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Testimony

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**SUPPLEMENTAL
NUTRITION ASSISTANCE
PROGRAM**

**Payment Errors and
Trafficking Have Declined,
but Challenges Remain**

Statement of Kay E. Brown, Director
Education, Workforce, and Income Security Issues



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-10-956T](#), a report to the House Subcommittee on Department Operations, Oversight, Nutrition, and Forestry, Committee on Agriculture

Why GAO Did This Study

The U.S. Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP) is intended to help low-income individuals and families obtain a better diet by supplementing their income with benefits to purchase food. USDA's Food and Nutrition Service (FNS) and the states jointly implement SNAP. Participation in the program has risen steadily over the last decade to an all time high of more than 33 million in fiscal year 2009, providing critical assistance to families in need.

This testimony discusses GAO's past work on three issues related to ensuring integrity of the program: (1) improper payments to SNAP participants, (2) trafficking of SNAP benefits, and (3) categorical eligibility for certain individuals or households.

This testimony is based on prior GAO reports on categorical eligibility (GAO-07-465), payment errors (GAO-05-245), and food stamp trafficking (GAO-07-53), developed through data analyses, case file reviews, site visits, interviews with officials, and a 50-state survey. GAO also updated data where available and collected information on recent USDA actions and policy changes.

What GAO Recommends

FNS generally agreed with GAO's prior recommendations to address SNAP trafficking and categorical eligibility issues and has taken action in response to most of them.

View [GAO-10-956T](#) or [key components](#). For more information, contact Kay Brown at (202) 512-7215 or brownk@gao.gov.

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

Payment Errors and Trafficking Have Declined, but Challenges Remain

What GAO Found

The national payment error rate reported for SNAP, which combines states' overpayments and underpayments to program participants, has declined by 56 percent from 1999 to 2009, from 9.86 percent to a record low of 4.36 percent. This reduction is due, in part, to options made available to states that simplified certain program rules. In addition, FNS and the states GAO reviewed have taken several steps to improve SNAP payment accuracy that are consistent with internal control practices known to reduce improper payments such as providing financial incentives and penalties based on performance. Despite this progress, the amount of SNAP benefits paid in error is substantial, totaling about \$2.2 billion in 2009 and necessitating continued top-level attention and commitment to determining the causes of improper payments and taking corrective actions to reduce them.

FNS estimates indicate that the national rate of food stamp trafficking declined from about 3.8 cents per dollar of benefits redeemed in 1993 to about 1.0 cent per dollar during the years 2002 to 2005 but that trafficking occurs more frequently in smaller stores. FNS has taken advantage of electronic benefit transfer to reduce fraud, and in response to prior GAO recommendations, has implemented new technology and categorized stores based on risk to improve its ability to detect trafficking and disqualify retailers who traffic. FNS also received authority to impose increased financial penalties for trafficking as recommended; however, it has not yet assessed higher penalties because implementing regulations are not yet finalized. FNS is considering additional steps to encourage states to pursue recipients suspected of trafficking but limited state resources are a constraint.

Categorically eligible households do not need to meet SNAP eligibility requirements because their need has been established under the states' Temporary Assistance for Needy Families (TANF) program. As of June 2010, 36 states have opted to provide categorical eligibility for SNAP to any household found eligible for a service funded through TANF and, in 35 states, there is no limit on the amount of assets certain households may have to be determined eligible, according to FNS. Households can be categorically eligible for SNAP even if they receive no TANF funded service other than a toll-free telephone number or informational brochure. However, the amount of assistance eligible households receive is determined using the same process used for other SNAP recipients. According to FNS officials, increased use of categorical eligibility by states has reduced administrative burdens and increased access to SNAP benefits to households who would not otherwise be eligible due to asset or income limits. However, little is known about the extent of its impact on increased access or program integrity.

SNAP has played a key role in assisting families facing hardship during the economic crisis, but given fiscal constraints and program growth, it is more important than ever to understand the impact of policy changes, and balance improvements in access with efforts to ensure accountability.

