



Report to the Chairman, Committee on  
Governmental Affairs  
United States Senate

September 1986

# FOOD STAMP PROGRAM

## Refinements Needed to Improve Accuracy of Quality Control Error Rates



131045

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United States  
General Accounting Office  
Washington, D.C. 20548

**Resources, Community, and  
Economic Development Division**

B-217883

September 19, 1986

The Honorable William V. Roth, Jr.  
Chairman, Committee on Governmental Affairs  
United States Senate

Dear Mr. Chairman:

This report discusses the reliability of the Food Stamp Program error rates that serve as the basis for sanctions (financial penalties) that the U.S. Department of Agriculture assessed against states for excessive errors made in determining fiscal year 1984 program eligibility and benefit levels. On March 11, 1986, Agriculture notified 36 states that they were liable for sanctions totaling \$81 million on the basis of their Food Stamp Program error rates for fiscal year 1984.

We are recommending several administrative actions to upgrade the quality control system and increase the reliability of Food Stamp Program error rates. We believe that our recommended changes are consistent with the intent of both the Congress and the administration to emphasize Food Stamp Program integrity and aggressive, effective program management at the federal and state levels.

We are sending copies of this report to the appropriate House and Senate committees; interested members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

J. Dexter Peach  
Assistant Comptroller General

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# Executive Summary

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## Purpose

In 1985 food stamps totaling over \$10.8 billion were issued to households to help them purchase food and obtain a more nutritious diet. In an effort to minimize the erroneous issuance of food stamps, the Department of Agriculture began a penalty, or sanction, program in 1981. Since that time, Agriculture has sanctioned 42 states about \$138 million for Food Stamp Program payment errors. Only 1 state has paid any of its sanctions, 10 states have challenged the reliability of Food Stamp Program error rates and the resulting sanctions in administrative hearings or in the federal courts, and the remaining sanctions either have been waived or are pending. Concerned about the challenges, the Chairman, Senate Committee on Governmental Affairs, asked GAO to evaluate the reliability of the quality control system, which the Department uses to measure errors, and the error rates upon which the sanctions are based.

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## Background

Food stamp legislation requires Agriculture to sanction a state when the state's error rate exceeds a legislatively established target. The sanction amount is based on both the state's error rate and its expenditure in administering the program. The sanction increases for each percentage point by which the state exceeds its target. For fiscal year 1984 (the period covered by GAO's review), the target was 7 percent of the amount of benefits the states issued that year.

States' error rates are measured by the quality control system established by the Food Stamp Act of 1977. States review a selected sample of their Food Stamp Program participant (household) caseload by interviewing participants and contacting collateral sources, such as banks and landlords, to verify the accuracy of both the states' eligibility determinations and the amounts of benefits provided. On the basis of their review results, states calculate an error rate, which is the percentage of benefits either issued to ineligible households or overissued to eligible households. Agriculture then reviews a subsample of the cases the states reviewed and calculates the official Food Stamp Program error rate by adjusting the state-reported error rate.

GAO evaluated the quality control systems for three states—New York, Illinois, and Wisconsin—and the two Agriculture regional offices that oversee them. GAO also reviewed Agriculture's procedures for calculating the official fiscal year 1984 error rates for an additional 22 states.

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## Results in Brief

In the three states GAO evaluated, the federal and state quality control reviews were generally adequate. But the quality control review process could be improved. Cases that Agriculture and the three states selected for quality control review were representative of the overall food stamp caseload and had been properly reviewed. However, Agriculture's regulations caused states to drop cases from the quality control review process that could have been completed. These dropped cases were about twice as error prone as completed cases. Therefore, if completed, they would have increased error rates in all three states and sanctions in two of the three states. In addition, in computing the official error rate, Agriculture made statistical and mathematical mistakes for 13 of the 25 states GAO reviewed. Although mostly minor, these mistakes would have caused Georgia's sanction to be overstated by \$2.5 million if Agriculture had not made the corrections GAO recommended.

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## Principal Findings

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### Completed Case Reviews

Agriculture and the three states GAO reviewed in detail generally complied with legislative and regulatory requirements when selecting quality control samples and conducting reviews. Agriculture and the states appropriately selected and reviewed a representative sample of cases for each state's food stamp caseload, and the states reviewed at least the required number of cases and generally did so within prescribed time frames. In its review of 1,281 of the states' cases, Agriculture detected 60 errors (5 percent) that state reviewers had missed. GAO reviewed 59 of the 1,281 cases the 3 states and Agriculture reviewed and found 3 errors that the states had overlooked, but all the errors had already been detected and corrected by Agriculture. (See ch. 2.)

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### Reviewing Dropped Cases

Although New York, Illinois, and Wisconsin generally complied with Agriculture regulations for dropping cases from quality control reviews, the regulations caused the 3 states to drop 504—about 1 of every 12—cases selected for review. GAO reviewed 360 of these dropped cases and concluded that the states could have attempted to review 242 (about 67 percent) of them if Agriculture were to change some of its regulations on dropping cases. These regulations (1) required states to drop cases when reviewers could determine whether the appropriate levels of benefits had been provided but could not conduct a personal interview and (2) permitted states to drop cases in which one aspect of the review

showed the participant to be ineligible but the reviewer was unable to complete all other aspects of the review. Agriculture officials said that the regulations were not intended to give states the opportunity to drop reviews of cases that should have been completed, but were intended to avoid requiring states to complete impossible reviews.

The following illustrates the types of cases Agriculture regulations caused states to drop. Illinois, in March, April, and May 1984, issued a total of \$135 in food stamps to a participant who had died in February of that year. However, Agriculture regulations required the state to drop its May 1984 review of the case and exclude this error from the state's error rate because the participant was dead and a personal interview was not possible.

Using data from collateral sources, quality control case files, and participants' eligibility case records, GAO was able to verify states' eligibility determinations for 95 (39 percent) of the 242 dropped cases it believed states could have attempted to review. These 95 dropped cases were about twice as likely to contain errors as those cases the three states included in the error rates. As shown in table 1, GAO estimates that if dropped cases had been included, fiscal year 1984 error rates would have increased for the three states reviewed and sanctions would have increased for two of the three states. (See ch. 3.)

**Table 1: Estimated Impact of Completing More Dropped Cases**

| State     | Error rate                                 |                         | Sanction                           |                         |
|-----------|--|-------------------------|------------------------------------|-------------------------|
|           | Completed cases only<br>(percent in error) | Including dropped cases | Completed cases only<br>(millions) | Including dropped cases |
| New York  | 10.1%                                      | 11.9%                   | \$10.1                             | \$25.2                  |
| Illinois  | 8.3  | 9.0                     | 2.8                                | 2.8                     |
| Wisconsin | 9.6  | 10.1                    | 1.4                                | 2.5                     |

**Error-Rate Calculations**

Agriculture regional statisticians made mistakes when calculating official 1984 Food Stamp Program error rates for 13 of the 25 states whose rates GAO reviewed. Most mistakes had only a small effect on the official error rates, but the sanction amount for one state, Georgia, would have been about \$6.2 million, or overstated by about \$2.5 million, if Agriculture had not made the corrections GAO recommended. Most calculation mistakes occurred because the regional statisticians misunderstood the

procedures for calculating the official error rates or made simple mathematical errors. Agriculture officials noted that many of these mistakes could have been either prevented or corrected if headquarters officials and statisticians had provided better guidance and oversight of regional calculations. (See ch. 4.)

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## Recommendations

To improve the accuracy of quality control error rates, the Secretary of Agriculture should revise Agriculture regulations to require states to (1) use collateral and case record data to attempt to verify eligibility determinations when personal interviews are not possible and (2) include in the error rate any case in which any aspect of the review shows that the participant was ineligible for the program. Other GAO recommendations are aimed at improving the effectiveness of the quality control review process and the reliability of Food Stamp Program error rates. (See pp. 35, 50, and 58.)

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## Agency Comments

Responsible Agriculture and state officials reviewed a draft of the report and provided GAO with their views. The officials agreed with GAO's findings, analyses, and recommendations while suggesting several minor changes that GAO has made in the final report. However, in accordance with the Chairman's wishes, GAO did not obtain official agency comments on this report.

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**Abbreviations**

|      |   |
|------|---|
| AFDC | Aid to Families with Dependent Children                 |
| At   | Atlanta, Georgia  |
| GAO  | General Accounting Office                               |
| HHS  | Department of Health and Human Services                 |
| HRD  | Human Resources Division                                |
| Hy   | Hyattsville, Maryland                                   |
| Ny   | New York, New York                                      |
| RCED | Resources, Community, and Economic Development Division |
| SSI  | Supplemental Security Income                            |

# Introduction

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The quality control and error-rate sanction systems are essential elements in the Congress' and the Department of Agriculture's efforts to improve the effectiveness of the Food Stamp Program. In 1977 the Congress established the current quality control system, which identifies the types of benefit issuance errors made and quantifies the losses attributable to each type. In 1980 the Congress established, and in 1982 it revised, a sanction system that imposes financial liability on states for a portion of their overissuance errors as determined through quality control reviews. As of July 1, 1986, 42 states had been assessed 95 sanctions for about \$138 million on the basis of their quality control error rates for fiscal years 1981 through 1984. Only three sanctions had been paid—all by Connecticut. The remaining sanctions have been challenged by states in administrative hearings and/or federal court, have been waived by Agriculture, or were pending as of July 1, 1986.

States' legal challenges have focused on the reliability of the quality control error rates on which the sanctions are based. Responding to the states' concerns, the Congress included in the Food Security Act of 1985 (Public Law 99-198) a provision that placed a 6-month moratorium beginning December 23, 1985, on sanctions and called for Agriculture and the National Academy of Sciences to evaluate the error-rate data produced by the quality control system. The results of Agriculture's and the Academy's studies are not due until mid-1987. The act also requires Agriculture to make any needed revisions to the quality control system on the basis of the study results and retroactively adjust sanctions accordingly.

In a February 26, 1985, letter to us, the Chairman, Senate Committee on Governmental Affairs, expressed concern about the effectiveness of the food stamp and other major welfare programs, particularly the quality control systems used to ensure that appropriate assistance is given to deserving recipients. The Chairman asked us to conduct two reviews and report to the Committee on both of them. One review assesses the accuracy of Food Stamp Program error rates and the technical adequacy of the program's quality control system. The other review analyzes the controversies that have led to proposals for changing the quality control and sanction systems of the Food Stamp, Aid to Families with Dependent Children (AFDC), and Medicaid Programs and discusses alternatives to the current systems. This report contains the results of the first of these reviews. The report on the other review, entitled Managing Welfare: Issues and Alternatives for Reforming Quality Control Systems (GAO/HRD-86-117BR), was issued August 29, 1986.

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## Food Stamp Program Administration

The Food Stamp Program provides food assistance benefits to households that meet program eligibility requirements. Income, household size, and liquid assets, such as bank accounts, are the principal factors for determining household eligibility. Benefits are issued in the form of food coupons that eligible households can use to purchase food and obtain a more nutritious diet. The program is administered nationally by Agriculture's Food and Nutrition Service with 100-percent federal financing of the food stamp benefits—\$10.8 billion in fiscal year 1985. States are responsible for local administration and day-to-day operation of the program.<sup>1</sup> The federal government finances part (usually 50 percent) of the states' administrative expenses; its share of such expenses was about \$900 million in fiscal year 1985.

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## The Quality Control System

The Food Stamp Act of 1977, which established the current quality control review system, requires states to conduct quality control reviews to identify and measure incorrect food stamp issuances and give program managers information needed to develop corrective actions to reduce these errors. The reviews, which are to be made by state quality control units independent of program operations, measure the extent of program errors made. Error-rate results are compiled and reported for each fiscal year<sup>2</sup> and provide data on three categories of benefit issuance errors: issuances to ineligible households, overissuances to eligible households, and underissuances to eligible households. Quality control reviews also provide information on the percentage of cases in which benefits were improperly denied or terminated. The official Food Stamp Program error rate is defined as the percentage of benefits issued to ineligible households or overissued to eligible households. (For the purpose of this report, we will refer to issuances to ineligible households and overissuances to eligible households as "overissuances.")

Program regulations require each state to carry out quality control reviews by selecting a statistically valid sample of its program's participant (household) caseload. The state's quality control staff then must review the cases in the sample to verify the accuracy of the state's eligibility determinations and the amounts of benefits provided. From this

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<sup>1</sup>For the Food Stamp Program the term "states" includes the 50 U.S. states plus the District of Columbia, Guam, and the U.S. Virgin Islands. Puerto Rico is not included because, in July 1982, its Food Stamp Program was replaced with an annual block grant.

<sup>2</sup>Prior to fiscal year 1983, states made reviews and compiled and reported results for 6-month periods beginning each October and April. Since then the official Food Stamp Program error rate has been reported on an annual basis.

