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FOOD ASSISTANCE

Alternatives for Delivering
Benefits

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Mr. Chairman and Members of the Committee:

We are pleased to have the opportunity to contribute to your hearings on the U.S. Department of Agriculture's (USDA) food assistance programs. Our testimony today, Mr. Chairman, which is based on two issued reports and ongoing work in the area, will provide you and your Committee with the highlights of our work to assess (1) alternative delivery systems for Food Stamp Program benefits, and (2) potential alternatives to streamline program operations and/or reduce costs in six of USDA's other food assistance programs.

In summary, our December 1994 report¹ compared the current coupon-based system for delivering food stamp benefits with two alternative benefit delivery systems being tested by USDA. These alternatives were (1) electronic benefit transfer (EBT), which provides benefits electronically and (2) cash-out, which provides benefits by check. We reported that while each of the three systems has certain advantages over the other two systems, no one system is clearly superior to the other two in all areas of analyses. In our February 1995² report we identified a number of alternatives for selected food assistance programs. These alternatives included consolidating multiple programs with similar objectives into one program, improving the targeting of benefits to low-income individuals, and eliminating programs that have not been shown to be effective.

Now, I would like to turn to a more detailed presentation of these two reports. First, I will discuss our report to you on alternative systems for delivering Food Stamp Program benefits. I will be supplementing the information provided in the report with information from our current work on fraud, waste, and abuse in the Food Stamp Program, which we are doing for the Chairman and Ranking Minority Member of the House Agriculture Committee. Then I will discuss our February 1995 report to the House Appropriations Committee on six other food assistance programs we reviewed.

ALTERNATIVES FOR DELIVERING FOOD STAMP BENEFITS

You will recall that our December 1994 report compared and contrasted the current coupon-based system of delivering food stamp benefits with two alternative systems that are being tested by USDA--EBT and cash-out. In our analyses, we focused on the differences in the three systems with regard to (1) the potential for controlling fraud, waste, and abuse; (2) program administrative

¹Food Assistance: Potential Impacts of Alternative Systems for Delivering Food Stamp Program Benefits, (GAO/RCED-95-13, Dec. 16, 1994).

²Food Assistance Programs, (GAO/RCED-95-115R, Feb. 28, 1995).

costs; (3) program participation; and (4) the assurance that benefits would actually be used to purchase food.

Controlling Fraud, Waste, and Abuse

Fraud, waste, and abuse can occur in the coupon-based Food Stamp Program in four primary ways. First, recipients can receive benefits when they are not eligible to receive them, or when eligible, receive more benefits than they are entitled to. Second, coupons can be counterfeited. Third, coupons can be stolen from the mail and used by unauthorized persons. Last, recipients can sell their coupons to food retailers or other third parties for cash or use them to purchase nonfood items. This is referred to as food stamp trafficking. As we reported, neither counterfeiting nor mail theft represent major instances of fraud, waste, and abuse in the coupon-based system. However, benefit overpayments due to eligibility and benefit determinations and trafficking are major issues.

With regard to overpayments, in fiscal year 1993, the last year for which data are available, food stamp benefit overpayments amounted to about \$1.8 billion of the approximately \$22 billion in benefits issued. As you are aware, under the Food Stamp Program the federal government pays for all the benefits provided to recipients. The states are responsible for the day-to-day administration of the program including meeting with applicants and determining their eligibility and benefit levels. States are reimbursed by the federal government for 50 percent of their cost in administering the program.

About 42 percent of the fiscal year 1993 overpayments was due to state caseworker errors when making eligibility and benefit determinations and about 58 percent was due to errors made by recipients. Recipient-caused errors occur when applicants do not provide correct information on their household situation or income to caseworkers, or when recipients do not report changes in their income or households that would have affected their benefit level.

The same eligibility and benefit determination processes that are used in the coupon-based system are also being used in the EBT and cash-out systems being tested by USDA. Thus, it is unlikely that overpayments resulting from the eligibility and benefit determination process will be abated by moving toward either of these alternatives.

With respect to the other major abuse in the Food Stamp Program--trafficking--EBT has the potential to reduce this problem but, to date, EBT's potential has not been conclusively demonstrated with a comprehensive analysis of this delivery system. Complicating such an analysis is the absence of studies or reliable data on the amount of trafficking occurring under the coupon-based system. As we noted in our report, media and law enforcement

community estimates have indicated that as much as 10 percent of the benefits issued each year--which would amount to about \$2 billion--are trafficked. Yet we were unable to find any tangible, quantifiable evidence to support these estimates. The cost and effort to observe and develop data on the benefit usage patterns of a nationally representative sample of recipients over a specified period of time would be considerable.

