

REVIEW THE OPERATIONS OF THE FOOD STAMP PROGRAM

HEARING BEFORE THE SUBCOMMITTEE ON DEPARTMENT OPERATIONS, OVERSIGHT, NUTRITION, AND FORESTRY OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

JULY 24, 2003

Serial No. 108-16



Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

89-235 PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON AGRICULTURE

BOB GOODLATTE, Virginia, *Chairman*

JOHN A. BOEHNER, Ohio <i>Vice Chairman</i>	CHARLES W. STENHOLM, Texas, <i>Ranking Minority Member</i>
RICHARD W. POMBO, California	COLLIN C. PETERSON, Minnesota
NICK SMITH, Michigan	CALVIN M. DOOLEY, California
TERRY EVERETT, Alabama	TIM HOLDEN, Pennsylvania
FRANK D. LUCAS, Oklahoma	BENNIE G. THOMPSON, Mississippi
JERRY MORAN, Kansas	MIKE MCINTYRE, North Carolina
WILLIAM L. JENKINS, Tennessee	BOB ETHERIDGE, North Carolina
GIL GUTKNECHT, Minnesota	BARON P. HILL, Indiana
DOUG OSE, California	JOE BACA, California
ROBIN HAYES, North Carolina	RICK LARSEN, Washington
CHARLES W. "CHIP" PICKERING, Mississippi	MIKE ROSS, Arkansas
TIMOTHY V. JOHNSON, Illinois	ANIBAL ACEVEDO-VILÁ, Puerto Rico
TOM OSBORNE, Nebraska	ED CASE, Hawaii
MIKE PENCE, Indiana	RODNEY ALEXANDER, Louisiana
DENNIS R. REHBERG, Montana	FRANK W. BALLANCE, JR., NORTH CAROLINA
SAM GRAVES, Missouri	DENNIS A. CARDOZA, California
ADAM H. PUTNAM, Florida	DAVID SCOTT, Georgia
WILLIAM J. JANKLOW, South Dakota	JIM MARSHALL, Georgia
MAX BURNS, Georgia	EARL POMEROY, North Dakota
JO BONNER, Alabama	LEONARD L. BOSWELL, Iowa
MIKE ROGERS, Alabama	KEN LUCAS, Kentucky
STEVE KING, Iowa	MIKE THOMPSON, California
CHRIS CHOCOLA, Indiana	MARK UDALL, Colorado
MARILYN N. MUSGRAVE, Colorado	RICK LARSEN, Washington
DEVIN NUNES, California	LINCOLN DAVIS, Tennessee
RANDY NEWGEBAUER, Texas	

PROFESSIONAL STAFF

WILLIAM E. O'CONNER, JR., *Staff Director*
KEVIN KRAMP, *Chief Counsel*
STEPHEN HATERIUS, *Minority Staff Director*
ELYSE BAUER, *Communications Director*

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, OVERSIGHT, NUTRITION, AND FORESTRY

GIL GUTKNECHT, Minnesota, *Chairman*

RICHARD W. POMBO, California	CALVIN M. DOOLEY, California
NICK SMITH, Michigan	<i>Ranking Minority Member</i>
DOUG OSE, California	JOE BACA, California
DENNIS R. REHBERG, Montana	ANIBAL ACEVEDO-VILÁ, Puerto Rico
<i>Vice Chairman</i>	DENNIS A. CARDOZA, California
ADAM H. PUTNAM, Florida	TIM HOLDEN, Pennsylvania
WILLIAM J. JANKLOW, South Dakota	BARON P. HILL, Indiana
JO BONNER, Alabama	FRANK W. BALLANCE, JR., NORTH CAROLINA
STEVE KING, Iowa	MIKE THOMPSON, California
DEVIN NUNES, California	LINCOLN DAVIS, Tennessee

CONTENTS

	Page
Gutknecht, Hon. Gil, a Representative in Congress from the State of Minnesota, opening statement	1
WITNESSES	
Bost, Eric, M., Under Secretary, Food, Nutrition, and Consumer Services, U.S. Department of Agriculture	2
Prepared statement	15
Answers to submitted questions	24
Fong, Phyllis K., Inspector General, U.S. Department of Agriculture, statement	20

REVIEW THE OPERATIONS OF THE FOOD STAMP PROGRAM

THURSDAY, JULY 24, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DEPARTMENT OPERATIONS,
OVERSIGHT, NUTRITION, AND FORESTRY,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 1:28 p.m., in room 1302 of the Longworth House Office Building, Hon. Gil Gutknecht (chairman of the subcommittee) presiding.

Present: Representatives Smith and Dooley.

Staff Present: Sam Diehl, Lynn Gallagher, Stephanie Myers, Kellie Rogers, and Tony Jackson.

OPENING STATEMENT OF HON. GIL GUTKNECHT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. GUTKNECHT. Good afternoon. I went to auction college in 1978, and one of the things they taught us was to start on time, and so in this subcommittee, we will try always to start on time. The subcommittee on the Department Operations Oversight, Nutrition, and Forestry will come to order. I do have a brief opening statement.

On May 13, 2002, President Bush signed the Farm Security and Rural Investment Act into law. The farm bill made significant changes to the Food Stamp Program and provided \$6.4 billion in new funding for food and nutrition programs at the Department of Agriculture.

Over 21 million people from 9 million households will participate in the Food Stamp Program this month, and the program will provide more than \$20 billion in benefits this year. Since 1961, the Food Stamp Program has served as an integral part of America's safety net. In a country with the world's most wholesome, economical, safe, and abundant food supply, no one should go hungry.

