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Report to Congressional Committees

May 2005

FOOD STAMP PROGRAM

States Have Made Progress Reducing Payment Errors, and Further Challenges Remain

GAO-05-245

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GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-245, a report to congressional committees

Why GAO Did This Study

In fiscal year 2003, the federal Food Stamp Program made payment errors totaling about $1.4 billion in benefits, or about 7 percent of the total $21.4 billion in benefits provided to a monthly average of 21 million low-income participants. Because payment errors are a misuse of public funds and can undermine public support of the program, it is important that the government minimize them. Because of concerns about ensuring payment accuracy GAO examined: (1) what is included in the national food stamp payment error rate and how it has changed over time, (2) what is known about the causes of food stamp payment errors, and (3) what actions the Food and Nutrition Service (FNS) and states have taken to reduce these payment errors.

To answer these questions, GAO analyzed program quality control data for fiscal years 1999 through 2003 and interviewed program stakeholders, including state and local officials from nine states.

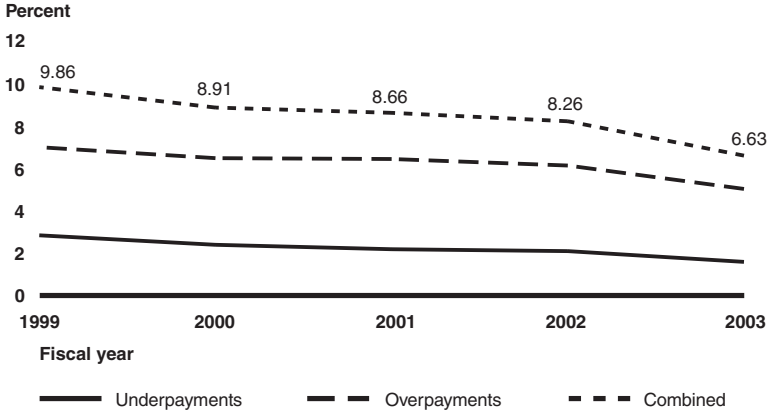
www.gao.gov/cgi-bin/getrpt?GAO-05-245.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215 or nilsens@gao.gov.

What GAO Found

The national dollar payment error rate for the Food Stamp Program, which combines states' overpayments and underpayments to program participants in all states, has declined by almost one-third over the last 5 years to a record low of 6.63 percent. This decline has been widespread; the rate fell in 41 states and the District of Columbia, and rates in 18 of these states fell by at least one-third. However, despite this decrease, some states continue to have relatively high payment error rates. For example, in 2003, 7 states had payment error rates of more than 10 percent.

Food Stamp Payment Errors Have Dropped over the Last 5 Years



Source: the Food and Nutrition Service.

Almost two-thirds of food stamp payment errors are caused by caseworkers, usually when they fail to keep up with reported changes or make mistakes applying program rules, and one-third are caused by participant failure to report required, complete, or correct information, such as household income and composition. State officials said program complexity and other factors, such as the lack of resources and staff turnover, can contribute to these errors. In fiscal year 2003, states referred about 5 percent of all cases identified with errors for suspected participant fraud investigation.

To increase food stamp payment accuracy, FNS and the 9 states GAO reviewed took many approaches that parallel good internal control practices. These efforts include increasing the leadership and accountability in the program, performing risk assessments to identify problem areas, implementing various program and process changes in response to the findings from risk assessments, and monitoring and promoting improved performance. The states are using a combination of approaches to improve payment accuracy, making it difficult to tie error rate improvements to specific practices. However, state officials point to their improved state error rates as evidence of a collective impact.

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Abbreviations

EBT	Electronic Benefits Transfer
FNS	Food and Nutrition Service
QC	quality control
TANF	Temporary Assistance for Needy Families
USDA	U.S. Department of Agriculture

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

May 5, 2005

The Honorable Saxby Chambliss
Chairman
The Honorable Tom Harkin
Ranking Minority Member
Committee on Agriculture, Nutrition, and Forestry
United States Senate

The Honorable Bob Goodlatte
Chairman
The Honorable Collin C. Peterson
Ranking Minority Member
Committee on Agriculture
House of Representatives

In fiscal year 2003, the federal Food Stamp Program, administered by the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS), reported it made payment errors totaling about $1.4 billion in benefits. This sum represents about 7 percent of the total $21.4 billion in benefits provided each year to a monthly average of 21 million low-income program participants. The program is intended to help low-income individuals and families obtain a better diet by supplementing their income with benefits to purchase food. However, payment errors reflect the misuse of public funds and may undermine public confidence in the program.

The Food Stamp Program is jointly administered by FNS and the states. State caseworkers must determine an applicant's eligibility and benefit levels based on a complex formula that takes into account the members of the household, their assets, and net monthly income; households must report changes in their circumstances that may affect their eligibility and benefit levels; and caseworkers periodically recertify eligibility. Depending on household circumstances, some cases may require more adjustments than others. For example, households with earned income may be required to report more income changes to caseworkers than households without earned income, such as those that are dependent solely on retirement benefits. In addition, some food stamp participants receive benefits from other programs, such as Medicaid or the cash assistance program Temporary Assistance for Needy Families (TANF). Although the caseworkers who process these eligibility determinations may be the same as those who administer the Food Stamp Program, the rules for the

various programs can differ. These differences add to the complexity of determining and recertifying eligibility and program benefits.

FNS's quality control (QC) system measures payment accuracy and monitors how accurately states determine food stamp eligibility and calculate benefits. Under FNS's QC system, states participate in the calculation of their payment errors by reviewing a sample of cases to examine whether eligibility was correctly determined and whether participating households received the correct benefit amount. FNS validates the sample and the accuracy of the state review.

Because the government must make the best use of funding, it is important to minimize payment errors. Due to concerns about ensuring payment accuracy, we examined (1) what is included in the national food stamp payment error rate and how has the rate changed over time, (2) what is known about the causes of food stamp payment errors, and (3) what actions USDA and states have taken to reduce these payment errors.

To determine what is included in the payment error rate, how it has changed over time, and the causes of payment error, we analyzed FNS's QC data for fiscal years 1999 through 2003.[1] We determined that the QC data were reliable for the purposes of our work by reviewing our past reports, FNS and external evaluations of the QC system, and related documents. We also met with knowledgeable FNS officials to discuss issues of the QC system's accuracy and completeness. To understand the causes of payment errors and what actions have been taken to reduce them, we conducted interviews with program stakeholders from FNS headquarters, each of FNS's seven regional offices, and the USDA Office of the Inspector General. In addition, we interviewed food stamp officials from 9 states, officials from the state auditor's office in each of these 9 states, food stamp officials from the local office within 8 of these 9 states with the largest food stamp caseload, and food stamp researchers and representatives from special interest groups. The 9 states we selected were California, Michigan, Mississippi, New Jersey, New York, Oregon, South Dakota, Texas, and Wisconsin. We chose these states for the diversity in their locations, number of Food Stamp Program participants, and payment accuracy performances. We included 3 states with consistently low error rates, 3 states with consistently high error rates, and

[1]See appendix I for a detailed explanation of the methodology we used to analyze FNS's data.

3 states that reduced their error rate by more than 30 percent between 1999 and 2003. To guide our work on actions taken to reduce payment errors, we used the key components of internal control as our framework.[2] Finally, to learn about past work regarding Food Stamp payment error, we reviewed previous GAO reports on the Food Stamp Program and FNS reports concerning food stamp payment error. We conducted our work between May 2004 and April 2005 in accordance with generally accepted government auditing standards.

Results in Brief

The national payment error rate for the Food Stamp Program combines states' overpayments and underpayments to program participants and has declined by almost one-third over the last 5 years to a record low of 6.63 percent in a time of rising caseloads. Of the total $1.4 billion of errors in fiscal year 2003, 76 percent were due to overpayments and about 24 percent were underpayments. The payment error rate has fallen each year since 1999, when it was 9.86 percent. This decline in the payment error rate has been widespread; the rate fell in 42 states and the District of Columbia, and rates in 18 of these states fell by at least one-third. However, despite the decrease in many state error rates over the past few years, a number of states continue to have difficulties reducing payment error. For example, in 2003, 7 states had payment error rates of more than 10 percent. Finally, in addition to measuring improper payments to program participants, FNS also monitors households that were refused benefits. In fiscal year 2003, about 8 percent of these cases were improperly denied, suspended, or terminated. However, these cases are not part of a state's error rate, and the amount of benefits these households would have received is unknown.

Food stamp payment errors are caused primarily by caseworkers, usually when they fail to keep up with new information or make mistakes when applying program rules, and by participants when they fail to report needed information. These causes can be linked, in part, to how frequently changes must be reported and the complexity of program rules. Almost two-thirds of all payment errors occur when state food stamp caseworkers fail to act on reported information or misapply complex rules in calculating benefits. For example, the increase in the number of food

[2]See GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington D.C.: November 1999), and GAO, *Executive Guide: Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations*, GAO-02-69G (Washington D.C.: October 2001), for more details.

stamp recipients who are low-wage workers and the changeable nature of their income has made it more difficult for caseworkers to keep up with changes, according to state officials. They also cited increased caseloads and state fiscal problems, which resulted in staff reductions and competing demands on workers, as contributing factors. In addition, caseworkers may misapply the numerous eligibility requirements—such as allowable deductions for shelter, utility, or child care—when calculating a household's net monthly income. Moreover, state and local officials from 5 of the 9 states we contacted told us that it can be difficult for caseworkers when they are responsible for multiple programs—such as TANF, food stamps, and Medicaid—because the eligibility and reporting rules among the programs often differ. Payment errors associated with participants account for about one-third of all payment errors. This generally is a result of participants not providing required information to caseworkers, such as changes in household income and composition and employment or of providing incomplete or incorrect information. Participants may fail to provide this information either intentionally or unintentionally. In 2003, states referred about 5 percent of all errors for suspected participant fraud investigation. However, despite these widespread challenges, states have continued to reduce their payment error rates and remain concerned about continued improvement in the future.

