BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Efforts To Control Fraud, Abuse, And Mismanagement In Domestic Food Assistance Programs: Progress Made--More Needed

GAO has made numerous recommendations for dealing with fraud, abuse, and mismanagement in domestic food assistance programs budgeted by the Department of Agriculture at over $13 billion for fiscal year 1981. Some significant improvements are apparent in the summer food service program, regulation of retailers accepting food stamps, and food stamp accountability.

More are needed to correct

--school lunches not meeting nutritional goals,

--weak efforts to identify and recover food stamp overissuances,

--poor implementation of food stamp work registration requirements, and

--food stamp fraud and abuse in disaster situations.

Some long overdue actions have been initiated for these problems, but little has been accomplished so far. Congressional oversight may be needed in two of these areas.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report describes the status of corrective actions taken in response to our recommendations for reducing fraud, abuse, mismanagement, and waste in domestic food assistance programs over the last 4 years. We made this review because of the Congress' continuing interest in fraud and waste in Federal programs in general and domestic food assistance programs, such as the food stamp program, in particular.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of Agriculture and Labor.

Sincerely yours,

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EFFORTS TO CONTROL FRAUD, ABUSE, AND MISMANAGEMENT IN DOMESTIC FOOD ASSISTANCE PROGRAMS: PROGRESS MADE--MORE NEEDED

D I G E S T

The Congress has been emphasizing efforts to reduce fraud and waste in Federal programs. Accordingly, GAO has prepared this report on the status of corrective actions taken on past GAO recommendations in 17 reports dealing with fraud, abuse, and mismanagement in several food assistance programs administered by the Department of Agriculture's Food and Nutrition Service. GAO's recommendations deal with the food stamp, school lunch, summer feeding, and commodity distribution programs--programs budgeted at over $13 billion in fiscal year 1981.

Many improvements have been made but administrative and legislative correction is still lacking on some matters. Also, more intensive legislative oversight would be helpful regarding shortages in school lunches and poor implementation of food stamp work requirements. GAO did not perform fieldwork to verify that corrective actions were effectively implemented but plans to do so in future reviews.

A synopsis of these matters follows and a summary of corrective actions still needed is provided in chapter 2. (See p. 3.) Appendix I lists the 17 previous GAO reports covered by this review. (See p. 80.)

THE NATIONAL SCHOOL LUNCH PROGRAM NEEDS IMPROVEMENT

In March 1977 GAO told Agriculture that New York City's school lunches were falling short of the types and quantities of food Agriculture required. These shortages exacerbate another problem with the quantity requirements--compliance with them does not ensure achievement of nutritional goals. GAO recommended that corrective action be

taken and that Agriculture determine the extent of this problem nationwide. (See p. 9.)

More recent work by Agriculture's Office of Inspector General shows that the problem continues in New York City and exists in many other locations. Also, Agriculture has not implemented GAO's recommendation that it issue instructions on how and when school lunches should be tested for compliance with requirements. (See pp. 11 to 17.)

Agriculture has initiated some corrective actions in this area, but its progress has been slow and it is uncertain when the problem will be corrected. GAO believes that appropriate congressional committees should consider intensifying their oversight until the problem is corrected. (See pp. 17 and 18.)

STRENGTHENING THE SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

GAO issued three reports on the summer feeding program which document a long history of fraud, abuse, and mismanagement. GAO recommended improvements in bidding and contracting procedures; criteria and standards for selecting, monitoring, evaluating, and terminating program sponsors and feeding sites; funding of State and sponsor administrative costs; standards for advancing cash to States and sponsors; recordkeeping; staffing; and other aspects of the program's administration.

In response, the Congress revised the program's legislation and the Service revised its regulations, generally as GAO recommended. These revisions have resulted in substantial improvements in program integrity. Also, Agriculture has proposed additional legislation to deal with remaining problems.

GAO continues to have some concerns, however, in the areas of funding State and sponsor administrative costs, obtaining feeding sites with adequate facilities, and program monitoring. (See pp. 19 to 35.)

FOOD COUPON OVERISSUANCES AND RECIPIENT FRAUD

In July 1977 GAO recommended better financial incentives for States to identify and recover food stamp overissuances and to punish recipient fraud; procedures for effectively adjudicating recipient fraud administratively in most cases; and better guidance, information, and monitoring regarding fraud prosecution and overissuances.

Although the Food Stamp Act of 1977 required some fraud-related improvements, more are needed in the areas of administrative adjudication, guidance on prosecutions, and information and monitoring. Also, Agriculture has not aggressively moved to identify and recover overissuances for which fraud cannot be proven or which were caused by inadvertent errors. GAO's 1977 recommendations in this area continue to have merit and should be reconsidered by the Congress and Agriculture. (See pp. 36 to 45.)

THE AUTHORIZATION AND REGULATION OF FOOD STAMP RETAILERS HAS BEEN STRENGTHENED

A December 1978 GAO report discusses weaknesses in the authorization and regulation of retailers participating in the food stamp program and the potential impact of the 1977 Food Stamp Act on such weaknesses. Agriculture has initiated or taken action on most GAO recommendations. One exception is that Agriculture has not instituted the controls GAO recommended over retailers' and banks' food coupon redemptions. Agriculture is reconsidering this recommendation. (See pp. 46 to 51.)

IMPROVING FOOD COUPON ACCOUNTABILITY

The 1977 Food Stamp Act, by eliminating the requirement that recipients pay for their food coupons, eliminated previous problems related to the improper use of over $34 million in receipts from the sale of food coupons. However, food coupons, which are almost like cash, still must be accounted for. Although Agriculture has taken many of the steps GAO recommended to tighten coupon accountability, further

action is needed regarding coupon-issuing agents not meeting accountability requirements. (See pp. 52 to 56.)

WORK REGISTRATION HAS NOT BEEN EFFECTIVE

The food stamp program's work registration requirements--intended to help certain participants find jobs--seemed to be viewed as just more paperwork rather than as a way to reduce the need for program benefits. GAO recommended better information and monitoring of State and local effectiveness in administering the requirements, staff relocations to improve administrative efficiency, and better overall evaluation of program information and effectiveness.

Although actions have been initiated to deal with some of GAO's recommendations, no meaningful improvements have been made. Higher funding has been requested for work requirement administration, which would mitigate one previous impediment to implementing the recommendations. However, in view of the low priority and inattention the Departments of Agriculture and Labor have given to this area in the past, appropriate congressional committees may need to give the area intensified oversight. More oversight might help ensure that Agriculture and Labor give appropriate priority to improving work registration as a means of reducing the need for program benefits. (See pp. 64 to 70.)

TIGHTENING FOOD STAMP DISASTER RELIEF

Before the 1977 Food Stamp Act, the program was especially vulnerable to fraud and abuse in disaster situations. Many households whose need for food assistance was highly questionable received emergency food coupons. Although the 1977 act made changes intended to target program benefits to those actually needing them, Service regulations have not been changed to implement this legislation. Agriculture and some States have informally implemented steps to try to reduce abuse in individual disasters but, in the absence of nationwide regulations, such steps may be vulnerable to legal challenges. Nationwide

regulations should be implemented as soon as practicable. (See pp. 71 to 73.)

OTHER AREAS

The report also discusses the status of corrective actions on recommendations dealing with other food stamp areas, such as accountability problems in Puerto Rico's program (see p. 57), possible fraud in migrant worker participation (see p. 74), and alternative participant identification procedures (see p. 75). It also discusses controls over Puerto Rico's commodity distribution program (see p. 77).

Corrective actions regarding most GAO recommendations in these areas have been taken or initiated

AGENCY COMMENTS

Although Agriculture agreed with most of the material presented in GAO's draft report, it disputed certain statements. Primarily, it emphasized positive actions and difficulties in carrying out certain recommendations and provided updated information. These comments, contained in appendix II (see p. 82), are included in the report as appropriate.

Labor generally concurred with the report's findings with regard to food stamp work registration activities. It said that it would be able to implement GAO's recommendations once joint regulations for job search and an improved work registration effort are finalized. (See p. 113.)

Contents

ABBREVIATIONS

GAO	General Accounting Office
OIG	Office of Inspector General
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

The Congress has been emphasizing efforts to reduce fraud and waste in Federal programs. For example, concern was expressed during recent debate over increasing authorized spending levels for the Department of Agriculture's highly visible food stamp program. When the Congress passed legislation in 1977 to increase the authorized program level, it also provided the Department with additional tools to combat program fraud and abuse--a major concern of taxpaying Americans. More recent legislation has provided more tools to deal with fraud and abuse and strengthen food stamp program integrity.

In view of this continuing concern, we have reviewed the status of corrective action taken on our recommendations dealing with fraud, abuse, and mismanagement in Federal domestic food assistance programs. Specifically, this report presents the status of corrective actions on more than 100 recommendations in 17 of our reports dealing with problems in food assistance programs administered by the Department's Food and Nutrition Service. Our recommendations address the food stamp, school lunch, summer feeding, and commodity distribution programs--budgeted at over $13 billion in fiscal year 1981. This report also discusses program areas which the Department's Office of Inspector General (OIG) identified as needing additional attention.

We believe that significant improvements have been made or proposed concerning many of our recommendations; however, action on others is long overdue. Changes in authorizing legislation have mandated certain corrective actions. In other cases, improvements were made by tightening program regulations.

Our recommendations, grouped by subject, are presented in the following order:

--School lunch program.

--Summer food service program for children.

--Food coupon overissuances and recipient fraud.

--Authorization and regulation of food stamp program retailers.

--Food stamp program accountability.

--Food stamp program in Puerto Rico.

--Food stamp work registration requirements.

--Food stamp disaster relief provisions.

--Migrant worker participation in the food stamp program.

--Alternative identification procedures for food stamp participants

--Commodity distribution in Puerto Rico.

SCOPE OF REVIEW

We made our review at the headquarters of the Food and Nutrition Service and the Office of Inspector General, Department of Agriculture, and the Department of Labor. Information on corrective actions was obtained through interviews with agency officials from the Departments' headquarters and some regional staffs and by reference to other pertinent sources. Although we did not perform fieldwork to verify that the corrective actions described had been effectively implemented, we plan to do so in future program reviews.

We reviewed Federal laws, proposed and final agency regulations and instructions, OIG audit reports, task force and trip reports, testimony by Department officials, correspondence, and various program data.

Appendix I lists the 17 reports containing the recommendations discussed in this followup review.

CHAPTER 2

SUMMARY OF RECOMMENDATIONS NOT FULLY IMPLEMENTED

This chapter summarizes program problems which have permitted and/or could permit fraud, abuse, waste, and mismanagement in domestic food assistance programs, and related corrective actions we have recommended which have not been fully implemented. In most of these instances, the Food and Nutrition Service has at least initiated some corrective measures, but these have been slow in coming and might not be implemented in the near future. The current status of our past recommendations is described in more detail in the following report chapters.

SCHOOL LUNCHES NOT MEETING FEDERAL STANDARDS

Since shortly after its inception about 35 years ago, the national school lunch program has had requirements regarding the types and quantities of food that must be served for the lunches to be eligible for Federal support. The requirements are generally designed to provide one-third of the nutrition 10- to 12-year-old children are known to need each day. Standards and procedures have not been developed, however, for determining compliance with these quantity requirements. Since 1977, both we and the Department's OIG have found significant shortages in school lunches, using various testing procedures. The Service has not penalized the localities involved, even after extended periods of noncompliance, at least partly because it has not issued standards and procedures for determining compliance.

In February 1978 we recommended that the Service develop specific instructions for monitoring compliance with Federal meal requirements, including standards and procedures for food quantity testing, and enforce the requirements by stopping reimbursement where noncompliance is not promptly corrected. In December 1978 Service officials told us that such instructions were not needed, but in March 1979 a joint Service-OIG effort began to determine how best to do compliance testing. As of January 1980, no agreement had been reached on this issue and on January 18, 1980, the Service published a Federal Register notice soliciting comments and suggestions on how lunches might be tested for compliance with Federal requirements. Based on our 1977 work and other work since then, we suggested several steps to deal with issues raised in the notice. (See app. IV.)

In view of the Department's slow response to problems in this area and to our recommendations, we believe that

appropriate congressional committees should consider intensifying their oversight activities in this area until the problem is corrected.

FURTHER IMPROVEMENTS POSSIBLE IN THE SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

Although many improvements have been made in the summer food service program for children since our 1976 review, as evidenced by substantially reduced fraud, abuse, and overall program costs, the program could be further refined to reduce the potential for fraud, abuse, waste, and mismanagement.

We believe that the most important change still needed is to provide more flexibility in funding States' administrative costs. The program's authorizing legislation contains an inflexible funding formula that sometimes results in inadequate funding levels. This inadequate funding, combined with the legislative provision that requires the Service to administer the program--which can be more costly--in States that are unable or unwilling to do so, has resulted in (1) weak State administration and (2) States refusing to administer the program.

We recommended that the legislation be revised to authorize the Secretary to provide extra funds for State administrative expenses in unusual situations. This recommendation has not been adopted although we continue to believe it has merit. The Service proposed such legislation in March 1980.

Legislation was enacted providing for sponsor administrative costs to be reimbursed based on approved administrative budgets for each sponsor, subject to overall maximums established by the Department. This procedure was to replace the previous ceiling on sponsor administrative costs that was based on a fixed cents-per-meal rate. We recommended that administrative reimbursements be based entirely on the sponsors' budgets. The Service is using both the budgets and cents-per-meal maximums, limiting payments to the lesser of the two. We continue to believe that using cents-per-meal ceilings has serious disadvantages and that reimbursements based solely on State- or Service-approved administrative budgets should at least be tested.

In regard to obtaining adequate sponsors and sites, we first recommended that only schools, public agencies, and nonprofit residential camps be permitted to be sponsors. Although the Congress did not adopt this recommendation, it established a priority system for

selecting sponsors that gives a top priority to local schools. We subsequently found continuing problems, such as excessive reimbursement claims, that were caused, at least in part, by inadequate facilities at feeding sites. We suggested that the Congress consider various possible solutions to this problem, including the following.

--Have the Department try harder to obtain adequate sites, but continue to approve inadequate ones when adequate ones cannot be found.

--Encourage school participation by providing for reduced financial assistance to districts not allowing their schools to be used in the programs.

--Provide for withholding the program from areas in which adequate sites cannot be found.

The Department believes that most of the program's problems are caused by inadequate sponsors rather than inadequate sites and has proposed that most private sponsors which contract with private vendors for meals be excluded from the program. This proposal has been adopted, at least temporarily, by language in the Department's appropriation act. The Department continues to believe that the program's authorizing legislation should be revised to make this provision permanent.

We believe that this restriction on private sponsors using private vendors would help reduce program fraud and abuse. However, it is not a total solution because it does not address problems caused by inadequate site facilities. In addition, it might result in some needy children not having access to the program.

We also pointed out the need for State and/or Service personnel to visit feeding sites more often, both before approving them and after feeding operations begin, to monitor and evaluate their activities. Because limits on State administrative funds have made more stringent nationwide requirements for site visits impracticable, we recommended that higher priority be given to visiting sites most likely to have problems. The Service is reconsidering this recommendation.

Other recommendations not yet fully implemented involve States' acceptance of late sponsor applications, excessive cash advances to sponsors, and keeping previously unsatisfactory sponsors out of the program.

FOOD STAMP PROGRAM OVERISSUANCES AND RECIPIENT FRAUD

The 1977 Food Stamp Act (7 U.S.C. 2011 et seq.) provided new tools for dealing with food stamp recipient fraud, but more improvements could be made in this area and more emphasis is needed on recovering overissuances for which fraudulent intent cannot be proven.

We recommended, and the 1977 legislation provided, authority for the Secretary to suspend recipients administratively found guilty of committing fraud. However, the legislation requires a 3-month disqualification instead of the flexibility we recommended for longer suspension periods. Service regulations implementing this provision may need strengthening to provide more specific criteria for determining whether administrative fraud hearings are to be held in individual cases. Also, the Department should implement our recommendation to develop better guidance to help the States decide whether suspected recipient fraud cases should be referred for possible criminal prosecution.

The Service has moved in the general direction we recommended in requiring better information on recipient fraud, but the information it requires to be compiled needs to be refined to provide data on numbers of suspected --as opposed to proven--fraud cases identified and their disposition. The Service said it plans to improve its monitoring of State efforts to identify and punish food stamp recipient fraud, but it has not yet implemented such procedures.

We recommended that the Food Stamp Act be revised to allow States to keep some portion of the overissuances they recovered as an incentive to improve their recovery efforts. August 1979 legislation (93 Stat. 391) permits them to keep half of the recoveries of fraudulent overissuances, but not other overissuances. We continue to believe that our recommendation has merit and should be reconsidered.

The Service said that its proposed monitoring system will respond to our recommendation for better monitoring of State efforts to identify and recover overissuances, but its proposal is not specific enough in this regard for us to evaluate its probable effect. The Service does not believe it is necessary to implement our recommendation for specific instructions on the steps States should take to identify overissuances. We continue to believe that such instructions would be helpful.

REGULATION OF RETAILERS AUTHORIZED TO ACCEPT FOOD COUPONS

The Service has substantially improved its efforts to authorize and regulate retailers accepting food coupons. We believe that one additional improvement would further reduce the opportunity for fraud and abuse.

The Service has not instituted the controls we recommended to ensure accurate information on retailers' food coupon redemptions. This information's accuracy is crucial to the retailer monitoring system's efficiency and effectiveness. The controls we recommended would also make it more difficult for banks accepting food coupons from retailers to engage in improper food stamp activities. The Service is reconsidering our recommendation for these improved controls.

POOR IMPLEMENTATION OF FOOD STAMP WORK REQUIREMENTS

Although actions have been initiated to deal with some of our recommendations in this area, little has been accomplished to improve the effectiveness of food stamp work requirements.

We recommended that the Departments of Agriculture and Labor improve their information on and monitoring of the effectiveness with which the work requirements were being carried out in the various States and localities. Agriculture said its proposed new food stamp monitoring system will cover work requirements, but it has not been implemented. Also, we do not believe it will adequately cover all work requirement activities. Agriculture is also planning some pilot projects on work requirements that will test ways of getting better information, but they have not begun and any improvements based on them will not be made for some time.

We recommended that the two Departments take action to get State employment service personnel stationed in at least the busier food stamp offices to improve work registration activities, but nothing has been done. We also recommended that the Departments evaluate the effectiveness of well-administered work registration and job search requirements in relation to the effectiveness of the workfare concept. The Service plans to conduct pilot tests to make such an evaluation, but it has not yet begun.

For fiscal year 1981, the Office of Management and Budget (OMB) doubled the budget request for this activity;

funding seems to have been a factor delaying the improvements we recommended. However, in view of the Departments' inattention to improving work requirement administration, we believe that the concerned congressional committees should consider whether intensified oversight in this area is needed.

FOOD STAMP DISASTER RELIEF PROVISIONS

The 1977 Food Stamp Act changed the basis for providing food stamp assistance in disaster situations by trying to channel the assistance to persons actually needing it. The Service has not issued regulations to implement these legislative provisions, although it has worked out arrangements with a few States in specific disasters to try to limit food stamp assistance to persons actually needing it.

The Service's informal arrangements may have been helpful, but they are not a satisfactory long-range solution. In the absence of nationwide regulations, they may be vulnerable to legal challenges. We believe the Service should issue nationwide regulations as soon as possible to implement the 1977 act's disaster relief provisions and should include our recommendations for tightening food stamp disaster relief issuances.

ALTERNATIVE FOOD STAMP PARTICIPANT IDENTIFICATION PROCEDURES

In June 1976 we proposed that the Department of Agriculture test several alternatives to strengthen the food stamp program's participant identification requirements as a means of reducing fraud. Alternatives included photo-identification cards, signing and countersigning food coupons, and perforating identification numbers into the coupons. The 1977 Food Stamp Act provided explicit authority for such testing, but none has yet begun.

The Department plans to undertake such tests about June 1980. In addition, proposed legislation would require use of photo-identification cards in some types of locations.

CHAPTER 3

PROBLEMS WITH SCHOOL LUNCHES NOT MEETING FEDERAL STANDARDS

In March 1977 we advised the Department of Agriculture that school lunches in New York City were falling short of requirements regarding the types and quantities of food that lunches must contain. We recommended that the Food and Nutrition Service take corrective action for New York City and determine the extent of this problem nationwide. More recent work by Agriculture's OIG showed that the situation had not improved in New York City and that the problem exists in many other locations. Also, Agriculture has not implemented our February 1978 recommendation that it issue specific instructions on how and when school lunches should be tested for compliance with requirements.

Agriculture believes that several issues must be addressed and several difficult questions resolved before Federal food quantity requirements can be effectively enforced. We believe the most important of these is the need to develop specific standards and procedures for testing compliance with the quantity requirements, as we recommended in February 1978. Agriculture only recently began efforts to develop such testing standards and procedures. (Even compliance with Agriculture's quantity requirements will not ensure achievement of its nutritional goals.)

PREVIOUS FINDINGS AND RECOMMENDATIONS

Our June 15, 1977, report to the Secretary of Agriculture (CED-77-89) called for immediate action regarding lunches served by the New York City Board of Education's Bureau of School Lunches which did not meet minimum lunch pattern requirements. To be eligible for Federal subsidies, the Department requires that school lunches contain prescribed quantities of various types of foods. 1/ The required meal

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1/The following foods and quantities are required: two ounces of lean meat or other specified high-protein foods; three-fourths cup of two or more fruits or vegetables; one slice of bread; and one-half pint of milk.

pattern, based on the nutritional needs of 10- to 12-year-old children, was commonly called the Type A lunch. 1/

Our report contained information obtained from testing New York City school lunches in early 1977. Using statistical sampling techniques in our lunch selection, we estimated, with 90 percent certainty, that at least 40 percent of the school lunches served in the city during our 6-week test period did not meet the Type A requirements. On the basis of our test results, we recommended that the Service determine the extent of this problem nationwide and correct it.

In addition, we incorporated these recommendations into our February 1978 report, 2/ which also recommended that the Department (1) develop explicit instructions for monitoring compliance with Federal meal requirements, (2) ensure local compliance with the new instructions and other Federal requirements, and (3) stop meal reimbursement where noncompliance is not promptly corrected.

Following our March 1977 presentation, the Service established a management and technical assistance task force in New York City made up of representatives from the Service's headquarters and regional offices, the State education agency, and the New York City Board of Education. The task force looked into several program management areas, including supervision, contract specifications, purchasing procedures, financial management, and menu planning. A June 1977 report issued by the task force recommended that the Board of Education, among other things,

--implement procedures to identify meals not meeting food component requirements at the school level;

--develop specifications clearly describing the form and quality of products to be purchased, mandatory

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1/A new meal pattern designed to more accurately meet the needs of children of varying ages was tested in approved schools between Oct. 1978 and Mar. 1979. This pattern specifies minimum food quantities for five age groups (compared to one under the Type A pattern) and makes changes in the way foods are credited toward meeting the various component requirements. The Service does not expect this new pattern to be fully implemented until the 1980-81 school year. The term "Type A" was deleted from program regulations in August 1979.

2/"How Good Are School Lunches?" (CED-78-22, Feb. 3, 1978).

sample product testing, and penalties for noncompliance with bid specifications by meal component vendors; and

--use contract provisions which explain penalties for noncompliance.

According to Service officials, the Service's regional office has monitored the city's efforts and has provided technical advice and assistance since the task force was inaugurated. However, these efforts fell far short of correcting the problem.

ENFORCEMENT PROBLEMS CONTINUE

Shortages in school lunches are a continuing problem. The Department believes that difficult questions involving equity to local school districts and consistency and reasonableness of Federal requirements must be resolved before the quantity requirements can be effectively enforced. We believe, however, that these problems can be readily resolved and should not be permitted to further delay enforcement of quantity requirements.

Shortages continue in New York and elsewhere

In December 1978 OIG conducted citywide statistical sampling and testing of lunches in New York as a followup to our review. This sampling was designed to evaluate the effectiveness of any corrective actions taken and to produce statistically reliable results that could be used in reducing reimbursements, based on the proportion of lunches failing to meet requirements.