The purpose of this hearing is to review the operations of the Food Stamp Program. I hope to cover many aspects of the operations of the program, including the implementation of the 2002 farm bill, completion of the implementation of the electronic benefits transfer delivery for food stamp benefits to all families receiving benefits under the program, and the error rate, and continuing efforts to combat fraud and abuse in the Food Stamp Program.

I have seen the Food and Nutrition Program's State Options Report, and I am pleased to see that States are taking up the options

available to them under the farm bill. I have also talked to State agencies administering the program. States seem generally pleased with the increased flexibility provided by the farm bill. I am hoping to hear what tangible effects the farm bill is producing, both in program administration and program outcomes.

I hope the subcommittee will gain a better understanding of how the farm bill has affected Federal and State administration of this program, as well as the program participants. I would also like to know how we may continue to improve the program's performance and its service to individuals and families.

I appreciate the Department's efforts to improve the program's performance, but we have an obligation to taxpayers and individuals, and to families who need the program, to continue to improve the national error rate. I believe that both the over and underpayments remain too high, particularly, in some States that had persistently high error rates. While there will always be efforts to defraud the Government, Congress and the Department must take advantage of measures that are available to minimize fraud. I believe electronic benefits transfer, EBT, is a tremendous tool in this effort. But EBT has not eliminated abuses and FNS and the Inspector General must continue to monitor and police the program.

In conclusion, with so many taxpayer dollars at stake, I believe it is important for this subcommittee to continue to exercise its oversight responsibilities. I hope we can work with the administration and the States to ensure a well run program that meets the needs of program participants. We have a short but important list today of witnesses. I look forward to hearing their testimony.

As soon as he arrives, I will welcome the subcommittee's ranking member, Mr. Dooley, but I think we will go right, if we can, to the testimony of the Under Secretary—I am going to make sure I get the title right—the Under Secretary of Food, Nutrition, and Consumer Services at the U.S. Department of Agriculture, Mr. Eric Bost. We welcome you to the subcommittee and you may proceed.

STATEMENT OF ERIC M. BOST, UNDER SECRETARY, FOOD, NUTRITION, AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. BOST. Good afternoon, Mr. Chairman. I am Eric M. Bost, Under Secretary for Food, Nutrition, and Consumer Services at the U.S. Department of Agriculture. I appreciate the opportunity to join you today to discuss our progress implementing the food stamp provisions of the Farm Security and Rural Investment Act of 2002, commonly referred to as the farm bill.

The Food Stamp Program stands as a testament to our country's compassion. For over 30 years, it has served as a first line of defense against hunger in America, a powerful tool to improve nutrition and health among low income people. Over the years, the Food Stamp Program has demonstrated its responsiveness to economic changes, expanding to meet increased need when the economy is in a slowdown, and contracting when the economy is growing. Because benefits automatically flow into communities, the economic benefit is not only to low income families, but also to the community at large.

A couple of statistics that I would like to share: It is important to note that every \$5 in Federal food stamps issued generates \$9.20 in local and State economic activity. The vast majority, 80 percent of food stamp benefits, go to households with children. In 2002, more food stamp households relied on a paycheck than received a Welfare check. Approximately 95 percent of food stamp benefits are delivered by EBT, or electronic benefits transfer, and food stamps effectively targets resources; 98 percent of food stamp benefits go to someone who is entitled to them. And one that really surprises everyone is the fact that approximately 57 percent of people that currently receive food stamps usually stay on the rolls for less than a year.

With a commitment to sustaining and improving this critical program, the administration worked with the committee and the Congress to craft farm bill provisions that would enhance access, simplification, and integrity in the program. The President and the Secretary were clear in setting the goals of reauthorizing the Food Stamp Program. We were to: (1) improve access; (2) streamline and simplify the administrative process for both those who operate the program and those who receive benefits; and (3) ensure accountability and program integrity.

Implementation: As soon as the President signed the new law, the Secretary formed a special farm bill Task Force within USDA to oversee and expedite its implementation and provide for a smooth transition. To illustrate Food and Nutrition's response to the Secretary's charge, only one day after the bill signing, we posted a summary of the food stamp provisions on our website. Within a month of the bill's enactment, we had trained 160 State staff from 52 State agencies, issue general implementation guidance, and sent letters to all State welfare commissioners notifying them of the changes and urging them to take advantage of the farm bill's flexibility. I am pleased, I am very pleased, to report to you this afternoon that all the mandatory provisions that have been implemented, except for the provision affecting immigrant children, that, by law, becomes effective October 1.

Simplifying administration: The farm bill's primary focus is on providing States with increased flexibility, rather than new requirements. Provisions also reflected the Congress's and the administration's commitment of making it easier for low income Americans to apply for and receive the benefits for which they are entitled, less red tape. The Department has worked closely with States to encourage their consideration of many of the new policy options now available to them.

The new simplification and administrative reforms offer a wide variety of policy options and provide each State with greater flexibility to customize Food Stamp Program operations and facilitate access to benefits. Within the first month of the farm bill's enactment, I sent two letters to all State commissioners, informing them about our implementation plans and encouraging them to take full advantage of the flexibility provided them in terms of the options that were available. FNS also provided technical assistance in the form of guidance and training for all States on these major provisions.

Our most recent report indicates that 48 States have implemented one or more of the eight program simplification options available to them in the farm bill. One State, New York, has implemented all eight.

One of the most popular program simplification options implemented has been aligning food stamp policy on income with policy in State TANF and/or Medicaid programs. Another important option for better serving low income working households, the transitional benefits alternative provides an uninterrupted stable food stamp benefit amount to families, leaving TANF for up to five months after their time on Public Assistance.