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me here today to discuss issues related to the integrity of the U.S. Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP), formerly the Food Stamp Program. SNAP is intended to help low-income individuals and families obtain a better diet by supplementing their income with benefits to purchase food. Participation in SNAP has risen steadily over the last decade in response to economic conditions and has played a critical role in assisting families facing hardship. In fiscal year 2000, SNAP provided about \$15 billion in benefits to about 17 million individuals while in fiscal year 2009, it provided more than \$50 billion in benefits to nearly 34 million individuals. The recent economic crisis has sharply increased demand for such assistance, with participation in SNAP increasing by 22 percent from June 2008 to June 2009 alone. Currently, almost 1 in every 11 Americans participates in the program. Further, the American Recovery and Reinvestment Act of 2009 provided a temporary across-the-board increase to the SNAP benefit amount.¹ This recent growth highlights the importance of ensuring program integrity. Every year, more than \$1 billion in benefits are paid incorrectly. Further, SNAP recipients exchange hundreds of millions of dollars in benefits for cash instead of food with authorized retailers across the country, a practice known as trafficking. In addition, concerns have been raised about a policy option allowing states to give households automatic eligibility for SNAP if they are eligible for minimal services financed with Temporary Assistance for Needy Families (TANF) funds (a type of categorical eligibility).

The information I am presenting today is based on past work, updated with current information where available, on three issues related to ensuring integrity of the program: (1) improper payments to SNAP participants, (2) trafficking of SNAP benefits, and (3) categorical eligibility for SNAP benefits.² The payment error and trafficking findings are based on past analyses of program quality control data, case file reviews, data

¹Pub. L. No. 111-5, § 101 (2009).

²GAO, *Food Stamp Program: States Have Made Progress Reducing Payment Errors, and Further Challenges Remain*, [GAO-05-245](#) (Washington, D.C.: May 5, 2005); GAO, *Food Stamp Trafficking: FNS Could Enhance Program Integrity by Better Targeting Stores Likely to Traffic and Increasing Penalties*, [GAO-07-53](#) (Washington, D.C.: Oct. 13, 2006). GAO, *Food Stamp Program: FNS Could Improve Guidance and Monitoring to Help Ensure Appropriate Use of Noncash Categorical Eligibility*, [GAO-07-465](#) (Washington, D.C.: Mar. 28, 2007).

analysis of the Food and Nutrition Service (FNS) retailer database, and interviews and site visits with program stakeholders, including federal agency and state and local officials. The categorical eligibility findings are based on a 2007 survey of state SNAP administrators, an analysis of household characteristic data collected from 21 states, and interviews and site visits with federal and state officials. More complete information on the scope and methodology for our prior work is available in each published report. In addition, we updated data where available, reviewed recent USDA policy changes and actions taken in response to our recommendations, and discussed the implications of these actions and changes with USDA officials. We also reviewed relevant federal laws and regulations. We conducted this work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

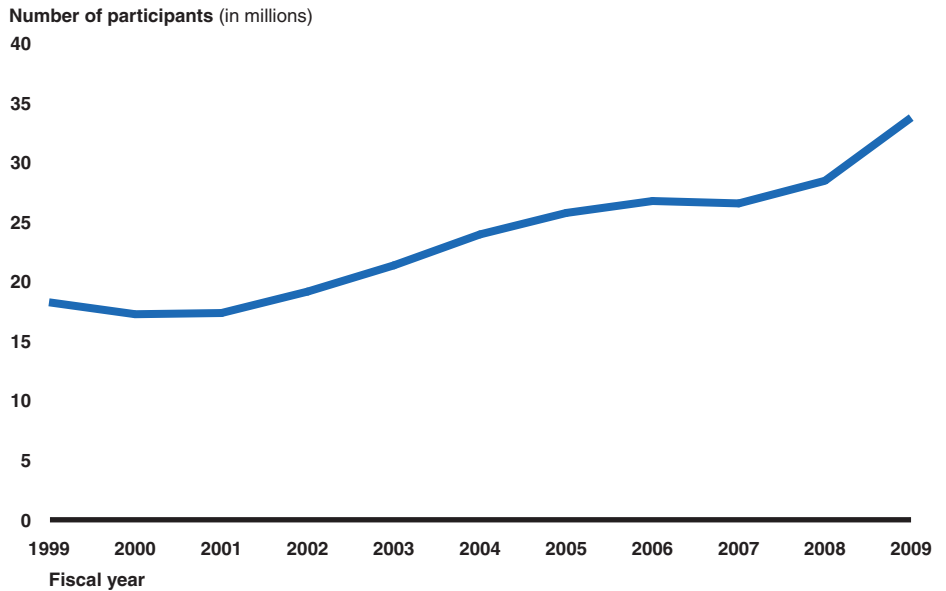
Background

SNAP is jointly administered by FNS and the states. FNS pays the full cost of SNAP benefits, shares the states' administrative costs, and is responsible for promulgating program regulations and ensuring that state officials administer the program in compliance with program rules. States administer the program by determining whether households meet the program's eligibility requirements, calculating monthly benefits for qualified households, and issuing benefits to participants through an Electronic Benefits Transfer (EBT) system.

