp Program because no comprehensive efforts to quantify losses attributable to fraud have been made. Enough data exists, however, to show that recipient fraud is a serious problem warranting greater management attention.

Such data, together with the lack of States' emphasis on identifying overissuances and pursuing cases involving potential fraud, suggests that recipient fraud is more prevalent than the \$16 million reported as fraud claims for fiscal years 1980 and 1981. USDA, Service, and State officials indicated that food stamp fraud is more pervasive than available fragmented data indicates.

In trying to obtain an overall perspective on the extent of recipient fraud, it is important to consider that in fiscal years 1980 and 1981 States established claims (including fraud claims) for only about 6 percent (\$108 million) of the estimated total overissuances of \$2 billion. Moreover, fraud claims were established only after a finding by an administrative tribunal or a court of competent jurisdiction ruling that fraud had been committed. Also, a lot of overissuances involving alleged recipient fraud had been handled as nonfraud claims. For example, a Pennsylvania official told us that State program officials believed that up to 80 percent of all of the State's nonfraud claims against recipients may actually be a result of fraud. Additionally, as discussed in chapter 3, many identified overissuances have not been set up as claims at all--neither nonfraud claims nor fraud claims.

USDA officials--both at the Service and Department levels--have testified ^{1/} that a portion of the projected \$1 billion in overissuances was attributable to fraud but that they did not know exactly how much. In his semiannual report to the Congress for the 6 months ended March 1981, USDA's Inspector General said that recipient fraud was "in the aggregate, the greatest dollar drain in the food stamp program." The Florida Inspector General, testifying before the Senate Committee on Agriculture, Nutrition, and Forestry in March 1981, said that fraud had accounted for about \$4 million, or 15 percent, of all benefits issued in the State during one month in fiscal year 1980.

A report by the Investigations Staff of the Senate Committee on Appropriations (Rept. No. 80-6, Nov. 1980) released in February 1981 stated that State and local officials told Senate investigators that "fraud could be causing as much as 50 percent of the dollar value of overissuances identified by the program's quality control system."

^{1/}Testimony by John W. Bode, Deputy Assistant Secretary for Food and Consumer Services, before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture, on Sept. 22, 1981, and testimony by G. William Hoagland, Administrator, Food and Nutrition Service, before the Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, Oct. 28, 1981.

Fraud claims established in the three regions we visited totaled about \$8 million, or about 12 percent of all claims during fiscal years 1980 and 1981 in those regions. The six States we visited established about \$3.9 million in fraud claims. As shown below, these fraud claims ranged from less than 1 percent to over 50 percent of all claims established in the six States.

Fraud Claims Established in Fiscal Years 1980 and 1981

<u>State</u>	<u>All claims established</u>	<u>Fraud claims established</u>	<u>Percent</u>
New York	\$12,957,000	\$ 56,809	0.4
Pennsylvania	1,162,000	94,871	8.2
Texas	7,348,000	1,067,253	14.5
Louisiana	3,109,000	434,446	14.0
California	10,418,000	1,496,320	14.4
Washington	<u>1,497,000</u>	<u>798,022</u>	53.1
Total	<u>\$36,491,000</u>	<u>\$3,947,721</u>	10.8

These figures do not provide a reliable gage of how much fraud exists in the program. They do, however, give some indication of the relative efforts being made in those particular States to pursue fraud and illustrate resultant differences in fraud claims establishment that may signify the need for Service analysis.

MORE EMPHASIS NEEDED ON INVESTIGATING
AND ADJUDICATING SUSPECTED RECIPIENT FRAUD

Until recently, effective and efficient investigation and adjudication of suspected recipient fraud had not been a major program objective, and many identified overissuances involving potential fraud had not been fully pursued.

Overissuances that are believed to involve potential recipient fraud are usually identified in the same way as any overissuance. (See ch. 2.) Analysis of the circumstances causing the overissuance would help to determine if sufficient reason exists to suspect that a client caused the overissuance. Intentional acts by the clients that could cause overissuances include such things as:

- Failing to accurately report income and assets.
- Opening multiple cases.
- Filing false claims of lost or stolen coupons and authorization-to-participate (ATP) cards.
- Failing to report changes that could result in terminated eligibility or reduced benefit levels.

After an overissuance is identified and analyzed, the general procedure is for State food stamp officials to refer any case involving potential fraud to a State unit for an investigation to determine whether sufficient evidence of fraud exists. Program regulations state that if the evidence is sufficient, the case can be referred for adjudication through either the courts or an administrative fraud hearing process.

In our 1977 report on program overissuances (CED-77-112), we recommended that administrative procedures be authorized and developed within each State to handle the majority of alleged food stamp recipient fraud cases. We said that these procedures should be administratively simple and be able to handle numerous cases in a relatively short time. We added that implementation of the procedures would result in determinations establishing whether fraud occurred and what penalties should be assessed.

The procedures subsequently established generally function outside the States' criminal justice systems and are usually operated separately from Food Stamp Program operations.

Pursuit of program fraud has been mixed

Service regulations say that States should initiate a fraud hearing if they believe sufficient evidence exists to prove fraud. They also encourage referring for prosecution individuals suspected of committing fraud, particularly for cases involving large dollar amounts or when an individual is alleged to have committed more than one fraudulent act.

In some of the States we visited, many identified overissuances involving potential fraud either had not been investigated or, if they had been investigated and a determination had been made that the facts supported allegations of fraudulent conduct, had not been referred for adjudication. Other States had pursued fraud more aggressively. The amount of readily available data on this subject varied from State to State but gives some indication of the extent of fraud pursuit in the six States. Reasons for some States' apparent lack of aggressive fraud pursuit are discussed later in this chapter.

New York: New York had prosecuted very little fraud. For example, about 78,000 cases of potential fraud had gone unprosecuted in New York City since 1980. Computer matching operations had resulted in either the termination of benefits or an adjustment of monthly assistance for about 52,000 cases because recipients were collecting multiple benefits through multiple participation or had not accurately reported income. Few of the cases had been reviewed for possible fraud. New York City officials attributed this to a lack of staff and insufficient records.

About 26,000 cases of potential recipient fraud had been identified using computer matching to analyze redeemed ATP cards. Beneficiaries claimed not to have received an ATP card,

were issued a duplicate, and then were suspected of having redeemed both. City officials told us that these 26,000 cases were awaiting processing through the administrative fraud hearing process. According to city records, it had prosecuted six cases of food stamp recipient fraud involving about \$8,000 in 1981.

Pennsylvania: State officials acknowledged that the administrative fraud hearing system had been underused in their State. They reported that during the year ended June 30, 1981, 97 cases of fraud were adjudicated through the court system, but only 1 case through the administrative fraud hearing process. Between June and September 1980, the State established about 180 claims against recipients found to have committed food stamp fraud. State officials told us that only about 15 percent of established claims were pursued as potential fraud although they believed a much greater percentage actually fell into this category. On January 6, 1982, Pennsylvania officials reclassified almost 7,500 claims totaling over \$1 million as nonfraud cases even though State officials had previously suspected that fraud was involved.

California: The court system and the administrative fraud process had been used throughout the State to adjudicate alleged food stamp fraud; however, available data indicates that the number of cases referred for adjudication was relatively small compared with the number of potential fraud cases identified and investigations conducted.

