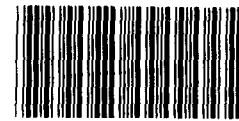


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STATEMENT OF
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BEFORE THE
SENATE COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY



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ON
GENERAL ACCOUNTING OFFICE REVIEWS OF
DOMESTIC FOOD ASSISTANCE PROGRAMS

Mr. Chairman and Members of the Committee:

We are here today at your invitation to discuss work relating to the Department of Agriculture's domestic food assistance programs. You asked that we discuss the Food Stamp, Child Nutrition, and special commodity distribution programs, and that we provide information from completed reports as well as any ongoing related work.

My presentation today will focus on the following issues: (1) overissued Food Stamp Program benefits; (2) wage matching, collections, and corrective action plans in the Food Stamp Program; (3) error-rate sanction systems for needs-based programs; (4) benefit targeting and related issues in the Special Supplemental Food Program for Women, Infants, and Children (WIC); (5) School Lunch Program participation; (6) the special commodity distribution program; and (7) recently started work involving eligibility redeterminations in the Food Stamp and the Aid to Families with Dependent Children (AFDC) Programs, food stamp benefit delivery systems, and the authorization and monitoring of retail vendors in the Food Stamp and WIC Programs.

OVERISSUED FOOD STAMP BENEFITS

In a report¹ issued in February 1983, we discussed the need to recover Food Stamp Program costs attributed to errors or fraud. We noted that total overissued program benefits (including excess benefits to eligible persons and benefits issued to ineligible persons) were about \$1 billion a year and, in fiscal year 1981 (the latest period for which we had information at the time of that review), represented about 10 percent of all benefits issued. More recent data shows that error rates have declined but, because of increases in total program outlays, overpayments still approach \$1 billion a year. The annual dollar loss is equivalent to what is spent to provide food assistance to almost 2 million needy people. Our report

¹Need For Greater Efforts To Recover Costs Of Food Stamps Obtained Through Errors Or Fraud, (GAO/RCED-83-40, Feb. 4, 1983).

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discussed the need for states to identify specific overissuance cases and take action to collect overissued benefits and pursue suspected fraud.

Since then, we have initiated several follow-up reviews and have started work in other food assistance areas. Some of these efforts address both the Food Stamp Program and the AFDC Program which is administered by the Department of Health and Human Services.

WAGE MATCHING

In our February 1983 report, we noted that wage matching, required by law in both the Food Stamp and AFDC Programs, is a promising technique for identifying erroneous earnings information reported by households participating in needs-based programs. Basically, it involves comparing household-reported earnings with wage information available from an independent source--generally the state agency administering the unemployment compensation program. Wage differences noted in the comparison are then followed up, resolved, and remedied as necessary through adjustments of current benefits and collections of prior overissuances. States also can pursue suspected participant fraud or misrepresentation through administrative hearings or through the courts.

We recently completed field work on a review of Food Stamp wage matching in five states (Florida, Louisiana, New Jersey, New York, and Texas). In four of the five states, automated systems were not routinely used to identify participants whose food stamp records showed reported wages differing materially from wage data independently reported by employers. Also, in four of the five states, members of households that had formerly participated in the program were not always subject to wage matching for the periods when they received benefits. About two-thirds of the approximately 700 randomly selected cases we reviewed in local offices in the five states showed significant differences (averaging over \$900 per case for a 3-month period) between independent employer-reported wage data and the household-reported earnings shown in program casefiles. We selected the cases we reviewed from those for which independent wage data had been referred to local program offices 6 to 12 months earlier so that sufficient time would have been available for local offices to identify and resolve any inaccuracies in participant-reported income.

Our work indicated that about 90 percent of the cases with differences were not handled properly by the local offices. The problems involved local offices' not taking appropriate steps in manually matching independent wage data with earnings data in program casefiles, not consistently following up and resolving indicated differences, and not using the results to adjust current participants' benefits or establish claims for prior-period overissuances. Indications were that Agriculture and the states could have provided better guidance, assistance, and training on how to efficiently carry out wage-matching responsibilities.