The results of OIG's audit indicated that, almost 2 years after we first gave notice of meal component shortages in New York City, the problem still had not been corrected. OIG statistics showed that during the 2-week test period nearly 40 percent of all lunches served in New York City schools failed to meet the minimum Type A requirements. OIG calculated that Federal reimbursement for noncomplying meals was at least $1.2 million for the 2-week period. OIG also tested lunches in 22 other locations around the country and found similar shortcomings.

Instead of taking action to reduce the payment to New York City schools, the Service asked the Department's Office of the General Counsel to determine if the Department had the legal authority to reduce reimbursement payments by a smaller amount than that calculated by OIG. Current program regulations state that meal reimbursement payments are to be

made only for lunches meeting all the minimum meal pattern requirements. The smaller reduction would be based on the individual meal components not meeting requirements rather than disallowing payment for entire meals. For example, if only milk were missing or underweight, the Service would subtract only the cost of the milk from the claim and reimburse the schools for the other meal components.

In November 1979 the Office of the General Counsel suggested that partial reductions in Federal school lunch reimbursements could not be made and that reimbursement must be made in full or not at all. It ruled, however, that full reimbursement could be made in cases where food shortages were negligible. Based on this ruling, the Department is recalculating its claim against New York City.

Department's reasons for delaying enforcement

The Department believes that several matters complicate its enforcement of food quantity requirements in the school lunch program. One of these is the possible inequity of disallowing Federal reimbursement of an entire meal even though only one or two components of the meal did not meet minimum Federal standards. The Department believes that this issue is complicated further by the Federal requirement that high school and, at local option, junior high school students be allowed to refuse up to two items if they do not intend to eat them. According to the Department, it may not be reasonable to allow full Federal reimbursement for some meals in which up to two components are intentionally omitted while disallowing any reimbursement for other meals because they include insufficient quantities of these same foods.

It seems to us that the Department's reasoning loses sight of its basic purpose of disallowing Federal reimbursement for noncomplying meals, which is to encourage local school authorities to provide meals containing an average of one-third of the nutrients students are known to need each day. Disallowing Federal reimbursement is a last resort, to be used only after warnings to the local authorities and after their continued failure to correct a pattern of inadequate meals. Allowing students to refuse parts of a lunch, on the other hand, was instituted to reduce waste by students who are old enough to know the foods they will and will not eat. We do not believe that the two factors are related.

We do not believe it is inequitable to disallow Federal reimbursement for an entire meal because one or two components are short if that disallowance occurs after warnings of chronic noncompliance. If a lesser penalty, such as partial disallowances, is effective in obtaining compliance with Federal standards, we would have no objection to it. However, we question whether partial disallowances would be effective.

The Department also noted that OIG's compliance testing was done in laboratories and that it was considerably more precise than could be expected in cafeteria serving lines. The Department implied that Federal standards should prescribe averages and tolerances for food quantities instead of the current single minimum quantities for each component.

We believe that the current requirements should continue to be regarded as minimums and that any system of averages and tolerances should not permit quantities below these minimums. Unless the Federal standards for school lunches are totally overhauled, allowing food quantities below these minimums would probably aggravate an already undesirable situation and, until such an overhaul takes place, the current minimum standards should be enforced.

The current requirements were designed to ensure that, over time, school lunches provide one-third of the nutrients students need. However, our February 1978 report showed that the requirements are not adequate for achieving this nutritional goal because lunches meeting the quantity requirements did not, over time, provide the needed nutrients.

Our 1978 report recommended that the quantity requirements be overhauled to better ensure achievement of the nutritional goal, and we continue to believe that this should be done. In the meantime, allowing lunches to fall below current quantity requirements would probably widen the gap between their nutritional content and the nutritional goal.

Although laboratory testing may be more precise than cafeteria serving lines, practical techniques are available for achieving accurate and consistent serving sizes. For example, special serving ladles are available which make the serving of adequate and consistent portions relatively easy. In addition, Federal quantity requirements for the school lunch program are <u>minimum</u> requirements. On the

average, larger quantities may be necessary to ensure that no lunch falls below the minimum.

The Department said that, despite the complexities and difficulties in enforcing its food type and quantity requirements, it intends to do so and, as discussed later in this chapter, has initiated some actions along these lines.

INADEQUATE TESTING AND MONITORING REQUIREMENTS

As noted earlier, we recommended in our February 1978 report that the Department develop explicit instructions on how and when Federal, State, and local officials should monitor lunch requirements. Although States were responsible for ensuring meal pattern compliance at local schools, the Service had no minimum requirements as to how often the quantities and types of food served had to be checked. December 1978 regulations require that the States make a biennial financial audit of each school food authority, but the Department still does not have explicit instructions requiring meal pattern compliance testing and has never specified how the testing should be done. The Department now believes that its quantity requirements cannot be effectively enforced until standards and procedures for testing quantities are developed, but it has only recently begun to consider this issue.

In December 1978 the Service issued regulations to improve State monitoring of local school districts' contracts with food service management companies operating school meal programs. These regulations require annual reviews of the management companies' compliance with food quantity requirements. However, these regulations are inadequate because they do not include specific procedures for testing the meals and do not cover programs operated directly by local school authorities.

Testing requirements needed

Since its inception about 35 years ago, the school lunch program has specified requirements for the types and quantities of foods each lunch must contain to be eligible for Federal assistance. We have been unable to locate any Federal instructions or regulations, however, that spell out how compliance with these requirements is to be monitored. Service officials told us in December 1978 that it was not necessary for the Service to provide specific procedures to follow in testing compliance with Federal Type A lunch requirements. They said that the States knew how to conduct such testing. However, it appears that

specific instructions are needed because, even within the Department, three different procedures for meal pattern compliance testing have been used since that time--each producing different results.

One of these procedures was initially used by OIG in conducting the Service-requested meal pattern compliance tests in New York City in December 1978. During the first week of testing, OIG measured the fruit/vegetable meal component using an average gram weight--170 grams equal the three-fourths cup required by the Type A pattern. An OIG official said that testers used this weight measure because they believed it to be more accurate than a measure of the food's volume or bulk. For example, a fruit cocktail portion that was mostly juice might pass a volumetric measurement but fail a weight measurement.

The Service informed OIG, however, that the fruit/vegetable component should be measured only by volume because meal pattern requirements and guidance are expressed in volumetric terms. During the remaining week of its work, OIG compiled test results based on both weight and volume. In calculating the recommended disallowances for noncomplying lunches discussed earlier, in the first week OIG counted the fruit/vegetable component as noncomplying only when it was missing. For the second week, this component was also counted as noncomplying if it failed to meet the 3/4-cup volumetric requirement.

Subsequently, OIG again revised its testing procedures for the fruit/vegetable component. In a series of 22 audits of schools that had hired food service management companies to operate their lunch programs, OIG weighed the individual fruit/vegetable items and then determined compliance with the Type A requirement by using weight-to-volume conversion for each item. For example, using this method, 193 grams of canned applesauce equal three-fourths cup, but only 91 grams of fresh carrot strips equal the same volume. OIG officials said that this method--using gram weight--provides a more accurate way of evaluating what is being served. For this same reason, we used this method in our audit of the New York City program in early 1977 and continue to believe that it provides the most accurate and consistent results.

Another possible testing approach is to determine the overall quantities of each food used to produce a day's meals and divide by the number of meals produced to determine whether the average meal contained sufficient quantities. Disadvantages of this approach include the difficulty in

ascertaining normal shrinkage and kitchen waste and, in some schools, problems in accounting for food offered to but refused by students.

To resolve uncertainty and inconsistency in testing procedures, in March 1979 the Service and OIG began a joint effort to determine how best to do compliance testing. In addition to testing procedures, this study was concerned with the problem of how to measure meal components when they are blended (such as pizza with meat and cheese topping). As of January 1980, no agreement had been reached. Also, in July 1979 the Service established a task force to address, among other issues, the problems created by the differing interpretations of the meal component requirements.

On January 18, 1980, the Service published a Federal Register notice soliciting comments and suggestions on how lunches might be tested for compliance with Federal standards. On February 29, 1980, we suggested several steps to deal with issues raised in the notice. (See app. IV.)

Efforts underway to improve program monitoring

The Department is developing a new assessment, improvement, and monitoring system to deal with meal pattern noncompliance and other longstanding problems in the school lunch program. The new monitoring system, proposed in October 1979, specifies how often meal pattern and other compliance testing will be required. As proposed, the States will be required to take corrective action when the testing shows problems. Such action will include establishing claims for noncomplying meals and followup reviews to make sure basic problems have been corrected.

Service officials estimate the system could be operational for the 1980-81 school year. Pending implementation of the new monitoring system, the Service issued regulations in September 1979 providing special funding to States for correcting meal noncompliance and other problems.

Although the new monitoring system, if and when implemented, is supposed to specify when meal pattern testing is to be done, it will not include standards or procedures for how the testing is to be carried out. Furthermore, Service officials could not give us a target date for implementing such standards and procedures.

The proposed new monitoring system would include several features consistent with our recommendations. Mainly, it would specify when meals would have to be tested

and the penalties that would have to be imposed if noncompliance were not corrected. Until procedures and standards are established for conducting the tests, however, the proposed new system will not be useful for enforcing meal standards. Penalizing noncompliance will not be practicable if standards are not available for measuring it.

OTHER PROGRAM AREAS NEEDING ATTENTION

OIG reports have disclosed several additional program areas that need attention, including the following.

--Some schools did not check free and reduced-price meal applications for completeness or for applicants' eligibility.

--Some schools claimed free and reduced-price meal reimbursements according to the number of valid applications on file rather than the actual number of children receiving such meals.

--Some schools claimed reimbursement for meals not served to children.

--Some school districts did not vary reimbusement rates according to meal cost, or lacked accounting records to show that meal cost equaled or exceeded reimbursement.

Department officials believe that proper use of the new monitoring system will correct most of these problems. While evaluation of its probable effect on the problems disclosed by OIG is beyond the scope of this report, as noted earlier, it may be a long time before the new system is fully implemented.

CONCLUSIONS

The Department has been slow in correcting the overall problem of school lunches not meeting standards. We first notified Service officials of problems in this area in March 1977, but corrective action did not begin for about 2 years. Moreover, such actions are moving slowly and it may be a long time before they are fully implemented. Even the special funding provided to States for correcting these problems will have limited effects because of the lack of standardized procedures for meal pattern testing.

It is difficult to determine whether the Department will issue procedures and standards for testing school lunches in

the near future. It has been considering such standards for about a year and has made only limited progress.

MATTER FOR CONSIDERATION BY THE CONGRESS

In view of the Department's slow response to our reccommendations and the continuation of meal component inadequacies, the Senate Committee on Agriculture, Nutrition, and Forestry; the House Committee on Education and Labor; and the Senate and House Committees on Appropriations should consider intensifying oversight activities in this area until the problem is corrected. These activities could include hearings at which high-level Department officials are required to discuss the extent to which existing problems have or have not been corrected. Legislation requiring Department actions to develop specific compliance testing procedures and to ensure their implementation may be necessary if the Department does not take timely action.

CHAPTER 4

FRAUD, ABUSE, AND MISMANAGEMENT IN THE SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

We have issued three reports 1/ on the summer feeding program documenting a long history of fraud, abuse, and mismanagement. Our February 1975 report listed a number of problems in feeding site operations. These included

--children taking meals from the sites (often because of inadequate facilities), resulting in uncertainty as to whether children or ineligible adults ate the meals;

--ineligible adults eating or taking meals intended for children;

--many leftover meals wasted because required adjustments were not made in the number of meals delivered;

--meals destroyed because they were spoiled or exposed to unsanitary conditions; and

--not maintaining accurate site records to support claims for meal cost reimbursement.

The other reports documented that these and other problems continued to plague the summer program's operation.

Many factors contributed to these problems, including overly broad legislative and ill-defined regulatory language, inadequate funding for State administration, weak and inconsistent program administration, and noncompliance with program regulations. In response to recommendations we and others made, the Congress revised program legislation and the Service revised its regulations to strengthen program administration. The Department has proposed additional legislation to deal with some of the remaining problems. However, we continue to have some concerns.

1/"An Appraisal of the Special Summer Food Service Program for Children" (RED-75-336, Feb. 14, 1975); "The Summer Feeding Program--How To Feed the Children and Stop Program Abuses" (CED-77-59, Apr. 15, 1977); and "The Summer Feeding Program for Children: Reforms Begun--Many More Urgently Needed" (CED-78-90, Mar. 31, 1978).

STATE ADMINISTRATIVE EXPENSE FUNDING

One problem that has plagued the summer feeding program is Federal funding of State expenses for program administration. Under legislation in effect during our first review, Federal funds for State administrative expenses were provided in a lump sum to cover all Federal child feeding programs. Because States were allowed to direct the funds to each of the several programs as they desired, they often did not make enough funds available for summer feeding program administration. We recommended that the Service seek legislative authority for a revised funding procedure and a requirement that States share in administrative expenses.

Revised legislation needs further improvement

In October 1975 the legislation was revised (89 Stat. 518) to provide for separate funding of State summer program administrative expenses. States were authorized to be reimbursed for their administrative expenses up to 2 percent of the program funds spent in the State that year. No State matching requirement was included.

While separate funding helped, our review of the 1976 program showed that further improvements were needed. The revised arrangement did not allow for an advance determination of reimbursement levels for each State's administrative expenses. This omission made it very difficult for some States to plan and budget their activities because they did not know how much they would receive until the program was over and the expenses had already been incurred. Consequently, some States, because of their concern about excessive administrative expenses, did not spend all of the administrative funds that ultimately would have been available. The resulting weakened administration appears to have contributed to extensive fraud and abuse in some locations. Another State, which devoted substantial resources to preventing and detecting fraud and abuse, exceeded the 2-percent limitation. Our April 1977 report recommended that this funding arrangement be changed.

In November 1977 the legislation was revised (42 U.S.C. 1761) to provide for State administration expense funding based on the prior year's program costs rather than the current year's costs. Under this legislation's relatively inflexible formula, States were entitled to reimbursement of administrative expenses equal to 20 percent of the first $50,000 in program funds distributed to the State in the preceding fiscal year; 10 percent of the next $50,000;

5 percent of the next $100,000; and 2 percent of any remaining funds. The Service was authorized to adjust reimbursement levels only to reflect changes in program size between the prior year and the current year.

This legislation solved the problem of funding level uncertainties but, based on our review of the 1977 summer program, we believed further changes were needed. We recommended that the legislation be amended to give the Secretary limited flexibility to increase State reimbursement ceilings in unusual circumstances. We further recommended that a study be made to determine the maximum funding rate and to establish the criteria and standards for its use. In March 1980 the Department proposed similar legislation (see p. 23).

The need for such flexibility was demonstrated in New York before our 1978 report and repeatedly since then. In 1977 New York mounted an intensive--and generally successful--effort to reduce program fraud and abuse. However, this effort cost more than the State could be given in Federal funds under the formula. Because it had not received enough Federal funds for administration in previous years, New York refused to administer its 1978 and 1979 programs, and, as provided in authorizing legislation, the Service had to administer the New York program in those years.

When the Service takes the State's place in administering the program--which occurred in 19 States in 1979--it must handle all day-to-day approval and monitoring functions normally handled by the State. Such Federal administration can cost more than State administration. In such cases the Service does not limit its administrative expenses to the amount that would have been available to the State.

Program legislation was revised again in November 1978 (92 Stat. 3622) to allow States to transfer up to 10 percent of Federal funds available for State administration of any child nutrition program to any other child nutrition program or programs. The Service issued final regulations implementing this provision in August 1979.

The November 1978 legislative revisions also increased the maximum reimbursement for State administrative expenses. The 1977 formula was revised to provide for reimbursement of an amount equal to 20 percent of the first $50,000 in program funds distributed to the State in the preceding

fiscal year; 10 percent of the next $100,000; 5 percent of the next $250,000; and 2-1/2 percent of any remaining funds. Regulations implementing this provision were issued in January 1979.

Additional legislative proposals

In March 1979 the Department proposed legislation that would adjust program administration funding and, beginning in October 1980, preclude the Service from administering summer feeding programs on behalf of States. To "encourage" --virtually force--States to operate summer feeding programs, the proposal would prohibit payment of most Federal funds otherwise available for school lunches to States refusing to operate summer programs. The Department proposed similar legislation again in March 1980.

Analyzing the merits of this proposal to invoke fiscal sanctions against States not operating summer feeding programs was beyond the scope of our work. However, if such a proposal is adopted, providing adequate funds for States will become even more important.

The Department's proposed legislation would adjust the normal funding for summer program administration in two ways. First, each State would receive a new base grant of $30,000, to which the current statutory formula amounts would be added. However, administrative expense reimbursements could not exceed one-third of the State program funds spent during the preceding fiscal year. (This limitation would affect only States with small programs.) The Secretary could make adjustments to reflect changes in program size. Secondly, the Department's proposal would give the States up to 2 percent of the previous year's program funds for the purpose of auditing program sponsors. Sponsors now must be audited every 2 years, although no separate funds are provided for this purpose.

To strengthen program integrity, the Department's proposal also would require that private sponsors which are required to have an independent audit made of their operations--generally the larger sponsors--could not receive final payment until the audit results were received, reviewed, and approved by the State. This provision would allow States to withhold funds for any inappropriate or unallowable expenditures.

These two proposals for funding audit and other administrative costs, along with the November 1978 legislation, would significantly increase Federal funds available for these purposes. The increased amounts may be enough for

most States, perhaps even more than is needed in some cases. However, because there probably will continue to be instances in which maximum Federal payments for State administration will be inadequate, we continue to believe that the best arrangement for funding State administrative costs would be to give the Secretary limited flexibility to fund unusual administrative needs in certain locations. The Department's 1980 legislative proposal requests this flexibility, as we recommended.

The Department's proposal would also allow States to make unlimited transfers of Federal administrative expense funds from one child nutrition program to another. For example, school lunch program administrative funds could be used for summer feeding program administration and vice versa. This proposal seems similar to the lump sum funding arrangement that was in effect until 1975 and which we criticized in our February 1975 report. (See p. 20.) Although the Department's proposal would provide separate funds for the summer program, the provision for unlimited transfers at State discretion could result in inadequate administrative funds for this program. As we have discussed in each of our summer feeding program reports, this problem has been a continuing one.

SPONSOR ADMINISTRATIVE EXPENSE FUNDING

In our reviews we found that the method of reimbursing sponsors for administrative expenses created an incentive for waste and fraud. Sponsor's reimbursement ceilings were based on a fixed amount for each eligible meal that sponsors reported as served. The more meals they claimed, the more administrative money they could receive. In addition, these ceilings discouraged schools and other potentially good sponsors from participating in the program because they could not recover their expenses. Paying higher administrative costs for good sponsors can reduce overall costs and provide better meals for the children by reducing fraud, abuse, and mismanagement.

To correct this problem, we recommended that the program's legislation be revised to provide for reimbursing sponsor administrative expenses based on approved budgets rather than on the number of meals served. In November 1977 the legislation was revised to provide for such a funding procedure and to require that the Service make a study of sponsor administrative costs as a basis for establishing overall maximums on administrative reimbursements.

Pending completion of the study on sponsor administrative costs, in 1978 the Service began requiring sponsors to submit administrative expense budgets and limited their administrative reimbursements to the smaller of the budget amount or the cents-per-meal rates. This same procedure still remains in effect.

The Service's 1978 study was judged inadequate. In issuing its 1979 regulations, the Service stated that, while the study showed that some types of sponsors had higher administrative costs, it was not comprehensive enough to provide a basis for overhauling the system for reimbursing sponsor administrative costs. The 1979 regulations provided a revised amount-per-meal reimbursement ceiling and allowed higher ceilings for rural sites and sites that prepared meals themselves rather than buying them already prepared. The Department also noted that, while continued use of this approach to funding sponsors' administrative costs was necessary at that time, it planned to conduct developmental projects to evaluate alternative approaches.

In commenting on this matter in January 1980, the Service said it considers the November 1977 legislative provision to be fully implemented and indicated that it does not plan to revise the basis for reimbursing sponsor administrative costs instituted in 1978. In this regard, the Service cited the States' opposition to using administrative budgets alone as a basis for reimbursing sponsors' administrative costs.

We continue to believe that using cents per meal as a basis for reimbursing sponsor administrative costs has serious disadvantages, even when used in conjunction with budgets, as the Service has done. We believe that, as a minimum, our suggested approach should be explored further, including actual tests of its use in several different locations.

SPONSOR AND SITE APPROVAL

The summer feeding program was designed to continue into the summer the benefits of the school feeding programs available during school months. Schools and public agencies appeared to operate without the widespread abuses that seem to be motivated by opportunities for economic gain. However, we found that the summer feeding program was adversely affected by serious abuses which generally involved private "nonprofit" sponsors. Accordingly, we recommended that the Congress limit program sponsorship to schools, public agencies, and nonprofit residential camps and that the Service define acceptable feeding sites for the program.

Although the Congress did not fully adopt our recommendation, in November 1977 it enacted sponsor eligibility criteria and an order of priority for sponsor applicants which gives a top priority to local schools. These measures were intended to maximize the use of school food service facilities, as well as the facilities of sponsors preparing meals themselves.

In 1976 we found that the program's legislation created the impression in some States that all nonprofit service institutions applying to be sponsors were automatically eligible and had to be approved regardless of merit. Consequently, we recommended that the Congress clarify the legislation to provide that not all sponsor applicants were automatically eligible. The wording that implied automatic approval was deleted in November 1977.

In our 1978 report we again described problems involving unsatisfactory sponsors and discussed in depth the extensive implications of approving inadequate sites. Sites that did not have refrigeration or facilities for feeding children in inclement weather had built-in incentives to overstate their reimbursement claims to cover the cost of excess meals. We recommended that the Congress consider steps which could be taken to deal with this problem and discussed the following alternatives.

--Mount a much greater effort to obtain sites with adequate facilities, including provision of adequate funds to cover the reasonable costs of schools and other good sponsors and sites, but continue to approve inadequate sites where adequate ones cannot be found.

--Encourage school participation by providing (in addition to adequate funds where schools are made available) for reduced Federal and/or State financial assistance to school districts refusing to allow school facilities to be used for the summer program.

--Withhold the program from areas in which adequate facilities cannot be obtained.

We noted that other alternative solutions to this problem might be available and suggested that all of them be considered. The November 1978 legislative revisions, however, did not address this issue.

Recent Department proposals and our evaluation

The Department proposed legislation in March 1979 that would have generally eliminated from the summer feeding program private sponsors which contract with private vendors for prepared meal deliveries. The proposal was partially based on OIG's audits of the 1978 summer program. These audits showed that private sponsors which bought prepared meals again had more problems with claiming reimbursement for ineligible meals. For example, 90 percent of the lunches prepared onsite--primarily at schools--were found to have been eligible for reimbursement, whereas only 69 percent of the prepared lunches delivered to sites were properly reimbursable.

The Department's proposal was designed to help reduce fraud, abuse, and administrative problems in the summer feeding program and may have reduced the need for State administrative funds in some cases because of less need for intensive site monitoring. However, as discussed above and in more detail in our 1978 report, the availability of adequate site facilities is an integral part of obtaining good sponsors and is a crucial factor bearing on potential fraud and abuse. In our review of the 1977 program, for example, we noted that even public sponsors dispensed meals not eligible for reimbursement because their feeding sites had inadequate facilities. Such sites apparently would continue to be approved under this Department proposal. In addition, this proposal could result in some needy children not having access to a summer feeding program if qualifying sponsors could not be found for some areas.

Although the program's authorizing legislation was not revised as the Department proposed, the fiscal year 1980 Agriculture Appropriations Act (93 Stat. 837, 838) contained provisions similar to those proposed by the Department in March 1979. The January 1980 regulations implementing this act provide that

--sponsors contracting with private meal vendors (except those running small programs) will not be able to participate unless they have a past record of honest and reliable service,

--large private sponsors that contract with private meal vendors and that have never run a feeding program before will not be eligible to participate, and

--private sponsors that contract with meal vendors and that remain eligible will be assigned the lowest priority in the system for selecting sponsors.

