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FOOD ASSISTANCE

Observations on Reducing
Fraud and Abuse in the
Food Stamp Program

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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to present our observations on reducing fraud and abuse in the Food Stamp Program. The Food Stamp Program is one of the nation's largest welfare programs and the largest single program administered by the U.S. Department of Agriculture (USDA). In fiscal year 1997, over \$21 billion in food stamps were provided to about 23 million recipients,¹ down somewhat from recent years. The program is the principal component of the government's food assistance safety net. Any program of this magnitude will be susceptible to fraud and abuse, and the Food Stamp Program is no exception. It has been subject to both the participation of ineligible recipients and the improper use of benefits; however, USDA has been able to reduce the overpayment error rate in recent years and is taking actions to address food stamp trafficking—that is, exchanging food stamps for cash or other non-food items.

We have reported recently on the improper inclusion of prisoners and deceased individuals in food stamp households and on the extent of trafficking. Today, our discussion of fraud and abuse in the Food Stamp Program will address the nature and the extent of the problem, the reasons it often goes undetected, and the ways computerized information can be used to identify and reduce it.

In summary, we found the following:

- Fraud and abuse in the Food Stamp Program generally occurs in the form of either overpayments to food stamp recipients or trafficking. Overpayments occur when ineligible persons are provided food stamps, as well as when eligible persons are provided more than they are entitled to receive. Overpayments are caused by inadvertent and intentional errors made by recipients and errors made by state caseworkers. The latest available information indicates that overpayments in 1996 totaled about \$1.5 billion, or about 7 percent of the food stamp benefits issued that year. Errors also result in underpayments; in fiscal year 1996 such underpayments totalled about \$518 million. With regard to trafficking, USDA estimated that in 1993 (the latest year of available data) about \$815 million in food stamps, approximately 4 percent of the food stamps issued, were traded for cash at retail stores. No one knows the extent of trafficking between individuals before the food stamps are redeemed at authorized retailers.

¹For this testimony, food stamps refers to the benefits provided in the form of coupons or through electronic benefit transfer.

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- Participation in the Food Stamp Program by ineligible recipients occurs, and often goes undetected, because the information used to determine a household's eligibility and benefit amount for the program is not always accurate. State agencies that administer the program determine household membership primarily on the basis of unverified information provided by food stamp applicants. Food stamp trafficking takes place when recipients collaborate with unscrupulous retailers to convert food stamp benefits to cash or other non-food items. These retailers make a profit by giving the recipients a discounted cash payment for the stamps, then redeeming the stamps at full face value to the government. In 1995, we reported that food stamp trafficking occurred and/or went undetected because USDA (1) admitted some retailers to the program that did not meet eligibility criteria because they lacked sufficient time and resources to make necessary pre-authorization visits and (2) lacked timely and accurate information on retailers' total food sales and food stamp redemptions to effectively detect retailers that violate program regulations.²
 - While USDA has reduced the overpayment rate in recent years, further reductions could result if food stamp rolls were matched against computerized information held by various sources. Computer matching provides a cost-effective mechanism to accurately and independently identify ineligible participants. Some states already conduct data matching programs, such as matches with the rolls of other states to find participants receiving duplicate benefits. By taking a leading role in promoting the use and sharing of information among federal and state agencies, USDA can enhance the states' effectiveness in identifying ineligible participants and reducing overpayments. In addition, the congressionally mandated use of electronic benefit transfers, while not the answer to eliminating all fraud, has the potential to reduce trafficking by providing an electronic trail of transactions.

Background

The Food Stamp Program provides a safety net to the millions of low-income individuals and families nationwide who do not otherwise have the means to obtain a healthy diet. Food stamp benefits are calculated to ensure that households have the resources needed to purchase a model diet plan based on the National Academy of Sciences' Recommended Dietary Allowances. USDA's Food and Nutrition Service (FNS) administers the program in partnership with the states, funding all of the program's benefits and about 50 percent of the states' administrative costs. FNS develops program policy and guidance, such as nationwide

²Food Assistance: Reducing Food Stamp Benefit Overpayments and Trafficking (GAO/RCED-95-198, June 23, 1995).

criteria for determining who is eligible for assistance and the amount of benefits recipients are entitled to receive, and oversees the states' activities. The states are responsible for the day-to-day operation of the program, including meeting with applicants and determining their eligibility and benefit levels.

Food stamp recipients must use their benefits only to purchase allowable food products from retail food stores that FNS authorizes to participate in the program. Recipients use food stamp coupons or an electronic benefit transfer (EBT) card to pay for these items. EBT systems use the same electronic funds transfer technology that many grocery stores use for their debit card payment systems. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandates that all states implement EBT systems by October 1, 2002, unless USDA waives the requirement. As of March 1998, 16 states had implemented EBT systems statewide, with all other states in some earlier stage of implementation. Collectively, about 40 percent of all food stamp benefits are now delivered through EBT systems.

