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FOOD ASSISTANCE

Computerized Information Matching Could Reduce Fraud and Abuse in the Food Stamp Program

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to present our observations on reducing fraud and abuse in the Food Stamp Program and to offer our views on the Chairman's draft legislation to help prevent the payment of benefits to households that include deceased individuals as members. As you know, the Food Stamp Program is one of the nation's largest welfare programs and the largest single program administered by the U.S. Department of Agriculture (USDA). In fiscal year 1997, over \$19 billion in food stamps were provided to about 23 million recipients,¹ down somewhat from recent years. The program is the principal component of the government's food assistance safety net. Any program of this magnitude will be susceptible to fraud and abuse, and the Food Stamp Program is no exception. It has been subject to both the participation of ineligible recipients and the improper use of benefits; however, USDA has been able to reduce the overpayment error rate in recent years and is taking actions to address food stamp trafficking—that is, exchanging food stamps for cash or other non-food items.

We have reported on the improper inclusion of prisoners and deceased individuals in food stamp households² (the value of benefits that a household receives is partially determined by the number of eligible household members) and on the extent of trafficking. Today, we will (1) provide an overview of the scope of fraud and abuse in the program, (2) discuss the ways computerized information can be used to identify and reduce it, and (3) comment on the potential of the Chairman's draft legislation to reduce fraud and abuse in the program.

In summary:

- Fraud and abuse in the Food Stamp Program generally occurs in the form of either overpayments to food stamp recipients or trafficking. Overpayments occur when ineligible persons are provided food stamps, as well as when eligible persons are provided more than they are entitled to receive. Overpayments are caused by inadvertent and intentional errors made by recipients and errors made by state caseworkers. For 1997, overpayments totaled about \$1.4 billion, or about 7 percent of the food

¹For this testimony, food stamps refers to the benefits provided in the form of coupons or through electronic benefit transfer.

²Food Stamps: Substantial Overpayments Result From Prisoners Counted as Household Members (GAO/RCED-97-54, Mar. 10, 1997) and Food Stamp Overpayments: Thousands of Deceased Individuals Are Being Counted as Household Members (GAO/RCED-98-53, Feb. 11, 1998).

stamp benefits issued that year. Errors also result in underpayments; in fiscal year 1997, such underpayments totaled about \$509 million. With regard to trafficking, USDA estimated that in 1993 (the latest year of available data) about \$815 million in food stamps, approximately 4 percent of the food stamps issued, were traded for cash at retail stores. No one knows the extent of trafficking between individuals before the food stamps are redeemed at authorized retailers.

- While USDA has reduced the overpayment rate in recent years, further reductions could result if the food stamp rolls were matched against computerized information held by various sources in order to identify ineligible participants. Computer matching can provide a cost-effective mechanism to accurately and independently accomplish this. Some states already conduct data-matching programs, such as matches with the rolls of other states to find participants receiving duplicate benefits. By taking a leading role in promoting the use and sharing of information among federal and state agencies, USDA can enhance the states' effectiveness in identifying ineligible participants and reducing overpayments.
- The Chairman's draft legislation would establish a computerized matching process that is intended to prevent inappropriate payments to food stamp households that include deceased individuals as members. The draft legislation's objectives are in line with the intent of recommendations contained in our February 1998 report on payments to these households. More specifically, the draft legislation requires state agencies to provide information regarding individuals who receive food stamp benefits to the Social Security Administration (SSA) and requires SSA to notify the state agencies of the individuals who are deceased.

Background

The Food Stamp Program provides a safety net to the millions of low-income individuals and families nationwide who do not otherwise have the means to obtain a healthy diet. Food stamp benefits are calculated to ensure that households have the resources needed to purchase a model diet plan based on the National Academy of Sciences' Recommended Dietary Allowances. USDA's Food and Nutrition Service (FNS) administers the program in partnership with the states, funding all of the program's benefits and about 50 percent of the states' administrative costs. FNS develops program policy and guidance, such as nationwide criteria for determining who is eligible for assistance and the amount of benefits recipients are entitled to receive, and oversees the states' activities. The states are responsible for the day-to-day operation of the

program, including meeting with applicants and determining their eligibility and benefit levels.