The Department believes, however, that this appropriation act language is inadequate. In March 1980 it proposed legislation that would provide even more stringent eligibility requirements for private sponsors that contract with private meal vendors. Such sponsors that previously were eligible only because a more desirable sponsor was not available would now be excluded from program participation.

Overall, the Department's proposals might be helpful in reducing fraud and abuse, but they are not a total solution and might result in needy children not having access to a summer feeding program. Therefore, we believe the Congress should also consider the issues and alternatives we raised in our 1978 report regarding adequacy of site facilities and related implications regarding program availability.

PREAPPROVAL SITE VISITS AND PROGRAM MONITORING

Efforts should be increased and better targeted

In our 1977 and 1978 reports, we recommended increases in onsite evaluations and monitoring both before and during feeding operations and concentration of these efforts on sites most likely to have serious problems. We said that State monitoring in major urban areas was generally inadequate to assure program integrity and minimize abuses. We recommended that States be required to include in their program plans information on the frequency of visits to feeding sites and vendors as well as the scope of State monitoring.

In 1977 the Service increased its monitoring requirements for sites operated by large sponsors in urban areas. Also, the November 1977 legislation required State program plans to include plans for monitoring and inspecting sponsors, feeding sites, and vendors and for ensuring that vendors do not enter into contracts for more meals than they can provide effectively and efficiently.

Because we found continuing site problems in the 1977 program, we again made recommendations in March 1978 dealing with preapproval site visits and program monitoring. These recommendations were predicated on both existing and, if authorized, higher ceilings on funding for State administrative expenses. (See pp. 20 and 21). We recommended

that, when additional funds could be made available, State agencies be required to

--inspect all proposed sites before approving them, except sites having a proven record of satisfactory program participation and having adequate facilities onsite for storing leftover meals and feeding children in inclement weather, and

--increase program monitoring in the first 2 weeks of operations, with emphasis on new sites and sites without adequate facilities.

We also recommended that, until additional funds could be provided, the Service require States to concentrate preapproval site visits and program monitoring at locations which did not have adequate onsite facilities for storing leftover meals and for feeding children in inclement weather, if such sites were to continue to be approved.

Although administrative funding levels were increased for some States, Service officials do not believe that sufficient reimbursement is available to make the site evaluation and monitoring requirements as stringent as we recommended. The 1979 program regulations provide for preapproval visits to all nonschool sites in larger cities and to most sites with a proposed average daily attendance of more than 300 children. The regulations require that, during the first 4 weeks of operation, the States visit 15 percent of the sites of sponsors which operate 10 or more sites. For larger cities in States with larger programs, the regulations require reviews of 75 percent of the nonschool sites and 25 percent of the school sites during the first 4 weeks of operation. The States are required to consider past performance of sites operated by the same sponsor in selecting those to be reviewed.

Although current limits on administrative expense reimbursements may make it infeasible to require more site visits, more could be done to target these visits to those sites most likely to have serious problems. For example, the existing regulations do not require consideration of adequacy of facilities in setting priorities for site visits. We continue to believe that, as long as all sites cannot be visited, the States' limited resources should be specifically targeted to sites with poor facilities--those having high potential for fraud and abuse. We know from our reviews that preapproval and program monitoring visits are vital to curtailing problems in this program, which is so open to abuse. Service officials said that they will consider our recommendations in

developing regulations for the 1981 program. Also, the exclusion of certain private sponsors that buy prepared meals might permit fewer monitoring visits to be required.

We also recommended that the Service determine the feasibility of developing a statistical sampling approach for Service and State program monitoring aimed at taking early action against sponsors and sites violating program regulations.

The Service and OIG believe that statistical sampling, when properly done, can have beneficial effects on strengthening program integrity. However, the Service was unwilling to require that States use a statistical sampling approach to monitoring in 1979 because, according to the Service, some States are inexperienced in its use and its application could be disruptive to the program. For 1979 OIG used statistical sampling in its reviews of the program. It was also used in two Service-administered and two State-administered summer programs. The Service hopes that the 1979 experience will enable it to expand the use of statistical sampling in 1980, including its use in taking early action against problem sponsors and sites.

Criteria for terminating sponsors and sites have been instituted

To facilitate prompt action against sponsors and sites found to be in violation of program regulations, we recommended in our 1977 and 1978 reports that the Service develop or require States to develop mandatory criteria for terminating problem sponsors and sites. The Congress addressed this issue in 1977 legislation which required that each State's program plans include procedures for timely and effective action against violators. A Service official said that all the 1979 program plans complied with the requirement. Also, for the first time, the Service in June 1979 issued guidance for statistical monitoring which included criteria for terminating problem sponsors and sites, reducing the maximum number of meals which can be claimed each day, and prohibiting problem sponsors from participating in future programs. The criteria are mandatory for those Service-administered programs using a statistical sampling approach to monitoring and are minimum requirements for other States which elect to use such an approach. States not using the statistical sampling approach must include in their program plans their procedures for dealing with program violators--including termination criteria--and the plans must be approved by the Service.

OTHER LEGISLATIVE REVISIONS

The Congress has also made other changes in summer program legislation which are responsive to our recommendations. In one way or another, each was intended to deal with the fraud, abuse, and mismanagement which have been characteristic of the program. All legislative changes discussed below have been incorporated into program regulations.

Number of daily meal services

In our report on the 1976 program, we noted that, based on an apparent legislative requirement, States were routinely approving the number of daily meal services--up to five--requested by sponsors. This led to wasted food and sponsors competing with one another by offering more meal services each day. As we recommended, the Congress reduced the number of authorized meal services from five a day to three a day for most sponsors.

Issuance of regulations and program guidance

Previous legislation required that final program regulations, guidelines, applications, and handbooks be issued by March 1 of each year. State officials said this date was too late for orderly program implementation and cited it as contributing to problems. To give the States and sponsors more planning time, the legislation was revised in line with our recommendation to require publication of final regulations by January 1 and guidelines, applications, and handbooks by February 1.

Making advance payments to sponsors

Before 1977, program legislation was interpreted as requiring States to pass on advance payments to sponsors in the same amount as was provided to the States. Consequently, some sponsors received advance payments larger than their cash needs or, ultimately, their reimbursable expenses. To help prevent such overpayments, we recommended that the States be given the flexibility to make advance payments to sponsors on the basis of State determinations of need. The Congress adopted our recommendation.

Eligibility criteria

The program's authorizing legislation established eligibility for benefits on an area basis--eligible areas were those in which at least one-third of the children were eligible for free or reduced-price school meals. In 1976 States found this requirement difficult to use in determining the eligibility of various areas and of residential summer camps not located in target areas. We recommended that the Congress revise the eligibility criteria to

--establish census tract data as the primary criterion for determining site eligibility or replace the area eligibility concept with eligibility based on the need of the individual participants and

--require that residential camps and other sponsors requiring enrollment in their programs be paid only for meals for individual children determined to be needy.

Current legislation retains the area eligibility concept and the criterion in previous legislation. However, the Congress also provided for determining areas' eligibility on the basis of income for individual participants. In addition, the Congress adopted our recommendation that camps be reimbursed only for meals served to children eligible for free or reduced-price school meals.

Timing of sponsor applications

Because some States had inadequate time and inadequate criteria to evaluate sponsors and feeding sites, some unsatisfactory sponsors were approved. To alleviate this problem, we recommended that State-established sponsor application dates be included in State program plans subject to Service approval. The legislation was revised to require that State program plans include the schedule for handling sponsor applications so that they can be processed in a timely, orderly manner. Priorities for selecting sponsors were also mandated.

Controls over bidding and contracting

We recommended better controls over bidding and contracting for meals. Lack of State control over sponsor-vendor relationships resulted in serious procurement problems and abuses, including meal vendor kickbacks to sponsors and fraudulent sponsor reimbursement claims. The Congress strengthened the bidding snd contracting process by requiring (1) registration and approval of vendors, (2) contracting only with

registered vendors, (3) use of standard State-developed contracts, and (4) State development of model meal specifications and food quality standards.

OTHER ADMINISTRATIVE ACTIONS

We also recommended additional administrative changes to strengthen various aspects of the summer feeding program. The Service adopted many of our recommendations or made other changes to deal with the problems identified. In some cases, however, Service personnel did not believe that corrective action was necessary or did not go as far in their actions as we think they should have.

Areas where further action is needed

Late sponsor applications

We recommended that States be given the option of accepting or rejecting sponsor applications submitted after the State-established deadlines. This option would allow a State which was having difficulty effectively administering ongoing programs to refuse applications if accepting them would aggravate problems by increasing State workloads. Service officials said that this was not a problem in 1978 as it was in 1977. The regulations still require States to approve applicant sponsors throughout the program's operation if they meet all eligibility criteria. We continue to believe that requiring States to accept late applications could seriously disrupt orderly program administration and that, if this would be the case, States should have the option of refusing applications.

Cash advances to sponsors

To aid in the recovery of previous years' excess advances to sponsors and to prevent additional unneeded advances, we recommended that the States be held liable for losses due to (1) States improperly evaluating sponsors' requests for funding advances and (2) States advancing funds to sponsors still owing money from previous years. Service officials said that overadvances are inherent in this program to some degree and that existing procedures have provided an adequate means for recovering outstanding advances. They also said that if States were held liable in every case, many States would be discouraged from administering the program.

It is true that it is not always possible to precisely predict a sponsor's needs for cash advances due to unforeseeable circumstances. However, our report described cases in which States were not adequately evaluating sponsors' cash

needs, and at least one State advanced cash in excess of foreseeable needs. One State also advanced cash to a sponsor that had not repaid excess advances received in the prior year.

Recovering excess advances presented a serious problem earlier in the program and, although Service officials said that the problem no longer exists, it could recur. Accordingly, we believe that States should be held liable for those overadvances which are due to negligence on the part of the State. Service regulations should include criteria for determining which overadvances are unavoidable and which are caused by State negligence.

Records on unsatisfactory sponsor performance

To improve the quality of program sponsors, we recommended that the Service make sure the States take adequate steps to keep out of the program sponsors that committed substantial abuses in previous years, including the collection and retention of needed evidence of abuses. Current regulations require State agencies to deny program participation to sponsors that were seriously deficient in past program operations and to retain for at least 3 years all records concerning disallowances of sponsors' reimbursement claims. States and/or the Service may--and sometimes do--retain the records for longer periods. Service officials said that such regulations were generally satisfactory in keeping problem sponsors out of the 1978 and 1979 programs and no further revisions were needed.

We have some concern that disposing of records on problem sponsors after 3 years might permit such sponsors to return to the program after the 3-year period. In commenting on this matter, the Service noted that overall Federal policy generally prohibits requirements that States retain records more than 3 years. (See p. 96.) A Service official also pointed out that the types of sponsors most likely to have serious problems would probably have the lowest priority in the sponsor selection system. Also, because of their large volume, the records would be of limited value in identifying individuals and organizations seeking to be sponsors more than 3 years after their last association with the program.

The Service's objections to requiring records retention periods longer than 3 years appear to have merit, but we continue to have concerns about the potential for problem sponsors being readmitted to the program. As a minimum, we believe that the Service should monitor this situation carefully to determine if longer record retention periods are needed.

Areas in which corrective action seems adequate

Identifying eligible program areas

We recommended that the Service ensure that the States follow the procedures outlined in their program plans for identifying areas eligible for the summer program. Service officials said they now evaluate State efforts to identify eligible areas as described in the State program plan before the start of program operations.

Preventing overlapping and clustered feeding sites

We recommended that the Service require that States describe in their program plans specific procedures to prevent wasteful overlapping and clustered feeding sites and to ensure that Service-approved procedures are implemented. Neither the regulations nor the guidance for preparing State plans specifically requires that the plans include such procedures. However, program regulations do require that States, when evaluating proposed sites, ensure that the area which each site proposes to serve is not or will not be served by another site--unless additional sites are needed to serve the area's children--and that the total meals by type at all sites serving an area do not exceed the number of children residing in the area.

A Service official responsible for reviewing State plans told us that no plan would be considered acceptable that did not contain adequate safeguards against approval of clustered and overlapping feeding sites. According to this official, State efforts to prevent such sites would also be evaluated during the Service's assessments of State agency operations.

Accelerating fund advances

Because several States found that advances for State administrative expenses were provided too late for efficient program administration, we recommended that the Service provide final advances earlier. The Service subsequently revised program regulations to provide some acceleratation of advances to the States.

Providing State staffing

We recommended that the Service require permanent, year-round staffing in States with larger programs. Late hiring and underestimating staff needs resulted in some States not having adequate resources to administer the 1976 program. Program regulations now require States to provide sufficient

consultative, technical, and managerial personnel to administer the program, monitor performance, and measure progress toward meeting program goals. The regulations also establish deadlines for hiring administrative and field personnel.

Supplementing State administrative efforts

We also recommended that Department personnel and resources be made available to supplement State administration as needed. Department officials said that personnel from both the Service's regional offices and OIG were made available to help the State agencies in 1978 and 1979.

Sponsor recordkeeping is interrelated with other program areas

Because inadequate and false sponsor and site records had been a continuing program problem, we recommended that sponsors be required to keep rosters of enrolled children to support their claims of meals served. Program personnel at all levels have told us that such a procedure is not feasible and the Service has no plans to require it. In the absence of pilot tests or other concrete evidence, the feasibility or effectiveness of this procedure is uncertain. However, in the absence of this or some other mechanism for validating meal reimbursement claims after the meals have been served, the need for other program improvements becomes much more critical.

For example, the issue of obtaining sites with adequate facilities becomes more important because of the built-in incentive for sites with inadequate facilities to submit improper reimbursement claims. Intensive site monitoring and the use of a statistical approach to monitoring also become more important. Since sponsors' integrity is to be relied on heavily for meal reimbursement claims, sponsor and site evaluation and approval processes are vital, and the Department's proposal to eliminate some private sponsors takes on added merit.

CONCLUSIONS

The summer feeding program's basic design makes effective financial and overall management controls difficult to develop and implement. We believe the Service needs to continue its efforts--which have improved substantially in the past 3 years--to find ways to ensure that program benefits go to needy children rather than being dissipated through fraud, abuse, and waste.

CHAPTER 5

FOOD STAMP PROGRAM OVERISSUANCES AND RECIPIENT FRAUD

In July 1977 we reported 1/ that the Federal Government was losing over half a billion dollars annually in overissued benefits. The eight local food stamp projects we reviewed were doing little to identify and recover the value of these overissuances. At five of the eight projects, about half the dollar value of overissuance claims established were classified as involving suspected recipient fraud, but little effort had been made to determine whether prosecution was warranted. Consequently, very few recipients were penalized.

Some ineligible households had received food stamp benefits, and some otherwise eligible households had received excessive benefits because of administrative errors, misunderstandings as to eligibility requirements, lack of proper or complete information, and/or willful deceptions. At the time of our review, Service data showed that overissuances accounted for about $12 of every $100 of the more than $5 billion in annual benefits issued nationally. Only about 12 cents of that $12 had been recovered.

At the time of our report, States received Federal reimbursement for only half of the administrative costs they incurred in identifying and pursuing recovery of overissuances, and any moneys recovered had to be returned to the Federal Government. The Federal Government bears the total loss when food coupons are overissued, whereas the States suffer no loss until they incur administrative expenses in pursuing recoveries. Thus, States had little incentive to pursue recovery.

The Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.), enacted in September 1977, provided new tools for dealing with food stamp recipient fraud and reduced the financial disincentives to fraud prosecution. Additional tools for dealing with fraud were included in the August 1979 amendments to the act. Regulations implementing these August 1979 provisions were issued on January 31, 1980.

1/"The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished" (CED-77-112, July 18, 1977).

In addition to our work, the OIG has disclosed numerous problems regarding overissuances similar to those we identified. The food stamp gross negligence report, a listing based on overissuance problems reported by OIG, shows that, as of October 1979, there were nine States with such problems involving about $23 million. These problems include very high certification error rates or unsatisfactory overissuance recovery activities.

PROSECUTING RECIPIENT FRAUD

At the time of our review, very few recipients suspected of fraud were prosecuted or otherwise penalized. The courts were clogged with more serious criminal cases, and most prosecutors were reluctant to prosecute suspected recipient fraud. In our report, we emphasized that food stamp recipient fraud could not be allowed to continue unchecked if the program was to maintain some semblance of integrity.

Financial incentives

To provide State agencies with increased financial incentive to pursue recovery of food stamp overissuances, we recommended that the law be revised to allow States to retain some portion of overissuances recovered. In addition, because we believe that fraud should be punished regardless of whether money is recovered, we recommended a legislative revision to authorize the Secretary to reimburse a higher percentage of State administrative costs for the investigation and adjudication of fraud.

The Congress addressed these recommendations in the 1977 act. Although it did not allow States to retain a portion of recovered overissuances, it increased the Federal reimbursement of State expenses incurred in processing suspected fraud from 50 percent to not less than 75 percent. In March 1979 the Service notified the States that these expenses would be reimbursed at a 75-percent rate retroactive to October 1, 1978 and, in August 1979, it issued emergency regulations to implement this provision.

Although this provision decreased the disincentive for State agencies to pursue food stamp program fraud, it alone may not have provided enough incentive for States to aggressively pursue fraud because they would have continued to bear 25 percent of the administrative costs involved. As discussed later in this chapter, the August 1979 amendments provide that the States may keep half of the fraudulent overissuances they recover. But the States will

continue to bear 50 percent 1/ of the costs involved in pursuing non-fraud-related overissuances. Accordingly, the Congress should give further consideration to our recommendation that States be allowed to retain a portion of all recovered overissuances.

Administrative prosecution

We recommended that the Congress authorize the Secretary to develop procedures to handle most suspected recipient fraud cases administratively rather than refer them for criminal prosecution. We believe that this approach would increase the possibility that suspected recipient fraud would be adjudicated and guilty persons would be punished. The Department of Justice concurred in this recommendation.

We also recommended that administratively simple procedures capable of handling many cases in a relatively short time be used and that penalties generally consist of disqualification from the program for meaningful periods of time and/or warnings of suspension from the program. We also recommended mandatory punishment of recipients found to have committed fraud, even if they make restitution.

The 1977 act authorizes a 3-month disqualification of recipients who have been administratively found guilty of committing fraud. The Service's October 1978 and January 1980 implementing regulations provide for (1) administrative hearings for individuals suspected of fraudulently obtaining food coupons, (2) mandatory disqualification of persons found guilty of fraud, (3) specific language defining fraud and describing how to calculate the amount of a fraud claim, and (4) specific language detailing collection action to be taken for fraud and nonfraud overissuances. The Department expects that these provisions, together with the increased funding discussed earlier, will result in more food stamp recipient fraud being punished.

As noted in our July 1977 report, we believe that the Secretary should have flexibility in determining disqualification periods and should be allowed to disqualify recipients for periods of up to 1 or 2 years. An important factor in this regard is that only the guilty person is disqualified; other household members would continue to receive benefits.

1/Under the 1977 act, States with coupon issuance error rates below 5 percent will have to bear only 40 percent of such costs.

We also recommended that the Service revise the food stamp regulations and instructions to require that most cases of food stamp fraud be punished, even if the perpetrator repays the amount fraudulently obtained. In the projects we reviewed, penalties generally had not been considered when recipients agreed to repay. The October 1978 regulations required that recipients found guilty of fraud in an administrative or judicial hearing be suspended from program participation; regulations issued in January 1980 require that these suspension periods be extended until such time as the recipients agree to repay the value of benefits obtained fraudulently.

Although recipients found guilty--either administratively or judicially--of committing food stamp fraud are required to be punished, more specific criteria may be needed as to whether administrative fraud hearings must be initiated to make formal determinations of guilt or innocence. Although the January 1980 regulations generally describe the types of situations in which administrative fraud hearings should be initiated, their implementation and enforcement might be hampered by extensive use of the words "should" and "may" rather than the mandatory "shall." Neither the October 1978 nor the January 1980 regulations contain specific criteria or requirements for initiating administrative fraud hearings, and Service officials told us that there are no instructions to the States containing such criteria. We believe that specific instructions to the States on this matter would help them as well as the Service in meeting the intent of the Food Stamp Act and its implementing regulations regarding initiation of administrative fraud hearings.

Guidance on criminal prosecution

The Service had not provided the States with meaningful guidance as to which cases of recipient fraud should be referred for investigation and possible prosecution. We therefore recommended that the Service disseminate information that clearly explains the jurisdictional criteria for prosecution in various courts, the types of evidence needed to secure conviction, and the best ways in which to acquire such evidence.

The Department does not believe there is a need to disseminate the specific information we recommended, but it has taken other actions. OIG and the Service have participated in regional and national meetings to promote dialog between State agencies and local prosecutors in which prosecutive strategies and problems are routinely discussed. OIG also assists State agencies in their investigative training

programs and assigns its investigators to assist States in highly complicated or sensitive cases.

Also, in May 1979 OIG issued a "Fraud Alert Bulletin" which details most of the schemes and methods that have been used to defraud the food stamp program. Although it was originally intended for use by Department auditors and investigators, the bulletin was sent to U.S. attorneys and State and local investigating units.

While these actions may be helpful, they do not seem designed to resolve all the problems discussed in our report. One problem was confusion among State and local officials about whether prosecution of food stamp recipient fraud should be handled by Federal or State and local authorities. Some State and local prosecutors give food stamp fraud low priority. Another problem was that of compiling sufficient evidence for prosecution.

REPORTING ON FOOD STAMP FRAUD

We recommended that the Service require States to report information on the incidence, magnitude, and causes of recipient fraud identified and the dispositions of such cases involving recipient fraud. We stated that this information should be disseminated to the States, the Department of Justice, and the Congress. The Service had been unable to provide information on the total extent of fraud to those needing it.

The Service has issued instructions and proposed regulations that would require some of the needed information, but these need to be improved to be of maximum value. The Service's instructions now require that each State report summary information on overissuance claims established, collected, and closed--broken down into fraud and nonfraud. Until March 1979 these claims were classified as fraud or nonfraud by local caseworkers, so that the cases classified as fraud were actually suspected rather than proven fraud. After March 1979, only those cases determined through formal administrative or judicial proceedings to involve fraud were classified as fraud in the summary reports States submit to the Service. Under regulations the Service proposed in November 1979, information would also have to be reported on the number and outcome of administrative fraud hearings and the number of crimimal prosecutions.

In general, these new reporting procedures move in the right direction. They need to be refined, however, because the States and the Service need to know (1) how many suspected fraud cases were identified, (2) the number for which

administrative or judicial fraud hearings were or were not held, and (3) if not, why such hearings were not held. In addition, summary information is needed on the outcome of criminal prosecutions. This data appears to have been left out of the Service's current and proposed overissuance reports.

We also recommended that the Service improve its monitoring and followup of efforts to identify and punish food stamp fraud, including the evaluation of the information that we recommended be collected, and take vigorous action against States that are not adequately identifying and punishing food stamp fraud. Service officials told us that they plan to closely monitor fraud-related activities under the new performance reporting system, which has not yet been implemented. The officials said that they will use fiscal sanctions as needed to ensure that States adequately identify and punish program fraud. However, the proposed performance reporting system would include information only on cases formally determined to involve fraud. As discussed above, information on suspected fraud cases and their disposition is also needed for effective action on fraud.

LEGISLATION TO TIGHTEN PROGRAM INTEGRITY

In May 1979 the Department proposed several legislative changes designed to reduce overissuances, intensify fraud detection and recovery of fraudulent overissuances, and reduce the food stamp program's cost. Some of these changes were incorporated in a 1979 amendment to the 1977 act while others are pending. Also, the Congress and its committees made several amendments to the Department's proposed bill. Those parts of the pending and enacted legislation relating to our recommendations are discussed below.