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information the state determines its error rate and reports it to the Food and Nutrition Service.

The results of each state's quality control reviews are validated by Food and Nutrition Service reviewers. The reviewers select a subsample of cases from each state's quality control sample and rereview them to determine if the state properly completed its review of the required sample cases and accurately reported the results. The Service discusses the results of its validation work with each state. It then adjusts the state's reported error rates upward or downward to reflect any problems it found with the state's reported results and to produce the official error rate.<sup>3</sup>

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## The Error-Rate Sanction System

The error-rate sanction system is used to financially penalize states for a portion of their overissuance errors as determined through quality control reviews. For fiscal year 1984—the period covered by our review—most states had a 7-percent target error rate and were generally liable for overissuances that exceeded 7 percent of the total benefits they had issued. For fiscal year 1985 and each subsequent year, the target error rate for all states is 5 percent.

The Food Stamp Act Amendments of 1982, which established the current sanction system, did not require all states to meet the 7-percent target for fiscal year 1984. The formula established by the 1982 Act permitted 17 states to meet less stringent, individually determined target error rates. The individual target for these states was a reduction in the error rate equal to at least two thirds of the difference between their error rates for a legislatively established base period—October 1980 through March 1981—and the 5-percent target for fiscal year 1985. For example, Connecticut with a 14.1-percent error rate in the base period had to reduce that error rate by at least 6.1 percent (two thirds of the 9.1-percent difference between 14.1 percent and 5 percent) to avoid a fiscal year 1984 sanction. Connecticut's error rate for fiscal year 1984 was 7.1 percent—a decrease of 7 percent from its base-period error rate. Therefore, Connecticut was not sanctioned for fiscal year 1984 even though its error rate exceeded 7 percent.

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<sup>3</sup>Our report entitled Quality Control Error Rates for the Food Stamp Program (GAO/RCED-85-98, Apr. 12, 1985) provides a detailed description of the statistical procedures used by the Service to adjust state-reported error rates and thereby develop official Food Stamp Program error rates.

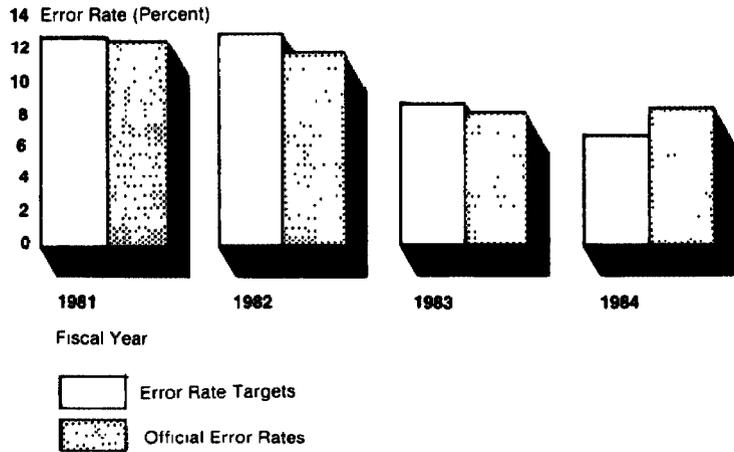
The Food Stamp Act Amendments of 1982 require states to pay sanctions on the basis of the state's error rate and the amount the state spends to administer the program. A state would be required to pay a sanction equal to 5 percent of its federally reimbursed administrative costs for each of the first 3 percentage points or fractions thereof by which the state's overissuance rate exceeds the target rate and by 10 percent for each additional percentage point or fraction thereof above the target rate. For example, Wisconsin, which had a 9.6-percent error rate in fiscal year 1984, was penalized an amount equal to 15 percent of its fiscal year 1984 federal reimbursement for administrative costs—5 percent for each of the 3 percentage points or fractions thereof by which it exceeded its 7-percent target error rate. Alabama, whose error rate was 13.4 percent in fiscal year 1984, was penalized an amount equal to 55 percent of its fiscal year 1984 administrative reimbursement—15 percent for the first 3 percentage points in excess of the 7-percent target rate plus 40 percent for the additional 4 percentage points or fractions thereof. In all cases, the amount that a state may be sanctioned cannot exceed the actual amount of overissuances represented by the difference between the error rate and the target rate.<sup>4</sup>

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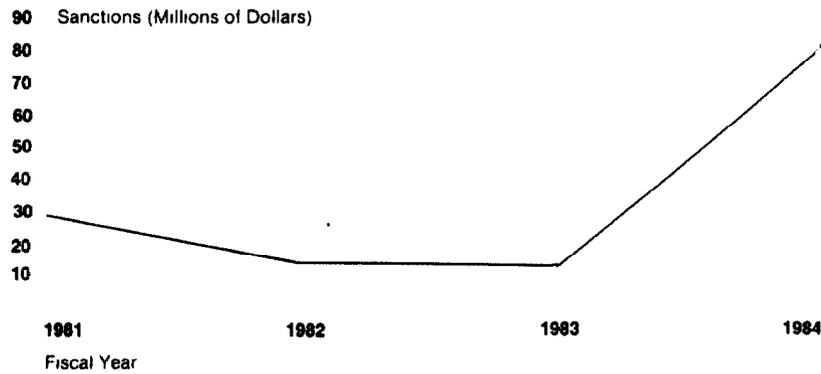
<sup>4</sup>Our report entitled Federal and State Liability for Inaccurate Payments of Food Stamp, AFDC, and SSI Program Benefits (GAO/RCED-84-155, Apr. 25, 1984) provides a more detailed description of the food stamp error-rate sanction system, as well as an analysis of its results and a comparison with the sanction systems of other income security programs.

**Figure 1.1: History of Food Stamp Error Rates and Sanctions**

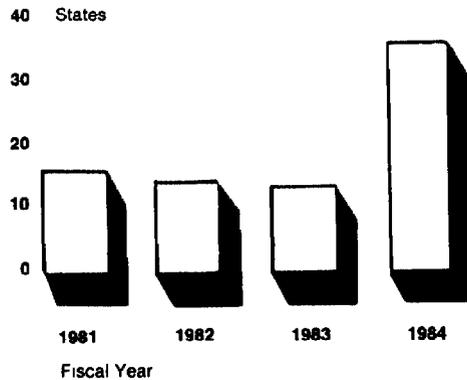
As Error Rate Targets Lowered, Official Error Rates Started to Decline.



Sanctions for 1984 Grew and



More States Were Sanctioned



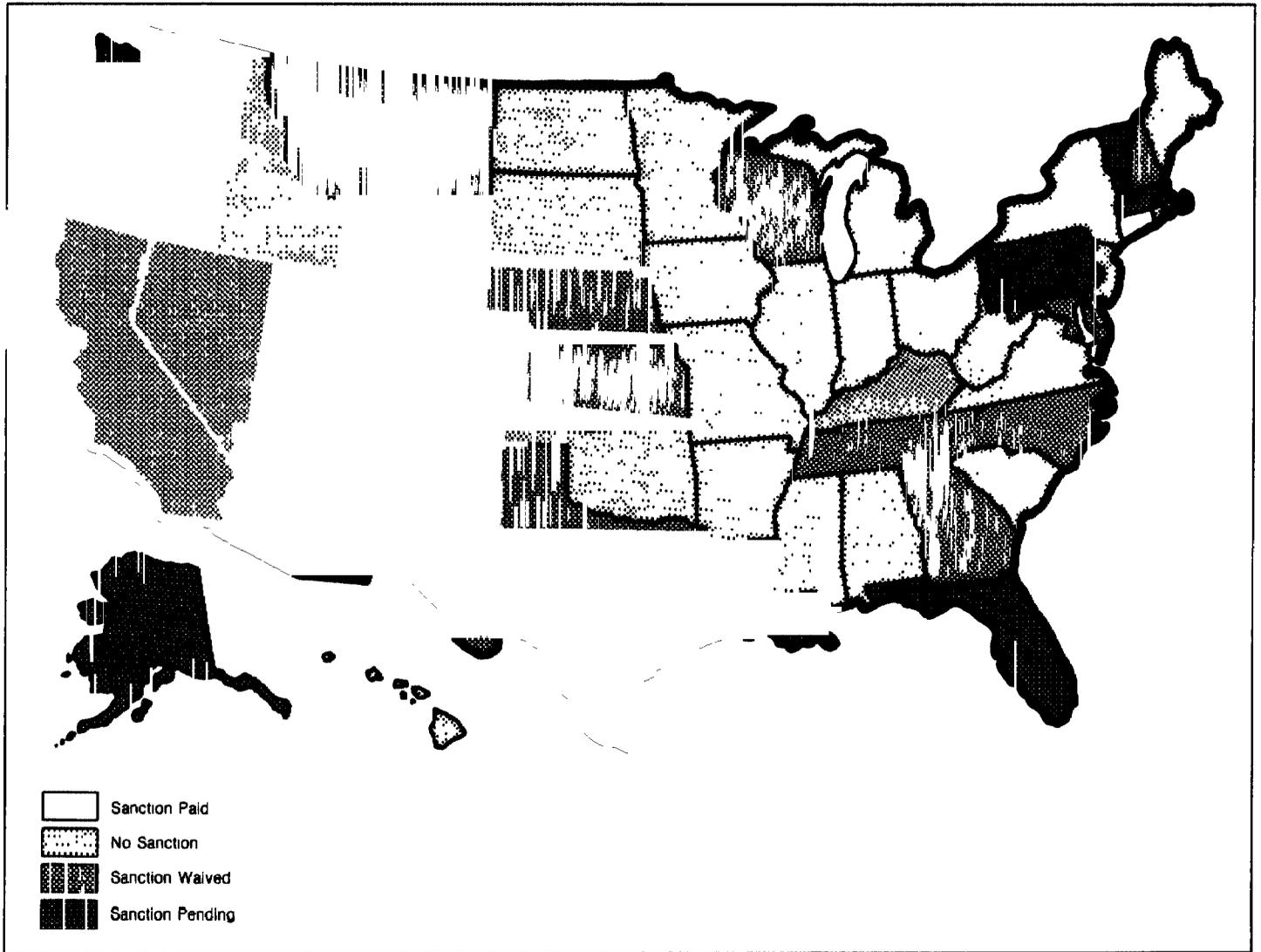
Note Official error rates and targets included both overissuances and underissuances for fiscal years 1981 and 1982 but were limited to overissuances for fiscal years 1983 and 1984

## Status of Error Rates and Sanctions

As shown in figure 1.1, both official error rates and error-rate targets generally declined from fiscal years 1981 to 1984. However, because error rates did not decrease as much as the targets did, states were faced with larger sanctions, and more states were assessed sanctions for fiscal year 1984. For fiscal year 1981 (when sanctions were initiated) through fiscal year 1983 (the last sanction period before a congressionally mandated moratorium), Agriculture assessed a total of 59 sanctions on 26 states for about \$56 million.<sup>5</sup> As of July 1, 1986, only 3 of the 59 sanctions had been paid—all by Connecticut; 33 involving 20 states had been waived by the Service; and 23 involving 15 states were pending. Ten of the states with pending sanctions had challenged 11 sanctions in hearings before Agriculture's State Appeals Board. In four appeals the Board found in the state's favor; in four appeals Agriculture's position was upheld; and no decision had been reached on the remaining three appeals as of July 1, 1986. In addition, four states had filed suit against Agriculture in federal court. (See fig. 1.2.)

<sup>5</sup>Our reports entitled Quality Control Error Rates for the Food Stamp Program (GAO/RCED-85-98, Apr. 12, 1985) and Federal and State Liability for Inaccurate Payments of Food Stamp, AFDC, and SSI Program Benefits (GAO/RCED-84-155, Apr. 25, 1984) provide data on food stamp error rates and sanctions for each state for fiscal years 1981 through 1983.

Figure 1.2: Status of Fiscal Years 1981-1983 Food Stamp Sanctions



When the sanction moratorium was lifted on June 24, 1986, Agriculture assessed 36 states sanctions of about \$81 million on the basis of their fiscal year 1984 error rates. (See table 1.1.) In addition, fiscal year 1984 sanctions were barely avoided by five states that had error rates within 0.5 percent of their target error rates.