Improving access: The farm bill's nutrition title mandated three new access-related food stamp provisions for all States: (1) a partial restoration of eligibility to legal immigrants; (2) a higher standard deduction for a larger households; and (3) an increase in the asset limit for households with a disabled member. Restoring benefits to legal immigrants was a top priority of the administration and the need to ensure understanding of these provisions at the State level was crucial to the implementation of the provision. Hence, we provided guidance in June 2002, the following October, and also, January of this past year. As of April 1, 2003, immigrants who have lived in the United States for 5 years as qualified aliens and who are otherwise eligible, may apply for and receive food stamp benefits.

Integrity: A crucial part of the President's and Secretary Veneman's commitment to delivering nutrition assistance to needy families is ensuring the integrity of the program by protecting it from those who misuse it or abuse it. The Food Stamp Program delivers billions of dollars with a high degree of accuracy. In fact, in 2002, the national food stamp payment error rate is the lowest it has been in the history of the program, 8.26, down from 8.66 percent in 2001. This is outstanding news. Thirteen states received approximately \$77 million in enhanced funding because of the outstanding job that they did.

There will be changes next year, and with that, USDA will be awarding \$48 million in performance bonuses next year based on four criteria: issuing benefits accurately, achieving the most improved combined payment error rate, achieving the lowest negative error rate. With it in mind, we believe that States are doing an excellent job. However, in spite of this, there are some States that could improve. For example, in 8 of the last 10 years, California's error rate has exceeded the national average. And in the last 2 years, California's error rate has been the highest in the Nation. While California did reduce its error rate from 17.37 percent last year, fiscal year 2001, to 14.8 percent this year, fiscal year 2002, and I applaud what they have been able to accomplish, it is still unacceptably high.

Let me break this down into dollars. California's 14.84 error rate essentially means this, that the Federal Government lost \$172 million in overpayments and almost \$80 million in underpayments. Over the course of the last two fiscal years, California has overissued \$371 million and underissued \$153 million. We continue to work with them to improve the integrity of their program.

EBT: Over 92 percent of all households now receive their benefits electronically. Fifty-two State agencies, including the District of Columbia and the Virgin Islands, have operating EBT systems; 49 are statewide.

Trafficking: food stamps are intended for food. When individuals sell their benefits for cash, it violates the spirit of the law. I am glad to report that the program integrity has improved substantially. To control trafficking, FNS conducts undercover investigations of authorized food stores. Ten years ago, USDA developed a method to estimate the extent of food stamp trafficking. Earlier this month, we released the latest prevalence estimate. We have improved the estimate to take advantage of new EBT based results. It is based on 14,000 undercover investigations.

The new estimate shows important improvements. About \$359 million per year was diverted from food stamp benefits by trafficking 1999 to 2002. That is down from a high of \$660 million diverted between 1996 and 1998, and it is less than half of the \$815 million diverted in 1993.

In conclusion, Mr. Chairman, I am proud of the efforts that we have made to ensure that the provisions this committee and the administration worked so hard on a year ago have been implemented, and ensuring that all eligible individuals, families, and especially, our children have access to the nutrition assistance they need as a top priority for the Bush administration.

We have worked very hard with our staff, and your staff, and advocates to ensure that the intent and the spirit of the law has been met and opportunities for enhancing the program are embraced, particularly, in the areas of program simplification, access, and integrity. Thank you so very much for your time. I would be happy to answer any questions that you may have.

[The prepared statement of Mr. Bost appears at the conclusion of the hearing.]

Mr. GUTKNECHT. Well, thank you very much, Mr. Bost. Now, I have to preface this by saying we haven't heard from Ms. Fong yet, but I think based on your testimony and the other evidence we have had so far, let me say that we are very proud of you.

Mr. BOST. Thank you.

Mr. GUTKNECHT. You are clearly taking your job very seriously, and that is, I think, what the intent of the legislation was, and we appreciate your efforts and the efforts of your staff. I think it is probably too early to know whether this be the case, but you stated in your testimony that the farm bill changes to the quality control and sanction system will affect your ability to make States improve their program performance. What tools do you have now and what would you like to have us do that might help us to encourage States to improve their performance?

Mr. BOST. I think the issue for us, and it is real important to know that during the farm bill delayed last year, this was an issue that was discussed several days, and evenings, and weekends over the course of several months, and we put forth a position that we believed would go a long way toward holding the States accountable. Of course, Congress didn't agree, and as a result, we believe that our position in terms of holding the States accountable has been weakened.

Let me give you a very specific example of what I am talking about. Since I became Under Secretary, we have collected approximately \$14 to \$15 million in terms of monies that were due us. Prior to me becoming Under Secretary, I think the agency before that time had collected a little less than \$1 million in many, many years. We have worked with the States. The issue for us is not, necessarily, about sanctions. The issue for us, very clearly, is ensuring an accurate determination of benefits to those persons that are eligible to participate in the program. When that does not occur, we are interested in holding the States accountable. We provide technical assistance, we send staff out to work with them. We give them money so that they are able to send staff to other States so that they can learn how to improve the quality of their program.

Some of the tools that we currently have available to us are not going to be there with some of the new provisions. And a very specific example that I am talking about is the fact that we will not really be able to look at holding some States accountable until those States have 3 consecutive years of poor performance before they would be required to repay any liability. And so they would have to be very poor for 3 years, as opposed to us being able to look at holding them accountable now. And we believe that that is a concern given the fact that we have made some significant improvements over the course of the last several years.

It is my opinion, it is my professional opinion, that because of this, I think that we are going to see error rates rise as opposed to continue to go down. And with the chairman's indulgence, I would like to pass out to the committee a chart that shows a listing of all the States for the last two fiscal years, and the last chart shows the food stamp error rates for all of the States since fiscal year 1998.

