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REPORT TO THE CONGRESS



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



LM103662

Supplement To Comptroller General's Report To The Congress, "The Food Stamp Program--Overissued Benefits Not Recovered And Fraud Not Punished," (CED-77-112 JULY 18, 1977)

This supplement to an earlier GAO report includes comments from the Department of Agriculture and GAO's response to those comments. Agriculture did not dispute the report's basic message that proper actions are not being taken to recover overissuances (estimated at \$590 million a year) and to punish recipient fraud which is a serious problem.

Some of Agriculture's comments tend to obscure and minimize the report's message--unjustifiably so in GAO's opinion. GAO still believes that the problems discussed in the report are serious and need immediate attention.

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CED-77-112A

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AUGUST 31, 1977



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

A-51604

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

We are issuing this supplement to provide an evaluation of the Department of Agriculture's comments on our July 18, 1977, report to the Congress entitled "The Food Stamp Program-- Overissued Benefits Not Recovered and Fraud Not Punished" (CED-77-112). We did not receive Agriculture's comments in time to include them in the report.

As is our normal policy and practice, we asked Agriculture on May 25, 1977, to furnish us its written comments on a draft of the report within 30 days. At Agriculture's request, this deadline was subsequently extended from June 24 to July 1, then to July 8, and finally to July 15. We also met with top officials of Agriculture's Food and Nutrition Service and the Office of the Secretary five times in late June and early July to discuss our draft report, to obtain oral comments from Agriculture, and to try to expedite written comments.

Meanwhile, the House of Representatives had scheduled floor debate on a bill to revise the food stamp program's authorizing legislation. In an effort to provide timely input to the legislative process, we briefed the Committee on Agriculture staff on our findings and recommendations. At that time the staff said it would be helpful if we could issue our final report in time for the floor debate, and asked that we make every effort to do so. In view of Agriculture's repeated delays in furnishing us with its comments, we decided not to wait any longer. We issued the report without them on July 18, 1977.

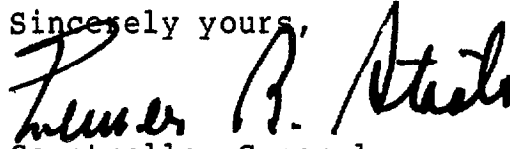
After the report was printed and about the time it was being issued, we received Agriculture's written comments in a July 18, 1977, letter. Agriculture did not dispute the report's basic message, but raised some issues and made some statements which we believe require our response.

A-51604

We believe that our report shows serious and widespread problems with the food stamp program and that administrative and legislative actions are needed to correct those problems.

We are sending copies of this Supplement to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Luther B. Stucke". The signature is written in a cursive style with a large initial "L" and "S".

Comptroller General
of the United States

SUPPLEMENT TO COMPTROLLER GENERAL'S REPORT TO
THE CONGRESS, "THE FOOD STAMP PROGRAM--
OVERISSUED BENEFITS NOT RECOVERED AND
FRAUD NOT PUNISHED" (CED-77-112, JULY 18, 1977)

DEPARTMENT OF AGRICULTURE COMMENTS
AND OUR EVALUATION

In commenting on a draft of our report entitled "The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished" (CED-77-112, July 18, 1977), the Department of Agriculture said that it is committed to more vigorous action and is determined to see improvement in the fraud and overissuance area. We believe Agriculture's commitment and determination are encouraging, but they are long overdue. According to its comments, Agriculture's thinking is generally in line with all but one of the legislative recommendations in the report. Regarding administrative changes, Agriculture said that some of our recommendations are already being implemented and that others will be carefully considered.

Agriculture does not dispute the basic message of our report--that proper actions are not being taken (1) to recover overissuances which, according to Agriculture's latest data, constitute almost 12 percent of the total cost of program benefits, or about \$590 million a year, and (2) to punish fraud which is a serious problem in the program. Its comments, however, raise some issues and include some statements and objections which tend to obscure and minimize the report's message. Some of the objections are embellished with assertions that seem to have little or no hard data or other clear evidence to support them.