EBT's potential to reduce trafficking is linked to the "electronic trail" provided by each EBT food stamp transaction, including the amount, location, date, and time of the redemption. Under the coupon-based system there is no such record. USDA envisions that having this information will make it easier to identify retailers and recipients who are trafficking food stamps. Another feature of EBT is that there is no cash change given to recipients when they make food purchases. Under the coupon-based system, up to 99 cents can be provided in cash change, when purchases are not equal to the exact denomination of a food stamp coupon. Such change can then be spent for nonfood items.

Obviously, trafficking is not an issue under the cash-out system because benefits are issued in cash. However, the intent of the Food Stamp Program would be circumvented if recipients use their cash benefits for nonfood purchases.

Recently, Congress and USDA have taken a number of actions to reduce overpayments and trafficking. In March 1995, the House of Representatives passed the Personal Responsibility Act of 1995 (H.R. 4) which toughens the sanctions against states having high benefit payment error rates.³ In addition, USDA has launched a major program to reduce error rates and is working closely with states to achieve this goal. USDA has committed an additional \$1 million to this effort for fiscal year 1995 and is also considering legislative initiatives to provide states with additional incentives for reducing error rates.

With regard to trafficking, USDA has requested a number of new legislative authorities mostly aimed at preventing ineligible retailers from becoming authorized to redeem food stamp benefits. These initiatives include improvements in USDA's ability to detect stores that should not be redeeming food stamps and stiffer penalties for stores that provide fraudulent information to obtain authorization to participate in the program, or caught trafficking. While these steps should be useful, our current work indicates that

³Under current statutes, states with error rates above a certain level are required to repay the federal government for a portion of the benefits issued, or to reinvest these moneys in efforts to improve their food stamp programs. Conversely, states with error rates below 6 percent can qualify for additional administrative funding.

few on-site visits are made to stores before they are authorized to redeem food stamps to verify that they are eligible to participate in the program, or after they are authorized to ensure that they comply with program rules and regulations.

Administrative Costs

Federal costs associated with administering the coupon-based Food Stamp Program in fiscal year 1993 amounted to about \$1.8 billion, with about \$1.46 billion of this amount going to the states as partial reimbursement for their cost in administering the program. According to information obtained from USDA-approved EBT and cash-out demonstration projects, the cash-out program would be the least expensive administratively of the three delivery systems. Federal and state administrative costs in the four cash-out projects we reviewed were lower than those for coupon-based system.

Our analysis of data on five USDA EBT projects indicated that three were more expensive to administer than the coupon-based system and two were less expensive. Thus, we were unable to clearly determine if EBT systems would be more, or less, expensive to administer than the coupon-based system. Complicating the EBT cost equation is the Federal Reserve Board's February 1994 ruling that EBT users should be afforded the same consumer protection for lost or stolen EBT cards as provided to bank card users under the Federal Reserve Board Regulation E. This ruling could shift the responsibility for participants' losses of EBT-distributed benefits exceeding \$50 from program recipients to the states. Consequently, millions of dollars could be added to states' costs once the ruling becomes effective in 1997. H.R. 4 exempts state-established or administered EBT programs from Regulation E's requirements.

Program Participation

At the current time, a large number of people who are eligible for food stamps do not apply for benefits. Because of the social stigma associated with using food stamp coupons, it is a widely held belief that if benefits were made available in a different form, more eligible people would participate in the program. This would lead to an increase in program benefit costs. Although this may be a popular assumption, we found no evidence in the EBT and cash-out demonstration projects we reviewed that these alternative benefit delivery mechanisms had a significant effect on program participation.

Assuring That Benefits Are Used For Food

EBT increases the likelihood that participants will use food assistance benefits to purchase food when compared with the coupon system. This is because EBT requires a Personal Identification Number and an EBT card to access one's benefits, thus, making the redemption of stolen or trafficked benefits more difficult. Also,

as I indicated earlier, EBT allows for the exact deduction of the amount of food purchases from benefits, thereby eliminating the need to provide participants cash change. However, evidence does not exist to precisely measure EBT's impact on this program goal. Cashing-out food stamp benefits completely severs the link between benefits and food purchases and is likely to result in a decrease in the amount of benefits that participants spend on food. Reductions in food expenditures were noted at three of the four cash-out demonstration projects. However, because of the wide variation in reductions among the three projects, the precise impacts are difficult to quantify.

OTHER FOOD ASSISTANCE PROGRAM ALTERNATIVES

Now, I will turn to the results of our recent review of six of USDA's other food assistance programs, as presented in our February 1995 report. The report provides detailed information on how these six programs operate and identifies alternative ways to streamline operations and reduce costs. Four of the programs we reviewed provide benefits primarily to women, infants, and children and/or the elderly. These four programs are the (1) Child and Adult Care Food Program; (2) Commodity Supplemental Food Program; (3) Nutrition Program for the Elderly; and (4) Special Supplemental Nutrition Program for Women, Infants, and Children, commonly known as WIC, including WIC Farmers' Market Nutrition Program. We also reviewed The Emergency Food Assistance Program and the Soup Kitchen/Food Bank Program, which provide USDA commodities to the needy.

