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COMPTROLLER GENERAL OF THE UNITED STATES
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April 29, 1981

The Honorable Jesse Helms
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

Dear Mr. Chairman:

In response to your April 1981 letter, we are providing our views on proposed Food Stamp Program legislation in S. 884, a bill you introduced on April 7, 1981. (Title XII of this bill entitled "Food Stamps" offers substantial opportunities for cost savings in the program. It incorporates a number of recommendations we have offered since 1977 and would make several changes that food stamp officials at the State and local levels frequently say are needed to improve program management.) Our detailed comments are organized to follow the sequence established by the bill.

PURCHASE REQUIREMENT

Section 1201 of S. 884 would reinstate the purchase requirement for the Food Stamp Program. The purchase requirement would apply when an applicant household's income was low enough to qualify for food stamps but not low enough to be eligible for the entire allotment amount considered sufficient for adequate nutrition for the household for a month.) In those cases, the household would have to pay the difference between the bonus food stamp amount it was eligible to receive and the uniform food stamp allotment established under the thrifty food plan1/ for that size household. Thus, all households of the same size would receive the same amount of food coupons, but income variations would dictate the size of the purchase requirement and the free assistance (bonus coupon value) to which the household was entitled.

1/A low-cost food plan the Department of Agriculture has developed to provide most of the recommended dietary allowances established by the National Academy of Sciences.

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Under the premise that some needy eligible households did not participate because of such a cash requirement, the Congress did not include the purchase requirement in the Food Stamp Act of 1977. Implementation of that act by the Department of Agriculture did not change individual household benefits. The major changes were that no cash changed hands and households no longer received coupons equal to their thrifty food plan cost for the month. Instead, households received only the bonus amount in coupons. As a result, most households had to supplement their bonus coupons with sufficient other family resources to reach the sum needed for a thrifty food plan diet.

The program effect was that the Food Stamp Program no longer served to require households to set aside sufficient resources to be able to obtain nutritious diets. It became an effort to supplement family income in the hope that households would wisely use enough non-food-coupon resources for food. It also was partially responsible for the large influx of households into the program and the resulting steep escalation of program costs.

In addition to emphasizing the Food Stamp Program as a nutrition program rather than an income supplement program, reinstatement of the purchase requirement could be expected to help control and possibly reduce program costs to the extent that households would drop out of the program or would be discouraged from participating. However, Agriculture would again have to establish procedures to control the large amounts of cash that would be flowing into coupon-issuance centers. In our prior reports, we pointed out a number of weaknesses in Agriculture's previous procedures to control and account for cash that would need to be overcome. Also, because households would receive the full value of their thrifty food plan costs in coupons, substantially more food coupons would have to be printed, shipped, redeemed, and eventually destroyed. Thus, additional administrative costs would result, but in all probability they would be offset by the slower growth in overall program costs.

INDIVIDUALIZED ALLOTMENTS

Section 1205 would make basic changes in the benefit structure of the program to recognize the fact that not all persons require the same food intake. Currently, monthly allotments are the same for all households of the same size regardless of their composition. The proposed bill would amend the legislation to adjust benefits with respect to age and sex of household members. We agree with the concept of individualized allotments but believe that the concept should be tested to determine its administrative feasibility before it is implemented nationally.

Our report entitled "Federal Domestic Food Assistance Programs--A Time for Assessment and Change" (CED-78-113, June 13, 1978) made two major observations about uniform food stamp allotments. We concluded that substantial savings would be realized by converting to individualized allotments. By regulation and law, the uniform food stamp allotments are based on thrifty food plan costs for a model four-person household having a man and a woman aged 20 to 54 and two children, one 6 to 8 years old and the other 9 to 11. Currently, the uniform allotment based on that type household is a maximum of $233 monthly. Uniform allotments for other households are computed from the four-person household allotment level with adjustments for economies of scale.