Agriculture's comments are discussed in more detail below and are included in this Supplement as appendix I.

Discussion of legislative recommendations

Agriculture stated that the Administration's proposal for overhauling food stamp legislation included most of the legislative changes recommended in our report. It was referring to our recommendations that administrative adjudication of most recipient fraud be authorized and that the Federal share of the States' costs for investigating and prosecuting suspected fraud be increased from 50 to 75 percent.

Our report includes a section on congressional actions to increase overissuance recovery, which sets out the major legislative proposals considered by this and the previous Congress on this subject. The section discusses various approaches the Congress has been considering to improve overall program integrity, especially those affecting overissuances. These include

- suspending individuals from program participation,
- requiring States to pay a part of food stamp bonus costs,
- clarifying the Secretary of Agriculture's authority to exercise flexibility in handling claims against program recipients,
- increasing from 50 to 75 percent the Federal share of the cost of investigating and recovering food stamp benefit overissuances, and
- allowing States to retain 50 percent of all funds recovered as a result of such investigation and recovery.

We state in the report that Agriculture's legislative proposal for this year included many of the same provisions.

Regarding our recommendation that States be authorized to retain some part of the money recovered from recipients of overissuances, Agriculture agreed that it may be useful to authorize States to retain a portion of fraudulent overissuances recovered but strongly disagreed that States should retain a portion of Federal dollars overissued due to the State's own errors. It said that this would operate as a disincentive for States to make improvements to prevent overissuances in the first place. It also said that food stamp officials could arrange for overissuances with quick recoveries, thereby resulting in the retained portion being diverted from the Federal Treasury to the States or, in some places, to the counties.

We believe that, generally, the State and local officials and workers who are carrying out the day-to-day operations of a multi-billion dollar Federal program are worthy of greater trust than is indicated by Agriculture's statement and that Agriculture's blanket indictment of the integrity of these people is unfounded. During our reviews of the food stamp program, we noted various problems in

program administration at the State and local level, but nowhere did we observe anything even closely approximating the lack of honesty Agriculture alludes to. Such dishonesty would require the systematic collusion of many people in food stamp offices without any individual realizing personal gain because the retained funds would go into State or county treasuries. Such dishonesty, if discovered, should be dealt with severely, but we believe such instances, although theoretically possible under our recommendation, would happen very rarely if at all.

As discussed in our report (see p. 40), we believe Agriculture would need to closely monitor the results of its quality control program and investigate and reverse any increasing trends in program errors that result in overissuances. It has authority to withhold program administrative funds from States found not to be administering the program efficiently and effectively.

Agriculture also proposed that the legislation be revised to make it easier for it to collect from States the value of food stamp benefits overissued because of State negligence. Under existing law, States can be required to repay Agriculture the value of overissued benefits only if there was gross negligence or fraud by the State. Under Agriculture's proposal, such repayment could be required if overissuances resulted from simple negligence. This proposal may be helpful in recovering overissuances, but it has significant limitations.

Such a provision could only be applied if enough cases were brought to Agriculture's attention to show negligence. There is some doubt, however, whether it would be feasible for Agriculture to monitor the States closely enough for it to identify a significant proportion of all overissuances that occur, so that it could determine whether the States were negligent and the amount they should repay. It may not be reasonable to expect the States to put forth the extra effort and money necessary to effectively identify and report overissuances to Agriculture if they will be required to repay the value of the overissuances.

As discussed in chapter 4 of our report, we believe a built-in incentive is needed to encourage the States to identify and recover food stamp overissuances on a day-to-day basis regardless of the cause of the overissuance--honest errors by food stamp personnel or recipients, negligence by food stamp personnel, or fraud

by recipients. The Department of Justice concurs wholeheartedly that the program must provide some financial incentive to the States for making aggressive efforts to recover food stamp overissuances, rather than the current financial disincentive.

