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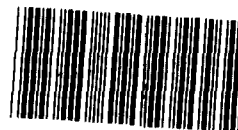
Testimony

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Food Stamp Program
Eligibility Determination

Statement of
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Before the
Subcommittee on Domestic Marketing,
Consumer Relations, and Nutrition
House Committee on Agriculture
and the
Subcommittee on Nutrition and
Investigations
Senate Committee on Agriculture,
Nutrition, and Forestry



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Messrs. Chairmen and Members of the House and Senate Subcommittees:

We are pleased to be here today to discuss our recent work on the U.S. Department of Agriculture's (USDA) Food Stamp Program. You specifically asked us to summarize the results of our recent reports on three issues (1) the extent to which states are improperly denying or terminating the participation of eligible persons, (2) USDA's procedures for penalizing states when they fail to review the required number of eligibility determinations, and (3) the National Academy of Sciences' recommendations for resolving the backlog of outstanding food stamp sanctions for certification errors that the states made between fiscal years 1983 and 1986. I would like to start my testimony by discussing the problem of improper food stamp denials or terminations.

IMPROPER DENIAL OR
TERMINATION OF FOOD STAMP
BENEFITS

In fiscal year 1985, the most recent year for which data were available, about 5 million households either had their applications for food stamps denied or their participation in the program terminated. According to state reports, an average of about 3 percent of these food stamp denials or terminations were improper.

At the request of Chairman Panetta, we evaluated the reliability of the quality control system that USDA and the states

use to measure the extent of these errors.¹ We conducted our review in 2 states--Illinois and Maryland. In fiscal year 1985, Illinois reported an improper denial or termination error rate higher than the national average, whereas Maryland reported a lower-than-average error rate. We found that the improper denial or termination error rates were about 2-1/2 and 6-1/2 times greater, respectively, than the error rates that those two states reported to USDA. We projected that the improper denial or termination error rates were 22.5 percent for Illinois and 12.4 percent for Maryland, whereas the states reported error rates of 9.1 percent and 2.2 percent, respectively. In other words, in fiscal year 1985, Illinois denied or terminated the participation of about 215,000 households. About 48,000 (almost one-in-four) of these households were improperly denied or terminated. For Maryland, about 4,300 of its 35,000 (about one-in-eight) denials or terminations were improper.

Until we informed USDA of the problem, it was not aware that the state-reported denial or termination error rates were not accurate because USDA had not routinely validated the results of state reviews. After we informed USDA of our findings, it initiated a special project to validate the fiscal year 1986 improper denial or termination error rates being reported by 21 states. USDA's efforts uncovered the same types of problems that

¹Food Stamp Program: Evaluation of Improper Denial or Termination Error Rates (GAO/RCED-88-12, Oct. 22, 1987).

we noted in Illinois and Maryland. For 13 of the 21 states, the improper denial or termination error rates validated by USDA were higher than those that the states reported. Overall, the improper denial or termination error rates ranged from 23.2 percent to 0.1 percent, whereas the state-reported rates ranged from 6.9 percent to 0.0 percent.

The reason for these discrepancies between the error rates that the two states reported and we validated was that the states overlooked three types of errors made by local food stamp offices when deciding to deny or terminate benefits. Specifically, the states did not detect the local offices':

- incorrect determinations of an applicant's or participant's eligibility,
- inadequate documentation of the basis for deciding to deny or terminate benefits, or
- failure to provide households with the prescribed amount of time to complete the application process.

According to our analysis:

- Illinois detected about 45 percent of the incorrect eligibility determinations that were made by the local offices; Maryland, 15 percent of the incorrect determinations;
- Illinois detected about 20 percent, Maryland 50 percent, of the documentation errors; and
- Neither state detected any of the local offices' failure to

provide households with the prescribed time to complete applications.

The following examples illustrate the types of errors that we detected but that state quality control reviewers overlooked.

-- In December 1984, Illinois denied the application of an unemployed Madison County man. The man noted that because he had no income he lived in his van, and requested that the food stamps be sent to his brother's house. The state reasoned that because the man gave his brother's address, his household could not be considered separate from that of his brother and, therefore, denied the application.