FNS and the 9 states we reviewed have taken many approaches to increasing food stamp payment accuracy, most of which are parallel with internal control practices known to reduce improper payments. These approaches include practices to improve accountability, conduct risk assessments, implement program and process changes based on those assessments, and monitor and promote improved performance. FNS's increased focus on the error rate and the threat of increased financial penalties were cited by several states as the impetus for state leaders and managers to make payment accuracy a priority. Also, some states are holding their local managers accountable for their error rates by setting overall local office target rates or including target rates in the managers' contracts. FNS and the states are also actively conducting risk assessments to identify the types and sources of payment errors. For example, California, a state that has reduced its error rate by over 50 percent since 2001, has increased the number of cases sampled for its 19 largest counties as a way to assess risk and identify the causes of errors at the county level. Once the likely causes are identified, the states are adopting program and process changes to address risk. For example, some localities have adopted specialized units to respond to reported changes in case information to address their failure to act on reported information errors. In addition, most states we contacted have adopted a simplified

reporting option, which is designed to reduce administrative burden and promote higher participation. The option also helps reduce errors because it reduces the frequency with which households must report changes. In essence, unreported changes that might have caused errors in the past are no longer required to be reported. Overall, states put into place a combination of approaches based upon their available resources, priorities, the nature of their errors, and other factors, making it difficult to tie error rate improvements to specific practices. However, state officials point to their improved state error rates as evidence that collectively the practices are having an impact.

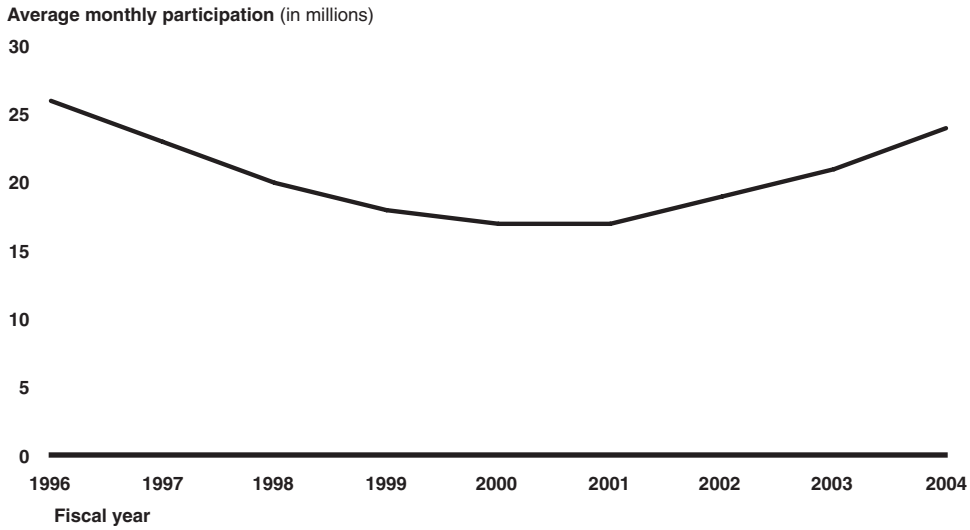
Background

The federal Food Stamp Program is intended to help low-income individuals and families obtain a more nutritious diet by supplementing their income with benefits to purchase food. FNS pays the full cost of food stamp benefits and shares the states' administrative costs—with FNS paying approximately 50 percent—and is responsible for promulgating program regulations and ensuring that state officials administer the program in compliance with program rules.[3] The states usually administer the program out of local assistance offices that determine whether households meet the program's eligibility requirements, calculate monthly benefits for qualified households, and issue benefits to participants, almost always on an Electronic Benefits Transfer (EBT) card. The local assistance offices often administer other benefit programs as well, including TANF, Medicaid, and child care assistance.

In fiscal year 2004, the Food Stamp Program issued almost $25 billion in benefits, and in September 2004, almost 25 million individuals participated in the program. As shown in figure 1, the increase in the average monthly participation of food stamp recipients in 2004 continues a recent upward trend in the number of people receiving benefits, with caseloads increasing over 40 percent since 2001, but still below the level in 1996.

[3]Following passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, reimbursements for food stamp administrative costs in 44 states are adjusted each year to subtract certain food stamp administrative costs that have already been factored into these states' TANF grants. As a result, these states receive less than 50 percent of their administrative costs. See GAO, *Food Stamp Program: States Face Reduced Federal Reimbursement for Administrative Costs*, RCED/AIMD-99-231 (Washington D.C.: July 23, 1999).

Figure 1: Food Stamp Recipiency Has Increased Sharply in the Last 3 Years, Following a Substantial Decline



Source: the Food and Nutrition Service.

Eligibility Requirements

Eligibility for participation in the Food Stamp Program is based on the Department of Health and Human Services' poverty measures for households. The caseworker must first determine the household's gross income, which cannot exceed 130 percent of the poverty level for that year (or about $1,654 per month for a family of three living in the contiguous United States in 2003). Then the caseworker must determine the household's net income, which cannot exceed 100 percent of the poverty level (or about $1,272 per month for a family of three living in the contiguous United States). Net income is determined by deducting from gross income expenses such as dependent care costs, medical expenses, utilities costs, and shelter expenses. In addition, there is a limit of $2,000 in household assets, and basic program rules limit the value of vehicles an applicant can own and still be eligible for the program.[4] If the household owns a vehicle worth more than $4,650, the excess value is included in calculating the household's assets.[5]

[4]Households with elderly or disabled members are exempt from the gross income limit and may have assets valued at $3,000.

[5]If a household has no other assets, its vehicle can be worth $6,650.

After eligibility is established, households are certified to receive for food stamps for periods ranging from 1 to 24 months depending upon household circumstances. The average certification period is 10 months. Once the certification period ends, households must reapply for benefits, at which time eligibility and benefit levels are redetermined. Between certification periods, households must report changes in their circumstances—such as household composition, income, and certain expenses—that food stamp agencies must consider to determine whether the change affects their eligibility or benefit amounts. States have the option of requiring food stamp participants to report on their financial circumstances at various intervals and in various ways. States can institute a type of periodic reporting system, or they can rely on households to report changes in their household circumstances within 10 days of occurrence.[6] Under periodic reporting, participants report monthly, quarterly, or under a simplified system. The simplified reporting system, available since early 2001, provides for an alternative reporting option that requires households with earned income to report changes between certifications only when their income rises above 130 percent of the poverty level. This easing of program requirements was designed to help increase the program access and participation of eligible working families, an FNS goal, by making it easier for them to participate, as well as to reduce the administrative burden on local food stamp offices.

Quality Control System

To ensure the accuracy of food stamp payments, FNS and the states have an extensive quality control system. In fiscal year 2003, the states spent an estimated $80 million to administer the system, and FNS spent and estimated $9 million.[7] According to FNS officials, each month a state's food stamp QC staff selects a representative sample of the open food stamp cases for review.[8] The QC staff reviews each sample case to verify whether the recipient's eligibility and benefit amount were determined correctly. If the reviewer finds the benefit amount off by more than

[6]States can choose from a variety of change-reporting methods. They can require households to report only when a member changes jobs, receives a different rate of pay, or has a change in his or her work status, such as from full-time to part-time or vice versa. States can also require households to report only when there is a change in earnings of $100 or more per month.

[7]FNS reimbursed the states half of the money they spend on QC. State QC expenses include salaries for QC workers, the costs associated with sampling and reviewing case files, office space, supplies, and travel.

[8]Sample sizes range from under 400 in smaller states to over 1,500 cases in others.

$25, it is counted as an error. The statewide sample produces a valid statewide error rate, although in most cases, it does not include sufficient cases to generate error rates for local offices.[9]

FNS plays a significant role in monitoring and validating the state's review. The FNS regional offices approve the states' sampling plans; validate the states' samples, totaling 56,557 in fiscal year 2003; and review one-third of these sample cases to ensure accuracy. They also handle informal arbitration of disputes resulting from differences between the state and FNS review outcomes. Disputes that are not resolved at the regional office can be appealed to FNS headquarters for formal arbitration. In fiscal year 2003, regional reviews found 151 cases where the regional offices' finding or error amount was different from the states' finding or error amount. According to FNS officials, this constitutes less than 1 percent of the cases reviewed by the regions, and each year between 20 and 30 of these unresolved disputes between the state and the regional office are appealed to FNS headquarters for formal arbitration. According to FNS officials, upon the completion of the regional office's review and error disagreement processes, the regional office adjusts error rates to reflect the final results.

Once the error rates are final, FNS is required to compare each state's performance with the national error rate and imposes penalties or provides incentives according to specifications in law. Prior to fiscal year 2003, penalties were levied each year a state's payment error rate was above the national average. In addition, states with error rates above 6 percent, other than for good cause, were required to develop corrective action plans that are monitored by the FNS regional offices. FNS can negotiate with the states the amount of the penalty that will be paid to FNS, the amount that will be reinvested into the program, and the amount of money that will be collected if the state does not improve its error rate to an agreed-upon amount. In order to encourage program improvement, FNS also provided enhanced funding to states that with a payment error rate less than or equal to 5.90 percent according to a formula set in law. During this period of time, the states were held accountable only for their error rate and no other performance measure.

[9]The state's error rate is determined by weighting the dollars paid in error divided by the state's total issuance of food stamp benefits.

The Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill) made significant changes to the way penalties and incentives are calculated and awarded.[10] States will not be penalized until their error rate exceeds the national error rate threshold for 2 years in a row. The error rate threshold changed so that states are not penalized unless there is a 95 percent statistical probability that their error rate exceeds 105 percent of the national average for 2 consecutive years. If a state's error rate exceeds the threshold for 2 years in a row, a penalty will be established that is equal to 10 percent of the cost of errors above 6 percent.[11] In addition to establishing the new penalty system, the 2002 Farm Bill instructed FNS to create new criteria for performance bonuses that award states with high or most improved performance for actions taken to correct errors, reduce error rates, improve eligibility determination, and other indicators of effective program operations.

FNS and the states also conduct fraud prevention activities to detect and prosecute food stamp fraud by retailers and participants. In fiscal year 2002, the states spent $229 million on their fraud control activities and reported that they completed 834,000 client investigations resulting in 12,000 state prosecutions and 61,000 ineligibility rulings. As a result of these fraud control activities and following up on overpayments identified through the QC process and during regular case processing activities, the states established almost $26 million in fraud claims, $176 million in household error claims, and $59 million in agency error claims. States also reported they collected $209 million on previously established claims. FNS's payment error statistics do not account for the states' results in recovering overpayments.

[10]The 2002 Farm Bill also gave states the option of adopting provisions that could simplify program administration and possibly reduce error rates. These options include simplifying income and resources, housing costs and deductions, reporting requirements, and utility allowances. See GAO, *Food Stamp Program: Farm Bill Options Ease Administrative Burden, but Opportunities Exist to Streamline Participant Reporting Rules among Programs*, GAO-04-916 (Washington, D.C.: September 2004).

[11]Of that amount, USDA may waive all or part, and/or require up to 50 percent to be reinvested in corrective action programs and/or require up to 50 percent to be set aside for possible recovery in the third year. If a state's error rate exceeds the threshold for 3 consecutive years, the state is responsible for paying the second year at-risk amount, and USDA will again require up to 50 percent of the liability amount to be reinvested in corrective action programs and up to 50 percent be set aside for possible recovery in the following year if the state again exceeds the threshold for that year.