Agriculture said that its proposal for legislation requiring that recipients who are administratively determined to have committed fraud be suspended from participation in the program calls for automatic suspension--no warnings would be permitted. Although we would generally expect that most recipients committing fraud would be suspended from the program under a system of administrative sanctions, our recommendation envisioned providing administrators some discretion and enough flexibility to make exceptions and adjustments in unusual cases--to issue warnings of suspension in special cases where this might seem more appropriate than suspension.

Agriculture's proposal included another provision that the Federal penalty for food stamp fraud involving less than \$100 (misdemeanor fraud) be reduced so that such cases could be prosecuted before Federal magistrates instead of in U.S. District Courts. Our report discusses this proposal (see p. 35) and notes that it might not have the major beneficial impact contemplated because most cases of suspected food stamp recipient fraud are not being seriously considered for Federal prosecution. In light of the burdens already facing Federal prosecutors in handling more serious crime cases, the outlook for large numbers of Federal prosecutions of food stamp recipient fraud because of a shift to the jurisdictional level of Federal magistrates courts is somewhat uncertain.

The Administration's legislative proposal also would require the Secretary of Agriculture to set standards for State administration of the program, including staffing standards. Agriculture would be authorized to withhold administrative funds for any State not complying with these standards or the State plan of operation. The Department stated that this would provide it with a new tool for addressing the problem of recovering overissuances.

Staffing standards for food stamp program operations have not been established for the States, but they have been authorized since July 1974 by section 15(b) of the Food Stamp Act of 1964 (7 U.S.C. 2024). This section also authorizes the Secretary to withhold administrative funds from any State not providing an adequate number of qualified personnel to administer the program efficiently and

effectively. In light of this, the problems in recovering overissued food stamp benefits might not be significantly affected by simply enacting another legislative provision. We believe, however, that establishing and vigorously enforcing staffing standards for States could contribute to improvement.

In its comments Agriculture also mentioned an Administration proposal to require each recipient to be given a form, at the time the recipient is approved to receive food stamps, which would describe the changes the recipient is required to report--such as changes in income--and provide a means for reporting them. The form would also describe the penalties for fraud and misrepresentation. Use of such a form, whether prescribed administratively or legislatively, might be helpful in preventing food stamp overissuances in some cases, especially those due to honest errors; but it would not seem to directly affect the recovery of overissuances that occur.

Discussion of administrative recommendations

Agriculture said that it is committed to more vigorous action in the fraud and overissuance area, that some of our recommendations are already being implemented, and that the others will be carefully considered. It said that program administration in regard to fraud and overissuance has shown marked improvement since completion of our review, as evidenced by substantial increases in the establishment of claims and amounts recovered. According to Agriculture's supporting figures, the dollar amounts of claims established increased from \$6.3 million in fiscal year 1975 to \$13.8 million in 1976 and to \$15 million in the three quarters ended June 1977. However, as discussed in our report (see p. 18), Agriculture did not have accurate or complete information on the claims the States had established. Thus, the reported increase in claims established could represent improved overissuance identification and claims establishment, or it could simply represent better reporting and recordkeeping.

Recoveries of overissued benefits for the 9 months ended March 31, 1977 (the most recent information available), were about \$5.6 million compared with about \$4.2 million for the previous 9 months. While the percentage increase (33 percent) is substantial, the base (\$4.2 million) used in computing it is small; relatively small dollar amount increases can produce large percentage increases.

The claims established and the amounts recovered are still infinitesimal compared with the estimated \$590 million in overissuances each year.

A further factor that may have contributed to the increase in reported claims is the increase in program growth. As previously noted, the reported value of established claims was \$6.3 million for fiscal year 1975 and \$15 million for the three quarters ended March 1977--\$20 million on an annualized basis. Program benefits increased from \$4.4 billion for fiscal year 1975 to \$5.1 billion for the year ended June 1977--an increase of \$700 million.

