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REPORT BY THE U.S.

General Accounting Office

Improved Collections Can Reduce Federal And District Government Food Stamp Program Costs

Only \$650,000 of the \$2.7 million owed by food stamp vendors has been collected in the District of Columbia, and the District estimates that only \$235,000 of the balance is collectible.



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Minimal amounts are collected from recipients who are overissued stamps, and the District has no system to identify certain errors or to monitor the progress of collection activities. For the 5-month period ended June 1980, only \$13,500 was collected of claims totaling \$643,000.

GAO makes recommendations to the Mayor to strengthen claim identification and to alleviate other problems.



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

GENERAL GOVERNMENT
DIVISION

B-201283

The Honorable Marion S. Barry, Jr.
Mayor of the District of Columbia
Washington, D.C. 20004

Dear Mayor Barry:

This report contains recommendations to improve collections of amounts owed to the District of Columbia by food stamp vendors for cash and food stamp shortages and by recipients who were overissued stamps. Improved collections would reduce Federal and District government food stamp program costs.

Section 736 (b) (3) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving our audit report, to state in writing to the District Council what has been done to comply with our recommendations and send a copy of the statement to the Congress. Section 442 (a) (5) of the same act also requires the Mayor to report, in the District of Columbia's annual budget request to the Congress, on the status of efforts to comply with such recommendations.

We are sending copies of this report to interested congressional committees; the Director, Office of Management and Budget; and the Secretary of Agriculture.

Sincerely yours,

A handwritten signature in black ink that reads "W. J. Anderson".

William J. Anderson
Director

D I G E S T

The District has collected a minimal amount due from food stamp vendors and recipients. Inadequate collection efforts, lack of systems for identifying improper issuances and monitoring collection efforts, and poor controls over recipient participation cards contributed to the problem. As a result, District and Department of Agriculture costs were unnecessarily increased.

The District of Columbia is owed money by vendors --the issuing agents--for cash and stamp shortages, and by food stamp recipients who were over-issued stamps. Since inception of the program in 1965, the District has paid about \$2 million of its own funds to the Department, because collections were not sufficient to cover vendor shortages.

Each year about 42,000 District residents receive food stamps valued at \$40 million. The Department of Agriculture pays for the stamps and reimburses the District for 50 percent of the costs of administering the program. The reimbursement amounts to about \$2 million annually.

COLLECTIONS FROM VENDORS
ARE MINIMAL

Because of food stamp and cash shortages of \$1.3 million and \$1.4 million, respectively, vendors owed the District \$2.7 million for the period July 1965 to September 1979. The District collected \$650,000 of this total and estimated that \$235,000 of the balance is collectible. To cover the shortages, the District has paid \$2.3 million to the Department of Agriculture. (See p. 5.)

The District's agreements with vendors provide for insurance coverage indemnifying the District against loss due to vendor shortages. GAO found that 21 of 49 vendors operated without these agreements, and most vendors did not have insurance coverage indemnifying the District. (See pp. 7 to 9.)

The District has primarily recovered vendor shortages since 1977 by offsetting fees earned by vendors for issuing food stamps. This system requires many years to recover debts when few fees are earned. (See p. 5.)

Policies or procedures to deal with shortages experienced by the District's own issuing offices have not been established. At these outlets, which maintain an average monthly inventory of about \$667,000 in food stamps, shortages totaled about \$13,000 as of March 31, 1980. (See p. 8.)

REIMBURSABLE ADMINISTRATIVE
COSTS NOT ALWAYS CLAIMED

The District was not claiming all reimbursable costs incurred in administering the program. In cases where vendor shortages were offset, the transactions were handled in a way that understated administrative costs. After GAO brought this to the District's attention, it collected \$137,000 and expects to collect about \$51,000 annually in the future. (See p. 10.)

The District is not claiming reimbursement for administrative costs incurred at some District issuing outlets, because a necessary agreement between two District departments has not been finalized. GAO identified about \$32,000 for the period April 1979 through June 1980 which had not been claimed. (See p. 11.)

CLAIM MONITORING SYSTEM NEEDED

Amounts owed by recipients may be written off as uncollectible after required collection efforts have been exhausted. During the 5-month period ended June 1980, the District collected \$13,500 of the \$643,000 due from recipients; 81 claims

were paid in full, and 2,144 claims involving about \$398,000 were written off as uncollectible. (See p. 21.)

Until recently claims processing had been slow, and many claims were old. Because many claims were written off as uncollectible, the workload is now more current and manageable. There are no criteria, however, to provide guidance to District collection personnel concerning maximum time frames within which various processing steps should be accomplished, and there is no reporting system in place to monitor the progress of claims processing or highlight problem claims. (See p. 23.)

IMPROPER ISSUANCES SHOULD
BE IDENTIFIED AND CLAIMS
ESTABLISHED

The District had not identified and attempted to collect overissuances resulting from duplicate redemptions or from redemptions of expired, altered, and unsigned participation cards (the basic document provided to a recipient in order to obtain food stamps from a vendor). As a result of GAO's work some improvements were made, but more needs to be done.

GAO examined reports for the 6-month period ending August 1979 and found 288 cases involving possible duplicate redemptions totaling about \$19,000. GAO brought these cases to the District's attention in October 1979. Subsequently, the District initiated action on the 288 cases and established a system to identify such cases and, as appropriate, initiate collection action. Of the 288 cases, 276 are suspected fraud cases; but as of October 1980, no fraud hearings had been held because the Office of Fair Hearings was not aware that it had been assigned responsibility for the hearings until GAO advised it. (See pp. 15 to 17.)

Due to an administrative error, two participation cards were mailed to some recipients in June 1979. Both cards were redeemed in 1,123 cases resulting in an overissuance of \$106,000. In November 1979, the District began to establish claims for the duplicative redemptions. GAO's review of 100 of these claims showed that an incorrect claim amount was often established. District personnel began correcting this problem when GAO brought it to their attention. (See p. 17.)

In examining about 8,000 of the approximate 40,000 participation cards negotiated during one month, GAO found that stamps totaling \$3,100 and \$5,900, respectively, were issued for 53 expired and 114 unsigned participation cards. The District does not routinely check for expired, altered, or unsigned cards, although issuances for such cards are considered improper. (See p. 18.)

POOR CONTROL OVER PARTICIPATION CARDS

The District's participation card system does not provide control over the cards, results in increased costs, and does not safeguard the cards to prevent unauthorized use.

In December 1980, the District began using consecutively numbered participation cards. This change should reduce costs and increase control over the cards. Previously, when cards were not consecutively numbered, the computer had to be programmed to account for missing numbers, cards were misprinted due to alignment problems, and sometimes large numbers of cards were misprinted because the supplier neglected to identify all missing cards. These problems increased costs and inhibited control over the cards. (See p. 26.)

The District does not adequately record receipt, distribution, and use of cards. Accountability for cards is not readily determinable, and there is no assurance that cards are used only for authorized purposes. (See p. 27.)

Some unused cards and voided cards that have not been rendered unusable are not kept in secured facilities to prevent conversion to unauthorized use. Similarly, transacted cards which have been returned by vendors were improperly filed and stored without adequate physical control to prevent reintroducing the cards into the system. (See p. 28.)

RECOMMENDATIONS TO THE MAYOR

The District should:

- Execute contracts with all vendors and obtain documentation that vendors have obtained required insurance and bonding coverage. (See p. 12.)
- Establish a policy and procedures for initiating and settling claims for food stamp shortages at District agency issuing outlets. (See p. 13.)
- Finalize the agreement under which the Department of Housing and Community Development issues food stamps at its locations to enable the Department of Human Services to recover reimbursable administrative costs from the Department of Agriculture. (See p. 13.)
- Expand collection efforts for large outstanding amounts to include personal contact with recipients who do not respond to inquiries concerning food stamp overissuances or do not execute or comply with repayment agreements. (See p. 24.)
- Establish maximum time frames within which certain claims processing steps must be completed. (See p. 25.)
- Require that the proposed computerized report on claims be modified to show the status of each claim, the length of time the claim was in each status, and whether the claim was progressing in accordance with established time frames. (See p. 25.)

- Reemphasize to issuers and District food stamp personnel the importance of assuring the validity of participation cards presented for redemption, and remind issuers that redemptions of invalid cards are unauthorized issuances for which issuers are liable for the value of the stamps and any fees paid. (See p. 20.)

- Assure that the Office of Fair Hearings expedites food stamp fraud hearings and reports on the status of all food stamp fraud cases until the backlog has been eliminated. (See p. 20.)

- Improve controls over unused, voided, and redeemed participation cards to prevent their unauthorized use and to make redeemed cards readily retrievable for use in establishing claims. (See p. 29.)