Nature and Extent of Fraud and Abuse

Fraud and abuse in the Food Stamp Program generally occurs in the form of either overpayments to food stamp recipients or trafficking. Overpayments occur when ineligible persons are provided food stamps, as well as when eligible persons are provided more than they are entitled to receive. In 1996, the latest year for which data are available, the states overpaid recipients an estimated \$1.5 billion, or 7 percent of the approximately \$22 billion in food stamps issued. Approximately 57 percent of the overpayments were caused by recipient errors (36 percent unintentional and 21 percent intentional), and 43 percent were caused by caseworkers' errors. It should also be noted that recipient and caseworker errors can result in underpayments. According to FNS' data, food stamp recipients were underpaid by about \$518 million in fiscal year 1996.

In March 1997, we reported on one specific kind of food stamp overpayment—payments to households that included inmates of correctional institutions.³ Federal regulations prohibit prisoners from participating in the Food Stamp Program. By matching automated food stamp records and prison records in four states—California, Florida, New York, and Texas—we identified over 12,000 inmates who were included in the households receiving food stamps in calendar year 1995. These

³Food Stamps: Substantial Overpayments Result From Prisoners Counted as Household Members (GAO/RCED-97-54, Mar. 10, 1997).

households improperly collected an estimated \$3.5 million in food stamps in 1995. Subsequently, in August 1997, the Balanced Budget Act of 1997 (P.L. 105-33, Aug. 5, 1997) included a provision directing the states to ensure that individuals who are under federal, state, or local detention for more than 30 days are not participating in the Food Stamp Program.

In February 1998, we reported on another type of food stamp overpayment—payments made to households that included deceased individuals as members.⁴ By matching automated food stamp records from the four states previously mentioned with death information from the Social Security Administration’s (SSA) Death Master File, we identified nearly 26,000 deceased individuals who were included in households receiving food stamps in 1995 and 1996. These households improperly collected an estimated \$8.5 million in food stamp benefits. Subsequently, in March 1998, you, Mr. Chairman, introduced legislation that would require the Commissioner of SSA to use all of SSA’s death information to notify state agencies when an individual receiving food stamp benefits is deceased.

At your request, Mr. Chairman, we are currently reviewing the extent to which individuals are included in food stamp households in more than one state during the same time period, referred to as “duplicate participation.” While some states conduct matches of their food stamp rolls with neighboring states, our review is focussed on non-neighboring states. For example, we will determine whether duplicate participation occurs between New York and Florida or between California and Texas. Our preliminary results indicate that such duplicate participation is occurring on a significant scale and that there is no national mechanism in place to identify and eliminate it.

Regarding trafficking—the second main area of fraud and abuse in the Food Stamp Program—a 1995 FNS study estimated that up to \$815 million,⁵ or about 4 percent of the food stamps issued, was exchanged for cash by authorized retailers during fiscal year 1993. The study found that the trafficking rate was highest, 13 percent of food stamps redeemed, among small, privately owned food retailers that generally do not stock a full line of food. In contrast, supermarkets and large grocery stores had an average trafficking rate of less than 2 percent of the benefits redeemed. Data on

⁴Food Stamp Overpayments: Thousands of Deceased Individuals Are Being Counted as Household Members (GAO/RCED-98-53, Feb. 11, 1998).

⁵The Extent of Trafficking in the Food Stamp Program, U.S. Department of Agriculture, Food and Nutrition Service, Aug. 19, 1995.

the extent to which food stamps are exchanged between individuals prior to reaching authorized retailers are unavailable.

In our March 1998 report on food stamp trafficking, conducted at your request, Mr. Chairman,⁶ we found that retail store owners and retail store clerks share almost equal responsibility for the food stamp trafficking problem. Specifically, in the 432 trafficking cases we reviewed, store owners alone were caught trafficking in about 40 percent of the cases, clerks alone were involved in 47 percent of the cases, and store owners and clerks together were caught in 13 percent of the trafficking cases. FNS took administrative action against all the store owners that were trafficking but took no actions against the store clerks because it lacks the authority to do so. However, some clerks were subject to court-ordered actions, including financial penalties or jail sentences.