Discussion of other report matters

Recipient eligibility

Agriculture noted that 95 percent of the households receiving food stamp benefits are eligible for program participation and that only 5 percent are ineligible. These figures are accurate but misleading in the overall context of our report. Overissued benefits do not relate only to ineligible participants. Agriculture's quality control data clearly shows that nearly two-thirds of the overissued benefits are received by households which are basically eligible for program participation but which, for one reason or another, are getting too much in food stamp benefits.

Locations reviewed

Agriculture questioned whether the locations included in our review represented a reasonable cross section of the more than 3,000 local food stamp projects in the program. It said that over one-third of the food stamp case-load is in the South, including substantial participation in areas that are predominantly rural or small-town, and that we had not included any southern or rural projects in our review. Agriculture said that it had filed or is planning to file gross negligence claims against three of the areas included in our review, indicating poor overall administration in these projects. It also said that the areas we reviewed were not a representative sample because six of the eight projects were big cities where crime rates are above the national average.

We made our review at (1) the Food and Nutrition Service's headquarters in Washington, D.C., (2) three of its regional offices--Chicago, Illinois; Princeton, New Jersey (since moved to Robbinsville, New Jersey); and

San Francisco, California, and (3) eight food stamp projects in five States as shown below.

- Alameda County (Oakland), California
- Cook County (Chicago), Illinois
- Cuyahoga County (Cleveland), Ohio
- Luzerne County (Wilkes-Barre), Pennsylvania
- Peoria County (Peoria), Illinois
- Philadelphia County (Philadelphia), Pennsylvania
- San Francisco County (San Francisco), California
- Wayne County (Detroit), Michigan

In selecting locations for our review, it was not feasible, within the limits of our available resources, to obtain a mix of locations that would provide scientific assurance of being representative of the Nation's 3,000 project areas. Our principal objective was to identify weaknesses in the program's system of procedures and their implementation, and to recommend corrective measures that would apply to the overall program, not just to the project areas we reviewed.

We chose primarily large cities because that is where the bulk of the food stamp benefits are dispensed. The five States included in our review dispensed about 25 percent of the total nationwide food stamp benefits in fiscal year 1976. Even in the South, over half of the benefits were distributed in metropolitan areas. We included two nonurban areas--Peoria County, Illinois, and Luzerne County, Pennsylvania--to see if the activities we were reviewing were carried out significantly different in areas having a lot of small towns. We did not set out to review only locations that we knew in advance were administering these activities poorly.

As discussed in our report (see p. 18), Agriculture did not have accurate overall indicators of which projects or States were doing a good job of identifying and recovering overissuances and punishing recipient fraud. The implication that the southern States, including southern metropolitan areas, were doing a much better job than the areas we visited does not seem to be based on solid statistical data or systematic analyses. In any event, Agriculture agrees that the problems we reported are

serious and widespread and warrant intensive and extensive corrective measures.

From a program integrity standpoint, the only reliable data Agriculture had on the relative quality of States' administration of the food stamp program was quality control data. This data, however, concerns mainly the quality of the evaluation of applicants' eligibility for benefits rather than the quality of activities related to recovering overissuances. The latest quality control data we could get from Agriculture, showing error rates and related data by State (quality control data is not available or reliable by project), showed that the percentage of program benefits overissued in the States which we reviewed (15.5 percent) was near the national average (14.1 percent). (The national average for the subsequent quality control period was about 12 percent, but Agriculture said it was not yet ready to give us the data by State.)

Agriculture's reference to high crime rates for the major metropolitan areas included in our review seems to say that crime rates are indicative of the tendency of recipients in various areas toward food stamp fraud. We do not have, or know of, any hard facts that show this to be so.

We note, however, that Federal Bureau of Investigation crime statistics for 1975 (the most recent available) show that the rates for property crime (as opposed to violent crime) per 100,000 population for the six ¹/ metropolitan areas we visited were about the same (5,566) as the national average for all metropolitan areas (5,530), including those in the South. The average property crime rate per 100,000 population for the entire Nation was 4,800. We do not view these statistics as showing that recipients in the locations we visited are far more likely to commit food stamp fraud than would be true for the Nation as a whole.