Program Participation

As shown in figure 1, program participation has increased sharply from fiscal years 1999 to 2009, and indications are that participation has continued to increase significantly in fiscal year 2010. According to FNS, the downturn in the U.S. economy, coupled with changes in the program's rules and administration, has led to an increase in the number of SNAP participants.

Figure 1: SNAP Participation Has Increased Over the Last Decade



Source: GAO analysis of FNS data.

Determination of Eligibility and Benefits

Eligibility for SNAP is based primarily on a household's income and assets. To determine a household's eligibility, a caseworker must first determine the household's gross income, which cannot exceed 130 percent of the federal poverty level for that year as determined by the Department of Health and Human Services. A household's net income cannot exceed 100 percent of the poverty level (or about \$22,056 annually for a family of four living in the continental United States in fiscal year 2010). Net income is determined by deducting from gross income a portion of expenses such as dependent care costs, medical expenses for elderly individuals, utilities costs, and housing expenses.

A household's assets are also considered to determine SNAP eligibility and SNAP asset rules are complex. There is a fixed limit, adjusted annually for inflation, on the amount of assets a household may own and remain eligible for SNAP. Certain assets are not counted, such as a home and surrounding lot. There are also basic program rules that limit the value of vehicles an applicant can own and still be eligible for the program.

Categorical Eligibility for SNAP

Federal regulations require states to make households categorically eligible for SNAP if the household receives certain cash benefits, such as TANF cash assistance or Supplemental Security Income. States must also confer categorical eligibility for certain households receiving, or authorized to receive, certain TANF non-cash services that are funded with more than 50 percent federal or state maintenance of effort (MOE) funds and serve certain TANF purposes.³ In addition, in certain circumstances, states have the option to confer categorical eligibility using TANF non-cash services funded with less than 50 percent federal TANF or state MOE funds. The intent of categorical eligibility was to increase program access and reduce the administrative burden on state agencies by streamlining the need to apply means tests for both TANF and SNAP.

FNS's Quality Control (QC) System

Improper payments (or payment errors) occur when recipients receive too much or too little in SNAP benefits. FNS and the states share responsibility for implementing an extensive quality control system used to measure the accuracy of SNAP payments and from which state and national error rates are determined. Under FNS's quality control system, the states calculate their payment errors annually by drawing a statistical sample to determine whether participating households received the correct benefit amount. The state's error rate is determined by dividing the dollars paid in error by the state's total issuance of SNAP benefits. Once the error rates are final, FNS is required to compare each state's performance with the national error rate and imposes financial penalties or provides financial incentives according to legal specifications.⁴

³TANF funding includes both TANF block grant and state maintenance of effort (MOE) funds – nonfederal funds that states are required to spend in order to receive the entire federal TANF block grant. FNS regulations state that households in which all members are receiving benefits or services from a program designed to meet the program goals of TANF and which are funded with more than 50 percent of federal TANF or state maintenance of effort funds are generally categorically eligible for SNAP. A state may, at its discretion, in certain circumstances, confer categorical eligibility to households in which all members are receiving similar benefits or services from a program funded with less than 50 percent federal TANF or state maintenance of effort funds.

⁴The SNAP error rate is calculated for the entire program, as well as every state, and is based on overpayments to those who are eligible for smaller benefits, overpayments to those who are not eligible for any benefit, and underpayments to those who do not get as much as they should.

Trafficking and FNS Authorization and Monitoring of Retailers

Trafficking occurs when SNAP recipients exchange SNAP benefits for cash instead of food with authorized retailers.⁵ Under the EBT system, SNAP recipients receive an EBT card imprinted with their name and a personal account number, and SNAP benefits are automatically credited to the recipients' accounts once a month. In legitimate SNAP transactions, recipients run their EBT card, which works much like a debit card, through an electronic point-of-sale machine at the grocery checkout counter, and enter their secret personal identification number to access their SNAP accounts. This authorizes the transfer of SNAP benefits from a federal account to the retailer's account to pay for the eligible food items. The legitimate transaction contrasts with a trafficking transaction in which recipients swipe their EBT card, but instead of buying groceries, they receive a discounted amount of cash and the retailer pockets the difference.