We do not believe that uniform allotments based on the thrifty food plan necessarily provide all households equal opportunities to eat nutritiously. The Department's agricultural research component estimates the monthly cost of the thrifty food plan for persons of various sexes and ages. Generally, adult males and teenagers require more. Agriculture's calculations are based on the National Academy of Sciences' recommended dietary allowances. Using this data, the actual cost for any specific household can be determined by simply totaling the cost for each member. Use of uniform rather than individualized food stamp allotments could enable some families with lower nutritional needs, such as a household containing a mother and three young children, to receive more benefits than provided under an individualized approach. Conversely, benefits based on uniform allotments would be less than indicated for a four-person household in which all the children were teenage boys.

Our 1978 report estimated the savings then achievable by using individualized rather than uniform allotments. Although we have not done extensive work to update our earlier savings estimate, total program benefits have increased about 92 percent since we analyzed allotments for our 1978 report and our best estimate is that annual savings from individualized allotments would currently approach $1 billion.

As pointed out in our report, we believe that the basic allotment level for a given household should permit that household to purchase adequate food supplies. Another argument for changing to individualized allotments is that the resulting increased equity among households would actually save money. In this regard, an earlier Congressional Budget Office report stated that individualized allotments "would significantly reduce Federal bonus costs and presumably come closest to targeting benefits on specific nutritional needs."

We recommended that Agriculture establish demonstration projects to evaluate the increased administrative cost and error, if

any, that would result from individualized allotments. We also recommended that the Congress authorize Agriculture to implement individualized allotments nationwide if the study showed that such allotments were administratively feasible.

PROGRAM BENEFITS CONSIDERED AS INCOME

Sections 1206 and 1216 would remove current barriers to treating low-income energy assistance cash payments and food stamp benefits as household income. Section 1206 would amend section 5(d) of the current legislation to require that energy assistance payments be included in household income when applying for food stamp benefits. Including these payments could either eliminate households from participation under a gross income test that has been proposed or reduce benefits because of increased net income. Food stamp benefits are currently reduced 30 cents for each additional dollar of net income above specified thresholds. Section 1216 would remove the prohibition in section 8(b) against counting food stamp benefits as income when households apply for other public assistance programs such as AFDC and State or local general assistance payments. This would have the effect of reducing benefits under those income security programs.

We do not know how much these changes would reduce public outlays. However, in our 1978 report we strongly recommended that Agriculture study the feasibility of counting benefits from other food assistance programs when calculating food stamp benefits. We also followed this recommendation up by specifically recommending that the Congress use the study results to eliminate receipt of duplicate benefits by considering benefits from one program as income when calculating eligibility and benefits for other programs.

WORKFARE

Section 1207 of the bill would require each State to establish a workfare program in which food stamp recipients would have to work at public service jobs for the value of their food stamp benefits.) The food stamp workfare concept has not yet been fully tested to know whether workfare should be a program requirement. On April 2, 1981, we testified before your Committee that several improvements are needed in the workfare concept now being tested in the Food Stamp Program. These changes would have to be made and tested before concluding that workfare had been fairly tested. In addition, firm data on the program's cost effectiveness was not available.

Exemptions

Substantial changes are needed in the design of the workfare concept now being implemented by Agriculture in 14 demonstration

projects during an extended demonstration phase. We said that an efficient and effective workfare operation could be achieved by

--eliminating some of the currently allowed exemptions,

--eliminating unnecessary waiting periods, and

--strengthening the sanctions for not satisfying the work requirement.

Our work at the seven demonstration projects during the first year's operations showed that out of a sample of about 1,900 food stamp household certifications in the project areas, 1,676 (88 percent) were exempt from workfare participation because household members fell into 1 of 10 exemption categories specified by law. Although many of the exempt participants would have been unable to work because of age, physical disabilities, or the need to care for persons unable to care for themselves, about 25 percent were in four categories that we believe do not merit automatic exemption from the requirement to work for food stamp benefits. Of the 1,900 food stamp certifications we reviewed, 470 fell into one of these four categories.

