

APPENDIX B – ERRONEOUS PAYMENT DETAILS

Food Stamp Program

Exhibit 95: Food Stamp Program Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions) ¹										
Food Stamp Program	FY Actuals							FY Targets		
	2000		2001		2002		2003	2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate	Rate
Total Payments	\$14,989		\$15,535		\$18,244					
Underpayments	\$360	2.40%	\$340	2.19%	\$384	2.10%	TBD ²	1.97%	1.97%	1.97%
Overpayments	\$975	6.51%	\$1,005	6.47%	\$1,123	6.16%	TBD ²	5.83%	5.83%	5.83%
Total Erroneous Payments	\$1,335	8.91%	\$1,345	8.66%	\$1,507	8.26%	TBD ²	7.80%	7.80%	7.80%

¹Confidence level is 95 percent. Confidence interval is +/- .35. Data are based upon statistical sampling of the universe of payments.

²The data will be available in June 2004.

The Food and Nutrition Service (FNS) has pioneered efforts to monitor and reduce improper payments under the Food Stamp Program (FSP). Thus, the payment-error rate dropped from 8.91 percent in 2000 to 8.26 percent in 2002. This decrease saved taxpayers millions of dollars. Targets have been established to reduce the error rate to 7.8 percent in 2004 and in future years. FSP's quality-control system measures the accuracy of household certifications based on a statistically valid process initially established in 1970. The system is mandated by the Food Stamp Act and further defined in program regulations and agency guidance. Agency procedures are established in three handbooks: *Sampling Methodology*, *Review Procedures* and *Federal Validation Reviews*.

As part of the quality-control process, States conduct reviews on a sample of cases from all participants, and for those denied participation or terminated from the program. States report the findings of the reviews to FNS. FNS then conducts validation reviews to establish the accuracy of the State-reported information based on a regression process. This well-designed and controlled process yields quality data with a high confidence level for accuracy. These official error rates are used to assess penalties against States with high rates and award incentives to those with low rates.

As required by FSP regulations, State agencies analyze data to develop corrective-action plans to reduce or eliminate program errors. A State must develop a quality-control action plan to address the causes of errors detected. Some errors occur when the State's combined payment-error rate is above the threshold for enhanced funding. Others occur when a State's negative-case error rate is more than 1 percent. Action also is required when underpayments result from State agency rules, practices or procedures. Most States have developed action plans to address error rates based on their FY 2002 quality-control data.

FNS regional offices and States work together to develop effective strategies designed to reduce payment errors. Regional offices provide such technical assistance to States as:

- Analyzing data;
- Reviewing and monitoring corrective-action plans;
- Developing strategies for error reduction and corrective action;
- Participating on boards and in work groups; and
- Hosting, attending and supporting payment-accuracy conferences.

FNS also administers a State Exchange Program to provide funding to States for travel to obtain, observe and share information on best practices and effective techniques to reduce payment errors. Coalitions have been formed among States to promote partnerships to address mutual concerns and develop effective corrective-action plans.

A claims-collection process to recover overpayments also is an important mechanism for addressing erroneous payments. While States are provided some flexibility in claims operation, Federal regulations require them to pursue a claim if an overpayment is discovered during a quality-control review.

FNS will continue to build upon and refine its erroneous-payments reduction activities. While the Farm Security and Rural Investment Act of 2002 authorized several policy options that, if fully adopted by States, could result in lower error rates, it also weakened the penalties for high error rates and reduced the incentives for low error rates. These changes took effect in FY 2003. Food-stamp caseloads are rising in every State even though States are facing significant budget deficits. States may not be able to sustain high quality customer service. This deficiency may cause higher error rates. It is not clear how these factors will influence future payment-error rates.

National School Lunch Program/School Breakfast Program (NSLP/SBP)

Exhibit 96: National School Lunch & Breakfast Program Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions)										
National School Lunch & Breakfast Programs	FY Actuals							FY Targets		
	2000		2001		2002		2003	2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate	Rate
Total Payments	\$6,887		\$7,062		\$7,617					
Underpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Overpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Total Erroneous Payments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

National School Lunch Program/School Breakfast Program (NSLP/SBP) erroneous payments occur when recipients misreport information in their application and are approved for free or reduced-price meals, or otherwise mistakenly approved (certification error) and then receive the meals. Errors also may occur when schools and school-food authorities (SFAs) submit inaccurate claims for meals that neither were served or nor met program requirements (counting and claiming error).

Certification error and counting and claiming errors balance the need for timely performance data with the cost and burden of expanded and more-frequent measurements. An expanded measurement system would increase the burden on schools, school districts and State agencies significantly. Given the limited staff resources available to schools, such new burdens could undermine their educational mission.

Certification Error

While there has been a growing discrepancy between the number of children certified for free meals and the estimates of those eligible, errors in school certification do not result in a loss to the Federal program. The loss only occurs when ineligible students actually receive meals. FNS has no data available to show how often those eligible for free meals actually receive them.

All SFAs must verify household eligibility for free and reduced-price meals. They base their findings on a 3-percent sample of the free and reduced-price applications approved annually. School authorities also may select a smaller sample by focused selection. FNS recently has published regulatory changes to re-

quire school districts to report verification results and pursue corrective action for identified errors. The agency plans to use this data to analyze the results of the certification process. Its goal is to improve the system. FNS also is preparing to conduct a nationally representative study of the level of NSLP payment error.