The Food Stamp and AFDC Programs are administered by different federal agencies but a single state administrator often has responsibility for both programs; the same local offices usually

administer both programs; and the same wage matching system was used for both programs in the states we reviewed. About 150 of the Food Stamp households with differences in reported earnings also had received AFDC benefits based on apparently inaccurate earnings data. The results of our review of those cases indicated that states were experiencing the same types of problems with wage matching for both the Food Stamp and AFDC Programs.

COLLECTIONS

We also noted in our February 1983 report that states collected only about \$20 million for a 2-year period, or about 1 cent of each overissued Food Stamp dollar. State officials often cited the absence of sufficient financial incentives and effective collection tools as reasons why their collection activities had not been more aggressive.

The Congress recognized the need to increase recoveries and strengthened collection techniques by requiring states to use recoupment; that is, to recover overissuances from current AFDC and Food Stamp participants by reducing their monthly benefits. To give states greater incentive to collect more overissued benefits, the Congress also allowed states to keep 25 percent of Food Stamp collections on claims caused by nonfraud participant errors.

We are currently making a followup review to determine what effect these changes have had on states' collection efforts in the Food Stamp and AFDC Programs. Preliminary indications are that collections are increasing, but we are finding evidence that states were not making maximum use of the recoupment method because they did not give priority to processing backlogged claims involving current participants. In addition, Food Stamp procedures for notifying participants regarding amounts owed and initiating recoupment procedures are time consuming. Also, indications are that states' primary method for collecting from households no longer receiving benefits is to send letters requesting repayment, rather than using additional collection techniques such as intercepting state income tax refunds.

Food Stamp legislation requires that benefit overissuances to participating households be recovered by reducing monthly benefits; however, this requirement applies only to participant-caused errors. In our 1983 report and in subsequent testimony before a subcommittee of the House Committee on Agriculture, we recommended that the Congress amend the Food Stamp Act of 1977 to conform with AFDC legislation which provides for mandatory offset against AFDC participant benefits for overpayments caused by any type error--whether agency caused or recipient caused. A provision in S. 1993, under consideration by this Committee, would accomplish this change. We also recommended that states be required to take appropriate action under state law to recover overissuances against the income or resources of individuals or households no longer receiving benefits. Our ongoing work is reconfirming the need for these changes.

CORRECTIVE ACTION PLANS

Within the next few weeks we will be issuing a report on the corrective action process--Agriculture's management system for

having states identify and correct problems in the Food Stamp Program. During our review in five states (Maryland, Illinois, Ohio, New Mexico, and Texas), we found that Agriculture has encouraged better management, but some areas need further attention.

State corrective action plans did not always address serious problems such as identifying overissued benefits, collecting overpayments, and pursuing fraud, and some states did not always follow federal requirements to monitor and evaluate local offices' progress in carrying out the corrective actions included in state plans. We also found that federal regulations, which required states to make reviews taking a great deal of time and resources, had not been updated for several years and did not cover such key program functions as wage matching and the recoupment provision for recovering overissuances.

ERROR-RATE SANCTION SYSTEMS

In response to your request, we recently completed a review of existing procedures for holding state and federal organizations financially responsible for excessive errors in the day-to-day administration of the Food Stamp, AFDC and Supplemental Security Income (SSI) Programs. Our analysis of these systems shows that error-rate targets (maximum acceptable percentages of erroneous payment errors) established for the programs have differed by year, by program, and from state to state for the same program. Beginning in fiscal year 1985 and continuing thereafter, all states will have a 5 percent target for Food Stamps, 4 percent for SSI, and 3 percent for AFDC.

The dollar bases to which any excess error rate percentages apply in calculating sanctions also differ between programs. Because of these differences, the sanction system used in the Food Stamp Program (based on state administrative costs) results in proportionately smaller sanctions for excessive errors than the AFDC or SSI sanction systems (based on total benefits issued).

Although sanction systems can be an effective program management tool, sanctioned states have not paid the federal government for any of the sanctions assessed against them for the billions of federal dollars lost through food stamp or AFDC benefit overpayments. USDA and HHS have authority to waive, under certain conditions, sanctions assessed against states, and have done so in many cases based on such things as states' developing plans for taking corrective action.