AGENCY COMMENTS

The Director, Department of Human Services, generally agreed with the recommendations and advised GAO of the corrective actions taken or planned. (See app. II.)

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ABBREVIATIONS

BPC	Bureau of Payments and Collections, Department of Human Services, District of Columbia
DHS	Department of Human Services, District of Columbia
GAO	General Accounting Office
OIC	Office of Inspection and Compliance, Department of Human Services, District of Columbia
USDA	United States Department of Agriculture

CHAPTER 1

INTRODUCTION

This report discusses the problems encountered by the District of Columbia Government in collecting amounts due from food stamp recipients because of overissuances and from vendors because of their inability to account for food stamps.

For fiscal year 1980, the Congress provided about \$9.2 billion for the food stamp program to serve an estimated 20 million households throughout the country. The approximately 42,000 participating households in the District receive food stamps totaling about \$40 million annually, and the District receives about \$2 million annually in administrative cost reimbursements from the Department of Agriculture. Claims against recipients for overissuances amounted to about \$231,000 as of June 30, 1980; however, almost \$400,000 in claims considered to be uncollectible were written off in March and April 1980. Vendor shortages from inception of the program in 1965 through September 30, 1979, amounted to \$2.7 million. The District and the Department of Agriculture have not settled on the amount of subsequent vendor shortages.

FOOD STAMP PROGRAM

The food stamp program, authorized by the Food Stamp Act of 1964, as amended (7 U.S.C. 2011 et seq.), is designed to help low-income households obtain nutritionally adequate diets by supplementing their food budgets.

The program is administered at the Federal level by the Department of Agriculture's Food and Nutrition Service (Service) and its regional offices. At the State level overall responsibility for the program rests with the State agency responsible for federally aided public assistance programs. Locally, the program generally is administered by local offices of the State agency, or by offices of county or city public welfare agencies. The State, however, remains ultimately responsible and is the unit with which the Service deals.

The District of Columbia functions as both a State and a locality in administering the food stamp program. The District's Department of Human Services (DHS) administers the program through its Office of Information Systems; Income Maintenance Administration's Bureau of Eligibility Determination; and Bureau of Payments and Collections.

Under the program, participating households receive food stamps--also called coupons--in amounts based on income, family size, and certain deductions compared to the amount required to purchase food for the family under the Department of Agriculture's "thrifty food plan." Until January 1, 1979, participants bought food stamps having a face value greater than their purchase price. The current program eliminates the cash purchase requirement but provides a smaller amount of stamps.

Each month the District mails an authorization to participate card (participation card) to each recipient. The serially numbered card contains the recipient's name, address, case number, amount of coupon allotment, household size, card expiration date, and the name and address of an assigned coupon issuer. Recipients may redeem their cards for food stamps at any issuing outlet that will accept the card, but issuers must redeem cards assigned to them. Issuers include banks, savings and loan associations, credit unions, community centers, and some District government organizations. Recipients must identify themselves and sign the participation cards to receive food stamps which can be used to buy food at participating stores. The Federal Government reimburses the stores for the value of food stamps and pays the District 50 percent of the costs it incurs in administering the program.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our review was to evaluate the District's system for recording, monitoring, and collecting amounts due from food stamp recipients and vendors. Except for limited examination into certain duplicate issuances, we did not look into why or how overissuances or shortages occurred. Cash shortages accounted for about one-half of the amounts due from vendors. This problem was eliminated when the program's cash purchase requirement was dropped in January 1979 and vendors no longer collected cash from recipients.

Our work was done at various DHS organizations, primarily the Bureau of Payments and Collections, the Office of Information Systems, and the Income Maintenance Administration. We reviewed District food stamp case files, quality control reports, claim files, collection records, participation rosters, redemption rosters, billings from the Food and Nutrition Service for vendor shortages, and Department of Agriculture audit reports on the District's food stamp program. We interviewed DHS personnel involved in food stamp claims and collection activities and in information services.

We also visited the Department of Agriculture's Food and Nutrition Service headquarters in Washington, D.C., and its regional office in Robbinsville, New Jersey. We discussed the District's food stamp program with headquarters and regional office personnel and examined the latter's files on the District's program. We also discussed the District's program with Department of Agriculture auditors.

CHAPTER 2

IMPROVEMENTS NEEDED IN COLLECTING AMOUNTS

DUE FROM VENDORS AND U.S. DEPARTMENT OF AGRICULTURE

The District has collected minimal amounts from vendors (coupon issuers) for food stamp shortages. The District's weak collection procedures hamper full recovery of vendor shortages and increase District program costs, because Federal regulations require that the District pay the U.S. Department of Agriculture (USDA) for all vendor shortages. District collection activities were adversely affected because some food stamp vendors were participating without duly executed contracts.

The District is not identifying and claiming from Agriculture all reimbursable costs incurred in administering the food stamp program. We previously wrote to the District on this matter; some improvement has been made. However, more needs to be done.

IMPROVED COLLECTION EFFORTS COULD DECREASE ADMINISTRATIVE COSTS

The District's costs of administering the food stamp program were unnecessarily high because it had not used, nor aggressively pursued, available avenues for collecting amounts due from food stamp vendors. The District paid USDA \$2.3 million of the \$2.7 million due from vendors for accumulated shortages since program inception in July 1965 through September 1979. The remaining \$400,000 in program shortages are being verified by the District prior to paying USDA. Although the District has collected about \$650,000, it expects to collect only \$235,000 of the \$2.05 million that remained outstanding as of September 1979. The \$2.7 million was comprised of \$1.4 million in cash and \$1.3 million in stamp shortages.

Some vendors continued to participate in the program and were paid fees for such participation even though their indebtedness to the District remained outstanding and, in some cases, increased. Further, DHS usually had not attempted to recover the indebtedness from the vendor's insurance or bonding agents and did not know whether many of the vendors had actually obtained the coverage that was required.

As of June 30, 1980, the District used 84 food stamp issuing outlets of which 62 were operated by 30 private vendors, such as banks, savings and loans, credit unions, and community centers. USDA regulations allow States and cities

to contract with private organizations to issue stamps to recipients for a fee (transaction fee), part of which is reimbursed to the States and cities under the administrative cost sharing provisions of the program. Approximately 89 percent of all food stamp issuances were being distributed to participating households by such private vendors. The other 22 outlets were operated by 2 District agencies. DHS operated 8 outlets in its facilities, and the Department of Housing and Community Development (DHCD) operated 14 outlets in senior citizen residences.

Minimal collections from private vendors

As of June 30, 1980, the District had collected about \$650,000 from private vendors for food stamp shortages which amounted to \$2.7 million for the period July 1965 through September 1979. The shortages occurred when private vendors failed to account for all stamps assigned to them and/or failed to deposit all cash collected from recipients purchasing stamps under a prior version of the program. Failure to collect these shortages was due, in part, to weak collection procedures followed by the District.

Under the program, the District is liable to USDA for any food stamp losses, even if the losses were caused by issuance, security, or accountability deficiencies of private vendors. The District used \$2.0 million of its own funds and \$300,000 of the \$650,000 collected from private vendors to pay USDA \$2.3 million for program shortages accumulated through December 1977.

Cash and offset collections

The District's method of collecting private vendor shortages was limited and inconsistently applied. DHS collection efforts entailed sending a letter to the vendor demanding payment for shortages identified through a monthly food stamp reconciliation process. If payment was not made, DHS's Bureau of Payments and Collections (BPC) offset shortage amounts against transaction fees due the issuer. Implemented in 1977, offsets have accounted for about \$300,000 of the \$650,000 collected by DHS since program inception.

The amount of shortages collected by offset depends on the amount of transaction fees earned by a vendor. If few transaction fees are earned by a vendor, it could take years of offsetting for a vendor's indebtedness to be liquidated. For example, one vendor that participated in the program

since 1965 owed about \$7,700 for shortages as of September 30, 1977. During the period October 1977 through March 1980, the District collected \$1,849 through offset and \$42 in two cash payments. As of March 31, 1980, the vendor owed the District \$15,024 because of additional shortages incurred over the 2-1/2-year period. Assuming no additional shortages and applying an offset rate of \$117 per month (the vendor's average transaction fees over a 1-year period), it would take the District approximately 11 years to recover all shortages.

The District had not consistently applied the offset method of collection. BPC collection records show that since 1977 some vendors with outstanding balances due the District were paid transaction fees. The following chart shows the activity that occurred in the account of one of the District's vendors for the period January 1977 through June 1980. Transaction fees amounting to \$5,643 were paid to the vendor, even though amounts as high as \$19,910 were due the District for program shortages. Also, of the \$13,137 collected, only 15 percent, or \$1,923, was obtained through cash payments by the vendor.

