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Report to the Chairman, Subcommittee on
Domestic Marketing, Consumer Relations,
and Nutrition, Committee on Agriculture,
House of Representatives

October 1987

FOOD STAMP PROGRAM

Evaluation of Improper Denial or Termination Error Rates



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**Resources, Community, and
Economic Development Division**

B-217883

October 22, 1987

The Honorable Leon E. Panetta
Chairman, Subcommittee on Domestic
Marketing, Consumer Relations,
and Nutrition
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

This report discusses the reliability of the Food Stamp Program's improper denial or termination error rates that states report to the U.S. Department of Agriculture. This report is the third product issued as part of an overall review of food stamp denials and terminations. Our overall review is still ongoing at the Department of Agriculture's Food and Nutrition Service and at selected states. At a later date, we anticipate reporting on the reasons why food stamps are being denied or terminated.

This report includes several administrative actions to upgrade the quality control system and increase the reliability of Food Stamp Program improper denial or termination error rates. We believe that our recommended changes are consistent with the intent of both the Congress and the administration to emphasize the importance of providing needy persons with the food stamps that they are entitled to.

We are sending copies of this report to the appropriate House and Senate committees; interested members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties.

Major contributors to this report are listed in appendix III.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Executive Summary

Purpose

In 1985 food stamps totaling over \$10.8 billion were issued to households to help them purchase food and obtain a more nutritious diet. However, in that same year about 5 million households either had their applications for food stamps denied or their participation in the program terminated. According to state reports, about 3 percent of these food stamp denials or terminations were improper. Concerned about the accuracy of state-reported improper denial or termination error rates, the Chairman, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture, asked GAO to conduct this review.

Background

The Food Stamp Act of 1977 established the quality control system under which states conduct reviews to identify and measure incorrect food stamp eligibility determinations and issuances.

Agriculture regulations require each state to carry out its quality control reviews by selecting a statistically valid sample of its Food Stamp Program's applicant and participant (household) caseload. The state's quality control staff then must review the cases in the sample to verify the accuracy of the state's eligibility determinations and the amounts of benefits provided. From this information the state determines its error rates and reports them to Agriculture's Food and Nutrition Service. The reports on improper denial or termination error rates are validated by the Department of Agriculture only when a state is eligible for additional reimbursement of administrative funds (known as enhanced funding).

GAO assessed the accuracy of state-reported improper denial or termination error rates which include such errors as (1) incorrectly interpreting information regarding applicants' and participants' eligibility, (2) not obtaining sufficient documentation to render a proper eligibility determination, and (3) not providing applicants and participants with the required amount of time to document their eligibility. GAO conducted its review in two states—Illinois and Maryland—and the two Agriculture regional offices that oversee them. In fiscal year 1985, Illinois reported an improper denial or termination error rate higher than the national average whereas Maryland reported a lower improper denial or termination error rate. In the two states, GAO reviewed 316 of the 1,840 fiscal year 1985 denials or terminations that the states randomly selected for review. Using the criteria specified in Agriculture regulations, handbooks, and policy guidance and information from states' quality control reviews and local food stamp offices' case records, GAO attempted to

make eligibility determinations independently from state quality control review determinations.

Results in Brief

Illinois and Maryland detected 40 and 15 percent, respectively, of the improper denials or terminations that GAO found in its sample from each state. As a result, GAO projected that the improper denial or termination error rates were 22.5 percent for Illinois and 12.4 percent for Maryland whereas the states reported error rates of 9.1 and 2.2 percent, respectively.

GAO found that about 42 percent of the households it identified as having been improperly denied or terminated from the Food Stamp Program lost benefits as a result of the errors. Such errors caused the households to lose \$10 to \$234 in monthly food stamp benefits to which they were entitled. About 9 percent of the improperly denied or terminated households did not lose any benefits. Benefit losses, if any, could not be determined for the remaining 49 percent.

Until GAO informed Agriculture of the problem, it was not aware that the state-reported denial or termination error rates were not accurate because Agriculture was not required to routinely validate the results of these state reviews.

GAO's Analysis

Types of Improper Denials or Terminations Not Detected by States

Illinois and Maryland quality control reviews overlooked three types of errors made by local food stamp offices when deciding to deny or terminate benefits. Specifically, the states did not detect the local offices'

- incorrect determinations of an applicant's or participant's eligibility,
- inadequate documentation of the basis for deciding to deny or terminate benefits, or
- failure to provide households with the prescribed amount of time to complete the application process.

The following examples illustrate the types of errors that GAO detected but state quality control reviewers overlooked.

- In December 1984, Illinois denied the application of an unemployed Madison County man. In his application, the man indicated that he had no income, lived in his van, and used his brother's house as his mailing address. The state concluded that because the man gave his brother's address, he could not be considered a separate household, and therefore denied the application. GAO contacted the brother's household to verify the man's living arrangements and was informed that the man lived in his van and usually only stopped by to pick up his mail. GAO also found that the man had been approved for food stamps previously when he had a post office box as his mailing address. The state's records also showed that the man was later approved for food stamps when he again used a post office box as his mailing address.
- In August 1985, Maryland denied the application of a 61-year-old Montgomery County woman. Her food stamp application listed medical expenses of \$100 a month to treat her heart disease, high blood pressure, and kidney ailments. Although the Montgomery County food stamp office did not ask for documentation to support these expenses, Maryland denied the application because it did not consider the medical expense deduction and applied an incorrect income standard. GAO recalculated the woman's eligibility and found that even when all medical deductions were excluded, she was still eligible for food stamps. In addition, when the woman reapplied for food stamps 8 months later, Maryland verified monthly medical expenses of \$165.

Benefits Lost by Otherwise Eligible Households

State reviews of denials or terminations are procedural and measure states' compliance with process and documentation requirements. As such, these reviews do not necessarily demonstrate whether the state's error caused the household to lose benefits to which it was otherwise entitled or measure the amount of benefits that may have been lost. However, in its subsample, GAO determined that about one-quarter of the Illinois households and about two-thirds of the Maryland households lost benefits because of the states' errors. Such errors caused the households to lose from \$10 to \$234 in monthly food stamps to which they were entitled. About one in five of the households in Illinois did not lose any benefits. For the remaining households in Illinois and in Maryland, benefit losses, if any, were not determinable.

Explanations for Inaccurate Denial or Termination Error Rates

The Food and Nutrition Service said that it devoted its resources to validating overissuances to determine whether states were subject to sanctions established by the Congress and only validated improper denials or terminations if states were potentially eligible to receive enhanced funding. Similarly, state officials said they focused on measuring overissuances rather than denials or terminations. Service officials said that in the future, they intend to validate improper denial or termination error rates.

Recommendations

To improve the accuracy of improper denial or termination error rates, GAO recommends that the Secretary of Agriculture require the Administrator, Food and Nutrition Service, to (1) annually review a sample of each state's quality control reviews of denials or terminations and adjust the state's reported denial or termination error rates accordingly and (2) examine alternatives to encourage states to reduce improper denials or terminations, including seeking authority to hold states financially liable for their improper denials or terminations. Another GAO recommendation aimed at improving the effectiveness and timely completion of the quality control review process appears in chapter 2.

Agency Comments

Agriculture, Illinois, and Maryland said that the information presented in the report was factually correct. Moreover, Agriculture and Illinois said that they had begun implementing corrective actions in accordance with most of GAO's recommendations. Illinois noted, however, that while it agreed that alternatives should be examined to encourage states to reduce improper negative case actions, states should not be held financially liable for improper denials or terminations. Maryland felt that while the information in the report was accurate, it did not sufficiently reflect the role of inadequate guidance by the Service in Maryland's problems. The text of Agriculture's, Illinois', and Maryland's comments appear in appendixes I and II, and GAO's responses appear at the end of chapter 2.