Mr. GUTKNECHT. Without objection, this shall be made part of the committee's record.

Mr. BOST. Mr. Chairman, could you go to the last page first, the chart that my staff calls the "Christmas tree"?

The red shows a sanction amount, which essentially says that they didn't do very well and that they owe us money. The green for that year indicates that they did exceptionally well and that they got a bonus from us. And the white, the clear white, just indicates that they were just kind of doing OK. At the bottom, it shows you the national average and where all of the States rank compared to that national average over the course of the last 5 years.

I don't want to be picking on California, but they are just easy to make a point of. If you look at California, you will see in fiscal year 2000, they were at 13.9; fiscal year 2001, they were at 17.3; and at fiscal year 2002, they were at 14.8. They were almost twice the national average over the course of the last couple of years. They owe us probably close to almost \$500 million, and they have paid the taxpayers of this country zero back.

Mr. GUTKNECHT. So you have levied fines, if you will—I am not sure that is a term you use—but you—

Mr. BOST. Sanctions.

Mr. GUTKNECHT. You have levied sanctions of over \$500 million, and they are in arrears to the tune of \$500 million?

Mr. BOST. Well, a significant amount of money when you look at the over and the under. And we have worked with them, and in looking at fiscal year 2001, we afforded them an opportunity to take some of the money that they owed us to reinvest back into the program to improve it, on the promise that they would improve, and as a result, they didn't improve significantly. Michigan is another example of owing us, I think, over the course of the last couple of years when you take in consideration the adjustments that we made, approximately, \$16 million. There is at least some hope on my part that they are going to step up to the plate and pay us some of the money that they owe us so that we can look at holding them and other States accountable.

With all of that said, though, however, the error rate is the lowest that it has been in the history of the Food Stamp Program, and that is something that I am very proud of in terms of the outstanding work that my staff has done and that many other States have done. One final point about California: Their Food Stamp Program is so large, it is the largest in the country—Texas is second—because of their error rate, that it affects the national error rate for the entire country. Because they are so high, they bring everybody else up, as opposed to bringing everybody else down.

Mr. GUTKNECHT. Mr. Bost, could you just, so I understand, and you explained this to me, but I want to make sure I am clear. When you talk about the error rate, that can be either high or low. Isn't that—can you talk just real briefly about that?

Mr. BOST. Essentially, the error rate is an analysis done on the issuance of food stamp benefits. Either a person receives too much or they don't receive enough, and the error rate is based on a combination of both of those factors. And if you look at California as an example, they overissued—in fiscal year 2001 and 2002, they overissued \$371 million, which essentially means they gave \$371 million too much to people in the State. However, the other side of the coin is that they underissued those two fiscal years \$153 million. So there were people that were owed \$153 million who were eligible to receive it that didn't receive it.

Mr. GUTKNECHT. Now, can you sort of explain to us, and perhaps Ms. Fong can explain this even better. If they paid out \$350 million in benefits to—are we saying that those benefits went to people who weren't at least on the surface eligible for those benefits?

Mr. BOST. On the surface, they were probably eligible, but they were getting too much, and so it wasn't an accurate determination of benefits. But the other side of the coin is that you had some people that were eligible that didn't get what they were supposed to. Essentially, they were shortchanged. And we are interested in both. The real basis for our commitment in terms of running this, and managing, and providing some direction to the States, of this program is very simple. We want every person in this country that is eligible to participate in this program to participate, and we want them to receive an accurate determination of what they are due to receive. We don't believe that that is too much to ask. And when States fail to do that, we want them to: (1) a real serious commitment of improving the integrity of their program or paying the Federal Government its money back because I think that is what the taxpayers of this country deserve. And part of my job is

to provide them with those assurances, that we are going to be good stewards of taxpayer dollars.

Mr. GUTKNECHT. Well, as I say, I feel very, very good that you are taking this job extremely seriously, and I think on behalf of members of this subcommittee, and frankly, the entire Congress, we are very, very pleased that you are looking at it exactly as you are.

I would yield to my ranking member, Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Gutknecht, and thank you, Mr. Bost, for your testimony. In terms of the liabilities that you identified, or the cost, now, are you netting out what were the overpayments and the underpayments in terms of the figures that you are touting as being in error?

Mr. BOST. Yes. It is a combination of both.

Mr. DOOLEY. So like in the figures that you have presented, I don't understand the potential liabilities that you have, \$133 million, and that would be 2002. Is that in the overpayments minus the underpayments?

Mr. BOST. No. It is an analysis, Congressman Dooley. An analysis is done of all of these figures, and it is overpayments, it is underpayments, it is the negative error rate in terms of ensuring that people that are eligible participate, and those that don't receive—it is a complete analysis that is done, and then we come up with a potential liability. And we also provide the States with some flexibility because the States have said, well, we have earners and we have immigrants, and so we adjust the liabilities and even bring it down further, and that is one of the things that we did for California.

Mr. DOOLEY. I am trying to understand if, what some of us are concerned with, we acknowledge we have some room for improvements, especially, in California, which I am from, and I appreciate the work that you are doing with the State. But I am also concerned, though, in terms of making sure that we are—the number that we are presenting in terms of what the actual taxpayer losses were because of overpayments, that we are not inflating that number in terms of is this liability including the overpayments as well as the underpayments, which isn't the same as—

Mr. BOST. No. It is the overpayments, but Congressman—

Mr. DOOLEY. Do you understand what I am trying to get to?

Mr. BOST. I understand where you are going, and let me answer your question by essentially saying this, that under no circumstances at all do we overestimate the amount of money that they owe us. We underestimate the amount of money they owe, because we adjust the liabilities because we take in consideration, too, the factors that they say are difficult for them to operate the program.