Vendor's Account Activities for the Period

January 1977 through June 1980

<u>Calendar year</u>	<u>Transaction fees paid</u>	<u>Program shortages</u>	<u>Collections</u>		<u>Balance due DHS</u>
			<u>Cash payments</u>	<u>Offsets</u>	
Balance 12/31/76					\$18,094
1977	\$4,007	\$ 770	\$1,279	\$ 255	17,330
1978	1,376	5,643	554	2,509	19,910
1979	260	1,218	8	5,670	15,450
1980 through June	<u>none</u>	<u>82</u>	<u>82</u>	<u>2,780</u>	12,670
Totals	<u>\$5,643</u>	<u>\$7,713</u>	<u>\$1,923</u>	<u>\$11,214</u>	

If the District had consistently applied the offset method, an additional \$5,643 could have been collected, reducing the outstanding vendor debt to \$7,027. District officials advised us that sometimes payments were made to vendors with balances due the District because the vendors had cash flow problems and needed the funds. In other cases, payments were made so as to not alienate the vendors.

Insurance collections

DHS generally did not attempt to recover vendor debts from insurance or bonding agents and did not know whether vendors had actually obtained such coverages as required by their contracts. A DHS official said that since program inception only three payments totaling \$96,000 were received from vendor insurance agents. Two of these were payments received from a liquidating agent on behalf of two credit unions that went bankrupt. The other payment was for losses resulting from a theft of food coupons.

USDA regulations allow States to require vendors to obtain insurance protecting the States against losses under the program, and the District opted to institute such a requirement. DHS contracts with private vendors for fiscal years 1979 and 1980 contained language designed to protect the District against vendor losses. Vendors were required to obtain and file with DHS an insurance policy naming DHS as payee and providing DHS with protection against loss equal to the value of food stamp coupons in the vendor's possession. Vendors were also required to acquire a \$10,000 surety bond for each employee for the duration of the contract with DHS.

We reviewed DHS files for 49 contracts with food stamp vendors covering fiscal years 1979 and 1980. Of the 49 files, only 8 contained any documentation on vendor insurance or bonding coverage, and none named DHS as payee. To verify that DHS was not named as payee on fiscal year 1980 vendor policies, we contacted 21 of the 49 vendors. Although all 21 vendors had some form of insurance coverage for losses sustained in program participation, none of the policies named DHS as payee. By not being named as payee, DHS had no assurance of being paid if a vendor was indemnified for its losses.

DHS collection procedures did not provide for the initiation of efforts to obtain payment from a vendor's insurance company upon a vendor's nonpayment of an identified program shortage. A DHS collection official told us that he was unsure whether all types of program shortages were covered by vendors' insurance coverage.

If the District insured that vendors complied with contract requirements for insurance, collections of shortages from vendors' insurance companies could be increased. The following example illustrates that the District was unable to collect from a vendor's insurance company because of noncompliance with the insurance requirements; the only restitution made was court-ordered.

One vendor was suspended from the program for failing to deposit food stamp collections in the Federal Reserve Bank and failing to submit timely accountability reports. DHS determined that the vendor had incurred \$369,000 in shortages between August 1976 and December 1977. These shortages were not paid by the vendor--a corporation--and two of the owners were subsequently prosecuted and convicted of food stamp fraud. The court ordered restitution of \$75,000, of which only \$925 had been paid as of October 1, 1980. A DHS Office of Inspection and Compliance (OIC) investigation identified an insurance policy naming the vendor as the beneficiary and covering part of the period of the vendor's participation. The policy covered losses of money and food stamps in the vendor's possession up to \$100,000; however, it excluded losses caused by fraudulent, dishonest, or criminal acts by any officer, partner, director, or authorized representative of the vendor. An OIC official said this exclusion in the policy precluded DHS from recovering any monies from the insurance company.

Shortages not collected from
District issuing outlets

The Department of Human Services has not collected the \$13,000 in total shortages experienced at 10 of the 22 District issuing outlets as of March 31, 1980. These outlets maintain an average monthly inventory of about \$667,000 in food stamps. The Department of Human Services has not established a policy or procedures for collecting food stamp shortages incurred at District issuance facilities. In a September 1979 letter to DHS' Director, the Deputy Controller stated that " * * * a clear policy resolving all questions relating to this issue, is urgently needed." As of July 1980 no such policy had been established by DHS.

Of the \$13,000 in District issuance outlet shortages, about \$1,000 was attributable to losses which occurred at DHCD operated outlets. Under a 1979 agreement with DHS, DHCD operates issuance outlets at 14 senior citizen homes. The agreement provides for monthly transfers of funds from DHS to DHCD for operating the outlets. The transfers were expected to total about \$22,000 annually. According to a DHS program official, no such transfers have been made through September 1980. He said the transfers had been delayed due to the recent implementation of the District's new financial management system, but the transfers would be made as soon as practicable.

We believe DHS could recover outlet shortages by offsetting them against these monthly transfers. This would not preclude the need for a followup investigation of the losses, either by DHCD or DHS.

A BPC official told us that shortage collections could only be made from employees investigated and found to be responsible either through negligence or theft. He said if responsibility were not pinpointed or negligence proven, the District would absorb all such losses. The official also said that District employees were not bonded and that District personnel policy required employees to pay all lawful claims and debts owed the District.

We believe that the District should establish a specific policy and procedures to deal with food stamp shortages occurring at District issuance facilities. We believe investigations should be conducted of all significant shortages to determine any employee responsibility and to initiate collection actions when appropriate.

CONTRACTS NOT EXECUTED WITH FOOD STAMP VENDORS

About 40 percent (21 of 49) of the food stamp vendors participated in the program in fiscal year 1979 and 1980 without a signed contract, even though Federal and District contracting regulations require that contracts be duly executed by both parties involved. Without an executed contract, the District's ability to enforce requirements designed to protect the District against program losses may be seriously hampered. Of 19 fiscal year 1979 contracts, 11 were unsigned, and as of June 30, 1980, 10 of 30 fiscal year 1980 contracts had not been signed. Six of the vendors had not signed their contracts for either fiscal year.

Private vendors receive fees, ranging from \$.85 to \$1.00 per transaction, for dispensing food coupons. The District paid transaction fees totaling about \$270,000 to 21 private vendors that had not signed contracts in fiscal year 1979 or 1980.

Payments to vendors for issuance fees were routinely authorized by a "Determination and Finding." These special authorizations were approved by DHS' contracting officers in order to make payments to vendors operating without signed contracts

in fiscal years 1979 and 1980. According to a DHS contracting official, the authorizations are intended to be temporary, pending the actual execution of a contract, but we found many vendors refused to sign the contracts.

A DHS official told us that vendors had not signed their contracts for various reasons, including disagreeing with certain contract language and protesting claims made by DHS for shortages. He stated that the special authorization had sometimes been used to keep vendors participating because the loss of vendors might place undue hardships on program recipients. We believe this practice to be improper, because it replaces the formal contractual agreement, along with its formal administrative and legal mechanisms, with an informal procedure designed for use in special situations.

According to case files we reviewed, one vendor, which withdrew from the program in November 1978, had refused since March 1977 to execute any contracts unless DHS agreed to relieve the vendor of "liabilities for future food stamp inventory differences." The District has yet to collect \$891 in shortages which have remained outstanding since the vendor's withdrawal. A DHS collection official said that a stronger case for collection could be made if an executed contract existed. He believed that vendors operating without legal binding agreements were less likely to make full restitution of amounts outstanding.

REIMBURSABLE FOOD STAMP
COSTS NOT BEING CLAIMED

The District is not identifying and claiming from USDA all reimbursable costs incurred in administering the food stamp program. In cases where vendor shortages were offset, the District handled transactions in a way that understated administrative costs claimed, reducing the amount subsequently reimbursed by USDA. Under the program, USDA reimburses the District for 50 percent of reported administrative costs. Transaction fees paid the vendors are a reimbursable cost. However, we found that fees offset to recoup vendor shortages were not being identified and claimed for reimbursement.

In a June 14, 1979, letter to the DHS Director we pointed out that the District had not claimed reimbursement for these administrative costs or requested that corrective action be taken to prevent future occurrence and to recover amounts not claimed since 1977. DHS officials responded to us in July

stating that effective July 1, 1979, a monthly reporting system had been established to identify all transaction fee offsets and recover 50 percent as administrative costs and that they were reviewing their records to identify all offset transactions made since 1977.

In October 1979 a DHS official informed us that this review was completed, and \$143,486 in transaction fees had been identified. The DHS official advised and a USDA official confirmed that the District was reimbursed \$71,743 by USDA under administrative cost sharing procedures. Since then DHS had identified and been reimbursed an additional \$65,000 for the period August 1977 through March 1980 and expects to collect about \$51,000 a year in the future.