--AFDC-WIN registrants are required to register for work training but are not always engaged in a full-time work training program. Unless they are so engaged, their automatic exemption seems inappropriate. About 115 of our sample households were in this category.

--Recipients of unemployment insurance benefits are required to search for work, but they should be able to do so and still participate in the food stamp workfare program which, in most cases, requires less than 5 days of work a month. About 100 of our sample households were in this category.

--Certain students are also exempt from the workfare obligation. However, provisions in the 1980 food stamp amendments should reduce the number of students in the program and thus reduce the significance of this exemption. Nevertheless, some students were likely to continue receiving food coupons. About 100 of our sample households were exempted because of student status. Working while going to college is not unusual and automatic exemption from workfare seems inappropriate except in special circumstances where the individual, in addition to being a full-time student, may be working or undergoing special training.

--Households whose earned income is low enough to qualify for food coupons but is greater than their monthly food stamp benefits are also exempted. Of the 155 in our sample who were exempted under this category, 85 appeared to be full-time workers and 70 appeared to be part-time workers. Full-time workers merit exemption because an inherent objective of the workfare program is to encourage individuals to find full-time employment. However, depending on their hours of work, part-time workers could have time available to participate in workfare.

As proposed, S. 884 would not eliminate the first three exemptions discussed above. We believe the bill should be modified to discontinue these three automatic exemptions.

Regarding the earned income exemption, the bill would substitute a 40-hour work week criteria for the earned income exemption now in effect for the demonstration projects. Households having a member who works at least 40 hours a week outside of the food stamp workfare program would be exempt from the workfare obligation. Those with work schedules less than 40 hours would have to fulfill any part of the workfare obligation that would not require their working more than a total of 40 hours a week. We support establishing an hourly work week criteria.

Job search periods

Under the ongoing demonstration, the law gives new workfare referrals a 30-day job search period before they can be assigned to workfare jobs. As a result, new referrals automatically avoid workfare participation for at least 30 days. If they are certified for food stamp benefits for only 1 month, they will not be affected by workfare. Even under a 2-month certification, food stamp benefits for both months would probably have been received by some households before the workfare interview and assignment process would start and before failures to cooperate could be answered with cause and sanction determinations. Of a sample of 805 workfare referrals we checked, 130 did not start a workfare job because their food stamp certification period expired before they could be assigned.

We do not believe that a 30-day job search period is necessary. It would be adminstratively advantageous if those referred to workfare were interviewed and given a workfare assignment at the same time they apply for food stamp benefits. Because most participants' work obligation is less than 5 days a month, there should be adequate time to seek full-time employment. Should a conflict arise, the workfare project could adjust the participant's work schedule to provide the specific time needed for job search activities.

Crediting job search against work requirement

We believe the provision in section 1207 that would allow verified job search activities of up to 8 hours a week as a credit for work performed could greatly inhibit the effectiveness of the work requirement. As noted above, most participants' total monthly obligation is less than 5 days. The proposed monthly credit of 4 days would practically excuse most participants from working. We believe that such offsets would detract from the basic objectives of workfare--deterrence from participation by those not willing to work and repayment to society for benefits received. Our inquiries at two general assistance workfare projects disclosed that participants generally were expected to look for full-time employment on their own time.

Job search assistance

Section 1207 would also allow State agencies to help workfare participants obtain suitable employment outside the workfare program. We believe it makes sense to help participants find jobs because one of the objectives of workfare is to reduce the food stamp rolls.

Sanctions

In our April 2, 1981, testimony before your Committee, we said that the food stamp workfare sanction is not an effective deterrent to workfare noncompliance and needs strengthening. Possible changes include denying food stamp benefits for the noncomplying individual for a specified number of months or until all past workfare obligations are satisfied, or going so far as to deny benefits to the entire household for similar periods of time. Section 1207 would adopt the more stringest sanction--denying food stamp benefits to any household refusing to accept an employment offer under the workfare program.