Large Number of Participants and Administrative Processes Make Program Susceptible to Fraud and Abuse

The Food Stamp Program is inherently susceptible to some level of fraud and abuse because of the sheer number of program participants (about 23 million in fiscal year 1997), the basic approach used to determine a household's eligibility and benefit amount, and the process used to authorize and monitor a sufficient number of retailers to accept food stamps. In making eligibility decisions, state caseworkers rely on applicants to provide accurate information on, among other things, household composition, and to report subsequent changes, such as the loss of a household member. Only "questionable" cases are investigated. In general, the agencies take this approach in an effort to make the program convenient for clients and simple to administer, and to ensure accurate payments; consequently, controls over determining household composition are not as rigorous as they could be. For example, FNS' regulations do not require caseworkers to verify client-provided information on household composition, unless such information is deemed "questionable," as defined by the state agency. Investigators attempt to verify this information through techniques such as visiting the home and/or contacting neighbors and landlords, however, they characterize these efforts as time-consuming, costly, and often unreliable.

With respect to trafficking, it is difficult to track the flow of food stamps after they are issued to recipients. Federal and state officials agree that food stamps have essentially become a second currency exchanged by some recipients for cash or non-food items. Trafficked food stamps may

⁶Food Stamp Program: Information on Trafficking Food Stamp Program Benefits (GAO/RCED-98-77, Mar. 26, 1998).

change hands several times, but all food stamps must eventually pass through an FNS-authorized retailer because only such a retailer can redeem food stamps for cash from the government. FNS is responsible for monitoring program compliance by the approximately 185,000 stores that currently are authorized to redeem food stamps. Our 1995 report found that, at that time, FNS' controls and procedures for authorizing and monitoring the retailers that participate in the Food Stamp Program did not deter or prevent retailers from trafficking in food stamps. Since our report, FNS has initiated several actions to reduce trafficking in the program, such as contracting with different companies to make 35,000 to 40,000 store visits by the end of fiscal year 1998. These visits are being made to verify that the stores are bonafide grocery operations. In addition, FNS is improving its Store Tracking and Redemption System by, for example, developing a profile that enables FNS to better identify stores that may be trafficking.

Overpayment Levels Have Declined, but Additional Actions to Further Reduce Fraud and Abuse Would Be Worthwhile

USDA's data show that overpayments in the Food Stamp Program have declined since 1993. According to the data, the overpayment error rate at the national level has decreased from 8.27 percent of the total benefits provided in fiscal year 1993 to 6.92 percent in fiscal year 1996, the lowest error rate ever achieved in the program. With the support of the Congress, FNS has increased its emphasis on achieving payment accuracy and has employed various initiatives to assist the states in reducing the number of errors. For example, FNS sponsored national, regional, and state conferences, provided direct technical assistance to the states, and facilitated the exchange of state information on effective strategies for determining accurate payments. While these efforts have been useful in reducing fraud and abuse, we believe that FNS could achieve even greater success by taking a leading role in promoting the use and sharing of automated information by state agencies.

Given the program's strong reliance on applicants, clients and retailers to comply with program regulations and provide accurate and timely information, state agencies need to have access to information that will allow them to independently and cost effectively verify the information they are provided and identify noncompliance. Our reviews have demonstrated that useful information can be obtained from (1) matching state food stamp rolls against other state databases, such as prisoner rolls, and (2) reconfiguring existing federal databases to provide additional useful information to state agencies, such as death notices. Additional opportunities to use computerized resources to verify information exist, as

seen in our ongoing review of duplicate participation in non-neighboring states.

Both an FNS study and our own experiences demonstrate that automated data matches by the states using food stamp records provides a cost-effective means of reducing fraud and improving program integrity. The cost of conducting computer matches is relatively low for the return generated, which includes identifying ineligible individuals in the application process before any benefits are issued and preventing additional issuance once an ineligible participant is identified.

State agencies have already implemented computerized matches on their own initiative, such as neighboring state matches for duplicate participation. Two state agencies we visited have taken steps to obtain information from credit reporting services to ensure that applicants are eligible for benefits. In addition to recouping overpayments, matching efforts help the program realize savings by identifying erroneous information during the application process, according to states. Furthermore, the states said that these efforts have a deterrent effect on applicants who may be considering fraudulent activities.

Relatedly, while EBT will not eliminate all types of fraud, it shows promise as a means to identify redemption patterns that indicate potential trafficking. By eliminating paper coupons that may be lost, stolen, or sold without any record of sale and creating an electronic record of transactions, EBT can help identify and reduce food stamp trafficking. However, because EBT systems are simply another vehicle for distributing benefits, they cannot correct fraud and abuse that occurs during the process of determining eligibility and benefit levels. Also, like any computer system, food stamp EBT systems can be susceptible to security breaches that result in new forms of fraud and abuse.

FNS can further expand on its recent successes in reducing overpayments by actively encouraging the states to identify ways to use computerized information to verify information provided by applicants and to encourage states to share their techniques and information with each other. FNS can demonstrate its leadership in this regard by identifying sources of information that would be useful to the states and ensuring that states have access to that information.

Thank you again for the opportunity to appear before you today. We would be pleased to answer any questions you may have.

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