We also identified about \$32,000 in additional administrative costs for which the District had not claimed reimbursement from USDA. These costs were incurred by the District's Department of Housing and Community Development for the period April 1979 through September 1980 for operating food stamp issuing outlets at 14 senior citizen residences.

According to a memorandum of agreement between DHS and DHCD, these costs were to be borne initially by DHCD and then reimbursed monthly by DHS. As of September 30, 1980, DHS had neither reimbursed DHCD for costs of operation nor claimed from USDA any issuance costs under administrative cost sharing procedures. The DHS employee responsible for filing claims for food stamp program administrative costs told us he was unaware of the DHCD issuance operation. The Chief of DHS's Bureau of Payments and Collections (BPC) said that DHCD had not filed for the administrative costs, and that when they did, BPC would pay DHCD and claim the reimbursement from Agriculture. The BPC Chief said, however, that there was not a current agreement between DHS and DHCD and that, until the agreement is finalized, he did not expect DHCD to file its claim.

We believe that DHS and DHCD should expedite finalizing the agreement under which DHCD issues food stamps at its locations. DHS should ensure that DHCD operating cost reimbursements which are offset against issuance shortages are properly accounted for and claimed as reimbursable administrative costs of the program.

CONCLUSIONS

District collections of food stamp shortages incurred by vendors have been minimal. This has increased District costs,

because it is liable to USDA for all shortages. Maximum recovery of vendor shortages is hampered because DHS has not aggressively sought repayment, has not always offset shortages against transaction fees earned by the vendor, and has no policy or procedures for collecting shortages incurred by District agency issuance outlets.

The District is not adequately protecting itself from food stamp losses incurred by food stamp vendors because some vendors are operating without executed contracts. Also, vendors are not adhering to contract specifications designed to allow the District to collect outstanding program shortages from vendors' insurance companies.

The District has had some difficulty in engaging and retaining what it considered to be the desired number of private food stamp vendors and has taken some extraordinary steps to keep vendors in the program.

We recognize that it may be difficult for the District to obtain signed vendor agreements along with the required insurance protection. However, if the District is unable to obtain such agreements, it could consider using additional District facilities to issue stamps in order to fill any voids left by private vendors which are unwilling to participate in the program.

Further, the District was not identifying and claiming from USDA all reimbursable costs of administering the food stamp program.

RECOMMENDATIONS

We recommend that the Mayor instruct the Director, DHS, to:

- Execute food stamp contracts with all vendors and obtain documentation that vendors have secured insurance and bonding coverages required by their contracts. If he is unable to reach such agreements with a private vendor within a reasonable period of time, the Director should terminate the vendor's participation in the program after taking steps to minimize impact on food stamp recipients served by the vendor.

- Establish a policy and procedures for initiating and settling claims for food stamp shortages incurred at District agency issuing outlets. These procedures should include (1) offsetting agency food stamp shortages against moneys due that agency by the Department of Human Services for operating such outlets and (2) investigating all shortages and instituting recovery actions when District employees are determined responsible.
- Adopt a policy to consistently offset shortages against transaction fees earned by the vendors.
- Establish a procedure to submit claims for unpaid shortages to vendor insurance companies where appropriate.

We recommend also that the Mayor instruct the Directors of DHS and DHCD to finalize the agreement under which DHCD issues food stamps at its locations to enable DHS to recover reimbursable administrative costs from the Department of Agriculture.

AGENCY COMMENTS

The District concurred with our recommendation to execute contracts with all vendors. The DHS Director said the District would make every effort to obtain contracts with all non-DHS food stamp vendors and would evaluate the vendors' continued participation if contracts are not executed on a timely basis. (See app. II.)

In addition, DHS will explore the cost and feasibility of requiring all contract vendors to secure insurance coverage that will indemnify the District against vendor losses and name the District as payee in the event of such losses.

In commenting on our recommendation that DHS should establish a policy and procedures for initiating and settling claims for food stamp shortages incurred at District agency issuing outlets, the Director stated that all shortages at District outlets are investigated, and if employee negligence is found, action is taken to recoup the shortage from the employee. The Director did not comment on the need for a specific policy to offset shortages incurred by DHCD (see p. 8) against amounts due to that agency for operating the outlets. Such offsets would result in collecting the amount due for the shortage and should prompt DHCD to take more care in its control over stamp issuances.

The DHS Director concurred that the agreement between DHS and DHCD should be finalized and said that DHS is prepared to take the action necessary to claim the appropriate reimbursement when the agreement is finalized.

On our recommendation for consistent offsetting of shortages against transaction fees earned by vendors, the Director stated that his objective is always to recover the full amount due from vendors, but the rate at which fees are withheld may be negotiated depending upon the circumstances. We agree with this objective; however, we found instances where offsets were inconsistently applied and vendor shortages increased during periods when offsets were being made, which indicates that this area needs additional attention to insure that shortages are recovered in full.

CHAPTER 3

COLLECTIONS FOR FOOD STAMP

OVERISSUANCES ARE LIMITED

The District was not identifying certain types of erroneous coupon issuances or establishing claims against recipients to collect the resulting overissuances. Further, the District collects only a small portion of the claims that are established, and claims processing has been slow.

We identified 455 cases involving erroneous issuances of \$28,000 which occurred in the course of normal operations during the 7-month period ended September 30, 1979. Our test was limited and actual overissuances would be higher. A computer programming problem coupled with an administrative error resulted in additional overissuances of about \$106,000 in stamps to 1,123 recipients. For the 5-month period ending June 30, 1980, collections amounted to about 1.58 percent of the amount actively pursued for collection and about 1 percent of the total amount due from recipients.

NEED TO IDENTIFY AND ESTABLISH CLAIMS FOR CERTAIN ERRONEOUS ISSUANCES

The District was not identifying and establishing claims for overissuances resulting from unauthorized redemption of more than one participation card during a month and from redemption of expired, altered, and unsigned participation cards. Such overissuances should be identified and claims processed expeditiously to protect the integrity of the program and to minimize unnecessary program costs.

Duplicate issuances should be identified for claim processing

Duplicate issuance can occur when a recipient obtains a replacement for an original participation card claimed to be lost, stolen, destroyed, or never received and both the replacement and the original are redeemed. Also, a recipient may be issued more than one card during a month through administrative error, and overissuances result when both cards are redeemed. In either case the overissuance should be identified and a claim processed to recover the overissued amount. The District had no procedure to accomplish this.

Although the District had computer-generated information which identified possible duplicate redemptions of participation cards, it was not using the information. We examined reports for a 6-month period ending in August 1979 and found 288 cases involving possible duplicate redemptions of about \$19,000 in food stamps.

The District issues about 200 replacement participation cards each month due to actual or alleged loss or theft of original cards. For several years, the District has generated a monthly report showing whether the replacement and/or original participation cards were redeemed. By investigating cases where both cards were redeemed, the District can identify duplicate redemptions for which claims should be established or some other action initiated.

District personnel responsible for initiating such action, however, were not aware of the existence of the monthly report and were not taking action to identify and recover overissuances resulting from duplicate redemptions. We discussed this matter with the officials in October 1979 and explained how possible duplicate redemptions could be identified so that corrective action could be initiated. We wrote to the Director, DHS, (then the Department of Human Resources) in December 1979 (see app. I) describing this problem and suggesting that corrective action be taken. Although we have not received a formal response to our letter, a Food Stamp Central official told us that 276 of the 288 cases we identified and 138 subsequent cases had been referred to DHS' Office of Inspection and Compliance (OIC) for further investigation as suspected fraud cases. He stated that the responsible unit had established a system to identify future duplicate redemptions and to initiate collection action.

USDA regulations provide financial incentives to encourage States to identify and prosecute fraud cases and collect fraudulently received overissuances. According to the regulations, these incentives are provided to help preserve the integrity of the program and minimize unnecessary costs.

In August 1980 an OIC official said that his office had received for investigation 458 alleged fraud cases for the period March 1979 through February 1980. As of August 26, 1980, 138 investigations had been completed. Forty of the completed cases were considered to involve fraud. Nine of the 40 cases had been sent to DHS' Office of Fair Hearings with the remaining 31 cases

to be forwarded shortly. However, the Chief, Office of Fair Hearings, told us on August 27, 1980, that he was returning the nine cases to the Office of Investigation because it was not his responsibility to contact the recipient and set up the hearing. We advised the Chief that there were administrative fraud procedures which placed the responsibility for arranging for and holding the hearings with the Office of Fair Hearings. He said that he was unaware of these procedures. The procedures had been approved in June 1980, but they had not been printed and distributed when we spoke with the Chief. On October 17, 1980, an Office of Fair Hearings official told us that no food stamp fraud hearings had been held as of that date and that the backlog was about 100 cases. He said, however, that the Chief was working on getting the hearing process started.