Mr. DOOLEY. I am not—I am talking about the total expenditures. I am worried about maintaining the political support for this program, and I don't even want to even consider California. On the total numbers that you are talking about as being overpayments, nationally, are those numbers netting out the overpayments and the underpayments?

Mr. BOST. They were telling me that what I was saying was right, but I didn't do a very good job of explaining it.

Mr. DOOLEY. You might have. I didn't—

Mr. BOST. No, I didn't. Let me try one more time. The short answer to your question is yes, there is a consideration for both the overpayments and the underpayments in terms of making a determination of what the potential liabilities are. However, with that in mind, another factor is concerned, because we do an analysis of both of those numbers, and so it is not inflated.

Mr. GUTKNECHT. Mr. Bost, let me see if I can take a stab at it. You have—I am using a hypothetical, and take a State, a hypothetical State, had \$300 million in overages and \$200 million in underpayments. Is that a total of \$500 million or is it a net of \$100 million? How do you measure that? I see someone shaking their head behind you. Perhaps, I think that is the question you are trying to ask. Right?

Mr. DOOLEY. Right, exactly.

Mr. BOST. OK. For your purposes and the purposes of this, it is the net, it is \$100 million, using his example. But there is still an analysis that is done, because we can't consider just the—you just can't consider the overpayments, because you have to give some consideration to the underpayments, also, because a person didn't get what they were due.

Mr. DOOLEY. There seems to be maybe one of the people on your staff was shaking their head when you were making your statement there, and I don't know if that was in agreement or disagreement, but I didn't say if she was shaking it this way or this way.

Mr. BOST. Well, how was she shaking it? In the affirmative or the Under Secretary didn't know what he was talking about?

Mr. DOOLEY. I guess I am still not certain, but the only issue—both issues are important. I understand that. We need to understand the problems with why we are making overpayments, and it is equally as important to understand why we are making underpayments, and how do we ensure that we reduce those. My issue is more of a broader political issue in terms I want to make sure that when Mr. Gutknecht and I are being advocates for this program, and we have some opponents to this program that are saying that we are—we have these errors that total this amount, is that we are not adding the overpayments and the underpayments. That that \$300 million that Mr. Gutknecht talked about and the \$200 million isn't appearing in documents as a \$500 million liability to taxpayers.

Mr. BOST. No, you won't see that.

Mr. DOOLEY. These numbers on these pages don't reflect that?

Mr. BOST. No, that is correct.

Mr. DOOLEY. OK. I guess the other, in your written testimony, or not, I guess, in your written testimony, but somewhere I was reading, they were saying that some States' error rates are actually high because they are trying to—when they are trying to bring them down, they actually require their applicants for food stamps to reapply more frequently in an effort to reduce their error rates. But this over-administration actually increases the States' error rates, which in California, I have been a little bit frustrated because we do have people that have to apply, I think it is every month, and I am trying to understand. I, quite frankly, wish they

didn't. But is that, in part, contributing to some of the problems we are seeing in California?

Mr. BOST. I think the short answer is yes. The long answer is that they have so many other issues that even if you took that away, they would still have major issues.

Mr. DOOLEY. What would you say are their major issues?

Mr. BOST. I think there is a lack of commitment on their part to improve the integrity of this program. It is all 100 percent Federal money; I don't think they care.

Mr. DOOLEY. And in terms of—you are saying that they don't have a vested interest then in terms of making sure that they are being more judicious in terms of determining the eligibility?

Mr. BOST. Yes, absolutely. And I think that over the course of the last year, they have gotten much more serious about improving the integrity of their program, but I think that they were slow to get to that point.

Mr. DOOLEY. Now, and just so—I mean, the number sounds large, but we are obviously a large State and we have a lot of people that are eligible for food stamp benefits. Have you also done, basically, analyses in terms of the overpayments that were made, the size of that overpayment per recipient?

Mr. BOST. No, not per recipient. I think the analysis that we did was if there had been an accurate determination of benefits, they would have been able to serve an additional 160,000 persons per month.

Mr. DOOLEY. Say that again?

Mr. BOST. OK. We did not do an analysis based on the question that you asked me. I did an analysis based on if the overpayments had been computed appropriately, how many additional persons would they have been able to serve. The number was approximately 160,000 persons per month.

Mr. DOOLEY. But then are you assuming then they are not serving everybody who is eligible today?

Mr. BOST. No, I know they aren't.

Mr. DOOLEY. They are not?

Mr. BOST. No, they are not.

Mr. DOOLEY. And is that because of—why? I mean, do you think if they had the additional money, do you think they would automatically—

Mr. BOST. No, I don't think it is a—I think there is several reasons why they are probably not, and they are the basic reasons on a national level. You have some people who don't apply because they don't know that they are eligible. I think you have some people that are eligible who say it is too much of a hassle to go in and to apply. And when I was in Texas, when I went out and talked to clients and I asked them why they didn't apply, those are the two reasons that they gave me. And the third reason that they gave me was probably my all time favorite—they didn't want to apply. They just wanted to walk into an office and say, I need food stamps, give them to me. And so you have some that have no motivation to fill out any of the applications at all.

But I think that we have been taking some aggressive steps nationally to address the access issue, and we have had some progress because I think we have seen at least a 3 or 4 percentage

point increase in terms of the number of eligibles participating in the program over the course of the last couple of years. So we are taking some very concrete steps to increase the number of eligibles participating in this program.

Mr. DOOLEY. Thank you. I know and I appreciate the work you are doing with my colleagues in California because this needs to be a partnership, and I appreciate the constructive approach that you are taking.