State liability for errors

One pending change would establish a system for levying fiscal sanctions on States that fail to reduce high error rates below a prescribed target. Each State would be assigned an annual target to reach, and States would be liable for all overissuances exceeding the target. According to OIG, requiring States to share in the cost of their own mistakes is the most effective device known to make those States and projects with poorly managed operations take an aggressive interest in program improvements. The Department believes that just the threat of such sanctions would result in reducing States' error rates to or below the maximum allowable levels; thus, proposed financial penalties might not need to be imposed.

If financial penalties were to be imposed, however, they could involve substantial sums in States with large programs. Such penalties could reduce the funds available for program administration in penalized States which, in turn, could result in even more erroneous benefit issuances and other problems.

We believe that penalizing States could be counterproductive and would place the States and Department in an adversary relationship instead of the more desirable cooperative relationship of both parties working toward improving program integrity. In general, we support incentives rather than penalties for States with high error rates. The proposed legislation, as amended, would improve the financial incentives to States for good performance as well as penalize them for poor performance.

Recovery of fraudulent overissuances

The 1979 amendment to the Food Stamp Act requires that recipients who have defrauded the program not be allowed to participate until they have agreed to repay the value of benefits obtained fraudulently. Repayment could be in cash installments or in reduced future benefits. If a disqualified individual who elected to repay in cash fails to make payments in accordance with an approved schedule, that individual's household is subject to appropriate benefit reductions. Also, the Secretary is authorized to allow the States to retain half of the recipient fraud repayments. Formerly, States had to return all such collections to the Federal Government. We had recommended that the States be allowed to keep some portion of all overissuances they recovered.

Income verification using social security numbers

The 1979 amendment to the Food Stamp Act permits the Secretary and State agencies to require recipients' social security numbers as a condition for program eligibility. The Department's proposed legislation, as amended, would authorize use of social security numbers to verify past income information supplied by the households by checking it against earnings data that employers report to the Social Security Administration and against the earnings data submitted to the States for unemployment insurance purposes.

The Department intends to use social security numbers in computer matching and other techniques to discourage and detect error and fraud. According to OIG, the most serious, long-standing problem in the food stamp program is inadequate verification of recipient eligibility information, especially

income, and related recipient fraud. This provision is designed to diminish this problem.

While not foolproof, this type of verification has considerable merit. It will be very helpful in identifying fraud and other errors and recovering the value of overissued benefits. However, the benefits of such independent income verifications should not be overestimated. The most current social security earnings information can be as much as 2 years old, and unemployment insurance earnings information can be as much as 10 months old since employers must file earnings reports only once a year for social security purposes and once a quarter for unemployment insurance purposes. After the end of each year or quarter, employers have 60 or 30 days to file the reports, and the respective agencies take 1 to 10 months to process the information and enter it into their computers. Thus, up-to-date earnings information is not available from these sources.

If authorizing legislation were enacted, social security and unemployment insurance earnings information could still be used to verify income reported for food stamp purposes by comparing this information with the food stamp application or income report for comparable periods, even though this comparison would usually be made after the food coupons had been issued. Also, at the time an application or income report is being evaluated, having earnings information from 2 months to 2 years earlier might be of value in identifying unreported employment. However, the information would not provide complete verification.

There are 11 States where unemployment insurance earnings records might not be usable for verifying food stamp households' incomes. In these States, which have some of the larger food stamp caseloads, employers do not report individual employees' earnings information unless specifically requested to do so in connection with a claim for unemployment compensation. Requesting specific employers to submit earnings information for individual food stamp recipients would be of limited value because State officials could not be certain they had identified all the recipient's employers. As a result a recipient's earnings record might not be complete.

MONITORING AND IMPROVING STATE PERFORMANCE

We recommended that the Service issue instructions describing the steps to be taken to identify food stamp overissuances, including specific reference to the various available information sources, such as duplicate issuance reports,

recertification reviews, public assistance overissuance reports, quality control reviews, and earnings clearance statements. Some locations we visited were not using available information to identify overissuances or were using it ineffectively.

The Service said that the lack of followup to identify specific overissuances at the time of our review was due to a lack of State staffing rather than a lack of specific instructions. In accordance with a mandate in the 1977 Food Stamp Act, the Service is to conduct a study of State staffing needs to enable it to establish standards for efficient and effective State food stamp program administration. The Service expects to issue proposed regulations on State staffing standards by late 1980. Pending development of the staffing standards, the Service has taken action against some States which were not devoting sufficient staff resources to identifying and recovering overissuances. In addition, the Service has proposed regulations that would require States to provide information on current and proposed staffing levels by area of responsibility in each year's State food stamp program plan.

Although the staffing standards and other actions may be helpful in requiring States to have adequate staff, we believe the specific instructions we recommended are also needed to help States make sure that all potential information sources for identifying overissuances are used systematically. In addition, developing the staffing standards may take a long time whereas instructions on identifying overissuances could be issued relatively quickly and would assist the Service in taking action against States not performing adequately in this area.

At the time of our report, detailed information on some individual claims was being sent to the Service, but no overall information was available for use in monitoring State and local activities. Accordingly, we recommended that the Service

--require that detailed individual claim data be maintained only at local offices, with summary data reported to the State and Service, and

--issue instructions describing the specific management information States and local projects should compile on claims activities and how this information should be used to monitor and evaluate these activities.

Regulations issued in October 1978 outline the records and controls that must be maintained for individual claims.

This information is generally retained at the local level. In addition, the Service subsequently issued instructions requiring that summary information be reported on overissuances as described on page 40.

We also recommended that the Service evaluate State collection activities to ensure that a determination of collectability is made on each claim and that, for those cases where collection is deemed appropriate, the States are making reasonable collection attempts. Local offices we visited had not instituted proper controls to ensure that claims were established and were not placing much emphasis on establishing claims. In addition, we recommended that the Service improve its monitoring of the identification and recovery of food coupon overissuances, including the evaluation of the above-described summary data we recommended be compiled. Such evaluations were not possible previously because summary data was not available.

In April 1979 the Service proposed regulations that would require that States report on their various problems in administering the food stamp program. The regulations would also require Service reviews and evaluations of State activities, including those relating to the identification and recovery of overissuances. It is not possible for us to assess this proposal's effect on overissuance activities because it does not provide specific information about the measures required. We continue to believe the Service should take actions we recommended regarding monitoring of State efforts to identify and recover overissuances.

CONCLUSIONS

Although the 1977 act and the 1979 amendment have resulted in some improvements in dealing with food stamp fraud, more needs to be done. The Department has taken a number of steps directed toward identifying and punishing fraud, but it has not moved aggressively to identify and recover overissuances for which fraud cannot be proven. Such overissuances can be caused by inadvertent errors by recipients or food stamp caseworkers or by improper actions for which fradulent intent cannot be proven. These nonfraud overissuances should not be ignored. Our 1977 recommendations in this area continue to have merit and should be reconsidered by the Congress and the Department.

CHAPTER 6

AUTHORIZATION AND REGULATION OF RETAILERS ACCEPTING FOOD COUPONS

In December 1978 we issued a report 1/ discussing weaknesses in the authorization and regulation of retailers participating in the food stamp program and the potential impact of the 1977 Food Stamp Act on that program aspect. We reported that the Service had unnecessarily authorized some retailers to accept food coupons even though they sold only token amounts of staple foods. These unnecessary authorizations weakened the primary control for channeling food coupon use to staple foods and seemed inconsistent with legislation requiring that only retailers advancing program objectives be authorized. We also reported a need for more effective monitoring and control of food coupon redemptions and a need for more timely and effective investigation and resolution of suspected retailer violations.

Although the Service has acted on most of our recommendations, it has not increased the staff which investigates retailer violations and the backlog of suspected violations awaiting investigation continues.

AUTHORIZATION OF RETAILERS

We recommended that the Service establish specific criteria for authorizing retailers to accept food coupons, thereby preventing participation by retailers not advancing program objectives. Such criteria were needed to help eliminate the inappropriate judgments that were permitted by imprecise regulations and instructions.

In January 1979 the Service provided draft instructions to its field staff supplementing guidance contained in the 1977 act and the September 1978 regulations on authorizing retailers to accept food coupons. The regulations provide that retailers whose primary business is selling food for home preparation and consumption will generally be approved if more than half of their food sales are staple food items. The instructions, which are to be finalized in fiscal year 1980, specify types of retailers which normally should and should

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

not be authorized and provide guidance on approving individual retailers of the types not normally meeting authorization requirements. The instructions also identify types of wholesalers which would not normally meet the authorization criteria.

To ensure the guidelines are applied uniformly, the Service plans to conduct periodic meetings of headquarters, regional, and field staffs to discuss the application of these guidelines, problems encountered, and appropriateness of decisions. We believe that these instructions, if consistently applied, should help eliminate the inappropriate authorization judgments we found in our earlier review.

MONITORING OF FOOD COUPON REDEMPTIONS

We recommended that the Service require retailers to (1) furnish food sales data for time periods compatible with the Service's analyses of food sales and coupon redemption data and (2) certify the sales data's accuracy and agreement with data furnished State or local authorities for tax purposes. We also noted that the sales data should be subject to verification on a selected basis by Service field offices. More exact sales data would help the Service identify firms that might be accepting food coupons illegally, and sales data for time periods consistent with its analysis would improve the Service's monitoring.

The Service agreed that more exact sales data would assist in analyzing and evaluating food coupon redemptions to detect retailer fraud. However, the Service believes that obtaining sales reports quarterly instead of annually would substantially increase the Service field staff workload and therefore is not practicable at this time. The Service plans to reconsider the idea of obtaining more frequent sales data after implementing and evaluating a new procedure under which retailers will be required to submit annual reports on food sales and other information.

Beginning in February 1979, retailers were required to certify the accuracy of the gross and food sales data they submit to the Service. The Service will not require retailers to certify that sales data furnished to it agrees with data furnished to State and local authorities for tax purposes because many locations do not require food sales data for tax purposes. Also, the Service may not have access to State records for verification purposes. The Service verifies retailer reported sales data on a selective basis when it questions the data's accuracy.

We recommended that the Service develop, in cooperation with commercial banks and the Federal Reserve System, procedures under which the Federal Reserve banks would compare the coupons they accept from commercial banks with amounts shown on the related retailers' redemption certificates. The Service would require the commercial banks to investigate and correct any differences. This procedure would improve the accuracy of the Service's redemption reports and facilitate identification of firms and banks which may be engaging in irregular transactions.

Although the Service agreed with the potential benefits of our proposal, its officials noted that having the Federal Reserve banks compare coupons and certificates might cost more than it would be worth. However, in May 1979 the Service contacted the Federal Reserve System to request comments on our recommendation and estimates of salary and indirect costs to implement it. Further discusssions concerning our proposal and alternative corrective actions have been held and more are planned.

Also, in April 1979 the Service began testing an alternative system for comparing food coupons received by the Federal Reserve banks with documents prepared by retailers in connection with their redeeming coupons through commercial banks. Although this alternative system does not seem to provide the tight control we recommended, it is encouraging that the Service is acting in this area and is considering the benefits and costs of various systems.

INVESTIGATION AND RESOLUTION OF SUSPECTED VIOLATIONS

To facilitate the prosecution of program violators, we recommended that the Service determine whether it needed additional resources in its compliance branch to permanently reduce to a minimal level the backlog of suspected retailer violations awaiting investigation. Service officials are in complete agreement that the compliance branch could use more resources. However, because of tight personnel and budget ceilings, the Service has been unable to increase these resources.

At the time the branch was authorized in January 1977, the authorized staff ceiling was 88 but actual staffing never exceeded 81. The authorized staff ceiling was gradually reduced to 72 and has remained there since October 1978. Actual staffing levels have been as low as 69. At the same time, the backlog of suspected violations awaiting investigation increased from about 2,900 in January 1977 to over 3,400 in April 1979.

Between April 1979 and October 1979, the Service diverted resources from the routine monitoring of retailer operations to other projects such as the reevaluation based on the new criteria (see pp. 46 and 47), of all participating retailers. This decrease in monitoring resulted in a substantial decrease in the number of suspected violations identified. As a result, the backlog also decreased, dropping to about 2,700 cases by October 1979. No increase in compliance branch resources or productivity occurred during this period.

Although we have not evaluated the Service's resource needs in other areas, we continue to believe that the large backlog of suspected retailer violations could adversely affect the food stamp program's integrity. Also, once the Service resumes its normal monitoring of retailers, the backlog will probably resume its previous pattern of steady growth unless investigations are increased.

In commenting on this matter, the Service emphasized the branch's good track record in investigating large numbers of cases which resulted in a high proportion of disqualifications. (See p. 101.) We agree that the current branch staff seems to have been effective in helping to improve program integrity. We also recognize that other staffing needs and the current emphasis on reducing Federal expenditures make this a particularly difficult time for the Service to provide additional compliance branch staffing. We believe, however, that the Service should continue to monitor the branch's backlog and give it due consideration in allocating staff among its various activities.

Investigation

We recommended that the Service, in cooperation with the Attorney General, periodically review the guidelines for referring retailer violations to the Department of Justice to ensure that only cases justifying criminal prosecution are referred and that all cases are handled in a reasonable and timely manner. Service officials said that procedures are in effect which provide for periodic review and updating of these guidelines by OIG and the Department of Justice. According to an OIG official, cases are being handled in a reasonable and timely manner and no changes in the guidelines are anticipated.

We recommended that the Secretary make the Service's compliance branch responsible for investigating all suspected retailer violations in which prosecutions appear unlikely and consider giving branch personnel additional training so

that the information and evidence they gather could be used in criminal prosecutions.

In April 1979 the Service and OIG approved a new agreement under which the compliance branch is generally responsible for investigating all suspected retailer violations in which prosecutions appear unlikely. In some cases, the compliance branch must get OIG approval before proceeding with an investigation to prevent the branch from unknowingly interfering with investigations OIG may be conducting or to enable OIG to provide pertinent information on the suspected violator. In view of the reduction in compliance branch staffing and its case backlog, the Service and OIG should periodically review this agreement so that the required coordination does not unnecessarily tax the branch's limited resources.

Service and OIG personnel said that compliance branch personnel now have received adequate training for routine investigations and that the evidence they develop is usable in court. Serious criminal violations continue to be handled by OIG, whose staff is trained in more sophisticated criminal investigative techniques.

Penalties

We reported that the Service had had difficulty identifying and imposing timely and effective penalties against firms that did not adhere to program regulations. Consequently, we made three recommendations to improve the system of imposing penalties on program violators.

First, we recommended that the Service improve the consistency and equity of administrative review determinations in retailer suspension cases by requiring review officers to explain, in writing, the relevance of all factors considered in their decisions and to demonstrate that penalties they assess conform to Service criteria. The Service had not established guidelines for administrative review officers to follow in reaching their decisions. Consequently, review officers, in reducing previously assessed penalties, had considered events occurring after a violation and factors totally unrelated to the proven violation. This absence of guidelines had resulted in decisions, especially penalty reductions, which seemed to be unsupported by fact and were without specific guidance in law or regulation.

Effective January 1979 the administrative review staff's director began requiring review officers to prepare a memorandum each time they reduced or eliminated a proposed disqualification period. The review officers must set forth

the relevance of all factors considered in those decisions and demonstrate that the penalties conform to published criteria. The Service plans to issue a formal instruction on this procedure.

Second, we recommended that the Service monitor the activities and decisions of administrative review officers to assure that the requirements discussed above were being followed, with special emphasis on cases where the review officer reduced or eliminated the penalty. In October 1978 the administrative review staff's director began monthly reviews of a random sample of cases adjudicated by each review officer. Review officers are notified in writing of any deficiencies noted in the cases reviewed, and those cases are reviewed by the director during supervisory field visits. Deficiencies are discussed in conferences attended by all review officers at least 3 times a year.

Third, we recommended that the Service designate additional administrative review officers until the case backlog was eliminated and cases could be reviewed expeditiously. The Service has recently augmented the administrative review staff by hiring one additional review officer and by detailing Service field personnel to the review staff for limited periods to help reduce the backlog.

CONCLUSIONS

The Service has initiated corrective action on all of the problems we discussed in our report on authorizing and regulating food stamp retailers, except for the continuing backlog of suspected violations awaiting investigation. With this one important exception, the Service is to be commended for its responsiveness in this area.

CHAPTER 7

ACCOUNTABILITY FOR FOOD COUPONS

Early in 1979 the Department's OIG reported that over $34 million in receipts from food coupon sales had been misused or mishandled by agents issuing the coupons. Many of these agents were businesses, such as check cashers and banks, that had been hired to issue food coupons to recipients and collect and deposit cash. The 1977 Food Stamp Act, by eliminating the requirement that recipients pay for their coupons, eliminated the problem of improper use of cash--cash is no longer involved. However, food coupons, which are almost like cash, still must be properly accounted for.

Our June 1977 report 1/ noted that the misuses of cash receipts went undetected for extended periods because neither the Service nor the States were effectively monitoring the issuance agents. We recommended that the Service establish a special task force to analyze and correct the causes of invalid exceptions (errors and discrepancies) on Service management reports dealing with agent accountability. A special task force was not established as we recommended, but Service and OIG officials said that corrective actions have improved the accuracy of Service management reports.

MANAGEMENT REPORT EXCEPTIONS

Many of the invalid exceptions on Service management reports were eliminated when the cash payment requirement was eliminated from the program; however, the Service must still ensure the reliability of management reports dealing with coupon inventory.

In 1978 OIG analyzed the food coupon inventory subsystem used by the Service to monitor and account for food coupon shipments from private printing contractors to issuance agents and the subsequent issuance or transfer of coupons by the agents. OIG's resulting June 1978 report made the following recommendations to the Service to improve the coupon inventory subsystem:

1/"Food Stamp Receipts--Who's Watching the Money?" (CED-77-76, June 15, 1977).

--Produce an exception report based on a comparison of shipment information reported by the coupon supplier with the issuance agents' receipt records.

--Assign responsibility for correcting the data and systems errors so that exception printouts can be used effectively.

--Assign Service headquarters personnel the responsibility for monitoring and ensuring the effectiveness of the coupon inventory subsystem.

A review of correspondence between the Service and OIG and discussions with Department officials indicate that the Service has taken the recommended corrective actions and that invalid exceptions in coupon inventory reports are no longer a serious problem. The Service has

--begun producing the exception report on coupon shipment receipts,

--assigned responsibility for validating the exceptions reported, and

--used the reports to monitor agency accountability and initiate action to recover shortages.

ISSUANCE AGENT ACCOUNTABILITY REPORTS

We recommended that the Service take all necessary measures to get agents to submit accurate and timely accountability reports. These measures included immediately implementing and strictly enforcing the penalty provisions of the Emergency Food Stamp Vendor Accountability Act (90 Stat. 799); withholding fee payments from noncomplying agents; and insisting that States, as a last resort, terminate agents who continue noncompliance. In response to the Accountability Act, in January 1977 the Service issued proposed regulations which would have

--specified State and agent responsibilities for handling coupons and cash receipts,

--established standards for State monitoring of agent coupon inventories,

--specified that agents are fiduciaries of the Federal Government,

--provided that food coupon receipts are Federal funds, and

--restated the criminal sanctions imposed by the accountability act.

Shortly after the Service issued the proposed regulations, it became apparent that the food coupon purchase requirement would be eliminated. The Service, therefore, did not issue final regulations implementing this aspect until October 1978. These regulations incorporated only those parts of the proposed regulations that dealt with coupon accountability. Because it never issued final regulations concerning cash receipts, the Service was unable to invoke the penalty provisions of the Accountability Act against issuance agents who had not followed cash depositing requirements. The Service, however, took other actions to correct cash depositing problems.

According to Service officials, the Service closely monitored agents with depositing problems during 1977 and informally warned 24 State agencies about deposit deficiencies. In addition, it formally warned three States of possible administrative fund reductions or cutoffs because 44 issuance agents in those States were not adhering to depositing requirements. The Service monitored the States' progress in reducing the number of noncomplying agents and, due to improvements in depositing practices, was able to rescind all formal warnings.

The January 1977 proposed regulations (which were not finalized) would also have authorized State agencies to withhold fees from noncomplying issuance agents. Regulations proposed in November 1979 would provide the same authority. We believe that issuance agent accountability continues to be important, even though cash is no longer involved, because of the potential for food coupon misuse. Accordingly, we believe States should be authorized and required to withhold fees from agents not following accountability requirements and that the Service should issue instructions as to when the fees of such agents should be withheld.

We recommended that the Service provide the States and its own regional offices with their respective sections of any management exception reports and other accountability-related reports, so that monitoring of agent transactions could be facilitated. According to Service officials, in the latter part of 1977, regional offices sent a list of issuance agents having serious accountability problems. These offices then reported monthly on these agents' depositing activities. As a result of these and other efforts, several agents were terminated from the program and some were prosecuted. Also, in connection with ending the purchase

requirement and issuance agents' final cash accountings, the Service provided the States with various cash accountability reports. In addition, the Service has started sending coupon accountability reports to its regional offices which, in turn, send them to the States.

We recommended that the Service disseminate regulations on the respective responsibilities of the States and the Service, and provide specific instructions and procedures on how the States, Service headquarters, and Service regional offices are to monitor issuance agent accountability. Regulations issued in October 1978 describe in general the responsibilities of the Service and States in this area, but they do not provide specific instructions and procedures on the respective duties of Service headquarters, Service regional offices, and the States. In March 1979 the Service provided its regional offices and State agencies with a draft of a State agency accountability handbook, which includes specific instructions on issuance agent accountability, for their comment and use until a final version could be issued. Their comments have been incorporated and the handbook is now being finalized. The Service is also developing another handbook describing specific regional office responsibilities for issuance agent accountability.

We recommended that the Service take steps to terminate issuance agents that continue to have significant accountability problems involving missing deposits, late deposits, or coupon shortages. Service officials said that most of the problems they have had with issuance agent accountability were missing or late deposits and that since cash has been eliminated, so have most of the problems. The Service plans to use its system of warnings, which can lead to cancellation of administrative funds, to encourage States to monitor and verify coupon accountability as required by program regulations. Despite elimination of the basis for many of the accountability problems experienced in the past, we believe that, as a matter of Service and State policy, agents with repeated accountability problems should be terminated.

We recommended that the Service ensure, through special reviews and day-to-day contacts by Service regional offices, that States and local food stamp projects are taking all necessary steps to monitor and verify issuance agent accountability in a partnership arrangement with the Service and that the Service withhold program administrative funds where accountability is not being enforced.

Service officials said that contacts with State agencies and local food stamp projects regarding issuance agent accountability are now being made and, as noted previously,

copies of accountability reports are being sent to the States. Also, as part of its proposed performance reporting system, the Service would be required to conduct an annual review of all food stamp program functions performed at the State agency level, including coupon accountability and issuance procedures. State agencies would be required to conduct similar reviews at least annually in large project areas and at least biennially in all other project areas.

We could not determine whether a partnership arrangement such as we recommended is now working effectively, but the Service says it now has a more cooperative relationship with State agencies.

CHAPTER 8

PROBLEMS WITH THE FOOD STAMP PROGRAM IN PUERTO RICO

In April 1978 we reported 1/ that the Commonwealth of Puerto Rico's food stamp program continued to be plagued with basic management and computer system problems which seriously affected its operational and financial integrity. According to Department of Agriculture officials, corrective action has been taken regarding our recommendations and the program has greatly improved.

At the time of the review, problems that had existed and had been identified for several years caused a serious erosion of controls that were designed to account for the millions of dollars in Federal food stamp benefits issued by the Commonwealth each month. For much of this time, however, neither the Commonwealth nor the Service took adequate corrective action. During our review, steps were taken to resolve longstanding problems, but major problems remained, such as

--excessive numbers of authorization cards (cards exchanged for food coupons) being issued manually instead of through the normal automated procedures,

--lack of documentation supporting retroactive benefit claims,

--inadequate monitoring of Commonwealth personnel who both participated in the program and administered it, and

--failure to identify and act on questionable authorization card redemptions (cards exchanged for food coupons).