During fiscal years 1980 and 1981, California counties completed over 14,000 investigations of cases involving potential fraud by food stamp recipients but referred only 242 cases to either local district attorneys or the administrative fraud hearing process. Our examination of the disposition of almost 7,000 of those cases from Los Angeles County showed that local officials had determined that virtually all involved allegations of fraud; however, only 8 were referred to either the courts or the administrative fraud hearing process for a decision. Los Angeles County officials had closed about 5,000 of the 7,000 cases either because the recipient or the evidence could not be located or because the statute of limitations had expired. They told us that delays in pursuing those cases resulted in part from personnel shortages in the county's fraud investigation unit but that the main reason more potential food stamp fraud was not pursued was that potential AFDC fraud generally involved larger amounts. Therefore, they placed a higher priority on AFDC cases.

Texas: State officials investigated 7,387 cases of potential food stamp fraud in 1981 and determined that 4,193 should be pursued further. In some of these cases, recipients agreed to make restitution after talking to investigators or prosecutors and the cases were not further adjudicated. In others, the investigators decided that the amounts were too small or the clients had severe financial handicaps and the cases were not pursued. Ultimately, about 3,000 cases were forwarded to either the courts or an administrative fraud hearing process for adjudication, and

in about 2,400 cases, recipients were found to have committed fraud.

Louisiana: Although the State had used both the court system and the administrative fraud hearing process to adjudicate cases of alleged food stamp fraud, the administrative process had been used extensively since late 1980. During fiscal years 1980 and 1981, about 1,000 cases were referred to the administrative fraud hearing process for adjudication and about 600 of them resulted in fraud determinations. The State reported for the year ended June 30, 1981, that 192 cases involving about \$329,000 were referred for prosecution. We were told that no case under \$1,000 had been presented to the courts for prosecution. Information on the final disposition of the referred cases was not readily available.

Washington: Over 50 percent of the claims established in the State in fiscal years 1980 and 1981 were adjudicated fraud claims. During the year ended June 30, 1981, 605 administrative fraud hearings were held in the State and two court prosecutions were conducted. The State reported that a finding of fraud was made in 508 of the 605 cases adjudicated through the administrative process.

STATES CITE PROBLEMS IN PROSECUTING FOOD STAMP FRAUD

States cited several obstacles to efficient and effective fraud adjudication that may have limited their efforts to investigate and ultimately adjudicate cases involving potential fraud. Although States have been provided an alternative to the courts to adjudicate fraud--an administrative fraud hearing process--some States believe this process has obstacles which need to be reduced or eliminated before it can reasonably be expected that the number of cases adjudicated will increase substantially. Relatively few cases of alleged recipient fraud had been adjudicated either in the courts or through the administrative fraud hearing process. Nationally, about 16,000 cases of alleged recipient fraud were reported to have been adjudicated in fiscal year 1981.

Court adjudication

Our 1977 report (CED-77-112) pointed out numerous problems States were having adjudicating cases of alleged food stamp fraud through State and local courts. Our followup work for this report indicated that some of these problems still existed.

Officials told us that local district attorneys were reluctant to accept food stamp cases of alleged recipient fraud for various reasons--there are more serious alleged crimes, cases of alleged food stamp fraud usually involve relatively small amounts and fraud can be difficult to prove, and food stamp fraud is considered a Federal matter. An official of one local project

office said that the local district attorney was reluctant to accept food stamp cases because he considered them to be a Federal concern.

Pennsylvania officials said that the dollar size and seriousness of cases had been determining factors in recommending court prosecution. They cited dollar minimums for various areas of the State ranging from \$300 to \$6,000. In New York City a case had to involve at least \$1,500 before district attorneys would pursue the case in the courts.

To overcome such problems and promote fraud adjudication, we recommended in our 1977 report that States be permitted to administratively adjudicate fraud. The Food Stamp Act of 1977 contained a provision, implemented during October 1978, allowing States to hold administrative hearings for individuals suspected of fraud. However, our followup work also revealed problems with this option.

Administrative fraud hearings

Some of the States we visited viewed their administrative hearing process as an effective alternative for prosecuting cases involving allegations of food stamp fraud when it is not feasible to use the court system. Washington State cited fewer difficulties with the administrative process than all the other States except Texas. As previously noted, Washington processed over 50 percent of its claims in fiscal years 1980 and 1981 as fraud cases--almost all of them through administrative fraud hearings. This level of activity was twice that reported by any other State in the Service's Western Region for the year ended June 30, 1981.

Texas officials said that it would be difficult to try all alleged food stamp fraud in the courts and that the administrative fraud hearing process was an effective alternative. They reported holding 1,359 administrative fraud hearings during the 12 months ended August 31, 1981. They said that the State had used the administrative fraud hearing process successfully and views it as a deterrent to fraud. Louisiana officials told us that the administrative fraud hearing process can be a feasible adjudication alternative when the court system cannot be used but that it has some problems.

Comments from officials in the States we visited concerning factors that may have obstructed the usefulness of the administrative fraud hearing process included its nonpunitive, nondeterrent nature; cost; burden of proof; and lack of enforcement powers. We were told that the disqualification of an individual found to have committed fraud can under certain circumstances result in no change or even an overall increase in the benefit level of the household involved.

Some of these problems were addressed by the Omnibus Budget Reconciliation Act of 1981. The act increased the 3-month disqualification period for individuals found through the administrative

process to have committed fraud to 6 months for the first incidence, 12 months for the second, and permanent disqualification for any subsequent finding of fraud. In addition, the act prevents situations in which the remaining household members could actually receive the same or even more monthly benefits than previously because of the way eligibility and benefit levels are recalculated after disqualification of an individual.

Officials in two States told us that the cost of the administrative fraud hearing process was a factor limiting its use. Although firm cost data on this had not been developed, California officials estimated the average cost of each hearing ranged from \$1,200 to \$2,000. They said that counties had been reluctant to use the administrative procedure because they could almost never expect to recover the administrative costs involved. Pennsylvania officials stated their strong preference for court procedures because an administrative hearing costs the Food Stamp Program about \$500, whereas a court proceeding does not cost the program anything.

California and Pennsylvania officials also told us that using an administrative process did not provide assurance that collections could be achieved. Pennsylvania officials said that with court prosecutions, the court mandates repayments and handles collection activities. They said that in contrast, it was difficult to enforce an administrative fraud hearing's monetary judgment because the State is required to pursue collections through civil courts. According to California officials, the administrative process lacks authority to enforce collection of the amounts that are to be repaid.

A Pennsylvania official said that the standard of evidence required for an administrative fraud hearing is about the same as that required for a court prosecution. New York officials expressed particular concern about the level of evidence required in that State to establish food stamp recipient fraud. State and New York City officials said that the requirement to prove intent to defraud (level of proof) under the "clear and convincing" standard as opposed to a "preponderance of evidence" standard in fact prevented greater use of the administrative process. They explained that the standard requires, for example, that recognized handwriting experts testify that signatures were by the same individual in a case where a recipient is suspected of having fraudulently redeemed both an original and a replacement ATP card. At the time of our review, however, the city could not readily obtain the services of handwriting experts acceptable to the State, and the State refused to allow testimony of the city's own handwriting analysts. In January 1982 State and New York City officials agreed that beginning in March 1982, testimony from the city's writing analysis workers and contract experts would be acceptable evidence in the adjudication of cases involving alleged food stamp fraud.