FNS has the primary responsibility for authorizing retailers to participate in SNAP. To become an authorized retailer, a store must offer, on a continuing basis, at least three varieties of foods in each of the four staple food categories—meats, poultry or fish; breads or cereals; vegetables or fruits; and dairy products—or over 50 percent of its sales must be in a staple group. The store owner submits an application and includes relevant forms of identification such as copies of the owner's Social Security card, driver's license, business license, liquor license, and alien resident card. The FNS field office program specialist then checks the applicant's Social Security number against FNS's database of retailers, the Store Tracking and Redemption System, to see if the applicant has previously been sanctioned in the SNAP program. The application also collects information on the type of business, store hours, number of employees, number of cash registers, the types of staple foods offered, and the estimated annual amount of gross sales and eligible SNAP sales.

In addition to approving retailers to participate in the program, FNS has the primary responsibility for monitoring their compliance with requirements and administratively disqualifying those who are found to have trafficked SNAP benefits. FNS headquarters officials collect and monitor EBT transaction data to detect suspicious patterns of transactions by retailers. They then send any leads to FNS program specialists in the field office who either work the cases themselves or refer them to

⁵In fiscal year 2009, about 190,000 retailers were authorized to accept SNAP benefits.

undercover investigators in the Retailer Investigations Branch to pursue by attempting to traffic SNAP benefits for cash.

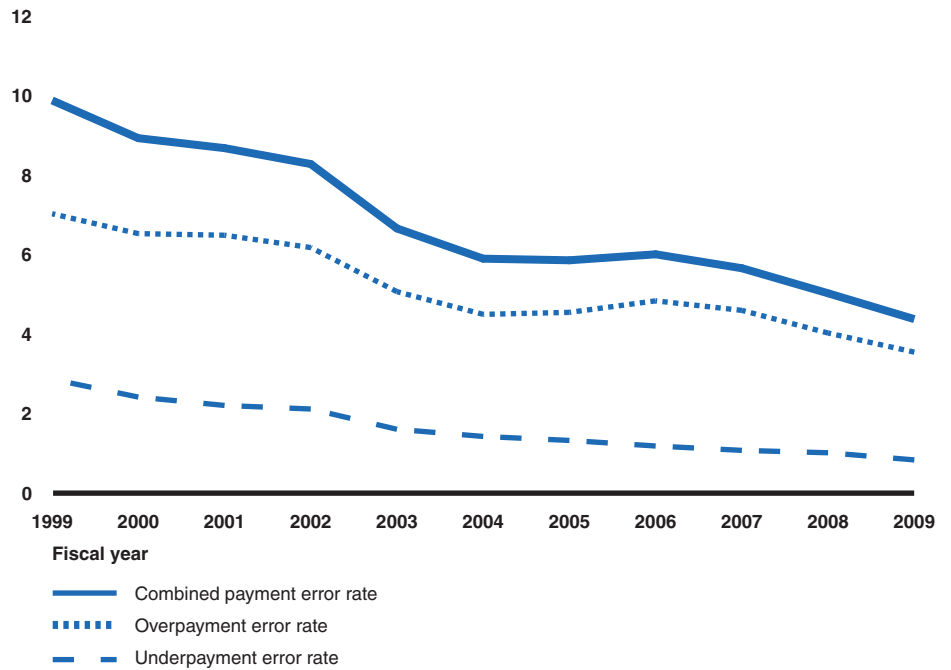
States Have Made Significant Progress in Reducing Payment Errors

The SNAP Payment Error Rate Has Declined to a Record Low

The national payment error rate — the percentage of SNAP benefit dollars overpaid or underpaid to program participants—has declined by about 56 percent over the last 11 years, from 9.86 percent in 1999 to 4.36 percent in 2009, in a time of increasing participation (see figure 1).⁶ Of the total \$2.19 billion in payment errors in fiscal year 2009, \$1.8 billion, or about 82 percent, were overpayments. 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 \$412 million, or about 18 percent of dollars paid in error, in fiscal year 2009.