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Abbreviations

AFDC	Aid to Families with Dependent Children
GAO	General Accounting Office
RCED	Resources, Community, and Economic Development Division
USDA	United States Department of Agriculture

Introduction

The Food Stamp Program provides food assistance benefits to households that meet program eligibility requirements. Benefits are issued in the form of food coupons that eligible households can use to purchase food to obtain a more nutritious diet. The states are required to determine whether applicants are eligible for the program and issue them the appropriate amount of benefits. Applicants found ineligible are to be denied food stamps and participants whose circumstances change, thereby making them ineligible, are to be terminated from the program.¹

The Department of Agriculture's (USDA) Food and Nutrition Service establishes national Food Stamp Program policies, oversees state operation of the program, and pays 100 percent of the food stamp benefits issued by the states--\$10.8 billion in fiscal year 1985. Although states are responsible for local administration and day-to-day operation of the program, the federal government finances part (usually 50 percent) of the states' administrative expenses. The federal share of such expenses was about \$900 million in fiscal year 1985.

The Quality Control System for Measuring the Rates of Overissuances and Improper Denials or Terminations

The Food Stamp Act of 1977, which established the current quality control review system, requires states to conduct quality control reviews to identify and measure incorrect food stamp eligibility determinations and issuances and give program managers information needed to develop corrective actions to reduce these errors. The reviews are supposed to be made by state quality control units independent of program operations and are supposed to measure the extent of program errors. Error-rate results are compiled and reported for each fiscal year and provide data on the percentage of cases in which households' benefits were improperly denied or terminated and on the overissuance and underissuance of benefits to total benefits issued. Improper denials or terminations include such errors as incorrectly interpreting information regarding applicants' and participants' eligibility, not obtaining sufficient documentation to render a proper eligibility determination, and not providing applicants and participants with the required amount of time to document their eligibility. Overissuances are comprised of the amount of issuances to ineligible households and overissuances to eligible households.

¹For the most recent data on the number of persons applying for, receiving, or denied food stamps, see *Food Stamp Program: Trends in Program Application Participation and Denials* (GAO/RCED-87-80BR, Apr 2, 1987).

Program regulations require each state to carry out quality control reviews by selecting a statistically valid sample of its program's applicant and participant (household) caseload. The state's quality control staff then must review the cases in the sample to verify the accuracy of the state's eligibility determinations and the amounts of benefits provided. From this information the state determines its error rates and reports them to the Food and Nutrition Service.

The Food and Nutrition Service currently validates all state-reported overissuance error rates by selecting a sample of cases that the state's quality control reviewers have already examined to determine if the state properly completed its review and accurately reported the results. The Service discusses the results of its validation work with each state and adjusts the state's reported error rates upward or downward to reflect any problems found with the state's reported results.² However, the Service only validates state-reported improper denial or termination error rates when a state may be eligible for enhanced funding (additional reimbursement of administrative funds).

The Service began to validate overissuance error rates after the Food Stamp Act Amendments of 1980 established an error-rate sanction system under which all states are held liable for overissuances as measured in quality control reviews.³ The Food Stamp Act Amendments of 1982 amended the sanction system to provide enhanced funding to those states with low improper denial or termination error rates. Therefore, since fiscal year 1981, the Service has validated all state-reported overissuance error rates, and since fiscal year 1983, the Service has validated the improper denial or termination error rate only if a state appears to be entitled to these funds. To receive enhanced funding, states are required to have an improper denial or termination error rate below the national average and combined overissuance and underissuance error rates not exceeding 5 percent. Only three states—Nevada, North Dakota, and South Dakota—have been eligible to receive enhanced funding under this formula and had their rates of improper denials or terminations validated.

²Our report entitled Quality Control Error Rates for the Food Stamp Program (GAO/RCED-85-98, Apr. 12, 1985) provides a detailed description of the statistical procedures used by the Service to adjust state-reported error rates and thereby develop official Food Stamp Program error rates.

³Our report entitled Federal and State Liability for Inaccurate Payment of Food Stamps, AFDC, and SSI Program Benefits (GAO/RCED-84-155, Apr. 25, 1984) provides a more detailed description of the food stamp error-rate sanction system, as well as an analysis of its results and a comparison with the sanction systems of other income security programs.

In addition to setting different liabilities and criteria for validating improper denial or termination rates on one hand and for overissuance error rates on the other, the Service has established different procedures and definitions for calculating these error rates as shown in table 1.1.

Table 1.1: Comparison of Quality Control Review Requirements for Improper Denials or Terminations and Overissuances

Quality control review element	Quality control review for improper denials or terminations	Quality control review for overissuances
Service validates state-reported error rates.	Only those states potentially eligible for enhanced funding.	Yes.
Sanctions levied against states that exceed target error rates	No.	Yes.
Sample universe for review.	Households denied or terminated	Households receiving food stamps.
Personal interviews during quality control reviews	Optional.	Mandatory
Collateral contacts during quality control reviews.	Optional.	Mandatory.
Definition of an error	State did not follow or incorrectly applied prescribed procedures	State issued too many food stamps.
Error rate measurement.	Households.	Dollars.

The sample of cases to be reviewed for potential improper denials or terminations consists of households that had their applications for food stamps denied or their participation in the program terminated, whereas the sample for overissuances is drawn from those households receiving food stamps. Reviews for improper denials or terminations consist of examining the state's records to determine the procedures the local food stamp offices followed when deciding to deny or terminate a household's benefits. The reviewer's discretion determines whether this review includes a personal interview with the applicant or participant or contacts with third parties to gather relevant data (collateral contacts). However, when the case record alone does not prove ineligibility, the decision to deny or terminate would be considered incorrect unless the reviewer can otherwise verify the correctness of the decision by contacting the household or making other collateral contacts to obtain the necessary information.

On the other hand, when reviewing for potential overissuances, states must interview participants and make collateral contacts. As a result, the improper denial or termination error rate measures the percentage

of households for which the state did not follow the correct procedures when deciding to deny or terminate benefits. It does not indicate whether the household lost benefits because of the state's error. For example, the improper denial or termination error rate includes cases in which the state did not provide households with the prescribed amount of time to complete the application process. Although such an error constitutes an improper denial, there will not always be sufficient information to determine whether the error caused an otherwise eligible household to lose benefits. On the other hand, the overissuance error rate measures the dollar implications of giving a household too many food stamps.

Objectives, Scope, and Methodology

The overall objective of our review, conducted at the request of the Chairman, Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture, was to assess the accuracy of the Food Stamp Program's fiscal year 1985 improper denial or termination error rates—the most recent rates reported by the Food and Nutrition Service. Our specific objectives were to

- examine the procedures that states use to select a sample of Food Stamp Program applicant and participant cases for state quality control reviews and the Service's oversight of these sampling procedures,
- assess state quality control review procedures to determine whether states identify and report improper denials or terminations and determine how the Service validates the accuracy of these reports, and
- determine whether states completed reviews of cases that they selected for quality control review, and if not, its impact on the program.

We did our detailed audit work at Service headquarters in Alexandria, Virginia; at two of its seven regional offices; and in two states. The regional offices were the Mid-Atlantic in Robbinsville, New Jersey, and the Midwest in Chicago, Illinois. The two states we reviewed were Illinois and Maryland. In selecting those states for review in fiscal year 1985, we chose one state that reported a higher-than-average improper denial or termination error rate (Illinois) and one state that reported a lower-than-average rate of improper denials or terminations (Maryland). Our selection of Service regions and states was not designed to provide a statistically representative sample of all states that administer the Food Stamp Program. Rather, our objective was to determine whether the experiences in these regions and states may suggest problems with the Food Stamp Program's quality control system that merit attention by the Service.