**Table 1.1: Fiscal Year 1984 Error Rates, Targets, and Sanctions**

| State                | Error Rate (percent) | Target (percent) | Sanction    |
|----------------------|----------------------|------------------|-------------|
| Alabama              | 13.35                | 7.00             | \$9,221,622 |
| Alaska               | 9.29                 | 10.45            | none        |
| Arizona              | 9.38                 | 8.36             | 1,199,017   |
| Arkansas             | 9.66                 | 7.00             | 1,144,268   |
| California           | 7.67                 | 7.00             | 4,263,749   |
| Colorado             | 10.66                | 7.25             | 1,381,910   |
| Connecticut          | 7.11                 | 8.04             | none        |
| Delaware             | 6.40                 | 7.00             | none        |
| District of Columbia | 8.80                 | 7.93             | 235,823     |
| Florida              | 8.95                 | 7.48             | 2,116,453   |
| Georgia              | 9.56                 | 7.00             | 3,697,445   |
| Guam                 | 3.39                 | 7.00             | none        |
| Hawaii               | 3.69                 | 7.00             | none        |
| Idaho                | 6.88                 | 7.00             | none        |
| Illinois             | 8.31                 | 7.00             | 2,844,492   |
| Indiana              | 8.64                 | 7.00             | 1,361,069   |
| Iowa                 | 8.51                 | 7.00             | 690,194     |
| Kansas               | 7.35                 | 7.20             | 101,150     |
| Kentucky             | 8.98                 | 7.00             | 1,395,355   |
| Louisiana            | 10.16                | 7.00             | 5,283,439   |
| Maine                | 6.74                 | 7.00             | none        |
| Maryland             | 6.85                 | 7.91             | none        |
| Massachusetts        | 9.86                 | 7.45             | 2,321,093   |
| Michigan             | 6.46                 | 7.00             | none        |
| Minnesota            | 9.77                 | 7.00             | 1,461,779   |
| Mississippi          | 9.24                 | 7.00             | 1,731,884   |
| Missouri             | 5.83                 | 7.00             | none        |
| Montana              | 8.77                 | 8.46             | 90,933      |
| Nebraska             | 8.40                 | 7.00             | 301,193     |
| Nevada               | 2.54                 | 7.00             | none        |
| New Hampshire        | 8.18                 | 7.76             | 73,631      |
| New Jersey           | 7.47                 | 7.00             | 1,008,471   |
| New Mexico           | 11.83                | 7.60             | 2,197,196   |
| New York             | 10.14                | 8.34             | 10,063,964  |
| North Carolina       | 7.22                 | 7.00             | 523,964     |
| North Dakota         | 6.27                 | 7.00             | none        |
| Ohio                 | 6.65                 | 7.00             | none        |
| Oklahoma             | 7.61                 | 7.00             | 586,756     |
| Oregon               | 9.18                 | 7.00             | 1,340,292   |

| State          | Error Rate (percent) | Target (percent) | Sanction            |
|----------------|----------------------|------------------|---------------------|
| Pennsylvania   | 10.41                | 7.00             | 7,819,005           |
| Rhode Island   | 7.08                 | 7.25             | none                |
| South Carolina | 10.80                | 7.00             | 3,159,387           |
| South Dakota   | 3.59                 | 7.00             | none                |
| Tennessee      | 6.09                 | 7.27             | none                |
| Texas          | 9.97                 | 7.00             | 8,212,334           |
| Utah           | 11.37                | 7.00             | 1,334,155           |
| Vermont        | 9.71                 | 7.00             | 200,169             |
| Virginia       | 7.63                 | 7.00             | 652,347             |
| Virgin Islands | 12.13                | 8.32             | 259,762             |
| Washington     | 9.23                 | 7.00             | 1,509,980           |
| West Virginia  | 6.95                 | 7.00             | none                |
| Wisconsin      | 9.60                 | 7.04             | 1,391,622           |
| Wyoming        | 9.08                 | 7.17             | 94,377              |
| <b>Total</b>   |                      |                  | <b>\$81,350,279</b> |

## Objectives, Scope, and Methodology

The overall objective of our review, at the request of the Chairman, Senate Committee on Governmental Affairs, was to assess the accuracy of the Food Stamp Program's fiscal year 1984 error rates and the technical adequacy of its quality control system for determining program errors and for assessing state liability for those errors. Our specific objectives were to

- examine the procedures states use to select a sample of Food Stamp Program participant case files for state quality control reviews and the Service's oversight of these sampling procedures;
- assess state quality control review procedures to determine whether states identify and report incorrect benefit issuances;
- determine whether states complete reviews of all cases selected for quality control reviews and, if they do not, assess the impact of completing reviews of more cases;
- examine the Service's procedures for selecting a subsample of states' quality control sample cases and determine the adequacy of the Service's rereview of these cases;
- determine the extent to which states challenged the determinations the Service made during its rereview of the states' quality control review cases and determine how these challenges were resolved; and
- evaluate the Service's procedures for adjusting state-reported error rates and determine whether these procedures produce accurate official error rates.

We did our detailed audit work at Service headquarters in Alexandria, Virginia; at two of its seven regional offices; and in three states. The regional offices—the Northeast in Burlington, Massachusetts, and the Midwest in Chicago, Illinois—accounted for 35 percent of the benefits issued nationwide in fiscal year 1984. The three states we reviewed—New York, Illinois, and Wisconsin—accounted for 47 percent of the benefits issued in the two regions and 16 percent of the benefits issued nationwide in fiscal year 1984.

In selecting states for review, we considered the value of benefits issued, the type of management structure (state-supervised versus state-administered), and whether the state had been sanctioned because of higher-than-allowed error rates. New York and Illinois had the highest and second highest annual benefit issuances, respectively, in fiscal year 1984. Wisconsin's program was moderately sized. New York and Wisconsin have state-supervised programs under which county governments or other local entities run the local Food Stamp Program offices and therefore may exercise a great deal of discretion in operating the program. Illinois has a state-administered program under which state employees operate the local offices, and the state therefore exercises more control over local food stamp agency operations. Prior to fiscal year 1984, only Wisconsin had been assessed a sanction for its error rate. It was assessed about \$2.6 million for excessive errors in fiscal year 1982. All three states have been assessed sanctions for their fiscal year 1984 error rates.

In addition to making detailed analyses at the above locations, we did selected work in an additional 22 states and 2 Service regional offices—the Southeast in Atlanta, Georgia, and the Mountain Plains in Denver, Colorado. (For a list of the 22 states, see ch. 4.) At these locations we reviewed the Service's statistical and mathematical procedures for adjusting state-reported error rates to develop the states' official Food Stamp Program error rates. These states accounted for an additional 42 percent of the benefits issued in fiscal year 1984. The Southeast and Mountain Plains Regions accounted for 27 percent of the 1984 benefits. This evaluation required us to review the states' sampling plans and the results of both the state quality control and Service validation reviews.

Our selection of Service regions and states was not designed to provide a statistically representative sample of all jurisdictions that administer the Food Stamp Program. Rather, our objective was to determine for these regions and states whether any problems existed with the Food Stamp Program's quality control system that merited attention by the

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Service. We have not attempted to reach any conclusions regarding states we did not review.

We reviewed applicable federal laws, regulations, and implementing instructions related to the quality control and error-rate sanction systems. We also gathered data on the staffing, resources, and organizational structure of the Service's and states' quality control systems. We made our review in accordance with generally accepted government auditing standards, conducted it between April 1985 and January 1986, and obtained supplemental information through August 1986. For comparison purposes, we gathered descriptive information and data on selected quality control procedures in the Department of Health and Human Services' (HHS) AFDC Program and discussed those procedures with HHS officials. We also reviewed a 1981 Agriculture Inspector General report that dealt with the accuracy of fiscal year 1980 food stamp error rates. During our review Agriculture's Inspector General was making a similar review of fiscal year 1983 food stamp error rates in 12 states. We coordinated our work with that office to prevent or minimize duplication of effort.

To determine the adequacy of the Service's and states' sampling procedures, we conducted a detailed review of New York's, Illinois', and Wisconsin's quality control sampling plans and assessed their implementation of sampling procedures. We also evaluated Service oversight of the quality control sampling process and examined the Service's procedure for drawing subsamples of the states' quality control samples.

To analyze the Service's and states' review procedures, we randomly selected 59 completed quality control review cases—19 for New York and 20 each for Illinois and Wisconsin—that had been subsequently rereviewed by officials in the Service's Northeast and Midwest Regions. Using (1) the criteria specified in Service regulations, handbooks, and policy guidance and (2) information from the Service's and states' quality control case records—and in some cases from eligibility certification records at local food stamp offices—we made eligibility determinations independently from those made by Service and state quality control reviewers. We then compared our determinations with those made by the Service and states and discussed our findings with both Service and state officials.

It should be noted, however, that the quality control process cannot completely verify all factors affecting eligibility information because state reviewers must accept some applicant-supplied information when

making reviews and the Service must rely on state-supplied data when validating state findings. These limitations also applied to our review of the Service and state findings. In addition, Service regulations provide that certain errors not be counted in states' error rates. These errors usually are not serious or represent administrative shortcomings, for example, payment errors of \$5 or less or a household's failure to file a required monthly report. Such cases are counted as correct cases when calculating the states' quality control error rates. Although the individual impact of these minor errors may be small, their combined effect on a state's error rate is unknown; and neither we nor the Service had any firm data concerning the cost of reporting and correcting minor errors or the appropriateness of including administrative errors in the error rate.

To determine whether the three states we reviewed could have completed a higher percentage of the cases selected for quality control reviews and to estimate the impact of not completing such cases, we reviewed all fiscal year 1984 cases selected for review but subsequently dropped from the sample by New York and Illinois—111 and 157, respectively—and a statistically valid random sample of 92 of the 236 such cases in Wisconsin. These cases were not included in the states' error-rate calculations. We examined the quality control case file records to determine whether the states complied with Service criteria for dropping these cases.

We attempted to verify all basic program eligibility requirements and thereby complete the reviews of these dropped cases and determine whether the cases were more or less error-prone than those completed by the states and included in the error rates. In reviewing these cases, we did not conduct in-home interviews or gather extensive collateral data to validate the states' eligibility determinations. Instead, we primarily relied on data from state and federal eligibility and quality control case files and from readily available collateral sources, such as income and asset data maintained by the states. In doing so, we assumed that information supplied by the participants when they were certified for benefits remained true unless quality control or collateral data indicated otherwise. When there were no quality control or collateral data to verify income, assets, household composition, and shelter costs for a particular case, we classified that case as one where we could not make a determination and assumed that the likelihood of errors in these cases was the same as for those cases where we could validate the states' eligibility determinations.

To determine whether the Service resolved states' challenges to its error determinations, we gathered data for the three states on the number of error determinations that the Service made and the states disputed. We examined the results of all challenges made by New York, Illinois, and Wisconsin and the procedures used to resolve them. We also interviewed Service and state officials to obtain their opinions of and experiences concerning the procedures for challenging Service review findings.

To determine the accuracy of the official fiscal year 1984 error-rate calculations for 25 states (New York, Illinois, Wisconsin, and the 22 additional states in the Midwest, Mountain Plains, and Southeast Regions), we obtained error-rate results reported by the states and validated by the Service. Using the statistical and mathematical procedures prescribed by the Service, we independently calculated the official error rates for the states.<sup>6</sup> We apprised Service regional and headquarters officials of any changes to the error rates that we believed were needed, on the basis of our calculations. The Service reviewed our calculations and adjusted its official Food Stamp Program error rates for fiscal year 1984 accordingly.

Program officials and statisticians for the Service, New York, Illinois, and Wisconsin reviewed a draft of our report and provided us with their views. The Service and state officials agreed with our findings, analyses, and recommendations and suggested several minor changes that we have made in the final report. In accordance with the Chairman's wishes, we did not obtain official agency comments on this report.

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<sup>6</sup>Our upcoming report to the Administrator of the Food and Nutrition Service entitled Food Stamp Program: Statistical Validity of Agriculture's Payment Error-Rate Estimates (GAO/RCED-86-186) describes our evaluation of the Service's statistical and mathematical procedures for adjusting state-reported error rates to calculate states' official Food Stamp Program error rates. It also includes technical suggestions designed to improve the Service's methodology for making these calculations.



# Federal and State Reviews Were Adequate but Could Have Been Improved

The Food and Nutrition Service and the states conduct annual quality control case reviews for about 70,000 of the approximately 8 million households participating in the Food Stamp Program. The quality of these reviews primarily depends on the adequacy of the procedures the Service and the states use to select cases for review and to verify the accuracy of food stamp eligibility determinations. We found that the cases New York, Illinois, and Wisconsin selected for review and the Northeast and Midwest Regions selected for rereview in these states were representative of the overall food stamp caseload and that Service and state review procedures were adequate.<sup>1</sup> Specifically, we found that

- the three states generally correctly implemented Service-approved sampling plans that conformed to accepted statistical principles;
- the overall quality control review process produced accurate findings but that procedures could be better used to facilitate state and federal reviews;
- the Service disagreed with relatively few state review determinations (we concurred with the Service in all cases we reviewed) and that when disagreements with these states occurred, they were properly resolved—with the Service’s position usually prevailing; and
- the three states devoted adequate resources to the quality control system and generally conducted the required number of reviews within the prescribed time frames.