As part of our review, we analyzed these six programs and conducted case studies of their operations in rural and urban areas of California, Illinois, Louisiana, New York, and Texas. In addition, we analyzed selected aspects of the Food Stamp Program, particularly its employment and training program.

Each of the alternatives for the programs we examined follow below.

Child and Adult Care Food Program

The Child and Adult Care Food Program subsidizes nutritious meals and snacks provided to children, the elderly, and disabled adults in nonresidential day care facilities such as day care centers and day care homes. We identified two potential alternatives for this program. One is to change the program to better target low-income individuals. The other is to replace the program with a grant program.

Better targeting of low-income individuals could be accomplished in a variety of ways, such as (1) applying a means test to child day care homes; (2) eliminating meal reimbursements for center program participants with household incomes greater than

185 percent of the federal poverty level; and/or (3) requiring centers to reflect meal reimbursements in rates charged to low-income individuals. The cost savings achieved from this alternative will depend on the specific changes implemented to better target low-income individuals.

Our review suggested that the major rationale for better targeting is that over 40 percent of the program's current resources, or about \$697 million in fiscal year 1995, are used to subsidize meals for individuals with household incomes greater than 185 percent of the federal poverty level. We also found that the current program does not ensure that the benefits are directly transferred to low-income individuals in the centers. We also identified potential adverse impacts of attempting to better target benefits. These impacts include increased administrative costs, which are already substantial; reduced participation; and increased day care costs for households with incomes above 185 percent of the federal poverty level.

The second alternative we identified is to replace the Child and Adult Care Food Program with a new grant program for states. This could be accomplished by providing funds to the states to subsidize day care for low-income individuals in licensed or approved homes and centers that serve meals meeting minimal nutrition standards. The Department of Health and Human Services could administer this new program, or at a minimum, the adult care component could be transferred to the agency's Administration on Aging as a grant program.

With a fiscal year 1995 appropriation of about \$1.64 billion, the Child and Adult Care Food Program represents an important child care subsidy. During our review, we found that this program does not effectively target low-income recipients and is administratively burdensome. As an entitlement, program costs have grown dramatically in recent years by \$420 million, or about a 35 percent, between fiscal years 1993 and 1995, and program officials expect program costs to continue to rise. In addition to our assessment of the Child and Adult Care Food Program, assessments by the USDA Inspector General found widespread problems and abuses in this program. For example, in a recent report that summarized the program's operations in five states,⁴ the Inspector General found that management controls over the operations were not well designed to prevent or detect inflated and unsupported claims for meal reimbursements. The Inspector General also reported that child enrollment data were insufficient to assess the validity of meal claims.

⁴Food and Consumer Service Child and Adult Care Food Program Day Care Homes - Nationwide Audit Report No. 27600-6-At (Mar. 1995).

By replacing this program with a grant program government operations and congressional committee oversight of day care could be streamlined. This could help address some of the problems we identified in our report.

The potential impacts of replacing this program with a grant program include (1) reducing nutritional benefits if day care reimbursements are not tied directly to some nutrition standard that is monitored by the states; (2) diminishing the overall quality of day care because the program has served as a catalyst for licensing day care providers, which has helped to ensure minimum health and safety standards; and (3) eliminating the automatic availability of USDA commodities to providers in the program.

The Emergency Food Assistance Program, Soup Kitchen/Food Bank Program, and the Commodity Supplemental Food Program

We identified one alternative for three programs that provide USDA commodities to the needy: The Emergency Food Assistance Program, the Soup Kitchen/Food Bank Program, and the Commodity Supplemental Food Program. The alternative is to create one supplementary commodity food assistance program by consolidating the resources available to purchase commodities for these three programs--a total of \$132.6 million in fiscal year 1995. Administrative funds currently available for these programs, approximately \$56.9 million in fiscal year 1995, could be combined, reduced, or eliminated, or a portion of these funds could be used to purchase additional commodities. Furthermore, commodities currently made available by USDA to charitable institutions under USDA's price support and surplus removal legislative authorities could be incorporated into the consolidated program. This combined program could distribute commodities to a single designated state agency on the basis of an allocation formula that could meet the hunger needs of designated low-income target groups, such as the homeless and the elderly.

Consolidating program management under one state agency in each state would give states greater flexibility to more effectively target resources to alleviate hunger. Moreover, the establishment of one program would provide the opportunity to set measurable goals that could be used to evaluate the effectiveness of the program at the federal and state level. Currently, this type of analysis is not conducted for these commodity programs.