Efforts to correct these program problems were hindered by computer system problems, such as numerous errors by certification workers in entering basic recipient information into the computer and inadequate procedures to ensure correction of identified errors. We said that these problems needed top priority attention and recommended that the Service

--direct that the steering committee formed to help

1/"Problems Persist in the Puerto Rico Food Stamp Program, the Nation's Largest" (CED-78-84, Apr. 27, 1978).

resolve the Puerto Rico food stamp management problems address the deficiencies outlined in our report,

--form a technical assistance group responsible for long-term improvement of the Commonwealth's computer system, and

--require the Commonwealth to undertake corrective actions for improving the food stamp program's revised computer system.

According to Service and OIG officials, steps have been taken dealing with these recommendations. They said that the steering committee addressed our recommendations, technical assistance was provided to the Commonwealth, and most of the corrective actions we recommended for computer system improvement were addressed. A summary of actions we recommended for computer system improvement and the related corrective actions follows.

1. To help reduce computer input errors, computer analyses of such errors should be produced, distributed, and reviewed on a periodic, timely basis to identify the most frequent types of errors and the individuals responsible for making them. The Commonwealth should then provide training to certification workers and supervisors as appropriate.

Although the Commonwealth did not take the action we recommended, Service and OIG officials said that the Commonwealth had taken several steps to reduce computer input errors. Each employee was given four new manuals reflecting the changes required by regulations implementing the 1977 Food Stamp Act. All employees were given 15 days of training regarding the new regulations, and some employees received additional training in how to prepare computer input documents.

Supervisory teams were established which provide technical assistance to local offices with special needs. Deficiencies identified by the teams are discussed with local managers, and the local offices keep written versions of the deficiencies to facilitate corrective action. Also, quality assurance desks have been set up in the local offices to review the input documents before they are entered into the computer.

Service and OIG officials believe the new procedures are effective. They noted that the input document error rate had been reduced to 6 percent before the conversion to the new regulations. During implementation of the new regulations, the error rate rose to 46 percent but was reduced

to 13 percent in the course of 1 month. Although an error rate of 13 percent on input documents still seems high, the Commonwealth's efforts to reduce these errors are encouraging.

2. To correct input errors in a timely manner, the following procedures should be established and enforced.

--The Commonwealth should set a realistic time frame for input error correction and reentry into the computer.

--As the computer identifies errors, they should be recorded on a separate computer file until corrected.

--The Commonwealth's data processing center should print a daily list of computer-identified input errors, reasons for the errors, and previously identified errors that have been corrected. This list should be sent concurrently to the applicable local and regional offices on a routine, timely basis. The local office should review the list, make needed corrections, and notify the data processing center of corrections made. The regional offices should use the list as a control document to make sure that local offices follow up on all input errors.

Under Commonwealth procedures, daily error lists are printed and each local office is supposed to correct its errors within 1 day after receiving the list. Since this is not always possible, however, the computer has been programed to accept transactions with errors regarding matters not related to the correct issuance of an authorization card (such as showing the head of household as male when the individual is female). However, if an error goes uncorrected for 15 days, the regional office is notified; if it goes uncorrected for 30 days, the central office is notified so that corrective action can be taken. A Service official said that since this procedure was implemented, all errors have been corrected at the local level, eliminating the need to forward them to the regional or central offices.

According to Department officials, the Commonwealth now has sufficient computer capacity to hold relevant data on all erroneous documents in a suspense file until the errors have been corrected.

3. To make sure that recipient identification numbers are valid (and thus prevent a household from improperly receiving multiple benefits), the data processing center should develop, test, and implement computer programs that will

identify and reject invalid social security numbers and invalid dummy identification numbers. (Dummy numbers were being provided to participants who did not have social security numbers.)

In commenting on our draft report, Service officials said that the computer had been programed to check for invalid and duplicate social security numbers. The August 1979 amendment to the Food Stamp Act, when implemented in July 1980 and later, will eliminate Puerto Rico's dummy identification number problem by requiring social security numbers for all food stamp recipients.

4. To further preclude households from receiving benefits under more than one identification number, the data processing center should implement a computer program that will periodically search the computer records for duplicate household addresses.

Department personnel said that this procedure was tested and found to be impractical in Puerto Rico because many households have the same family name, and more than one household with the same name may live at the same address. This fact resulted in computer printouts with an excessive number of duplications to be investigated. Most of the duplications which were investigated did not involve households improperly receiving benefits.

5. To help make sure that each manual authorization card issuance is properly entered into the computer, the Commonwealth should require local offices to use the serial numbers on manually issued cards to obtain a daily control total of the number of these cards issued. The local offices should reconcile this number with the total number of manual cards issued as shown on the transmittal form sent with records of manual issuances to the data processing center daily. The center should assure that this same number of records is entered into the computer.

According to Service officials, the procedures we recommended are now in effect at the local offices and the data processing center, and all manual authorization card issuances are being entered into the computer.

6. To provide a more certain method for identifying authorization cards redeemed after their expiration dates, only those cards redeemed during the business day should be included with the daily batch control document sent to the data processing center.

Under procedures in effect at the time of our review, authorization cards redeemed on a previous day but inadvertently not submitted with the rest of the cards redeemed that day were sent to the computer center in the same batch as a subsequent day's cards. This sometimes made it impossible for the computer to identify cards that should not have been redeemed because they had expired. The situation was aggravated by the Commonwealth's procedure of staggering the cards' expiration dates throughout each month because this procedure made it more difficult for personnel redeeming the cards to spot any that had expired.

Department officials said that the problem our recommendation addresses has been corrected by a new issuance procedure. Since November 1978, authorization cards have been valid only during the calendar month for which they are issued and all cards expire at the end of a calendar month (except those for retroactive benefits). Also, elimination of the food coupon purchase requirement removes the need for households to hold authorization cards until they have enough cash to purchase their food coupons.

Although the changes described above would substantially reduce the problem addressed by this recommendation, it seems to us that the problem could still arise near the beginning of each calendar month. However, Service officials assured us that the Commonwealth is not having trouble identifying expired cards.

7. To ensure that food stamp identification numbers and authorization cards are authentic, the Commonwealth should establish, at the Department of Social Services' headquarters level, a large enough control group to verify authorization cards and identification numbers. The data processing center should periodically send exception (error) lists of invalid identification numbers, as well as unmatched, duplicate, stolen, altered, expired, or otherwise erroneous authorization card redemptions, to central, regional, and local food stamp offices for review and appropriate corrective actions. The local and regional offices should return information on the corrective actions to the central office and to the data processing center for entry into the computer. Copies of the exception lists and corrective actions taken should be sent to the control group. This group would be responsible for making sure that each exception is completely resolved and that all authorization card redemptions are reconciled with computer records of authorized card issuances.

Service officials said that these recommendations have been implemented. A control group was established to review the error listings and the regional offices followup with

the local offices. Service officials also pointed out that the problems this procedure was designed to handle have been greatly alleviated by establishing quality assurance desks in the local offices. Effective October 1978, each issuance transaction is reviewed at a quality assurance desk, using mechanized lists of authorized cards issued and redeemed, before a cashier issues the coupons. This system is designed to prevent such problems as a household trying to illegally obtain coupons with two authorization cards, one issued by computer and one issued manually, for the same month.

8. In conjuction with appropriate State and local welfare agencies in other jurisdictions, the Commonwealth should study the full ramifications of conducting a periodic computer matching of Puerto Rico's records of food stamp households with the records of households receiving public assistance benefits in other areas. The Commonwealth should take steps to authorize and/or implement permanently this type of matching to help reduce the incidence of improperly received benefits and erroneous program data.

In November 1979 the Service held a meeting with representatives of the Commonwealth and two States to discuss the feasibility of conducting a computer matching program as we recommended. Further meetings are planned.

As stated earlier, legislation has been enacted under which food stamp participants may be required to provide social security numbers. If additional legislation is enacted as discussed on pages 42 and 43, the Department could use these numbers in computer matching and other techniques to compare income reported by food stamp households against wage and benefit information in the files of the Social Security Administration and in State unemployment compensation files. Accordingly, our recommendation could be applied nationwide to detect suspected recipient fraud as soon as implementing regulations are issued.

9. To improve processing of corrected cashier daily activity reports, the computer system should be modified to ignore the original report when corrected reports are received.

A Service official said that new procedures require a daily balancing of cashier reports. Since the computer will not accept erroneous cashier reports, there is no problem of correcting reports already in the computer. Erroneous reports are returned to the cashiers the next day for correction and are not fed into the computer until they are corrected. As the food stamp purchase requirement has

been eliminated, new cashier daily activity reports no longer require cash deposit information--one source of past errors.

10. To increase processing accuracy and efficiency, the data processing center should develop, test, and implement computer programs that would eliminate the need for manual adjustments to computer-generated food stamp accountability data.

According to Department officials, Puerto Rico's computer programs have been improved to the extent that the food stamp accountability data is now printed by the computer with no manual adjustments.

CONCLUSIONS

It appears that corrective action has been taken on our recommendations for improving Puerto Rico's administration of the food stamp program. OIG is continuing to monitor Puerto Rico's program--especially its conversion to the requirements of the new Food Stamp Act and associated regulations.

CHAPTER 9

POOR IMPLEMENTATION OF FOOD STAMP WORK REGISTRATION REQUIREMENTS

The food stamp program's work registration requirements have not achieved the results the Congress intended. Even though some participants have obtained jobs as a result of the requirements and others have been denied food stamp benefits for not cooperating fully with local officials, the actual savings in program benefits thus far have been meager compared with what we believe could be saved by effective work registration activities. Our April 1978 report to the Congress 1/ described some ways to increase savings by improving work registration. Although some preliminary actions have been initiated to deal with some of our recommendations, little has been accomplished to improve the effectiveness of food stamp work requirements.

Our report showed some reasons why work registration had had limited success. At the locations we visited, the work registration requirements seemed to be viewed as just more paperwork rather than as a way to reduce the need for program benefits. Also, the effectiveness of work registration was reduced by administrative and other problems at both local food stamp and employment service offices, including

--failure of local food stamp offices to register some nonexempt recipients,

--failure of food stamp offices to send complete information to employment service offices,

--failure of work registration forms to reach local employment offices,

--overpayments resulting from failure of food stamp offices to react to employment service notices,

--inadequate information for evaluating work registration activities,

--lengthy processing of work registration forms,

1/"Food Stamp Work Requirements--Ineffective Paperwork or Effective Tool?" (CED-78-60, Apr. 24, 1978).

--inadequate feedback to food stamp offices, and

--failure of some recipients to cooperate in finding jobs.

As discussed in a later report, 1/ these problems may have been partially caused by the lack of specifics in the Labor-Agriculture agreement under which the food stamp work requirements are administered. The agreement did not describe the services to be provided or the basis for determining the amount of funds Agriculture was to transfer to Labor each year to cover the costs of Labor's and State employment service agencies' activities under the agreement. Substantial progress toward resolving problems underlying this lack of specifics was made in connection with formulating and approving the fiscal year 1981 budget--the Office of Management and Budget (OMB) approved a much larger budget amount for these activities. According to both Agriculture and Labor, this progress could lead to improvements in many of the problem areas identified in our April 1978 report.

BETTER PROGRAM INFORMATION AND MONITORING NEEDED

Management information needs

We recommended that the Departments of Agriculture and Labor arrange to obtain accurate information on the effectiveness with which work requirements, including the new job search requirement added by the 1977 Food Stamp Act, were being carried out in the various States and localities. Such information included the extent to which recipients required to register for and seek employment were (1) being promptly referred to appropriate employment service offices, (2) being referred to available job openings, (3) obtaining jobs as a result of the work requirments, (4) failing to cooperate in efforts to obtain jobs for them, and (5) having their food stamp benefits reduced or terminated as a result of the work requirements.

Agriculture and Labor officials said they do not plan to change their decision--which we criticized in our report--to rely on Labor's employment security automated reporting

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1/"Effects of the Department of Labor's Resource Allocation Formula on Efforts To Place Food Stamp Recipients in Jobs (A Supplement to Comptroller General's Report CED-78-60, April 24, 1978)" (CED-79-79, Aug. 15, 1979).

system for the basic information needed on food stamp work requirement activities. According to these officials, this system supplies both Departments with all the information items recommended in our report, except for information on (1) the new job search requirement (which has not been implemented), (2) food stamp benefits reduced or terminated as a result of work registration, and (3) some types of recipients' failure to cooperate in efforts to find them jobs.

As noted in our report, Labor's employment security automated reporting system has had problems in accurately reporting placement information. In addition, it cannot give an adequate picture of how the various States and localities are carrying out the food stamp work requirements. For example, although the system supplies information on the number of food stamp recipients who are referred to employment service offices, it cannot be determined from this information if the local employment service offices received all the referrals they were supposed to receive or if they were received promptly. We found these to be serious problems, as discussed in our report.

Also, officials of both Departments said that they were still not obtaining information on the extent to which food stamp benefits were reduced or terminated as a result of work registration. A Service official said that one reason why this type of information was not being gathered was that the food stamp procedures for disqualifying recipients failing to comply with the work requirements are very drawn out and complex, which makes reporting on benefit reductions and terminations very difficult. According to Labor, this type of information could possibly be included in its employment security automated reporting system. However, this action would require food stamp offices to submit information to State employment service agencies and to Labor.

The Service plans to test the feasibility of collecting more complete data on recipients' failure to cooperate and on reduced and terminated benefits in connection with demonstration projects it is planning. These projects are being designed to test alternative work registration and data collection procedures. The Service said that, on the basis of this evaluation, it will determine the practicality of requiring the compilation of such information nationwide. It appears, however, that obtaining such information is very uncertain and, in any case, compiling it is a long way off even if an affirmative determination is ultimately made. We believe that such information is needed to meaningfully measure work registration's effectiveness and that data should be collected as soon as possible.

Monitoring should be improved

We recommended that Labor and Agriculture closely monitor the effectiveness of the work requirements' implementation and identify those States and locations which are not aggressively administering the requirements. We also recommended that the Departments identify and take strong action to correct the specific problem of States and local offices not following prescribed work requirement procedures.

Agriculture has issued proposed regulations which it says would require monitoring of work registration requirements. The proposal is not yet specific enough for us to evaluate its probable effectiveness. The proposed regulations would require States to conduct management evaluations at regular intervals in each food stamp project area to identify various types of problems, including problems in administering work requirements. State agencies would be required to prepare corrective action plans to deal with all deficiencies noted in the management evaluations, and Service regional offices would be required to monitor the corrective actions. If corrective action is not taken by the State agency, the Service could initiate a process leading to a possible reduction of administrative funds, as provided for in the 1977 Food Stamp Act.

While this monitoring is designed to detect errors in complying with work registration requirements by food stamp offices, the procedures will not provide feedback on whether those recipients required to register for work were effectively and timely registered at the employment service. We continue to believe that such information is necessary for adequate evaluation of the work requirements' administration and effectiveness and that procedures should be developed and implemented to provide it.

Timeliness standards for getting work registration forms to appropriate employment service offices might be helpful in encouraging States to properly implement work requirements. However, it would still be necessary to monitor States' performance in relation to the standards and to take action against States not meeting the standards.

Labor has stated that it will rely on data from the employment security automated reporting system for monitoring purposes. However, a Labor official said that the Labor Department does not monitor administration of the food stamp work requirement. There are no national directives for reviews of employment service operations with regard to the work requirements, and reviews by Labor's regional offices

may or may not involve them. Consequently, Labor is not in a position to take the strong corrective actions which may be needed.

In commenting on this matter, Labor said that resolution of the funding problem (see pp. 69 and 70) will permit improvements in its reporting and monitoring system but it did not specify what these improvements would be. We continue to believe that both Departments should adopt our recommendations if the work requirement is to be made effective.

OTHER NEEDED IMPROVEMENTS

We recommended that the Departments take action to get employment service personnel stationed in at least the busier food stamp offices to handle work registration, job search, and other employment activities for recipients. Labor and Agriculture officials said that nothing has been done to date to implement the recommendation. We continue to believe that this idea has merit and should at least be tried on a pilot basis.

Lastly, we recommended that the Departments evaluate the effectiveness of well-administered work registration and job search requirements in relation to the effectiveness of the public service job requirements in the workfare pilot projects 1/ and compare the benefits and costs of the two approaches. The results of this evaluation should be widely disseminated within the executive and legislative branches of the Government and to the public.

Service officials said that the the Service plans to compare the results of its workfare pilot projects with results of regular work registration activities at selected locations as part of the Service's evaluation of the workfare projects. However, operational efficiency was not used as a criterion for selecting locations for the comparison. We advised Service officials of our concern that the evaluation might end up measuring administrative efficiency rather than effectiveness of the respective approaches to work requirements. The officials said that, while a well-administered test site had not been selected for the workfare comparison, the Service would select or create well-administered sites for comparison with regular sites during upcoming evaluations of alternative work registration

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1/Projects designed to test the feasibility of recipients working in return for food stamp benefits.

activities. The results of this evaluation, due in late 1980, could be compared with those of the workfare project.

Although the Service has not yet implemented the 1977 Food Stamp Act's requirement that work registrants also actively seek employment, its implementation should be expedited by OMB's approval of more funds for food stamp work requirement activities. The Service told us that, since more funds have been approved, it and the Department of Labor have agreed on the specific steps necessary to restructure work registration requirements and to implement the job search requirements. It said that it and Labor had agreed on proposed regulations and that they would be issued soon.

We believe it has taken too long to implement the 1977 Food Stamp Act's job search requirements and to improve implementation of the work registration requirements. OMB's refusal to approve budget increases for food stamp work requirement activities seems to have been a significant factor contributing to this delay, but we cannot determine how long it would have taken if approval of the increase had occurred more timely.

Funding arrangements

As noted in our August 1979 report (see p. 65), problems with work requirement administration may be partially caused by the lack of specifics in the interagency agreement under which Agriculture provided funds to Labor for food stamp work requirement activities. The agreement, signed in 1976, stated that Labor would ensure that (1) food stamp work registrants had equal access to the basic manpower services offered by State employment service agencies to their mainstream applicants and (2) the level of unique services required by food stamp work registrants was commensurate with the level of Agriculture funding provided. However, the agreement contained no description of the services to have been offered nor any detailed breakdown on which services were considered basic and which were considered unique, what the costs of the unique services were, or how effective these services were to be in helping food stamp work registrants get jobs.

Before the fiscal year 1981 budget, OMB had not approved any increases since fiscal year 1975 in the $28 million Agriculture transferred to Labor each year for traditional work requirement activities. This decision not to approve a higher budget amount for food stamp work requirement activities appears to have significantly hindered Agriculture and Labor efforts to resolve the question of which should be covered by food stamp funds. It may also have

hindered resolution of some of the other problems with the work requirements implementation.

In the fiscal year 1981 budget, OMB approved $70 million for food stamp work requirement activities, based on Labor and Agriculture estimates of need. The higher budget amount apparently permitted the Labor-Agriculture agreements on specific work registration and job search activities discussed earlier.

CONCLUSIONS

Until recently, little had been done to improve implementation of the food stamp work requirements, and no meaningful improvements have actually been made. Only after OMB approved a higher budget for food stamp work requirement activities did the Service give priority to improving these activities as a means of reducing the need for food stamp benefits. Although recent Agriculture and Labor actions are encouraging, it is too early to tell if they will result in the kinds of needed improvements we recommended in our April 1978 report. For example, the Department of Labor indicated that improvements would be made in the information reported for monitoring and evaluating work requirement activities but did not specify what the improvements would be. (See app. III.) In the absence of information and monitoring, it seems unlikely that the States will correct the deficiencies we described in our April 1978 report.

MATTER FOR CONSIDERATION BY THE CONGRESS

In view of the Departments' previous inattention to improving food stamp work requirement activities and their as-yet-unproven committment to such improvements, the Senate Committee on Agriculture, Nutrition, and Forestry; the House Committee on Agriculture; and the Senate and House Committees on Appropriations should consider whether intensified oversight in this area is needed.

CHAPTER 10

CHANGES IN THE FOOD STAMP DISASTER RELIEF PROVISIONS

In March 1978 we issued a letter report to the Administrator, Food and Nutrition Service, concerning fraud and abuse in the issuance of food stamp benefits during disaster relief situations. Because of legislative and administrative problems, emergency food stamp assistance was being given to households whose need for such assistance was highly questionable. The 1977 Food Stamp Act tightened legislative provisions, but regulations still have not been changed to reflect the new legislation. Although Service officials believe that interim measures have been effective in controlling program abuse, we have seen additional reports of emergency food stamp assistance abuse.

The issuance of emergency food coupons, as authorized by the Disaster Relief Act of 1974 (42 U.S.C. 5179) and the Food Stamp Act of 1964, as amended (7 U.S.C. 2014), is intended to assist households affected by certain designated disasters. Although the Disaster Relief Act authorizes issuing emergency food coupons to low-income households in major disaster areas, it contains no legislative or administrative guidance or criteria defining a low-income family. Moreover, before the 1977 revision, the Food Stamp Act allowed the Secretary to establish temporary emergency eligibility standards for the duration of an emergency without regard to income and other financial resources. Accordingly, the Department had determined that the Service could not prescribe the financial eligibility criteria States should use in implementing the emergency program.

According to Service instructions, applicant households could be certified for emergency food stamp assistance if the household (1) resided either temporarily or permanently within the disaster area, (2) had access to cooking facilities, and (3) satisfied the State or local food stamp agency that it was in need of emergency food stamp assistance because of reduced or inaccessible income or cash resources. In these circumstances, a household's total 1-month allotment of food coupons would be provided at no cost. However, a major problem was that neither the authorizing legislation nor the Service's regulations and instructions specifically defined what constituted reduced or inaccesible income or cash resources. Thus, a household (even a high-income household) could technically qualify under the emergency program if its income was reduced, even by as little as $1, or if it was unable to gain access to its financial resources even for a very short time.

Some State agencies applied extremely liberal criteria, resulting in the issuance of food coupons to some households that suffered little or no loss of income and whose need for food coupons seemed highly questionable.

OPPORTUNITY FOR IMPROVEMENT

The Food Stamp Act of 1977 made several changes affecting the emergency food stamp program which, if properly implemented, could help eliminate program fraud and abuse. Under this legislation, income and resource criteria for applicants are no longer prohibited. We said in our report that, in line with this provision, Service regulations and instructions should include specific eligibility criteria for emergency assistance to ensure that only the truly needy would be eligible. We also said that instructions should specify which of the eligibility criteria applicable to the regular food stamp program would be applicable under the emergency program's provisions, and which would be waived.

We endorsed the need for simplified certification procedures in disaster emergencies when many people in immediate need are applying for food assistance. However, we noted that eligibility criteria should be designed to prevent the participation of households which are able to purchase food without undue hardship and that effective controls should be established to prevent households from receiving duplicate benefits.

Service officials said that they plan to issue proposed regulations which would (1) specify that applicant households must have suffered a reduction in or diversion of income as a result of the disaster, (2) establish household income and resource limitations, (3) specify how large the reduction or diversion must be, and (4) contain specific references to the regular program's eligibility criteria.

To help prevent duplicate participation, the planned regulations are to require that the application for assistance be signed by the head of household, spouse, or authorized representative. Any authorized representative will be required to be designated in writing by the head of household or spouse to act on the household's behalf in applying for emergency assistance or in obtaining or using coupons so that there will be no doubt as to who can legally receive program benefits for a given household.

Service officials said that they plan to require States to prepare disaster plans and to submit them for approval. Such plans would include application procedures designed to reduce hardship and inconvenience and deter fraud.

Although we recognize that disaster relief issuances represent a relatively small portion of total program funds, we believe that the Department should issue these long overdue regulations as soon as possible. It is most important that all program abuse be eliminated, especially during a period when the Congress is concerned about the increasing cost of the food stamp program.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our draft report (see app. II), the Service said that, although regulations had not been issued to implement the 1977 legislation, interim measures had been taken in specific disasters to reduce abuse and limit benefits to people needing them. In some instances, these measures included income and asset eligibility criteria, lists of regular and disaster participants (to avoid duplicate benefits), and warnings that food stamp fraud is a serious matter that will be prosecuted.