In contrast, the federal government has acknowledged liability or paid states about \$160 million assessed against it since 1974 for excessive overpayments of state-financed SSI Program benefits. There is no waiver provision to relieve the federal government of its financial liability for excessive overpayments of state-financed SSI benefits.

USDA and HHS data shows that error rates have dropped more in the Food Stamp Program than in the AFDC or SSI Programs but are still higher than those for the other two programs.

WIC PROGRAM TARGETING AND RELATED ISSUES

To be eligible for WIC benefits, applicants must meet income limits established in accordance with federal requirements and be considered "at nutritional risk" on the basis of state-established risk criteria. WIC has grown rapidly in recent years. Monthly participation is now about 3 million women, infants, and children, and annual program costs are about \$1.2 billion. Program officials recognize that budgetary constraints are likely to slow program growth in future years. Our recently completed field work on the WIC Program focused on what could be done to better direct limited funds to those considered to be at greatest nutritional risk. We found broad agreement among program directors, nutritionists, and certifying officials that pregnant women, breastfeeding women, infants, and children under age three (in roughly that order) were more likely to be at risk because of inadequate income, health care, or both, and more apt to benefit from timely WIC intervention than non-breastfeeding women and older children. There also was substantial agreement that targeting program benefits to the groups at greater risk would represent an appropriate strategy for optimizing program impact and insuring effective use of limited funds.

Our work in five states (California, Illinois, Minnesota, Nevada, and Pennsylvania) showed relatively little targeting being done. Current program rules do not require or even encourage targeting except under circumstances where a state or local agency program has attained maximum caseload; that is, when available funding will not support further increases in the number of participants. In such an event, WIC agencies are required to maintain applicant waiting lists grouped according to federally-prescribed priority risk categories and to enroll from these lists on a one-for-one replacement basis only as other participants come off the program.

However, since an agency may be in a maximum-caseload targeting situation for only limited periods of time during a program year, or perhaps not at all, it would not be required to target just when targeting would make the most sense and would likely be most productive; that is, when available funds would enable it to increase enrollment by taking on new participants. Based on our work and discussions with program officials at locations we visited, it appears that Agriculture could do more to emphasize targeting as a principal program objective, make state agency performance in this area a major focus of its WIC management evaluations, build-in targeting performance as an incentive factor in its fund allocation formula, and help states to target their outreach and develop health care networks to assure referrals of high risk applicants to their WIC programs.

Our work also touched on two related points dealing with WIC funding and WIC eligibility standards and procedures. We found broad agreement that when WIC funding uncertainties continue into the program year and their ultimate resolution results in more or less program funds than originally anticipated, state and local agencies have difficulty planning and managing their caseloads and have to make special efforts to avoid the risk of having Agriculture recover and reallocate any unspent WIC funds to other states. Some

local agency directors told us that the pressures to enroll participants quickly and to maintain participation at the new, higher caseload levels made possible by infusions of additional funding at unpredictable intervals often turn WIC into a "numbers game" where the relative health risk or need of those served becomes less important than simply filling the available caseload slots.

These kinds of pressures are at odds with the concept of targeting to priority needs because WIC agencies sometimes feel that, to avoid the possibility of losing WIC money, they have to spend the money quickly on the most accessible eligibles available without necessarily considering the relative priority of their needs. Some WIC officials agreed that a more stable funding approach--including authority for states and WIC agencies to carry over part of their program funds, without loss, from one year to the next--would provide them needed management flexibility and opportunity for targeting initiatives.