None of the State and local officials provided us with an assessment of the impact the obstacles described above had on

the adjudication process. State officials' perceptions of the existence of these obstacles to efficient and effective fraud adjudication was cited, however, as a major factor limiting their efforts to adjudicate alleged fraud.

THE SERVICE MUST IMPROVE ITS MANAGEMENT AND OVERSIGHT OF STATE FRAUD ADJUDICATION EFFORTS

The Service is aware of the seriousness of fraud in the Food Stamp Program as well as the State-perceived difficulties in adjudicating alleged food stamp fraud. The Service now needs to take actions such as we recommended in our 1977 report to facilitate States' fraud pursuit activities. In addition to implementing the congressional initiatives intended to increase State investigations and hearings or trials for those suspected of defrauding the Government, the Service needs to obtain better information on the extent of potential and adjudicated program fraud and, based on those results, determine what level of fraud pursuit would be most appropriate. Firm criteria for State performance in fraud pursuit and an adequate mechanism for monitoring and evaluating that effort need to be established.

Service is aware of problems in fraud pursuit

In April 1981 the Service conducted a nationwide survey of the status of the administrative fraud hearings in the Food Stamp Program. The Service compiled responses indicating that 39 States were conducting administrative fraud hearings. The survey results also disclosed how States planned to determine fraud in the future. These plans are summarized in the following table.

<u>Technique</u>	Number of States <u>(note a)</u>
Administrative fraud hearing process	17
Prosecution	11
Both administrative fraud hearing process and prosecution	13
Undecided as to how fraud will be determined	6
No response	<u>7</u>
Total	<u><u>54</u></u>

a/ Respondents included the 50 States, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands.

The survey respondents also identified some of the same kinds of problems with fraud adjudication discussed earlier in this chapter. The Service distributed the survey results to its regional offices in November 1981. As of September 1982 the Service had not specifically followed up on the problems the survey surfaced. We believe that Service initiatives to address each of the concerns the States identified, including an evaluation of the severity of each, are needed to enable development of appropriate Federal action to increase food stamp fraud pursuit.

LEGISLATIVE INITIATIVES SHOULD HELP

The Food Stamp Act of 1977 increased from 50 percent to 75 percent the Federal administrative cost reimbursement for States' cost of investigating and pursuing cases involving allegations of fraud. The Service finalized implementing regulations for this provision on December 30, 1980. As of November 19, 1982, 47 of the 54 participating jurisdictions had applied for and were eligible for this enhanced funding.

The Food Stamp Amendments of 1979 permit States to keep half of all recoveries of fraud-related overissuances. Final regulations were issued on January 31, 1980.

The Omnibus Budget Reconciliation Act of 1981 enhances States' abilities to collect fraudulently obtained overpayments. It requires that the household of the individual determined to have fraudulently received benefits must agree to a reduced monthly allotment or a cash repayment in the amount of the overpayment. In contrast, under existing regulations, the household is not responsible for repayment either in cash or reduced allotments unless the individual found to have committed fraud again becomes a member of that household after the required disqualification period. Proposed regulations to implement this provision of the act were issued on June 21, 1982. Issuance of final regulations, expected by February 1983, should result in more collections than would otherwise have been possible.

This act also expands the use of disqualification penalties available under the administrative fraud hearing process. It stipulates that these can also be applied if States prove intentional misrepresentation. 1/ This provision is intended to make it easier for States to prove wrongdoing through the administrative

1/Intentional misrepresentation is defined in regulations proposed by the Service, 47 F.R. 26639, 26649 (June 21, 1982), as follows: "For purposes of determining through administrative disqualification hearings whether or not intentional misrepresentation was made, misrepresentation shall consist of intentionally either (1) making a false or misleading statement or (2) misrepresenting, concealing, or withholding facts in order to obtain benefits to which the household is not entitled."

fraud hearing process and thereby increase use of administrative disqualifications. Service officials estimated that implementing regulations would be issued by February 1983.

Some of the legislative initiatives are now or soon will be operational program features; however, the Service needs to take more initiative to manage the fraud pursuit issue and help States increase the number of cases adjudicated. In 1977 we recommended that States be required to report information on the incidence, magnitude, and causes of recipient fraud identified and the dispositions of all such cases. We said that this information should be disseminated to the States.

The Service has not had an adequate system for routinely gathering accurate data on State fraud activities. Although some data had been received as part of States' annual budget submissions and through a monthly claims activity report, these reports had not provided relevant information which we believe is necessary to effectively track and identify problems in States' fraud pursuit activities. For example, the reports did not contain data on the number of cases food stamp officials forward to an investigative unit for further analysis, the number of cases that such units refer for administrative fraud hearings, the number and status of cases awaiting court or administrative adjudication, or the specific outcome of the adjudication process.

Further, Service officials told us that States had not always sent them annual budget data. They sometimes found that, when submitted, the budget data as well as the monthly claims data was incomplete and inaccurate. Service headquarters officials said that the lack of complete data made it difficult to monitor State efforts and require corrective State actions. Service officials also told us that their regional offices were not required to monitor or evaluate State fraud pursuit efforts, and the three regional offices we visited had devoted little management time to doing so.

We had also recommended in our 1977 report that the Service provide more guidance to States concerning the pursuit of alleged food stamp recipient fraud. We suggested that information be disseminated that would explain the jurisdictional criteria for prosecution in various courts, the types of evidence needed to secure conviction, and the best ways to acquire such evidence.

The Service had done little to develop this guidance, but two of its regional offices had sponsored workshops on fraud-related issues. The Mid-Atlantic Region workshops included sessions on the Federal role in fraud, including the role of USDA's OIG, and separate sessions on fraud investigation and prosecution in large metropolitan areas and rural or smaller urban areas. The Southwest Region workshop was described as a forum to share information and improve cooperation among offices responsible for program integrity issues. In addition, Service headquarters officials told us that the Mid-West Region had disseminated data on State statutes on fraud pursuit to States in that region and to other

Service regional offices. Also, since October 1981, the Service's headquarters had published three information pamphlets that detail its progress in promoting States' participation in enhanced funding for fraud pursuit and describe recent workshops and other events which focus on fraud. Such exchanges of information on technical matters among Federal, State, and local officials should be helpful. Service officials told us that they lacked enough funds to provide the States with more extensive technical assistance.

Service headquarters officials told us that until recently the Service had done little to encourage State fraud pursuit and adjudication. They said that previously they had not regarded fraud pursuit as an issue deserving much management attention. They acknowledged that State efforts to pursue fraud had not been adequate and had included only minimal use of the administrative fraud hearing process. Although Service interest in fraud pursuit had increased, its officials told us that the lack of systems to monitor State activities and the lack of funds to monitor and provide technical assistance could thwart the Service's efforts. Service officials told us that they had begun to promote State fraud pursuit through their approval process for State applications for enhanced administrative funding of fraud-related expenses and their increased interaction with State officials responsible for fraud pursuit.