## States’ and Federal Sampling Procedures Were Sound

New York, Illinois, Wisconsin, and the two Service regions that oversee them selected quality control samples for the three states that were in accordance with Service regulations and accepted statistical practices. We found that the three states’ sampling plans generally adhered to federal guidance and that the samples for New York, Illinois, and Wisconsin selected by the states and the Northeast and Midwest Regions were representative of the food stamp caseloads for the three states.

Food stamp regulations require states to sample and review active food stamp cases throughout the fiscal year. (An active case is one in which the household is certified for participation and receives coupons in the month for which the sample is selected.) States are required to develop sampling plans for the Service’s approval and implement sampling procedures that conform to accepted statistical principles. States’ sample

<sup>1</sup>The findings are similar to those in an Agriculture Inspector General report, Food and Nutrition Service Food Stamp Program Nationwide Audit of the Quality Control System (27627-2-Hy, Dec. 14, 1981), which found little problem with these aspects of the quality control system

sizes must meet the Service's prescribed minimums. The size of the state's sample then determines the number of cases the Service will rereview and validate.

The Service requires that state sampling plans specify, among other things, the type of sample to be taken (for example, stratified<sup>2</sup> or simple random), the sample size, and whether the sample is designed to cover only the Food Stamp Program or is integrated with the quality control samples of other federal programs, such as the AFDC Program. The fiscal year 1984 sampling plans for New York, Illinois, and Wisconsin satisfied all such requirements. The plans for Illinois and Wisconsin showed that the states used stratified sampling procedures, while New York's plan described a stratified sampling procedure for the first half of the year and simple random sampling for the second half. The sampling plans showed that New York and Illinois conducted separate samples for their Food Stamp and AFDC Programs, whereas the sampling for Wisconsin was integrated. As required, the Service regions reviewed the sampling plans for New York, Illinois, and Wisconsin. The regions found that the plans conformed to accepted statistical principles and approved all three plans. We also reviewed the plans and generally concurred in the regions' assessments.

Service regulations require states' sampling procedures to conform with such statistical principles as randomly starting the sample, reviewing (not substituting for) each case selected, and selecting samples in a timely manner. We found only a few minor problems with New York's sample selection procedures. These problems included neglecting to randomly start the sample and clerical errors in selecting cases for review. However, the region was aware of the problems and was working with the state to see that the problems did not recur.<sup>3</sup>

The number of cases that each state is required to select is related to the size of the state's caseload. However, a state is not required to review more than 1,200 cases a year. As table 2.1 shows, all three states selected more cases than the Service required.

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<sup>2</sup>A stratified sample is one in which the sample population is divided into two or more groups (or strata). Each group is then weighted in relation to the percentage it comprises of the total population.

<sup>3</sup>A more detailed description of sampling and other problems with the quality control system of a statistical and technical nature is contained in our upcoming report, Food Stamp Program. Statistical Validity of Agriculture's Payment Error-Rate Estimates (GAO/RCED-86-188).

**Chapter 2  
Federal and State Reviews Were Adequate  
but Could Have Been Improved**

**Table 2.1: Quality Control Sample Sizes  
for Fiscal Year 1984**

| State     | State sample    |                    | Service subsample |                 |
|-----------|-----------------|--------------------|-------------------|-----------------|
|           | Number required | Number selected    | Number required   | Number selected |
| New York  | 1,200           | 1,455              | 400               | 420             |
| Illinois  | 1,200           | 1,365              | 400               | 441             |
| Wisconsin | 1,200           | 3,254 <sup>a</sup> | 400               | 420             |

<sup>a</sup>Wisconsin included in its food stamp sample all food stamp households that also were selected for AFDC and Medicaid quality control reviews

The Service also requires its regions to systematically select and validate a subsample of the cases reviewed by the state quality control unit. For a state with an annual sample size of 1,200 or more cases, the region must validate at least 400 cases. For other states, it selects fewer cases as prescribed by Service regulations. The two regions validated the required number of cases, and we did not find any problems with either region's sampling procedures. We found that the subsamples that the Northeast Region selected for New York and the Midwest Region selected for Illinois and Wisconsin were representative of the overall quality control samples drawn by the respective states. In addition, we did not find any indications that the states had prior knowledge of, and therefore an opportunity to correct any mistakes that state reviewers may have made in, the cases the Service planned to validate. However, Service officials acknowledged that their policy of validating a subsample of a state's quality control sample would not readily detect deliberate attempts that a state might make to bias its samples.

**Review Findings Were  
Accurate, but Some  
Opportunities for  
Improvement Exist**

Taken together, the state and federal quality control reviews for New York, Illinois, and Wisconsin accurately identified the extent and types of program errors that existed in the cases reviewed. Although the three states failed to identify errors in about 5 percent of the cases in which errors were subsequently found by federal quality control reviewers, all of these errors were corrected during the rereview process. We did not find any errors that federal reviewers overlooked. In addition, we did not find any substantive weaknesses in the procedures state and federal quality control reviewers used to complete case reviews, but we observed some state practices that if used on a more widespread basis, could improve and facilitate state and federal quality control reviews.

**Reviews Were Adequate**

We found that New York, Illinois, and Wisconsin generally carried out their fiscal year 1984 quality control reviews in accordance with Service

guidance and that the Service conducted proper desk reviews of all the cases we reviewed. Service regulations on reviewing active food stamp cases require state quality control reviewers to determine whether selected households were eligible for the Food Stamp Program and, if so, whether they received the correct amount of benefits in the month they were selected for a review. State reviewers are required to check each case to see if the household met such basic program eligibility requirements as having income and assets within specified levels. In doing so, a state reviewer must examine the household's eligibility case record on file at the local food stamp office and conduct a full field investigation that includes a personal interview with the head or a responsible member of the household and contact with sources of collateral information. The personal interview is designed to verify household size and to review any documentary evidence the household may have to support eligibility case record data. Collateral sources—such as employers, banks, landlords, neighbors, and automated data systems—must be used, whenever possible, to provide second party verification concerning each basic program eligibility requirement.

Service regulations allow a state (1) 75 days from the end of the sample month to report to the Service the findings on 90 percent of the cases selected that month and (2) 95 days from the end of the sample month to report findings on all cases. The Service then validates a subsample of the state's completed quality control reviews—generally by conducting a desk review of the state's quality control records and findings. When necessary, the Service tries to supplement this desk review with participant-supplied and collateral data. In addition, Service guidance states that regional offices should, whenever possible, select a percentage of cases for full field investigations.

For the 1,281 fiscal year 1984 reviews that the Service validated for New York, Illinois, and Wisconsin, it noted and corrected 60 errors not reported by the states. The number of cases in which errors were overlooked by the states but detected by the Service ranged from 8 cases in Illinois (about 2 percent of all cases the Service reviewed) to 34 cases in Wisconsin (about 8 percent of the cases the Service reviewed). Our independent review of 59 randomly selected cases in these states revealed 3 errors not found by the states but already detected and corrected by Service reviewers. We did not find any errors in our sample cases that the Service had overlooked.

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**Some Review Practices  
Differed From State to State**

Although the overall quality control review process in New York, Illinois, and Wisconsin generally produced accurate findings, we found that in some instances reviewers were using more effective procedures and data sources that other reviewers could also have benefited from. Specifically, we found that (1) one state required applicants to give reviewers advance authorization to obtain data from such sources of collateral information as employers and banks, whereas the other two states did not do so; (2) the extent to which reviewers used automated data systems varied among the three states; and (3) the level of documentation provided to support state quality control review efforts and findings varied among the three states.

**Authorization to Release  
Information Could Assist State  
Reviewers**

Quality control reviewers need information from such collateral sources as employers, banks, and landlords to verify participants' eligibility for food stamps. Service regulations specify that "If required by the State, the reviewer shall obtain consent from the head of the household to secure collateral information." New York had provided for advance consent on its food stamp application and therefore did not require its quality control reviewers to obtain additional consent. However, Illinois and Wisconsin required their reviewers to obtain consent at the time of review. In those two states, quality control reviewers sometimes were unable to verify earnings, assets, or other information because some participants did not grant authorization to release this information to the reviewers; and employers, banks, and other institutions often were unable to release information to quality control reviewers without such authorization. This problem usually occurred when participants either could not be located for a review or did not cooperate with the reviewer.

For example, in one case we reviewed, a Wisconsin quality control reviewer could not complete a review of a Milwaukee household that had moved and could not be located. In attempting to verify the household's composition and the timing of the household's move, the reviewer tried to obtain the school attendance records of the children in the household. However, Milwaukee public school officials could not release this information without a signed authorization. Because the household could not be reached to provide such authorization, the reviewer could not complete the case and could not determine whether an erroneous benefit issuance had been made in this case.

Service officials said that because they were not familiar with each state's privacy laws, the current food stamp regulations were designed to let states choose the proper balance between a participant's right to

privacy and a reviewer's need for information to verify eligibility. Officials in Illinois and Wisconsin said that their state privacy laws posed no barriers to food stamp quality control reviews. They added, and Service headquarters and regional officials agreed, that quality control reviews might be facilitated if the Food Stamp Program adopted the AFDC requirement that all applicants must sign a release that would give quality control reviewers access to information, and they suggested that the release be updated each time a household is recertified for benefits. The Service and state officials said that such signed authorizations could later prove helpful to quality control reviewers seeking to verify eligibility and benefit issuances through collateral data sources when participants do not cooperate in quality control reviews or if the participants cannot be located. New York officials told us that the state's food stamp application already required such a release at the time of application and that quality control reviewers found this authorization to be essential when gathering collateral data on the eligibility of participants who did not grant releases at the time of review.

#### **State Reviewers Can Make Greater Use of Automated Data Systems**

Quality control reviewers need accurate and timely information to verify the accuracy of food stamp eligibility and benefit-level determinations. To obtain some of this information, many states are using automated data systems. These automated data systems are maintained by state or local governments and provide quality control reviewers with information on participants' (1) wages; (2) receipt of AFDC, Supplemental Security Income, and general assistance payments; and (3) assets, such as real estate and automobiles.

In the three states we reviewed, the verification information available on automated data systems varied. For example, both New York and Illinois had centralized wage data systems that their quality control reviewers could use when attempting to determine which Food Stamp Program participants had earned income and to locate the income source. In contrast, Wisconsin did not have such a system, and its reviewers could identify earned income only if the participating household reported it to the food stamp office. However, Wisconsin officials told us that they planned to develop a centralized wage data system.

Even when data systems were available, state quality control reviewers did not always make full use of the information in them. For example, the Illinois Motor Vehicle Division maintains a data base that describes all automobiles registered in the state and lists the addresses of all

licensed Illinois drivers. As such, the data base could be used to determine whether Food Stamp Program participants owned any automobiles valued in excess of the program's asset limitation. (To be eligible for food stamps, a household cannot own a vehicle and other assets with a combined value of over \$6,000.) However, Illinois' quality control reviewers did not routinely use the motor vehicle data system for this purpose because they said they believed that few Food Stamp Program participants owned expensive cars. Instead, they routinely used the motor vehicle data base only to verify the addresses of those Food Stamp Program participants who could not be located for a quality control review. (As discussed in chapter 3, food stamp regulations require state reviewers to attempt to locate participants through at least two sources, one of which could be motor vehicle records, before dropping the case from a quality control review.<sup>4</sup>) However, Illinois officials told us that they planned to make regular use of the Motor Vehicle Division's data base in the future.

To illustrate the value of Illinois' motor vehicle data base, we used data that the Motor Vehicle Division provided to a state quality control reviewer to show that one household was ineligible for the \$91 in food stamps it received in April 1984 because it owned three automobiles—one of which was a 1984 Ford Tempo—but claimed ownership of only one of its older cars. We provided an authorized dealer with the Motor Vehicle Division's description of the household's 1984 Ford Tempo and determined that the assessed value at the time of the quality control review was at least \$8,500, thereby making the household's assets exceed the program limit. In its July 1984 quality control review of this case, Illinois did not act on the household's ownership of the 1984 Ford Tempo and the other unreported automobile because the state could not locate the household to complete its review. The reviewer merely used the Motor Vehicle Division as one of the two required sources to show that he attempted to locate the household, as opposed to using the Division's data base as a source of information to verify eligibility.

**Better Documentation Could  
Facilitate Service Validations**

Service guidance requires state quality control reviewers to document the results of their verification efforts by recording information on the review worksheet and by attaching copies of documentary evidence. According to the guidance "documentation should clearly show the basis

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<sup>4</sup>Other sources include but are not limited to (1) the local office of the U S Postal Service; (2) the owner or property manager of the residence at the address in the case record; and (3) any other appropriate sources based on information contained in the case record, such as public utility companies, telephone company, employers, or relatives

for the reviewer's findings and . . . whenever possible, documentation should be accomplished by attaching some official document or correspondence." We found that in New York quality control reviewers did not always comply with Service guidance concerning documenting the bases for their review findings. However, we did not find this problem in our sample of Illinois or Wisconsin cases.

