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

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 AM. EDT
WEDNESDAY, OCTOBER 17, 1979

STATEMENT OF
HENRY ESCHWEGE
DIRECTOR, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON DOMESTIC MARKETING, CONSUMER RELATIONS,
AND NUTRITION
HOUSE COMMITTEE ON AGRICULTURE *HSE00112*

ON
[PROPOSED AMENDMENTS TO THE FOOD STAMP ACT OF 1977] (H.R. 4318)

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY AT THE REQUEST OF THE SUBCOMMITTEE TO
OFFER COMMENTS ON H.R. 4318, THE FOOD STAMP AMENDMENTS OF 1979
AS PROPOSED BY THE DEPARTMENT OF AGRICULTURE. SOME OF H.R.
4318'S PROVISIONS WERE INCLUDED IN PUBLIC LAW 96-58 ENACTED
AUGUST 14, 1979.

Account

THE GENERAL ACCOUNTING OFFICE HAS REPORTED ON A NUMBER
OF REVIEWS OF THE FOOD STAMP PROGRAM IN THE LAST FEW YEARS.
ONE OF THE REPORTS, ENTITLED THE FOOD STAMP PROGRAM--OVERISSUED
BENEFITS NOT RECOVERED AND FRAUD NOT PUNISHED (CED-77-112,
JULY 18, 1977), COVERS SEVERAL OF THE SAME PROBLEMS ADDRESSED
IN H.R. 4318 AND PUBLIC LAW 96-58. THE REPORT DISCUSSED
OVERISSUANCES CAUSED BY RECIPIENT AND ADMINISTRATIVE ERRORS
AS WELL AS THOSE CAUSED BY FRAUD.

LET ME PREFACE MY REMARKS WITH THE GENERAL OBSERVATION
THAT THE BILL AND PUBLIC LAW 96-58 CONTAIN SEVERAL MEASURES

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TO TIGHTEN FOOD STAMP PROGRAM INTEGRITY WHICH, IF PROPERLY IMPLEMENTED, COULD RESULT IN SUBSTANTIAL SAVINGS. WE SUPPORT SUCH EFFORTS COMPLETELY. HOWEVER, BASED ON OUR JULY 1977 REPORT AND OTHER WORK WE HAVE DONE AND ARE DOING IN THE FOOD STAMP PROGRAM, WE BELIEVE THAT FURTHER REVISIONS WOULD MAKE SUCH SAVINGS LARGER AND MORE CERTAIN. WE HAVE ALSO NOTED THAT ONE OF THE BILL'S PROVISIONS MAY BE COUNTERPRODUCTIVE.

STATE LIABILITY FOR ERRORS

THE BILL WOULD HOLD STATES LIABLE FOR ERRONEOUS BENEFIT ISSUANCES IN EXCESS OF TARGET RATES DETERMINED BY THE SECRETARY OF AGRICULTURE. THE DEPARTMENT BELIEVES THAT JUST THE THREAT OF SUCH SANCTIONS WOULD RESULT IN THE STATES REDUCING THEIR ERROR RATES TO OR BELOW THE MAXIMUM ALLOWABLE LEVELS AND THAT THE PROPOSED FINANCIAL PENALTIES MIGHT NOT EVEN HAVE TO BE IMPOSED.

IF PENALTIES WERE IMPOSED, HOWEVER, THEY COULD INVOLVE SUBSTANTIAL SUMS IN STATES WITH LARGE PROGRAMS. FOR EXAMPLE, THE DEPARTMENT COULD REQUIRE ERROR RATES ABOVE THE NATIONAL AVERAGE TO BE REDUCED BY 2 PERCENTAGE POINTS IN ONE YEAR. NEW YORK HAS ONE OF THE LARGER PROGRAMS AND AN ERROR RATE WHICH IS MORE THAN 2 PERCENTAGE POINTS ABOVE THE NATIONAL AVERAGE. IF NEW YORK WERE UNABLE TO REDUCE ITS ERROR RATE, IT COULD BE PENALIZED \$7.8 MILLION FOR 1 YEAR. ALTHOUGH SUCH PENALTIES MIGHT NOT BE AS HIGH FOR OTHER STATES, THE FUNDS AVAILABLE FOR ADMINISTERING THE PROGRAM IN PENALIZED STATES

COULD STILL BE REDUCED WHICH, IN TURN, COULD RESULT IN EVEN MORE ERRONEOUS BENEFIT ISSUANCES. WE BELIEVE, THEREFORE, THAT PENALIZING STATES COULD BE COUNTERPRODUCTIVE.