Our analyses and discussions at local WIC offices also have suggested a need to refine and tighten some of the nutritional risk criteria presently used to enroll WIC participants, and to make it more uniform nationwide. The nutritional risk criteria differ from state to state and result in disparities as to who can qualify for the program. For example, someone at risk for anemia in one state would not necessarily be considered at risk in another. One state may consider consumption of more than a minimal amount of caffeine in tea, coffee, or colas as a risk factor for pregnant women while another may not. States also differ as to the age cutoff used for defining the risk factor of adolescent pregnancy--such age may vary from less than 15 years of age (at the time of conception) in one state to age 19 or under in another. One of our earlier reports² addressed this same general issue and pointed out the need to assure WIC applicants more equitable access to program benefits regardless of where they live. Also, although WIC participants are to meet established income criteria based on family size, we noted that WIC regulations do not require documentation of income eligibility. WIC certification workers commonly accept an applicant's word on family income.

We expect that a report on our WIC review and the points we have discussed here will be issued later this year.

SCHOOL LUNCH PROGRAM PARTICIPATION

In a report³ issued last month, we discussed School Lunch Program participation and federal expenditures for free, reduced-price, and full-price lunches for the 1979-83 period during which the 1980 and 1981 Reconciliation Acts took effect. The report pointed out that student participation in the program declined from 27 million in fiscal year 1979 to 23.1 million in fiscal year 1983 primarily because fewer students ate full-price lunches. As a

²The Special Supplemental Food Program For Women, Infants, and Children (WIC)--How Can It Work Better? (CED-79-55, Feb. 27, 1979).

³Participation in the National School Lunch Program (GAO/RCED-84 132, Mar. 30, 1984).

result, 1982 marked the first time in program history that schools served more free and reduced-price school lunches than full-price lunches.

Between fiscal years 1979 and 1983, the number of schools participating in the School Lunch Program and the enrollment of those schools decreased by 4.1 percent and 8.7 percent, respectively, slightly outpacing the drop in the total number of schools and student enrollment nationally.

The report points out that since 1979, the number of families with children eligible for free lunches increased by 27.5 percent and that federal expenditures for these lunches increased at about the same rate. The number of families with children eligible for reduced-price lunches increased (7.6 percent) while expenditures for these lunches decreased (12 percent). The number of families with children that would have to pay the full price for lunch and the federal dollars spent on these lunches decreased by 12.2 percent and 43.8 percent, respectively. Total federal expenditures for the School Lunch Program in fiscal year 1983 were about \$3.2 billion--greater than at any time except for the peak year of 1981.

COMMODITY DISTRIBUTION

We also have reported⁴, at the request of this committee and others, on the administration and success of a special commodity distribution program started in December 1981 to provide surplus dairy products to needy persons and to concurrently reduce federal costs of acquiring and storing surplus products. The value of government-owned dairy products increased from \$569 million in September 1979 to \$3.7 billion in September 1983.

Agriculture had not developed national guidelines to ensure that only the needy participated in the distribution program because it believed that large scale federal involvement would have conflicted with the program's temporary and volunteer nature. It considered states to be more aware of who needed assistance.

As a result, we found that program administrative practices varied widely among states and, in some cases, by locality; program abuses occurred; and displacement of commercial sales was greater than necessary. During our review in eight states (California, Iowa, Massachusetts, Minnesota, New Jersey, Texas, Utah, and West Virginia) in June and July 1983, we found that five had established income limits ranging from 135 to 185 percent of OMB poverty guidelines. The other three relied on participants' verbal statements that they were needy. Two states would provide donated food to anyone over age 60. Another offered assistance to any unemployed person.

Existing state participation criteria was not adequately enforced. Only three states required identification or proof of eligibility. Distribution agencies in the other five states did not generally require this information, thus foregoing opportunities to deter or prevent persons from receiving duplicate benefits or high-income persons from participating.

⁴Improved Administration of Special Surplus Dairy Product Distribution Program Needed (GAO/RCED-84-58, Mar. 14, 1984).

There were other program administrative differences in the states we visited. Distribution frequency varied from monthly to twice annually. Some states provided a fixed amount for each household; others offered variable amounts depending on household size.

The program's effectiveness in reducing federal purchases and inventories has been lessened to the extent that donated government-owned dairy products have reduced (displaced) commercial sales. Although cheese and butter valued at \$755 million and \$261 million, respectively, were distributed between December 1981 and September 1983, Agriculture's inventory of these products increased from about 1.1 billion to about 1.5 billion pounds during this period due to increased purchases of surplus commodities.