Agriculture also stated that there is solid evidence of far more vigorous action against fraud in areas of the country we did not visit, especially in the South. Although it did not have data on most of the State

¹/Peoria was classified as a metropolitan area and the San Francisco metropolitan area included Alameda County.

activities associated with the punishment of recipient fraud, available data on State prosecutions shows that, for the 9 months ended March 1977, three States--California, Texas, and Ohio--accounted for 82 percent of all food stamp fraud prosecutions. These three States dispensed 17 percent of the total food stamp bonus. Two of these States--California and Ohio--were included in our review.

Suspected recipient fraud

Agriculture expressed concern that a chart in the report (see p. 26), indicating that over half of the claims established in the locations we reviewed were considered to involve suspected recipient fraud, could be misleading. It said that the claims established may not be representative of all overissuances at those locations regarding the proportion involving suspected recipient fraud, because claims are not established for many of the overissuances that occur. Agriculture also said that it was skeptical of the accuracy of food stamp offices' classifications of claims because no hearing or adjudication had occurred at that time and because caseworkers often fill out the claim forms which are the basis for the classifications.

Agriculture's position is that caseworkers have a vested interest in erroneously classifying claims as suspected fraud to make their own performance appear better and to blame recipients for their own mistakes. According to Agriculture, the caseworker's best protection is often to indicate that a recipient misrepresented the facts, because this is the one way in which the caseworker is completely "off the hook". Agriculture agreed that fraud is a serious problem, but believes that its incidence may be substantially overstated in the chart in question.

Over the years Agriculture has been repeatedly asked for data on the extent of food stamp fraud, but none has been provided because it was said not to be available. We also asked for any data it had on suspected recipient fraud that might be better than the data we obtained at the projects reviewed. Agriculture told us that none was available.

In our report we do not contend that the data we collected from the projects is scientifically representative of the entire Nation to the point where we could confidently say that over half of the estimated \$590 million overissued annually results from suspected fraud or misrepresentation.

Insofar as we know, however, Agriculture has no scientific evidence showing, on a national basis, how much of the overissued food stamp benefits result from suspected fraud or misrepresentation. Moreover, Agriculture officials gave us no facts to support their contention that the claims data we collected from the projects is not reasonably representative of the over-issuance situation in those projects.

As explained in our report (see p. 27), the claims data we obtained at the projects neither indicated that overissuances due to project office error were under-reported, nor that overissuances due to recipient-furnished information were overreported. On the contrary, we found that about 38 percent of the overissuance claims at four projects for which we had data on this matter were classified as resulting from project office error--hardly evidence of a coverup syndrome.

Further, there were indications that in cases of overissuance claims attributable to problems with recipient-furnished information, the project offices gave recognition to the possibilities of recipient misunderstandings or other circumstances that seemed to negate suspicions of fraud or deliberate misrepresentations. For example, every case of income or asset understatement by a recipient was not arbitrarily classified as suspected fraud. Many were classified as simple misunderstandings or omissions. It may be that some misclassifications occurred; however, we have no reason to suspect that the records at the project offices were grossly in error or that workers in project offices lack integrity.

Recovering overissuances

Agriculture also stated that our report does not adequately recognize the difficulty in recovering non-fraudulent overissuances from indigent families, noting that a 1975 Department of Agriculture study showed that 84 percent of the food stamp households had liquid assets of less than \$100.

In discussing the recovery of overissuances, our point was that food stamp offices were not systematically evaluating each overissuance case to determine whether it was appropriate to attempt recovery. The report points out (see p. 17) that the Food and Nutrition Service's instructions require project offices to consider a household's ability to repay an overissuance before deciding what to do about recovery. We found, however, that entire categories of overissuances--such as those due to agency

error--were being regarded as uncollectible without considering each household's ability to repay the benefits they erroneously received. Our report concludes (see p. 24) that each claim should be individually evaluated as to the appropriateness of pursuing its collection.