ALSO, PENALTIES AND THE THREAT OF PENALTIES WOULD PLACE THE STATES AND THE DEPARTMENT IN AN ADVERSARY RELATIONSHIP INSTEAD OF THE MORE DESIRABLE COOPERATIVE RELATIONSHIP OF BOTH PARTIES DIRECTING THEIR RESPECTIVE EFFORTS TOWARD THE COMMON OBJECTIVE OF IMPROVING PROGRAM INTEGRITY. GAO HAS GENERALLY ADVOCATED PROVIDING INCENTIVES TO ENCOURAGE BETTER STATE ADMINISTRATION OF PROGRAMS LIKE FOOD STAMPS AND AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC).

A BETTER APPROACH WOULD BE SOMETHING SIMILAR TO THE PROVISION IN THE FOOD STAMP ACT OF 1977 BUT NOT YET IMPLEMENTED. THIS PROVISION ALLOWS FEDERAL REIMBURSEMENT OF STATE ADMINISTRATIVE EXPENSES AT THE RATE OF 60 PERCENT INSTEAD OF THE USUAL 50 PERCENT FOR ANY STATE THAT REDUCES ITS ERROR RATE TO LESS THAN 5 PERCENT OF BENEFITS. BECAUSE FEW STATES COME CLOSE TO MEETING THIS STANDARD NOW, SOME CHANGES MIGHT BE NEEDED TO MAKE THE TARGET MORE ATTAINABLE AND THEREBY PROVIDE MORE ENCOURAGEMENT TO STATES WITH HIGH ERROR RATES. FOR EXAMPLE, THE PROVISION MIGHT BE MODIFIED TO PROVIDE A RATE BY WHICH ERRORS SHOULD BE REDUCED. * ASIDE FROM THIS, HOWEVER, A GENERAL APPROACH OF INCENTIVES HAS SIGNIFICANT ADVANTAGES OVER PENALIZING STATES FOR HIGH ERROR RATES.

RECOVERIES OF RECIPIENT FRAUD

THE BILL PROVIDES THAT RECIPIENTS WHO HAVE BEEN DETERMINED TO HAVE DEFRAUDED THE PROGRAM MAY NOT PARTICIPATE UNTIL THEY HAVE AGREED TO REPAY THE VALUE OF BENEFITS THEY OBTAINED FRAUDULENTLY. ALSO, THE SECRETARY WOULD BE AUTHORIZED TO ALLOW THE STATES TO RETAIN HALF OF THE RECIPIENT FRAUD REPAYMENTS. SIMILAR PROVISIONS ARE INCLUDED IN PUBLIC LAW 96-58.

THE PROVISIONS ENACTED IN PUBLIC LAW 96-58 SHOULD BE VERY HELPFUL IN RECOVERING OVERISSUANCES CAUSED BY FRAUD. THE SUBCOMMITTEE, HOWEVER, MAY ALSO WANT TO CONSIDER LEGISLATION TO AID THE RECOVERY OF OVERISSUANCES WHERE FRAUD CANNOT BE PROVEN. THESE NONFRAUDULENT OVERISSUANCES OCCUR BECAUSE OF ERRORS BY FOOD STAMP RECIPIENTS OR BY STATE OR LOCAL FOOD STAMP PERSONNEL. AN EXAMPLE OF A NONFRAUDULENT RECIPIENT ERROR WOULD BE IF A HOUSEHOLD'S INCOME INCREASED AFTER IT BEGAN RECEIVING FOOD STAMP BENEFITS AND THE HEAD OF THE HOUSEHOLD FORGOT TO REPORT THE INCREASE TO THE FOOD STAMP OFFICE.