Further, the procedures require that a copy of the claim be forwarded to the DHS Bureau of Payments and Collections when the claim is forwarded to the Office of Fair Hearings so that collection action can start. The procedures instruct the Bureau to deal with the claims as nonfraud until such time as a fraud determination is made.

We found that copies of the claims were being forwarded to the Bureau as required; however, no attempt was made to collect the claims. The Acting Chief of the unit responsible for initiating collection action was unaware of the procedures and thought that the copies he had received were for information purposes. The Deputy Chief of the Bureau told us he was aware of the requirement and that he thought the fraud claims were being processed for collection. He said that he would take steps to get the process started.

Overissuances resulted when cards were mailed in error

In June 1979, because of an error in issuing participation cards, 1,123 cards involving about \$106,000 worth of food stamps were redeemed improperly. It was not until November 1979, however, that the District identified all of the recipients involved and took the first steps toward establishing claims. The last claims from this group were established in April 1980.

Much of the June 1979 regular monthly run of participation cards was in error. Before the error was discovered, incorrect cards were issued to households with last names beginning with the letters A through C, and supplemental cards were subsequently issued. A corrected run was made for the remainder of the

alphabet, but through error, both the corrected and the incorrect cards were issued to households with last names beginning with letters D through F. Varying estimates were made of the number of cases where both cards were redeemed. After we made several inquiries, the District prepared a print-out showing that 1,123 duplicate redemptions had occurred involving \$105,703 worth of food stamps. In April 1980 the last of these claims was forwarded for collection. However, our test of 100 of the claims in August 1980 showed that the incorrect claim amount was established in about 23 percent of the cases. We advised District officials of the error, and they are reviewing the cases and plan to prepare revised claims.

Our test also showed that, as of August 15, 1980, 16 of the 100 recipients had made payments (6 paid the full amount) amounting to about 4 percent of the amount due; collection action on claims for 17 recipients was suspended. Thus, 33 percent of the claims tested were disposed of in a relatively short time after the claims were established.

Much of the delay in establishing claims for these cases came about because the District had no procedure to identify duplicate or other improper issuances. We were advised that the District's initial effort concerning the June 1979 problem was to seek a waiver from USDA to relieve the District of responsibility for establishing claims and collecting the overpayments. The waiver was denied. A functioning procedure to deal with administrative errors of this sort (there have been others during the history of the program in the District) would allow the District to identify overissuances and institute corrective action on a timely basis rather than almost a year after the transactions occurred.

Claims should be established for
issuances for invalid participation cards

Vendors sometimes erroneously issued food stamps for invalid participation cards. For the one month for which sufficient data was available, we found that stamps totaling \$3,100 and \$5,900, respectively, were issued for 53 expired and 114 unsigned cards. Included in the 53 expired cards were 3 for which the expiration date had been altered. The vendors who issued stamps for these cards were given credit for the stamps issued and paid transaction fees, although Federal regulations consider issuances under both circumstances to be improper. We found these erroneous redemptions in a test of about 8,000 of the approximately 40,000 cards issued during

the month. More complete analysis of the month involved would have entailed an inordinate amount of time, and sampling of prior months was not possible because of insufficient data. It is reasonable to assume that additional improper issuances would be detected if the remaining 32,000 cards were examined.

The District does not routinely check for expired, altered, or unsigned participation cards. A Bureau of Payments and Collections (BPC) official said that in resolving a discrepancy between the number of cards reported by a vendor and the number of cards actually submitted, technicians scan the cards for expiration dates or alterations. This official said that a few cases of expired cards had been noted in the past, but she could not remember any of the specifics or provide documentation to support her recollection. She said that she did not think there was anything wrong with vendors submitting unsigned participation cards.

Each participation card has a specified expiration date and, under Federal program regulations, redemptions of cards after the expiration date represent unauthorized coupon issuances and are to be treated as coupon issuer errors. The issuer is liable for the amount of stamps erroneously issued. Some of the 53 expired cards were redeemed a few days after their expiration date; others had expired several months before they were redeemed. Altered participation cards noted by a vendor are supposed to be taken from the recipient without redemption and forwarded to the District according to the BPC official.

Federal and District regulations require that participation cards be signed in the presence of the vendor, and District recipients are provided photo identification cards to establish their identity. The photo and signature help to ensure that individuals are entitled to food stamps. In accepting unsigned participation cards, the District has no assurance that the food stamps were issued to the proper individuals.

CONCLUSIONS

The District did not routinely identify duplicate redemptions or redemptions of expired, altered, and unsigned participation cards. Duplicate redemptions went undetected for long periods and, when detected, long periods elapsed before claims were prepared and collection actions started. The District has made improvements in this area. However, for identified duplicate redemption cases where fraud was indicated, fraud hearings and collection actions were delayed because responsible individuals were unaware of existing procedures to deal with these

cases. Fraud hearings are still being delayed; none had been held as of October 1980, and a backlog of over 100 fraud cases had developed.

The issuer was given credit for stamps issued for expired, altered, or unsigned participation cards and was paid a transaction fee for these unauthorized issuances. The District should reemphasize, to coupon issuers and to personnel working in participation card redemption and reconciliation activities, the importance of adhering to program requirements that prohibit issuing stamps for expired, altered, and unsigned participation cards. We believe the District should remind issuers that expired, altered, and unsigned participation cards constitute improper issuances, that issuers are liable for the value of food stamps issued improperly, and that fees will not be paid for such issuances.

We also believe the District should establish a system to routinely examine a sample of redeemed participation cards to ascertain whether food stamps were issued for expired, altered, or unsigned cards. This system would provide a basis for further action to obtain compliance, to adjust the amounts due to vendors for stamps issued, and to establish claims against recipients, where appropriate.

RECOMMENDATIONS

We recommend that the Mayor require the Director, DHS, to:

- Reemphasize to issuers and personnel working in the Food Stamp Program the importance of assuring that participation cards presented for redemption have not expired, have not been altered, and have been signed by eligible recipients.
- Remind issuers that they are liable and will not be paid fees for improper issuances.
- Establish a system to sample redeemed participation cards to evaluate the extent of compliance with program requirements concerning expired, altered, and unsigned cards. As appropriate, redemption of expired, altered, and unsigned cards should be considered as unauthorized issuances for which issuers are liable for the value of the stamps and any fees paid.
- Assure that the Office of Fair Hearings expedites food stamp fraud hearings and reports on the status of all

food stamp fraud cases until the backlog has been eliminated.

AGENCY COMMENTS

The DHS Director agreed with our recommendations and said that DHS will reissue written instructions to all vendors and employees to:

- Reemphasize the importance of the program requirements dealing with expired, altered, and unsigned participation cards.
- Remind vendors that transaction fees will not be paid and credit will not be given for stamps issued for invalid cards.

The Director also said that he had begun to examine cards for invalid redemptions and had implemented a system to notify vendors of invalid redemptions and of adjustments for credit for stamps issued and transaction fees claimed for the invalid issuances.

In addition, the Director advised us that the fraud hearings procedures are being developed, and he will implement them as expeditiously as possible. (See app. II)

COLLECTION OF ESTABLISHED CLAIMS IS LIMITED, AND CLAIM PROCESSING HAS BEEN SLOW

The District is recovering only a small portion of the amount due from recipients for food stamp overissuances. Until recently, claims processing has been slow, and collection efforts have been perfunctory. Claims processing has been improved, but more needs to be done.

Small portion of claims collected

For the 5-month period ended June 30, 1980, the District collected \$13,500 of the \$643,000 due from recipients. During the period 81 claims were paid in full, and collection efforts were abandoned on 2,144 claims involving about \$398,000.

Claims for food stamp overissuances are established by DHS's Food Stamp Central Unit upon referral from caseworker activities, quality control staff reviews, OIC reviews, and special nonrecurring reviews.

The Food Stamp Recovery Unit is responsible for verifying the accuracy of the claim determination, contacting the recipient, (usually by letter advising the recipient that a potential overpayment had occurred and asking the recipient to contact the Unit to set up an appointment to discuss the situation), reaching agreement that an overpayment occurred, and collecting the amount due. If agreement is reached, an account receivable is established, a repayment schedule prepared, and the amount due is recorded in the Unit's records. When a recipient does not respond to any of the three letters that the Unit is required to send in its effort to make contact, the case is suspended; that is, collection action is abandoned, and the case is held in abeyance prior to writing it off as uncollectible.