We reviewed applicable federal laws and regulations, state evaluations and corrective action plans, correspondences, and other instructions relating to determining program eligibility and detecting or correcting improper denial or termination of benefits. We also discussed our findings with federal and state officials. We conducted our field work between February 1986 and June 1987 and in accordance with generally accepted government auditing standards.

To determine the adequacy of the states' sampling procedures, we reviewed Illinois' and Maryland's quality control sampling plans and assessed the implementation of their sampling procedures. We also evaluated the Service's oversight of states' quality control sampling process.

To determine the accuracy of states' reported denial or termination error rates, we reviewed 316 of the 1,840 fiscal year 1985 cases that Illinois and Maryland randomly selected for quality control reviews. We reviewed 193 of the 1,207 reviews that the two states completed—109 of 887 cases for Illinois and 84 of 320 cases for Maryland. Using the criteria specified in Service regulations, handbooks, and policy guidance and information from states' quality control and local food stamp offices' household case records, we attempted to make eligibility determinations independently from state quality control review determinations. We then compared our determinations with those made by the state and discussed our findings with both Service and state officials. To determine whether the states we reviewed properly disposed of the cases selected for quality control reviews, we reviewed 123 of the 633 fiscal year 1985 cases that the states selected for review but did not complete—64 for Illinois and 59 for Maryland.⁴ Using the above sources for criteria and information, we determined whether reviews of these cases should have been completed. If so, we attempted to complete these cases and include them in the states' error rates.

Using the results of our reviews of this statistically valid sample of cases and adopting the statistical formulas that Service guidance specified to calculate the Food Stamp Program improper denial or termination error rate, we independently calculated a GAO-validated improper

⁴The GAO-validated error rate for Maryland covers the first 9 months of fiscal year 1985 because, at the time of our review, the state had not completed reviews for the last quarter of the fiscal year. Our error rate is based on the 108 cases we randomly selected from the state's 9 month sample. We also sampled an additional 35 cases from the last quarter of fiscal year 1985

denial or termination error rate.⁶ Our procedures for making these calculations were coordinated with Service officials who concurred in the appropriateness of our methodology.

Because we reviewed a statistical sample of food stamp denials or terminations, each estimate developed from the sample has a measurable precision, or sampling error. The sampling error is the maximum amount by which the estimate obtained from a statistical sample can be expected to differ from the true universe characteristic (value) we are estimating. Sampling errors are usually stated at a certain confidence level—in this case 95 percent. This means, the chances are 19 out of 20 that, if we reviewed the records of all households that had their food stamps denied or terminated, the results of such a review would differ from the estimates obtained from our sample by less than the sampling errors of such estimates.

⁶Our report entitled Food Stamp Program: Statistical Validity of Agriculture's Payment Error-Rate Estimates (GAO/RCED-87-4, Oct. 30, 1986) describes our evaluation of the Service's statistical and mathematical procedures for adjusting state-reported error rates to calculate states' official Food Stamp Program error rates.

States Reported Inaccurate Denial or Termination Error Rates

Our review showed that the fiscal year 1985 improper denial or termination error rates for Illinois and Maryland were about 2-1/2 to 6-1/2 times greater, respectively, than the error rates that those states reported to the Food and Nutrition Service. The inaccuracies in the state-reported error rates are, in large part, attributable to the lack of emphasis that state quality control reviewers placed on detecting the errors local food stamp offices made when deciding to deny or terminate a household's benefits. About 42 percent of the households we identified as having been improperly denied or terminated from the Food Stamp Program lost benefits as a result of the errors. About 9 percent of the improperly denied or terminated households lost no benefits. Benefit losses, if any, could not be determined for the remaining 49 percent.

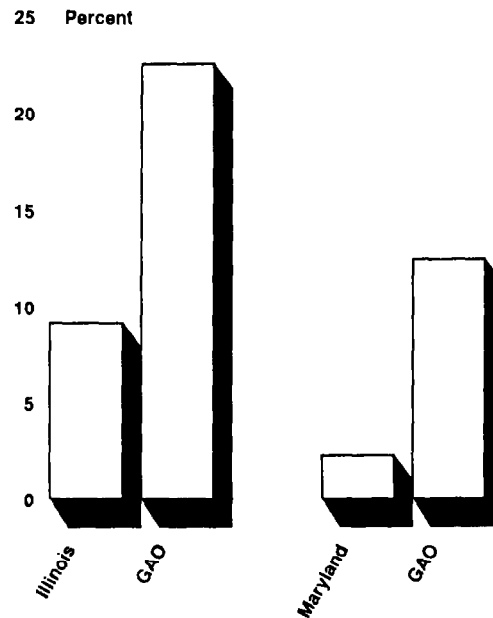
Because the Service was not required to routinely validate state-reported improper denial or termination error rates or closely monitor states' reviews of denials or terminations, it was not aware that the state-reported improper denial or termination error rates were incorrect until we notified Service officials of our findings. Service officials said that because of the emphasis that the Congress has placed on reducing and collecting overissuances, the Service has correspondingly focused its efforts on the food stamp overissuance problems as opposed to improper denials or terminations. Once it was aware of our findings in Illinois and Maryland, the Service reviewed the fiscal year 1986 denial or termination error rates for 21 states and found that in many instances these states' error rates also were higher than the states had reported.

State-Reported Improper Denial or Termination Error Rates Were Understated

Illinois and Maryland reported to the Service fiscal year 1985 improper denial or termination error rates that were only about 40 percent and 15 percent as high, respectively, as the error rates we calculated based on our reviews of a statistically projectable sample of 173 of 1,251 denial or termination cases in Illinois and 108 of 430 such cases in Maryland. As shown in Figure 2.1, we estimated that the improper denial or termination error rates were 22.5 percent for Illinois and 12.4 percent for Maryland whereas the states reported error rates of 9.1 and 2.2 percent, respectively.¹

¹The GAO-validated error rate for Maryland covers the first 9 months of fiscal year 1985 because at the time of our review the state had not completed reviews for the last quarter of the year. Although the state reported a 2.2-percent error rate for the entire fiscal year, it reported a 1.9-percent error rate for that 9-month period. Also, although the Service and the states do not report the confidence levels for their error rate estimates, we calculated confidence intervals for ours. At the 95 percent confidence level, we estimate that Illinois' improper denial or termination error rate would range from 16.1 to 28.9 percent, whereas Maryland's would range from 5.6 to 19.2 percent.

Figure 2.1: Comparison of Improper Denial or Termination Error Rates as Reported by the States and Validated by GAO



After we informed the Service of our findings, it initiated a special project to validate the fiscal year 1986 improper denial or termination error rates reported by 21 states. The Service's reviews uncovered the same types of problems that we noted in Illinois and Maryland. For 13 of the 21 states, the improper denial or termination error rates validated by the Service were higher than those the states reported. Overall, the Service-validated improper denial or termination error rates ranged from 23.21 to 0.12 percent whereas the state-reported rates ranged from 6.94 percent to 0.0 percent.

Types of Improper Denials or Terminations That States Did Not Detect

Illinois and Maryland quality control reviews overlooked three types of errors made by local food stamp offices when deciding to deny or terminate benefits. Specifically, the states frequently did not detect the local offices'

- incorrect determinations of an applicant's or participant's eligibility,
- inadequate documentation of the basis for deciding to deny or terminate benefits, or
- failure to provide households with the prescribed amount of time to complete the application process.