→ TO ENCOURAGE BETTER STATE EFFORTS TO RECOVER NONFRAUDULENT OVERISSUANCES, STATES COULD BE ALLOWED TO KEEP A PERCENTAGE OF ALL OVERISSUANCES THEY RECOVERED, NOT JUST THOSE DUE TO FRAUD AS PROVIDED IN THE AUGUST 1979 LAW. ANOTHER ALTERNATIVE WOULD BE TO ALLOW STATES TO RETAIN HALF OF THE RECOVERIES OF OVERISSUANCES CAUSED BY RECIPIENT ERROR, BOTH FRAUD AND NONFRAUD, BUT NOT THOSE CAUSED BY STATE ERROR. THIS ALTERNATIVE WOULD ELIMINATE THE POSSIBILITY--SOMETIMES VOICED BY USDA OFFICIALS--THAT STATE FOOD STAMP AGENCIES COULD BENEFIT FROM THEIR OWN ERRORS.

ANOTHER MEASURE TO HELP IN THE RECOVERY OF NONFRAUDULENT OVERISSUANCES WOULD BE TO BAR RECIPIENTS CAUSING OVERISSUANCES FROM PARTICIPATION IN THE PROGRAM UNTIL THEY AGREED TO REPAY THE VALUE OF BENEFITS OVERISSUED. THIS WOULD BE SIMILAR TO THE PROVISIONS OF THE AUGUST 1979 LAW REGARDING RECIPIENTS COMMITTING FRAUD.

RETROSPECTIVE ACCOUNTING/PERIODIC REPORTING

THE BILL WOULD ALLOW STATES, AT THEIR OPTION, TO REQUIRE ELIGIBILITY AND BENEFIT DETERMINATIONS TO BE BASED ON A PREVIOUS MONTH'S INCOME INSTEAD OF--AS IS NOW THE CASE--ON THE MONTHLY INCOME ESTIMATED FOR THE FUTURE PERIOD FOR WHICH ELIGIBILITY IS BEING DETERMINED. USING A PREVIOUS MONTH'S INCOME IS CALLED RETROSPECTIVE ACCOUNTING. THE BILL WOULD REQUIRE CERTAIN CATEGORIES OF HOUSEHOLDS, PRESUMABLY THOSE WITH ERRATIC INCOMES, TO FILE PERIODIC REPORTS OF THEIR INCOME IN STATES ELECTING TO USE RETROSPECTIVE ACCOUNTING. RETROSPECTIVE ACCOUNTING WOULD NOT BE USED FOR NEWLY APPLYING HOUSEHOLDS FOR THE MONTH DURING WHICH THEY FIRST APPLIED FOR BENEFITS OR FOR THE NEXT 2 MONTHS BECAUSE IT COULD RESULT IN THEIR NOT RECEIVING BENEFITS WHEN THEY MOST NEED THEM.

RETROSPECTIVE ACCOUNTING IS GENERALLY ADVANTAGEOUS BECAUSE IT USES ACTUAL RATHER THAN ESTIMATED INCOME INFORMATION FOR MAKING BENEFIT DETERMINATIONS. HOWEVER, THE PROVISIONS OF THIS BILL COULD RESULT IN A HOUSEHOLD RECEIVING BENEFITS AFTER IT NO LONGER NEEDS THEM. THIS COULD HAPPEN, FOR EXAMPLE, WHEN HOUSEHOLD INCOME INCREASES AFTER A PREVIOUSLY UNEMPLOYED WORKER RETURNS TO WORK.

UNDER THE BILL'S RETROSPECTIVE ACCOUNTING PROVISIONS, EACH MONTH'S BENEFITS AFTER THE FIRST 3 MONTHS WOULD BE BASED ON INCOME 2 MONTHS EARLIER. FOR EXAMPLE, A HOUSEHOLD'S JUNE BENEFITS WOULD HAVE TO BE BASED ON APRIL'S INCOME AS REPORTED IN MAY. IF AN UNEMPLOYED WORKER RETURNED TO WORK IN EARLY MAY, THE HOUSEHOLD MIGHT NOT NEED BENEFITS FOR MAY OR JUNE BUT WOULD RECEIVE THEM BECAUSE THEY WOULD BE BASED ON MARCH INCOME AND APRIL INCOME, RESPECTIVELY.