The claims activity is dynamic; each month claims are paid, some partially and some in full; others are transferred to suspense and ultimately written off; and new claims are added to the workload. During the 5-month period ended June 30, 1980, \$13,500 was collected, including full payment on 81 claims and partial payment on an undetermined number of claims; and 1,146 new claims totaling about \$91,300 were added to the workload. A total of 822 claims valued at \$181,200 was transferred from active to suspended status during the period. Of these, 396 claims valued at \$99,700 were terminated as uncollectible and are included in the total of 2,144 suspended claims involving \$393,000 which were terminated as uncollectible during the period.

At June 30, 1980, there were 1,257 active claims valued at about \$150,000 and 426 suspended claims valued at \$81,500 in the District's workload. It is likely that all of the suspended claims will ultimately be classified as uncollectible and increase the uncollectibles to \$479,500 for the 5-month period. We expect also that some portion of the active claims workload will be transferred to a suspense status and ultimately written off as uncollectible.

Collecting amounts due from recipients for overissued food stamps is a difficult task. Recipients have limited income and receive stamps to supplement their food budgets and help them obtain nutritionally adequate diets. The USDA and the District have a continuing interest in improving the certification activity under which the amount of stamps is determined so that, among other things, uncollectible overissuances can be reduced.

The current food stamp program provides a bonus in the form of increased administrative cost reimbursement from USDA to States that are able to reduce their certification error rate below 5 percent. The District has undertaken several special efforts to improve its certification activity. Overissuances continue to occur, however, through administrative error, recipient misunderstanding, or willful deception by the recipient; and the District has not yet qualified for the bonus. When overissuances are identified, the District should take prompt, firm corrective action to preserve the integrity of the program and to minimize unnecessary costs.

As stated earlier, if a satisfactory response is not received from three letters and, in some cases, telephone contacts, the claim is transferred to a suspense status in anticipation of writing it off as uncollectible. Prior to April 1980 this collection process might have been the most practical course, considering that the claim workload dated back to 1971 and there were no financial incentives to collect overissuances. However, now the workload is more manageable and current, and USDA provides incentives for collecting overissuances in fraud cases and proposes holding State agencies liable for certain other overissuances.

Claims processing is now more timely,
but a reporting system is still needed

Claims processing has been slow in the past, but the addition of staff has improved processing time. The District's system, however, fails to highlight cases that are not progressing. Also, there are no criteria concerning maximum time frames within which various processing steps should be accomplished.

According to a District official, collecting food stamp overissuances was not a high priority activity in the past. Claims were processed by the Food Stamp Recovery Unit as time permitted, and a backlog of unprocessed claims developed. Long delays occurred between the various processing steps, claims were often quite old by the time an effort was made to contact a recipient, and there was no system for monitoring the progress of claims.

In July 1979 additional staff was assigned to the Food Stamp Recovery Unit. The claims workload was reduced, primarily through writing the claims off as uncollectible, and, by June 30, 1980, the claims processing activity was current. However, there still is no system to monitor the claims processing activity and no reporting system to let management know the

status of claims. There are no criteria to provide guidance to the Food Stamp Recovery Unit concerning maximum time frames within which the various processing steps should be accomplished.

The District is now automating certain claim information to report whether a recipient who is eligible for restoration of lost benefits has an outstanding claim. Program regulations provide that outstanding claim amounts can be collected by offset against restored benefits. With some modifications, the proposed report could also serve as an information source for management use in monitoring the progress of claim processing and in highlighting problem claims. The modifications would entail including data on the status of a claim, the length of time in that status, and whether the maximum time frame allowed for each processing step had been exceeded.

CONCLUSIONS

The District recovers only a small portion of amounts due from recipients for food stamp overissuances, is not receiving certain financial incentive payments available from USDA, and could be held liable for certain overissuances not collected. The District should increase its collection efforts to take advantage of USDA's incentives and avoid potential liability. These collection efforts could include personal visits when the outstanding amount is large and the recipient does not respond to inquiries or refuses to execute and comply with repayment agreements.

Claims processing has been slow in the past, but processing time has improved. The District has no maximum time frames within which various processing steps should be accomplished, and its system fails to highlight cases that are not progressing. Modification of a proposed automated report could provide information for management's use in monitoring claims processing.

RECOMMENDATIONS

We recommend that the Mayor instruct the Director, DHS, to:

- Expand collection efforts for large outstanding amounts to include personal contacts with recipients who do not respond to inquiries concerning food stamp overissuances or do not execute or comply with repayment agreements.

- Establish maximum time frames within which certain claim processing steps must be accomplished.
- Require that the proposed computerized report on claims be modified to show the status of each claim, the length of time the claim was in each status, and whether the claim was progressing in accordance with established time frames.

AGENCY COMMENTS

The Director stated that DHS' collection efforts would be reviewed to insure that, as a minimum, Department of Agriculture procedures are followed and that alternative collection efforts, including use of a collection agency if appropriate, would be considered.

The Director said that our recommended modification of the computerized report was in process and should be completed by April 1, 1981. (See app. II.)

CHAPTER 4

MORE CONTROL NEEDED OVER

PARTICIPATION CARDS

The District does not have adequate control over participation cards. Its system results in increased cost and, because security is poor, has the potential for allowing conversion of the cards to unauthorized use. Until November 1980, the District did not use consecutively numbered participation cards. The change to consecutively numbered cards should reduce administrative costs and increase control over the cards, but other problems need correcting.

CHANGE TO CONSECUTIVELY NUMBERED CARDS SHOULD REDUCE ADMINISTRATIVE COSTS AND INCREASE CONTROL

In November 1980, the District began receiving from its supplier guaranteed consecutively numbered blank participation cards for initial use in December 1980. The change should reduce costs and increase control over the cards. Previously the cards were not consecutively numbered; there were large gaps of missing numbers, and the District was not always aware of all missing numbers. As a result, the computer had to be programmed to account for the missing numbers so that the computer-printed number matched the preprinted number on the card. Additional computer programming costs were incurred, cards were misprinted due to alignment problems, and sometimes large numbers of cards were misprinted because not all missing participation cards were identified.

District participation card usage averages about 45,000 a month. The District attempts to maintain a 6-to 8-month supply. Four invoices for cards received in July and August 1979 covered a range of 275,000 card numbers but were missing about 20,000 cards. Missing cards increase the District's program administration costs because:

- The computer program must be adjusted to account for missing numbers.
- Operators must stop the computer runs to realign sheets for breaks due to missing cards.
- Cards are misprinted and must be voided.

--Cards with incorrect computer-printed numbers must be voided and new ones printed. As recently as February 1980, the District found that 32,830 cards were missing that had not been reported by the supplier, and 3,435 cards had to be voided and reprinted as a result.

--Missing card numbers need to be recorded for control purposes.

In December 1979 we asked BPC officials why guaranteed consecutively numbered cards were not used. These officials advised us at that time that guaranteed cards would be too costly. Local printers advised us, however, that the cost increase for guaranteed numbering would be minimal, amounting to about \$8,000 a year. Subsequent to our December 1979 meeting, the District decided to change to consecutively numbered cards. One of the officials with whom we had previously met told us that cost was not a factor in their decision to convert to guaranteed cards. He said that the supplier had previously been unable to provide guaranteed cards on a timely basis, but in January 1980 the supplier advised the District that it would be able to provide the guaranteed cards.

We believe the change to guaranteed numbered cards should help to reduce costs and increase control over the cards.

CONTROL LOST BECAUSE CARD
NUMBERS ARE NOT CONSISTENTLY RECORDED

The District does not adequately record receipt, distribution, and use of participation cards. As a result, accountability for the cards is not readily determinable, and there is less than adequate assurance that cards are used only for authorized issuances.

Department of Agriculture guidance on security and control of participation cards requires, among other things, that a bulk inventory control record be maintained recording, by serial number, both receipt and distribution of the cards. The District has maintained logs to record card numbers, but entries were not made to record receipt and distribution of the cards. In practice, the logs were used only to record the numbers of cards issued and of cards spoiled in processing, but this practice was not followed consistently.

The District used a separate log for daily and monthly issuances. The monthly log was totally inadequate. Not all monthly issuances were recorded, some entries were incomplete because both or either the beginning or ending serial numbers were omitted, and serial numbers of voided cards were not recorded. The daily log was more complete, but we found numerous errors in the data. Serial numbers of voided and missing cards were not always listed, and missing cards were erroneously recorded as being issued.

PHYSICAL CONTROLS OVER CARDS INADEQUATE

Unused participation cards and voided cards that have not been rendered unusable were not secured to prevent unauthorized use. Similarly, transacted participation cards (cards redeemed by the recipients and returned to the District by issuers) were not adequately controlled to prevent reintroduction into the system.