Mr. BOST. Well, Congressman Dooley, I wanted to add to that and essentially say I don't want you to leave here thinking that we are picking on California. There is a real commitment on our part. Within a month of when I became Under Secretary, I met with the staff in California, shared with them my concerns, and actually provided them with resources to start to address this issue. So we didn't stand back and point the finger. We have worked with them. I have been to California over the course of the last 2 years at least seven or eight times to meet with the people who have the responsibility for managing this program. I have met with the supervisors in L.A. County. I have met with the staff. We have sent staff. We have given them money so that they can send staff to other States. We have sent other States to California to help them resolve this issue. And so I want to make it real clear that this is not an instance where we are saying, you have a problem, you need to go somewhere and do something about it. We have been working with them very diligently to help them address this issue because the real issue here is meeting the needs of hungry people in your State.

Mr. DOOLEY. I appreciate it.

Mr. GUTKNECHT. Mr. Smith of Michigan.

Mr. SMITH. How many States have converted to a card system?

Mr. BOST. Essentially, all of the States have at least some form of EBT. Iowa just started, was implemented June 2003, and should be completed statewide October of this year. California just started this year. In Delaware, it should be completed by September 2003.

Mr. SMITH. Mr. Secretary, give me a thumbnail description of error in a percentage error rate.

Mr. BOST. For the Nation?

Mr. SMITH. Well, just what does it mean, error?

Mr. BOST. Oh, what does the error rate mean? The error rate is a percentage based on an over and underissuance of food stamps to—

Mr. SMITH. I mean, what is an error?

Mr. BOST. Oh, what is an error? You go into an office to apply for food stamps, you are supposed to get \$83, and the worker computes it and you end up getting \$70. That is an error, because you are really supposed to get \$83.

Mr. SMITH. And how about in terms of the GAO that has now made estimates of lost revenue because of individuals getting food stamps that weren't entitled to food stamps?

Mr. BOST. Well, but you have to compare that against the underissuance, which is the example that I gave you, because in many instances, you have people that were not getting exactly what they should receive. And so you have to compare both the over and the under.

Mr. SMITH. Well, my impression is that that would be a mistake to compare them. I mean, we don't want averages. We want families that are being given food stamps in error because it is fraudulent or it is a mistake in terms of the issuance of those food stamps. Simply because, if you will, one foot is in boiling hot water and one foot is in ice cold water, you can't assume the averages were comfortable. So it seems to me that we need to guard against the abuses of the system and then look at it as totally different tasks in trying to assure that those that are eligible know that they are eligible and have access to the program.

Mr. BOST. And I think that is what we have attempted to do.

Mr. SMITH. Let me talk about Michigan just a little bit. Michigan has performed in the red in terms of—that is my home State—in terms of the error rate over the last 5 years. And even in the most recent years, the error rate is almost twice the national average at about a little over 14 percent compared to a national average of a little over 8 percent.

Mr. BOST. That is correct.

Mr. SMITH. Why is that?

Mr. BOST. I was in Lansing last week and I met with the leadership to talk about Michigan's error rate, and I think that there are several reasons. Lack of training of their staff, issues directly related to not a good understanding of the program, lack of commitment on ensuring that an accurate determination of benefits are done. They have also said because of staff shortages and an emphasis placed on TANF as opposed to food stamps. And so I think it is a combination of all of those reasons has contributed to why they have a very high error rate. But there was also a commitment on their part to address all of the concerns that I just shared with you and to improve.

Mr. SMITH. Do we have a good evaluation—and Mr. Chairman, I apologize—maybe some of these questions are already asked. Do we have a good measurement of how many of these food stamps, either with a card or with cash, are now still going into the black market system, and the recipient decides that they want the money to be able to buy something other than food?

Mr. BOST. Yes. In my oral testimony I spoke to the level of trafficking, and I am sure the OIG will talk about it in much more detail. But yes, we have been tracking that and it has significantly improved over the course of the last several years.

Mr. SMITH. And how much does the card system help? Does the card system help totally solve the problem or is it still a problem?

Mr. BOST. The EBT system has gone a long way toward helping to address this issue, a significant rate.

Mr. SMITH. Does your staff or the GAO check food stores as to the accuracy of stores, making sure that they don't give cash for the entitlement to the stamps or the card?

Mr. BOST. We have undercover operations. I think the number I quoted was 14,000.

Mr. SMITH. Out of your shop?

Mr. BOST. Yes, that we do in concert with other staff to ascertain an appropriate utilization of the EBT system and to ensure that there is an appropriate utilization of food stamps or money attached to it.

Mr. SMITH. Mr. Secretary, thank you for being here and your information. Mr. Chairman, thank you.

Mr. BOST. Thank you.

Mr. GUTKNECHT. Mr. Smith, I may just clarify one thing, and I don't know if you caught this, because I think it is instructive, that about 82 percent currently—and that percentage is going to go up—of the benefits are now delivered through electronic transfer. And the method of that is, in many respects, they are not subject the way the old coupons were to becoming quite as much just—they can be spent on a street corner. And so I think that is an important step and we are appreciative for that technology.

How long do you think it is going to take to get the other States that still are implementing electronic benefits transfer—is there a timeline for getting them online with these—

Mr. BOST. Yes. The preliminary information that we received, and we are working with them, it is our hope that all of the States except maybe California will be completely statewide by the end of this year.

Mr. GUTKNECHT. Wow. That is very good.

Mr. BOST. But California is, of course, the exception. And hopefully, they will be statewide by September of next year.