THE BILL SHOULD BE REVISED TO REQUIRE HOUSEHOLDS SUBJECT TO PERIODIC REPORTING TO REPORT CHANGES IN THEIR CIRCUMSTANCES WITHIN 10 DAYS AS IS NOW REQUIRED. HOUSEHOLDS WITH INCREASED INCOME SHOULD HAVE THEIR BENEFITS REDUCED OR TERMINATED AS SOON AS POSSIBLE RATHER THAN DELAYING SUCH ACTION AS WOULD RESULT FROM THE BILL.

ALSO, IN THE CASE OF HOUSEHOLDS SUBJECT TO PERIODIC REPORTING REQUIREMENTS, THE STATES MIGHT HAVE PROBLEMS IN MEETING THE BILL'S REQUIREMENTS FOR GETTING BENEFITS TO THE HOUSEHOLDS BEFORE THE FIRST OF THE FOLLOWING MONTH. IN ADDITION, THE STATES MIGHT HAVE PROBLEMS IN PROMPTLY TERMINATING BENEFITS TO HOUSEHOLDS NOT MEETING THE REPORTING REQUIREMENTS. BECAUSE THERE ARE A NUMBER OF POSSIBLE PROBLEMS IN THESE AREAS AND DESCRIBING ALL OF THEM WOULD INVOLVE RATHER COMPLICATED AND LENGTHY EXPLANATIONS, WE DO NOT FEEL WE SHOULD TAKE THE TIME HERE THIS MORNING TO GO INTO THEM.

HOWEVER, WE WOULD BE HAPPY TO MEET WITH THE SUBCOMMITTEE STAFF LATER TO DISCUSS THESE PROBLEMS AND DEVELOP POSSIBLE SOLUTIONS.

INCOME VERIFICATION USING SOCIAL SECURITY NUMBERS

THE BILL WOULD SPECIFICALLY PERMIT THE SECRETARY TO OBTAIN RECIPIENTS' SOCIAL SECURITY NUMBERS AND TO VERIFY PAST INCOME INFORMATION SUPPLIED BY THE HOUSEHOLDS BY CHECKING IT AGAINST THE EARNINGS DATA THAT EMPLOYERS REPORT TO THE SOCIAL SECURITY ADMINISTRATION. IT IS NOT CLEAR WHETHER THE BILL WOULD ALSO PERMIT CHECKING AGAINST AVAILABLE EARNINGS DATA REPORTED TO THE STATES FOR UNEMPLOYMENT INSURANCE PURPOSES.

PUBLIC LAW 96-58 ALSO AUTHORIZES THE SECRETARY TO OBTAIN RECIPIENTS' SOCIAL SECURITY NUMBERS. HOWEVER, EXCEPT FOR THOSE FOOD STAMP RECIPIENTS WHO ALSO RECEIVE SUPPLEMENTAL SECURITY INCOME (SSI), IT DOES NOT APPEAR TO AUTHORIZE THE SECRETARY TO USE SOCIAL SECURITY RECORDS TO VERIFY INCOME REPORTED FOR FOOD STAMP PURPOSES. THUS, THE VERIFICATION ALLOWED BY THE LAW MAY BE VERY LIMITED BECAUSE MOST FOOD STAMP RECIPIENTS DO NOT RECEIVE SSI. IN ADDITION, SSI RECIPIENTS TEND TO HAVE MORE STABLE INCOMES WHICH DO NOT NEED AS MUCH VERIFICATION.

ON THE OTHER HAND, H.R. 4318'S PROVISIONS REGARDING VERIFICATION, WHILE NOT FOOLPROOF, HAVE CONSIDERABLE MERIT. WE BELIEVE THE SECRETARY SHOULD BE REQUIRED, RATHER THAN JUST AUTHORIZED, TO CONDUCT SUCH VERIFICATIONS WHERE APPROPRIATE. ALSO, HE SHOULD BE SPECIFICALLY AUTHORIZED TO HAVE ACCESS TO UNEMPLOYMENT INSURANCE EARNINGS RECORDS AS WELL AS SOCIAL SECURITY RECORDS.