PENALTIES FOR RECIPIENT FRAUD

Section 1210 proposes increases in the penalties for recipient fraud in the Food Stamp Program. The three proposals would

--increase suspension periods to 12 months for those found guilty through local or State administrative fraud hearings;

--increase the minimum suspension period to 12 months, and not establish any maximum, for those found guilty in a court proceeding; and

--require those found guilty through either type proceeding to reimburse the Federal Government for double the value of the coupons obtained through fraudulent conduct.

Our report, "The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished" (CED-77-112, July 18, 1977), stated that persons suspected of defrauding the Food Stamp Program were not being investigated or punished. We also observed that penalties generally were not assessed when recipients agreed to repay fraudulently obtained benefits. Since then, the Congress has provided States some incentives for pursuing fraud, authorized administrative hearings, and established 3-month suspension periods for those found guilty through administrative procedures.

In our report, "Efforts to Control Fraud, Abuse, and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed" (CED-80-33, May 6, 1980), we said that Agriculture should have flexibility in determining disqualification periods and should be allowed to disqualify recipients for periods up to 1 or 2 years for administratively adjudicated fraud determinations.

We also favor State retention of some portion of recovered nonfraud overissuances. We believe this would encourage greater recovery efforts. An exception could be that States would not share in recoveries of overissuances caused by caseworker errors.

DUPLICATE PROGRAM BENEFITS

Section 1214 would eliminate duplicate benefits received by households that participate in the Food Stamp Program and receive free school lunches. Our 1978 report and our April 2, 1981, testimony before your Committee pointed out that substantial savings are possible by eliminating such overlapping food benefits. Our review demonstrated that some low-income families participated simultaneously in up to six different Federal food assistance programs. Multiple participation, specifically allowed in most food programs' authorizing legislation, has allowed some households to receive more in food benefits than the average amounts American families of comparable size spend for food.

Total benefits received in the cases we reviewed ranged from 104 percent to 192 percent of the amount a household would need to purchase a thrifty food plan diet. In considering the results of our analysis, it should be recognized that we were comparing free Federal benefits with the thrifty food plan cost for a particular household. We did not count any part of a household's earned income or other resources even though benefits under the major feeding program (food stamp) are calculated on the premise that most households can and should use some of their own income (about 30 percent) to help pay for their food needs.

The most frequent combinations of multiple program participation we found for households whose benefits exceeded 100 percent of thrifty food plan cost involved food stamps, aid to families with dependent children (AFDC), school lunch, school breakfast, and special milk. A typical benefit overlap involves food stamp and school lunch benefits. In our report, we estimated the dollar amount of this overlap.

We have updated this estimate using participation data showing the number of school-age children participating in the Food Stamp Program rather than the number of food stamp households containing school-age children, and the current special Federal school subsidy amount for free lunches. Based on this information, the benefit overlap between the food stamp and school lunch programs would be about $566 million a year. Using more current participation data would increase this overlap amount. Because our computation is based on the cost of the Federal subsidy for school lunches which is greater than the value of a lunch benefit under the thrifty food plan, potential savings from offsetting school lunch benefits against food stamp benefits would realistically be somewhat less than the overlap amount.

The alternative approaches that could be used to eliminate these overlapping benfits include offsets in either the food stamp or school lunch programs. We have not determined how much additional cost and effort would be required in administering these program changes. In addition to the five programs already mentioned, overlaps and potential savings are available regarding other programs such as the summer food service, child care food, and supplemental security income programs. We do not have estimates of what such overlaps and potential savings would be.

We support the concept of eliminating duplicate benefits. In our 1978 report, we recommended that Agriculture study the administrative feasibility of considering food benefits from child feeding programs--school lunch, school breakfast, special milk, child care food, and headstart--when determining food stamp eligibility or benefits. We also recommended that the Congress use the study results to legislatively require counting the value of benefits households already receive under Federal food assistance programs to determine eligibility and benefit levels when they apply for benefits under other Federal food assistance programs. To our knowledge, Agriculture never performed such a study.