Payment errors can typically be traced to a lack of or a breakdown in internal controls, which are an integral component of an organization's management. Internal control is not one event, but a series of actions and activities that occur throughout an organization on an ongoing basis. Therefore, to guide our review of FNS and state actions taken to reduce payment errors, we used the key components of internal control as our framework. These components include creating a work environment that promotes accountability and the reduction of payment error, analyzing program operations to identify areas that present the risk of payment error, making policy and program changes to address the identified risks, and monitoring the results and communicating the lessons learned to support further improvement.

The Food Stamp Error Rate, Which Combines Overpayments and Underpayments, Has Declined by Almost One-Third over the Last 5 Years

The national Food Stamp Program payment error rate combines overpayments and underpayments to participants, and has declined by about one-third in recent years from 9.86 percent in 1999 to a record low of 6.63 percent in 2003.[12] In dollars, this means if the 1999 error rate was in effect in 2003, the program would have made payment errors totaling over $2.1 billion rather than the $1.4 billion it experienced. Most states have enjoyed a recent reduction in payment error, with error rates falling in 41 states and the District of Columbia. However, some states continue to struggle with relatively high payment error rates. In addition to measuring the accuracy of benefits paid, about 8 percent of the decisions to deny, suspend, or terminate benefits were also made in error. However, the amount of benefits these households would have received is unknown and is not part of a state's payment error rate.

Food Stamp Payment Error Rate Combines Benefit Overpayments and Underpayments

The national food stamp payment error rate combines overpayments and underpayments made to benefit recipients in all states. Of the total $1.4 billion in payment error in fiscal year 2003, $1.1 billion, or about 76 percent, were overpayments, which represent a financial loss to the federal government. Overpayments occur when eligible persons are provided more than they are entitled to receive or when ineligible persons are provided benefits. Underpayments, which occur when eligible persons are paid less than they are entitled to receive, totaled $340 million, or about 24 percent of dollars paid in error, in fiscal year 2003.

[12]In contrast, USDA's strategic plan for fiscal years 2000 to 2005 set a target error rate of 9.2 percent by fiscal year 2005.

Underpayments represent unintentional financial savings to the federal government.

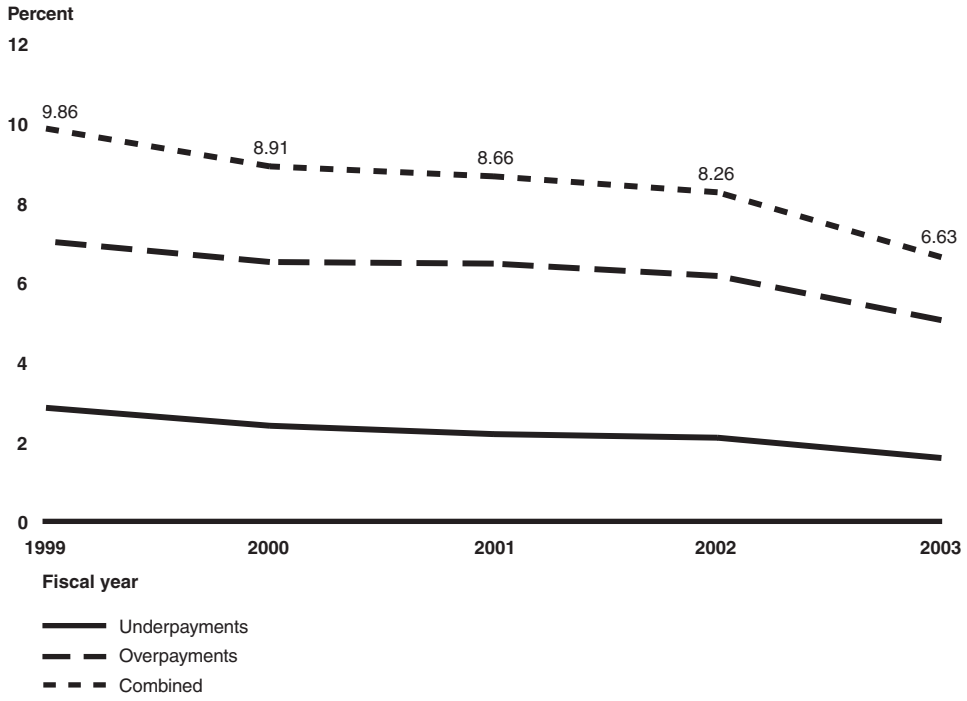
Studies have reviewed the effects of payment errors on household income. An analysis of fiscal year 2003 QC data conducted by Mathematica Policy Research, Inc., for FNS found that typical overpaid eligible households received an average of $97 too much in monthly benefits and underpaid eligible households received an average of $78 too little in monthly benefits.[13] As a result, overpaid households' purchasing power, which includes household gross income and food stamp benefits, rose by 8 percentage points, from 94 percent of the federal poverty level to 102 percent of the federal poverty level. Underpaid households' purchasing power decreased by 6 percentage points from 80 percent of the federal poverty level to 74 percent of the federal poverty level. More than 98 percent of households receiving food stamps were eligible for the program. Ineligible households receiving food stamp benefits saw their purchasing power rise from 118 percent of the federal poverty level to 132 percent of the federal poverty level.

The National Error Rate Declined by One-Third in the Last 5 Years, Driven by States Providing the Largest Amount of Food Stamp Benefits

The national Food Stamp Program payment error rate has declined by about one-third over the last 5 years. The rate has declined each year, from 9.86 percent in 1999 to a record low of 6.63 percent in 2003, as shown in figure 2. If the 1999 error rate had been in effect in 2003, the program would have made payment errors totaling over $2.1 billion rather than the $1.4 billion it experienced. In addition, the state-reported error rates for fiscal year 2004 suggest that the overall error rate has continued to decline. These error rates have not yet been validated by FNS, which usually produces slight adjustments to these state-reported rates.

[13]Memorandum: Carole Trippe and Daisey Ewell, *Size and Impact of Food Stamp Payment Errors Based on FY 2003 FSPQC Unedited Database* (Prepared by Mathematica Policy Research, Inc., for the Food and Nutrition Service, USDA, Alexandria, Va.: January 2005).

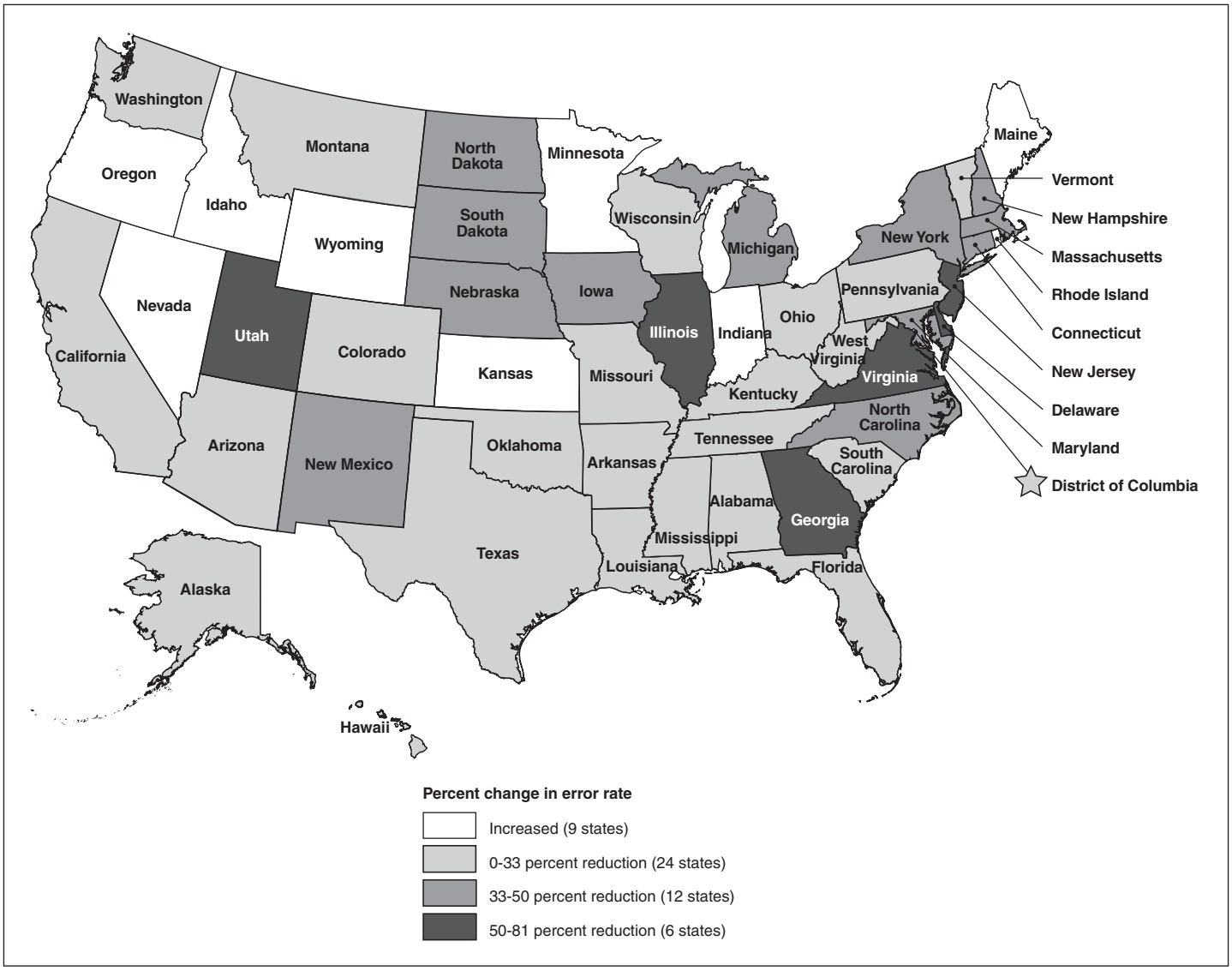
Figure 2: National Payment Error Rate for the Food Stamp Program, Fiscal Years 1999 to 2003



Source: the Food and Nutrition Service.

Error rates fell in 41 states and the District of Columbia, and 18 states reduced their error rates by one-third or more, as shown in figure 3. See appendix II for more information on individual states' error rates over time.

Figure 3: Map of State Error Rate Changes from Fiscal Year 1999 to 2003



Source: data from the Food and Nutrition Service and GAO analysis.