Although the Service's actions have been generally in the direction of what is needed, the absence of nationwide regulations on this matter could be a serious problem. The interim measures were worked out informally between the Service and the individual States and then used in the disaster areas. Service personnel told us that such informal procedures may not survive a court test because they are not covered by nationwide regulations. Although the Service is working on these regulations, they have not been officially proposed in the Federal Register.

While we commend the intent of informal Service efforts to control program abuse, we continue to believe that food stamp disaster regulations should be finalized as soon as possible so that future disaster benefits will be issued from a secure basis and opportunities for fraud and abuse will be minimized.

CHAPTER 11

POSSIBLE FRAUD IN MIGRANT WORKER PARTICIPATION IN THE FOOD STAMP PROGRAM

In August 1977 we reported to the Administrator, Food and Nutrition Service, on a potential fraud situation involving migrant farm workers participating in the food stamp program in Polk County, Minnesota. It had been alleged that some migrant workers were receiving large food stamp benefits because of an arrangement requiring their farmer-employers to hold back their wages until the end of the season. Presumably, such deferred wages were not reported and/or considered in determining food stamp benefits for these workers. On the basis of this information, we recommended that the Service request the Department to investigate the potential food stamp fraud implications in this situation.

In May 1979 the Department's Office of Inspector General released an audit report concluding that migrant applications in Minnesota had been handled in accordance with existing procedures. OIG did not find any cases of agreements between migrant workers and employers to withhold wages, but it did find several cases of other types of apparent recipient fraud. These involved suspected forgery on income verification forms submitted to support program applications and suspected failure to report past income. According to the report, OIG will not pursue these cases because of limited staff and the fact that the migrants involved had left the State. Throughout the summer of 1979, Service regional offices monitored migrant certification activity in most States which have migrant workers. The Service found no deficiencies in Polk County, Minnesota.

In our August 1977 report we also recommended that the Service reemphasize to Minnesota and other States the procedures to be followed in dealing with migrant worker applications. The Service provided written clarifications and other technical assistance to the Minnesota State agency on the proper application of migrant certification procedures. The Service also advised its regional offices of this situation and reaffirmed its policies on the certification of migrant households.

CHAPTER 12

POTENTIAL ADVANTAGES OF ALTERNATIVE FOOD STAMP PARTICIPANT IDENTIFICATION PROCEDURES

In June 1976 we issued a report to the Department's Assistant Secretary for Marketing and Consumer Services dealing with various proposals to strengthen the food stamp program's participant identification requirement. Our review was in response to congressional concern about controlling program fraud and abuse by assuring that food coupons were used only by the persons to whom they were issued and only for the intended purposes.

We looked into various proposals including

--using photo-identification cards for program participants,

--signing and countersigning food coupons,

--punching or perforating coupons with a participant's identification card number, and

--using photo-identification cards in conjuction with countersigning or perforation.

In 1975 and 1976 the Service solicited comments from the States and the retail food industry on these proposals and concluded that, because of negative comments, testing should be limited to issuance of photo-identification cards. Issuing agents and food stores were particularly opposed to countersigning because it would be costly and excessively time consuming. Many States were concerned about the perforated coupon approach because of the need for special equipment and procedures that would also be expensive and burdensome to issuing agents and food stores.

The Service published proposed regulations to implement the photo-identification testing but withdrew them after the Department's Office of the General Counsel advised that the Service had insufficient legislative authority to proceed. In April 1977 we issued reports 1/ to the appropriate congressional committees bringing this lack of authority to their attention. We also recommended that, before proceeding

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1/CED-77-53 and CED-77-54, Apr. 1, 1977.

with its own project, the Service more thoroughly evaluate data from tests of food stamp photo-identification systems previously conducted in four States.

The Food Stamp Act was amended in September 1977 to give the Service explicit authority to conduct demonstration projects, such as those discussed above, and regulations for using this authority were published in November 1978. Service officials repeatedly said that they planned to look into the feasibility of a demonstration project on issuing photo-identification cards but pointed out that the project could not be implemented until other demonstration projects required by the 1977 Food Stamp Act had been undertaken.

In January 1980, however, Service officials informed us that they plan to have a study of photo-identification and other coupon issuance system alternatives under way by June 1980. The study will include photo-identification systems already in use in some locations. (See app. II.)

Also, legislation now being considered by the Congress would require all food stamp households (except those certified at home or by mail) to have photo-identification cards in areas with 50,000 or more inhabitants where the Secretary, after consultation with the Inspector General, finds that their use at coupon issuance would help protect program integrity.

CHAPTER 13

CONTROLS OVER COMMODITY DISTRIBUTION IN PUERTO RICO

In August 1977 we reported 1/ on the Commonwealth of Puerto Rico's practices, procedures, and controls to prevent spoilage or theft of food commodities the Federal Government donated for use in such programs as school lunch and elderly feeding. Our review was precipitated by the spoilage and infestation of $2.5 million worth of federally donated commodities in Puerto Rico in 1975. 2/

While our review did not disclose further instances of theft or excessive spoilage and indicated that the commodity transactions we tested were adequately accounted for, we pointed out that:

--The Food and Nutrition Service was not adequately monitoring program operations in the Commonwealth and, consequently, could not ensure that the Commonwealth (1) received all commodities shipped or (2) employed sufficient program controls to prevent spoilage or theft.

--Commonwealth controls to ensure proper accounting for the receipt and use of donated commodities and to prevent their spoilage or theft needed improvement in one important respect: inspections of warehouses that receive, store, distribute, and account for the commodities were inadequate. We found that inspections were infrequent and sporadic and did not include adequate verification that commodity receipts were properly recorded or that recorded commodity shipments were actually made.

--Other Commonwealth practices, procedures, and controls to account for donated commodities and prevent spoilage or theft seemed generally adequate at the time of our review, except that temperatures in the warehouses we checked were higher than the recommended maximum levels.

1/CED-77-120, Aug. 18, 1977.

2/This loss was discussed in "Information on a Department of Agriculture Claim Against the Commonwealth of Puerto Rico" (CED-77-40, Feb. 24, 1977).

--We found no significant spoilage of donated commodities at the facilities we checked. Our tests of selected commodities showed only minor inventory discrepancies.

We concluded that the Service needed to take a more active role in overseeing the program and that the Commonwealth needed to conduct periodic, independent, and comprehensive warehouse inspections to prevent recurrence of the kinds of problems that had occurred and to ensure that the situation did not deteriorate further.

We recommended that the Service review monthly and yearly Commonwealth receipt, distribution, and inventory reports more closely to ensure accurate and timely reporting and identification of both commodity losses and potential problems. Service officials said that the Service regional office now carefully reviews the accuracy of the Commonwealth's monthly and yearly receipts, distribution, and inventory reports. Based on the inventory levels indicated in the reviews, commodity shipments are expedited or delayed as appropriate.

We recommended that the Service reconcile monthly Commonwealth receipts, distributions, and inventories with commodity shipments reported by the Agricultural Stabilization and Conservation Service. According to Food and Nutrition Service officials, the regional office consolidates pending commodity receipt and delivery order information onto a master sheet for ready reference and immediate comparison with shipment receipt information received from the Commonwealth. The regional office reconciles all obvious discrepancies by contacting either the Commonwealth or the Agricultural Stabilization and Conservation Service.

We recommended that the Food and Nutrition Service conduct periodic evaluations and documented site inspections of the Commonwealth's receipt, storage, and distribution practices, procedures, and controls to ensure their adequacy in accounting for donated commodities and minimizing spoilage or theft. In October 1977 Service regional office evaluators visited the Commonwealth in the first of a series of visits designed to document corrective actions taken to comply with our recommendations. The evaluators conducted onsite reviews dealing with structural and storage conditions, receipt and distribution practices, and records control. By July 1978 regional office evaluators reported that few conditions remained requiring corrective action. The regional office plans to conduct annual onsite evaluations of Commonwealth food distribution activities.

We also recommended that the Service require the Commonwealth's Department of Education (the initial recipient of all of the commodities) to conduct more frequent, regularly scheduled warehouse inspections, including physical inventories and independent verification of warehouse receipts and shipments, to ensure that (1) receipts are properly recorded and recorded shipments are actually made and (2) conditions and practices contributing to the spoilage, deterioration, or theft of donated commodities are promptly detected and corrected. Since our review, the Commonwealth's School Lunch Division Director personally visited many of the warehouses and hired inspectors with appropriate backgrounds to conduct regularly scheduled warehouse reviews.

In addition, we recommended that the Service also require the Department of Education to closely monitor the condition of donated commodities stored at temperatures above recommended levels--particularly those commodities removed from refrigeration and stored in nonrefrigerated warehouse space before distribution to recipient agencies. We recommended that the Department of Education's monitoring be checked during the Service's periodic site inspections. The Service's onsite reviews have covered the storage of commodities in Commonwealth warehouses, and Service officials said that monitoring of storage conditions would be included under the overall monitoring discussed above. When improper storage conditions are found, we recommended that the Commonwealth implement immediate corrective action, subject to review by the Service regional office.

CONCLUSIONS

Although we have not checked the operation of the new procedures and controls, the Service and the Commonwealth seem to have taken satisfactory corrective actions on the weaknesses we reported in controls over donated commodities. If properly implemented, the new procedures and controls should help to prevent the waste, spoilage, and possible theft of Federal commodities that occurred earlier.

APPENDIX I

LIST OF REPORTS CONTAINING RECOMMENDATIONS DEALING WITH FRAUD, ABUSE, AND MISMANAGEMENT IN DOMESTIC FOOD ASSISTANCE PROGRAMS

1. "An Appraisal of the Special Summer Food Service Program for Children" (RED-75-336, Feb. 14, 1975).

2. Letter report to the Assistant Secretary for Marketing and Consumer Services on proposals for improved identification requirements for food stamp program participants, June 17, 1976.

3&4. Letter reports to the Chairmen of the House and Senate Agriculture Committees on the need for clear legislative authority to conduct demonstration projects testing alternative identification requirements for food stamp program participants (CED-77-53 and CED-77-54, Apr. 1, 1977).

5. "The Summer Feeding Program--How To Feed the Children and Stop Program Abuses" (CED-77-59, Apr. 15, 1977).

6. Letter report to the Secretary of Agriculture on noncompliance with the Type A lunch pattern in New York City schools (CED-77-89, June 15, 1977).

7. "Food Stamp Receipts--Who's Watching the Money?" (CED-77-76, June 15, 1977).

8. "The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished" (CED-77-112, July 18, 1977).

9. Letter report to the Administrator, Food and Nutrition Service, on problems in certifying migrant farm workers to participate in the food stamp program, Aug. 1, 1977.

10. Letter report to Senator James B. Allen on the Puerto Rico commodity distribution program (CED-77-120, Aug. 18, 1977).

11. "How Good Are School Lunches?" (CED-78-22, Feb. 3, 1978).

12. "The Summer Feeding Program for Children: Reforms Begun --Many More Urgently Needed" (CED-78-90, Mar. 31, 1978).

13. Letter report to the Administrator, Food and Nutrition Service, concerning food stamp program disaster relief, Mar. 31, 1978.

14. "Food Stamp Work Requirements--Ineffective Paperwork or Effective Tool?" (CED-78-60, Apr. 24, 1978).

15. "Problems Persist in the Puerto Rico Food Stamp Program, the Nation's Largest" (CED-78-84, Apr. 28, 1978).

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

17. "Effect of the Department of Labor's Resource Allocation Formula on Efforts To Place Food Stamp Recipients in Jobs (A Supplement to Comptroller General's Report CED-78-60 Apr. 24, 1978)" (CED-79-79, Aug. 15, 1979).

UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE

WASHINGTON, DC 20250

January 11, 1980

Mr. Henry Eschwege
Director, Community and
Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We welcome this opportunity to comment on the GAO report: "Efforts to Control Fraud, Abuse, and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed."

The report attempts to update 17 earlier GAO reports. Doing 17 updates simultaneously is a difficult task of large proportions. We recognize that although we received the GAO draft report in late November, much of it was written several months earlier. As a result, a number of actions the Department has taken, especially some in recent months, are not reflected in the GAO draft report. This results in parts of the report being out-of-date or inaccurate, and some conclusions not being entirely valid. Our comments are designed principally to provide you additional information so you can correct and update the report where appropriate.

Cover Summary

We believe several changes in the cover summary are needed. As our comments, and the GAO report itself, show, substantial efforts are being undertaken to identify and recover fraudulent overissuances in the food stamp program. We believe that reference to this should be given in the part of the cover summary that lists significant improvements. The part of the cover summary indicating continuing problems should be qualified so as to refer to nonfraud overissuances.

The reference to continuing problems in food stamp disaster issuance should also be removed from the cover summary. Our comments on this chapter of the GAO report explain that substantial improvements have been made in this area even without issuance of new regulations.

Finally, the GAO report shows that significant improvements have been made in the operation of the food stamp program in Puerto Rico. We think this should be cited in the cover summary.

[GAO COMMENT: The cover summary has been revised to recognize that, in general, improvements have been initiated in the areas with continuing problems.]

NOTE: Chapter and page numbers have been changed to correspond to the final report.

APPENDIX II

The following presents our comments on each chapter.

CHAPTER 3: SCHOOL LUNCHES NOT MEETING FEDERAL STANDARDS

While this chapter raises a number of significant issues, we think it also has serious weaknesses. The chapter does not explain the underlying complexities regarding meal pattern compliance and monitoring, and this renders its treatment of the issue somewhat superficial. The GAO's discussion of this issue rests in large degree on recent audit work by the Department's Office of Inspector General. Yet GAO's treatment of the subject stands in contrast to the more sophisticated analysis offered by OIG in its semi-annual report to Congress of November 1979.

The GAO chapter also suffers from a lack of familiarity with proposed rules issued by FNS on October 30, 1979 to establish the AIMS system.

The GAO report makes two principal assertions regarding noncompliance with meal pattern requirements:

1. FNS has been slow to take action on the findings of the GAO's 1977 audit of the New York City Office of School Food Services.

[GAO COMMENT: The Department's comments inaccurately characterize our report. Both the draft and final reports say that the Department has been slow in correcting the overall (nationwide) problem of school lunches not meeting Federal standards and that the Department needed to take more effective corrective action in New York. The Department's corrective action for New York is discussed on page 10 of the report and is described in more detail in the Department's comments (see below). The ineffectiveness of these actions is demonstrated by OIG's more recent findings that nearly 40 percent of the lunches in New York City continue to fall short of Federal requirements.]

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2. The efforts of FNS to obtain compliance with meal pattern requirements have been and will continue to be frustrated by the lack of standardized methods for verifying compliance.

We take exception to the first assertion. FNS promptly followed up the GAO's 1977 audit with a massive Management and Technical Assistance (MTA) effort to identify deficiencies and prescribe solutions. Throughout the summer and autumn of 1977 this agency invested considerable resources, from the National Office and most Regional Offices, in direct intervention in New York City to correct the deficiencies disclosed by the GAO audit and the MTA. To implement this effort, a team consisting of National, Regional, State and City personnel was formed to work in each of four functional areas identified during the MTA: (1) organization and administration, (2) procurement and contracting; (3) food service and (4) financial management. These teams worked directly with employees of the City's Bureau of School Food Services to improve school food service operations. Shortly after issuance of the GAO report, a City-wide training program was conducted for all school food service personnel. In the area of procurement and contracting, the teams recommended that more stringent, specific requirements be used in the purchasing of supplies and products to be incorporated in school lunches. A report making detailed suggestions was submitted to the State and City on February 16, 1978. The City then accordingly altered its contracting practices and product specifications. New specifications provided for component shrinkage during cooking, product sampling before and after delivery, and bacteriological testing--all GAO concerns. Subsequent FNS monitoring of the City's contract enforcement indicates that the City is acting to ensure contract compliance. In addition, the State now performs a meal analysis as part of each of its administrative reviews to determine whether lunches served meet requirements.

The review teams also focused on the major reason for component shortage in lunches served: student non-acceptance of certain items. The component most often found to be served in a lesser amount than is required is fruit/vegetable. Since this is historically the least acceptable component, smaller portions have sometimes been served in an effort to reduce waste. This is also the component most frequently missing from lunches as served, for the same reason--it is difficult for food service personnel to feel they are cheating students by not serving a certain type of food if they are certain the students do not want it.

The review teams set up a pilot system in which students were surveyed to discover which types of food were preferred in all component areas, and also set up Youth Advisory Councils (YAC's) in several schools so that students could have a constant input into food service. This YAC concept is now installed in all City schools, and is being encouraged, both by the State and City.

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In addition, at schools which formerly served only "meal pack" or "Basic" (soup and sandwich) meals, greater variety has been introduced. These types of meals were the least acceptable to students, and the City is now committed to reducing their use. All menus are now planned at the local District level, rather than centrally for the entire city, and the local Districts have more options as to the types of food they receive. This allows for more accomodation to student food preferences, including ethnic preferences.

Finally, in response to the last OIG audit, the City has acted to increase the supervision of food preparation at individual schools, which OIG considered one of the most important corrective actions needed.

Even after the initial work of the review teams in the summer and fall of 1977, FNS has kept staff in New York City on a full-time basis to continue work on necessary corrective actions. They have taken the lead role in carrying out the monitoring and technical assistance functions normally performed by the State agency. This has included visits to individual schools and school district offices to make reviews of all phases of program management (point-of-service meal counts, nutritional requirements for meals, cost-based accountability, approval of applications for free and reduced price meals, etc.) and to counsel school and district employees on areas needing improvement. The FNS personnel have also reviewed the work of program monitors hired by the State agency and provided the monitors' supervisor with evaluations of it.

Direct intervention of such magnitude and duration in the operations of a subgrantee organization far exceeds the normal role of a Federal grantor agency. Where the National School Lunch Program operates in public schools, it is State administered. Section 2 of the National School Lunch Act sets forth the policy of the Congress that the Department's role is in "assisting the States, through grants-in-aid and other means" (such as commodities) in establishing and operating the program. The grant award document, the Federal-State Agreement, binds USDA to "make funds available to the State Agency for the programs operated by it", while the State agency must agree to "accept Federal funds for expenditure in accordance with the applicable Regulations and any amendments thereto, and to comply with all the provisions of such Regulations and amendments thereto." The proper role of USDA is to act in an oversight capacity with respect to State agencies; the State agencies are responsible for direct supervision of local level program operations. Far from being slow to take corrective action in New York City, FNS has taken action going considerably beyond what is normally contemplated as the federal role in the documents under whose authority the program exists.

The GAO contends that FNS' efforts in New York "fall far short" of what is needed, and that significant corrective action has not been taken. OIG's view of the matter is more complex. OIG recognizes that significant corrective action efforts have been taken, but that these efforts have proven less effective than hoped. OIG also seems to believe that there are no easy answers, and in fact OIG's most recent audit report on New York City school lunches calls for no further corrective action by FNS other than to "determine if problems related to the preparation of meals can be corrected in a practical and economic manner." OIG does hope that the new supervisory personnel added by New York since the last audit will help. Given this understanding of the major efforts already undertaken, and the difficulties involved in fully resolving these problems, we think GAO's sharp criticism of FNS on this issue is not supported by the record.

Moreover, the only specific action that GAO suggests FNS should have taken in New York, but has not yet done, is to send New York City a bill for $1.2 million. The GAO report states: "Instead of taking immediate action to reduce the payment to New York City schools based on the noncomplying lunches, the Service asked the Department's Office of the General Counsel to determine if the Department has the legal authority to reduce reimbursement payments by a smaller amount than that calculated by OIG."

[GAO COMMENT: Again, the Department's comments inaccurately restate what both our draft and final reports say. The report specifically notes the Department's corrective action regarding New York City, but states that the actions have been ineffective, as shown by the OIG audit. In addition, we did not suggest that the city be sent a bill for $1.2 million. However, in view of the time that has elapsed, the Department's extensive attempts to help the city correct the problem, and the notable lack of success in these attempts, some stronger action is obviously needed. Financial penalties seem to be warranted, and they should be large enough to encourage the city to take effective corrective action.]

In fact, FNS, the Inspector General, and OGC all agreed that serious issues of equity and law were involved, and that referral of the issue to OGC in order to determine the proper amount of the bill was appropriate. There are serious issues in disallowing reimbursement for an entire meal that meets every federal requirement except for one component being short by one-tenth of an ounce. Frankly, we believe we would have faced substantial Congressional opposition for arbitrary and unreasonable behavior had we precipitously taken such a course of action without first securing a legal opinion. Moreover, OIG itself agrees that this approach is inequitable and recommends in its semi-annual report to Congress that FNS modify its regulations so that such meals would not automatically be denied reimbursement. None of this context is explained by GAO.

[GAO COMMENT: Waiting almost 3 years for a city to correct a serious problem and rendering extensive technical assistance to try to help solve it before assessing financial penalties is hardly arbitrary, unreasonable, or precipitous. As discussed on page 12, we believe that financial penalties should be assessed only as a last resort, after warnings and opportunities for corrective action. New York City had ample opportunities to correct this problem but did not do so. Under these circumstances, financial penalties seem appropriate.]

FNS went to the General Counsel to ask if a claim could be established for the value of a missing or deficient meal component, rather than for the entire value of a meal when all other components of the meal met federal standards. The USDA auditors who audited New York City in December 1978 sent sample lunches to independent laboratories for analysis. Food service equipment commonly used in schools cannot achieve the level of precision that is possible in a laboratory. In mass feeding situations, some variation in portion size is bound to occur. If a school serves a lunch on a given day that fully comports with all or our requirements with the sole exception that the protein is one-tenth of an ounce short, and students consume this meal, is it equitable to establish a claim against reimbursement for the entire meal?

[GAO COMMENT: Accurate servings in a school cafeteria are not difficult if proper serving utensils, such as portion control ladles, are used. More importantly, the Department's quantity requirements are minimums. Slightly larger average quantities might be necessary to assure that no meals fall below the minimums.]

In late November, the USDA General Counsel ruled that a school lunch must be reimbursed in full, or not at all. No fractional reimbursements are permissible. However, the General Counsel recognized the validity of our position concerning the unique nature of meal pattern requirements. He recommended the application of a de minimus rule. That is, where all required meal components are present but one or more components are short a negligible amount, the meals would not be disallowed. "The type of situation in which the de minimus rule applies should be determined by an administratively applied reasonableness test." The General Counsel also asserted that the application of a de minimus rule would place USDA in a better position if a claim were instituted and subsequently challenged in court. Therefore, we believe our decision to seek legal advice before requesting the New York State agency to make a claim determination against New York City was correct. We are now determining the amount of the New York City claim based on the General Counsel's opinion, and his recommendation concerning a de minimus rule.

The GAO observes that recent OIG audit work found 40% (actually the correct figure is 37.6%) of meals in New York City not meeting the requirements. However, the GAO report fails to explain that under current FNS regulations, a significant percentage of violations is virtually inevitable. When schools serve thousands of meals, some will have a little more than the standard, and some will have less. This is a normal result of cooking and serving. So long as the shortage of a single component by a tenth of an ounce constitutes a meal violation, the presence of high rates of meals that do not fully meet all standard portion sizes is not in itself evidence of faulty corrective action.

The most recent semi-annual report to Congress by the Inspector General, issued on November 30, 1979, addresses this issue. The OIG report states:

> "First, it seems inequitable to disallow an entire meal if one component is short or missing. This is a particular problem with frozen "preplated" meals where the portions are already prepared and the meals are reheated before serving. If these meals are heated too long, moisture is lost and the portion falls below the standard. It is also a problem in schools that cook meals on site. When portions are served on hundreds of trays, it is possible for some to fall below the standard by a fraction of an ounce. One approach would be to continue to set meal standards on the basis of minimum quantities as served, but to provide tolerances for individual servings along with a requirement that 90 percent of the servings must meet or exceed the minimum requirements....Establishing meal standards is extremely complex, and the Food and Nutrition Service is currently studying this and other approaches. The Office of General Counsel has been asked to provide an opinion on whether meals with short or missing components can be paid for at all and whether partial credit is permissible."