PRORATING BENEFITS

Section 1215 would reduce the first month's food stamp benefits for households applying after the first of a month. Currently, households receive a full monthly allotment regardless of when they apply for benefits during the month. This proposal would

prorate benefits based on the number of days left in the month at the date of application. This provision is equitable because it provides benefits starting with the date of application. This provision would stop those instances where households receive a full month's benefits even when applying at the end of a month. Based on Agriculture's projections of savings from its proposed form of proration, savings from this measure could exceed $200 million annually.

USE OF WAGE DATA IN ADMINISTERING THE FOOD STAMP PROGRAM

On April 10, 1981, we briefed your office on the tentative results of a review of income and asset verification systems in welfare programs, including the Food Stamp Program. This review was requested by the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations. We are currently preparing a report to the Congress on the results of our review.

The primary aspect of our review relating to the Food Stamp Program is the availability and use of wage data from the Social Security Administration and State employment security agencies. We provided your office information outlining the Federal laws relating to the use of wage data in the Food Stamp and Aid-to-Families-with-Dependent-Children Programs. The information concerned the Federal restrictions and inconsistencies in providing wage data to the States for use in administering these two programs.

As requested, we are providing you a copy of this data in the enclosure. Although the information is subject to change until it is finalized as part of our future report, we believe it accurately reflects some of the current barriers to data exchange which, if removed, would improve the income verification process of welfare agencies.

Sincerely yours,

Milton J. Socolar

Acting Comptroller General
of the United States

Enclosure

RESTRICTIONS AND INCONSISTENCIES IN PROVIDING WAGE DATA TO STATES TO ADMINISTER WELFARE PROGRAMS

INTRODUCTION

In most States, one agency is responsible for administering the Aid to Families with Dependent Children (AFDC), Food Stamp, Medicaid, and Social Services (Title XX) programs. Many individuals participate in all four programs. These programs are commonly called "Welfare" programs and the agency is often called the "State Welfare Agency."

Many State welfare agencies have for several years been obtaining wage data from State Unemployment Compensation (UC) agencies to verify the earnings of participants in these programs. In fact, some State welfare agencies have installed computer terminals in their local offices with direct access to the unemployment agency data for use in determining eligibility for most of the programs.

In recent years, the Congress has passed legislation relating to the use of wage data in two of the programs administered by the State welfare agencies--AFDC and Food Stamp. The AFDC legislation requires that the welfare agencies obtain and use wage data from the State UC agency, if available, and, if not, obtain and use data from the Social Security Administration (SSA) for determining AFDC eligibility. The food stamp legislation merely requires SSA and the State UC agencies to make wage data available to the welfare agencies, if requested. However, the law does not require that the welfare agencies must obtain and use this data. Both laws restrict the use of the wage data from SSA and the UC agencies to the program for which it was provided--AFDC or Food Stamp--rather than allowing it to be used in other Federal programs administered by the welfare agencies.

The AFDC legislation was effective October 1979 for both SSA and UC agency data. The food stamp legislation was effective May 1980 for SSA data and January 1983 for UC agency data.

WAGE DATA FROM SSA

In December 1977, the Congress passed Public Law 95-216 which added section 411 to Title IV-A of the Social Security Act (administered by SSA). This section requires that SSA make wage information contained in its records available to States to determine an individual's eligibility for AFDC. The law also requires that unless a State welfare agency can obtain wage data from its UC agency (about 40 States can do so), it must request and use SSA wage data semiannually. This requirement became effective

October 1979. SSA issued final regulations on use of its wage data for AFDC in December 1979.

As of April 1981, SSA has not provided its wage data to the States except on a test basis. SSA officials said they hope to be able to provide 1979 wage data by mid 1981. Data will be provided under specific agreements between SSA and the requesting States. Part of the agreement is that the State will not use the SSA-provided data for any purpose other than the AFDC Program.