CONCLUSIONS

The Service needs to escalate its efforts and develop a more effective approach to its management responsibilities regarding pursuit of potential recipient fraud in the Food Stamp Program. The results of our work and other statistical information available to the Service confirm State and local officials' opinions that substantially more fraud exists than has been identified, investigated, and adjudicated. Although local, State, and Federal officials generally agree that recipient fraud is a serious problem, the Service does not know how much of the program's estimated over-issuances has been attributable to recipient fraud and therefore has little basis for determining how much effort States should focus on fraud investigations and adjudication.

Recipient fraud is often not adjudicated because most over-issuances have not been identified and because of real or perceived problems with adjudication mechanisms. We reported on these problems in our 1977 report. States have continued to experience difficulties in pursuing large numbers of alleged food stamp fraud cases through court systems because many such cases involve small amounts and the courts have backlogs of cases involving more serious alleged crimes.

In line with recommendations in our 1977 report, the Congress has authorized States, as an alternative to referring cases to the courts, to determine through an administrative hearing process

whether an individual has fraudulently received benefits. We continue to believe that administrative adjudication of cases of alleged fraud is a viable alternative to the courts. Some States believe such a process is workable and have adjudicated cases involving alleged fraud in this manner. However, other States reported limited or no use of this technique and provided various reasons for not using it.

The Service, aware of the different levels of use as well as the reported problems with the process, now needs to assume a major role in helping States solve or lessen the barriers that State officials believe hinder or discourage their attempts to pursue cases of alleged food stamp fraud. Many of these problems are in areas in which the Service could help by analyzing States' procedures, providing technical and administrative assistance or advice, and facilitating information exchanges among the States to increase awareness of options and alternatives for adjudicating alleged fraud.

The Service has required the States to submit some information on their fraud pursuit activities, but this data does not provide a reliable comprehensive overview of all investigations, referrals, and dispositions of cases of alleged fraud. Such information is essential for devising overall fraud pursuit policies and strategies and surfacing indications of weaknesses in States' procedures.

As an integral element of its approach to fraud pursuit, the Service should obtain formal commitments from the States on how they plan to pursue fraud--through the State judicial system, the administrative fraud hearing process, or both. Also, the Service should assure itself that fraud activity is effectively pursued in line with these commitments.

The Service cannot continue to maintain a low profile in the pursuit of recipient fraud. Not taking assertive management steps will only make it more difficult for States to impress upon applicants the need for complete and accurate data and the consequences of any intentional misstatements provided for the purpose of receiving more than the deserved benefit level. States need to identify, investigate, and refer for adjudication those overissuances believed to have occurred because of recipient fraud--otherwise program integrity will continue to erode.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

We recommend that the Secretary:

- Determine the extent of recipient fraud within the Food Stamp Program and establish the appropriate level of State pursuit and adjudicative efforts needed to control recipient fraud.

- Require that States' program operating plans include adequate (1) methods and criteria for identifying cases in which a question of fraud may exist, (2) procedures (developed in cooperation with States' legal authorities) for referring to law enforcement officials cases in which a valid reason to suspect fraud exists, and (3) procedures for referring to an administrative fraud hearing process all cases not referred to or accepted for court prosecution for reasons other than insufficient evidence.
- Require States to periodically report pertinent information on their fraud pursuit activities. These reports should include information on all phases of fraud pursuit and adjudication, including the numbers and dollar amounts of all referrals to and from various levels of the investigative and adjudicative processes and the ultimate dispositions of the cases. Such data should identify backlogs in any of the investigative steps or adjudication procedures used.
- Periodically evaluate States' investigation and adjudication efforts to determine whether States collectively and individually are adequately pursuing potential food stamp fraud.
- Assess the problems that State officials have reported or may report as barriers to adjudicating alleged food stamp fraud and, to the extent practical, provide guidance and technical assistance necessary for resolving or decreasing the adverse effect of those problems.

AGENCY COMMENTS AND OUR EVALUATION

On our recommendation on the need to determine the extent of recipient fraud and to establish the appropriate level of State pursuit and adjudicative efforts, USDA said (see app. I) that the Service recognized the need to refine the data it receives on State agency fraud pursuit and it was examining information needs and availability to determine how best to monitor State agency performance in this area. According to USDA, this information would be used to develop improved State reporting systems and administrative initiatives to reduce the incidence of fraud.

In response to our recommendation that States' operating plans be required to include specific information relevant to the identification and referral of suspected fraud for adjudication, USDA listed the type of information that States must submit to obtain 75-percent Federal reimbursement of the administrative costs of pursuing suspected fraud cases. USDA said that as of November 1982, 47 States were approved for 75-percent funding for fraud pursuit and that Service regional offices were working with the remaining States to secure their participation.

According to USDA, the data provided by States applying for the enhanced funding is to include descriptions of the organizational entities to be funded, copies of statutes or court decisions under which food stamp fraud is to be prosecuted, and detailed descriptions of coordination between investigative and prosecuting units. The Service was also beginning to establish a framework for evaluating whether States' performance entitles them to continued receipt of 75-percent funding for fraud pursuit.

We believe that all States regardless of whether they apply or remain eligible for enhanced funding are responsible for developing and administering an effective fraud pursuit effort. In view of the numerous problems with States' adjudication of fraud as discussed in this report, we continue to believe that State operating plans should include for Service review specific State criteria for identifying suspected fraud and for channeling cases to the courts or the administrative fraud hearing process.

USDA said that the Service was taking action, as we recommended, to improve State reporting of fraud pursuit activities and to evaluate State performance. USDA said that the Service was developing a mandatory reporting system for States receiving enhanced funding for fraud pursuit. According to USDA, the Service had recently initiated a pilot project to determine what information is necessary to evaluate the effectiveness of fraud pursuit in recipient States and to determine what information is readily available to participating State agency personnel to track fraud activities and related costs.

USDA said that information obtained from this project would be used to develop improved State reporting systems which the Service expected to implement in 1983. USDA added that this information also would be used to develop State performance standards to enable the Service to evaluate procedures employed by the various State units responsible for investigations, fraud hearings, and prosecutions and to review States' continued eligibility to receive 75-percent funding for fraud pursuit. These actions could establish a foundation for effective reporting of fraud-related activities and subsequent Service evaluations of States' efforts.

USDA did not fully address our recommendation that the Service assess barriers to adjudicating fraud. It said that the Service was placing major emphasis on establishing service provider agreements to ensure that State agencies reimburse prosecutors for prosecuting food stamp fraud. USDA said that the Service was cooperating with the National Association of Attorneys General and various local private attorneys across the Nation to facilitate the flow of enhanced funding to prosecutors. USDA concluded that these actions showed an ongoing effort to assess problems State officials had reported or may report as barriers to adjudicating fraud and to provide technical assistance to solve these problems.

These actions, as long as they stress the identification of problems, can contribute to Service efforts to lessen the impact of barriers that may be hindering adjudication of suspected food stamp fraud, particularly cases referred to the courts for prosecution. However, our review showed that States have also experienced problems that obstruct the administrative fraud hearing process. The above actions would not address items such as the process' perceived nonpunitive and nondeterrent nature, cost, burden of proof, and lack of enforcement powers. Therefore, we believe that the Service should also work with State and local officials responsible for administrative fraud hearings to help identify solutions to problems that hinder the hearings process so that these problems can either be resolved or have their effect diminished.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

NOV 19 1964

Mr. J. Dexter Peach
Director
Resources, Community and Economic
Development Division
U. S. General Accounting Office

Dear Mr. Peach:

This is in response to the General Accounting Office draft report to the Congress entitled "Food Stamp Overissuances -- Billions Not Recovered and Fraud Not Pursued."