In addition, specific data from OIG's audit of 22 school food authorities, on which GAO relies so heavily, illustrates that most meal infractions appear to be due to minor violations. 40.2% of meals sampled by OIG failed to include 8 ounces of milk. This alone is enough to render all of these meals ineligible. Yet over 90% of the meals failing to meet the milk standard were short by less than four-tenths of an ounce of milk. Put another way, over 96% of all meals tested either met the milk requirements, or were below it by less than 5% (which is less than four tenths of an ounce). OIG has not yet provided similar detail on any components other than milk.

We believe GAO should present this data in the report so that readers can get a fuller view of the problem. GAO should also explain that most States, through State agriculture departments or other agencies, prescribe allowable tolerances on milk fills. Since GAO and OIG have not used these tolerances, they have classified meals as ineligible if the milk is short by an amount that is legally allowable under State regulations.

[GAO COMMENT: At the time our report was prepared, OIG had not summarized its findings in a way that showed how large the food shortages were, except for milk. Therefore, the Department cannot tell how many lunches were inadequate because of small shortages in only one component. OIG's information indicates, however, that many of the lunches in which the milk component was short also had shortages in other components. In addition, OIG personnel told us that they thought most of the inadequate meals were short by significant amounts.]

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Moreover, under the OIG audit, meals served to young elementary school children were counted as violations if a portion size for such a child was reduced to avoid plate waste. FNS has long recommended that portion sizes to such children be reduced, but OIG decided that unless a State education agency had a specific written policy authorizing schools to reduce portion sizes for young children, then any action by a school to reduce a portion size should make the entire meal ineligible. New York (as well as all other States reviewed by OIG) did not have such a specific written policy. As a result, all such meals with reduced portion sizes for elementary school children were counted as ineligible.

[GAO COMMENT: OIG personnel told us that none of the meals they tested had smaller portion sizes for the purpose of reducing plate waste by young children. Although such reductions are permissible under Department regulations, none of the schools from which the meals were obtained made such reductions; the meals obtained for testing were the same as the ones served to 10- to 12-year-olds for whom the Department's food quantity requirements were specifically designed.]

AIMS and Meal Pattern Monitoring

The GAO also maintains that FNS has not taken action to address this problem on a nationwide scale. In response to this concern, the Department published on October 30 proposed regulations to establish a national monitoring and compliance system (known as AIMS) in school food programs. These regulations prescribe timeframes within which State agencies must complete prescribed numbers of school reviews and ensure that corrective action is taken promptly. The State agencies are required to verify such corrective action through follow-up reviews. Further, the AIMS regulations require State agencies to make claim determinations against schools found to be out of compliance. Such claims would be established according to prescribed formulae with little discretion left to the State agency. Formulae for denying administrative funds to State agencies that failed to comply would also be prescribed. The proposed regulations include the recission of 7 CFR 210.16(h). We would have expected the GAO to endorse a management system that placed such emphasis on the systematic establishment and collection of claims.

Instead, the GAO objects that AIMS cannot solve problems of failure to meet meal pattern requirements because it does not prescribe methods for determining whether meals are in compliance. The GAO is correct that the proposed regulations do not contain such provisions. However, GAO does not explain the number of very serious and complex issues involved in establishing such monitoring standards. Since no person can ladle out the precise portion

amounts on every one of hundreds or thousands of plates, how should monitoring and billings take this into account? Should marginal tolerances be established? Should food produced be measured instead of, or in addition to, food served? Should portions be measured before or after cooking? If after, should claims be established if a small portion of meals slip a fraction of an ounce below the standard after cooking? What about the "offered vs. serve" provision? How should meals be monitored for compliance when secondary school students are free to refuse up to two entire components of the meal?

As the Inspector General's report notes, "establishing meal standards is extremely complex." In fact, the OIG report suggests that Congressional guidance may be needed to resolve at least one difficult question regarding meal pattern monitoring:

> "In an effort to reduce plate waste, Congress has amended the National School Lunch Act to permit high school and junior high school students to take as few as three of the five meal components that must be offered; such meals are still eligible for full federal reimbursement. If a meal served to a high school student can have two components entirely missing and be fully reimbursable, it makes little sense to try to ensure that each of five components served to a grade school child meets its quantity standard. We recommend that Congress provide further guidance on the administration of the "offered versus served" provision."

[GAO COMMENT: Our discussion of these matters appears on page 12.]

Despite these difficulties, FNS is committed to resolving these issues and to developing and implementing an effective system for measuring compliance with meal requirements. FNS has prepared a notice for publication in the Federal Register soliciting broad public comment on what should be monitored (the meal as served, production records, etc.), how monitoring should be accomplished, and the timeframes within which monitoring should take place. The notice is now clearing the Office of General Counsel and will be published within a matter of days.

[GAO COMMENT: The notice was published in the Federal Register on January 18, 1980. We suggested several steps to deal with the issues raised in the notice in a February 29, 1980, letter. (See app. IV.)]

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In addition, FNS has formed a work group to tackle the same issues. Members on the work group have been drawn from FNS, State and local officials and the nutrition community.

Regulations will be amended based on the results of the public comment and the recommendations of the work group. We believe that solicitation and consideration of all points of view on this matter will result in a requirement that is both auditable and administratively feasible. If the effort to achieve this proves time-consuming, we believe the long term benefits to children and taxpayers will justify it.

Additional Points Regarding AIMS

We recognize that GAO staff had not had time to review the AIMS proposed regulations when the GAO draft report was written. However, we think that GAO should now review the AIMS rules, and make the appropriate updates and modifications in the report. For example, on page 17, GAO lists as "other program areas needing attention" the very program issues that AIMS addresses head-on in a strict and systematic manner. The GAO comments that without knowing the details of AIMS, it can't evaluate its likely effect on these problems. GAO also states that it may take a long time to implement the system.

We request that GAO now review the details of these rules. We would also note that these new rules should be effective for the 1980-1981 school year, and that FNS and OIG have budgeted several million dollars for contracts to provide technical assistance and to conduct follow-up audits to assure a timely and effective implementation of AIMS.

GAO's statement on page14, that FNS only requires a financial audit every other year of each school food authority, should also change when AIMS takes effect.

[GAO COMMENT: A detailed analysis of the Department's proposed monitoring system was beyond the scope of this review. On the surface, the system seems to address the problem areas identified by OIG, other than short food quantities. Its effectiveness, however, will depend on how well it is implemented.]

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CHAPTER 4: SUMMER FOOD SERVICE PROGRAMS

The GAO observes that FNS efforts to eliminate fraud and abuse in the summer feeding program have improved substantially in the past three years. One measure of this is that program costs totalled over $140 million in the summer of 1976. The last budget of the Ford Administration anticipated summer feeding costs of $230 million by fiscal 1978 and more in succeeding years.

Despite major food price inflation, however, actual summer feeding costs dropped to $115 million in FY 1978 and $120 million in FY 1979.

The recent semi-annual report to Congress of the Inspector General of USDA makes the same point, expressing "cautious optimism that the most serious abuses of the program are declining."

Indeed, during the past summer, no serious abuse problems developed in New York City--another indication of the substantial improvements in summer feeding administration.

We agree with GAO and OIG that despite this progress, significantly more needs to be done. OIG has consistently found that abuse is centered in large private sponsor/private vendor combinations. The Department has proposed legislation to remove these sponsors from the program. Such legislation will be considered during 1980.

P.L. 96-108 takes a step--although in our view an insufficient step--in this direction. On January 8, 1980 the Department issued final regulations for the 1980 summer program to implement P.L. 96-108 and take other steps to tighten program management. Under the new rules, private sponsors contracting with private vendors (except those running small programs) will not be able to participate unless they have a past record of honest and reliable service in feeding programs. Among other things, this means that large private sponsors contracting with private vendors who have never run a food program before will be ineligible to enter the summer program. In addition, those private sponsors who contract with vendors and who remain eligible will be assigned the lowest priority in the priority system for sponsor approval. Outreach will focus on public sponsors and those which use their own food preparation facilities.

[GAO COMMENT: This matter is discussed on pp. 26 and 27.]

FNS plans to monitor State agencies closely to assure proper enforcement of these new requirements. States will also be required to develop a corrective action plan as part of this Management and Administration Plan, to address deficiencies which surfaced in the prior year.

State Administrative Expense Funding

We are interested in GAO's proposal that the Secretary have the authority to increase SAE funds available to a State under certain circumstances. We are now giving serious consideration to this recommendation.

On the other hand, we are disturbed by GAO's reaction to our proposal to allow States to aggregate the SAE funds for the various child nutrition programs. We believe that GAO misunderstands this proposal. On page 18, GAO states that the proposal seems similar to the lump sum funding arrangement that was in effect until 1975. This is not really correct.

Prior to 1976 there was no separate federal funding formula for summer feeding SAE funds. There was one SAE funding pot for all child nutrition programs and it was highly inadequate. As a result, all child nutrition programs competed for these limited funds, and funds provided for administration of the summer program in some States were inadequate.

In 1975, a separate funding allocation was provided for summer feeding SAE. In addition--and also important--in the past few years the amount of SAE funds provided for all child nutrition programs has grown tremendously. It is now several hundred percent greater than it was before 1975.

Throughout this period--and up until this past September--States were always allowed to use funds provided under the school food SAE formula for summer feeding, or vice versa. While GAO seems to think that this State flexibility was ended in 1975, it was in fact only ended a few months ago under regulations implementing P.L. 95-627.

[GAO COMMENT: The Department's response is inaccurate. After 1975, States were prevented from transferring general child nutrition administrative funds to the summer feeding program by the reimbursement ceiling imposed by the 1975 legislation. According to this legislation, no State could be reimbursed for administrative expenses in excess of 2 percent of the current year's program costs, regardless of the source of the funds. In addition, States were not allowed to transfer summer feeding administrative funds to supplement other child nutrition programs until the transfer provision of Public Law 95-627 was implemented.]

This new provision of P.L. 95-627 is far more likely to weaken program administration than to strengthen it. In the past, many States have moved SAE funds earned under the school food SAE formula to help finance the summer and child care programs. Moreover, the paperwork and accounting necessary to implement the new requirement is very complex and burdensome. The result is additional federal regulation and red tape, and limiting State flexibility to put funds where they are most needed--which often has been the summer program.

State administrators and the Department strongly believe that removal of this new restriction imposed by P.L. 95-627 is very much in the interest of improved program management.

[GAO COMMENT: The transfer provision which the Department is criticizing here was added to the summer feeding program's legislation at the Department's request. Since the Department now apparently believes that it tied its own hands when the Congress passed the legislation it requested, perhaps the Department should propose new legislation which not only addresses the need for flexibility in funding the various programs' administrative expenses but also recognizes the need to ensure adequate State administrative funding for the summer food service program.]

Sponsor Administrative Expense Funding

The GAO report states that implementation of November 1977 legislation, to provide reimbursement based on approved budgets, is overdue and should be given high priority. While it is true that the study conducted pursuant to P.L. 95-166 did not produce completely satisfactory results, the provision of P.L. 95-166 regarding sponsor administrative budgets, their approval and their use in calculating reimbursement for administrative costs incurred, has been fully implemented. Sponsors must submit administrative budgets for approval and cannot receive reimbursement for administrative costs that exceed the lesser of these budgets or the per meal administrative reimbursement rates.

It appears that GAO favors an approach that uses administrative budgets alone in setting reimbursement rates. Such a procedure was advanced as an option in proposed regulations issued by FNS in October 1978. It was almost unanimously rejected by commentors. An overwhelming majority of States rejected this proposal, indicating that there were a number of administrative complexities which make it difficult to implement this type of a budget approach. States believed that this type of budget method would not be as cost effective as the method now in effect for determining reimbursement, entailing more work for the States with less return.

[GAO COMMENT: This matter is discussed on pp. 23 and 24.]

Other Issues

1. The GAO report suggests that school participation be encouraged by reducing Federal and/or State financial assistance to school districts refusing to allow school facilities to be used for SFSP. The Department does encourage the participation of schools but does not feel it should reduce Federal financial assistance to those schools not participating. There are a number of legitimate reasons why many schools cannot administer the SFSP.

[GAO COMMENT: The Department incorrectly interpreted our report regarding the reduction of Federal assistance to schools not participating in the summer feeding program. We did not recommend this approach but rather presented it as one of several alternatives for consideration by the Congress as a means of improving facilities available to the summer program. We are aware that some schools may be unable to administer the summer program.]

2. The GAO recommends considering the adequacy of facilities in setting priorities for site visits. FNS will consider this recommendation the next time it proposes changes in summer food regulations. We should note that outdoor sites lacking certain facilities can be good sites if adequately supervised. Fraud and abuse are most directly connected at the sponsor level rather than the site level.

[GAO COMMENT: The Service's plans are now recognized on p. 28.]

3. GAO recommends that States be held liable for losses due to their not properly evaluating sponsors' requests for funding advances. Current regulations require each State agency, when determining the amount of advance Program payments to be made to each sponsor, to make the best possible estimate based on the amount requested by the sponsor and any other data available to the State agency. Administering agencies have improved their methods of approving advances over the past several years. However, even with the best system of calculating advances it is still possible that some sponsors will be overadvanced. The Department feels that States should not be held liable as long as they make every reasonable effort to recover overpayments. If States were held liable in every case, many would be discouraged from administering the program.

[GAO COMMENT: We recognize that some overadvances are unavoidable and that States should not be liable in all cases. However, we believe that States should be held liable for those overadvances which are due to their own negligence. Our recommendation has been clarified in this regard, but its intent is unchanged.]

4. GAO recommends that records on problem sponsors should be retained indefinitely because if records on problem sponsors are destroyed after three years, these sponsors could be readmitted to the program. According to OMB Circular A-102, there shall not be any record retention requirements other than those described in Attachment C. Records are to be kept for three years with a few exceptions. If a sponsor is under audit, its records must be retained until the audit is resolved. The State agency may also request transfer of records from a sponsor if the records possess "long-term retention value".

[GAO COMMENT: This matter is discussed on p. 33.]

CHAPTER 5: FOOD STAMP OVERISSUANCES AND RECIPIENT FRAUD

Since issuance of the original GAO report in July 1977, a substantial number of steps have been taken to curb food stamp fraud. We have acted on most of the GAO's 1977 recommendations.

The Department's legislative proposal to disqualify persons found to have committed fraud was enacted in 1977 and is now in effect. Our 1979 proposals authorizing the Department to require social security numbers to facilitate income cross checks, requiring persons disqualified for fraud to repay the fraudulent overissuance when they reenter the food stamp program after they have served the disqualification period, and providing for States to retain 50% of fraud recoveries as an incentive to intensify anti-fraud activities, have been enacted. Final regulations implementing these provisions will be published in January 1980.

[GAO COMMENT: This matter is discussed on pp. 41 to 43.]

The GAO report indicates some misunderstanding of our efforts in this area. On page 39, the GAO report indicates GAO's belief that if a perpetrator of fraud repays the fraud overissuance, States would not be required to punish the perpetrator in any other manner. This is incorrect. Under current regulations, persons found to have committed fraud must be disqualified from the program. Our new regulations, about to be issued in final form, will continue to require that all such persons be disqualified, and add the requirement that such persons must also repay the fraudulent overissuance as a condition of return to the program after the disqualification penalty has been served. GAO recommends we revise our regulations to require that fraud be punished even if the perpetrator repays the fraud overissuance. Our regulations already require exactly what GAO seeks.

[GAO COMMENT: This matter is discussed on p. 39.]

GAO also indicates on page 40 that we need to collect more data from States on recipient fraud. We agree with this. On November 9, 1979, we published proposed regulations that would require States to furnish specific fraud-related data each year as part of each State agency's State Plan of Operation. This information includes the number of administrative fraud hearings, the number of individuals disqualified for fraud, the dollar value of coupons fraudulently obtained, the number of State/local prosecutions, the dollar value of coupons fraudulently obtained that resulted in prosecutions, and the dollar value of overissuances recovered. A copy of the November 9 proposed rules is attached.

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In addition, the GAO seems not to be aware of recent FNS actions dealing with the reporting of summary information on claims. FNS handbook 300 sets forth requirements for the reporting of this information on the FNS-209 form. The FNS-209 report is due no later than 30 days after the end of each calendar month and must be submitted even if the State agency has not collected any payments. The report shows the number and amount of fraud and nonfraud claims established during the month, amounts collected, offset, compromised or terminated, and the balance of active or suspended claims at the end of the month. This report will enable FNS to evaluate State collection activities. We are attaching the pertinent pages of the FNS handbook.

[GAO COMMENT: This matter is discussed on pp. 40, 41, and 44.]

The Department plans to use the data from these new sources to monitor State anti-fraud efforts more closely and take actions when appropriate against States that are not taking adequate actions to punish fraud and to collect claims.

The Department will also provide for more intensive monitoring of State actions regarding both fraudulent and nonfraudulent overissuances under its new Performance Reporting System. Final regulations to implement this system will be issued within the next month. Systematic management reviews conducted under this system will assure that States are identifying fraud, instituting fraud hearings, disqualifying persons found to have committed fraud, and are pursuing claims against both fraudulent and nonfraudulent overissuances.

[GAO COMMENT: This matter is discussed on p. 45.]

The Department already has taken actions against a number of States to reduce food stamp overissuance. For example, FNS notified the Pennsylvania State agency on September 11, 1979 that immediate steps were being taken to suspend $460,000 per month in federal reimbursement for State administrative costs from the State's Letter of Credit. This action was taken to require State action to correct several major deficiencies. One of the principal deficiencies was a backlog of unprocessed claims determinations, and inadequate staff to process claims. As a result of this action by FNS, the State agency has added staff to process claims, eliminated the claims backlog, and collected over $25,000 to date.

This is only one of several areas where FNS is now moving aggressively to require States to rectify program deficiencies leading to overissuance. As a result of a gross negligence charge against Ohio for negligence in handling replacement authorization-to-purchase cards, Ohio repaid over $577,000 on November 1, 1979. In New York City, a massive corrective action plan is now underway to reduce and eventually eliminate duplicate ATP issuance and to reduce error rates. In Massachusetts, progress was made on cleaning up deficiencies leading to excessive error rates--including compliance with FNS requirements to increase and upgrade staff--after FNS withheld $1.8 million in administrative funds. In Pennsylvania, demonstration projects are being mounted in Philadelphia and Pittsburgh to tightly control ATP issuance and to substantially reduce replacement ATP's.

We should note that FNS is not awaiting issuance of more detailed regulations on staffing standards to take action against States where insufficient staff has been made available to do the job. The actions against Massachusetts and Pennsylvania are cases in point.

[GAO COMMENT: These actions are now recognized in the report. (See p. 44.)]

In addition, the November 9, 1979 proposed regulations, referred to above, would require States to provide information in each year's State Plan on current and proposed staffing levels for Certification, Issuance, the Performance Reporting System, Fair/Fraud Hearings, Investigations and Prosecutions, Outreach and Training.

[GAO COMMENT: These matters are discussed on p. 44.]

Anotner aspect of this chapter that we feel should be modified is GAO's statement that regulations to implement several of the 1977 Act's key provisions were not implemented until August 1979. It is true that regulations providing 75% for fraud investigations and prosecutions were issued in August 1979. However, what GAO does not mention is that the Department sent a telegram to all State welfare commissioners when the eligibility and benefit provisions of the 1977 Act took effect in March 1979 explaining that the 75% match for investigations and prosecutions would be retroactive to October 1, 1978. Thus, the August rule only codified what had been communicated to States earlier and what was effective back to the first day of the fiscal year.

[GAO COMMENT: The report has been revised to recognize the Service's interim actions on this matter.]

Guidance on criminal prosecution

GAO reiterates its recommendation that FNS provide more guidance to States concerning prosecution for food stamp fraud. As we advised GAO previously, FNS cannot tell States what cases should be prosecuted. These decisions are made by State and local prosecutors. It can be assumed State and local prosecutors will only take fraud cases that they feel are significant or have a reasonable chance for successful prosecution. However, we believe the 75% funding for investigation and prosecution activities should decrease existing financial barriers toward prosecuting such food stamp cases at the State and local levels and this will result in a higher priority being placed on these cases.

Both OIG and FNS continue to participate in regional and national gatherings of organizations such as the National Welfare Fraud Association and the National Association of District Attorneys to promote dialogue between State agencies and local prosecutors. Neither OIG nor FNS has any evidence of confusion among State and local officials about whether prosecution of recipient fraud should be handled by federal or State or local authorities.

State retention of overissuances

We and the GAO do continue to disagree on whether States should retain a portion of recoveries of nonfraud overissuances. We continue to believe that this could lead to States retaining a portion of federal funds that were overissued, in part or in whole, due to the State's own errors.

[GAO COMMENT: The Department raised this objection to our recommendation when we first proposed it in 1977. We continue to believe that our recommendation has merit and that it would not, as the Department has claimed, cause States to intentionally overissue benefits so that they can retain a portion of the recoveries. Although we question whether any State officials are so lacking in integrity as to attempt such subterfuge, several other mechanisms are available for controlling and preventing such intentional overissuances.

Fraud pilot project

Finally, we would like to call GAO's attention to a joint FNS-OIG demonstration project now being planned to test methods of reducing trafficking in food stamps. During the current fiscal year, the project will implement and evaluate one or more models of food stamp fraud investigation, prosecution, and deterrence. Those models found to be successful in reducing or deterring food stamp fraud will be packaged for more widespread implementation to determine if successful models can be replicated elsewhere.

CHAPTER 6: AUTHORIZATION AND REGULATION OF RETAILERS ACCEPTING FOOD STAMPS

The GAO report states that FNS has reduced the staff investigating retailer violations, "contrary to our recommendation." This implies that since issuance of the GAO report in December 1978, the investigative staff has been reduced. This is not true. Since issuance of the GAO report in December 1978 there have been no staff reductions in this area. The reduction took place prior to the GAO report. We have maintained our staff level in this area since GAO issued its recommendations on this matter.

In addition, GAO states that the reduction which did take place was a reduction in staff from 88 to 72. In fact, the Compliance Branch never had more than 81 staff. It is true that at one point the Branch was allotted a ceiling of 88 staff, but before this ceiling was utilized, Department and Government wide hiring freezes were instituted. The actual reduction in on-board staff, which largely occurred during the freeze, was a reduction of 9 persons rather than 16, as GAO had thought.

[GAO COMMENT: The report has been revised on pp. 48 and 49 to clarify the compliance branch's staffing levels.]

Moreover, FNS has compiled a good track record of enforcement with this staff. Although the GAO report refers to a cutback in investigations, in FY 1979 the FNS Compliance Branch conducted 4181 investigations of retailers, of which 69 percent were positive. In FY 1976, the last year that the Department's Office of Investigation conducted retailer investigations before the function was turned over to FNS, only 2022 retailer investigations were completed with 54 percent being positive. Over twice as many investigations were completed in FY 1979 over FY 1976, with substantially better results. Disqualifications of retailers jumped from 610 in FY 1976 to 1674 in FY 1979. We believe the record shows that with its present resources the Compliance Branch has made a significant contribution to strengthening the integrity of this aspect of the food stamp program. We suggest that these figures be cited in the report.

[GAO COMMENT: This matter is discussed on p. 49.]

We would also like to comment on the discussion on page 47 of the GAO report of the coupon redemption process. As the report points out, we are currently examining the redemption process between retailers/wholesalers and the commercial banks. We have also initiated certain staff efforts to examine the flow of coupons from the commercial banks to the Federal Reserve Banks and redemption certificates from the commercial banks to the Minneapolis Field Office. We plan to examine the cost and benefit of integrating the flow of coupons and redemption certificates as one of the alternatives for improving cash controls in the food stamp program.

Finally, we suggest that when the GAO states on page 49 that between April and October 1979 FNS "diverted resources away from the routine monitoring of retailer operations", it provide a fuller explanation of why this was done. The 1977 Act altered the criteria governing the eligibility of retailers to accept food stamps to weed out some retailers who should not be in the food stamp program. Implementation of this requirement necessitated reauthorization by FNS of a quarter million retailers, a rather massive job. Some reduction in routine monitoring of retailers was inevitable during this reauthorization process. We believe some explanation of this is needed in the report.