Food stamp recipients must use their benefits only to purchase allowable food products from retail food stores that FNS authorizes to participate in the program. Recipients use food stamp coupons or an electronic benefit transfer (EBT) card to pay for these items. EBT systems use the same electronic funds transfer technology that many grocery stores use for their debit card payment systems. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandates that all states implement EBT systems by October 1, 2002, unless USDA waives the requirement. As of March 1998, 16 states had implemented EBT systems statewide, with all other states in some earlier stage of implementation. Collectively, about 40 percent of all food stamp benefits are now delivered through EBT systems.

Scope of Fraud and Abuse

As we noted in our October 1997 testimony before this Subcommittee, fraud and abuse in the Food Stamp Program generally occur in the form of either overpayments to food stamp recipients or trafficking. Overpayments occur when ineligible persons are provided food stamps, as well as when eligible persons are provided more than they are entitled to receive. In 1997, the states overpaid recipients an estimated \$1.4 billion, or about 7 percent of the approximately \$19.6 billion in food stamps issued. Some of these overpayments are caused by intentional or unintentional errors by food stamp recipients, while others are the result of caseworker errors. In 1996, approximately 57 percent of the overpayments were caused by recipients' errors (36 percent unintentional and 21 percent intentional), and 43 percent were caused by caseworkers' errors. It should also be noted that recipient and caseworker errors can result in underpayments. According to FNS' data, food stamp recipients were underpaid by about \$509 million in fiscal year 1997.

In February 1998, we reported on one specific type of food stamp overpayment, which is the subject of today's hearing—payments made to households that included deceased individuals as members. By matching automated food stamp records from four states—California, Florida, New York, and Texas—with death information from the Social Security Administration's Death Master File, we identified nearly 26,000 deceased individuals who were included in households receiving food stamps in 1995 and 1996. These households improperly collected an estimated \$8.5 million in food stamp benefits. SSA already has a data exchange system

in place to notify the states of deceased individuals who receive Social Security benefits. However, the system does not notify the states of deceased individuals who receive food stamp benefits but do not receive Social Security benefits. In part, this is because of restrictions that certain states place on the use of the data they supply to SSA for its national data base of deceased individuals. We found that with adjustments to its current data system and the removal of restrictions on the use of the death data provided by states, SSA could provide states more complete information on all deceased individuals who are included in households receiving food stamp benefits. Consistent with these findings, we made recommendations aimed at making better use of SSA's national data base of deceased individuals when determining benefits for food stamp recipients.

Prior to our February 1998 report, in March 1997, we reported on another kind of food stamp overpayment—payments to households that included inmates of correctional institutions. Federal regulations prohibit prisoners from participating in the Food Stamp Program. By matching automated food stamp records and prison records in four states—California, Florida, New York, and Texas—we identified over 12,000 inmates who were included in the households receiving food stamps in calendar year 1995. These households improperly collected an estimated \$3.5 million in food stamps in 1995. Subsequently, in August 1997, the Balanced Budget Act of 1997 (P.L. 105-33, Aug. 5, 1997) included a provision directing the states to ensure that individuals who are under federal, state, or local detention for more than 30 days are not participating in the Food Stamp Program.

We currently have several reviews, either planned or under way, in which we are using or will use computer matching techniques to identify other groups of ineligible Food Stamp Program participants. At your request, Mr. Chairman, one of these reviews will examine participation in the program by individuals who have been disqualified for violating program rules. We plan to examine the disqualification process and to determine, through computer matching, the extent to which such ineligible participants receive benefits.

