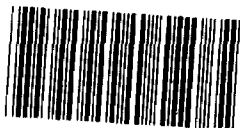


~~1146~~  
129643

United States General Accounting Office  
Washington, D.C. 20548



129643

FOR RELEASE ON DELIVERY  
Expected at 2:00 p.m. EST.  
Wednesday, April 16, 1986

STATEMENT OF  
BRIAN P. CROWLEY  
SENIOR ASSOCIATE DIRECTOR  
RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION  
BEFORE THE  
SUBCOMMITTEE ON DOMESTIC MARKETING,  
CONSUMER RELATIONS, AND NUTRITION  
OF THE  
HOUSE COMMITTEE ON AGRICULTURE  
ON THE  
USDA AND OTHER PROPOSALS TO  
REDUCE FOOD STAMP PROGRAM EXPENDITURES

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today at your invitation to discuss work relating to the Department of Agriculture's Food Stamp Program. You specifically asked that we describe the results of recent GAO reports that address USDA's fiscal year 1987 budget proposals or that offer some alternative and/or additional approaches for saving Food Stamp Program dollars.

As you are well aware, USDA's fiscal year 1987 budget proposals would revise several provisions enacted in the 1985 Food Security Act and would put in place several other

035150

provisions that were rejected by this Subcommittee during its consideration of the Food Security Act enacted last December. USDA estimates that if enacted, its proposals would reduce Food Stamp Program expenditures by \$313 million in fiscal year 1987. The bulk of these savings would be achieved by (1) increasing the eligibility and benefit level criteria to reduce participation and the benefit amounts being provided to remaining participants and (2) decreasing the funds the federal government provides states to administer the Food Stamp Program. Most of these changes involve policy decisions that can be made only by the Congress. We have not done any work that would define the impact these changes would have on the program or its participants and so we do not have any comments on the specific policy-related proposals.

However, we have issued several reports that relate to one of the administration's budget proposals on the quality control and error rate sanction systems. We also recently issued a report that describes how the federal government can save program funds by improving the recovery of overissued food stamp benefits. My statement today will summarize the issues discussed in those reports.

#### QUALITY CONTROL AND ERROR RATE SANCTION SYSTEMS

The first issue I will discuss involves the quality control and error rate sanction systems. As you know, the quality control system measures the types and extent of errors states

make when determining Food Stamp Program eligibility and benefit amounts. USDA has proposed that states with food stamp error rates exceeding a 5-percent target be sanctioned, or financially penalized, an amount equal to their excessive overissuances. The current sanction system has a 5-percent error rate target for fiscal year 1987 and beyond, but the amount of a state's sanction is based on a percentage of the federal reimbursement that states receive to administer the Food Stamp Program. USDA estimates that basing sanctions on the amount of excessive overissuances--instead of state administrative costs--would result in an additional \$11 million in savings to the federal government in fiscal year 1987.

As I am sure you will recall, the original sanction system established by the 1980 Food Stamp Act Amendments called for a dollar-for-dollar relationship between overissuances exceeding the national average and sanction amounts. However, when the Congress passed the 1982 Food Stamp Act Amendments, it phased in a 5-percent error rate target. It also changed the basis for the sanction amount to a percentage of the state's administrative expenditures and excluded underpayments from the target error rate.

Since 1982, in testimony before this Subcommittee and the Senate Committee on Agriculture, Nutrition, and Forestry, we have supported the concept of error rate sanctions because they give states a financial incentive to reduce program errors.

However, reducing program errors sometimes requires states to increase the amount they spend to administer the Food Stamp Program. In our April 1985 food stamp overview and perspectives report,<sup>1</sup> we pointed out that under the current sanction system a state that spends more to operate the program would be sanctioned more than another state that has the same error rate but spends less to administer the program. Therefore, to some extent, the current sanction system may give states a disincentive to spend the administrative funds needed to reduce program errors.

In an April 1984 report,<sup>2</sup> we noted that for the Aid to Families With Dependent Children (AFDC) Program, states are liable for the full cost of overissuances exceeding a specified target error rate. In that same year the Subcommittee approved H.R. 5151, which contained a provision that would have calculated food stamp sanction liabilities on a similar basis. In 1985 testimony before the Subcommittee, we supported legislative tightening of the food stamp sanction system similar to the H.R. 5151 provision and USDA's current proposal. As you will recall, H.R. 5151 was not enacted.

---

<sup>1</sup>Overview and Perspectives on the Food Stamp Program  
(GAO/RCED-85-109, Apr. 17, 1985).