When SSA issued proposed regulations covering the use of its wage data for AFDC, several commentors suggested that States be allowed to use the data when determining eligibility for other Federal and State programs. SSA responded in December 1979, that wage data obtained from it may not be redisclosed for any other purpose. SSA stated that the Tax Reform Act permits it to use its wage information only for its own programs, and the data is available to the States under section 411 of the Social Security Act for AFDC only. The States were told they cannot use this data for any other programs such as Medicaid or Social Services which are under the jurisdiction of other components of the Department of Health and Human Services (HHS), rather than SSA itself.

In an August 1979 memorandum, IRS agreed that SSA's wage data is tax return information and that SSA must provide safeguards required under section 6103 of the Internal Revenue Code of 1954. IRS believed that section 411 of the Social Security Act can be read to provide additional protection and is not inconsistent with section 6103 of the Revenue Code.

In May 1980, the Congress passed Public Law 96-249 (the Food Stamp Act Amendments of 1980) to require that SSA provide wage data to the Department of Agriculture and to State agencies administering the Food Stamp Program.

The State agencies that administer the Food Stamp Program are the same agencies that administer AFDC in all the States and most AFDC recipients also receive food stamps. Many food stamp recipients, however, do not receive AFDC benefits.

Public Law 96-249 amended section 6103 of the Internal Revenue Code of 1954 to allow SSA to release its wage data (defined as tax information) for use in the Food Stamp Program. The law limits the disclosure of the data for use only in determining an individual's eligibility for food stamps. Unlike the AFDC legislation, the act does not require that the States must use the data, but merely that SSA make it available upon request. This requirement was effective when the law was enacted, May 1980.

As of April 1981, SSA and Agriculture had not determined how or when the SSA wage data will be made available to the States for

use in the Food Stamp Program. Agriculture is currently preparing regulations for the use of SSA wage data in the Food Stamp Program. Agriculture officials said they are meeting with SSA and IRS to insure that the food stamp regulations are similar to SSA's regulations for AFDC and meet all IRS safeguard requirements. These officials indicated that they will allow the States to determine for themselves whether they wish to use the SSA data. If the States have more current wage information available from other sources such as State unemployment compensation agencies, Agriculture officials indicated that they will allow them to use that instead of the SSA data.

WAGE DATA FROM UNEMPLOYMENT COMPENSATION AGENCIES

As stated earlier, many State welfare agencies have been obtaining wage data from State UC agencies for use in administering Federal and State programs for a number of years. The Congress has passed legislation relating to the use of UC wage data in two programs-AFDC and Food Stamp. Since in most States this data is reported quarterly to the UC agencies, it is more current than SSA data which is reported annually.

Public Law 95-216 amended the Federal Unemployment Tax Act (administered by the Department of Labor) to require that State UC agencies make wage data available to State welfare agencies for determining AFDC eligibility. The law requires that welfare agencies must use the UC data if available. The law also requires that safeguards be established as necessary (as determined by the Secretary of HEW--now HHS--in regulation) to insure that the wage data is used only for determining AFDC eligibility. These requirements were effective October 1979. However, HHS has not instructed the States that the data be used only for AFDC purposes, but has informed the States that they may use the data obtained from UC agencies for other Federal and State programs because Labor does not restrict redisclosure of this information.

Public Law 96-249 amended Title III of the Social Security Act (administered by Labor) to require that UC agencies make wage data available to State welfare agencies for determining food stamp eligibility beginning in January 1983. This law does not require that the welfare agencies use the UC data. The law does require, however, that the State UC agency establish safeguards as are necessary (as determined by the Secretary of Labor in regulations) to insure that the wage data is disclosed only for use in determining food stamp eligibility. As of April 1981, Labor had not issued any regulations relating to the disclosure and safeguarding of UC wage data. Labor officials stated that State UC agencies may release wage data to any public official in performance of his duties. They also said that States may restrict the release of the UC data except where it is required to be released by Federal law such as the AFDC and Food Stamp programs.

In addition, Agriculture has not yet (April 1981) issued any regulations on the use of the UC data by State welfare agencies to determine food stamp eligibility. Agriculture and Labor officials said that one reason they have not issued regulations on the use or safeguarding of UC data is that the law is not effective until 1983.