For example, on the basis of an April 1984 quality control review of a participant who received \$104 a month in food stamps, New York reported that the participant said he was unemployed and that the reviewer verified this claim. However, the state did not show how the quality control reviewer verified the participant's statement and what sources of information the reviewer used to do so. The lack of documentation made it difficult for us to evaluate the appropriateness of some state determinations and meant that Service reviewers either had to accept some state findings or try to verify them independently.

The Northeast Region notified New York in January 1986 that it had found some type of documentation problem in many quality control review cases completed by the state. The region recommended that the New York State Department of Social Services improve the quality of its documentation, particularly for income and shelter expenses. (The Midwest Region did not make a similar analysis for either Illinois or Wisconsin, nor had the Service made such an analysis for the program nationwide). Northeast Region officials said that when rereviewing quality control cases, the region does not have the resources to independently gather data on a regular basis. They said that the region validated about 90 percent of its subsample of New York's cases using desk reviews and telephone calls. Therefore, the Service must rely, to a large extent, on state-supplied data—making the quality of state documentation essential to the validation process.

New York quality control officials said that they were emphasizing the need to adequately document review findings. A New York official said that New York City planned to test a revised quality control worksheet designed to (1) provide more instructions and guidance to reviewers and (2) require them to better document the bases for their findings.

## The Service Properly Resolved Disagreements Over States' Error Determinations

Service regulations allow states to challenge any Service review determinations with which they disagree. Under this procedure, the regional office advises the state of any disagreements it has with state quality control review findings and discusses each of these cases with the state. It then gives the state the option of accepting the region's view or requesting regional arbitration to resolve any differences. If the state is not satisfied with the regionally arbitrated decision, it may request final arbitration from Service headquarters. In the region, the arbitration decision is made by an official who is not directly involved in the quality control process; at headquarters the decision is made by the Director for Program Planning, Development and Support, who also is not directly involved in the quality control process. The Service has not specified time frames within which a state must request arbitration from the region or headquarters.

As shown in table 2.2, for the states we reviewed, the Service supported 60 of the 67 fiscal year 1984 determinations in which it disagreed with the states and reversed 7 determinations when challenged by the states. During initial discussion with the states, the Service reversed its position on six cases when apprised of additional information not initially included in the quality control records. The states requested regional arbitration on three cases (the region's position was upheld on two of them) and the states requested headquarters arbitration for one case (where the region's position was sustained). According to the Service regional and state officials we interviewed, the state challenge procedures worked smoothly for these states and did not disrupt the operation of other quality control functions.

**Table 2.2: Resolution of Disagreements Over States' Error Determinations, Fiscal Year 1984**

| Number of cases                      |          |          |           |       |
|--------------------------------------|----------|----------|-----------|-------|
| Action Taken                         | New York | Illinois | Wisconsin | Total |
| Cases rereviewed by the Service      | 420      | 441      | 420       | 1,281 |
| Service disagreed with state finding | 21       | 11       | 35        | 67    |
| Service's position upheld            | 18       | 8        | 34        | 60    |
| State challenge upheld               | 3        | 3        | 1         | 7     |

We examined all the fiscal year 1984 quality control cases challenged by New York, Illinois, and Wisconsin. We found that the Service and states resolved the cases in accordance with Service regulations and that resolution usually occurred within about 1 month. Service and state officials

told us that the challenges were resolved with relatively little cost in either staff time or other resources.

On March 21, 1986, the Service issued proposed regulations that would eliminate the opportunity for arbitration by Service headquarters and limit to 28 calendar days the time period that states have to request regional arbitration. The regional arbitrator would then have 30 days to make a decision. Service officials said that although the current process had worked smoothly when sanctions were not pending, these changes were needed because some states facing sanctions had challenged a large number of cases to Service headquarters and that some recent challenges involved cases that were from as early as 1982.

In April 16, 1986, testimony before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture, the Food Stamp Director for Illinois said that Agriculture's proposed regulations would limit states' rights to question the Service's error determinations and claimed that many state challenges to headquarters are resolved in the state's favor. In an April 21, 1986, internal memorandum, New York quality control officials concurred in this assessment. In May 15, 1986, testimony before the House Subcommittee, Service officials said that they feared that unless some limits were placed on states' rights to challenge error determinations, the timeliness of quality control error-rate determinations would be adversely affected as the number of states being sanctioned increased. We attempted to determine the status of state challenges, but no national statistics were available on the number, outcome, timing, and cost of state challenges to regions or headquarters. In August 1986, Service officials told us that they were in the process of revising and clarifying their proposed regulations.

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## **Quality Control Staffing, Timing, and Organization**

To encourage states to conduct complete, timely, and objective quality control reviews, the Service (1) specifies the minimum number of reviewers that states should employ and the time frames within which reviews must be completed and (2) directs states to establish quality control units that are independent of program operations. New York, Illinois, and Wisconsin substantially complied with these requirements. The three states provided adequate staff to complete the required number of quality control reviews on time, and all maintained quality control staffs independent of state Food Stamp Program operations.

**Staffing and Timing**

Service guidance recommends that states that annually complete more than 1,600 food stamp quality control reviews maintain full-time quality control staffs of at least 21 to 25 reviewers and recommends that states that annually complete 1,000 to 1,600 food stamp reviews have at least 14 to 18 full-time reviewers. The guidance specifies that "these staffing patterns are applicable to all states including those in which the staff review food stamp, AFDC, and medicaid cases . . . and the staffing patterns represent that portion of the total staff which would be needed for food stamp reviews."

In fiscal year 1984, New York, Illinois, and Wisconsin met these requirements. (See table 2.3.) New York and Illinois employed 75 and 48 full-time reviewers, respectively. Quality control staffs in New York and Illinois completed 1,344 and 1,208 food stamp reviews, respectively. Officials in these states estimated that, on the average, each reviewer completed equal numbers of Food Stamp, AFDC, and Medicaid Program quality control reviews and that the level of effort was about the same for each program. Using these estimates, the portion of the quality control staff that New York and Illinois allocated to the Food Stamp Program comprised about 25 and 16 reviewers, respectively. Wisconsin employed 35 full-time reviewers and completed 3,018 food stamp reviews. As noted previously Wisconsin's reviews were integrated with the AFDC and Medicaid reviews, but state officials noted that once a review has been completed for food stamp purposes, very little time or effort is needed to complete the AFDC and Medicaid portions of the review.

**Table 2.3: Fiscal Year 1984 Workload of Quality Control Reviewers**

| State     | Completed food stamp reviews | Full-time food stamp reviewers |                       |
|-----------|------------------------------|--------------------------------|-----------------------|
|           |                              | Required by the Service        | Employed by the state |
| New York  | 1,344                        | 14 to 18                       | 25 <sup>a</sup>       |
| Illinois  | 1,208                        | 14 to 18                       | 16 <sup>a</sup>       |
| Wisconsin | 3,018                        | 21 to 25                       | 35                    |

<sup>a</sup>Estimated

As discussed earlier in this chapter, New York, Illinois, and Wisconsin generally completed quality control reviews in accordance with time frames specified by Service regulations. However, state officials said that to meet these time frames, state reviewers sometimes did not make use of some collateral data sources and instead accepted unverified participant-supplied information when making quality control reviews. For

example, Illinois quality control reviewers had access to two automated wage data systems maintained by the state but used only one. The reviewers did not use a comprehensive wage data system that required about 6 to 9 months to provide wage information and, therefore, could not be used within the 95-day time frame the Service prescribed for completing all reviews. Instead, Illinois quality control reviewers routinely used only a simpler automated wage data system that did not show the amount of earnings—only the name of the participant's employer. Therefore, the quality control reviewer either had to verify the amount of reported income with the employer listed in the data system or just accept the proof of earnings provided by the participant. Quality control officials in New York said that such problems could be alleviated if reviewers were given more time and suggested that the Food Stamp Program adopt the AFDC provision that gives states 120 days to complete reviews.

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## Organization

The organizational structures of the social service offices in New York, Illinois, and Wisconsin separated the quality control units from Food Stamp Program operations, thereby allowing for the independence and objectivity of state quality control reviewers. Our interviews with officials from the quality control and program operations units and our examination of the records of both groups did not indicate that program operations staff had influenced quality control review efforts or error determinations. State officials told us that their quality control units had been established before the advent of sanctions. They said that the objective of the quality control units was to find as many errors as possible so that, once aware of the problems, program operations staff could take corrective actions. They said that their quality control units were considered to be elite organizations and that the objectivity and independence of the reviewers were protected. The state quality control directors in New York, Illinois, and Wisconsin said this elite status still existed. However, Service officials expressed concern that with lower target error rates and increased sanctions, pressure might be placed on quality control reviewers to find fewer errors. We did not see any evidence of this in the fiscal year 1984 quality control reviews of New York, Illinois, and Wisconsin.

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## Conclusions

Given the increased scrutiny that error rates have come under as error-rate targets have lowered, sanction amounts have increased, and more states have been sanctioned, it is important that state quality control systems function as efficiently and effectively as possible. The quality

control reviews made by New York, Illinois, and Wisconsin provided a reasonable basis for estimating the extent of the eligibility and benefit determination errors. The procedures that the three states and the Northeast and Midwest Regions used to sample and review cases were adequate, and overall, these states' and regions' review determinations were accurate. The procedures the Service used to allow these states to challenge cases where federal reviewers disagreed with the states' original determinations were adequate and satisfactorily resolved the disagreements in most cases. Finally, the staffing, timing, and organization of quality control reviews were consistent with Service guidelines.

However, several opportunities exist to make the quality control system work more efficiently and effectively. First, quality control reviews could be facilitated if reviewers had authorization to obtain necessary data from collateral sources, such as banks and participants' employers. Although some states require their quality control reviewers to obtain such authorization at the time of review, others require all applicants for food stamp or AFDC benefits to sign releases that grant quality control reviewers and other state officials access to needed data. Authorizations obtained at the time of application and recertification would allow quality control reviewers to verify eligibility and benefit issuance determinations through collateral sources when participants will not cooperate with, or cannot be located by, the reviewer.

Second, quality control reviewers in some states could make greater use of automated data systems available to them. Although such systems can be effectively used to verify eligibility, we recognize that impediments may exist in state systems that sometimes could preclude their timely use for rendering quality control determinations. Because we did not compare the costs and benefits of developing and more extensively using automated systems, we are not making any recommendations in this area.

Third, because federal quality control reviews are, to a large extent, desk reviews of state-supplied data, federal reviews could be facilitated if state reviewers adequately documented their findings. For the three states in our review, the level of documentation varied. When adequate documentation was not provided, as sometimes occurred in New York, federal reviewers were forced either to accept some state findings or to try to independently verify them. However, the Service has taken action in New York, and because no data exist on the extent of the problem nationwide, we are not making any recommendations in this area.

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**Recommendation to the  
Secretary of  
Agriculture**

We recommend that the Secretary of Agriculture direct the Administrator, Food and Nutrition Service, to revise Service regulations to require states to obtain, at the time of application and recertification, authorization for release of information for possible use by quality control reviewers seeking to verify participants' eligibility for benefits.

# Quality Control Regulations Exclude Certain Error-Prone Cases From the Error Rate

Service regulations cause states to drop certain types of food stamp cases from their quality control reviews. We found that New York, Illinois, and Wisconsin dropped, on the average, about 1 in every 12 cases selected for review. We also found that dropped cases were about twice as likely to contain errors as were completed quality control review cases. We estimated that, if included, these dropped cases could have increased the fiscal year 1984 error rates for the three states we reviewed and increased sanctions for two of the three states. We believe the states would complete reviews of more cases if the Service (1) modified its regulations concerning the criteria for dropping cases, (2) clarified the authority its regions have to require states to complete reviews, and (3) sought congressional authorization to assess states for costs the federal government would incur when completing reviews of cases dropped by the states.

## Criteria for Dropping Cases

Service regulations require or allow states to drop cases from their quality control reviews if the states designate the cases as either "not completed" or "not subject to review." Cases are dropped primarily when a personal interview is not possible or when the household has a pending hearing or did not receive food stamps. Service guidance stresses the importance of completing reviews of cases that are subject to review, instructing state reviewers "to actively pursue the completion of the required reviews, and . . . [consider] no case as 'not complete' unless every effort has been made to complete the review." However, Service regulations recognize that certain circumstances may prevent state reviewers from completing reviews of all cases, such as when (1) the household or case record cannot be located or (2) all participants in the household refuse a personal interview or in some other way do not cooperate with the quality control reviewer. When this happens, states are instructed to categorize the case as not completed. Although the results of not-completed reviews are not included in the error rates, the Service attempts to account for these cases in its error-rate calculations. The Service reviews each not-completed case to ensure that the state properly designated it as such, and in calculating the official error rate, the Service includes a penalty for all cases for which the state did not complete reviews.