<sup>2</sup>Federal and State Liability for Inaccurate Payments of Food Stamp, AFDC, and SSI Program Benefits (GAO/RCED-84-155, Apr. 25, 1984).

We believe that sanction amounts should be tied directly to excessive overissuances rather than based on administrative costs. Whether there is a direct dollar-for-dollar offset or whether the error rate targets should be changed are matters for the Congress to decide. The important point is that the financial incentive, at whatever level, be tied directly to the amount of overissuances.

Another issue related to the error rate sanctions, which is perhaps the most significant obstacle to enforcement of error rate targets, is the question of the accuracy of the quality control system and the reliability of the error rates it produces. Currently, Agriculture has sanctioned 26 states a total of \$56 million on the basis of their quality control error rates for fiscal years 1981-83. Only one state has paid a sanction--Connecticut for \$1 million. Some states have had their sanctions waived, and others are challenging the accuracy of the error rates to USDA's State Food Stamp Appeals Board or are preparing for a possible legal test of the quality control system in the federal courts.

Because of the states' concerns, the Congress placed a 6-month moratorium on sanctions, which is scheduled to expire on June 24, 1986, and called for USDA and the National Academy of Sciences to evaluate the operation of the quality control system. As of today, contracts for these evaluations have yet

to be finalized, and the results are not expected to be available until at least 1 year after the moratorium expires.

We have completed one review of the quality control system during the past year and currently have two more ongoing reviews that will provide valuable insights into this issue. In an April 1985 food stamp quality control report,<sup>3</sup> issued to this Subcommittee, we analyzed the statistical precision of the fiscal year 1983 estimated quality control error rates that USDA officially released in the spring of 1985. We found that the precision of these error rate estimates varied significantly from state to state. For example, last spring Agriculture sanctioned Vermont \$705,000 because its fiscal year 1983 error rate of 16.2 percent exceeded the 9-percent target error rate for that year. We found that at a 95-percent level of confidence, Vermont's error rate could have been as high as 19.6 percent or as low as 12.8 percent. Using the end points of the range, Vermont's sanction could have been as high as \$1,030,000 or as low as \$271,000. On the other hand, we found that error rate estimates for some states were quite precise. For example, USDA estimated Maryland's fiscal year 1983 error rate to be 7.1 percent. We found that at a 95-percent confidence level, Maryland's error rate ranged only from 6.3 percent to 7.9 percent. For fiscal year 1983, Maryland would not have been

---

<sup>3</sup>Quality Control Error Rates for the Food Stamp Program,  
(GAO/RCED-85-98, Apr. 12, 1985).

sanctioned--regardless of what point in that range was used.

Last spring Congressman Jeffords introduced, and this Subcommittee considered, H.R. 2621, a bill that would have changed the basis for assessing state sanctions from the statistical midpoint of the range of estimated error rates to the lower limit of each state's estimated range. Congressman Matsui introduced similar legislation regarding the AFDC Program. The Congress has not acted on either bill. Although there has been congressional interest shown in the precision of error rates, USDA does not routinely calculate statistical ranges for its error rate estimates--even though it would be relatively simple to do so.

For the past year we have been evaluating USDA's official fiscal year 1984 Food Stamp Program error rates at the request of the Chairman of the Senate Committee on Governmental Affairs. On the basis of these error rates, USDA recently sent letters to 36 states notifying them of \$81 million in sanctions for that year. USDA plans to collect these sanctions when the moratorium expires on June 24, 1986. Our report to the Chairman will evaluate (1) the soundness of the quality control systems in selected states, (2) the adequacy of USDA's oversight of state quality control efforts, and (3) the statistical accuracy of USDA's official Food Stamp Program error rate calculations. Our report should be issued by the time the sanction moratorium expires and should address many of the questions the Congress

expects USDA and the National Academy of Sciences to analyze in their planned studies.

Finally, I would like to mention that, at the request of this Subcommittee, we have recently begun a review to evaluate quality control error rates for the improper denial and termination of food stamp benefits. As you requested, our review, among other things, will look at the soundness of these error rates and examine trends in state denial and termination error rates since sanctions were initiated. Because our audit work began just last month, we do not have preliminary findings to report at this time.

#### RECOVERING FOOD STAMP OVERPAYMENTS

I would now like to discuss an area that is not directly related to any of USDA's budget proposals but that has the potential for saving the federal government tens of millions of dollars each year. Unlike USDA's proposals, these savings could be achieved without restricting program eligibility or decreasing federal funding for state administrative efforts. The area I am talking about relates to efforts on the part of states to recover overpayments of benefits in the Food Stamp Program.