As shown in table 2.1, incorrect eligibility determinations were the biggest causes of improper denials or terminations in both states. Quality control reviews in Illinois detected errors in less than one half of the cases that we concluded had incorrect determinations and only two of the cases that we found to be improperly documented. Maryland reviews had detected errors in only two of the cases that we found to have these types of errors. Neither state's reviews detected the state's failure to give applicants sufficient time to document their eligibility.

Table 2.1: Causes of Improper Denials or Terminations

Cause	Number of errors detected in sample			
	Illinois		Maryland	
	GAO	State	GAO	State
Incorrect eligibility determinations	13	5	11	1
Determinations not documented	10	2	2	1
Not providing prescribed time for completing applications	10	0	9	0
Total	33	7	22	2

Incorrect Eligibility Determinations

Food and Nutrition Service regulations specify the procedures that states must follow when determining eligibility for food stamps and what steps must be taken when deciding to deny or terminate benefits. Eligibility for food stamps is based on such factors as the household's assets, earned and unearned income, deductions from income, and household composition. When certifying a household's food stamp eligibility, the state is required to collect and evaluate information on each of these factors and then calculate the benefit amount accordingly. Should the state decide to deny or terminate a household's food stamps, it must notify the household that benefits are being denied or terminated and explain the reason for the denial or termination and the household's rights and procedures for appealing the state's adverse action.

In our review of 173 Illinois and 143 Maryland cases,² we found 13 Illinois and 11 Maryland households that were improperly denied or terminated because the state incorrectly determined applicants' or participants' eligibility. Quality control reviewers in Illinois and Maryland detected errors in less than 45 and 15 percent of these cases, respectively.

²This analysis includes 8 errors found in the 35 cases we reviewed for the last quarter of fiscal year 1985. As noted previously, these errors are not included in Maryland's validated error rate.

In many of the cases where the state quality control reviewer did not detect the improper denial or termination, the reviewer used the same incorrect rationale or misapplied the same regulation that caused the improper denial or termination in the first place. For example, in response to a January 1985 letter from a 61-year-old Montgomery County woman who had suffered a severe heart attack and had high blood pressure and chronic kidney infections, the Governor of Maryland recommended that she apply for food stamps. She applied for and was denied food stamps by the Montgomery County food stamp office in April 1985. In a July 1985 letter to the Montgomery County office, the woman again inquired about food stamps. She then filed another food stamp application with the county office in August 1985. Although her food stamp application listed medical expenses of \$100 a month to treat her ailments, the local office did not ask for documentation to support the expenses. The Montgomery County food stamp office did not consider the medical expense deduction, applied an outdated, lower income standard, and again denied her application in August 1985.

In January 1986, Maryland selected the above case for a quality control review and, in March 1986, completed a review that upheld Montgomery County's decision. In July 1986, we reviewed this case and found the denial to be improper. According to Service regulations, when a household fails to properly document a deduction, the local food stamp office must notify the applicant as to the documentation that is specifically needed to consider the deduction. Montgomery County's records did not indicate that it had specified what documents were needed. We recalculated the woman's eligibility and found that even when all medical deductions were excluded, she still had a net monthly income of only \$432—making her eligible for \$10 a month in food stamps. In addition, the woman reapplied 8 months later and the Montgomery County food stamp office verified monthly medical expenses of \$165.

Other incorrect eligibility determinations in our sample were caused by the states' failure to act on all available information when determining a household's eligibility for benefits. For example, in June 1985, the Social Security Administration determined that a 47-year-old Chicago woman would begin receiving monthly Supplemental Security Income of \$325 in August 1985 and, in July 1985, Illinois' Chicago/Michigan district office terminated the \$103 monthly state assistance payments that she had been receiving, effective August 1985. Instead of determining the effect that these changes had on the woman's eligibility for her \$79 monthly food stamp benefits and making any needed adjustments to the woman's benefit levels, the Chicago/Michigan office terminated the woman's food

stamps and advised her that "you can reapply for . . . food stamps." In October 1985, the state conducted a quality control review of the case and, noting that the local office had advised the household to reapply for food stamps, upheld the August termination. In our May 1986 review of the case, we found that the termination was improper. According to food stamp regulations, whenever a local office becomes aware of a change in a household's circumstances, the local office must redetermine the household's eligibility and notify the household of resultant changes in benefit levels. When we recalculated the woman's benefits in accordance with food stamp regulations, we found that she continued to be eligible for food stamps for the balance of her certification period which expired in February 1986. When we called this error to the attention of state program and quality control officials, they acknowledged the error and restored lost benefits of \$70 to the woman for the period August 1985 through February 1986.

In another case, the quality control reviewer did not detect an improper denial or termination because the reviewer accepted the state's decision to deny or terminate benefits without verifying the accuracy of the analyses or calculations upon which the decision was based. In May 1985, the Baltimore City/Clifton food stamp office terminated the participation of a 32-year-old woman and her three children. In January 1986, the state conducted a quality control review of the case and upheld Baltimore City's decision. In July 1986, we reviewed the case and found that when calculating the household's income, Baltimore City had made a mathematical error that caused the household's income to be overstated by \$100 a month. If the applicant's income had been correctly calculated, the family would have been eligible for \$22 a month in food stamps. When we called this error to the attention of state program and quality control review officials, they agreed that this household should not have been terminated from the Food Stamp Program. They said that, as opposed to independently recalculating each calculation that the local food stamp office made when deciding to deny or terminate benefits, quality control reviewers sometimes limit their reviews to just looking over the local office's calculations. The officials noted that this practice saves time but can cause errors to be overlooked.

Determinations Not Documented

According to Service regulations, states must document in sufficient detail the decision to deny or terminate a household's benefits. When the state's records do not contain sufficient documentation to support the decision, the denial or termination must be considered an error unless the quality control reviewer can find supporting information from a

third party or the household to uphold the state's decision. However, the quality control reviewer is not required to make third-party contacts when reviewing denials or terminations. Therefore, if third-party contacts are not made, the reviewer's findings can only be based on information available in the state's record of the case.

We found 10 households in Illinois and 2 households in Maryland that were improperly denied or terminated because the information in the state's records did not support the decision to deny or terminate benefits. During their quality control reviews, Illinois detected less than 25 percent and Maryland detected 50 percent of these errors.

Most of the Illinois households were improperly denied or terminated because the state either did not resolve conflicting information regarding the household's living or eating arrangements or did not document the arrangements. For example, in February 1985, the Chicago/Roseland food stamp office in Illinois denied the application of a 19-year-old Chicago man because the Roseland office concluded that he lived and ate with his aunt. On his application he stated that "just me and my aunt" live and eat in my home, but the case record included a signed statement from his aunt declaring that "my nephew . . . must pay me \$50 a month and must furnish his own food." The Roseland food stamp office did not explore or resolve the inconsistencies in this case, but merely denied the man food stamps.

In April 1985, Illinois conducted a quality control review of the case and concluded that the denial of benefits was proper because the applicant was not head of the household and shared meals with his aunt. We reviewed the case in June 1986 and concluded that the denial was improper because the Roseland local office had not sufficiently documented its decision. Service regulations require that the local office not simply review the information regarding a household's eligibility, but must explore and resolve with the household any unclear and incomplete information. The local office's records did not document that the living and eating arrangements had been fully explored and resolved. In response to our finding, the state again reviewed the case, found that the nephew did not share meals with his aunt, and restored \$1,361 in food stamp benefits to him for the period January 1985 through July 1986.