Further, the 5 states that issue the most food stamp benefits reduced their error rates by an average of 36 percent during this period, as shown in

table 1. The changes in these states have a large effect on the national error rate because of the way the rate is calculated.[14]

Table 1: Changes in Payment Error Rates for States Providing the Largest Amount in Food Stamp Benefits, Fiscal Year 2003

State	2003 benefit payments	1999 error rate	2003 error rate	Percentage change in error rates between 1999 and 2003
New York	$1,676,508,940	10.47	5.88	-44
Florida	987,926,276	9.43	8.00	-15
Illinois	1,052,739,082	14.79	4.87	-67
Texas	1,880,851,630	4.56	3.29	-28
California	$1,807,987,279	11.34	7.96	-30

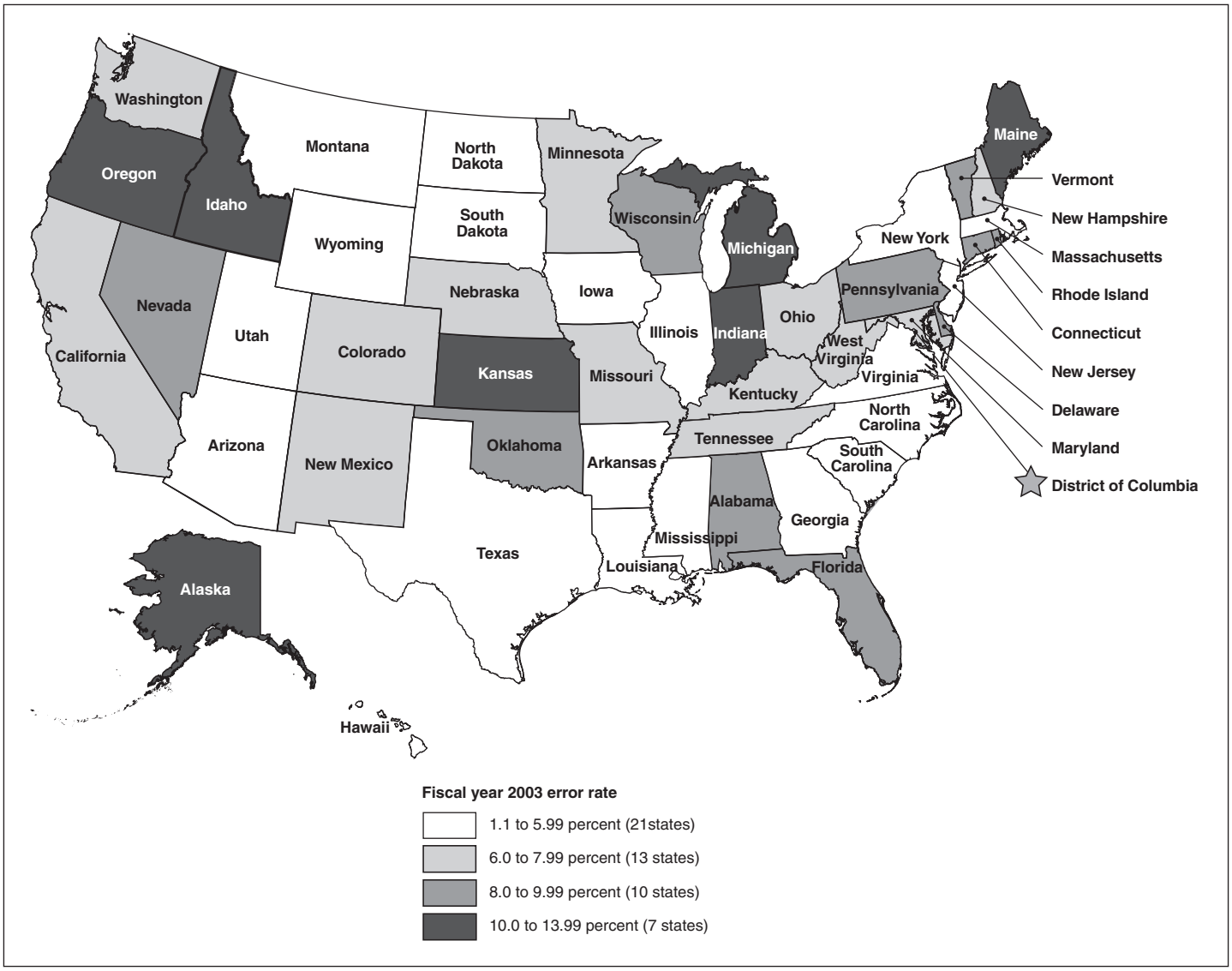
Source: GAO analysis of FNS data.

In addition to contributing to the downward trend in the payment error rate, an increasing number of states had error rates below 6 percent in 2003.[15] However, payment error rates vary among states. For example, 21 states had error rates below 6 percent in 2003 (see fig. 4 for states' error rate performance); this is an improvement from 1999, when 7 states had error rates below 6 percent. Despite the decrease in many states' error rates over the past few years, some states continue to have high payment error rates. For example, 7 states had payment error rates of 10 percent or higher in 2003. These states are also making progress, however, and are expected to have reduced their error rates in 2004.

[14]The national food stamp payment error rate is the average of the states' food stamp payment error rates weighted by each state's proportion of all food stamp benefits issued during the fiscal year. Therefore, a state issuing a higher proportion of the food stamp benefits plays a larger part in determining the national food stamp payment error rate compared with a state issuing a smaller proportion of the food stamp benefits.

[15]FNS does not require states with payment error rates under 6 percent to develop and implement corrective action plans to reduce payment errors.

Figure 4: Map of State Error Rates for Fiscal Year 2003



Source: data from the Food and Nutrition Service.

Improper Denials Are Monitored Separately

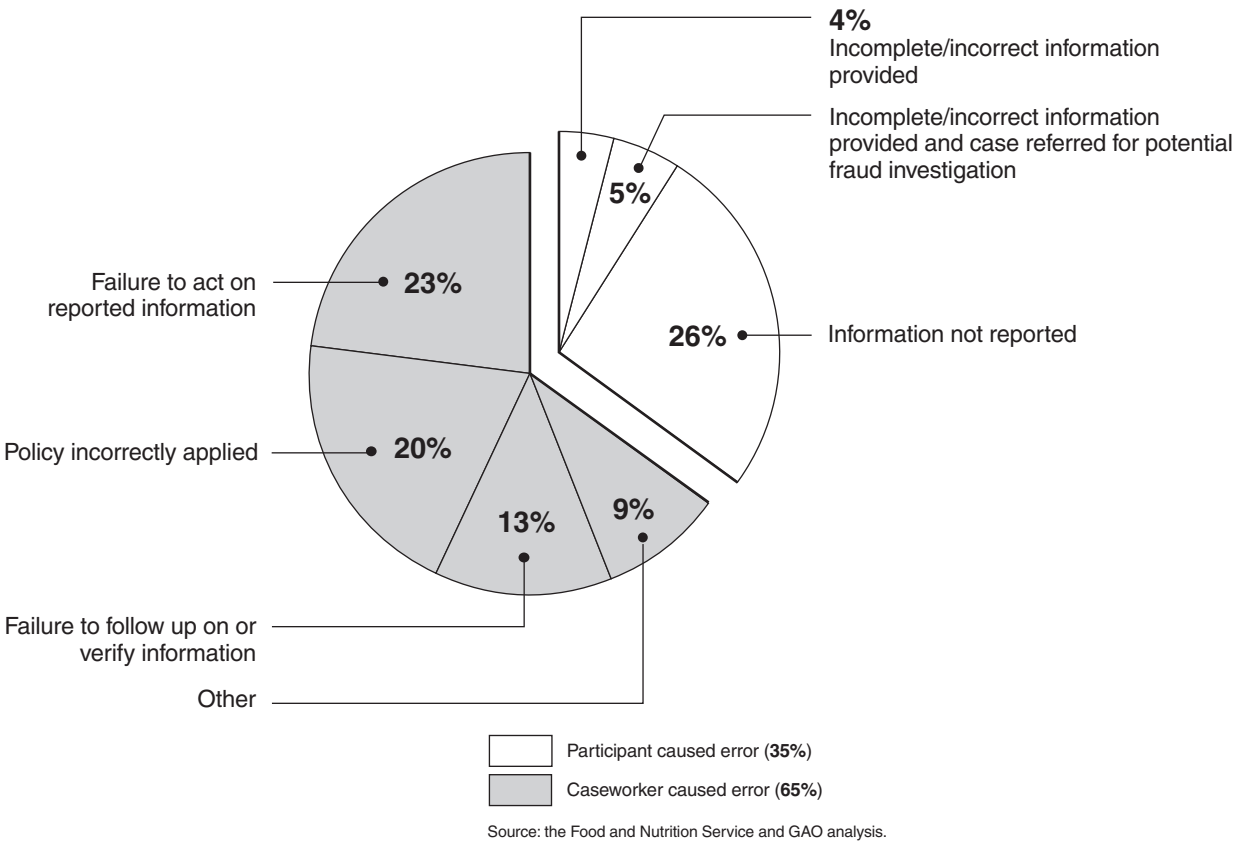
In addition to monitoring the payment error rate, FNS estimates the rate at which eligible households are improperly denied benefits, which is called the negative error rate. According to a FNS QC official, this rate is not included in the national food stamp payment error rate because it counts the number of cases affected rather than the number of dollars given in

error. In fiscal year 2003, FNS reported that about 8 percent of the decisions to deny, suspend, or terminate benefits were made in error. However, the amount of benefits these households would have received had this error not occurred is unknown.

Caseworkers Cause about Two-Thirds and Participants Cause about One-Third of Payment Errors

Almost two-thirds of the payment errors in the Food Stamp Program are caused by caseworkers, usually when they fail to act on new information or make mistakes when applying program rules, and one-third are caused by participants, when they unintentionally or intentionally do not report needed information or provide incomplete or incorrect information (see fig. 5). Program complexity and other factors, such as the lack of resources and staff turnover, can contribute to caseworker mistakes. Despite the decrease in error rate in recent years, these factors have remained the key causes of payment error over the last 5 years.

Figure 5: Caseworker- and Participant-Caused Errors in Fiscal Year 2003



Source: the Food and Nutrition Service and GAO analysis.

Caseworkers Failing to Act on Reported Information and Misapplying Program Rules Cause Most Caseworker Errors

Almost two-thirds of all payment errors are made by state food stamp caseworkers, according to our analysis of FNS QC data.[16]

Caseworkers Fail to Act on Changes

Errors can occur when caseworkers have difficulty keeping up with reported changes in household circumstances, according to officials from all of the states we reviewed. Caseworkers are required to review reported changes and assess their effect on a household's eligibility and benefit levels. In addition, caseworkers regularly receive information from data matches and other sources that should be assessed and verified, and the failure to do so is another important cause of error. In previous work, we have found that the risk of improper payments increases in programs with a significant volume of transactions. When caseworkers fail to keep up with changes, the errors usually are reflected as incorrect household income or deductible expenses, as shown in table 2.