We have reviewed the proposed report and have enclosed our responses to the individual recommendations. We are greatly concerned, however, that this report, which will be sent to the Congress, deals in data which is two years old. Radical changes have been made in program administration, particularly in the area of recipient claims, since that time. We are also distressed that GAO attributes remarks to Food and Nutrition Service (FNS) officials which were taken out of context and, as a result, are misleading. (We will discuss this subject in more detail below.) Finally, we strongly object to the choice of title, which we feel is misleading and borders on sensationalism.

[GAO COMMENT: USDA's comments on the recency of the data in this report, certain recent changes in administration of recipient claims, and our treatment of Service officials' remarks are presented in more detail in subsequent sections of its response and are addressed on subsequent pages of this appendix. Although the title of the draft report factually described the nature of the program integrity problems confronting the Food Stamp Program and provided a perspective on the seriousness of the continuing problems discussed in the report, we have modified the title of the final report.]

GAO NOTE: Our evaluations of comments not covered at the end of the various chapters are included in this appendix. Page numbers have been changed to reflect page numbers in the final report.

We, conversely, do note that the report acknowledges recent FNS initiatives in the areas of identifying overissuances and improving collection of recipient claims.

This report also recognizes the appropriateness of our primary emphasis: prevention of the errors which cause overissuances (see report pages ii and 20.)

We appreciate General Accounting Office (GAO) acknowledgement of this emphasis despite the fact that it recommends a more aggressive approach to identifying overissuances after the fact. FNS maintains that the food stamp eligibility determination system is structured and is being improved so as to prevent overissuance through a detailed application and interviewing process. Mandatory verification of specific eligibility criteria (gross nonexempt income, for example) along with verification of optional and questionable information serves to ensure that information provided by a recipient household is accurate and complete. Finally, recertification at appropriate intervals allows eligibility workers to ensure that recipient information is current.

In addition to reliance on error prevention to control the overissuance of benefits, the system is structured to identify errors in previous certifications (through such mechanisms as recertifications and quality control reviews). States are currently required by regulation (7 CFR 273.18(a)) to establish claims against any households identified as having received more benefits than they are entitled to receive.

FNS maintains that these requirements (along with planned implementation of mandatory wage matching and monthly reporting), taken as a whole, comprise an adequate regulatory approach to the problem of identifying food stamp overissuances.

[GAO COMMENT: Our evaluation of these comments appears on page 22 of the report.]

GAO states throughout its report that FNS has failed to make a concerted effort to establish policies and procedures with regard to identifying overissuances, establishing claims and pursuing fraud. We take issue with this statement inasmuch as the facts presented in the report are dated and have been overtaken by events.

With the implementation of the 1977 Food Stamp Act, it may have been true that insufficient emphasis was placed on the aggressive identification of overissuances and the establishment and collection of recipient claims. Beginning in 1981, however, and continuing into the present, FNS has taken and continues to take bold strides toward improving State agency performance in this area. We will highlight some of these measures herein. We would like to point out, however, that the results of many of the FNS initiatives recently taken or yet to be implemented, have not had time to appear. GAO, throughout its report, recognizes that FNS has taken action and acknowledges (see page 5, last paragraph) that this action should produce substantial results when given time to work. Therefore, we recommend that the report be redone or updated at the end of fiscal year 1983 to present a more accurate picture.

[GAO COMMENT: This report accurately reflects the Service's and the States' efforts and effectiveness in identifying and collecting overissuances and pursuing fraud. At the time of our fieldwork, the 1980 and 1981 data on claims establishment and collections was the most current information available to us. When a draft of this report was submitted to USDA for comment on October 22, 1982, the Service had not yet released quality control review results for the 6 months ended September 30, 1981. We have since incorporated into the final report information recently provided or released by the Service. We have added Service data on claims activity for the first 6 months of fiscal year 1982 (see p. 25) and have revised the table on page 8 of the report to reflect quality control results for the last half of 1981 which the Service released during November 1982. This data showed a small decline in the percentage of erroneous payments and a marginal increase in claims establishment and collection activities. We do not believe this nominal change demonstrates any dramatic turnaround in States' performance.

Throughout the report we have recognized the potential positive impact of recently enacted legislation, included references to current Service initiatives to improve program administration, and expressed our concerns about the amount of time it has taken (and is taking) the Service to implement legislative changes.

We will be monitoring (1) the Service's performance in carrying out our recommended changes and (2) any other initiatives it plans to undertake. Also, consistent with the Service's suggestion, it may be appropriate to make a followup review within a year or two to determine if marked improvements have occurred in recovering overissuances.]

The following criteria must be considered when taking regulatory and legislative action recommended by GAO to improve this area of program operations:

1. The need to deal effectively with the problem of fraud and overissuance; while
2. avoiding unnecessary and burdensome regulatory restrictions which could contribute to increased errors; and
3. not affecting benefits for the needy and the elderly.

The major focus of our technical assistance to States is identification and transfer of successful techniques to reduce fraud, waste, and abuse. In this context, we are particularly interested in techniques and initiatives which can be implemented without regulatory action as well as pursuing legislative and regulatory improvements.

Contrary to that which is implied on page 58 of the report, FNS maintains that the absence of further specific regulatory activity (other than that already underway) in the area of identification of overissuances and fraud pursuit is not equivalent to the absence of a concerted effort or assertive management steps to focus attention on this area. FNS has and will continue to attack this problem aggressively.

Two broad agency initiatives are presently underway in this area: First, a comprehensive effort to aggressively attack the areas of program vulnerability associated with fraud, waste, and abuse is underway. As GAO noted, much effort has been expended in the past year in terms of program improvement. We expect to see the results of such efforts shortly. Initially, FNS activity to combat fraud, waste, and abuse and to improve program integrity was primarily focused in the area of legislation and regulations. Beyond these necessary legislative and regulatory amendments we have foreseen the need to take additional initiatives to enhance and build on these efforts. Over the past few months, an internal work group was convened to identify specific actions FNS could undertake to improve our current anti-fraud efforts. The outgrowth of this internal effort is a project we are calling Operation Awareness.

Operation Awareness is an agency-wide effort designed to reduce program losses attributed to fraud, waste, and abuse and to build public confidence in the integrity of the Food Stamp Program.

One component of Operation Awareness that is most relevant to many of GAO's recommendations is the coordination and implementation

of additional initiatives to impact program losses. We have identified and are in the process of implementing 25 individual initiatives to enhance the program's integrity. The majority of the initiatives are non-regulatory in nature and rely heavily on the identification, recognition, information sharing, and subsequent implementation of successful or promising techniques to reduce losses.

Several initiatives are planned or are being implemented to improve claims establishment, collection, and fraud investigations and prosecution.