Another documentation problem involved a local food stamp office incorrectly interpreting information that a household provided to support its application; the local office then failed to request the documentation needed to clear up the misunderstanding. In December 1984, the Madison County, Illinois, food stamp office denied the application of a 41-year-old unemployed Madison County man. The application shows that the man had no income, lived in his van, and that his mailing address was his brother's house, also in Madison County. The county office concluded that because the man gave his brother's address as his mailing address, he could not be considered a separate household from that of his brother and therefore denied the application. However, it did not request the man to document his place of residency. We examined the history of this case and contacted the brother's household to verify his residency and living arrangements. We found that the man had been approved for food stamps previously when he had a post office box as his mailing address, and we were told that the man lived in his van and only stopped by his brother's house about once a week to pick up his mail. The applicant's sister-in-law told us that on very cold nights, "the kind you wouldn't leave a stray dog outside," the applicant would sleep in their house or with one of his friends in town but otherwise he lived alone in his van. The state's records also showed that the man was later approved in February 1986 for a \$47 monthly food stamp allotment when he again used a post office box as his food stamp mailing address. Therefore, we concluded that Illinois' decision to deny benefits in the case was improper and should have been detected in the quality control review and included in the state's improper denial or termination error rate.

We also found that the Chicago/Western food stamp office did not have documents to support a September 1985 entry into Illinois' computer system indicating that a 27-year-old woman had requested cancellation of food stamp benefits for herself and her child. Illinois' quality control review in October 1985, determined the termination was invalid because the case record did not substantiate the state's decision to cancel benefits. We reviewed the case in March 1986 and also found no documentation to support the conclusion that the participant had requested cancellation of her food stamps. When we contacted the participant in October 1986, she told us that she had not requested cancellation of her food stamp benefits. Therefore, we also concluded that the termination was improper and the error should have been included in the state's improper denial or termination error rate.

Not Providing Prescribed Time for Completing Applications

Service regulations prescribe that Food Stamp Program applicants be given 30 days from the date of initial application to attend a personal interview and provide documents to support their eligibility for benefits. Applicants requesting certification must be given at least 10 days to provide requested documentation. Also, according to regulations, if an applicant does not attend an interview, a second interview must be scheduled and missed and 30 days from the time of initial application must pass before food stamps can be denied for that reason.

In Illinois 10 of the 173, and in Maryland 9 of the 143, households in our sample were not allowed the prescribed time frames to provide documentation or attend an interview before the state issued notices denying their applications for food stamps. The time that elapsed from the date of application to date of denial ranged from 9 to 29 days, yet neither state's quality control reviews detected any of these errors.

For example, a Prince Georges County woman and her two children were denied food stamps 19 days after she filed her application because she had not yet posed for a photo identification card. Although the woman had completed all other aspects of the application process and, based on information in the state's records, was otherwise eligible for benefits, her application was denied. According to state and Service officials, the photo identification card was necessary for the woman to be able to receive her benefits. However, the officials agreed that this was an improper denial because the woman was not allowed the full amount of time to comply with the requirement to pose for the picture.

Neither Maryland nor Illinois quality control reviewers detected these types of errors until after we called them to their attention. Once apprised of the problem, state and Service officials agreed that applications denied for failing to provide requested information or to keep either of two scheduled interview appointments were improper when the applicant was not allowed the full 30 days from the date of initial application to do so. Service officials also told us that these errors should have been included in the states' error rate computations.

Maryland program officials told us that their local offices should not have been denying applications before the 30th day because state agency procedures require the offices to put applications into a pending status rather than deny them when the household has not completed the application process. They said that the local offices will be reminded of the proper procedures so that these types of errors will not be repeated in the future.

Illinois officials agreed that applicant households should not be denied before the 30th day after application for failing to provide requested documentation or to attend a scheduled interview, but stated that this should not be considered an error. According to Illinois officials, the local office made a procedural mistake that should be considered an administrative deficiency rather than an error. Nevertheless, Illinois revised its procedures to ensure that applicants are notified that new applications are not required of households seeking to continue the application process after missing appointments or failing to provide verification within 30 days of initial application.

Impact of Improper Denials or Terminations on Households

As shown in table 2.2, many improperly denied or terminated households in Maryland and Illinois may have lost benefits because of the states' errors. We were able to determine the amount of monthly benefit losses for about one quarter of the Illinois households and almost two-thirds of the Maryland households that had benefits improperly denied or terminated. Such errors caused the households to lose from \$10 to \$234 in monthly food stamps to which they were entitled. About one in five households in Illinois and none in Maryland clearly lost no benefits. For the remaining households, benefit losses, if any, were not determinable.

Table 2.2: Impact on Households of Improper Denials or Terminations

Number of households			
	Illinois	Maryland	Total
Lost benefits	9	14	23
Lost no benefits	5	•	5
Benefit loss not determinable	19	8	27
Total	33	22	55

As noted previously, because reviews of denials or terminations are procedural, they measure the state's compliance with process and documentation requirements. Therefore, denial or termination errors may not always cause households to lose benefits to which they were otherwise entitled. The review process cannot always determine if benefits were lost; even if benefits are lost, the review might not measure the amount of the loss. For example, most households we found that were improperly denied because the states did not comply with the processing time standard had not completed the application process before being denied. Although in such cases the quality control review can establish that the state's action was improper for not giving the household the required 30

days to document its eligibility, there may not be sufficient information available for the quality control reviewer to determine eligibility because the household was denied before the information could be provided. If the household was, in fact, ineligible, the error would not have had any effect on the household's benefits.

An example of those households that lost a measurable amount of benefits was the experience of a 3-person Alton, Illinois, household that had its \$118 monthly food stamp benefits terminated effective December 1984 for not filing a required report updating the status of the household's earnings and other factors affecting eligibility for benefits. Although Illinois' termination of benefits was proper, the state improperly denied the household's subsequent February 1985 application for benefits. In considering the household's application, Illinois incorrectly calculated the household's earned income and wrongly concluded that the household was ineligible for food stamps. In its May 1985 quality control review of the case, the state also wrongly concluded that the household's income exceeded the standard for payment and upheld the decision to deny benefits. In May 1986 we reviewed the case and detected Illinois' error. We notified Illinois of the error and recommended that the state take action to restore all benefits that the household lost because of the state's error.³ Acting upon our recommendation, Illinois in February 1987 restored \$716 in food stamps that the household lost for the period February through November 1985.

Additional Problems With State-Reported Improper Denial or Termination Error Rates

In addition to the types of errors described previously, Illinois and Maryland quality control reviewers made other mistakes that affected the accuracy of state-reported improper denial or termination error rates. These mistakes included (1) not reviewing some cases that should have been reviewed while reviewing other cases that should not have been subject to review and (2) not completing the required number of reviews or not doing so on time.

States' failure to complete required quality control samples can affect the accuracy of the error rates the states report. This, in turn, can affect the accuracy of the average national error rate that the Service uses to determine states' eligibility for enhanced funding. The regulations require the Service to ensure that quality control samples have been completed and error rates have been adjusted to account for cases not

³See Food Stamp Program: Restoration of Improperly Denied or Terminated Benefits (GAO/RCED-87-51, Oct. 30, 1986).

completed. In addition, Service regulations prohibit restoring improperly denied or terminated benefits more than 12 months before the state discovers or is notified of the error. Therefore, timely reviews are essential to restoring benefits to needy households. The problems occurred because the states placed a higher priority on other aspects of program operations and the Service did not adequately monitor states' actions. However, once apprised of the problems, both the states and the Service have begun acting to resolve them.