Regarding trafficking—the second main area of fraud and abuse in the Food Stamp Program—a 1995 FNS study estimated that up to \$815 million,³ or about 4 percent of the food stamps issued, was exchanged for cash by authorized retailers during fiscal year 1993. The study found that the trafficking rate was highest, 13 percent of food stamps redeemed, among

³The Extent of Trafficking in the Food Stamp Program, U.S. Department of Agriculture, Food and Nutrition Service, Aug. 19, 1995.

small, privately owned food retailers that generally do not stock a full line of food. In contrast, supermarkets and large grocery stores had an average trafficking rate of less than 2 percent of the benefits redeemed. Data on the extent to which food stamps are exchanged between individuals prior to reaching authorized retailers are unavailable.

Overpayment Levels Have Declined, but Additional Actions to Further Reduce Fraud and Abuse Would Be Worthwhile

USDA's data show that overpayments in the Food Stamp Program have declined since 1993. According to the data, the overpayment error rate at the national level has decreased from 8.27 percent of the total benefits provided in fiscal year 1993 to 7.28 percent in fiscal year 1997. With the support of the Congress, FNS has increased its emphasis on achieving payment accuracy and has employed various initiatives to assist the states in reducing the number of errors. For example, FNS sponsored national, regional, and state conferences; provided direct technical assistance to the states; and facilitated the exchange of state information on effective strategies for determining accurate payments.

Given the program's strong reliance on applicants, clients, and retailers to comply with program regulations and provide accurate and timely information, state agencies need to have access to information that will allow them to independently and cost-effectively verify the information they are provided and identify noncompliance. Our reviews have demonstrated that useful information can be obtained from (1) matching state food stamp rolls against other databases, such as prisoner rolls, and (2) reconfiguring existing databases to provide additional useful information to state agencies, such as death notices.

Both an FNS study and our own experiences demonstrate that automated data matches by the states using food stamp records can provide a cost-effective means of reducing fraud and improving program integrity. The cost of conducting computer matches can be relatively low for the return generated, which includes identifying ineligible individuals in the application process before any benefits are issued and preventing additional issuance once an ineligible participant is identified.

State agencies have already implemented computerized matches on their own initiative, such as matching their information with neighboring state information to detect duplicate participation. Two state agencies we visited have taken steps to obtain information from credit reporting services to ensure that applicants are eligible for benefits. In addition to recouping overpayments, matching efforts help the program realize

savings by identifying erroneous information during the application process, according to the states. Furthermore, the states said that these efforts have a deterrent effect on applicants who may be considering fraudulent activities.

FNS can further expand on its recent successes in reducing overpayments by actively encouraging the states to identify ways to continue to use computerized information to verify information provided by applicants and by encouraging states to share their techniques and information. FNS can demonstrate its leadership in this regard by identifying sources of information that would be useful to the states and ensuring that they have access to that information.

Draft Legislation Establishes a Process to Provide States With Information on Ineligible Participants

The objectives of the Chairman's draft legislation are consistent with the intent of recommendations contained in our recent report on inappropriate food stamp benefits received by households who include deceased individuals as household members. The draft legislation would require the Secretary of Agriculture to enter into an agreement with the Commissioner of SSA under which the Commissioner would establish a cooperative agreement with each state agency that administers the Food Stamp Program. Under the cooperative agreements, the states would provide SSA with information on individuals who receive food stamp benefits. SSA would be required to compare this information to its records of deceased individuals and notify the state agencies of such individuals on their food stamp rolls. In addition, the draft legislation requires the Secretary to report to the Congress on the progress and effectiveness of the cooperative arrangements.

In our view, the draft legislation is a step forward towards helping the states better identify and remove ineligible participants from their rolls. One important suggestion that would strengthen the draft legislation would involve directly addressing the issue of state restrictions on the Commissioner's use of death data. We would be happy to work with the Subcommittee to help draft language that would deal with this issue.

Thank you again for the opportunity to appear before you today. We would be pleased to answer any questions you may have.

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