THE BILL'S PROVISIONS FOR OBTAINING AND USING SOCIAL SECURITY NUMBERS TO VERIFY EARNINGS SEEM TO BE CONSISTENT WITH THE PRIVACY ACT, PROVIDED THAT RECIPIENTS ARE TOLD THAT SUPPLYING THEIR SOCIAL SECURITY NUMBERS IS MANDATORY, HOW THE NUMBERS ARE TO BE USED, AND THE STATUTE INVOLVED. THESE PRIVACY ACT REQUIREMENTS, IF PROPERLY IMPLEMENTED, WOULD ENHANCE THE BILL'S PROVISIONS.

THE BENEFITS OF INDEPENDENT INCOME VERIFICATIONS THROUGH USE OF SOCIAL SECURITY NUMBERS SHOULD NOT BE OVERESTIMATED. THE MOST CURRENT EARNINGS INFORMATION FROM SOCIAL SECURITY CAN BE AS MUCH AS 2 YEARS OLD AND UNEMPLOYMENT INSURANCE EARNINGS INFORMATION CAN BE AS OLD AS 6 TO 10 MONTHS. THIS IS BECAUSE 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, THE 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, CURRENT EARNINGS INFORMATION IS NOT AVAILABLE FROM THESE SOURCES.

SOCIAL SECURITY AND UNEMPLOYMENT INSURANCE EARNINGS INFORMATION COULD STILL BE USED TO VERIFY INCOME REPORTED FOR FOOD STAMP PURPOSES IF AUTHORIZING LEGISLATION WERE ENACTED. THIS VERIFICATION COULD BE DONE BY COMPARING THE FOOD STAMP APPLICATION OR INCOME REPORT WITH THE SOCIAL SECURITY OR UNEMPLOYMENT INSURANCE EARNINGS INFORMATION FOR COMPARABLE

PERIODS. ALTHOUGH THIS COMPARISON WOULD BE MADE AFTER THE FOOD STAMP BENEFITS HAD BEEN ISSUED, IT COULD BE VERY HELPFUL IN IDENTIFYING POSSIBLE FRAUD AND OTHER ERRORS AND RECOVERING THE VALUE OF OVERISSUED BENEFITS.

THERE ARE 11 STATES WHERE THE UNEMPLOYMENT INSURANCE EARNINGS RECORDS MIGHT NOT BE USEABLE FOR VERIFYING FOOD STAMP HOUSEHOLDS' INCOMES. IN THESE STATES, WHICH HAVE SOME OF THE LARGER FOOD STAMP CASELOADS, EMPLOYERS DO NOT REPORT EARNINGS INFORMATION FOR INDIVIDUAL EMPLOYEES UNLESS SPECIFICALLY REQUESTED TO DO SO IN CONNECTION WITH A CLAIM FOR UNEMPLOYMENT COMPENSATION. REQUESTING EMPLOYERS IN THESE STATES 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 OF EACH RECIPIENT'S EMPLOYERS. AS A RESULT THERE WOULD NOT BE A FULL CHECK ON RECIPIENTS' EARNINGS.

ESTIMATED SAVINGS

THE DEPARTMENT INITIALLY ESTIMATED THAT IT WOULD SAVE \$150 MILLION IN FISCAL YEAR 1980 BY IMPLEMENTING THE PROVISIONS OF THIS BILL. THE ESTIMATE WAS BASED PARTLY ON THE ASSUMPTION THAT THE BILL WOULD BE ENACTED AND IMPLEMENTED VERY QUICKLY. HOWEVER, MANY OF THE BILL'S PROVISIONS HAVE NOT BEEN ENACTED AS QUICKLY AS THE DEPARTMENT ASSUMED THEY WOULD BE. ALSO, PAST EXPERIENCE SUGGESTS THAT THE DEPARTMENT MAY BE OVER-OPTIMISTIC AS TO THE TIME IT WILL TAKE TO IMPLEMENT THE

PROVISIONS OF THE BILL ONCE IT IS ENACTED. (ALL OF THE
SEPTEMBER 1977 FOOD STAMP ACT'S PROVISIONS HAVE NOT YET
BEEN IMPLEMENTED.) THEREFORE, IT DOES NOT SEEM POSSIBLE TO
REALIZE THE \$150 MILLION OF SAVINGS IN 1980 AND THE AMOUNT
OF SAVINGS FOR 1981 IS UNCERTAIN.

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THIS CONCLUDES MY STATEMENT, MR. CHAIRMAN. WE WILL BE
GLAD TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.