⁶Our 2003 analysis of FNS' quality control data found that almost two-thirds of SNAP payment errors are caused by caseworkers, usually when they fail to act on new information or when they 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. ([GAO-05-245](#)) We did not update this analysis for this testimony.

Figure 2: SNAP Payment Errors Have Dropped to a Record Low



Source: GAO analysis of FNS data.

The decline in payment error rates has been widespread despite the significant increase in participation. Error rates fell in almost all states, and 36 states reduced their error rates by over 50 percent from fiscal years 1999 to 2009. In addition, 47 states had error rates below 6 percent in 2009; this is an improvement from 1999, when 7 states had error rates below 6 percent. However, payment error rates vary among states. Despite the decrease in many states' error rates, a few states continue to have high payment error rates.

Program Simplification Has Been Shown to Reduce Error Rates, but the Program Remains Complex

State use of simplified reporting options has been shown to have contributed to the reduction in the payment error rate. Several options are made available to the states to simplify the application and reporting process, and one such option is simplified reporting.⁷ Of the 50 states currently using simplified reporting, 47 have expanded it beyond earned income households, according to a recent FNS report. Once a state has elected to use simplified reporting, eligible households in the state need only report changes occurring between certification and normally scheduled reporting if the changes result in income that exceeds 130 percent of the federal poverty level.⁸ This simplified reporting option can reduce a state's error rate by minimizing the number of income changes that must be reported between certifications and thereby reducing errors associated with caseworker failure to act, as well as participant failure to report changes.

Despite these simplified reporting options, program eligibility requirements remain complex. This complexity increases the risk that caseworkers will make errors when considering all the factors needed to determine eligibility. Our previous work has shown that the financial eligibility of an applicant can be difficult to verify in means-tested programs, further increasing the risk of payment to an ineligible recipient.⁹ For example, caseworkers must verify several types of household assets to determine eligibility and benefit amounts, such as bank accounts, property, and vehicles. While additional efforts to simplify the program may further reduce payment error, it could also reduce FNS' ability to target the program to individual families' needs. Moreover, participant-caused errors, which we earlier reported constitute one-third of the overall national errors, are difficult to prevent.

⁷The Farm Security and Rural Investment Act of 2002 (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, deductions, reporting requirements, and utility allowances. Pub. L. No. 107-171, Title IV (2002). 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.: Sept. 16, 2004).

⁸Households subject to reporting on a periodic basis must submit reports not less often than once every 6 months.

⁹See GAO, *Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments*. [GAO-09-628T](#). Washington, D.C.: April 22, 2009.

FNS and States Have Taken Steps to Increase Payment Accuracy

We found that FNS and the states we reviewed have taken many approaches to increasing SNAP payment accuracy, most of which are consistent with internal control practices known to reduce improper payments.¹⁰ Often, several practices are tried simultaneously, making it difficult to determine which have been the most effective.

- *Tracking state performance.* FNS staff use Quality Control (QC) data to monitor states' performance over time; conduct annual reviews of state operations; and where applicable, monitor the states' implementation of corrective action plans.¹¹ 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. In addition, in November 2003, FNS created a Payment Accuracy Branch at the national level to work with FNS regional offices to suggest policy and program changes and to monitor state performance. The branch facilitates a National Payment Accuracy Work Group with representatives from each FNS regional office and headquarters who use QC data to review and categorize state performance into one of three tiers.¹² Increased intervention and monitoring approaches are applied when state error rates increase and states are assigned to tier 2 or tier 3.
- *Penalties and incentives.* FNS has long focused its attention on states' accountability for error rates through its QC system by assessing financial penalties and providing financial incentives. However, since 2000, USDA leadership has more explicitly established payment accuracy as a program priority. High level USDA officials visited states with particularly high error rates, and FNS has collected a higher percentage of penalties from states compared with prior years. For example, from fiscal year 1992 to 2000, FNS collected about \$800,000 in penalties from states. In the next 5 years, FNS collected more than \$20 million from states.

¹⁰See GAO, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: October 2001).

¹¹States with error rates of 6 percent or more are required to develop and implement corrective action plans to improve payment accuracy that are monitored by the FNS regional offices.

¹²Tier 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.