Reviewing the Appropriate Cases

According to Service regulations, cases selected for review must be accounted for as completed or dropped from the sample. Cases shall be dropped from the sample if (1) the reviewer cannot locate the case record, (2) the application was withdrawn, (3) the certification period had expired, (4) the case was under investigation, or (5) was dropped to correct for oversampling. However, of the 316 cases we reviewed, Illinois and Maryland

- did not review 20 cases, 11 Illinois and 9 Maryland, that did not meet the criteria for dropping a case and should have been reviewed and
- reviewed 7 and 2 cases, respectively, that met these criteria and should not have been subject to review.

In doing so, Illinois overlooked three and Maryland four error cases because the states did not review these cases, and Illinois incorrectly labeled as improper denials or terminations two cases that should not have been reviewed.

Service and state officials said that these mistakes occurred because the states and Service regional offices incorrectly applied the Service's guidance, and the Service had not focused its reviews on this aspect of the states' quality control systems. For example, even though Service guidance requires states to review cases in which the state terminated benefits by shortening the household's certification period (1) Illinois' sampling plan for selecting cases for review omitted such cases, and (2) Maryland included these cases in its quality control sample, but did not review them as required. Illinois officials said that they were unaware of the relevant Service guidance when they developed their sampling plan because the Service approved the plan before issuing its guidance on this issue. Maryland officials said that in deciding not to review these cases they were following instructions that they had been given by the Service's Mid-Atlantic Regional Office.

The Service's Midwest Regional Office staff said that Illinois should have reviewed households that were terminated by ending the certification ahead of schedule. However, the Service's regional office staff was not aware that Illinois had dropped these shortened certification period terminations from its sample until we called it to their attention. After being informed of the problem, the Midwest Region requested that Illinois revise its sampling plan to include such terminations. Illinois revised its sampling plan beginning with fiscal year 1987 to comply with the Service's request, but did not retroactively adjust its sample for fiscal years 1985 or 1986.

When it instructed Maryland not to review cases in which households had their certification period shortened, the Service's Mid-Atlantic region misinterpreted a March 29, 1985, policy memorandum on the subject. After being informed of the mistake, the Mid-Atlantic Region revised its instructions to Maryland, and the state is currently reviewing such cases.

Reviewing the Required Number of Cases on Time

Service regulations prescribe the number of cases that states must review and specify the time frames for doing so. Specifically, the number of cases that each state is required to select is related to the size of the state's caseload, but no state is required to review more than 800 cases a year. The regulations allow a state (1) 75 days from the end of the sample month to report to the Service the findings on 90 percent of the cases selected that month and (2) 95 days from the end of the sample month to report findings on all cases.

Illinois reviewed the required number of cases, and it completed on time most of the 173 cases we reviewed. However, Maryland reported completing only 417 of 498 required reviews. For our sample of 143 cases, Maryland completed only 1 (less than 1 percent) review on time. In addition, 16 of the 143 reviews (11 percent) were not completed until more than 1 year after the households had been denied participation or terminated from the program. At the time of our review in June 1986, Maryland reported a 1.9-percent error rate based on its review of 317 denial or termination cases for the first 9 months of fiscal year 1985. After we notified the Service of this problem, in July 1986 its regional office instructed Maryland to complete reviewing the remaining cases in its fiscal year 1985 sample. Although Maryland then attempted to satisfy its review requirements, it could only complete an additional 100 cases because many case records could not be found. As a result, Maryland reported completing only 417 of the 498 prescribed reviews and

reported a 2.2-percent revised denial or termination error rate based on those 417 cases.

A state official attributed the delays in sample selection and review to the large number of reviews required and to the conversion of local offices' manual records to an automated system. Regarding the number of reviews that the state completed, Maryland officials acknowledged that they did not complete the number of reviews required by program regulations.

When a state does not comply with regulations for such things as completing the required number of quality control reviews on time, food stamp regulations permit the Service to find the state's quality control system inefficient or ineffective and suspend or disallow a state's federal share of administrative funds. Service officials said that because suspending or disallowing administrative funds was a serious measure, they preferred to work with the state to correct these problems before taking more drastic steps.

More Guidance and Oversight Needed

Service, Illinois, and Maryland officials attributed the inaccuracies in the reported denial or termination error rates to the priority they placed on reducing food stamp overissuances. When the Congress established a system that financially penalized states for overissuances but not improper denials or terminations, the Service instituted procedures to validate state-reported overissuances and adjust the error rates accordingly. The Service officials said that they had not correspondingly increased their oversight of improper denial or termination reviews because states were not held accountable for these errors.

State officials said that because of potential sanctions, they tended to focus on measuring overissuances and gave less attention to denials and terminations. They received guidance on how to select and review potential overissuances. However, regarding denials and terminations, Illinois was not advised that its fiscal year 1985 sampling plan was not in compliance with Service policy for selecting and reviewing denials and terminations until after we called it to the Service's attention. Also, Maryland officials told us that they often received policy interpretations and clarifications regarding how to select and review potential overissuances but not denials and terminations. Service officials noted that they always responded to state requests for clarification whether for measuring overissuances or improper denials or terminations. However,

the Service officials told us that additional clarification to states regarding reviews to detect overpayments was in response to states' inquiries, and since the Service has not been validating improper denial or termination error rates, states have raised few questions about policy in this area.

Our 1986 report indicated that the states had increased attention to, and the Service had increased oversight of, food stamp overissuance error rates. Responding to the possibility of sanctions, both the Service and states generally conducted adequate reviews of potential overissuances and devoted the resources needed to complete the required number of reviews on time.⁴

Since we apprised the Service, Illinois, and Maryland of the problems that we found with the improper denial or termination error rates, the Service and states have begun taking some actions to address the problem. The Service validated the fiscal year 1986 improper denial or termination error rates of 21 states, and Service officials said that in the future they hope to routinely validate the improper denial or termination error rates for all states. Illinois advised its quality control reviewers of the results of our evaluation and of the need to conduct more thorough reviews. As a result, Illinois quality control reviews identified nearly twice as many improper denials or terminations in the state's fiscal year 1986 sample as they did in their fiscal year 1985 sample. Maryland also has advised us that it followed up on our findings and recorded an appreciable increase in the improper denials or terminations it identified in fiscal year 1986.

Conclusions

The quality control system is one of the Service's primary management tools for assuring the effectiveness of the Food Stamp Program. The quality control system is designed to measure the extent of (1) improper denials or terminations, (2) overissuances, and (3) underissuances, but the Service and the states have focused their attention on that part of the system for which states are financially penalized—overissuances. They have not paid close attention to the part of the system that is intended to measure states' effectiveness in assuring that eligible persons are not erroneously denied or terminated benefits.

⁴See Food Stamp Program: Refinements Needed to Improve Accuracy of Quality Control Error Rates (GAO/RCED-86-195, Sept. 19, 1986).

Our review of Illinois and Maryland and the Service's review of 21 other states showed that states are seriously underreporting the number of households that are improperly denied food stamps or terminated from the program. We found that state quality control reviewers frequently (1) did not detect incorrect eligibility determinations, (2) accepted documentation that was inadequate to support the state's decision to deny or terminate benefits, and (3) were unaware of Service regulations governing the amount of time that persons must be given to complete the process of applying for benefits.

In addition to these problems, weaknesses in the states' sampling and review practices—whereby (1) certain cases were reviewed which should not have been reviewed and vice versa and (2) the required number of cases were either not reviewed, not completed, or not completed on time—raises further questions about the accuracy of the system's results. Therefore, the Service must more closely monitor how states' improper benefit denials or terminations affect participation in the program to help ensure that eligible persons are not improperly denied access to, or terminated from, program benefits.