Consolidating these programs could also help streamline federal, state, and local administration of food assistance programs that rely on USDA commodities. Under the current structure, each of these three programs has its own set of federal regulations and is not always managed by the same state agency in each state. Further, under the Commodity Supplemental Food Program, benefits are provided only to portions of 17 states, the

District of Columbia, and two Indian tribal organizations. In fact benefits are concentrated in two states that receive 43 percent of the total: Michigan receives 27 percent and Louisiana receives 16 percent. Eliminating the Commodity Supplemental Food Program as a separate program would result in a more equitable distribution of purchased USDA commodities. Finally, a consolidated commodity distribution program would continue to support USDA's price support and surplus removal activities.

We identified the following potential adverse impacts of consolidating these programs: (1) the current populations being served under these programs may not receive the same level of benefits; (2) changes in the allocation of commodities could result in providers receiving less depending on how states target benefits; (3) at the state level, allocation of total resources may change, specifically, states currently receiving Commodity Supplemental Food Program commodities may receive less; (4) if administrative funds are eliminated or reduced, states will have to either pay the cost of storing and transporting commodities to local providers or charge providers to cover all or part of these costs; and (5) more demand may be placed on the WIC program if current participants in the Commodity Supplemental Food Program lose their benefits.

The administration in its May 1995 Farm Bill Guidance, as well as H.R. 4, supports consolidating commodity programs.

Nutrition Program for the Elderly

We identified two potential alternatives for the Nutrition Program for the Elderly. One alternative is to minimally reduce the program's funding. The other alternative is to consolidate meal programs for the elderly in the Department of Health and Human Services.

A minimal reduction in program funding could be accomplished by adopting the proposal that was made in the President's fiscal year 1995 budget request. In that request, the administration proposed reducing the funding level by about 6 percent, or \$9 million. At the time that proposal was made, USDA believed such a reduction would not jeopardize the nutritional needs of the population it serves because this program contributes only a small portion of the funds used to cover the cost of meals provided through the Department of Health and Human Services' Elderly Nutrition Program. Our work supports this view because we found that USDA's reimbursements through the Nutrition Program for the Elderly represent only about 14 percent of the resources to pay for program meals. Therefore, a 6-percent reduction would represent less than a 1-percent reduction in the total resources available to cover meal costs.

We identified the following potential adverse impacts of adopting this alternative: (1) local providers would have to rely more heavily on other funding sources or try to reduce meal costs; (2) some providers could experience hardship and could reduce the benefits provided to participants; and (3) local governments may decide to shift other sources of funding (e.g., Social Services' block grants) to support the elderly meal program.

The second alternative, to consolidate meal programs for the elderly in the Department of Health and Human Services, would give funding responsibility to the agency that currently has program oversight responsibility and provides the most funding for meal programs for the elderly. Such a consolidation would also streamline program administration and congressional oversight. We did not identify any significant adverse impacts resulting from implementing this alternative.

WIC-Farmers Market Nutrition Program

We did not identify a program alternative for the basic WIC program. However, the WIC Farmers' Market Nutrition Program could be eliminated because its benefits are not uniformly available or fully utilized by all WIC recipients. We found that WIC Farmers' Market Nutrition Program benefits are geographically limited and are smaller than and have a lower redemption rate than WIC's regular benefits. In addition, eliminating this program would make more federal funding available to serve those eligible for WIC benefits. Conversely, if this program were eliminated, some participants may no longer receive fresh produce as a benefit under WIC and local farmers participating in the program may lose some sales.

Food Stamp Program's Employment and Training Program

The Food Stamp Employment and Training Program provides services to help food stamp participants improve their ability to gain employment, increase their earnings, and reduce their dependence on public assistance. In our February 1995 report, we noted that the Food Stamp Employment and Training Program could be eliminated because the services provided under it could be provided by other existing employment and training programs, such as the Department of Labor's Job Training Partnership Act program. Also, a 1990 study⁵ performed by ABT Associates for USDA concluded that this program was ineffective. Although no study since then has comprehensively examined the program's effectiveness, a more

⁵Abt Associates, Inc., Evaluation of the Food Stamp Employment and Training Program (June 1990).

limited 1992 study⁶ performed by SRI International for USDA suggested that several alternatives were available to improve the program. Alternative actions included consolidating and coordinating the delivery services now separately administered by a number of different programs.

According to the administration's fiscal year 1996 budget submission, eliminating the Food Stamp Employment and Training component would result in a potential reduction of \$167.5 million.

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This concludes my prepared statement. Mr. Chairman, I would be pleased to respond to any questions you or other Members of the Committee may have.

(150247)

⁶SRI International, Study of the Food Stamp Employment and Training Program: Operations, Funding, and Coordination (July 1992).

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