However, Illinois reached this conclusion without contacting the brother's household or making any other contacts to determine the man's living arrangements. We contacted the brother's household to verify the man's living arrangements and were informed that the man lived in his van and usually only stopped by his brother's house to pick up his mail. We also examined Illinois' food stamp issuance records and found that the man had been approved previously for food stamps when he had a post office box as his mailing address. The state's records also showed that several months later the man was again approved for food stamps when he once again used a post office box as his mailing address.

-- Another example involves a 61-year-old Montgomery County, Maryland, woman whose application for food stamps was

denied in August 1985. Maryland concluded that the woman had not properly documented the \$100 monthly medical deduction that she claimed for such illnesses as heart disease, high blood pressure, and kidney ailments. Food stamp regulations require states to notify applicants as to what documents are needed to support a deduction. If the documents are not provided, then eligibility is to be determined excluding the deduction. Maryland's records did not indicate that the state notified the woman about any needed documents. Even so, we recalculated the woman's eligibility, excluding all medical deductions, and found that she was still eligible for food stamps. In addition, the woman reapplied for food stamps several months later and Maryland verified monthly medical expenses of \$165 and approved her application.

Illinois and Maryland officials told us that they did not detect all improper denials or terminations and made other mistakes because quality control reviewers focused most of their attention on detecting overissuances. The states said that they were following the lead of USDA which financially penalizes states for overissuances but not for improper denials or terminations. USDA and state officials said that in the future they intend to give the improper denial or termination error rate emphasis equal to that given to the overissuance error rate.

Before we move on, I would like to make one other point. In our review, we determined that about one-quarter of the Illinois

households and about two-thirds of the Maryland households lost benefits because of the state's error. Such errors caused the households to lose from \$10 to \$234 in monthly food stamps to which they were entitled. About one in five households, in Illinois did not lose any benefits. For the remaining households benefit losses, if any, were not determinable for the following reasons. State reviews of denials or terminations are designed to determine whether the correct procedures were followed and documented when the state decided to deny or terminate a household's benefits. The reviews do not necessarily (1) demonstrate whether the state's error caused the household to lose benefits to which it was otherwise entitled or (2) measure the amount of benefits that may have been lost.

To improve the accuracy of improper denial or termination error rates, we have made two recommendations to USDA. First, USDA should annually review a sample of each state's quality control reviews of denials or terminations and adjust the state's reported denial or termination error rates accordingly. Second, USDA should examine alternatives to encourage states to reduce improper denials or terminations. One such alternative might be to hold states financially liable for their improper denials or terminations.

In commenting on our report, USDA and the states of Illinois and Maryland agreed with the accuracy of our findings. They noted that they had begun implementing corrective actions in accordance with our findings and recommendations.

USDA'S ADJUSTMENT FOR NOT COMPLETING
QUALITY CONTROL REVIEWS

Another report requested by Chairman Panetta addresses USDA's adjustment to states' error rates for not completing quality control reviews.² Food stamp legislation requires USDA to assess sanctions--that is, financial penalties--against states when their official food stamp overpayment error rates exceed legislatively established target error rates. USDA annually estimates each state's food stamp error rate based on quality control reviews that states are required to conduct. In addition, USDA adjusts, that is, increases, the error rates to penalize states for reviews the states are required to complete, but did not. This error rate adjustment serves as an incentive for states to complete the prescribed number of quality control reviews, which are used to measure the extent of errors that states make when certifying eligibility for food stamps.

We collected and analyzed error-rate data for all states for fiscal years 1984 and 1985 and found that USDA's adjustment for not completing the required quality control reviews caused one state's sanction to increase, but did not financially penalize any other states. In that case, it doubled Virginia's fiscal year 1984 sanction from about \$652,000 to about \$1.3 million.

²Food Stamp Program: Error Rate Adjustments and Sanctions,
(GAO/RCED-88-10, Oct. 22, 1987).

This occurred because the error rate sanction amount increases for each percentage point or fraction thereof by which the state exceeds its target error rate and can be very sensitive to the small changes in the error rate caused by the adjustments for not completed reviews. While we found that the adjustments for not-completed case reviews were relatively small for 1984 and 1985, a small increase in the error rate can result in a large increase in the sanction if the state's error rate is close to the target error rate that USDA uses when assessing sanctions. This was the case with Virginia. Because Virginia did not complete all its reviews, USDA increased its error rate from 7.94 percent to 8.04 percent--causing the state's error rate to cross the 8-percent threshold and resulting in a doubling of the state's sanction.