Weaknesses in the reviewers' efforts and in the states' practices were compounded by the Service's inadequate monitoring of the states' reviews of denials or terminations. Whereas the Service adequately monitors, reviews, and validates the states' implementation of the quality control system as it applies to overissuances, it has not done so for the states' reviews of denials or terminations. However, the states and the Service have recognized this oversight and have begun to take steps to correct this situation.

Recommendations to the Secretary of Agriculture

We recommend that the Secretary of Agriculture direct the Administrator, Food and Nutrition Service, to:

- Annually review a sample of each state's quality control reviews of denials or terminations and adjust states' reported denial or termination error rates accordingly.
- Examine alternatives to encourage states to reduce improper denial or termination error rates, including seeking authority to hold states financially liable for their improper denials or terminations.
- Monitor states' quality control review practices to ensure that the appropriate cases are reviewed and the required number of reviews are completed on time.

Agriculture's and States' Comments and Our Evaluation

In commenting on a draft of this report, Agriculture, Illinois, and Maryland indicated that the information presented in the report was factually correct. Moreover, USDA and Illinois said that they had begun implementing corrective actions in accordance with most of our recommendations. Maryland, while agreeing with the factual information in the report, felt that the tone was too negative and did not adequately reflect the role of the Food and Nutrition Service in Maryland's problems in this area.

Agriculture generally agreed with all of our recommendations. Regarding our recommendation that Agriculture annually review, and if necessary adjust, each state's reported denial or termination error rates, Agriculture said that it had initiated a special project to validate the denial or termination error rates reported by a significant number of states during fiscal year 1987.

It added that the Service has required its regional offices during fiscal years 1988 and 1989 to at least once validate the denial or termination error rates reported by each state. Agriculture said that it will study the feasibility of annually reviewing each state's reported denial or termination error rate in ensuing years.

Agriculture also supported our recommendation that it examine alternatives, including holding states financially liable, to reduce improper denial or termination error rates. It said that all Service regional offices are now actively working with the states to ensure that eligibility determination procedures are being followed properly. Any deficiencies found in these procedures or quality control sampling procedures will be reported to the states and corrective action required. Agriculture said that states that fail to correct identified deficiencies may then be subject to the formal warning process, consisting of a suspension or disallowance of administrative funds. In addition, as part of the planned study of the quality control review system, Agriculture has agreed to look into the feasibility of combining the improper denial or termination and overissuance and underissuance case error rates. The development of a sanction system for improper denial or termination error rates and/or for a combined case error rate will also be examined.

In response to our recommendation that Agriculture monitor states' quality control review practices to ensure that the appropriate cases are reviewed and the required number of reviews are completed on time, Agriculture said that all Service regional offices will review all state sampling plans and state-reported improper denial or termination error

rates to ensure that the appropriate cases are reviewed and completed in a timely manner.

In its comments, Illinois emphasized the corrective actions that the state was taking in response to our report's findings and recommendations. These included (1) revising the state's quality control procedures to require additional supervision of review findings, (2) giving additional training to quality control reviewers, (3) implementing an automated system to help reduce local offices' eligibility determination errors, and (4) developing a system to notify local offices of improper denials or terminations detected in quality control reviews and to track local offices' efforts to correct these errors. Except for holding state's financially liable for their improper denials or terminations, Illinois also supported our recommendations. Regarding that recommendation the state noted that it may be difficult to tie a dollar value to a state's improper decision to deny or terminate a household's food stamps.

Maryland reiterated the observation that the problems we found could be attributed to the fact that improper denial or termination error rates have not received the same degree of attention from the Service that overpayments have received—primarily because states are held liable for overpayments but not for improper denials or terminations. Maryland said that while the information contained in our report was accurate and representative of the discussions between GAO and Maryland staff, it did not sufficiently cite this inadequate guidance to the states on the importance of reviewing improper denials or terminations. We note, however, that the draft report provided to Maryland for comment did acknowledge the views of both Maryland and Illinois officials and that while they often received guidance and interpretations from the Service on how to select and review potential overissuance cases, they seldom received such assistance with denials or terminations. The draft also cited the Service's acknowledgement that its oversight and assistance has emphasized overissuance determinations as opposed to determinations of improper denials or terminations.

In addition, Agriculture and Maryland suggested several technical and minor changes that we have made in the final report. (See apps. I and II.)

Comments From the Food and Nutrition Service Department of Agriculture



United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park Center Drive
Alexandria, VA 22302

Mr. J. Dexter Peach
Assistant Comptroller General
Resources, Community, and
Economic Development Division
U. S. General Accounting Office
Washington, D. C. 20548

SEP 9 1987

Dear Mr. Peach:

This letter is in response to the General Accounting Office (GAO) proposed report to Congress entitled "Food Stamp Program: Evaluation of Improper Denial or Termination Error Rates (GAO/RCED-87-191)." The audit findings indicated that some State agencies were not conducting negative quality control reviews properly.

The Food and Nutrition Service (FNS) will continue to work with States to provide all eligible households with the amount of food stamp benefits to which they are entitled. This effort includes the monitoring of State agencies' certification procedures to achieve full compliance with program requirements related to proper denial or termination actions and the restoration of benefits to applicable households. All State agencies have been informed of the requirement that negative case reviews be conducted in accordance with FNS regulations and as outlined in the FNS-310, Quality Control Review Handbook.

FNS regional offices are required to review the actions taken by State agencies to deny or terminate households when it appears that the State agency may be eligible for enhanced funding. Consequently, a number of State agencies have been subject to negative validation reviews, although they ultimately did not qualify for enhanced funding. Our regional offices also conduct reviews of negative case actions of States which are not in an enhanced funding position. For example, one of our regional offices routinely conducts negative validation reviews of all its States regardless of the State's enhanced funding eligibility.

FNS has taken additional steps to provide more intensive oversight of State agencies' negative case actions. During Fiscal Year 1987, our regional offices conducted special negative case validation reviews of selected State agencies' denial or termination actions. In addition, all regional offices have been directed to conduct negative validation reviews of all State agencies during the two-year period covering Fiscal Years 1988 and 1989. Further, the State agencies reviewed in this audit have implemented corrective actions to correct problems and deficiencies cited by GAO. FNS expects that more intensive oversight of State agencies' negative actions and implementation of corrective actions will correct deficiencies in States' denial or termination actions.

**Appendix I
Comments From the Food and Nutrition
Service Department of Agriculture**

Mr. J. Dexter Peach

2

The Agency's response to the GAO recommendations is enclosed. Technical comments concerning the audit report were provided to your staff earlier. We would like to thank you for the opportunity to comment on the draft report. If you have any questions concerning our response, please advise.

Sincerely,



ANNA KONDRATAS
Administrator

**Appendix I
Comments From the Food and Nutrition
Service Department of Agriculture**

RESPONSE TO GAO AUDIT RECOMMENDATIONS (RCED 87-191)

GAO Recommendation

Annually review each State's quality control reviews of denials or terminations and adjust State's reported denial or termination error rates accordingly.