To address certification error, FNS currently is working with State and local program operators to improve accuracy and prevent errors within the context of current program regulations. Additionally, the Administration has recommended a balanced approach to statutory change via Child Nutrition reauthorization. This approach includes a range of program improvements to safeguard access while addressing such NSLP integrity issues as:

- Requiring direct certification for free meals through FSP to improve certification accuracy over paper applications while increasing access for the lowest-income families and reducing the application and verification burden for families and schools;
- Permitting households to submit a single application covering all children attending school and provide for yearlong certifications. These improvements reduce certification and verification burden while reducing potential for error;
- Enhancing verification of paper-based applications by drawing verification samples early in the school year, expanding the verification sample, and including both a random sample and one focused on error-prone applications in each school;
- Minimizing barriers for eligible children who wish to remain in the program by requiring a robust, consistent effort in every State to inquire those who do not respond to verification requests. The program would include a minimum of three contacts in writing and by phone; and
- Initiating a series of comprehensive demonstration projects to test alternative mechanisms for certifying and verifying applicant information. This plan would include wage-data matching that identifies eligible and ineligible households, and a nationally representative study of overcertification error and the number of dollars lost to program error.

Counting and Claiming Error

The Coordinated Review Effort (CRE) is a system of Federal and State review of school-district meal programs. CRE is designed to evaluate district compliance with meal service and claiming requirements, and provide technical assistance to improve program management. More than \$4 million in coordinated review funds is spent annually for the Federal review of school counting and claiming procedures, and compliance with meal requirements. While the system does not produce statistically valid National estimates, available CRE data indicate no major program weaknesses in meeting program requirements in these areas.

Special Supplemental Nutrition Program for Women, Infants and Children

Currently, FNS has no data available to estimate the rate of erroneous payments under the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). WIC erroneous payments occur when:

- Ineligible persons receive benefits;
- Food is redeemed at excess prices; or
- Food is redeemed for unauthorized items or items not received by participants.

FNS periodically develops estimates of these types of errors. Recent studies show that WIC participant and vendor errors have remained fairly stable despite major program growth from 1988 to 1998. FNS has been working aggressively to improve program integrity. Since late 1998, WIC applicants with limited exceptions have been required to document their income and residency, and be physically present. In December 2000, FNS published a final rule on food-delivery systems that strengthen vendor management.

These systems established vendor-selection criteria, vendor-training requirements, high-risk vendor identification criteria and such vendor-monitoring requirements as compliance investigations.

Exhibit 97: WIC Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions)										
WIC Program	FY Actuals							FY Targets		
	2000		2001		2002		2003	2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate	Rate
Total Payments	\$ 3,981		\$ 4,150		\$4,462					
Underpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Overpayments		N/A		N/A		N/A	N/A	N/A	N/A	N/A
Total Erroneous Payments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

While FNS currently has no data available to estimate the rate of erroneous payments under WIC, it has conducted studies in an attempt to develop estimates relating to these types of errors:

- Participant error: *The WIC Income Verification Study, 1988* found that 5.7 percent of program participants were income ineligible. The National Survey of WIC Participants, 1998, yielded an estimate of 4.5 percent. While both estimates only considered income eligibility, nutritional risk also is required to be eligible for WIC. Nutritional risk criteria cover a range of conditions and behaviors that would be difficult to verify; and
- Vendor error: *The WIC Vendor Management Study, 1998* estimated that vendor overcharges represent 0.9-1.6 percent of total program payments. Undercharges are estimated at 0.4-0.6 percent. These rates are very similar to those found in a 1988 study.

FNS has been exploring WIC electronic benefit transfer (EBT) systems to provide greater efficiency and integrity in food-benefit delivery. Currently, there are 12 States pilot testing EBT systems. These systems require personal identification number entry prior to retail transactions. They also verify WIC-authorized foods by Universal Product Codes (UPC). A UPC is a combination of a number and bar code that identifies an individual consumer product. Thus, participant and vendor error is minimized.

Commodity Loan Program

The Commodity Credit Corporation (CCC) Commodity Loan Program error rate has increased from 0.08 percent in 2001 to 1.54 percent in 2003. Targets have been established to reduce the rate to 1.40 percent in 2004 and 1 percent in future years. Currently, erroneous payments are measured by evaluating the program’s accounts receivable. CCC is participating in a new Geospatial Information System to obtain more-current information about commodities being planted on farms. This data will provide the county Farm Service Agency offices with more options for validating the acreage and planting information provided by producers. This plan will help determine if a payment error occurred. The system has not been fully implemented.

Exhibit 98: Commodity Loan Program Estimates

Section 1a. - Program-wide Estimates (Dollars in Millions) ¹									
Commodity Loan Program	FY Actuals						FY Targets		
	2001		2002		2003		2004	2005	2006
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Rate	Rate	Rate
Total Payments	\$8,267	100%	\$10,132	100%	\$9,894	100%	100%	100%	100%
Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**	**
Overpayments	6.6	.08%	1	.01%	153	1.54%	1.40%	1.25%	1.10%
Total Erroneous Payments	6.6	.08%	\$1	.01%	\$153	1.54%	1.40%	1.25%	1.10%

¹FY 2003 data is actual data through June 30, 2003. Changes to reporting systems will allow for the tracking of overpayments by FY 2003. The amounts shown are actual amounts or best estimates for future rates. There is no statistical sampling process currently used to develop this report. The current method of measuring the rate of erroneous payments for Commodity Credit Corporation (CCC)-issued commodity loans is by evaluating the accounts receivables. CCC also changed the way information is provided from a crop-year basis to a fiscal-year basis. These accounts receivables show the crop years that would have been disbursed during the current fiscal year. The amounts shown are a reliable indicator of the quality of disbursements made for the commodity-loan program.

Lack of funding for initiatives to track and report on payment-error rates has hampered efforts to reduce or prevent erroneous payments. To date, CCC has not begun any new initiatives to reduce erroneous payments.

Limitations of the Financial Statements

The financial statements report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), they also are used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Thus, liabilities cannot be liquidated without enabling legislation that provides resources to do so.