Table 2: Caseworker Errors Most Often Resulted in Incorrect Household Income or Deductions, Fiscal Year 2003

Reason	Percentage of income errors	Percentage of deduction errors	Percentage of nonfinancial errors[a]	Percentage of other errors	Percentage of total errors
Failure to act on reported information	10.36	8.86	4.08	.03	23.33
Policy incorrectly applied	8.35	6.99	3.99	.81	20.14
Failure to verify information or follow up	6.81	4.65	1.54	.03	13.03
Other agency error	5.22	2.72	.4	.66	9
Total caseworker-caused error	**30.74**	**23.22**	**10.01**	**1.53**	**65.5[b]**

Source: GAO analysis of FNS data.

[a]Nonfinancial errors refer to factors considered in determining a household's eligibility, such as household composition, citizenship, and student status of household members.

[b]The caseworker errors in table 2 and participant errors in table 3 account for all errors. The two totals may not add to 100 percent because of rounding.

[16]The percent of all errors due to caseworker mistakes is 65.5 percent. The margin of error associated with this estimate is plus or minus 1 percent at the 95 percent level of confidence. GAO's analysis results could differ slightly from those reported by FNS because of small variations in the databases. FNS utilized the raw QC database for its analysis while GAO's database omitted some cases with incomplete case data.

Food stamp officials in 8 of the 9 states told us that increasing caseloads have contributed to payment errors, making it more difficult for caseworkers to attend to all of the reported changes. In recent years, FNS and several states have made it a priority to reach out to likely eligible households that are not yet participating in the program, in addition to focusing on minimizing payment error. At the same time, the nation experienced an economic downturn, which contributed to an increase in the number of families who had a need for food assistance. As a result of these and other factors, nationally, the number of food stamp participants has increased by more than 30 percent since February of 2001.

Moreover, as states across the country have faced fiscal challenges due to the overall slowdown in the economy, some responded by reducing their staff, offering early retirements, or imposing hiring freezes. This also has contributed to rising caseloads per worker. For example, food stamp officials in Michigan said state fiscal problems resulting in staff reductions, increased caseloads per worker, and competing demands on workers made it difficult for caseworkers to act on all reported changes because of high caseloads. Oregon state officials also attribute their difficulties with payment accuracy to a 40 percent increase in the number of food stamp cases in the state between 2001 and 2003 as well as state financial problems that led to staff cuts and a hiring freeze. FNS officials informed us that there is no central collection of comparable data on caseload per worker among states.

Further, the recent outreach efforts included a focus on increasing participation among working families. State and local officials from 8 of the 9 states we interviewed said managing cases with earnings contributes to payment error in part because caseworkers may find it difficult to keep up with the frequent changes reported to them.[17] For example, Michigan food stamp officials told us that they experienced an increase in overpayment errors because caseworkers were failing to act on the frequent wage and salary changes reported by working participants.

Caseworkers Incorrectly Apply Program Rules

The complexity of the eligibility criteria for the Food Stamp Program contributes to caseworker errors. In previous work, we found that the risk of improper payments increases in programs with complex criteria for

[17]GAO previously reported that FNS and some states and localities have taken several steps to help working families participate in the program. See GAO, *Food Stamp Program: Steps Have Been Taken to Increase Participation of Working Families, but Better Tracking of Efforts Is Needed*, GAO-04-346 (Washington D.C.: March 2004) for more details.

computing eligibility and payments.[18] Caseworkers may miscalculate a household's eligibility and benefits, in part because of the program's complex rules for determining eligible household members and for calculating the household's financial status. Our analysis of QC data found that caseworker mistakes often involve incorrectly determining household income, followed by mistakes related to income deductions, and nonfinancial issues, such as determining household composition. Although the error rate has declined in recent years, these three types of mistakes have remained the major sources of error over the last 5 years.

To determine household gross income, caseworkers must decide which types of income to include. Households may have income from a number of different sources, and rules require that some of this income be counted and some not. Further, the fluctuations in earnings for low-income working participants can increase the likelihood of error simply because they result in a higher volume of case reviews and adjustments.

Payment errors also occur when caseworkers misapply one or more of six allowable deductions when determining net income. Caseworkers calculate and deduct expenses such as dependent care costs, medical expenses, utilities costs, and shelter expenses—each of which have their own set of eligibility criteria.[19] For example, caseworkers can provide households an excess shelter expense deduction if their shelter expenses exceed 50 percent of monthly household income after applying other deductions. As part of that process, caseworkers must determine whether the household is entitled to a standard utility allowance.[20]

Other common caseworker errors involve nonfinancial factors, such as misapplying the program's complex rules for determining the members of the household. Although individuals may be living in the same home, they may be treated as different households for eligibility and benefit purposes, depending on whether they customarily purchase food and prepare meals

[18]See GAO, *Executive Guide: Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations*, GAO-02-69G (Washington D.C.: October 2001).

[19]The six allowable deductions are a standard deduction, an earned income deduction, a dependent care deduction, a medical deduction, a child support deduction, and an excess shelter cost deduction.

[20]Not all households are eligible for the standard utility allowance. Exceptions include households sharing a living space with others and not eligible for the full value of the allowance and public housing residents who were charged only for excess utility costs.

together. However, this is sometimes difficult to determine. Food stamp officials in Michigan told us that given the variety of household circumstances and arrangements caseworkers face, determining household composition can be confusing. For instance, officials said it can be difficult to determine how to treat a youth over age 22 who moves in and out of the parents' home or households that contain multiple generations of family members. In addition, officials from 5 of the 9 states we contacted told us that having caseloads with legal noncitizens was a challenge to reducing payment error, in part because of the numerous policy changes in recent years that affect the eligibility of various segments of this population.[21]

Correctly determining food stamp eligibility and benefits can be complicated by differences between Food Stamp Program rules and the rules governing other assistance programs. Officials from 5 of the 9 states we interviewed told us that minimizing payment error is difficult for caseworkers when they are responsible for multiple programs, such as TANF, food stamps, and Medicaid, because the eligibility and reporting rules among the programs often differ.[22] For example, local officials from Texas told us that because of the way the state chose to implement the simplified reporting option, caseworkers are held responsible for failing to act on a change when a birth is reported to the Medicaid program, even though participants are not required to report the change to the Food Stamp Program, according to a recently approved policy option. Oregon state and local officials also told us that it is challenging for caseworkers to attend to food stamp payment accuracy when they have to determine eligibility and recertify households for other assistance programs.

[21]The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193, Aug. 22, 1996) tightened food stamp eligibility requirements, in part, by disqualifying most permanent resident aliens. Subsequently, the Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185) restored eligibility to permanent resident aliens who were lawfully residing in the United States as of August 22, 1996, and (1) were age 65 or older at that time or (2) are either disabled or under age 18. The 2002 Farm Bill also partially restored food stamp eligibility on certain dates to qualified aliens who are otherwise eligible and meet criteria laid out in the legislation.

[22]GAO previously reported that changes in food stamp reporting rules aimed to reduce program complexity and payment error introduced complications for participants and caseworkers because the rules were not consistent with the reporting rules of other assistance programs. See GAO, *Food Stamp Program: Farm Bill Options Ease Administrative Burden, but Opportunities Exist to Streamline Participant Reporting Rules among Programs*, GAO-04-916 (Washington D.C.: September 2004) for more details.

Officials from all 9 of the states we interviewed stated that staff turnover contributes to incorrect application of program rules. Food stamp officials in Oregon said that half of the caseworkers in the Portland area have less than 1 year of work experience because of high staff turnover, which makes it difficult for the office to maintain a workforce trained in making accurate eligibility decisions. Officials also told us that lack of training can be a challenge in part because it is difficult for caseworkers to learn the complex program rules and policies.

Similar factors also affect errors where benefits are improperly denied, suspended, or terminated, according to officials from states we interviewed. They cited caseworkers misapplying policies or miscalculating income. For example, Michigan food stamp officials told us that these errors sometimes occur when caseworkers temporarily suspend benefits because participants are not complying with certain rules but then do not review the case to complete it correctly. Mississippi officials told us that these errors can also occur when caseworkers misapply a policy or fail to add up wages correctly.

Participant Error Involves Failure to Report Required, Complete, or Correct Information to Caseworkers

About 35 percent of all payment errors occur because participants do not provide required, complete, or correct information to caseworkers, either unintentionally or deliberately (see table 3).[23] Although applicants are required to provide a variety of personal information to the caseworker, failure to report income is the most common cause of participant food stamp errors.

[23]The percentage of all errors attributable to participant reporting is 34.5 percent. The margin of error associated with this estimate is plus or minus 1 percent at the 95 percent level of confidence.

Table 3: Participant-Caused Errors Most Often Resulted in Incorrect Household Income Determinations, Fiscal Year 2003

Reason	Percentage of income errors	Percentage of deduction errors	Percentage of nonfinancial errors	Percentage of other errors	Percentage of total errors
Information not reported	17.46	4.30	3.75	.13	25.64
Incomplete or incorrect information reported	1.63	1.76	.57		3.96
Incomplete or incorrect information reported & case referred for suspected fraud	2.96	1.13	.83		4.92
Total participant-caused error	**22.05**	**7.19**	**5.15**	**.13**	**34.52**[a]

Source: GAO analysis of FNS data.

[a]The caseworker errors in table 2 and participant errors in table 3 account for all errors. The two totals may not add to 100 percent because of rounding.

Program complexity may play a role in participants' failure to report needed information because the participants may not understand the reporting requirements, according to officials from 2 states we interviewed. For example, California state food stamp officials told us they believe that some participants do not report information because they are unfamiliar with the reporting requirements or because of language barriers. In addition, when participants receive assistance from multiple programs, they may be confused about what to report to whom because the requirements differ among the programs, including those for Medicaid and TANF.[24] When participants fail to report information, the result is usually an incorrect determination of household income. Further, participants may not report information to caseworkers because of the perceived burden associated with reporting changes. For example, a food stamp official in Wisconsin told us that because of the lack of staff at the call center, participants calling to report changes may wait on the line for up to 20 minutes, and as a result, some participants will hang up.