[GAO COMMENT: The reasons for this resource diversion are clearly described on p. 49. Moreover, we believe that, as soon as these projects are completed, the Service should restore the resources to routine retailer monitoring.]

CHAPTER 7: ACCOUNTABILITY FOR FOOD COUPONS

We concur with the GAO's finding that many food stamp accountability problems have been solved with the elimination of the purchase requirement and the improved use of management reports.

However, we are concerned with one aspect of this chapter which does not give a full picture of FNS actions. The GAO correctly states that FNS did not issue final regulations concerning that part of the 1976 Emergency Vendor Accountability Act that dealt with cash receipts, because the 1977 Food Stamp Act ended the collection of cash receipts when it eliminated the purchase requirement. The GAO further states that because these final regulations were not issued, FNS was unable to invoke the penalty provisions of the Accountability Act against issuance agents not following cash depositing requirements.

Although these final regulations were not issued, FNS still took measures to combat noncompliance by issuance agents. The scope of these measures is not fully reflected in the GAO report. During 1977, FNS closely monitored those agents which had been identified by the Department's Office of Audit as having depositing problems, as well as other agents found to be out of compliance. 32 informal warnings were issued to 24 State agencies concerning depositing deficiencies of about 375 issuance agents. Several States were issued formal warnings that Federal funds would be withdrawn if such deficiencies were not corrected. As a result, most of the agents adopted acceptable depositing practices.

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In addition, during the latter half of 1977, depositing activities were reviewed and Regional Offices were sent a list of issuance agents having serious accountability problems. Regional Offices reviewed the lists, updated them with additions and deletions and on a monthly basis reported on the agents' depositing activities. As a result of these and other efforts, several agents were terminated and several successful prosecutions took place. In one instance, an agent in Columbus, Ohio was terminated for failure to deposit approximately $156,000. In another case, the agent was prosecuted and sentenced to a three-year prison term for failure to deposit cash receipts over a four-year period.

To further insure the compliance of issuance agents, regulations were proposed on November 9, 1979 that authorize State agencies to withhold fees from noncomplying agents (a reference by GAO on page 54 to the fact that these regulations have not been proposed needs correction). In addition, FNS has developed a State agency accountability handbook which includes specific instructions on issuance agent accountability. It is now being finalized and will be distributed in the very near future.

[GAO COMMENT: These actions are now recognized in the report. (See pp. 54 and 55.)]

Although accountability is an area of ongoing concern, much improvement has been made since GAO's original report was published in 1977. Close monitoring will always be a requirement but at this time the major problems outlined in the 1977 report have been eliminated or are being controlled.

CHAPTER 8: PROBLEMS WITH THE FOOD STAMP PROGRAM IN PUERTO RICO

The GAO states that action has been taken on most recommendations specified in its April 1978 report. The GAO suggests that two additional actions are needed: 1) the computer should be programmed to check for invalid social security numbers and dummy identification numbers; and 2) to prevent duplicate payments to one household, there should be periodic computer matching of Puerto Rico's records with records of households receiving public assistance benefits in other areas.

Actions have been taken, or are underway, to address both of these issues. Puerto Rico has installed a computer program to check for invalid and duplicate social security numbers.

In addition, local food stamp offices in Puerto Rico are now encouraging recipients to obtain and furnish social security numbers. This appears to be working effectively, as there are few dummy identification numbers remaining in the system. New regulations requiring the provision of social security numbers will be issued in January 1980. The problem of invalid dummy identification numbers will be entirely eliminated when this new requirement for social security numbers goes into effect.

Regarding the GAO's second recommendation, FNS' Mid-Atlantic Regional Office held a meeting on November 9, 1979 with representatives from Puerto Rico, New York and New Jersey to discuss the feasibility of conducting a computer matching program to compare records of Puerto Rican households with records of households in other jurisdictions.

At the meeting, all three jurisdictions expressed an interest in such a project. The administrative, legal and technical issues that must be resolved prior to such an undertaking were identified and discussed. These issues are now being explored, and follow-up meetings are planned.

[GAO COMMENT: These actions are now recognized in the report. (See pp. 60 and 62.)]

CHAPTER 9: FOOD STAMP WORK REGISTRATION REQUIREMENTS

We are pleased to inform GAO that we have now made a major breakthrough that promises significant improvements in the work registration system. The President's budget for fiscal 1981 will include a request for $70 million for work registration and job search, or 2 1/2 times the previous funding level of $28 million. FNS and the Department of Labor have reached agreement on a restructuring of work registration and on new job search requirements. Regulations to improve the effectiveness of work registration and to implement job search have been completely drafted by FNS and provided to DOL and OMB for comment. As soon as the necessary clearances are obtained, these regulations will be published.

[GAO COMMENT: This "breakthrough" is now recognized on pp. 69 and 70 of the report.]

The new system will require the call-in of all registrants for interviews at the Employment Service Office, and will establish timeliness standards by which forms must be transmitted from the food stamp office to the Employment service, and vice versa. Under the new system, ES offices will also provide more services to food stamp registrants than in the past. Finally, ES will assign all registrants to one of three job search categories. Registrants will return to ES at regular intervals to report on compliance with job search requirements. Any household containing a non-complying member will be terminated from the program. This system should respond to many of the issues raised by GAO in its April 1978 report.

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In addition, new Performance Reporting System regulations will require more intensive monitoring than in the past, especially in large project areas, of whether local food stamp offices are properly enforcing work requirements. Under the Department's legislative proposal to penalize States with high error rates that fail to reduce them below prescribed targets, States can be liable for overissuances stemming from failure to take action on notices from the Employment Service.

[GAO COMMENT: As discussed on p. 67, detailed descriptions of what the performance reporting system will cover and specifically what information will be reported were not available during our review. As discussed on pp. 65 and 66, however, significant changes are needed to existing procedures to obtain adequate information for monitoring and evaluation.]

The Department is now making the improvement of work registration a high priority. In addition to implementing the new work registration/job search requirements, FNS and DOL are undertaking a major set of demonstration projects aimed at testing a variety of alternative approaches in work registration and job search so that we can continue to make improvements in this area in future years. We have completed plans for these projects and expect to have at least 15 sites operational during this fiscal year. Our FY 1980 appropriation includes $2.25 million for these projects. The FY 1981 budget request contains an additional $2 million for these projects.

Working out agreement between OMB, DOL, and USDA has been difficult. DOL has historically been unwilling to alter procedures without an increase in funding, and OMB has historically been unwilling to authorize funding increases. This barrier has now been broken, and months of work between USDA and DOL both on a new work registration/job search system, and on the demonstration projects, should soon begin to pay off. It has not been true during these months of work that work requirements have been a low priority at Agriculture. Substantial effort has gone into extensive negotiations with DOL and OMB, preparation of regulations, and design of the new demonstration projects. In addition, the Secretary informed OMB that adequate funding to institute major improvements in work registration represented a high USDA priority. Our implementation of the new regulations, and the monitoring of the pilot projects, will continue to demonstrate over coming months that we are placing a high priority on this issue and effecting significant improvements.

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Another point worthy of note is that quality control data shows a drop in work registration errors from the level of errors found in the original GAO report. The GAO found work registration forms missing or similar errors in 9.1% of the cases it reviewed in early 1976. Our statistically valid national quality control sample found that by January - June 1978, the number of cases with work registration errors had declined to 4.3%.

[GAO COMMENT: As discussed in our April 24, 1978, report, this information is of limited value because it shows only the number of households in which work registration forms were properly filled out for all members required to register, as evidenced by copies being on file at the food stamp offices. It does not show whether the recipients' work registration forms timely reached the employment service offices responsible for helping them find jobs. In addition, the information is based on numbers of cases (households) rather than on numbers of individual recipients. Information on numbers of recipients not properly registered would be more useful in evaluating compliance with work requirements.]

Design of the Workfare Pilot Projects

On page 68 of the draft report, GAO raises questions about the workfare study design. GAO's comments appear to be based on a misunderstanding of the relationship between the workfare pilot projects and the additional work registration demonstration projects described above.

In its April 1978 report, GAO recommended that an evaluation be done of the effectiveness of two alternative approaches to work requirements: (1) work registration and job search and (2) workfare. In the draft follow-up report, GAO questions the workfare study design, apparently on the grounds that the design will not measure the effectiveness of both approaches to work requirements. GAO seems to assume that the workfare pilot projects alone can and should provide this information.

FNS agrees that both approaches should be carefully evaluated. However, the workfare pilot projects alone cannot suffice. To get the information GAO seeks, another set of pilot projects is needed which would test various methods of work registration and job search. This is precisely what the work registration and job search projects that will start later this year will accomplish.

The workfare pilot projects will permit comparison of workfare to current program procedures. The work registration demonstration projects will permit comparison of several different forms of work registration to current procedures. The results of the two projects can be used for many kinds of further comparisons, including, but not limited to, comparisons between workfare and well-administered work registration.

This approach is more versatile and more methodologically sound than trying to learn everything from workfare projects only.

[GAO COMMENT: These comments simply expand on our description of the Department's rationale for conducting two studies rather than one. The Service's rationale seems to have merit, but this approach might delay development of information comparing workfare with well-administered work registration requirements.]

CHAPTER 10: CHANGES IN THE FOOD STAMP DISASTER RELIEF PROVISIONS

We are very troubled by the chapter on disaster relief. The basic thrust of the chapter is not supported by the facts.

The GAO correctly notes that changes in the regulations governing disaster issuance have not yet been published. However, GAO draws from this the incorrect conclusion that no changes have been made in FNS disaster procedures. In fact, substantial changes have been made and as a result, recent disaster issuance has not carried with it the widespread abuse of several years ago.

The GAO report implies that follow-up work has found continuing problems of abuse in food stamp disasters. However, conversations with GAO staff show that no real follow-up work has been done by GAO, and that there is not substantiation for these statements. The following discussion explores these issues in more detail.

In implementing the Food Stamp Act of 1977, first priority was given to developing and implementing the most generally applicable regulations. As GAO points out, benefits issued under disaster provisions are relatively small. Disaster regulations have now been drafted and are scheduled for release in the near future.

Even without new regulations, however, we have taken substantial steps in major disaster issuance situations to make procedures significantly tighter. We have provided Regional Offices with a list of questions to be used by eligibility workers during disaster situations to help determine the actual food need of applicants. In addition, we developed and used a special disaster application--that included income and resource limitations--in Alabama and Mississippi following Hurricane Frederic. As a result of this more extensive screening, a number of applicants for disaster issuance were denied as not being in need.

Each applicant in Alabama and Mississippi was subjected to about a 10 minute interview with an eligibility worker before being certified or denied--a far different practice from that used in Buffalo or Florida in February 1977. In fact, the Department was subjected to criticism that its tighter screening procedures were causing long lines and requiring applicants to wait in lines for hours. When asked to drop the form and the income and resource limits in order to expedite service and shorten the waiting lines, we declined to do so. Instead, we helped the States locate more office space and workers to handle the load while keeping our more restrictive procedures in place.

In Puerto Rico, following last summer's hurricanes, we also put strict controls into effect. FNS sent an eight page telegram to Puerto Rico setting forth stringent conditions under which disaster issuance must be run, with heavy emphasis on deterring any possible fraud or abuse. Puerto Rico was instructed to maintain a master file index to be updated daily, including at least the participant's name, address and social security number. Daily statistics were to be prepared on the number of emergency applications, the number approved, the number of persons receiving benefits and the total value of food stamps issued. Puerto Rico had to verify if current applicants were in the program already to insure that duplicate ATP's were not issued and to issue ID cards to new participants. The specific amount of loss to a household and the amount of their remaining resources were to be documented on the application. At all points, the consequences for fraudulently obtaining food stamps were to be strongly emphasized, with immediate prosecution should fraud be discovered.

In another case, which occurred nearly two years ago, the President declared a major disaster in the State of Massachusetts in February 1978 after a large snowfall. The State Department of Welfare issued State food vouchers in lieu of ATP cards in a number of locations designated as disaster areas before all offices began using ATP's. Justification for the use of food vouchers was based on the following: (a) the State only maintained a supply of over-the-counter (OTC) ATP's sufficient for use during one month, (b) all offices retained some inventory of food vouchers whereas the number of offices with OTC ATP's was limited, (c) the State was unable, owing to weather conditions, to produce and distribute additional ATP's.

On April 25, 1978, Massachusetts requested USDA reimbursement for the total value of food vouchers equaling $886,618.

FNS's New England Regional Office conducted a review of households to determine the amount of food vouchers issued. It reviewed cases selected from a sample of households to ensure that each household which was given food vouchers would also have been eligible for emergency food stamps and that the amount of the food vouchers issued to each household would not be in excess of normal program benefits, and to determine if there were duplicate issuances to households.

Based on its review, the Regional disallowed $211,000 from the State's claim of $886,618. USDA only reimbursed the State of Massachusetts for food vouchers equaling approximately $675,000.

In addition, when issuance of emergency food stamps replaced food vouchers in Massachusetts, FNS directed the State to issue only half-month allotments instead of full month allotments in nearly all areas. FNS permitted the issuance of emergency stamps to run for only a relatively short period, and then terminated it.

[GAO COMMENT: This is discussed on p. 73.]

GAO states that it has seen additional reports of emergency food stamp assistance going to people not needing it. No specific examples or substantiation are provided. From a telephone inquiry to GAO, we learned that this statement referred to a comment by Nancy Snyder, then Deputy Administrator, in a February 1979 meeting with GAO that there probably was some abuse during the issuance of Massachusetts. The only other report GAO reports it has seen was a newspaper article concerning the April 1979 disaster issuance in Oklahoma in which a local FNS official remarked that to serve immediate need, some normal verification was not done and "the degree we're getting ripped off" was a question. Issuance in this situation totalled $95,365.00.

While it is true that new disaster regulations are not out, there is little evidence that this has caused any significant loss of program funds, because the Department has already altered procedures and been far more vigilant in specific instances of disaster. This has been especially true of our response to disasters over the past half year, as we have intensified our efforts in this area.

The differences between the procedures used in such recent disasters as Puerto Rico, Alabama, and Mississippi, and those used in 1977 when major problems in disaster issuance developed in Buffalo and in Florida, are significant. FNS did not wait for new regulations before changing its procedures in these instances. In fact, the experience gained under these alternative procedures has been used to help us design the new regulations.

We believe, therefore, that the GAO discussion of disaster issues should be substantially revised. We are also troubled by the statement on the cover summary that "GAO's follow-up showed continuing problems with...food stamp fraud and abuse in disaster situations"--especially since no follow-up work in this area was done.

[GAO COMMENT: The Department incorrectly inferred that we had claimed to have done field audit work as part of our followup. We clearly explained in the report's introduction (see p. 2) that we had not done field audit work as a part of this review. Our information was obtained from numerous discussions with Department and Service officials since December 1978. However, our findings regarding food stamp disaster benefits were substantiated in a January 1980 OIG report on the 1979 Alabama disaster issuances. The OIG report disclosed several problems with food coupon accountability and said that duplicate coupon issuances were apparently widespread. Total issuances during this emergency were about $15 million. We believe that this demonstrates a continuing need to further tighten emergency issuance procedures.]

CHAPTER 11: POSSIBLE IRREGULARITIES IN MIGRANT PARTICIPATION IN THE FOOD STAMP PROGRAM

FNS has continued to monitor migrant certifications to assure that no irregularities develop. In May of 1979, the FNS National Office prepared a migrant certification guide that was sent to the Regional Offices for distribution to any State agencies where the Regions felt it would be useful. The guide highlighted those areas of the regulations particularly relevant to migrants. In addition to the certification guide we also distributed a monitoring guide for Regional Offices to use during on-site reviews of migrant certification procedures during the summer.

Throughout the summer of 1979, the Regional Offices monitored migrant certification activity. Reviews were conducted in most States which have migrant workers. In addition, special reviews were conducted by the Office of Civil Rights in North Carolina, North Dakota, and Minnesota. FNS returned to Polk County, Minnesota in July 1979 and found no deficiencies in service to migrants.

CHAPTER 12: POTENTIAL ADVANTAGES OF ALTERNATIVE FOOD STAMP PARTICIPANT IDENTIFICATION PROCEDURES

The GAO report states that any action by FNS regarding analysis of food stamp photo identification systems is likely to be "delayed for some time."

APPENDIX II

This is not correct. FNS is developing a major study of this area. Since most of the planning work for this study has been done recently, GAO was understandably unaware of this when it prepared the draft report.

[GAO COMMENT: This is discussed on p. 76]

FNS is working on an analysis plan for a study that will include evaluation of photo-identification systems and expects to have this study under way within six months. In addition to photo-identification, the study will examine a variety of other issuance systems alternatives, including direct stamp issuance (eliminating the distribution of ATPs) and automated on-line eligibility checks at issuance points. The analysis will assess photo-identification systems already tested in some States. It will also be designed to assess new systems devised in response to pending legislation, if the portions of the bill now before the House Agriculture Committee which direct the use of photo-identification cards in some urban areas are enacted.

Other studies have had higher priority since passage of the 1977 Act because they were explicitly mandated in the 1977 Act or the legislative history thereto, whereas the evaluation of photo-identification systems was not. The GAO report gives no indication of the substantial time and resources that these studies require to implement. The studies are examining complex issues including workfare, cashout of elderly and SSI recipients, recoupment, and the impacts of elimination of the purchase requirement. In many cases, demonstration projects are involved, requiring the program rules be revised at selected sites.

APPENDIX II

We think that the GAO report should also mention that FNS has other projects under way that have the same goal of reducing fraud, waste, and abuse as the photo-identification systems evaluation. For instance, FNS and the Office of the Inspector General are jointly working with one State to test methods of reducing trafficking in food stamps. During FY 1980, the project will implement and evaluate one or more models of food stamp fraud investigation, prosecution and deterrence. Those models found to be successful in reducing or deterring food stamp fraud will be packaged for more widespread implementation to determine if successful models can be replicated elsewhere. The anti-trafficking project will focus on the deterrent effect of more intensive prosecution.

We appreciate this opportunity to comment on the GAO report.

Sincerely,

BOB GREENSTEIN
Administrator

Enclosures

APPENDIX III

U. S. Department of Labor

Inspector General
Washington, D.C. 20210

FEB 1 1 1980

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter to Secretary Marshall requesting comments on the draft GAO report entitled, "Efforts to Control Fraud, Abuse, and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed." The Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,

MARJORIE FINE KNOWLES
Inspector General

Enclosure

U.S Department of Labor's Response to
The Draft General Accounting Office Report
Entitled--

"Efforts to Control Fraud, Abuse, and
Mismanagement in Domestic Food Assistance
Programs: Progress Made--More Needed."

Chapter 9 - Poor Implementation of
Food Stamp Work Registration
Requirements

The Department of Labor essentially concurs with the findings of chapter eight of this report. The Departments of Labor and Agriculture have developed joint proposed rulemaking now in clearance, which would implement the job search activity as well as a more specific and effective work registration requirement. Implementation of these regulations is, of course, based on adequate funding being available.

When final joint regulations, which give clear and uncontradictory instructions to State Welfare and Employment Security agencies are published, we will be in a position to implement the other GAO recommendations. Monitoring, out-stationing of staff and changes to the reporting system require that the basic program requirements be in place with adequate funding available for their accomplishment.

[GAO COMMENT: These comments are recognized on pp. 68 and 70.]

NOTE: Chapter and page numbers have been changed to correspond to the final report.

APPENDIX IV

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

February 29, 1980

Margaret C'K. Glavin, Director
School Programs Division
Food and Nutrition Service
Department of Agriculture
Washington, D.C. 20250

Dear Ms. Glavin:

This letter is in response to your January 18, 1980, Notice in the Federal Register requesting comments on a feasible system to monitor compliance with school meal pattern requirements. As you know, this aspect of the school lunch program has been of considerable interest to us for some time.

We believe that, in setting quantity requirements for school lunches and in testing for compliance with such requirements, it is essential to provide assurance that the basic nutritional objective of the requirements will be achieved; namely, that the lunches provide, over time, one-third of the recommended dietary allowances. Yet, as noted in our February 3, 1978, report (How Good Are School Lunches? CED-78-22, copy enclosed), the current basic minimum requirements do not assure that this nutritional objective will be achieved. Because the Federal Register Notice does not indicate that basic changes in the minimum quantity requirements will be made in the near future, particular care must be taken (in developing testing standards and procedures) not to worsen an already undesirable situation stemming from the nutrition-related weaknesses in the present quantity requirements.

We therefore believe that the existing requirements should continue to be regarded as minimum requirements. The Federal Register Notice raises the possibility of a system involving averages and tolerances for the overall quantities of food required. Such a system should prohibit lunches containing smaller quantities of food than is required by the current minimums from being counted as acceptable for compliance purposes. Thus, we believe that any use of tolerances or averages should be coupled with sufficiently higher basic average quantity requirements than

those currently in effect so that no compliant lunch would be permitted to contain less than is currently required. If a new set of food requirements were to be developed, as we suggested in our February 1978 report, tolerances could be incorporated with a view toward assuring that each lunch contains the nutrients necessary to provide the desired level of nutrition over time.

In regard to the Notice's question on whether meal pattern compliance should be determined based on tests of meals as served, records on the quantities of foods used to produce the lunches, or both, we believe that, to the greatest extent feasible, lunches should be tested as served (offered). In addition to being a more direct approach, this avoids problems associated with identifying and measuring kitchen waste, shrinkage, and other losses between preparation and consumption. It also eliminates problems in determining quantities of foods served in schools where students can refuse meal components. We recognize, however, that in some cases it may not be feasible to test the quantities of foods in each meal component as served because several components are sometimes combined into one food--as would be the case with certain casseroles, stews, pizza, and other combined foods. In these cases, it may be necessary to use records of the quantities of various foods used in preparing meal components, rather than tests of the meals as served.

We have used two different methods of testing meals as served, and have evaluated several others for potential use. Our first testing involved taking complete meals to a laboratory for weight testing. In testing this way, we learned that (1) accurate weight testing is not difficult, (2) we could train our personnel to do it well in a very short time, and (3) scales can be obtained that are highly portable and that can be easily calibrated at the school or other site location. In our subsequent meal testing, we used our own personnel to weigh meal components at the schools or feeding sites with portable scales calibrated just before each series of tests. For the components requiring volume measures, we believe that weighing the components and then converting those weights to volumes for the specific food items is the best method because it is more accurate and consistent than trying to measure volumes.

Regarding the period of time to be covered by the testing, we have some concern that the Food and Nutrition

APPENDIX IV

Service's proposal to require all testing to cover a week may be unnecessarily burdensome to States and to the Service in some cases. Perhaps meal testing could be viewed as having two somewhat different purposes with commensurate levels of coverage and timing of tests. Thus, initial testing at a particular location could be for the purpose of determining if that location has problems in meeting minimum quantity requirements. Such testing could cover a very brief period--between two and five days--and if it showed problems, the local school authorities would be warned that their meals were not meeting Federal standards and that continued shortages could result in reductions in Federal payments.

After a local school authority had a reasonable opportunity to correct the problems causing the shortages, followup testing could be conducted to make sure the problems had been corrected and to provide a basis for reduced Federal payments if the shortages continued. Followup testing might have to be more extensive than the initial testing because it could ultimately result in financial penalties to the school district for noncomplying meals. In both types of testing, appropriate statistical sampling techniques should be used.

The foregoing constitutes our comments on the mechanics of testing meals for compliance with Federal meal pattern requirements. As noted above, however, we continue to believe that the basic meal requirements need to be revised in light of our earlier findings that the requirements do not assure achievement of the school lunch program's nutritional goal.

We appreciate your considering our comments in developing specific regulations. If you have any questions on these comments, please contact Dick Bolon or Charles Hessler at 447-7933.

Sincerely yours,

/s/ Max Hirschhorn

Max Hirschhorn
Deputy Director

Enclosure

(023050)

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