Administrative disqualifications

Agriculture noted that administrative disqualification of recipients obtaining benefits fraudulently was used more frequently in locations other than the ones we visited, particularly in the South. Our report states (see p. 29) that Agriculture officials told us that such disqualifications are being made in other locations. However, we have been unable to obtain specific data from Agriculture as to the prevalence of the disqualification procedure. We recognize in the report that this procedure could be a viable alternative to criminal prosecution in many cases.

Quality control reviews

Finally, Agriculture stated that our report does not adequately explain that the information on overall overissuances is based on a small statistical sample from its quality control program; that time-consuming, in-depth reviews are conducted of the cases selected for such samples; and that this type of review would not be practicable when large numbers of cases are involved.

Our report states quite clearly (see p. 7) that the scope of quality control reviews is beyond what can normally be expected of caseworkers on a day-to-day basis. This same statement was contained in the draft we gave Agriculture for comment. The point of the report is not that the numbers of claims established or the amounts recovered should match the numbers or amounts shown by the statistical sample. Rather, the report says that a number of measures are available by which the identification and recovery of overissuances could be made more effective.

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In summary, we believe that our report objectively points out the seriousness and extensiveness of the overissuance problem in the food stamp program--including

overissuances attributable to suspected recipient fraud and misrepresentation. Major improvements along the lines discussed in our report are needed.

02377



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

July 18, 1977

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

Dear Mr. Eschwege:

In responding to your report on food stamp overissuance and fraud, the Department would like to cover three basic areas:

1. The Administration's recommendations to Congress for legislative overhaul of the Food Stamp Program include a number of provisions for dealing with fraud and overissuance. These provisions, which have now been largely adopted by the Senate and by the House Agriculture Committee, include most of the legislative recommendations in your report plus several additional measures. In the key area of administrative sanctions against recipient fraud, our recommendation is tougher than yours. The Administration is committed to dealing with the fraud and overissuance issue.
2. The Administration plans to undertake more vigorous action administratively to improve the States' performance in this area. The GAO report does not give sufficient emphasis to the fact that the Department's actions in this area, and the results in the field, have improved substantially since the GAO audit was done. There is still much more that should be done, however, and we will move on these matters.
3. There are serious problems with the GAO report, stemming largely from the use of a sample in which 6 out of 8 of the survey areas were major metropolitan centers with high crime rates and with--in several instances--unusually poor administration of food stamp operations. There is solid evidence of far more vigorous action against fraud and overissuance in other areas of the country and especially in the South, but no Southern area or highly rural area is included in the GAO survey. The situation with regard to fraud and overissuance in the country in general is simply not as bleak as is pictured in much of this big city-oriented report. In addition, the GAO report gives the impression that there is more fraud than the Department believes to be the case.

We should also point out that over 95 percent of all households receiving stamps nationwide do meet all basic eligibility requirements and that less than 5 percent of those on the rolls are actually ineligible and should not be there.

Mr. Henry Eschwege

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I. Legislative recommendations

The Administration agrees with the GAO recommendation for administrative sanctions against recipients who commit fraud, so that such recipients can be punished even if no court action takes place. Consequently the Administration's food stamp proposal submitted on April 15 recommended a flat disqualification of such recipients.

We note that the GAO report would call for disqualification or probation of recipients guilty of fraud. We disagree with the probation idea. Fraud should result in disqualification, pure and simple. Provisions requiring such disqualification for varying periods of time appear in both the Senate and the House Agriculture Committee Bill.

The Administration also agrees with the GAO recommendation that the federal share of the costs of state fraud investigations and prosecutions be raised from 50 percent to 75 percent. This provision also appeared in the Administration's food stamp proposal, and has also been adopted by the Senate and by the House Agriculture Committee.