In fiscal year 2009, 3 states (Maine, West Virginia, and New Mexico) were notified that they had incurred a financial liability for having a poor payment error rate for at least two consecutive years. An additional 9 states and territories (Connecticut, Maryland, Indiana, Wisconsin, Louisiana, Texas, Iowa, Alaska, and Guam) were found to be in jeopardy of being penalized if their error rates do not improve. Ten states and territories received bonus payments for the best and most improved payment error rates in fiscal year 2009 (Delaware, Florida, Georgia, Guam, Maine, Nebraska, Ohio, South Dakota, Washington, Wisconsin).

- *Information sharing.* FNS also provides and facilitates the exchange of information gleaned from monitoring by training state QC staff, presenting at conferences, publishing best practice guides, supporting the adoption of program simplification options, and providing states policy interpretation and guidance.

At the time of our 2005 study, states we reviewed adopted a combination of practices to prevent, minimize, and address payment accuracy problems, such as:

- Increasing the awareness of, and the accountability for, payment error. For example, some states set error rate targets for their local offices and hold staff accountable for payment accuracy.
- Analyzing quality control data to identify causes of common payment errors and developing corrective actions.
- Making automated system changes to prompt workers to obtain complete documentation from clients.
- Developing specialized change units that focus on acting upon reported case changes.
- Verifying the accuracy of benefit payments calculated by state SNAP workers through supervisory and other types of case file reviews.

Despite this progress, the amount of SNAP benefits paid in error is substantial, totaling about \$2.2 billion in 2009. This necessitates continued top-level attention from USDA management and continued federal and state commitment to determining the causes of improper payments and taking corrective actions to reduce them.

Estimates Suggest Trafficking Has Declined, but FNS Could Further Enhance Program Integrity

FNS Estimates Suggest That the Rate of SNAP Trafficking Has Declined

The national rate of SNAP trafficking declined from about 3.8 cents per dollar of benefits redeemed in 1993 to about 1.0 cent per dollar during the years 2002 to 2005, as shown in table 1. However, even at that lower rate, FNS estimates that about \$241 million in SNAP benefits were trafficked annually in those years. FNS has not completed an updated estimate of trafficking since 2005.

Table 1: FNS Estimates Suggest That the Trafficking Rate Has Declined

Millions of dollars			
Calendar year period	Estimated trafficking rate percentage	SNAP benefits issued annually	Estimated amount of benefits trafficked annually
1993	3.8%	\$21,100	\$812
1996-1998	3.5	19,627 ^a	657
1999-2002	2.5	16,139 ^a	393
2002-2005	1.0	23,213 ^a	241

Source: FNS studies and GAO calculation.

^aFNS reported that it annualized redemption data over the period of the study but did not provide the annualized figures. We calculated the 3 and 4 year average of benefits redeemed for comparative purposes.

Note: The data from 2002-2005 are the most recent available.

Overall, we found that the estimated rate of trafficking at small stores was much higher than the estimated rate for supermarkets and large groceries, which redeem most SNAP benefits. The rate of trafficking in small stores was an estimated 7.6 cents per dollar and an estimated 0.2 cents per dollar in large stores in 2005.

FNS Has Used EBT Data to Improve Retailer Monitoring

With the implementation of EBT, FNS has supplemented its traditional undercover investigations by the Retailer Investigations Branch with cases developed by analyzing EBT transaction data. The nationwide implementation of EBT, completed in 2004, has given FNS powerful new tools to supplement its traditional undercover investigations of retailers suspected of trafficking SNAP benefits. FNS traditionally sent its investigators into stores numerous times over a period of months to attempt to traffic benefits. However, in 1996 Congress gave FNS the authority to charge retailers with trafficking in cases using evidence obtained through an EBT transaction report,¹³ called “paper cases.” A major advantage of paper cases is that they can be prepared relatively quickly and without multiple store visits.

These EBT cases now account for more than half of the permanent disqualifications by FNS. Although the number of trafficking disqualifications based on undercover investigations has declined, these investigations continue to play a key role in combating trafficking. However, as FNS’s ability to detect trafficking has improved, the number of suspected traffickers investigated by other federal entities, such as the USDA Inspector General and the U.S. Secret Service, declined, according to data available at the time of our review. These entities have focused more on a smaller number of high-impact investigations. As a result, retailers who traffic are less likely to face criminal penalties or prosecution.¹⁴

FNS Has Taken Action to Improve Retailer Monitoring and Increase Trafficking Penalties

In response to our prior recommendation that FNS improves analysis and monitoring, FNS has implemented new technology to improve its ability to detect trafficking and disqualify retailers who traffic, which has contributed to more sophisticated analyses of SNAP transactions and categorization of stores based on risk. Specifically, FNS implemented a revised store classification system to systematically compare similar

¹³ Pub. L. No. 104-193, § 841 (1996).