On the other hand, penalties are not assessed for cases designated as not subject to review. According to Service regulations and guidance on selecting and reviewing active cases, cases are to be designated as not

subject to review when any of the following happen to participants in the household:<sup>1</sup>

- die before the review can be undertaken or completed;
- become institutionalized (hospitalized or incarcerated) before the review can be undertaken or completed;
- at the time of review (1) are under active investigation for intentional program violation (fraud), (2) have a hearing pending for fraud, or (3) have an appeal (called a fair hearing) of an adverse action taken by the state food stamp office;
- move out of state before the review can be undertaken or completed;
- cannot be located even after the reviewer has attempted to do so by contacting at least two reliable sources, such as the local U.S. Postal Service office or the state motor vehicle department; or
- received no benefits for the sample month, or received only restored benefits or benefits under special disaster authorization but otherwise are not participating in the program.<sup>2</sup>

In addition, when states inadvertently select samples larger than the Service requires, they may designate the excess cases as not subject to review. When a state designates a case as not subject to review, it drops the case from its quality control sample. The Service reviews each of these cases to ensure that this designation is appropriate and, if so, excludes the case from the state's official Food Stamp Program error rate.

As table 3.1 shows, New York, Illinois, and Wisconsin dropped about 8, 12, and 7 percent respectively of the cases selected for review. They also designated about 55, 66, and 49 percent respectively of these dropped cases as not subject to review, with the remainder considered to be not completed.

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<sup>1</sup>Service guidance specifies that the conditions must affect all household members before the case can be designated as not subject to review. If a condition pertains to one member of the household, it will frequently pertain to all members. For example, if a household member is under investigation for food stamp fraud, the entire household will be investigated. However, certain circumstances, such as the death or incarceration of a member of the household, may not impair the quality control review of the remainder of the household. Therefore, most households that are designated as not subject to review because participants have died or become institutionalized are one-person households. Based on the most recent data, there are about 2.3 million single-person households in the Food Stamp Program—about 30 percent of all participating households.

<sup>2</sup>Restored benefits compensate participants who have incorrectly been given too few benefits in the previous 12 months. Disaster authorization involves special participation in the Food Stamp Program because of the occurrence of a natural disaster.

**Table 3.1: Disposition of Cases Selected for Quality Control Reviews in Fiscal Year 1984**

| State     | Selected for review | Review completed | Dropped cases         |                      | Total |
|-----------|---------------------|------------------|-----------------------|----------------------|-------|
|           |                     |                  | Not subject to review | Review not completed |       |
| New York  | 1,455               | 1,344            | 61                    | 50                   | 111   |
| Illinois  | 1,365               | 1,208            | 104                   | 53                   | 157   |
| Wisconsin | 3,254               | 3,018            | 115                   | 121                  | 236   |

### Dropped Cases Are More Error-Prone

Food Stamp Program error rates would provide a more accurate measure of how well states are administering the program if states completed reviews of certain cases that current regulations require or permit them to drop and if states included the results of these reviews in the error rate. We concluded that New York, Illinois, and Wisconsin could have attempted to review about two thirds of their dropped cases if the criteria for dropping cases were revised. We were able to determine the appropriateness of benefits in 39 percent of these cases and found that in the three states, dropped cases were about twice as likely to contain errors as the cases for which the states completed their reviews. We estimate that including dropped cases in these states' fiscal year 1984 error rates could have increased them by 0.5 to 1.75 percentage points. If error rates increased to these levels, we estimate that New York's sanction could have increased by about \$15 million and Wisconsin's by about \$1 million.

We reviewed 360 cases—all cases dropped by New York and Illinois and a random sample comprising about 40 percent of the cases dropped by Wisconsin. In reviewing these cases, we attempted to verify basic program eligibility requirements to determine the appropriateness of benefits the states provided. However, we did not conduct in-home interviews or gather extensive collateral data but instead relied primarily on data from state and federal eligibility and quality control case files and from readily available collateral sources, such as income and asset data maintained by the states. In about 40 percent of the cases where we attempted to make determinations, no quality control or collateral data were readily available to us to update eligibility case file data on any of the major program eligibility requirements—income, assets, household composition, and shelter costs. We designated such cases as ones for which we could not make a determination and assumed that the likelihood of error in such cases was the same as for those cases where we could make determinations.

**Chapter 3**  
**Quality Control Regulations Exclude Certain**  
**Error-Prone Cases From the Error Rate**

Using this approach, we concluded that 242 of the 360 dropped cases we reviewed would have been reviewed by the states if Service regulations had been revised (see p. 42) and that determinations regarding the appropriateness of benefits could have been made for 95 of these cases.<sup>3</sup> We estimated that the error rates for cases dropped by New York, Illinois, and Wisconsin were about 31, 29, and 14 percent respectively.<sup>4</sup> (See table 3.2.) The errors in these dropped cases primarily involved (1) participants who incorrectly reported their income, the number of persons residing in their household, or the amount paid for shelter and/or (2) eligibility workers who improperly certified households or who made errors in benefit computations. In 1981 and 1986 the Agriculture Inspector General reported similar findings. In 1981 he noted that his office had been able to verify eligibility determinations for 436 of 464 fiscal year 1980 cases that five states had dropped from their quality control samples because of Service regulations, and in 1986 he reported that for fiscal year 1983, the error rate for dropped cases "could be as much as two times higher than that for completed cases."<sup>5</sup>

**Table 3.2: Error Rates for Dropped and Completed Cases**

| State     | Error Rate    |                 |
|-----------|---------------|-----------------|
|           | Dropped cases | Completed cases |
| New York  | 30.55         | 10.14           |
| Illinois  | 28.98         | 8.31            |
| Wisconsin | 13.71         | 9.60            |

As shown in figure 3.1, we estimate that if these dropped cases had been included in the states' fiscal year 1984 error rates,

- New York's sanction would have been \$25.2 million (instead of \$10.1 million) because its error rate would have been 11.9 percent (instead of 10.1 percent),
- Illinois' sanction would have remained at \$2.8 million although its error rate would have been 9.0 percent (instead of 8.3 percent), and

<sup>3</sup>We believe that the remaining 118 dropped cases in our review should have been dropped from the quality control review process, primarily because households had not received or been certified for food stamps in the sample month or had pending fair hearings.

<sup>4</sup>Error rates for dropped cases are unweighted, average dollar error rates.

<sup>5</sup>Food and Nutrition Service Food Stamp Program Nationwide Audit of the Quality Control System (27627-2-Hy, Dec. 14, 1981) and Food and Nutrition Service Southeast Regional Office Food Stamp Program Quality Control Error Rate Reduction System (27650-1-At, May 12, 1986).

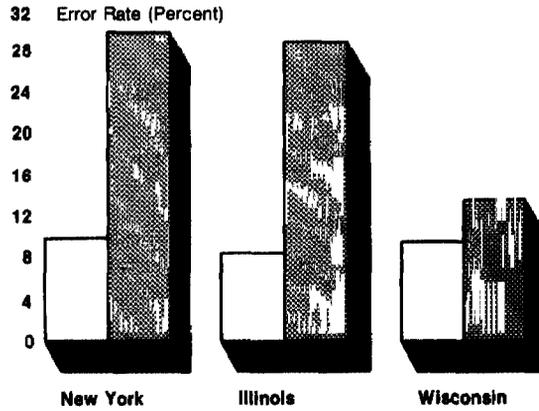
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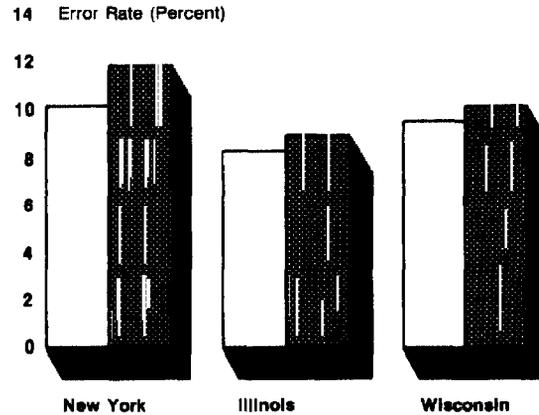
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- Wisconsin's sanction would have been \$2.5 million (instead of \$1.4 million) because its error rate would have been 10.1 percent (instead of 9.6 percent).

**Figure 3.1: Impact of Including Dropped Cases in the Error Rate**

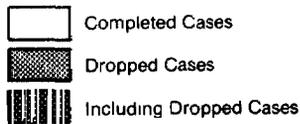
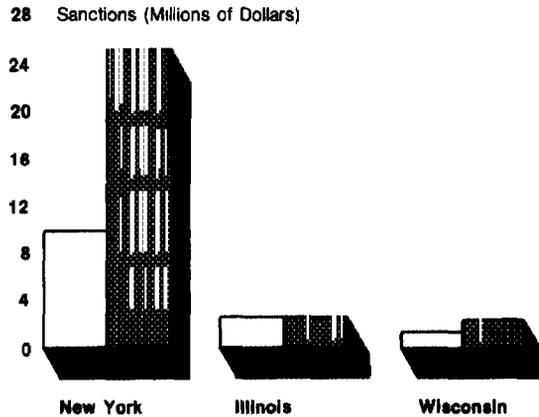
Because Dropped Cases Are More Error Prone Than Completed Cases



Including Them Should Raise Error Rates



and Sanctions



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## **Changes Needed to Reduce the Number of Dropped Cases**

Although the three states generally complied with Service regulations for dropping cases from quality control reviews, the regulations caused them to drop cases for which we believe quality control reviewers could have determined whether the households had been given the appropriate benefit amounts. These reviews would have been considered to be complete and their results included in the states' error rates if the Service had required states to

- review and attempt to complete cases using collateral and case record data when a personal interview is not held,
- count as errors those cases in which the quality control reviewer is unable to complete all aspects of a review but is still able to determine that the household is ineligible for the Food Stamp Program, and
- review cases in which the household is under investigation for fraud or has a pending fraud hearing.

We believe that the number of dropped cases would be further reduced if the Service clarified the authority of its regional offices to require states to complete quality control reviews and sought congressional authorization to bill states for the costs the federal government incurs when regions complete reviews of cases dropped by the states.

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## **The Service Should Require States to Attempt to Complete Reviews Even When a Personal Interview Is Not Possible**

To determine if participants received the appropriate level of benefits, quality control reviewers can use information from (1) participants; (2) collateral sources, such as landlords, employers, and automated data systems; and (3) eligibility case records completed at the time of application and updated as changes are reported. Service regulations and guidance require states to drop cases in which personal interviews are not held. Reasons for not holding interviews include when participants die, are institutionalized, move out of state, cannot be located, or do not cooperate with quality control reviewers. According to Service officials, the personal interview is mandatory because participants deserve the opportunity to clarify any information obtained from collateral sources. Although we agree with the Service that the participant is the preferred information source, we concluded that when personal interviews were not held, the three states we reviewed frequently could have used collateral and case record data to verify basic program eligibility requirements and therefore determine the appropriateness of benefits.

New York, Illinois, and Wisconsin dropped all cases in which a personal interview was not held even though in many instances the reviewer had already completed most of the review and sometimes could even make a

determination as to the appropriateness of benefits. As a result, the states' error rates did not include some errors that the states knew about, while also omitting some cases where benefits had been correctly paid.

For example, for the 15 quality control review cases in the first quarter of 1984 that New York dropped because a personal interview was not held, quality control reviewers, on the average, verified 12 of the 16 basic program eligibility requirements that a review entails. In a January 1984 case, New York was able to conduct a complete quality control review with the exception of a personal interview. That review showed that a three-person household received excess benefits of \$71 per month because the head of the household did not claim the \$236 in unemployment compensation that she had received each month. However, New York dropped the case and did not include this error in its error rate because, according to the quality control reviewer, the participants were vacationing in Puerto Rico and could not be located for a personal interview. In another case, a New York state reviewer in June 1984 was able to determine that a participant was receiving the correct amount of benefits by referring to the case record and nine different collateral sources, including local banks, a wage match with the New York state wage data system, HHS, the county clerk, and the participant's landlord. However, as required by Service regulations, New York dropped the case because the participant refused a personal interview.

In some cases, the factor that prevented a personal interview also caused an eligibility error. For example, in March, April, and May 1984, Illinois issued a total of \$135 in food stamps to a participant who had died in February of that year. Because the participant obviously could not be interviewed during the state's May 1984 quality control review, Illinois dropped the case and did not count this error in its error rate. Service officials said the intention of the regulations was to avoid requiring states to interview inaccessible participants—not to prevent them from counting as errors the issuance of coupons to dead persons.