Mr. GUTKNECHT. Have you thought about—you mentioned that you are not particularly pleased with the three consecutive year rule. Obviously, you have spent a little time thinking about this issue; especially, if you are flying back and forth to California, you will have a lot of time to think about these things. Can we come up with a better system? We are hesitant to reopen the farm bill, but we certainly are open to new ideas, at least I am, that might improve the quality control system.

Mr. BOST. Well, we had put some proposals on the table. We thought three years was too long, and one of the recommendations that I think I put forth was that it would not be 3 years; even maybe 2 is long enough for a State to kind of turn itself around in terms of improving the integrity of this program. And so that was just one of the things. The other issue was the options that are currently available to us now in terms of how much they can reinvest, or how much they can hold at risk, or how much they would have to repay. Those are things that we felt very strong about, but the Congress did not agree. And so we have a system, and we are going to try to make it work, and do the very best that we can with it at this juncture. But it is my concern, and I had told my staff this earlier today. If I am wrong, I will be the first to come up here and apologize and to say it publicly, that I was wrong, I made a mistake. But I think the error rate is going to go up. But if I am wrong, I will come up and I will say I was wrong.

Mr. GUTKNECHT. Well, I think your earlier analysis, essentially, is citing the doctrine of enlightened self-interest. I mean, if it is not your money, you are not as concerned about how it gets spent. And the States, clearly, don't have a whole lot of skin in this game, and so their motivation is not as strong. But I think there is one thing that I don't know if you do, and I guess I will ask the question, and then you perhaps can comment on it. I have a university professor who has an interesting theory. He says, we value what we count. And part of the reason that football coaches in small schools

in Minnesota that have three consecutive losing seasons are called former football coaches is that they publish the scores every Saturday morning. And what do you do in terms of publicizing these error rates among the States? I mean, are legislators, and local press, and others made aware of how a particular State is doing relative to its peers?

Mr. BOST. Yes. We release the figures to all of those entities, and there have been some stories about them in the media, and we contact everyone in Congress to let them know how their States are doing. And so the short answer is yes. The other example that I would give you, because you did talk about incentives, is that—and let us look at my most recent State of Texas. Over the course of the last 3 years even when I was commissioner, we were able to get bonuses averaging \$25 million a year. Most recently, last year was \$29 million. Next year, because of some changes in terms of bonuses, they may get a maximum of \$4 million. I am sure they are going to continue to work hard, but there is a big difference between getting a bonus check of \$29 million and getting a bonus check of \$4 million. So that is just another example that I would give to you.

Mr. GUTKNECHT. Well, it is interesting for me to look at the States, and there does not seem to be all that much of a demographic correlation. I mean, you have got States, I tend to think of Texas and California being demographically quite similar. I am not sure if that is a fair analysis, but—and I am proud to say that Minnesota looks like they are doing a pretty good job. And I understand you may be coming to Minnesota to give them a bonus?

Mr. BOST. We, hopefully, will be in Minnesota sometime in September to give them a check, an enhanced funding check, for the outstanding job that they have done in the amount of \$1.4 million.

Mr. GUTKNECHT. I am trying to figure out what all those bells and buzzers mean. I don't know whether we are going to have a bunch of votes or whether we are going to go into recess. We will try and figure that out.

I think, though, what we are going to try and do, Mr. Bost, and let me also apologize to you and the other people who are here. This may well be the busiest day that this Congress has seen. We have a number of committees that are sitting right now. In fact, I think the full committee is still in a hearing on the issue of tobacco buyouts for the full Agriculture Committee. We have mark-ups or hearings going on in virtually every committee. And so I just want to assure you that it is not because this issue is not important to Members. It is just there are so many other things going on and Members may be coming in and going out.

I would like to at least reserve the right for other members of the subcommittee, if they have questions that they would like to submit to you in writing in the next 10 days, that you would be willing to try to respond to those.

Mr. BOST. Absolutely, and more than willing to do that. And we have always extended the invitation for me to come up here and meet with them in person if they have detail questions or other things that they would like for us to talk about. As I said before, we are interested in ensuring an accurate determination of benefits to those persons that should receive them. And if there are things

that I am not doing that Members of Congress feel that we could do differently, or we need to place greater emphasis on, we are very open to any of those suggestions. We want to make this the best program in all of Federal Government, and we believe that we have demonstrated our commitment to it by virtue of seeing a decrease in the error rates over the course of the last couple of years.

Mr. GUTKNECHT. Well, Mr. Bost, we do have a vote on an important trade agreement on the floor of the House right now, and I have about 11 minutes to get over there. So what I am going to do is recess the committee for, hopefully, no more than 15 minutes. If it is going to be longer than that, I will let you know. But if you wouldn't mind at least staying around in case other members wander back and would like to ask you a few questions, we would appreciate it if you would stick around. And then when I return, we will call up Ms. Fong and try and conclude the hearing.

With that, the committee will stand in recess for approximately 15 minutes.

[Recess]

Mr. GUTKNECHT. For the record, let me apologize to the witnesses and others. We are in the middle of eight consecutive votes and so we will try to call Ms. Fong back, at least informally, at some point in the future.

At this point, I will adjourn the subcommittee meeting.

[Whereupon, at 3:10 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF ERIC M. BOST

Good afternoon, Mr. Chairman and members of the committee. I am Eric Bost, Under Secretary for Food, Nutrition and Consumer Services at the U.S. Department of Agriculture. I appreciate the opportunity to join you today to discuss our progress implementing the food stamp provisions of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), commonly referred to as the farm bill.

Enacted in May of last year, the farm bill continues this Nation's commitment to a national nutrition safety net. The Food Stamp Program stands as a testament to our country's compassion. For over 30 years, it has served as the first line of the Nation's defense against hunger; a powerful tool to improve nutrition and health among low-income people. It touches the lives of millions of people who need a helping hand to put food on the table. Unlike most other assistance programs, the Food Stamp Program is available to nearly anyone with little income and few resources, serving low-income families and individuals wherever they live with benefits that increase a household's food expenditures, and its access to nutritious food.