These are as follows:

1. Use demonstration funds to facilitate State-to-State transfers of effective procedures.
2. Allow States and regions flexibility to allocate resources to problem locations or to specific program vulnerabilities.
3. Automate three significant program reports (recipient claims, mail loss and program activity) in order to improve the current management information system. The program activity report includes information on fraud prosecutions and hearings.
4. Gather information on the effectiveness of enhanced funding on investigative and prosecutive activities. Share information with States and evaluate for future consideration of a more extensive reporting system or regulatory performance requirements.
5. Establish liaison with the Department of Health and Human Services (DHHS) error reduction and information-sharing specialists to review its clearinghouse, library, and developed technical assistance materials in order to assist us to set up and successfully manage a similar system.
6. Allow and encourage use of telephonic fair and fraud hearings to reduce administrative costs and streamline hearing process in order to reduce the timeframe recipients receive benefits pending a hearing decision.
7. Undertake concerted effort to identify and transfer proven claims procedures from high performance States to those that demonstrate little collection activity.

8. Develop and maintain a system whereby regions and States are regularly informed of regulatory waivers to assist States in choosing methods of improving the efficiency and effectiveness of administration.

In addition to these specific initiatives, under Operation Awareness, we are developing a publication which will detail successful techniques. We plan to include in this publication information on claims collection. We also intend to expand our use of regional fraud workshops and conferences as another method to exchange information in the areas of fraud detection and prosecution. Finally, several of our regional offices will be undertaking anti-fraud, waste, and abuse initiatives over and above the eight initiatives outlined here as a part of Operation Awareness, reflecting the Agency commitment to reducing fraud, waste, and abuse.

Second, a restructuring of headquarters Family Nutrition Programs administrative staff is also underway. The proposed new structure will focus attention on our increased efforts in eliminating fraud, waste and abuse by combining all accountability functions into one organizational unit. This organizational unit will provide direction and leadership in the assessment, monitoring, and investigative efforts in the Food Stamp Program. Significantly, one section within this unit will be devoted to exploration of successful techniques for the prevention of fraud, waste, and abuse. It will also be responsible for coordinating the information gathering and sharing activities under Operation Awareness.

[GAC COMMENT: The initiatives the Service proposes as part of its Operation Awareness project and its organizational restructuring represent a start toward the comprehensive approach that we believe is necessary to effectively pursue and ultimately reduce overissuances. Because Operation Awareness has been in effect for only a short time and the reorganization was not effective until December 1982, an assessment of their effectiveness and impact on Service and State performance will have to be made at a later date.

We continue to believe that our conclusions and recommendations on the Service's management of overissuance and fraud pursuit issues focus on a variety of legislative, managerial, and regulatory actions necessary to address the problems identified in this report. We believe that taken together, aggressive implementation of our recommendations and strong pursuit of current and future Service initiatives could result in substantial improvements in overissuance recoveries and fraud prosecution.]

Although GAO has reported throughout on many of the regulatory initiatives taken by FNS to improve claims collection and fraud pursuit, we would like to take this opportunity to summarize and highlight some of the more promising activities. Two new regulations promise improvement in the area of identification of overissuances and establishment of claims:

1. Beginning January 1, 1983, States will be required to begin wage matching their food stamp caseload with the records of the Social Security Administration or the agency which administers the State unemployment compensation program. The Final Rule was published November 5, 1982.

[GAO COMMENT: Publication of the final rule is recognized on page 15 of the report.]

2. By October 1, 1983, States will be required to implement monthly reporting systems which will require certain households to report on household circumstances monthly.

In addition, there are several regulatory initiatives designed to increase our ability to prevent errors:

1. Proposed rules simplifying the method for determining the value of licensed vehicles are expected to be published November 19, 1982.
2. On August 27, 1982, FNS proposed rules to reduce the administrative complexity of the Program and increase State agency flexibility by:
 - (a) Reducing submission of the FNS 366A (Budget Projection Statement) from quarterly to annually.
 - (b) Eliminating the requirement that States submit for prior FNS approval all operating guidelines and forms that are used by eligibility workers in the certification process. Only the Application for Food Stamps and Change Report Form will still require prior FNS approval.
 - (c) Redefining FNS' authority to grant waivers, i.e., FNS may approve any waiver which is not inconsistent with statutory provisions and would not result in a material impairment of rights granted to the household by the Act or regulations.

Other actions which are planned or have been taken in the area of improving collection of claims include the following:

1. Since July 1980, States have been able to retain 50 percent of all collections on fraud claims.
2. States are now also able to retain 25 percent of collections on nonfraud claims resulting from recipient error. This provision is retroactive to January 1, 1982.
3. Proposed rules published June 22, 1982, will allow States to reduce benefits in order to recoup over-issuances in nonfraud claims resulting from recipient error. Publication of the final rule is anticipated in late November or December.

[GAO COMMENT: The retroactive feature of the 25-percent retention provision and the change in the anticipated publication date of final rules for benefit reductions have been added on pages 31 and 32, respectively.]

With regard to claims establishment and collections, GAO points out that quality control data indicates an overissuance amount in Fiscal Years 1980 and 1981 of \$2 billion, while States

established only \$108 million in claims. Relative to this comparison, we would like to emphasize the distinction between these two figures. Quality control statistics are projections based on a review of a limited number of cases in each State. The \$2 billion figure, therefore, represents an estimate of the probable amount of overissuance based on these statistics.

The amount of claims established, on the other hand, represents the actual amount of overissuances identified to specific households by the State agency. This amount may be recouped through cash repayment, benefit reduction or other methods at the State agency's option. We feel that this distinction is crucial.

It is also important to note in this context that the Food Stamp Act Amendments of 1980 (P. L. 96-249) which established sanctions and incentives for quality control projected payment error rates, recognized that, due to the complexity of program regulations, a certain amount of error is inevitable. Thus, rather than imposing fiscal sanctions for all errors, Congress adopted a tolerance level approach. States having error rates above a pre-established level or failing to reduce their error rate by a prescribed amount are subject to sanctions. Specifically, in Fiscal Years 1981 and 1982, the pre-established levels were 12.6 percent and 13.31 percent respectively. Moreover, the Omnibus Budget Reconciliation Act of 1982 (P. L. 97-253) also recognizes the appropriateness of the tolerance level approach by mandating a progressive reduction in quality control error rates from 9 percent to 7 percent to 5 percent in Fiscal Year 1985.

Notwithstanding Congressional recognition of the inevitable existence of some error in program eligibility determinations, FNS, through the measures detailed above, is committed to preventing errors and aggressively recouping identified overissuances.

FNS believes that all of the activities discussed above taken together will serve to bring the amount of claims established and collected closer to the amount projected as overissued through quality control estimates.

[GAO COMMENT: We recognize that the value of claims that States establish is significantly less than the projected value of all overissuances based on quality control review results. Our recommendations to the Congress and the Secretary of Agriculture stem from our convictions that this gap should be narrowed substantially. To fulfill its stated commitment to reduce that gap by preventing errors and aggressively recovering overissuances, the Service will have to assure, to the extent practical, that greater efforts are made and better results achieved in the States in identifying, establishing claims for, and collecting specific overissuances.

As USDA notes, food stamp legislation does not impose financial penalties on States for error rates below specified minimums. However, these tolerance levels do not relieve States of their responsibility for identifying overissuances, establishing claims, and recovering excess benefits to the extent practicable when considering the related costs and benefits.]

In the area of fraud pursuit and prosecution, FNS provides funding to approved State agencies at the 75 percent level. As of November 1982, 45 States are approved for 75 percent funding for fraud investigations and prosecutions; two additional States are approved for fraud hearings only. FNS is currently examining ways to evaluate States' performance in the area of fraud prosecutions and investigations.