¹⁴ On top of civil penalties, retailers who traffic may be permanently disqualified from participating in the program. A civil penalty may be imposed in lieu of permanent disqualification, however, in certain circumstances in which the store owner was not aware of and was not involved in the trafficking. In addition, individuals who are determined to have intentionally committed an act in violation of the SNAP statutes (such as by trafficking) lose eligibility to participate in the program for a specified period of time, depending on the circumstances. There are also potential criminal penalties (including fines and possible imprisonment) for knowingly trafficking.

stores in order to better identify fraudulent transaction activity for investigation. FNS also increased the amount of data available to review and changed its monitoring of transaction data from reviewing monthly data to reviewing these data on a daily basis. FNS also implemented a new tool that assesses each retailer's risk of trafficking. FNS reports that these changes have assisted with early monitoring and identification of violating stores and allocation of its monitoring resources.

Consistent with our recommendation that FNS develop a strategy to increase penalties for trafficking, FNS received new authority to impose increased financial penalties for trafficking. The Food, Conservation, and Energy Act of 2008 expanded FNS authority to assess civil money penalties in addition to or in lieu of disqualification¹⁵. It also provided authority for FNS, in consultation with the Office of the Inspector General, to withhold funds from traffickers during the administrative process, if such trafficking is considered a flagrant violation. Regulations to implement this provision are being developed and FNS expects the proposed rule to be published in July 2012. According to FNS, the rule that will address addition of monetary sanctions to disqualification is targeted for publication in September 2011. Until the policy is implemented, the impact of this change will not be known.

Despite Progress, Vulnerabilities Still Exist

Despite the progress FNS has made in combating retailer trafficking, the SNAP program remains vulnerable.

Program vulnerabilities we identified include:

- *Limited inspection of stores.* FNS authorizes some stores with limited food supplies so that low-income participants in areas with few supermarkets have access to food, but may not inspect these stores again for 5 years unless there is some indication of a problem.
- *Varied state efforts.* Some states actively pursue and disqualify recipients who traffic their benefits while inaction by other states allow recipients suspected of trafficking to continue the practice. We recommended in our October 2006 report that FNS promote state efforts to pursue recipients suspected of trafficking by revisiting the incentive structure to incorporate additional provisions to encourage states to investigate and take action

¹⁵Pub. L. No. 110-234, § 4132 (2008).

against recipients who traffic. We also recommended that FNS ensure that field offices report to states those recipients who are suspected of trafficking with disqualified retailers. However, FNS officials told us they have taken few recent steps to increase state efforts to pursue recipients suspected of trafficking, in part because of state resource constraints, but will continue to examine the impact of financial incentives in preparation for the expected upcoming program reauthorization.

States Can Provide Automatic SNAP Eligibility to Individuals Authorized to Receive TANF Services

Many States Confer Categorical Eligibility Using No Asset Limit and Income Limits Above Regular SNAP Rules

States that confer TANF non-cash categorical eligibility use a variety of TANF services to qualify participants for SNAP benefits. According to FNS, as of June 2010, 36 states are using broad-based policies that could make most, if not all, TANF non-cash households categorically eligible for SNAP because the households receive TANF/MOE funded benefits, such as brochures or information referral services. This is an increase from the 29 states that conferred this type of categorical eligibility at the time of our 2007 report. Other states have more narrow policies in place that could make a smaller number of households categorically eligible for SNAP because they receive a TANF/MOE funded benefit such as child care or counseling.

These categorically eligible households do not need to meet SNAP eligibility requirements such as the SNAP asset or gross income test because their general need has been established by the TANF program. For example, in 35 of the states that confer categorical eligibility for all TANF services, there is no limit on the amount of assets a household may have to be determined eligible, according to a FNS report. In addition, the gross income limit of the TANF program set by these states ranged from 130 to 200 percent of the federal poverty level, according to a FNS report. As a result, households with substantial assets but low income could be deemed eligible for SNAP under these policies.