Errors may also occur when the participant intentionally does not report needed information or unintentionally or intentionally provides the caseworker with false or incomplete information. Although the percentage of payment errors that involve participants intentionally withholding information is not known, food stamp workers from all of the states we

[24]See GAO, *Food Stamp Program: Farm Bill Options Ease Administrative Burden, but Opportunities Exist to Streamline Participant Reporting Rules among Programs*, GAO-04-916 (Washington D.C.: September 2004) for more details.

interviewed refer cases for investigation when they suspect fraud. For example, Oregon food stamp officials explained that cases are referred for suspected fraud when a participant consistently reports no income yet seems to have the resources needed to live self-sufficiently. In 2003, about 5 percent of all payment errors were referred for fraud investigation. Data are not available, however, to determine what percentage of these error cases resulted in disqualifying participants because of fraud.

Despite the recent decrease in error rates, the program continues to face these same causes of error over time. Over the last 5 years, caseworker failure to act on reported information, caseworker misapplying program policies and requirements, and participant failure to report key information have remained the three largest causes of error. Moreover, errors involving incorrect household income or deductions for expenses continue to be the most common types of errors over the same period.

FNS and States Have Taken Steps to Increase Payment Accuracy

FNS and the states we reviewed have taken many approaches to increasing food stamp payment accuracy, most of which are parallel with internal control practices known to reduce improper payments.[25] These include practices to improve accountability, perform risk assessments, implement changes based on such assessments, and monitor program performance. Often, several practices are tried simultaneously, making it difficult to determine which have been the most effective.

FNS's and States' Approaches Are Parallel with Good Internal Control Practices

Because payment errors can typically be traced to problems with internal controls, we used the key components of internal control as our framework to categorize the approaches taken to reduce payment errors. In doing so, we found that both FNS and the states we reviewed were employing many of the same practices recognized as being effective in reducing payment errors.

Improving Accountability

Both FNS and states have taken steps to ensure that program officials recognize their responsibility for payment accuracy. FNS has long focused its attention on states' accountability for error rates through its QC system by assessing penalties and providing financial incentives. The administration of the QC process and its system of performance bonuses and sanctions is credited or faulted by many as being the single largest motivator of program behavior, and most of the states in our review

[25]See GAO-02-69G.

believe the QC system has helped increase payment accuracy. From fiscal year 1998 to fiscal year 2002, FNS has assessed $327 million in penalties. Of these penalties, FNS waived $93 million, approved $92 million for reinvestment into state food stamp programs, collected almost $24 million, and designated $118 million at risk for payment if the states did not improve their error rates to agreed-upon targets. During this same period, FNS awarded states almost $251 million of enhanced funding because of their low error rates.

In fiscal year 2003, the first year under the 2002 Farm Bill changes to the QC system, 11 states were found to be in jeopardy of being penalized if their fiscal year 2004 error rates did not improve. This was a higher number than was originally expected by some analysts because the error rate had fallen much faster than in previous years, leaving more states above the new error rate threshold. Some states have expressed concern that they may improve their error rates and yet still be penalized because the national rate continues to drop around them. In addition, under its new performance bonus system, FNS awarded a total of $48 million to states, including $24 million to states with the lowest and most improved error rates and $6 million to states with the lowest and most improved negative error rate.[26]

In addition to using the tools available under its QC system, FNS's leadership has actively communicated the importance of accountability. Establishing payment accuracy as a program priority is considered by many to be the most important strategy for achieving program improvement. Since the arrival of the current Undersecretary for Food, Nutrition, and Consumer Services in 2001, FNS has put increased pressure on states to reduce error rates. For example, the undersecretary and other FNS officials visited states with particularly high error rates to discuss payment accuracy. FNS also began to collect a higher percentage of penalties. From fiscal year 1992 to 2000, FNS collected about $800,000 in penalties. Since fiscal year 2000, FNS has collected more than $20 million in penalties. Officials from one advocacy group active in food stamp issues credits this official's active role as one reason for the drop in the error rates in the larger states. The FNS regional administrators also visit high

[26]The remaining $18 million was awarded for improvements not related to error rates—the highest and most improved ratio of food stamp participants compared with the number of persons in poverty and the highest percentage of timely completed applications.

error rate states and emphasize payment accuracy as a major management priority at regional meetings of state commissioners.

All the states we reviewed also reported taking steps to increase the awareness of, and the accountability for, errors in their programs. Often, this coincided with a change in state leadership and responded to accumulating program penalties, bad publicity, or both. For example,

- Michigan state officials said that after their new governor took office in 2003, error reduction became an issue for the governor and the legislature because the state had paid more than $5 million in penalties in 2003 and 2004. In response, the Food Stamp Program began producing weekly internal reports and issuing regular reports to the governor and the legislature. The state's error rate has dropped from 14.1 percent in fiscal year 2002 to a state-reported error rate of 6.73 percent in fiscal year 2004. As a result of the state's progress in reducing its error rate, the governor has publicly recognized the program's efforts.

- Wisconsin's turnaround began in 2002 when state officials, with the support of the governor, made it clear to local food stamp offices that double-digit error rates and the penalties that go along with them were no longer acceptable. Wisconsin had been assessed penalties totaling over $8 million for 2000, 2001, and 2002. The state's error rate has dropped from 13.14 percent in fiscal year 2001 to a state-reported error rate of 6.57 percent in fiscal year 2004.

- Penalties totaling over $5 million for 1998, 1999, and 2000, also spurred New Jersey's human services director to appoint a special assistant to focus on reducing the state's error rate. The state's error rate has dropped from 12.93 percent in fiscal year 1999 to a state-reported error rate of 2.62 percent in fiscal year 2004.

In addition, states we reviewed understood the need to communicate the importance of payment accuracy to individuals working at all levels of the program. Of the states we studied, California, Michigan, New Jersey, and Oregon have begun to set error rate targets for their local offices and have supplemental quality assurance processes in place to produce local error rates or error rates for their largest offices. Oregon and Texas also include payment accuracy goals in the expectations for their managers and workers, making payment accuracy one of the bases for their evaluations. California, New York, and Wisconsin have shared the accountability for poor performance by passing on a portion of their state's financial

penalties to their largest counties. New Jersey, South Dakota, and Texas, on the other hand, have shared the enhanced funding they have received for good performance with their local food stamp offices.

Identifying Risks

Both FNS and states have taken steps to analyze program operations to identify where risks exist. For example, through its QC system, FNS determined that working families receiving benefits were error prone because of frequent changes in their income and deductions. In addition, officials from our 9 review states said they analyze the QC data to identify the sources and causes of food stamp payment error in their states. New Jersey officials used the QC data to identify salaries and wages as the largest sources of error in their state. In most cases, however, the QC samples are not large enough to produce valid error rates or to identify specific problem areas for most counties or local offices. In order to be able to obtain this information, California, Michigan, New Jersey, New York, and Oregon have developed their own quality assurance systems to produce monthly error rates for their counties or local offices. For example, in January 2003, Oregon instituted a targeted case review process that requires officials in local offices to review between 35 and 100 cases per month to identify errors. State officials say the reviews provide better information to local-level officials on the causes and sources of payment error at their site so they can plan corrective action. Oregon's payment error rate dropped from 13 percent in fiscal year 2003 to a state-reported error rate of 7.81 percent in fiscal year 2004.

California, New York, Wisconsin, and Michigan targeted their largest and most error-prone offices for special risk assessments. In Wisconsin, for example, the state focused its approaches on Milwaukee because it is the largest metropolitan area in the state, accounting for 47 percent of the state food stamp caseload. Because it had the highest error rate, it had the most significant influence on the state's error rate. The state brought in a contractor that conducted an assessment of payment accuracy and the service delivery model used in Milwaukee. The contractor recommended that Milwaukee adopt a number of policy, program, and case review changes. In response, Wisconsin and the city of Milwaukee conducted a one-time find-and-fix case sweep between March and September 2004. State and county case readers reviewed 14,000, or almost 25 percent of , their food stamp cases to identify and correct potential errors. The information gained from this exercise identified certain risks and error-prone cases that county officials have used to implement other changes. As a result, Milwaukee County officials said their error rate dropped from 12.2 percent in March 2004 to 7.7 percent in June 2004.

Responding to Findings from Risk Assessments

Once the QC review process is completed, penalties are assessed by law to high error rate states and FNS works with the states to correct the problems. Staff from the FNS regional offices work with the states on the development and implementation of reinvestment and corrective action plans that address specific threats and risks identified in risk assessments. These plans can vary depending upon the state's systems and characteristics. Examples of activities included in the plans include training to address errors identified from QC and quality assurance reviews, developing online training curricula, and correcting errors generated by automated systems.

States have also adopted practices to prevent, minimize, and address payment accuracy problems in response to the sources of error identified in risk assessments. States chose their varied practices in response to their unique characteristics, resources, and risks.

- **Automated system changes**. Michigan implemented changes in its automated system to help deal with problems resulting from failure to collect complete case information, particularly household income, during the application and recertification processes. The state's automated system now prompts workers to obtain complete income documentation for cases with earned income

- **Specialized change units**. In June 2002, Los Angeles established 30 specialized change units for its 30 district offices to address their failure to act on reported information, which was one of their largest sources of errors. FNS supports the adoption of change centers such as these based upon their reported outcomes in other states. Los Angeles County officials said the change unit workers now act upon reported case changes that previously had not been acted upon by caseworkers because of their large caseloads.

- **Outreach to more stable food stamp population**. New York has implemented a program to automatically certify eligible nonparticipating elderly Supplemental Security Income recipients for food stamps for 4 years.[27] In addition to reaching an underserved population without adding undue administrative burden on the local offices, officials believe that increasing the participation of these recipients could help reduce the

[27]The Supplemental Security Income Program is designed to provide aged, blind, and disabled people who have little or no income with cash to meet basic needs for food, clothing, and shelter.

state's error rate because this group is less error prone because of its stable income and circumstances.

States also adopted various case review practices that would help them address a wide range of risks and problems.

- **Supervisory review of cases**. Several states have begun to require local supervisory reviews of cases to detect and correct errors caused by misapplication of food stamp policies or workers failing to act on reported information. Some states require that all cases be reviewed, while others target error-prone cases or a certain number of cases per worker.

- **Targeted local office reviews**. Some states have used contractors or have established their own teams to target high error rate offices for improvement. Michigan recently started using technical assistance teams to observe the local office's processes and make recommendations for improvement.

- **Error review panels**. Some of our review states have also established panels to review errors discovered through the QC process. New Jersey established such a panel, consisting of system, policy and QC staff. This panel reviews all errors, challenges some that it believes have been inaccurately classified and develops corrective actions to address the root causes of the errors. The results of the reviews can then be communicated to all local offices. For example, as a result the panel's finding that computing utility bill deductions was a source of payment errors, the state implemented a mandatory standard utility allowance policy to reduce this type of error.