The Administration has also recommended that the federal penalty for misdemeanor recipient fraud be reduced so that such cases may be tried in Federal Magistrates Court instead of U.S. District Courts. It is very difficult to persuade U.S. Attorneys' Offices to take recipient fraud cases involving small amounts of money before a U.S. District Court. The Department believes that more prosecutions and convictions will result if such cases need only go before a Magistrate.

Another key Administration recommendation involves procedures for reporting changes of income by recipients during a certification period. Many such changes do not get reported by recipients, or are reported by recipients but do not result in any adjustment in benefits by case-workers. This is an important area of error and overissuance.

At present, Department regulations require that changes in income of more than \$25 a month be reported by recipients within 10 days of their occurrence. However, there is no standard form or procedure for reporting such changes in most areas. Recipients are simply advised of this requirement when first applying or first certified.

The Administration's proposal would require that every recipient receive, at the time of certification, a reporting form designed or approved by the Secretary. The form would spell out the requirements for reporting such changes on the form. In addition, the House Agriculture Committee added the provision that civil and criminal penalties for fraud and misrepresentation be contained on the reporting form. We believe that this reporting procedure will significantly increase recipient reporting of changes in income and state agency actions in response to such reports. A definite decrease in overissuance should result.

Mr. Henry Eschwege

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Finally, the Administration proposal directs the Secretary to establish standards for efficient and effective administration of the program, including staffing standards. States failing without good cause to meet these standards, or to carry out the approved state plan of operation would be subject to a loss of up to 100 percent of the federal share of their administrative funds. It is the Administration's intention to require states to include their actions against fraud and overissuance in their state plans, so that failure to comply with such a plan would subject a state to a loss in administrative funds.

Moreover, the GAO report observes in several places that insufficient staff was given as a reason for inaction on fraud or overissuance by a local project area. The provision calling for the Secretary to establish staffing standards and authorizing him to withhold administrative funds if they are not met provides a new tool for addressing this problem.

The Administration proposal also authorizes the Secretary to seek a court injunction against a state that fails to comply with federal regulations or with its own state plan.

A final set of legislative changes recommended by the Administration would authorize the Secretary to bill states for the payment of food stamps overissued due to the negligence of the state. At present, the Department can seek recovery only in cases of gross negligence by the state.

The sole legislative recommendation in the GAO report which is not in the Administration proposal is the recommendation that states retain a portion of any overissuances collected.

We can agree that it may be useful to authorize states to retain a portion of fraudulent overissuances recovered. We strongly disagree, however, with the suggestion that states should retain a portion of federal dollars overissued due to the state's own negligence.

Such an arrangement would be a major mistake. It could operate as a disincentive for states to implement improvements needed to prevent administrative overissuances in the first place. Moreover, there are dangerous potentials for abuse here. Food stamp officials could arrange for overissuances with quick recoveries, thereby resulting in 50 percent of the overissuances being diverted from the Federal Treasury into the state (or in some areas, the county food stamp office).

Mr. Henry Eschwege

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In addition, the GAO recommendation would run contrary to the provisions of the Administration's proposal for punishing, not rewarding states that overissue stamps due to their own negligence. We wish to bill states for such overissuances, not reward them by letting them keep a portion of the federal funds they improperly distributed. For example, we recently billed California for overissuances in San Francisco (one of the project areas in the GAO report), and are planning to bill Detroit and Cleveland for overissuances due to duplicate ATP redemptions, another issue referred to in the report.

II. Administrative Actions

The Administration is committed to more vigorous action in the fraud and overissuance area and is determined to see improvement in this area. Some GAO recommendations for administrative changes are already underway; others will be carefully considered.

Although it receives little attention in the GAO report, the administration of the Food Stamp Program in regard to fraud and overissuance has shown marked improvement since the GAO audit was completed. The dollar value of claims being established is now several hundred percent greater than it was in fiscal 1975. The dollars being recovered are also on the increase. Activity is now particularly strong in a number of southern states.