Unused participation cards

Most unused participation cards were kept in locked storage at the computer facility. However, a key to the locked storage compartment was retained at the computer facility. In addition, several boxes of unused cards were provided to the computer operators for use in making daily issuances. These cards were not secured in the computer facility, were readily accessible to computer personnel, and were not subject to any inventory control.

Voided participation cards

Voided participation cards were stored in unlocked file drawers and in open cardboard boxes accessible to District employees and available for conversion to unauthorized use. Blank participation cards which should have been voided, but were not, were filed with voided cards. The method used by computer personnel to void cards did not always render them unusable because the felt marker used to print "void" on the cover sheet did not always penetrate through to the cards. Voided cards which have not been rendered unusable can be converted to unauthorized use.

District procedures require that voided participation cards be recorded in a control log and subsequently destroyed in the presence of at least two people. A District official

told us that they only recently began to record voided card numbers. The official said that they did not routinely destroy voided cards. She cited one case where 29,000 cards were destroyed; the serial numbers were not recorded, and there was no documentation available to show whether the destruction had been witnessed by at least 2 persons.

Transacted participation cards

Transacted participation cards were filed improperly and stored where both District employees and the general public have unrestricted access. Transacted cards are important in establishing liability in fraud and overpayment cases. Further, if transacted cards were resubmitted by a vendor, it could get credit for stamps never issued and receive additional transaction fees.

The District stored its transacted cards, by issuer and month of issue, in boxes which hold up to 1,500 cards. Both Federal and District procedures require that the cards be filed by serial or case number to make cards needed for investigative evidence readily accessible. District inspectors told us that it was currently difficult and time consuming to find transacted cards. In a recent effort involving investigation of duplicate redemptions, a large portion of potential fraud cases could not be pursued because inspectors could not find the redeemed cards.

CONCLUSIONS

The District's recent change to guaranteed consecutively numbered participation cards should reduce administrative costs and increase control over the cards. Other problems persist however. The District system of recording serial numbers of cards is inadequate and is not being consistently followed.

Physical controls over blank, voided, and transacted participation cards are inadequate and will not prevent unauthorized use of cards. The District should install a card control system that would render unused and voided cards unusable and make transacted cards readily accessible only to authorized District personnel when necessary.

RECOMMENDATIONS

We recommend that the Mayor require the Director, DHS, to:

- Establish a system to record and control serial numbers of participation cards received, distributed, and used.

- Establish controls over unused cards in the hands of the computer operators.
- Devise a system that will insure that all voided cards are rendered unusable, are appropriately recorded, and are destroyed within established time frames.
- Revise the filing system for transacted cards so that they are accessible by serial or case number and provide secured storage to prevent their reintroduction into the system.

AGENCY COMMENTS

The DHS Director concurred with our recommendations and described the policy and procedures adopted to implement them. They also stated that a monitoring system would be implemented immediately to assure that the policy and procedures are followed.



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

DEC 7 1979

GENERAL GOVERNMENT
DIVISION

Mr. Albert P. Russo, Director
Department of Human Resources
District of Columbia Government
Washington, D.C. 20004

Dear Mr. Russo:

During our review of the District's Food Stamp Program payment and collection activities, we found that the District did not have a regular or systematic basis for identifying, investigating, and recovering erroneous payments that occur when duplicate authorization to participate (ATP) cards are issued and redeemed. Because the District has not initiated action to recover many of these unauthorized redemptions, the Department of Agriculture has incurred excess costs. Further, the District is losing the opportunity to recover amounts, including transaction fees, related to redemptions made through vendor error, and to share in any amounts recovered from fraud cases. Also, the lack of a system could prompt the Department of Agriculture to consider withholding the District's reimbursement for administrative costs; and proposed Department of Agriculture regulations now out for public comment contain sanctions under which a State agency could be held responsible for amounts overpaid to clients.

To minimize future losses because of duplicate redemptions, recover amounts due in a timely manner, and preclude falling into a category where the Department of Agriculture could institute financial sanctions, the District needs to establish a system to automatically identify duplicate redemptions, establish claims, and institute recovery action as quickly as possible. Such a system should be applied retroactively, within applicable statutory time limitations.

DUPLICATE REDEMPTIONS RESULTING
FROM NORMAL OPERATIONS

The District issues about 200 replacement ATP cards, termed "In-Lieu-Ofs," each month because of actual or alleged loss or theft of original ATP cards. Monthly printouts by the Department's Office of Information Systems (OIS) flag possible redemptions of both the regular monthly and replacement ATP cards. By investigating the cases shown on these printouts, the District can identify duplicate redemptions for which claims should be established.

We discussed this matter with members of your staff and provided them with copies of the March 1979 to August 1979 OIS printouts which we annotated to show potential duplicate redemptions. OIS has generated such monthly printouts for several years, but they have not been used to identify cases that should be investigated. We were told that beginning in December 1979, households redeeming both In-Lieu-Ofs and regular monthly ATP cards would be identified and claims generated where appropriate.

We would appreciate being advised regarding the number and amount of claims established from the December OIS listing, from the listings we provided for the earlier 6 months, and from listings for other past months that you believe should be investigated. We would also like to know the number and amount of claims that result from fraud and the amount the District obtains under the fraud claim collection provision of the program.

EXCESS REDEMPTIONS DUE TO ADMINISTRATIVE
ERROR

In June 1979 much of the regular monthly run of ATP cards was in error. Before the error was discovered, ATP cards were issued to households with last names beginning with the letters A through C. District food stamp officials told us that most of the A through C households were issued ATP cards for less than they were entitled and that in such cases they were issued supplemental ATP cards. Some households were issued ATP cards for amounts greater than their entitlement. The District, however, does not know the number of such households or their identity. Such information is necessary to determine which incorrect ATP cards were redeemed and to establish claims to initiate recovery actions where overissuances occurred.

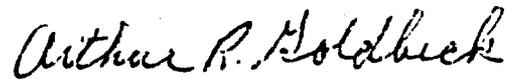
The June 1979 issuance problem was further compounded when, by error, households D through F were mailed both incorrect and corrected ATP cards. This created a potential overissuance of about \$300,000 if all D through F households transacted both ATP cards. Department officials told us that food stamp issuing outlets were alerted to the issuance error and instructed, initially by telephone and later by a June 6 letter, to redeem only the ATP cards that authorized the largest food stamp issue to D, E, and F households and only for those households assigned to them. This may have resulted in some overissuances because some cards were for amounts that exceeded the households' entitlement.

Since the incident occurred, efforts to correct the June issuance have been limited to identifying D, E, and F households that redeemed both cards. Two different sets of figures have been cited for the amount of overissuance resulting from such duplicate redemptions. A September 1979 memorandum to the U.S. Department of Agriculture's Food and Nutrition Service cites an overissuance of \$60,449 due to redemption of 657 duplicate cards. However, a November 1979 OIS computer printout, which was prepared after we made several inquiries, identifies an overissuance of \$105,703 resulting from the redemption of 1,123 duplicate cards. District officials have assured us that these figures will be reconciled and claims will be established for any overissuances. Further, there are indications that other recipients, besides those listed on the November 1979 OIS run, redeemed more than one ATP card during the month of June.

The District needs a system to identify duplicate or other improper issuances and to initiate claims whenever an error of the sort experienced in June 1979 occurs. Such a system should differentiate between fraud and non-fraud claims so that the District can participate in the fraud claim collection provisions of the program. Corrective actions for the June 1979 problem should include identification and claim establishment for overissuances to households with names beginning with A through F and duplicate issuances for households in the D through F category. The system should also identify vendors that did not follow the District's instructions for redeeming ATP cards so that claims can be initiated in cases where an overissuance resulted.

Please advise us of the actions taken on the matters discussed above including the number, type, and amount of claims established from all identified overissuances. We would be happy to meet with you or your staff to discuss these matters.

Sincerely yours,



Arthur R. Goldbeck
Senior Group Director

cc: The Honorable Marion S.
Barry, Mayor
Mr. Elijah E. Rogers
City Administrator
Mr. Matthew S. Watson
D.C. Auditor



GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN RESOURCES SERVICES
WASHINGTON, D.C. 20001

17 FEB 1981

IN REPLY REFER TO:
801 N. Capitol St., N.E.
Washington, D.C. 20002

William J. Anderson
Director
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20001

Dear Mr. Anderson:

I appreciate your affording me the opportunity to comment on your draft report entitled "Federal and District Food Stamp Costs Can Be Reduced" prior to issuance. Each of the recommendations is addressed below in the same sequence, with corresponding comments on actions we have taken or planned.