[GAO COMMENT: The increase in the number of States receiving enhanced funding has been incorporated into the final report. (See p. 55.) Service actions relating to State performance in fraud investigations and prosecutions are discussed on page 57.]

Additionally, FNS is providing information to regional offices and States concerning fraud activities and 75 percent fraud funding on the National, regional, and local level. This information series is published periodically by the National office.

[GAO COMMENT: This information was added on page 57.]

Finally, GAO makes reference to remarks made by FNS headquarters and regional officials on pages 19 and 20 of the draft report. In the instances detailed below, these remarks have been taken and interpreted by GAO out of context. Specifically:

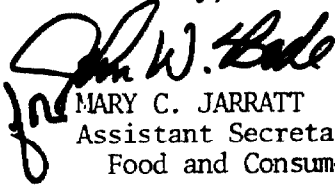
1. GAO quotes a Headquarters Service official as saying that "except for the efforts regarding wage matching, little attention has been paid to identifying erroneous cases." This remark was made in the context of a discussion of the preferred FNS approach to overissuances. Compared to the emphasis placed on preventing erroneous issuances, less emphasis had been placed on seeking out overissuance other than through routine program operations. We feel that this quotation is misleading taken out of context as it is here.
2. Western Region Service officials are quoted as saying that the "Service does not hold States responsible for identifying individuals who receive overissuance nor does it monitor whether the States actually seek to identify these individuals." The Western Regional officials, however, explained to GAO that they hold States responsible for identifying overissuances to the extent that program regulations require the identification of overissuances. The region also requires States to establish claims on all overissuances identified through quality control.
3. Southwest Regional officials are quoted as saying that "nothing was being done to identify individuals who were overissued benefits beyond what was identified as a result of program activities for other purposes." This statement was made in response to a question about regional office responsibilities for identifying individual overissuances. Identification of individual overissuances is the responsibility of State and local offices. This statement should be reworded to appropriately delineate the division of Federal/State responsibilities regarding claims and collections or deleted from the report.

[GAO COMMENT: Our presentation of these points has been modified. (See pp. 19 and 20.)]

More detailed information is contained in our specific responses to each recommendation. We appreciate this opportunity to comment on the draft report.

[GAO COMMENT: USDA's specific responses to each recommendation are discussed at the conclusion of the chapters containing those recommendations. (See pp. 22, 43, and 59.)]

Sincerely,



MARY C. JARRATT
Assistant Secretary for
Food and Consumer Services

Enclosure

1.a. GAO Recommendation:

Issue regulations specifically requiring States to identify and correct erroneous issuance cases (1) as a by-product of routine program procedures required for other purposes (such as recertifications) and (2) through computer matching and other specific identification techniques that can detect multiple program participation and discrepancies in household-reported eligibility/benefit data.

FNS Response:

FNS regulations (7 CFR 273.18) already require that State agencies establish claims on all identified overissuances. States are required to recertify households at appropriate intervals by reviewing all household circumstances (7 CFR 273.14). States are also required to conduct in-depth quality control reviews of a sample of cases (7 CFR 275.10). These two ongoing program procedures combined with the requirements to establish claims provide an adequate regulatory basis for the identification of overissuances as a by-product of routine program procedures.

Beginning January 1, 1983, States will be required to perform wage matching of the food stamp caseload with the records of the Social Security Administration or the State agency which administers unemployment compensation. The final rule was published November 5, 1982. In addition FNS plans to explore the availability of other computerized data bases and disseminate the information to States.

1.b. GAO Recommendation:

Require States to identify erroneous issuances caused by classes of eligibility criteria that quality control results or other available information show as causing substantial dollar errors (as determined by the Secretary) in that State.

FNS Response:

States are already required to analyze and evaluate all management information including the results of quality control reviews, management evaluation reviews, audits and FNS reviews to identify the cause and extent of deficiencies (7 CFR 275.15).

2. GAO Recommendation:

Explore with the States ways in which error prone profiles could be used, in conjunction with computer matching and other identification techniques, to pinpoint household circumstances which have high error potential so that States' administrative resources can be directed toward corrective actions which will result in maximum benefits.

FNS Response:

As is stated in the report (page 14), FNS is exploring ways in which error prone profiles (EPP) could be used by funding demonstration projects in three States. The potential uses of EPP's which are being explored in these demonstration projects relate to determining the length of the certification period and to increased verification.

In addition, as noted on page 14 of the report, the Automated Quality Control System, once in place nationwide, will provide for nationwide data analysis and development of an error prone profile.

3. GAO Recommendation:

Require the Service to solicit, compile and distribute to the States information on the availability of different kinds of data files which could and should be used to verify household data items that have major bearing on program eligibility and benefit levels.

FNS Response:

In the first half of 1982, FNS conducted a survey of our State agencies concerning current wage (computer) matching techniques. This information was organized and disseminated to the Regional Offices to be sent to the States. This same information was provided to the President's Council on Integrity and Efficiency (PCIE). PCIE compiled a catalogue of all State matching activity in welfare programs (including the information provided by FNS). This draft catalogue is currently being circulated to the States and other Federal agencies for comment.

Finally, in September 1982, FNS was asked by a Department of Labor work group to comment on a set of standardized computer matching formats to be used by States. Since FNS does not maintain casefile information and therefore does not conduct matches, we forwarded the formats and accompanying questionnaire to our Regional Offices. The Regions will provide the questionnaire to any States which desire to participate.

Implicit in this recommendation is that FNS maintain an ongoing flow of communication between States and FNS, as well as among States themselves. We concur that fostering ongoing communication among the States can serve as an equally effective source of technical assistance. For this reason, FNS plans, under the auspices of our proposed Operation Awareness, to collect from States and then disseminate successful techniques for eliminating fraud, waste and abuse through an information series. Also under Operation Awareness, we hope to provide funding for State-to-State technology transfers under our demonstration provisions.

4. GAO Recommendation:

Require the Service to revise the present claims report received from the States monthly to include information on the number and value of erroneous issuance cases identified through each of the various identification methods that are available. This information should be assessed and distributed to inform States on the effectiveness of the different methods being used.

FNS Response:

FNS is currently revising the recipient claims report (FNS-209) in order to incorporate changes being made in the regulations (25 percent retention of nonfraud recipient error claims, nonfraud recoupment on claims resulting from household error, etc.). To incorporate the information which GAO recommends would be difficult at best since it would greatly increase the recordkeeping and reporting burden associated with the form. Technically, we do not believe it feasible to include such information on a monthly or quarterly claims report.

However, we do recognize that assessing the effectiveness of State agency methods for the identification of overissuances and establishment of claims is important. Because of the difficulty of implementing new and more complex reporting requirements, and in view of the existing Information Collection Budget, FNS is examining other ways to accomplish this same end. One method which may prove feasible is the targeting of Management Evaluation reviews to examine closely areas of State agency administration which are determined to be high priority (for example, claims, reconciliation of Authorization-to-Participate cards, etc.).

5. GAO Recommendation to the Congress:

Amend the Food Stamp Act of 1977, as amended, to require recovery of overissuances by reducing monthly benefits of recipient households regardless of the reason for the improper issuance. To accomplish this, we suggest that §13(b)(2) be amended by deleting the phrase "and claims arising from an error of the State agency."