Even though households may be deemed categorically eligible for SNAP, the amount of assistance households are eligible for is determined based on each household's income and other circumstances using the same process used for other SNAP recipients. Some families determined categorically eligible for the program could be found eligible for the minimum benefit. However, FNS noted in a recent report that families with incomes above 130 percent of the federal poverty level and high expenses (shelter costs, dependent care expenses, and medical costs) could receive a significant SNAP benefit.

Households can be categorically eligible for SNAP even if they receive no TANF funded service other than a toll-free telephone number or informational brochure. For example, one state reported to FNS that it included information about a pregnancy prevention hotline on the SNAP application to confer categorical eligibility. Other states reported providing households brochures with information about available services, such as domestic violence assistance or marriage classes, to confer categorical eligibility. Receipt of the information on the SNAP applications or on the brochures can qualify the household to be categorically eligible for SNAP benefits. However, the amount of the SNAP benefit is still determined in accordance with SNAP rules by the eligibility workers using information on income and expenses.

In 2007, we reported that six states may not have been following program regulations because they were not using certain TANF noncash services to confer SNAP categorical eligibility.¹⁶ These services included child care, transportation, and substance abuse services, which may have been funded by more than 50 percent federal TANF or state MOE funds. In addition, some states reported that they did not specifically determine whether an individual needs a specific TANF noncash service before conferring SNAP eligibility. We recommended that FNS provide guidance and technical assistance to states clarifying which TANF noncash services states must use to confer categorical eligibility for SNAP and monitor states' compliance with categorical eligibility requirements. In September 2009, USDA released a memorandum encouraging states to continue promoting noncash categorical eligibility. FNS reported that four of the six states currently are using the required noncash services to confer categorical eligibility.

¹⁶ [GAO-07-465](#)

FNS and States Cite Several Advantages to Use of Expanded Categorical Eligibility

FNS has encouraged states to adopt categorical eligibility to improve program access and simplify the administration of SNAP. According to FNS officials, increased use of categorical eligibility by states has reduced administrative burdens and increased access to SNAP benefits to households who would not otherwise be eligible for the program due to SNAP income or asset limits. Adoption of this policy option can provide needed assistance to low-income families, simplify state policies, reduce the amount of time states must devote to verifying assets, and reduce the potential for errors, according to FNS. FNS recently also encouraged states that have implemented a broad-based categorical eligibility program with an asset limit to exclude refundable tax credits from consideration as assets.

In our previous work, we found that many of the states' SNAP officials surveyed believed eliminating TANF non-cash categorical eligibility would decrease participation in SNAP.¹⁷ Many of the states' SNAP officials we surveyed also believed that eliminating TANF non-cash categorical eligibility would increase the SNAP administrative workload and state administrative costs. Some common reasons state officials indicated for the increase in SNAP administrative workload were:

- increase in verifications needed,
- increase in error rates as required verifications increase,
- changes to data systems,
- increase in time to process applications, and
- changes to policies and related materials.

While FNS and the states believe categorical eligibility has improved program access and payment accuracy, the extent of its impact on access and program integrity is unclear.

¹⁷Our analysis of data from states in 2006 showed that a vast majority of TANF noncash households may remain eligible for SNAP benefits without noncash categorical eligibility because their income and/or asset levels are within the regular SNAP limits. Other households may lose eligibility for SNAP because their income and/or asset levels are too high. [GAO-07-465](#).

Concluding Observations

Over the past few years, the size of the Supplemental Nutrition Assistance Program has grown substantially, both in terms of the number of people served and the amount paid out in benefits, at a time when the slow pace of the economic recovery has left many families facing extended hardship. At the same time, due largely to the efforts of FNS working with the states, payment errors have declined and mechanisms for detecting and reducing trafficking have improved. However, little is known about the extent to which increased use of categorical eligibility has affected the integrity of the program. Further, improper payments in the program continue to exceed \$2 billion and retailer fraud remains a serious concern, highlighting the importance of continued vigilance in ensuring that improvements in program access are appropriately balanced with efforts to maintain program integrity. As current fiscal stress and looming deficits continue to limit the amount of assistance available to needy families, it is more important than ever that scarce federal resources are targeted to those who are most in need and that the federal government ensure that every federal dollar is spent as intended.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or members of the Subcommittee may have.

Contact and Acknowledgements

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Related GAO Products

Domestic Food Assistance: Complex System Benefits Millions, but Additional Efforts Could Address Potential Inefficiency and Overlap among Smaller Programs. [GAO-10-346](#). Washington, D.C.: April 15, 2010.

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