FNS Response

At present, FNS regional offices conduct validation reviews of State agencies' negative case actions when it appears that the State agency may be eligible for enhanced funding. Therefore, a number of State agencies may be subject to negative case validation reviews but may ultimately not qualify for enhanced funding. Further, the Agency conducted negative validation reviews of a significant number of State agencies during Fiscal Year 1987. As a result of the special validation review findings, as well as the GAO audit findings, all regional offices have been informed in writing that negative validation reviews are to be conducted of each State agency at least once during the two-year period covering Fiscal Years 1988 and 1989. The Agency is planning to examine issues concerning the negative QC review system during Fiscal Year 1988; therefore, we will defer any further decisions concerning the negative case validation review process until the study is completed.

GAO Recommendation

Examine alternatives to encourage States to reduce improper denial or termination error rates, including holding States financially liable for their improper denials or terminations.

FNS Response

All FNS regional offices are actively working with State agencies and their administrators to ensure that all certification procedures are being followed properly. Any deficiencies found as a result of the regional office validation reviews, as well as any deficiencies in QC sampling procedures, will be reported to State agencies and corrective action required. State agencies which fail to correct identified deficiencies may be subject to the formal warning process and through this process, a suspension of disallowance of administrative funds. In addition, as part of the planned study of the negative QC review system, we will look into the feasibility of combining the negative case and active case error rates. The development of a sanction system for negative case error rates and/or for a combined active and negative case error rate will also be examined.

GAO Recommendation

Monitor States' quality control review practices to ensure that the appropriate cases are reviewed and the required number of reviews are completed on time.

**Appendix I
Comments From the Food and Nutrition
Service Department of Agriculture**

2

FNS Response

During the two-year period covering Fiscal Years 1988 and 1989, our regions will review all State agencies' sampling plans and case dispositions to ensure that the appropriate cases are reviewed and completed in a timely manner. The regions will be following procedures for conducting validation reviews of State agencies' negative case actions in accordance with the procedures set forth in FNS Handbook 315, the Federal Quality Control Validation Handbook.

Comments From the States of Illinois and Maryland



Edward T. Duffy
Director

Illinois Department of Public Aid

Jesse B. Harris Building
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October 6, 1987

Mr. Brian P. Crowley
Senior Associate Director
United States General Accounting Office
Washington D.C. 20548

Dear Mr. Crowley:

Reference: B217883

Thank you for your letter dated August 28, 1987, which provided us a draft copy of the report Food Stamp Program: Evaluation of Improper Denial or Termination Error Rates.

We do not disagree with the contents of the report, but we would wish to emphasize our efforts relative to corrective action.

All of the cases involving errors were discussed between GAO and IDPA staff several months ago and corrective action was taken on each individual case. We also reported the corrective action taken on individual cases to FNS.

As the cause of errors became known to us, a series of corrective actions were taken to prevent similar errors from recurring.

- Quality Control reviewers were given additional training on reviews of denials and terminations.
- Quality Control procedures were revised to require additional supervisory review.
- An exception to a federal procedural requirement was obtained from FNS to allow denial of applications before 30 days elapse if the applicant fails to attend two scheduled meetings or fails to provide requested documentation. The waiver constituted formal approval of what we were already doing and will make a significant difference on error rate computations.
- Operations' management has initiated a study to identify types of actions that require more supervisory review.
- The implementation of the Automated Intake System and the Automated Case Management System will help reduce eligibility determination errors.
- A system was implemented to notify local offices of error findings and a turnaround document was developed to report action taken.

**Appendix II
Comments From the States of Illinois
and Maryland**

We concur with the recommendations posed to the Secretary of Agriculture, except the segment of Recommendation 2 which calls for fiscal sanctions.

We support the concept that alternatives to encourage states to reduce improper negative case actions be examined. Because of the difficulty, if not impossibility, of tying a dollar value to a procedural action, we recommend that the Service pay particular attention to a recommendation contained in the American Public Welfare Association Quality Control proposal. That proposal basically states that specific performance criteria be used to adjust the payment accuracy rate. Along the specific criteria is the negative case action error rate. This, along with federal oversight, would encourage states to improve their performance in all eligibility decisions.

Again, thank you for the opportunity to comment on the draft report.

Sincerely,


Edward T. Duffy

ETD:RJS:lb

**Appendix II
Comments From the States of Illinois
and Maryland**



DEPARTMENT OF HUMAN RESOURCES

WILLIAM DONALD SCHAEFER
Governor

TELEPHONE 301-576-5400

Income Maintenance Administration

RUTH MASSINGA
Secretary

ERNESTINE F. JONES
Deputy Secretary

September 21, 1987

Mr. Brian P. Crowley
Senior Associate Director
Resources, Community, and
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U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Crowley:

I want to thank you for the opportunity to comment on GAO's report entitled, Food Stamp Program: Evaluation of Improper Denial or Termination Error Rates (GAO/RCED-87-191).

Maryland, at the preliminary audit conference, was told by GAO staff that the purpose of the audit was to determine why eligible members of the general population were not participating in the food stamp program. Staff were assured that the final report would not be critical of any state operation. The report as presented, however, is contrary to that originally stated intent.

The report, as presented, is an indictment on the way that both Illinois and Maryland operate their respective negative Quality Control food stamp samples. The complicity of FNS in this problem is either minimized or overlooked by the GAO auditors.

The information contained in the report is accurate and representative of the discussions that transpired between GAO and Maryland staff during the meetings that were held during that time.

Historically, however, the negative quality control system has not received the same degree of attention that the active quality control system has. Primarily, because the active quality

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**Appendix II
Comments From the States of Illinois
and Maryland**

page 2
Mr. Brian P. Crowley
September 21, 1987

control system serves as the basis for any fiscal sanctions that a state may be liable for.

Several years ago, staff from the Regional FNS office further lowered the stature of the negative quality control system when they informed states that the only time they (FNS) would validate a state's negative error rate is when a state is eligible for enhanced funding. Consequently, since the probability of a state qualifying for enhanced funding was remote, they (the Regional FNS staff) were not going to concern themselves with the negative food stamp sample. Adding to this impression is the fact that the Food Stamp Review Manual contains only six pages on the negative review process. As a result of this lack of validation of the negative error rate by FNS, they are unable to provide adequate guidance as to whether or not a state's interpretation of a particular piece of policy or a particular procedure is correct.

The following situation exemplifies this situation. Maryland had been coding as "not subject to review" those PA cases terminated during a certification period if, as a result of this, the food stamp portion of the case is "short certified" and the local agency properly gave the household benefits for the month following the month the notice of expiration was sent (FS Manual 420.15).

This issue surfaced during one of the audit discussions and the GAO Auditor stated that, based on a 1985 FNP-Quality Control Policy Bulletin, this type of case was reviewable action.

Maryland's Quality Control Food Stamp Policy Specialist located the policy bulletin, dated March 29, 1985 (attached), which indicated that she had telephoned the MARO Quality Control Specialist to discuss this issue and was informed by that individual that the paragraph referring to the above situation was incorrect.

Prior to this, we, in Maryland, did code these type of actions as "valid". FNS took exception to this and told us to code these actions as "not subject to review", since the certification period had expired. Maryland even took this issue to arbitration and lost.

It is felt if FNS had been conducting an on-going validation of the negative quality control system, this type of discrepancy would be identified and resolved.

The audit report, although factual, fails to explain in adequate detail that the situation, at least in Maryland, resulted from a lack of understanding on both the part of Maryland and FNS.

**Appendix II
Comments From the States of Illinois
and Maryland**

page 3
Mr. Brian P. Crowley
September 21, 1987

Although I cannot take exception to the factual material presented in the report, I do feel that the negative picture painted of both Illinois and Maryland needs to be toned down and a more realistic assessment of the actual situation presented.

Again, thank you for the opportunity to present my views on this matter.

Sincerely,



Lawrence E. Hunt
Executive Director

Attachment.

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