FNS Response:

FNS will examine the feasibility, effectiveness and impact of reducing household benefits to recover overissuances resulting from an error by the State agency before recommending that Congress adopt such a provision.

6. GAO Recommendation to the Congress:

Add a new §13(b)(3) to require States to promptly take all necessary steps to recover any overissuances from households no longer participating in the program. We suggest that the new §13(b)(3) read as follows: "(3) For any overissuance to an individual or household no longer receiving food stamp benefits, State agencies shall take appropriate action under State law against the income or resources of the individual or household to recover such overissuance."

FNS Response:

States already have the authority to recover overissuances in any way which is not in conflict with State law.

FNS prefers to identify and provide to States descriptions of successful techniques which they may use at their option. States administer the program in a variety of ways. We have found it more effective to allow States to choose the method which is appropriate to their administrative structure.

7. GAO Recommendation:

Evaluate each State's performance in establishing and collecting claims. Such evaluations should reveal individual State's, as well as programwide, strengths and weaknesses in the claims establishment and collection process and provide a basis for a Service determination of whether administrative sanctions are warranted.

FNS Response:

In 1981, FNS began a comprehensive review of State agency claims reports. This review identified which States were most successfully establishing and collecting claims and which were least successful. Questionnaires were sent to the 11 States which had the best collection record in order to solicit information on the more successful techniques. This information was compiled and disseminated to the Regional Offices.

As stated earlier, the recipient claims report (FNS-209) is currently being revised. Once implemented, the form will be automated to facilitate review and analysis of the data submitted.

Claims activity is (and has been for the past two years) an area of primary emphasis in program administration. Upon completion of the proposed restructuring of Family Nutrition Programs administrative staff, one unit will be devoted to exploration of successful techniques for the elimination/prevention of fraud, waste and abuse. This will focus attention on various vulnerable program areas. One such area will be overissuance and claims activity. This group will also be responsible for the correlation of claims data with audits, investigations and State agency reviews, for example.

Finally, this group will be responsible for conducting many of the technical assistance and information dissemination activities of the proposed Operation Awareness.

8. GAO Recommendation:

Provide technical assistance, based on evaluation and monitoring efforts and other available information, to improve State claims establishment and collection activity as may be needed.

FNS Response:

FNS Regional Offices provide technical assistance to States as necessary. In addition, as we have stated previously, FNS plans to greatly increase the resources devoted to technical assistance through restructuring of administrative staff and through accumulation and dissemination of information. Our proposed Operation Awareness is aimed at information sharing among States within the program as well as identifying techniques which may be adapted from other programs.

9. GAO Recommendation:

On page 42, GAO recommends that the Secretary emphasize more timely implementation of any future legislation intended to reduce program costs.

FNS Response:

Beginning with the current Fiscal Year, the Department has established a goal of issuing regulations within six months following passage of a law.

[GAO COMMENT: This proposal was deleted from the final report. (See p. 45.)]

10. GAO Recommendation:

Determine the extent of recipient fraud within the Food Stamp Program and establish the appropriate level of State pursuit and adjudicative efforts needed to control recipient fraud.

FNS Response:

FNS recognizes that the agency needs to refine the data it receives in relation to State agency pursuit of fraud. We are presently examining information needs and availability to determine how best to monitor State agency performance in the area of fraud identification and prosecution. Information obtained from this examination will be used to develop improved State reporting systems and administrative initiatives to reduce the incidence of fraud.

11. GAO Recommendation:

Require that States' program operating plans include adequate (1) methods and criteria for identifying cases in which a question of fraud may exist, (2) procedures (developed in cooperation with States' legal authorities) for referring to law enforcement officials cases in which there is a valid reason to suspect fraud, and (3) procedures for referring to an administrative fraud hearing process all cases not referred to or accepted for court prosecution for reasons other than sufficient evidence.

FNS Response:

In order to be approved for 75 percent anti-fraud funding, States must provide:

- a) a description of the organizational entities funded, including the fraud hearing, investigation or prosecution functions;
- b) copies of the statutes or court decisions under which food stamp fraud cases are prosecuted;
- c) a detailed description of the coordination between investigative and prosecuting units; and
- d) an agreement that investigative reports will be made available to USDA on request.

At this point, 47 States are approved for 75 percent anti-fraud funding and have provided this information. FNS Regional Offices are working with the remaining States to secure their participation in this effort.

12. GAO Recommendation:

A. Require States to periodically report pertinent information on their fraud pursuit activities. These reports should include information on all phases of fraud pursuit and adjudication, including the numbers and dollar amounts of all referrals to and from various levels of the investigative and adjudicative processes and the ultimate dispositions of the cases. Such data should identify backlogs in any of the investigative steps or adjudication procedures used.

B. Periodically evaluate States' investigation and adjudication efforts to determine whether States collectively and individually are adequately pursuing potential food stamp fraud.

FNS Response:

Fiscal Year 1981 marked the first time that FNS attempted to obtain fraud control data from the State agencies, with the implementation of the FNS-366 (Program and Budget Summary Statement) reporting form. Although some States submitted only partial reports, a total of approximately 32,000 food stamp investigations involving nearly \$11,000,000 was reported. The number of investigations will increase during Fiscal Year 1982, due in large measure to the impact of 75 percent funding.

The entire 75 percent funding initiative is now being carefully evaluated. This includes a consideration of additional monitoring requirements through the development of a mandatory reporting system for participating States. The National and Regional Coordinators for 75 percent funding have recently initiated the "Enhanced Funding Pilot Information Retrieval Project." The main objectives of the pilot project are to determine what information concerning enhanced funding for fraud investigations, fraud hearings and prosecutions is necessary to evaluate the effectiveness of participating States and to determine what information is readily available to participating State agency personnel to track fraud activities and related costs. Information obtained from this project will be useful in the development of improved State reporting systems, which we expect to implement in 1983. The information will also be used to develop State performance standards to enable FNS to evaluate procedures employed by the various State units responsible for investigations, fraud hearings and prosecutions, and States' continued eligibility to receive 75 percent fraud funding.

13. GAO Recommendation:

Assess the problems that State officials have reported or may report as barriers to adjudicating alleged food stamp fraud and, to the extent practical, provide guidance and technical assistance necessary for resolving or decreasing the adverse effect of those problems.

FNS Response:

FNS is placing major emphasis on the establishment of service provider agreements between State agencies and prosecutors to insure that they are reimbursed for prosecuting food stamp fraud. FNS is presently cooperating with the National Association of Attorneys General to facilitate the flow of enhanced funding to prosecutors. Contacts have also been made with various local private attorneys across the Nation for the same purpose. Thus, there is an ongoing effort to assess problems State officials have reported or may report as barriers to adjudicating fraud and to provide technical assistance to solve these problems, as suggested by GAO.

14. GAO Recommendation:

Issue regulations necessary to implement existing legislation aimed at promoting or facilitating State fraud pursuit activities within the minimum time period allowed by law.

FNS Response:

As we stated earlier, FNS is currently streamlining the regulatory clearance process in order to expedite implementation of all such legislation.

[GAO COMMENT: This proposal was deleted from the final report. (See p. 45.)]



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