Service officials said this same reasoning extended to the requirement that states drop cases in which participants move out of state or are institutionalized. They said that because some state laws prohibit quality control reviewers from traveling outside the state to interview participants, Service regulations require all states to drop cases in which participants move out of state, thereby precluding completion of a review. However, this requirement prevents reviewers from completing cases where all pertinent information is available within the state even

though the participants have moved out of state. It also means that states must exclude from the error rate cases where a state continues issuing food stamps to participants who reside in a different state and therefore are ineligible for benefits in the first state. For example, from January through March 1984, Wisconsin issued a total of \$174 in food stamps to a participant who had moved to Illinois in December 1983. However, this error was not included in Wisconsin's error rate because the state had dropped the case.

Service officials gave two reasons for requiring states to drop reviews in which the only responsible household member(s) has become institutionalized: (1) the quality control reviewer might find it difficult to gain access to the participant for the required personal interview or (2) it may be detrimental to the participant's health to do so. However, we believe that institutionalized participants are not always inaccessible to quality control reviewers or in such poor health that a quality control review is not feasible. For example, in October 1984, Wisconsin dropped a case where the state had been paying \$76 in monthly benefits to a participant who was in jail. The state quality control reviewer found that upon applying for food stamps, the participant, certified as a one-person household, had failed to mention that she lived with her mother and five siblings. Consequently, the participant was not entitled to the benefits she was receiving, but Wisconsin dropped this case and did not count the error in its error rate because the reviewer did not interview the jailed participant.

We believe that quality control reviewers should be required to contact the institution where a participant is incarcerated or hospitalized to determine whether a personal interview is feasible. If an interview is not possible, then the reviewer should still attempt to complete the review from collateral and case record data.

We also believe that the Service should require states to attempt to complete all reviews with collateral or case record data when personal interviews are not possible and that it should adopt a provision similar to that in HHS' AFDC quality control review guidance that stipulates that the "inability to complete a face-to-face interview . . . must not result in the automatic dropping of cases." According to HHS guidance, "many elements can be verified without conducting a face-to-face interview. Examples include property ownership, . . . school attendance, earned income, etc."

Service officials said that the importance of the personal interview had diminished now that states had increased access to automated data and other collateral sources of information. They said they would consider dropping the requirement for a mandatory personal interview but would always urge reviewers to interview participants whenever possible.

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### Issuing Benefits to Ineligible Persons Should Always Be Counted as an Error

Service regulations permit, but do not require, states to count as errors those cases in which the quality control reviewer is unable to complete all aspects of a review but is still able to determine that the household is ineligible for the Food Stamp Program. Service officials said that the states were permitted, rather than required, to count such ineligible participation as an error so that quality control reviewers would not be discouraged from trying to verify all basic program eligibility requirements for ineligible participants. They said that the intention of the regulations was not to give states an opportunity to exclude known errors from the error rate but to allow states to identify and correct the causes of any additional problems that reviewers might uncover. However, New York, Illinois, and Wisconsin did not include in their error rates ineligible participants for whom all aspects of the review had not been completed. For example, Illinois dropped, and did not include in its error rate, the results of a May 1984 review of a four-person household that was ineligible for its \$122 monthly food stamp allotment. After disclosing ownership of a \$35,000 certificate of deposit—the Food Stamp Program has a \$1,500 limitation on assets other than motor vehicles—the participants refused further cooperation with the quality control reviewer. The reviewer could not finish the personal interview and therefore did not complete his review—permitting the state to drop the case and not count the error in its error rate.

We believe that food stamp regulations should be changed because current regulations are causing known errors to be excluded from the error rate. The Service should revise its regulations to require that when review of a basic program eligibility requirement shows participants to be ineligible, such cases should be included in the error rate even though other aspects of the review are not completed. This change could be made by adopting a provision similar to that in HHS' AFDC Program guidance that requires that each case in which a "completed element proves ineligibility . . . be considered complete and the error" included in the error rate.

We recognize that including these ineligible cases will raise the error rates, but in our view the system should not allow obvious errors to be

overlooked. In addition, as pointed out previously, states appear to be dropping their more error-prone cases, causing the current quality control system to understate the incidence of program errors. We believe that counting the issuance of food stamps to ineligible persons as errors should cause states to complete more cases. States would not have the opportunity to drop ineligible cases and would have greater incentive to complete as many correct cases as possible because doing so could offset the effect of including the ineligible cases.

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**Participants Who Are Under Investigation or Have Hearings Pending**

Service regulations require quality control reviewers to drop any case where participants are under investigation for suspected food stamp fraud or have either a fraud or fair hearing pending. Service officials said that they required states to drop potential fraud cases to prevent quality control review efforts from biasing the outcome of the fraud investigation or hearing. They said that fair-hearing cases were excluded because program regulations require states to continue providing benefits (until the hearing takes place) at the level authorized prior to the notice of adverse action.

In a March 1986 report,<sup>6</sup> we noted, and Service officials concurred, that recovering benefit overpayments should not bias fraud investigations or administrative fraud hearings because they involve cases in which an overpayment error is known to have occurred and the cause of the overpayment is being examined. Similarly, the quality control review should not affect the outcome of the investigation or hearing. In addition, quality control reviews can be facilitated by using the information compiled by the office responsible for fraud investigations and hearings. For example, in April 1984 Wisconsin dropped a case involving a four-person household receiving a \$58 monthly food stamp allotment that was under investigation and had an administrative hearing pending for suspected fraud. The fraud investigation revealed that the household was ineligible for benefits because one household member had not lived in the household since June 1983. As a result, the household's gross income exceeded the maximum for a three-person household. However, Wisconsin dropped the case and did not include this error in its error rate.

We believe that the Service should require states to attempt to review cases involving households that are being investigated or awaiting

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<sup>6</sup>Benefit Overpayments: Recoveries Could Be Increased in the Food Stamp and AFDC Programs (GAO/RCED-86-17, Mar. 14, 1986).

administrative fraud hearings and that state reviewers should contact the state fraud unit for any information they may need to aid their review. However, we believe that the Service is correct in requiring states to drop cases that involve fair hearings. Whereas fraud hearings involve cases in which an error is known to have occurred but the cause of error is in dispute, fair hearings involve a dispute over the level of benefits that should be provided. As such, no error determinations are possible until the dispute has been resolved and the state has made any necessary adjustments to benefit levels.

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**The Service Should Clarify  
and Support Its Regions'  
Authority to Require States  
to Complete Reviews**

Midwest and Northeast Region officials told us that although they have the authority to require states to comply with Service regulations, the regulations do not specifically mention requiring states to complete quality control reviews of dropped cases that in the region's opinion could have been completed. They also noted that unless the regions' authority was augmented with some financial inducement, the states might not comply with the regions' requests to complete cases. In our review of dropped cases, we found 12 instances in which the Midwest Region asked Illinois or Wisconsin to complete cases that had been dropped. The states did not comply with four of these requests because the states said such cases were difficult to review and the region did not have the means to require the state to complete them.

In one case, the Midwest Region asked Illinois to complete a case the state had dropped. In this case, the Illinois quality control reviewer had asked a participant, who was certified as a one-person household and received \$76 in food stamps each month, to appear at the quality control office for an interview. The participant did not appear for the interview and less than a week after the request, Illinois dropped the case. According to the case record, the reviewer did not attempt a home visit to complete the review because the participant had a prison record and lived in a bad neighborhood. Although regulations require home visits in all such cases, Illinois declined to complete this review contrary to the region's request.

In another Illinois case, the Midwest Region asked the state to complete a case involving a participant who lived in a boarding house and shared a common dining facility with 21 other Food Stamp Program participants also residing in the house. The case record showed that the participant was certified as a one-person household receiving \$72 in food stamps each month. Because the dining room she shared with her 21

housemates was not approved as a communal facility,<sup>7</sup> the participant should have been certified as part of a household containing the 21 other persons she lived and ate with. However, the state said that because it would have had to gather data on the other 21 household members, the case was difficult to review. Illinois therefore neither completed the case nor included this error in the state's error rate.

Northeast Region officials told us that they lacked specific guidance on their authority to ensure that states complete dropped cases, and therefore did not make any such requests of New York. Service headquarters officials said that the regions have the authority to require states to complete such cases and that headquarters would consider sending the regions a policy memorandum with guidance on when and how the regions should require states to complete reviews. For the AFDC Program, HHS guidance specifically refers to its regions' authority to require states to complete cases selected for quality control reviews, and states are completing larger percentages of their AFDC than food stamp caseloads. For example, in Illinois and Wisconsin, state food stamp quality control reviewers dropped 157 (12 percent) and 236 (7 percent) of the food stamp cases, respectively. In contrast, for the AFDC Program, Illinois and Wisconsin dropped only 47 (2 percent) and 77 (3 percent) of their cases, respectively.

In the AFDC Program, the authority to require states to complete quality control reviews is reinforced with HHS' authority to complete quality control reviews on its own and then assess the state for any costs incurred when reviewing cases that the state did not complete. For example, in New York about 10 percent of the fiscal year 1984 AFDC cases that the state initially dropped were subsequently completed either by the state at HHS' request or by HHS itself. HHS officials estimated that the average federal review costs between \$300 and \$400. HHS officials said that the billing authority had been granted in the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 98-248) but that as of July 1, 1986, HHS had not assessed states for any such review costs.

Service officials said they believed that states would have completed reviews of more food stamp cases if the Congress had given Agriculture billing authority similar to the authority it had granted HHS for the AFDC Program. They added that the Service's just having such authority would provide states with an incentive to complete reviews of more

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<sup>7</sup>A communal dining facility prepares and serves meals for elderly and handicapped persons and is authorized by the Service to accept food stamp coupons

cases, regardless of how often the federal government billed states for federal review costs. However, the Service officials also cautioned that differences exist between food stamp and AFDC caseloads and program requirements that could cause completion rates to differ for the two programs.

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## Conclusions

If the food stamp quality control system is to accurately measure the extent of Food Stamp Program errors and thereby serve as an adequate basis for sanctioning states for incorrect benefit issuances, it must produce information that accurately reflects the full extent of each state's Food Stamp Program errors. Without such information, the system will not only be susceptible to challenges from states that are subject to sanctions on the basis of their error rates, but the system also will fail to serve as an adequate vehicle for correcting program problems.

Although quality control reviewers in the three states we reviewed generally complied with Service regulations governing which cases should be completed, the regulations permitted—and in some instances required—the states to drop many cases for which we believe review determinations were possible. The major reason for dropping cases was the inability to conduct a personal interview. Although the participant is the preferred information source, Service regulations should be revised to place increased reliance on collateral and case record data. We believe that states should not be permitted to drop from the review process and exclude from the error rate any cases involving households known to be ineligible for food stamps. In addition, Service regulations should not automatically exclude potential fraud cases from quality control reviews. Making these regulatory changes should reduce the number of cases dropped as not completed and not subject to review. The Service should also clarify the authority of regional offices to require that states complete reviews of cases that according to the region's determination should be completed. The Secretary can reinforce this authority by seeking congressional authorization to assess states for costs incurred when the federal government completes reviews of cases that states have dropped.

We believe that the only justifications for not attempting to complete reviews of cases selected in the quality control sample occur when (1) households are not certified for Food Stamp Program participation or do not receive food stamps in the sample month, (2) a fair hearing is pending, or (3) the state drops the case as the result of a correction for oversampling. We do not expect that states will be able to complete

reviews of all other cases currently required or permitted to be dropped from quality control reviews. Some of these cases represent the most difficult cases to review. However, our review, Agriculture Inspector General studies, and AFDC Program experience have shown or indicated that reviewers can determine the appropriateness of benefits for many types of cases that states have dropped from the Food Stamp Program's quality control process.

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## **Recommendations to the Secretary of Agriculture**

We recommend that the Secretary of Agriculture make the following changes to the regulations governing the quality control review process:

- Eliminate the requirement that states drop cases in which personal interviews are not held and add a requirement that states use collateral or case record data to review cases in which personal interviews are precluded because participants died, moved out of state, could not be located, did not cooperate, or were institutionalized. In the case of institutionalized participants, states should first contact the institution to determine whether the participant can be interviewed.
- Require states to include in the error rate any case in which the review of a basic program eligibility requirement shows that the participant was ineligible for the program.
- Require states to attempt to complete reviews of participants who are under investigation for suspected fraud or have pending administrative fraud hearings.
- Specify that Food and Nutrition Service regional offices have the authority to require states to complete quality control reviews of cases for which the region believes sufficient information has been obtained or can be obtained to complete a review. The Secretary should consider augmenting this authority by asking the Congress for authority to assess states for the costs the federal government incurs when completing reviews of cases dropped by the states.