RECOMMENDATION:

We recommend that the Mayor instruct the Director, DHS, to:

--Execute food stamp contracts with all vendors and obtain documentation that vendors have secured insurance and bonding coverages required by their contracts. If he is unable to reach such agreements with a private vendor within a reasonable period of time, the Director should terminate the vendor's participation in the program after taking steps to minimize impact on food stamp recipients served by the vendor.

COMMENTS:

Concur with this recommendation. Every attempt will be made to obtain contracts with all non-DHS food stamp vendors. This is the normal procedure for the Department with all contractors. In the event there are extenuating circumstances where contracts are not executed on a timely basis, the vendor's continued participation in the program will be evaluated for appropriate action.

Mr. Anderson

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RECOMMENDATION:

--Establish a policy and procedures for initiating and settling claims for food stamp shortages incurred at District agency issuing outlets. These procedures should include (1) offset of agency food stamp shortages against moneys due that agency by the Department of Human Services for operating such outlets, and (2) investigating all shortages and instituting recovery actions when District employees are determined responsible.

COMMENTS:

All shortages incurred at D. C. Government outlets are investigated to determine negligence on the part of any employee. If negligence is established, restitution is attempted from the employee involved. If the employee does not make restitution, action is taken in accordance with Chapter 10.G of the D. C. Personnel Manual which authorizes the District to take administrative action against any employee who fails to settle valid debts owed the D. C. Government.

RECOMMENDATION:

--Adopt a policy to consistently offset shortages against transaction fees earned by the vendors.

COMMENTS:

The Department's operating policy for recovering shortages is (1) notifying the vendor of the shortage and demanding payment within 15 days, or (2) failing in their payment offsetting the shortage by withholding transaction fees earned until the indebtedness is recovered. The rate at which the transaction fees are withheld may be negotiated depending upon the circumstances. However, our objective is always to recover the full amount due.

RECOMMENDATION:

--Establish a procedure to submit claims for unpaid shortages to vendor insurance companies where appropriate.

Mr. Anderson

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COMMENTS:

Where Credit Union vendors have failed to liquidate their shortage indebtedness, DHS refers the matter to the National Credit Union Administration for settlement of the shortage. Another avenue used to recover shortages is referral to the Office of the Corporation Counsel, D. C., for possible court action. The Department will, however, explore the cost and feasibility of requiring all contract vendors to secure insurance coverage that will at once indemnify the District against vendor losses and name the District as payee in the event of such losses.

RECOMMENDATION:

--We also recommend that the Mayor instruct the Directors of DHS and DHCD to finalize the agreement under which DHCD issues food stamps at its locations.

COMMENTS:

Concur with this recommendation, and DHS is prepared to implement necessary actions to claim appropriate reimbursements due the District when the agreement has been finalized.

RECOMMENDATION:

--Reemphasize to issuers and personnel working in the Food Stamp Program the importance of assuring that participation cards presented for redemption have not been altered and have been signed by eligible recipients.

COMMENTS:

DHS, through the Office of Information Systems (OIS), receives each month a duplicate redemption listing (F-1089-A), "Food Stamp Listing Duplicate Redemption." Our policy and procedures call for the redeemed ATP cards to be picked up during the first ten working days, monthly, and examined by the Accounting Technicians for expired, altered or unsigned cards. DHS staff regularly visit issuing outlets to inventory their stocks, as well as to emphasize program requirements and solve any problem areas of the outlets. The Department will, however, reissue written instructions to all vendors and employees to reemphasize the importance of these program requirements.

Mr. Anderson

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RECOMMENDATION:

--Remind issuers that they are liable and will not be paid fees for improper issuances.

COMMENTS:

As indicated above, the Department will reissue written instructions to all vendors to reemphasize the importance of said program requirements.

RECOMMENDATION:

--Establish a system to sample redeemed participation cards to evaluate the extent of compliance with program requirements concerning expired, altered and unsigned cards. As appropriate, redemption of expired, altered and unsigned cards should be considered as unauthorized issuances for which issuers are liable for the value of the stamps and any fees paid.

COMMENTS:

Concur with this recommendation. As of October 1, 1980, we instituted the following: As an on-going examination of ATP Cards reveals expired, altered or unsigned cards, photostat copies are furnished the outlets notifying them of the violation and that their 250 Report is adjusted to reflect such improper issuances and deduction of transaction fees for that case.

RECOMMENDATION:

--Assure that the Office of Fair Hearings expedites food stamp fraud hearings and reports on the status of all food stamp fraud cases until the backlog has been eliminated.

COMMENTS:

Concur with this recommendation. Fraud hearing procedures are being developed for forwarding to USDA for approval. Upon receipt of an affirmative response, the Director, DHS, will effect implementation as expeditiously as possible which will impact favorably upon timely corrective action.

Mr. Anderson

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RECOMMENDATION:

- Expand collections efforts for large outstanding amounts to include personal contacts with recipients who do not respond to inquiries concerning food stamp overissuances or do not comply with repayment agreements.
- Establish maximum time frames within which certain claim processing steps must be accomplished.

COMMENTS:

DHS' collection policy is in accordance with USDA-FNS regulations, with both respect to levels of efforts required and to the time frames within which those steps are to be accomplished. However, alternative collection efforts will be considered to include a collection agency, if appropriate, and DHS' collection efforts will be reviewed to assure that USDA-FNS procedures, as a minimum, are followed.

RECOMMENDATION:

- Require that the proposed computerized report on claims be modified to show the status of each claim, the length of time the claim was in each status and whether the claim was progressing in accordance with established time frames.

COMMENTS:

The recommended modification of the computerized report is in progress but has not yet been finalized. Finalization is anticipated by April 1, 1981.

RECOMMENDATION:

- Establish a system to record and control serial numbers of participation cards received, distributed and used.
- Establish controls over unused cards in the hands of the computer operators.

Mr. Anderson

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- Devise a system that will insure that all voided cards are rendered unusable, are appropriately recorded and destroyed within established time frames.
- Revise the filing system for transacted cards so that they are accessible by serial or case number and provide secured storage to prevent their reintroduction into the system.

COMMENTS:

Concur with the recommendation. The District has attempted for several years to obtain from the contractors guaranteed consecutively numbered ATP cards. However, we were advised by several contractors that they were unable to provide this service. The one company from whom we were able to obtain guaranteed consecutively numbered cards could only do so in a longer span of time than contractually stipulated because of the process involved. We received the first shipment of these cards October 14, 1980. The change to guaranteed consecutively numbered cards will enhance our control over all ATP cards with the following policy and procedures:

Blank ATP cards are stored at the computer site on the grounds of D. C. General Hospital in a double locked enclosed room. The keys are under the control of the Food Stamp Management Control Section at 500 First Street, N. W. and accessible only to authorized District personnel. The security measure has been in effect since January 1971 and to-date we have not suffered any losses. The procedure for disbursing the blank ATP cards to OIS is as follows:

(1) On the day of the monthly run, staff from BPC are dispatched to D. C. General storage site to disburse the stamps. The boxes are logged out by serial number and signed for by OIS personnel. After the run is completed, the unused ATP cards are returned to BPC personnel, checked, logged in and returned to the storage area. All spoiled ATP cards are accounted for and a reconciliation of what was issued and returned is made; and

(2) The "daily" ATP cards are issued to OIS for the entire month. They are kept in a locked room under the control of OIS personnel. All spoiled ATP cards are sent to BPC daily where they are logged and secured. Reconciliation

Mr. Anderson

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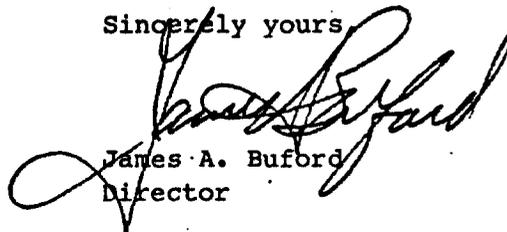
is completed at the end of each month before any cards are issued for the following month. All spoiled ATP cards, daily and monthly, are marked VOID across the face to prevent unauthorized use. Redeemed ATP cards are received and batched daily upon receipt by the Food Stamp Management Control Section and forwarded to Key Entry Section for data reduction. Upon completion of the data reduction, key entry returns the batches to food stamp control for reconciliation.

A monitoring system will be instituted immediately to assure that the above policy and procedures are followed.

I believe the information provided herein is fully responsive to the recommendations discussed in your letter of January 16, 1981, as amended in the meeting of February 2, 1981, with DHS officials.

For additional information and/or assistance, please contact Roy L. Peters, Deputy Controller, DHS, on (202) 727-3283. Your continued cooperation is appreciated.

Sincerely yours



James A. Buford
Director

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