Agriculture's June 1983 study and nearly all of the government and industry officials we talked with attributed recent declines in commercial sales in part to the special distribution program. Both the study and industry officials we talked with said that the upward trend in sales of American-type cheese ended when Agriculture began distributing large quantities of cheese, while the upward sales trend for other types of cheese continued.

There was no usable data on the extent of commercial sales displacement by state. Although a survey of participants might, in theory, have yielded such information, we decided that such a survey would be impractical. However, using a set of stipulated (assumed) conditions we conservatively estimated, with the help of a consultant, that about 32 million pounds, or 31 percent, of the 103 million pounds of cheese distributed from December 1981 to April 1983 in the eight states included in our review would have displaced sales.

Legislation adopted in September 1983 requires states to establish eligibility criteria and Agriculture to take necessary precautions to assure that the distributed commodities do not displace sales. We recognize that Agriculture has to balance three objectives in carrying out the program: reduce inventories, feed the needy, and minimize displacement. Accordingly, we recommended in our March 1984 report that Agriculture establish parameters for state eligibility criteria based on the amount of commercial sales displacement likely to occur at various household income levels. We also recommended that Agriculture require states to develop reasonable controls over the distribution of the products to minimize program abuse.

OTHER ONGOING REVIEWS OF FOOD ASSISTANCE PROGRAMS

At the request of several Members of Congress, we recently began a review of the adequacy of Agriculture's procedures to assure that surplus foods are being properly stored and controlled to minimize spoilage and theft. Currently, the review is being done in Michigan and Pennsylvania but may be expanded to other states if warranted.

We also have started additional reviews that are focusing on program systems for (1) redetermining continued Food Stamp and AFDC Program eligibility and benefits, (2) existing and alternative ways

of delivering food assistance benefits to program participants, and (3) authorizing and monitoring retail vendors participating in the Food Stamp and WIC Programs.

Redeterminations

All households participating in the Food Stamp Program must be periodically recertified for continued benefits and must report any interim changes affecting eligibility. Concerns that such changes were not being reported led the Congress to require program participants to submit information on their income and other eligibility factors each month. We have started a review of monthly reporting procedures in four states (Kentucky, Michigan, North Carolina, and Wisconsin) to assess how well the Food Stamp and AFDC monthly reporting processes are working. We expect to have a report on the results of this work early next year.

Alternative delivery systems

In 1982 we reported⁵ that the authorization-to-participate card system used to distribute Food Stamp benefits was vulnerable to fraud and resulted in the loss of millions of federal dollars. The Congress has authorized Agriculture to require states to modify existing issuance systems where necessary to prevent losses, and Agriculture has funded a demonstration project to explore alternative issuance systems. We have an ongoing review that will assess progress made in reducing losses and provide information on system modifications that some states are using or planning for issuing Food Stamp benefits. These systems range from state-of-the-art techniques such as credit-card type instruments with encoded micro chips, to more basic approaches such as requiring participants to pick up food stamps in person at designated locations.

Retailer compliance

The WIC and Food Stamp Programs both use food-purchase instruments (coupons and vouchers) and deliver food assistance to participants through retail food vendors such as grocery stores and, in the case of WIC, drug stores. Also, both programs are susceptible to problems and abuses such as "cashing out" of benefits and using program benefits to obtain other than eligible or prescribed food items. As a follow-up to an earlier report⁶, we have recently started a review that will examine, compare, and evaluate federal and state procedures for authorizing WIC and Food Stamp retailers, monitoring retailers on a routine basis to assure continued compliance with program requirements, and investigating and dealing

⁵Millions Could Be Saved By Improving Integrity of the Food Stamp Program's Authorization-To-Participate System (CED-82-34, Jan. 29, 1982).

⁶Regulation of Retailers Authorized To Accept Food Stamps Should Be Strengthened (CED-78-183, Dec. 28, 1978).

with those who violate program rules. By examining both programs simultaneously, we believe we will be better able to identify their joint as well as separate strengths and weaknesses.

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That concludes my statement. We will be glad to respond to your questions.