# The Service Needs to Strengthen Its Procedures for Calculating Error Rates

In calculating official fiscal year 1984 Food Stamp Program error rates, the Service's regional statisticians made statistical and mathematical mistakes for 13 of the 25 states we reviewed. In most instances, these mistakes had only a small effect (and for two states, no effect at all) on the official error rates. However, for Georgia the mistakes caused the Service to initially overstate the state's official Food Stamp Program error rate by 0.5 percentage point. If not corrected, this mistake would have resulted in a sanction of about \$6.2 million—causing Georgia's sanction to be overstated by about \$2.5 million.

Service headquarters officials acknowledged that most of the mistakes could have been either prevented or corrected if regional statisticians had been given better guidance and assistance and if headquarters had more closely monitored regional calculation efforts. The officials said that the Service has begun to increase assistance, guidance, and monitoring of error-rate calculations. The Service also reviewed all revisions we recommended for the official fiscal year 1984 error-rate calculations and adjusted the error rates accordingly.

## Service Mistakes Caused Some Inaccurate Fiscal Year 1984 Error-Rate Calculations

As described earlier, the official Food Stamp Program error rate represents the percentage of benefits either issued to ineligible households or overissued to eligible households. The Service uses a two-step process to calculate each state's official error rate. First, it adjusts the state-reported error rate by taking into account federal validations that detected errors not reported by the state. Second, the Service adds a penalty to this adjusted error rate for those quality control cases that were subject to review but on which the state did not complete its review.<sup>1</sup>

Error-rate calculations for each state are made by Service statisticians in the respective regional offices. To adjust state-reported error rates to account for the results of federal validations, Service regional statisticians use one of two computer programs provided by Service headquarters. One program is used for states that base their error rates on simple random sample results; the other program is for states that use stratified sampling procedures. The Service's computer program for stratified sampling is more complicated and difficult to use than is its program for simple random sampling plans. Although Service headquarters provided

<sup>1</sup>Our issued report, Quality Control Error Rates for the Food Stamp Program (GAO/RCED-85-98, Apr. 12, 1985) and our upcoming report, Food Stamp Program: Statistical Validity of Agriculture's Payment Error-Rate Estimates (GAO/RCED-86-188) provide a more detailed description of the procedures and list all mathematical formulas for calculating official Food Stamp Program error rates.

its regions with computer programs for the validation calculation, regional statisticians must develop their own programs for calculating the penalty for not-completed quality control cases.

Service regional statisticians made mistakes when calculating the fiscal year 1984 error rates for 13 of the 25 states in our review.<sup>2</sup> These errors were caused by making (1) statistical mistakes, such as not properly identifying the number of strata in a state's sample, and (2) mathematical mistakes, such as misplacing a decimal point. Table 4.1 shows that these mistakes caused an overstatement of error rates for nine states, an understatement for two states, and no effect on the error rates for two states. The mistakes would have affected the sanction of only one state—Georgia—causing its sanction to be originally overstated by \$2.5 million. During our review, we provided the Service with our recalculations of the states' official fiscal year 1984 error rates. The Service reviewed our calculations and adjusted the error rates accordingly. We also worked closely with Service headquarters and regional statisticians to show them how these mistakes could have been prevented.<sup>3</sup>

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<sup>2</sup>Agriculture's Inspector General reported similar problems with the Service's fiscal year 1983 error-rate calculation in Food and Nutrition Service Northeast Regional Office Food Stamp Program Quality Control Error Reduction System (27650-1-Ny, Apr 14, 1986).

<sup>3</sup>In addition, our upcoming report to the Service Administrator, Food Stamp Program: Statistical Validity of Agriculture's Payment Error-Rate Estimates (GAO/RCED-86-188), offers the Service some technical suggestions designed to improve the Service's methodology for calculating official Food Stamp Program error rates.

**Table 4.1: Impact of Mistakes Made by the Food and Nutrition Service When Calculating Official Food Stamp Program Error Rates**

| State <sup>a</sup> | Error rate                                  |                                    | Impact on sanctions         |
|--------------------|---|------------------------------------|-----------------------------|
|                    | Service's original calculation <sup>b</sup> | Based on GAO revision <sup>c</sup> |                             |
| Colorado           | 10.59                                       | 10.66                              | No effect                   |
| Florida            | 8.82  | 8.95                               | No effect                   |
| Georgia            |   |                                    | Overstated by \$2.5 million |
|                    | 10.02                                       | 9.56                               |                             |
| Illinois           | 8.32  | 8.31                               | No effect                   |
| Indiana            | 8.70  | 8.64                               | No effect                   |
| Michigan           | 6.46  | 6.46                               | No effect                   |
| Minnesota          | 9.81  | 9.77                               | No effect                   |
| Montana            | 8.79  | 8.77                               | No effect                   |
| Nebraska           | 8.79  | 8.40                               | No effect                   |
| Ohio               | 6.94  | 6.65                               | No effect                   |
| South Carolina     | 10.80                                       | 10.80                              | No effect                   |
| South Dakota       | 3.60  | 3.59                               | No effect                   |
| Wisconsin          | 9.74  | 9.60                               | No effect                   |

<sup>a</sup>We did not find any mistakes in the calculations for 12 states: Alabama, Iowa, Kansas, Kentucky, Missouri, Mississippi, North Carolina, North Dakota, New York, Tennessee, Utah, and Wyoming

<sup>b</sup>Food Stamp Program error rate as reported by the Service, Sept. 23, 1985

<sup>c</sup>Official Food Stamp Program error rates reported by the Service, Sept. 2, 1986. These rates included all changes we suggested and in some cases slight changes caused by differences between federal and state review findings that were resolved between Sept. 23, 1985, and Sept. 2, 1986

### Statistical Mistakes Made for Six States

We compared the statistical procedures that regional statisticians used to calculate states' official Food Stamp Program error rates with the procedures specified in the Service's handbooks and guidance and found that the regional statisticians made statistical mistakes when calculating the official error rates for six states—Colorado, Florida, Georgia, Illinois, South Carolina, and Wisconsin. These states used stratified sampling procedures, and the mistakes occurred because the regional statisticians did not appropriately combine stratum results to calculate the states' official error rates. Specifically, statisticians (1) did not identify the correct number of strata into which the sample was divided or (2) incorrectly weighted stratum results when making their calculations.

For four of the six states, Service statisticians did not properly identify the correct number of strata into which the state samples were divided. For Colorado, the regional statistician did not properly interpret the results of procedures the state used to expand the size of its sample. As

a result, he understated the number of strata in the state's sample. For Florida, Illinois, and Wisconsin, regional statisticians calculated the official error rate on the basis of an annual sample rather than the semiannual approach the states actually used. A correct interpretation would have yielded twice the number of strata identified by the statisticians. For example, the regional statistician treated Wisconsin's sample as having three strata for fiscal year 1984, when the sample actually comprised six strata—three for each half of the year.

For two states—Georgia and South Carolina—the regional statistician was unsure of the proper stratum weights to use when combining results from each stratum to calculate the error rate. Therefore, the statistician asked a consultant, who had helped develop the quality control computer systems for states in the Southeast Region, for assistance. On the basis of the consultant's advice, the statistician used a weighting scheme that did not accurately reflect the number of cases in each stratum for Georgia and South Carolina. The consequences of this mistake were most severe in Georgia where it caused the error rate to be overstated by about 0.5 percentage point, resulting in a sanction that would have been \$2.5 million too high if the Service had not corrected it on the basis of our recalculations.

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### **Mathematical Mistakes Made for 13 States**

Service regional statisticians made mathematical mistakes when calculating the official error rates for 13 states—Colorado, Florida, Georgia, Montana, Nebraska, South Carolina, South Dakota, and all 6 states in the Midwest Region.<sup>4</sup> However, the impact that these mistakes had on states' error rates was small.

Most mistakes occurred when the regional statisticians calculated the penalty that was added to the error rates of states that did not complete reviews of the required sample of quality control cases. For example, when calculating the penalty to add to the error rates of the six states in the Midwest Region, the regional statistician misplaced the decimal point and then made a mistake when adding the penalty to the states' error rates. She said that she made these mistakes because she misinterpreted the output of a computer program she had borrowed from another regional statistician and because she misunderstood the guidance that Service headquarters gave her on calculating the penalty for not-completed cases.

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<sup>4</sup>The Midwest Region includes Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin

The statisticians for the Southeast and Mountain Plains Regions correctly calculated the penalty for states that followed simple random sampling procedures but made mistakes for Colorado, Florida, Georgia, Montana, South Carolina, and South Dakota—states that used a stratified sampling plan. These mistakes occurred when the statisticians combined stratum results and were caused by such problems as neglecting to multiply numbers or misplacing a decimal point. Statisticians for both regions said they made these mistakes because calculating the penalty is more complicated for states with stratified samples than for states with simple random samples. Statisticians in the two regions also made some minor mistakes when adjusting the error rates reported by two states to reflect the results of federal validation efforts. For example, for both Florida and Nebraska, regional statisticians omitted data for some cases when computing the error rates.

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## More Guidance and Oversight Needed

According to Service officials, many of the mistakes we detected could have been either prevented or corrected if headquarters officials and statisticians had been more actively involved in helping regional statisticians make error-rate calculations. Headquarters and regional officials said that it would have been especially helpful if headquarters statisticians had independently reviewed each region's calculations. Instead, for the period covered by our review, headquarters provided guidance in the form of two handbooks, policy memorandums as needed, two computer programs for making calculations, and assistance primarily over the telephone and through occasional visits and training sessions.

The Service handbooks—issued in 1979 and 1980—describe the procedures that regional statisticians must follow when adjusting the state-reported error rates to account for the results of federal validation efforts. The handbooks do not describe how regional statisticians should calculate the penalty for those cases for which states did not complete their reviews. In 1981 the Service sent its regions two policy memorandums describing how the penalty was to be calculated. However, not all regional statisticians were aware of, or properly interpreted, these policy memorandums. For example, the penalty for not-completed cases was incorrectly calculated for all states in the Midwest Region. The regional statistician had been in her position only since 1984 and said she was unfamiliar with the 1981 policy memorandums. Headquarters officials said that revised handbooks would be issued in 1986 and that the handbooks would describe how to calculate the penalty for not-completed cases.

Although the Service gave its regional statisticians two computer programs to use when adjusting state-reported error rates, it required the regions to develop their own programs for calculating the penalty for not-completed cases. Headquarters officials said that instead of requiring each region to develop its own program, beginning with the fiscal year 1986 error rates, the Service would provide its regions with a single, standardized program for this purpose.

Service officials said that they tried to provide assistance either by telephone or through field visits whenever regional statisticians encountered calculation problems. For example, they said that during 1984 and 1985, experienced statisticians visited the Northeast, Midwest, and Mountain Plains Regions to assist and oversee error-rate calculations. They also said that the Service held two training sessions attended by regional statisticians. Service officials said that, in this way, they tried to respond to all questions raised by regional statisticians. The Service officials said that, since the start of fiscal year 1986, more emphasis has been placed on assisting and monitoring the regions' statistical work. These officials said that the Service plans to hire more headquarters statisticians and increase travel resources and, beginning with the fiscal year 1986 error rates, all calculations will be made using the headquarters computer system and a single, standardized program provided by headquarters.

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## Conclusions

As error-rate targets have been lowered and more states have been assessed larger sanctions, the Service's procedures for calculating error rates have come under ever-increasing scrutiny. Therefore, it is important that the Service calculate official Food Stamp Program error rates by using procedures that are statistically and mathematically sound. Regional statisticians have made statistical and mathematical mistakes that, although not major, have affected the accuracy and reliability of the error rates. Most of these mistakes occurred in calculating error rates of states that used stratified sampling procedures.

The Service has acknowledged the need for improvements and has begun to increase the attention it pays to the error-rate calculations made by its regional offices. The Service plans to provide its regions with updated handbooks, which among other things will describe how to calculate the penalty for not-completed cases, and a single computer program for making all error-rate calculations. We believe that these are steps in the right direction. Such actions, as well as routine monitoring

and periodic technical assistance and training, are essential to the success of the quality control and error-rate sanction systems. The Service's efforts should focus on states with stratified quality control samples because this is where most of the mistakes were made. Although the regions' statistical and mathematical mistakes did not greatly affect the fiscal year 1984 error rates for the states we reviewed, they would have affected the sanction for one state. If not corrected, similar mistakes could affect future sanctions.

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**Recommendation to the  
Secretary of  
Agriculture**

We recommend that the Secretary of Agriculture direct the Administrator, Food and Nutrition Service, to annually review the error-rate calculations made for the states to ensure that official Food Stamp Program error rates are based on the appropriate statistical and mathematical procedures and to give regions the assistance needed to correct any mistakes found. Special attention should be given to the states with stratified quality control samples because most of the calculation mistakes we found were concentrated in these states.

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