III. Problems with the GAO report

The GAO should have made at least some effort to audit localities that represented a reasonable cross-section of food stamp project areas. Over one-third of the food stamp caseload is in the South, and there is substantial participation in a number of counties that are predominantly rural or small town. Not a single southern or heavily rural project area was included in the GAO audit. Six of the eight project areas were big cities--Chicago, Detroit, Cleveland, Philadelphia, Oakland, and San Francisco. Although gross negligence claims are not filed lightly by this Department and have been limited in number, one of these six cities already has a gross negligence claim filed against it and two others are likely to be hit with gross negligence claims in the near future. To suggest or imply in any way that these areas (which all also have crime rates above the national average) present any sort of representative sample of what is happening with food stamp fraud or overissuance nationwide is false.

An example regards disqualification of households for fraud. While the GAO report found little use of disqualification in the areas it surveyed, use of disqualification is much heavier in some areas, particularly in the South.

Mr. Henry Eschwege

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We are also concerned that the report may lead to a false impression concerning the incidence of fraud. A chart in the report indicates that local personnel in five of the cities surveyed believed that fraud might be involved in about 30 percent of the overissuance cases where claims were established in their areas, and that these cases involved about half of the dollar value of all overissuances for which claims were established in these areas during the period studied.

We believe GAO should have explained more fully what these statistics mean. As the report explains elsewhere, claims are now established for only a small percentage of overissuances. It may well be that those selected cases for which claims are established are more likely to be fraud cases than are overissuances in general. It cannot be assumed that the cases for which claims are established are representative of all overissuances.

Even more troubling is the manner in which the cases for which claims are established are identified as suspected fraud. The person filling out the claims form simply puts down on the form whether the overissuance resulted from agency error, recipient misunderstanding, or fraud or misrepresentation. At the time this claim is filled out, no administrative hearing or court adjudication has occurred. Moreover, the person filling out the form is often the caseworker involved in the particular case. The caseworker has a vested interest in indicating that the overissuance did not result from his or her own error. Similarly, the caseworker may have an interest in indicating the case was not due to recipient misunderstanding, since this may mean the caseworker did an inadequate job of explaining the requirements. The caseworker's best protection is often to indicate the recipient misrepresented the facts, since this is the one way in which the caseworker is completely "off the hook."

For these reasons, we are skeptical of the accuracy of the statistics in the chart, and we should like to emphasize that those statistics cannot be applied to all overissuances. We believe that fraud is a serious problem, but that its incidence may be substantially overstated in the chart in question.

In other areas, we believe the GAO report does not afford sufficient recognition to the difficulty of recovering overissuances that were non-fraudulent when those overissuances were made to families who remain indigent. The Department's September 1975 survey of food stamp households found that 84 percent of the households have liquid assets of less than \$100.

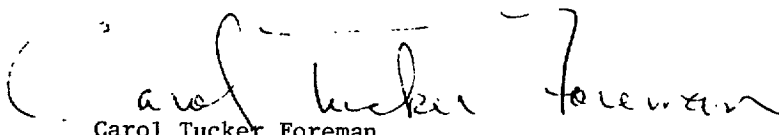
The report also does not adequately explain that the large majority of overissuance cases are not known to states and localities. Our figures on overissuances come from quality control samples of a very small proportion of the caseload, and are then projected statewide and nationwide. Quality control reviewers spend an average of 12 hours on each case, whereas regular certification workers spend less than 1 hour on an average. If the initial certification interview were 12 hours long,

Mr. Henry Eschwege

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the number of errors would be vastly reduced--but the administrative costs of the program would mushroom to extraordinary levels. The Administration's goal is to simplify the certification process so that caseworkers can do a more effective job of avoiding errors in the time that is available. We also expect that some of the administrative and man-hour savings that will derive from elimination of the food stamp purchase requirement will be applied to doing a more effective job of certifying applicants and of dealing with overissuances.

Sincerely,



Carol Tucker Foreman
Assistant Secretary for
Food and Consumer Services

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