In addition, the size of the adjustment for not-completed cases is affected by factors other than the state's failure to complete the required number of quality control reviews. Specifically, it is based on (1) the percentage of the required reviews that the state completed, (2) the state's error rate, and (3) the standard error, a measure of the variability of a state's error rate. We found that this causes the size of the adjustment to (1) vary for states with the same or similar completion rates or (2) be the same for states with different completion rates. For example, Virginia and New Jersey both had completion rates of 93 percent, yet the adjustments were 0.10 and 0.07 percent, respectively. On the other hand, Virginia and Pennsylvania had

different completion rates, 93 and 97 percent, respectively, yet each had the same noncompletion adjustment of 0.10 percent.

We recommended that USDA devise a sanction process that separates financial penalties for not-completed reviews from financial penalties for exceeding the target error rate. USDA officials agreed that it would be appropriate to find alternative ways to levy financial sanctions for not-completed reviews and said that they will explore alternatives.

NATIONAL ACADEMY OF SCIENCES'

RECOMMENDATIONS ON THE SANCTIONS BACKLOG

Finally, I would like to discuss the results of a report that Chairman Harkin requested on the National Academy of Sciences' recommendations for resolving the backlog of outstanding food stamp error-rate sanctions that USDA has levied against almost all of the states.³ Since the inception of food stamp sanctions in fiscal year 1981, USDA has levied a total of 188 sanctions against 49 states for about \$550 million. As of August 31, 1987, 144 of these sanctions were still outstanding. They involve all 49 sanctioned states and total about \$514 million.

In May 1987, the National Academy of Sciences issued a report to the Congress that included recommendations for resolving that backlog of sanctions. Under the Academy's recommendations, a state

³Food Stamp Program: National Academy of Sciences' Recommendations on the Sanctions Backlog (GAO/RCED-88-36BR, Oct. 22, 1987).

would be sanctioned only if the lower bound of the range surrounding its error-rate estimate, not the midpoint of the range currently used by USDA, exceeded the target error rate set by current legislation. This range is called a confidence interval within which the state's error rate will most likely fall. If the resultant lower bound is below the target error rate, the state would not be sanctioned. If the lower bound is above the target, the state would be sanctioned, with the amount of the sanction being determined in accordance with the procedures currently in place.

To estimate the effect of the Academy's proposal, we reviewed the 138 outstanding sanctions that comprise the backlog for fiscal years 1983-86 (96 percent of the entire sanctions backlog) and total about \$508 million (98 percent of the outstanding liabilities). (The data we needed were not readily available for fiscal years 1981 and 1982.) Our analyses showed that implementing the Academy's recommendations for fiscal years 1983 to 1986 could be expected to reduce

- total sanctions from 138 to 43,
- the number of states sanctioned from 49 to 25, and
- total liabilities from \$508 million to about \$300 million.

For the purposes of these analyses, we used a 95-percent level of confidence which means that the chances are 19 out of 20 that the true error rate, if it were known, would fall between the upper and lower bounds of that range. In its report, the Academy does not specify the level of confidence but notes that a 95-percent

level has widespread use and traditional acceptance. The Academy also notes in its report that at a later date it plans to recommend an alternative way to estimate Food Stamp Program error rates. In our analyses, we assumed that the Academy's "yet-to-be-recommended" estimate would equal the official error rate that USDA currently uses.

For comparison purposes, we performed additional analyses assuming that the "yet-to-be-recommended" error-rate estimate would be 25 percent lower and 25 percent higher than the official error rate. If the assumed error rate is 25 percent lower than the official rate, sanctions will decrease from 138 to 8; the number of states sanctioned will decrease from 49 to 5, and liabilities will decrease from about \$508 million to about \$47 million. If the assumed rate is 25 percent higher, sanctions will decrease from 138 to 92, and the number of states sanctioned will decrease from 49 to 39. Liabilities, on the other hand, will actually increase from about \$508 million to about \$802 million.

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Mr. Chairman, that concludes my statement. We will be glad to answer your questions.