Many of the error reduction practices employed by the states in our review focused primarily on agency-caused rather than client-caused errors. Many state officials we spoke with believe that states should not be held accountable for participant-caused errors, such as failure to report information, because the state cannot control participants' behavior. However, FNS officials believe that states can reduce participant-caused errors by better using computer matching of state data sources and other outside sources of data, improving interviewing techniques to collect all relevant information and identify discrepancies, and educating clients about their responsibilities.

In addition to taking the above steps focused specifically on decreasing the error rate, FNS has made and advocated for a number of program and policy changes designed primarily to address other issues, such as

program participation, which have also helped reduce payment errors. FNS believes that serving eligible low-income families, particularly working poor families, is imperative to the success of welfare reform and the nutritional well-being of eligible persons. However, because the income and deductions for working poor families tend to be volatile, these households are more error prone, and their participation could increase the error rates of states trying hardest to serve them and thus discourage states from reaching out to these families. In response, FNS raised the error tolerance level in fiscal year 2000 from $5 to $25 for monthly food stamp payments for all cases. This change exempted smaller errors that had been counted in the past. FNS estimated that this change would have reduced the nationwide error rate by 0.66 percentage points if it had been implemented in the previous fiscal year.

In addition, FNS and Congress have made several options available to the states to simplify the application and reporting process. These simplification measures are designed, in part, to reduce the administrative burden on both caseworkers and participants and thus promote higher participation in the program. One option in particular reduces the frequency with which households with earned income must report changes. Prior to this simplified reporting option, participants were required to frequently report changes in their circumstances. Under the simplified reporting rule issued in November 2000, most households need only report changes between certification periods if their new household income exceeds 130 percent of the federal poverty level.

This simplified reporting option can reduce a state's error rate as well. Absent simplified reporting, certain unreported or undetected changes between certification periods would be considered an error. Minimizing the number of income changes that must be reported between certifications can help reduce errors associated with caseworker failure to act as well as participant failure to report changes, and income-related errors account for more than half of all payment errors.

Essentially, this simplification option redefines the threshold for what is considered an error. This type of change can result in an increase in program benefits paid out, such as when participants experience an increase in income between certification periods that need not be reported until the next certification under the simplified requirements. In 2000, FNS estimated the additional cost to the program to be approximately $51 million in fiscal year 2004 affecting nearly 1.5 million households per month. By expanding this option in the 2002 Farm Bill beyond earned income households to any and all households that can be asked to report

periodically, an FNS official said Congress had endorsed the idea of making the program more user friendly to working families. Since the 2000 estimate, program participation has grown significantly, but FNS has not completed a more recent estimate of the additional cost. Moreover, the possible savings and efficiencies gained in program administration have not been quantified.

Most of our review states have adopted some form of simplified reporting to help them better serve working families, permit greater program participation, and address the errors associated with frequent change reporting. Nationwide, FNS reported that as of September 2004, 41 states and the Virgin Islands had adopted some form of simplified reporting.

Monitoring and Promoting Performance

FNS has taken many actions to track the success of improvement initiatives and to provide the information needed to facilitate program improvement. FNS managers use data generated from the QC system as well as the results of their own monitoring activities to track the states' performance over time. FNS regional offices annually review state agency operations to, among other things, confirm that problems in program operations are being identified, properly analyzed, and resolved. Where applicable, the regional office also monitors the states' implementation of corrective action plans. FNS, in turn, requires states to perform management evaluations to monitor whether adequate corrective action plans are in place at local offices to address the causes of persistent errors and deficiencies. To monitor corrective actions identified through the management evaluations, FNS suggests that states review a sample of case records containing actions that are error prone.

In addition, in November of 2003, FNS created a Payment Accuracy Branch at the national level to work with FNS regions to suggest policy and program changes and to monitor state performance. The branch facilitates a National Payment Accuracy Workgroup with representatives from each FNS regional office and headquarters who use QC data to review and categorize state performance into one of three tiers.[28] FNS has recommended a specific level of increasing intervention and monitoring approaches for each tier as error rates increase, and the FNS regional

[28]Tier 1 states have an error rate under 6 percent, and tier 2 states have an error rate of 6 percent or greater but do not fall into tier 3. States are assigned to tier 3 when the lower limit of their error rate estimate at the 90 percent confidence level is higher than 105 percent of the national error rate estimate.

offices report to headquarters on both state actions and regional interventions quarterly.

FNS also provides and facilitates the exchange of information gleaned from monitoring by

- publishing a periodic guide to highlight the practices states are using to address specific problems;[29]
- sponsoring national and regional conferences and best practices seminars;
- training state QC staff;
- providing state policy training and policy interpretation and guidance; and
- supporting adoption of program simplification options.

Once promising state practices have been identified, FNS also provides funding to state and local food stamp officials to promote knowledge sharing of good practices. Oregon officials said FNS provided state exchange funds for them to visit Kentucky, Indiana, and Arizona—three states that had effective systems for monitoring performance at the local management and worker level. FNS also provided state exchange funds for Oregon officials to meet several times with officials from Idaho and Alaska to discuss common problems they faced trying to reduce payment errors and to generate solutions. In fiscal year 2004, FNS provided $612,000 for states to conduct state exchange visits. Officials from most of our review states found this program to be particularly helpful to their efforts to improve program performance.

States are also using information generated by the QC system to track the results of their policy and program changes over time and communicate timely operational information to local offices. Information gleaned from monitoring can help inform their ongoing risk assessments. States are also promoting knowledge sharing of promising practices. These practices include

- preparing reports detailing causes and sources of errors for the local offices and publishing and distributing monthly error rates for all local offices;

[29]U.S. Department of Agriculture, Food and Nutrition Service, *Payment Accuracy in the Food Stamp Program* (Alexandria, Va.: September 2004).

- transmitting the results of statewide error review panels on the source and causes of errors to local offices, along with suggested corrective actions;
- sponsoring statewide QC meetings and state best practices conferences for local offices to discuss error rate actions taken and common problems; and
- sponsoring local office participation in FNS regional conferences.

Despite FNS and state mechanisms used to track the initiatives and share promising practices, there are no data available on which initiatives are most cost-effective. FNS's primary focus has been on monitoring progress in reducing error rates, which can help ensure eligible households receive the correct benefits and maintain public support for the program. Even so, from fiscal year 2001 to 2004, the annual administrative cost per participant has fallen from $129 to $99 per participant while program participation has increased. It is possible that some states gained efficiencies from simplified reporting. However, FNS has not studied the cost-effectiveness of this or other measures and thus cannot share this type of information with the states.

States Are Using a Combination of Approaches to Address Payment Errors, Making It Difficult to Determine the Effectiveness of Specific Practices

Every state we surveyed has put into place a combination of approaches to address the key components of internal control, and the practices states adopted under each approach varied among them. For example, in California, state and local officials employed a combination of practices under each internal control component over the last several years to bring about their improved error rate (see fig. 6).

Figure 6: California Used a Combination of Internal Control Practices to Reduce Payment Error

Under the threat of a $61 million penalty for its fiscal year 2002 error rate, the state and counties adopted a combination of approaches and practices to address payment error.

- To increase the focus on accountability, state upper management made a firm commitment to place more emphasis on reducing errors in 2003 and expanded program oversight on multiple fronts. Officials also posted error rate targets in each local office.
- To assess risk, that is, to identify areas for improvement, officials expanded the case sampling requirements for their largest 19 counties and formed a panel to analyze errors identified in the QC process. The panel officials discussed ways to avoid that type of error in the future and challenged cases in which they did not agree with the error designation.
- To respond to findings from risk assessments, state officials hired a contractor to perform detailed program assessments, identify weaknesses, and provide QC training in some of their larger counties with high error rates. State officials also cited the multiple best practices seminars and conferences sponsored by FNS and the state as important practices to promote knowledge sharing of good practices as factors in their improvement. The state also moved from monthly reporting to quarterly reporting in June 2004.
- To monitor and promote performance, state officials are preparing detailed error analyses reports for the counties to help them home in on specific types of payment errors and are conducting 25 management evaluation reviews focusing on counties with the highest food stamp error rates.

Los Angeles County, which accounts for 40 percent of the state's caseload, also adopted multiple approaches to address payment error. The county began its own quality assurance case review, in which it samples 2,800 cases per month so it can develop an error rate for each of its 30 district offices. County officials have set a 94 percent payment accuracy goal for each district office, and they promote accountability at this level by publishing the results for each district office monthly. In addition, the county implemented change centers in each district in June 2002 to help reduce caseworkers' failure to act on changes.

Previous to these changes, California had the highest payment error rate in the country. State officials credit the adoption of these and other program changes as the reason for their dramatic error rate decreases. The rate dropped from 17.37 percent in fiscal year 2001 to a state-reported error rate of 5.45 percent for fiscal year 2004 at the same time as the number of cases increased by 17 percent.

Source: GAO analysis.

Because many states have adopted multiple error reduction practices, officials we spoke with said it is difficult to isolate the results of individual practices, particularly when other program and economic changes are occurring simultaneously. State officials point to their low or dropping error rates as evidence that, collectively, their new practices are having a positive impact. However, they have little data to determine which practices have been most successful or cost-effective.

Despite the lack of data, state officials citied various practices that they believe have worked well in their state. For example, officials in Michigan and New York believe new automated processes are their most effective practices. Michigan food stamp officials cited targeted local office reviews as another effective strategy for error reduction. Mississippi food stamp officials believe their required supervisory review of cases has been the most effective practice. California, South Dakota, and Texas also cited supervisory reviews as one of their most effective practices.

As a result of unique circumstances in each state, some practices that may prove effective in one state would not be effective or feasible in another. For example, New Jersey food stamp officials credit their 2001 implementation of the simplified reporting option for earned income cases with being the most significant reason for the decline in their error rates. However, officials in South Dakota continue to require monthly reporting because they have been able to keep up with the reported changes. They believe this requirement is primarily responsible for its error rate, which is the lowest in the nation. Monthly reporting requires participants to report, and caseworkers to act, on case changes once per month, rather than relying on participants to report key changes and workers to react to the reported change. Monthly reporting requires significantly more work for both the caseworkers and participants, and other states with larger caseloads have said they do not have adequate resources to sustain this more labor-intensive approach.

The success of new practices, however, can be undermined if the changes do not receive adequate management attention or are not effectively implemented. For example, Los Angeles established 30 specialized change units. County officials said these units helped reduce one of their largest sources of errors, caseworkers' failure to act. On the other hand, Milwaukee's change units have not been as effective in reducing the error rate as officials hoped because they have not been able to staff the center appropriately, according to county officials. They designed their change units on a model implemented in Atlanta, Georgia. The Atlanta model calls for 10 staff per 10,000 calls, and Milwaukee has about 7 staff per

20,000 calls. As a result, clients wait on the phone for up to 20 minutes, and some hang up before their changes can be reported.