Historically, states have had difficulty recovering benefit overissuances made to households participating in the Food Stamp Program. During fiscal years 1981-84, states collected about 3 cents of every dollar of food stamp overissuances. When



overpayments are discovered, claims are established against the participants to recover the overpaid benefit amount. During fiscal years 1981-84, states established claims for less than 10 percent of their overissuances and collected less than 25 percent of the established claims. The Agriculture Inspector General estimated that, as of January 1984, about \$263 million of claims remained uncollected. Recent USDA data indicate that states are making progress at collecting a greater percentage of food stamp claims. For example, states collected about one-third of the claims established in fiscal year 1985.

In a report issued last month,<sup>4</sup> we offered a number of legislative and administrative actions that could be taken or considered to improve the recovery of food stamp overpayments and help reduce the backlog of unpaid claims. I will briefly discuss a few of these suggested actions.

Using recoupment to collect  
agency-caused overpayments

Food stamp legislation currently requires states to recover all benefit overissuances. For participant-caused errors that are not voluntarily repaid, states are required to recover the overissuance by deducting an amount from the monthly benefits otherwise due the participant--a procedure called recoupment. In our recent report and in 1984 and 1985 testimony

---

<sup>4</sup>Benefit Overpayments: Recoveries Could Be Increased in the Food Stamp and AFDC Programs (GAO/RCED-86-17, Mar. 14, 1986).

before this Subcommittee and the Senate Committee on Agriculture, Nutrition, and Forestry, we recommended that the Congress amend the Food Stamp Act of 1977 to conform with AFDC legislation that provides for mandatory recoupment of all overissuances, regardless of whether they are agency-caused or participant-caused. We estimated that such a change would have increased collections by 7 percent in the 11 locations we reviewed and, according to national projections made by the Agriculture Inspector General, could save the federal government about \$17 million a year.

Making collection actions more  
timely and efficient

Recoupment is an effective collection tool, but it requires taking collection action soon after the overpayment is identified. If not, the participant, in many cases, leaves the program and recoupment is not possible. Starting the collection process sooner, therefore, would increase the amount collected while the recipient is in the program.

We found that if priority were given to such claims, collections would increase significantly. Therefore we recommended that USDA require priority processing of claims involving current participants by establishing time-period criteria that would require prompt collection action on such claims. We estimated that this plus other changes designed to improve the timeliness of collection actions could have

increased collections an additional 7 percent in the locations we visited. According to national projections made by the Agriculture Inspector General, requiring states to give priority to processing such claims could save the federal government about another \$18 million a year.

Intercepting federal income tax refunds  
to collect from former participants

States have always had difficulty collecting from former participants, and one possible way of improving collections on these claims is to offset federal income tax refunds to recover delinquent overpayments from former food stamp participants. Recent experience with using this technique to collect delinquent child support payments indicates that the procedure may be cost-effective. While this experience provides some indication of the potential benefits of using federal tax intercepts, the cost-effectiveness of this technique, as well as its impact on former food stamp participants and the federal tax system, is largely unknown and should be more definitively determined.

The Internal Revenue Service is conducting a 2-year test of the feasibility of federal tax refund offsets. If the 2-year test proves that offsets are feasible, the Congress should consider authorizing the use of federal income tax refund offsets for the Food Stamp Program on a trial basis to improve recoveries from former participants.

## SUMMARY

In summary, the Congress has been very sensitive to the concerns of the states who must collect food stamp overpayments and the program participants who are subject to these collections. In 1981 the Congress responded to state officials' concerns about the absence of sufficient financial incentives and effective collection tools. The Congress strengthened collection techniques by authorizing the use of recoupment for participant-caused overissuances. To give states greater incentive to collect more overissued benefits, the Congress also allowed states to keep 25 percent of food stamp collections on claims caused by nonfraud participant errors. Indications are that collections have increased since the 1981 provisions were enacted. Our recommendations would add to the tools that the Congress gave the states 5 years ago to collect food stamp overissuances.

While the Congress has enacted provisions to strengthen state collection efforts, it also has sought to safeguard the well-being of needy households. To prevent undue hardship on participants, the Congress limited the amount of recoupment to 10 percent of a household's monthly benefit or \$10, whichever is greater. Also, collection action can be suspended if the state determines that such action would cause undue hardship to the participant. I would emphasize the need for the Congress to continue to balance the competing concerns of participants, the

states, and the federal government as it explores ways to save federal dollars.

— — — —

Mr. Chairman, that concludes my statement. We will be glad to respond to your questions.