Similarly, Wisconsin state and Milwaukee food stamp officials said their find-and-fix case sweep program conducted between March and September 2004 was a particularly effective practice for reducing payment errors. Milwaukee officials believe the case sweep was largely responsible for their error rate dropping from 12.2 percent in March 2004 to 7.7 percent in June 2004, and they expect to see long-term effects as a result of their workers learning from the errors identified using this practice. However, Michigan tried a similar program but did not have comparable results. State officials said using this method did not reduce their error rate because the state and counties did not have enough staff to conduct a sufficient number of reviews. Los Angeles County officials said they also tried and abandoned a similar approach in 2001 because they did not have sufficient staff to correct the errors that were identified.

Concluding Observations

The Food Stamp Program has seen a significant decline in the national error rate to a record low in 2003. If the 1999 error rate was in effect in 2003, the program would have made payment errors totaling over $2.1 billion rather than the $1.4 billion it experienced. Despite the many challenges states identified, a number of them have significantly lowered their error rates even while caseloads have continued to rise. However, some states are having more difficulty lowering their rates, and improper food stamp payments continue to account for a large amount of money—$1.4 billion in 2003.

It is not completely clear why some states have been more successful at lowering their error rates than others. Rather than implementing one specific strategy, the nine states we reviewed have each implemented a package of changes in response to the unique circumstances in the state. Even those states we selected because of consistently high error rates have implemented multiple strategies and expect to see error rate decreases this year. However, although it is difficult to determine which actions are most likely to succeed in particular circumstances, we found examples of strategies that did not succeed because they lacked adequate management attention or were not effectively implemented.

Future similar error rate reductions may prove challenging. The three major causes of errors have remained the same over time and are closely linked to the complexity of program rules and reporting requirements. As long as eligibility requirements remain so detailed and complex, certain

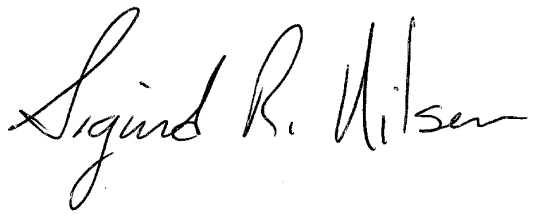
caseworker decisions will be at risk of error. Moreover, participant-caused errors, which constitute one-third of the overall national errors, are difficult to prevent and identify.

Attention from top USDA management as well as continued support and assistance from FNS will likely continue to be important factors in further reductions. In addition, if error rates continue to decrease, this trend will continue to put pressure on states to improve because penalties are assessed using the state's error rate as compared with the national average. However, given the size of the Food Stamp Program, the costs to administer it, and the current federal budget deficit, achieving program goals more cost-effectively may become more important. FNS and the states will continue to face a challenge in balancing the goals of payment accuracy, increasing program participation rates, and the need to contain program costs.

Agency Comments

We provided a draft of this report to the U.S. Department of Agriculture for review and comment. On April 7, 2005, we met with FNS officials to get their comments. The officials said they agreed with our findings and conclusions. FNS also provided us with technical comments, which we incorporated where appropriate.

We are sending copies of this report to the Secretary of Agriculture, appropriate congressional committees, and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov. Please contact me at (202) 512-7215 if you have any questions about this report. Other major contributors to this report are listed in appendix III.



Sigurd R. Nilsen, Director
Education, Workforce, and
Income Security Issues

Appendix I: Methodology for Determining the Causes of Food Stamp Payment Errors for Fiscal Years 1999 through 2003

To determine the causes of food stamp payment errors for fiscal years 1999 through 2003, we analyzed the Food and Nutrition Service's (FNS) quality control (QC) system data of active cases used in error rate calculations. State officials draw monthly samples of cases—which are at the household level—and review them to determine the extent to which the households received benefits to which they were entitled. The results of these reviews are included in FNS's QC database, and weighted analyses of these data produce nationally representative results.

We constructed a database for each year from 1999 through 2003 that contained a subset of the QC variables relevant to our analysis. For the 1999-2002 databases, we included the reason for error and type of error variables from the database we obtained directly from FNS and the review finding, amount of error, and weight variables from an FNS QC database maintained by Mathematica Policy Research, Inc., and made available to the public via Mathematica's Web site. For the 2003 data, we only used the FNS QC database maintained by Mathematica and made available via its Web site because it contained all the variables we needed. In addition, for each data set, we created a new variable categorizing the numerous reasons for error in the agency-or-client (1) variable for the most significant error to reflect, on a very general level, whether the error was agency- or-client caused. Likewise, we created a variable categorizing the numerous types of error in the element (1) code variable as nonfinancial, resources, income, deductions, or other for the most significant error. We generated weighted frequencies for the reason, type, and review finding variables for active cases that were used in calculating the error rate. Sampling errors for these weighted tabulations were estimated using the methodology provided in Appendix E of Characteristics of Food Stamp Households: Fiscal Year 2003, FNS Report Number FSP-04-CHAR. We also created weighted average dollar amounts of error by case review finding (e.g., overissuance or underissuance) and weighted frequencies for the intersection of reason for error and type of error.

To assess the reliability of the data we used, we worked with FNS staff to obtain and understand the QC data and relied on FNS and Mathematica documentation on the datasets, and FNS and Mathematica reports based on these data. We ensured that we reliably downloaded the Mathematica QC data from the Web and correctly read in FNS's raw QC data that FNS provided to us by comparing the number of records in each database with the number of records reported in FNS and Mathematica documentation. In addition, to ensure the accuracy of the computer programs we used to create and process the data, a review was made by a second GAO analyst.

Through our assessment of the reliability of these data, we found that some variability exists in how states interpret and code the reason for error variable (i.e., whether error was client- or agency-caused). FNS stated that no quantitative analysis of the differences across states has been made. In 2003, FNS implemented guidelines to ensure greater consistency in state interpretations of the reasons for error (i.e., whether the reason for error was client- or agency-caused). Prior to 2003, interstate variation is believed to be greater than intrastate variation in these interpretations. Consistency in the error amount is expected to be a lesser problem since it is based on an established formula. We also reviewed reports including previous GAO efforts that studied QC processes and statistical properties. On the basis of the collective information and findings of our reliability assessment, we determined the data are sufficiently reliable for our analysis of the causes of food stamp payment errors.

Appendix II: Food Stamp Combined Error Rates by State for Fiscal Years 1999 to 2004

State	1999	2000	2001	2002	2003	2004[a]
Alabama	11.29	11.37	9.76	8.74	8.02	7.82
Alaska	15.94	7.24	9.69	10.99	13.88	6.71
Arizona	6.93	5.61	5.79	5.27	5.83	6.47
Arkansas	4.54	4.03	3.24	4.29	4.02	5.29
California	11.34	13.99	17.37	14.84	7.96	5.45
Colorado	9.02	7.77	8.53	9.66	7.40	2.94
Connecticut	13.90	9.31	9.86	11.70	8.77	4.60
Delaware	16.92	12.53	10.02	8.46	5.38	6.16
District of Columbia	12.12	10.62	11.38	8.75	8.97	5.51
Florida	9.43	9.40	9.80	9.61	7.93	5.54
Georgia	10.86	8.61	6.42	6.73	5.15	6.02
Guam	10.14	10.56	9.22	6.05	7.04	7.68
Hawaii	6.82	7.74	6.53	5.03	4.78	4.28
Idaho	10.94	9.71	7.41	9.04	11.31	9.19
Illinois	14.79	9.26	8.19	8.75	4.87	5.54
Indiana	8.11	6.86	6.83	8.31	10.00	5.74
Iowa	9.27	7.14	7.05	6.44	5.23	5.33
Kansas	8.98	9.88	10.37	11.70	10.45	4.65
Kentucky	7.72	5.81	7.53	7.71	6.32	5.39
Louisiana	7.35	5.66	5.78	5.78	5.79	4.74
Maine	8.79	9.25	8.49	6.26	13.29	10.38
Maryland	13.62	11.06	8.92	8.80	7.23	5.36
Massachusetts	9.34	8.63	8.50	8.40	4.99	4.58
Michigan	17.59	13.28	13.93	14.10	11.10	6.73
Minnesota	6.68	3.58	5.22	5.73	7.96	6.35
Mississippi	4.91	4.69	3.47	4.39	4.07	5.55
Missouri	8.58	8.06	10.21	9.77	6.75	7.16
Montana	8.10	8.48	8.15	8.18	5.78	4.33
Nebraska	14.22	10.16	8.44	7.02	7.24	5.48
Nevada	8.14	5.11	8.00	7.59	8.25	7.30
New Hampshire	12.86	10.26	10.99	12.03	7.52	6.98
New Jersey	12.93	12.88	7.97	4.08	2.43	2.62
New Mexico	10.39	8.11	6.65	6.71	6.16	5.41
New York	10.47	12.35	8.61	7.75	5.88	4.12
North Carolina	9.25	6.93	6.35	4.70	4.94	3.21

State	1999	2000	2001	2002	2003	2004[a]
North Dakota	8.03	7.04	5.96	6.14	4.85	4.09
Ohio	8.44	7.96	8.48	6.50	6.61	7.74
Oklahoma	11.88	7.05	8.23	7.94	8.98	5.83
Oregon	10.50	10.15	9.76	11.07	13.00	7.81
Pennsylvania	10.79	8.19	8.29	9.49	8.21	3.93
Rhode Island	7.05	8.74	5.56	10.21	8.94	12.60
South Carolina	5.79	4.47	4.62	4.40	4.94	6.17
South Dakota	2.19	1.18	2.11	2.12	1.16	1.93
Tennessee	8.64	5.71	6.22	7.02	7.20	6.39
Texas	4.56	4.14	3.73	4.85	3.29	4.06
Utah	12.55	14.43	9.04	6.60	5.00	3.50
Vermont	12.09	10.80	10.95	7.68	8.52	4.91
Virgin Islands	5.85	6.50	4.70	5.72	6.88	3.29
Virginia	11.85	8.66	8.07	6.74	5.46	6.40
Washington	8.55	8.20	8.53	8.16	6.28	7.40
West Virginia	8.88	5.09	6.78	7.13	6.21	6.25
Wisconsin	13.42	12.72	13.14	12.69	9.32	6.57
Wyoming	2.91	4.01	3.04	3.29	4.23	4.39
National average	9.86	8.91	8.66	8.26	6.63	n/a

Source: the Food and Nutrition Service.

[a]These are state-reported rates. FNS has not yet adjusted the rates to reflect the final results of their review.

Appendix III: GAO Contacts and Acknowledgments

GAO Contacts

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