Over the years, the Food Stamp Program has demonstrated its responsiveness to economic changes, expanding to meet increased need when the economy is in a slow-down and contracting when the economy is growing, making sure that food gets to people who need it. Because benefits automatically flow into communities, States or regions of the country that face rising unemployment or poverty, the program tends to soften some of the harsher effects of an economic downturn. Every \$5 in Federal food stamps issued generates \$9.20 in local and State economic activity.

With a commitment to sustaining and improving this critical program, the administration worked hard with the Committee and the Congress to craft farm bill provisions that would enhance access, simplification and integrity in the Food Stamp Program. When President Bush signed the bill into law last May, the Department was ready to spring into action.

SMOOTH TRANSITION

Keenly aware of the importance of the provisions of the farm bill to so many of our citizens, the Department moved quickly to ensure a smooth transition. As soon as President Bush signed the new law, USDA Secretary Veneman formed a special farm bill Task Force within USDA to oversee and expedite its implementation.

One day after the bill's signing, the Food and Nutrition Service (FNS) posted a summary of food stamp provisions on our Web site. Within a month of the bill's enactment, we had trained 160 State staff from 52 State agencies, issued general implementing guidance, and sent letters to all State welfare commissioners notifying them of the changes and urging them to take advantage of the farm bill's flexibility.

At the Secretary's direction, FNS moved quickly to reach out to our partners and solicit their input on implementing its provisions. Because it is so important to be inclusive, we met last summer with State agencies as well as advocacy groups and State organizations such as the Food Research and Action Center, American Public Human Services Association, National Governors Association, the Center on Budget and Policy Priorities, Catholic Charities, the National Immigration Law Center, National Council of La Raza, National Law Center on Homelessness and Poverty, National Coalition Against Domestic Violence, and the National Network to End Domestic Violence.

As a result, we were able to develop guidance very promptly so that many of the new farm bill provisions could be implemented by October 1, 2002. I am pleased to report to you this morning that all the mandatory provisions have been implemented, save the provision affecting immigrant children that, by law, becomes effective October 1, 2003.

SIMPLIFYING ADMINISTRATION AND IMPROVING PROGRAM ACCESS

The farm bill's primary focus is on providing States with increased flexibility—rather than new requirements—to make administering the Food Stamp Program easier. Provisions also reflected the Congress' and the administration's commitment of making it easier for low-income Americans to apply for and receive the benefits to which they are entitled with less red tape.

Since the farm bill was enacted 14 months ago, the Department has worked closely with States to encourage their consideration of the many new policy options now available to them. The new simplification and administrative reforms offer a wide array of policy options, and provide each State with greater flexibility to customize Food Stamp Program operations and facilitate access to benefits.

The expanded options provided under the farm bill make it easier for States to administer the Food Stamp Program and, just as importantly, make it easier for low-income households to participate by reducing the red tape—especially for working households. Within the first month of the farm bill's enactment, I sent two letters to all State Commissioners informing them about our implementation plans and encouraging them to take full advantage of the flexibility provided with the various options which both improve administration and client access for the program. The Food and Nutrition Service (FNS) also provided technical assistance in the form of guidance and training sessions for all States on the major provisions.

Our most recent report indicates that 48 States have implemented one or more of the eight program simplification options available in the farm bill. One State, New York, has implemented all eight. Arizona has taken advantage of seven. New Hampshire has adopted five. Georgia, South Carolina, Colorado, and Maine have each elected to take four of the options. The nationwide average of options adopted was 1.8 per State.

One of the most popular options so far has been the expansion of reduced reporting requirements to more types of households than previously allowed. Of the 25 States that had previously implemented simplified reporting for earned income households through the waiver process, 13 have taken the opportunity afforded in the new legislation to include additional households in such a system. These thirteen include four of the ten largest States in terms of food stamp program participation: Texas, New York, Tennessee, and Georgia. Almost a third (32.75 percent) of the approximately 20.7 million people receiving food stamps as of February 2003 lived in States that afford households the advantage of having reduced reporting requirements while receiving benefits and the convenience of having to make fewer trips to the certification office with less paperwork involved in order to reapply. We are aware that other States intend to implement this option, and we expect to be able to report more extensive use of this provision in the future.

The next most popular program simplification option implemented has been aligning food stamp policy on income with policy in State TANF and/or Medicaid programs. Eleven States had completed such alignments as of February 2003. Nine States had done the same with their policy on resources.

One important option for better serving low-income working households, the Transitional Benefits Alternative, is a refinement of an option in existence prior to the farm bill that provides an uninterrupted stable food stamp benefit amount to families leaving TANF for up to five months after their time on public assistance ends.

While before the only State to have adopted this option was New York, a total of six States have elected to provide this type of benefit as structured in the newest legislation.

FNS continues to promote these simplifications. In February, we published a "State Option Report" for States' use in understanding what options all the States have implemented. This past spring, FNS hosted two bi-regional conferences and we hosted a tri-regional gathering of States officials in June. The simplification options of the farm bill are a central topic in these sessions. FNS policy officials and staff routinely promote the farm bill options in meetings and conferences.

The farm bill's nutrition title mandated three new access related food stamp provisions for all States: a partial restoration of eligibility to legal immigrants—one of the priorities of the Bush administration; a higher standard deduction for larger households; and an increase in the asset limit for households with a disabled member.

In June 2002, we moved quickly to issue guidance to States to help them prepare to implement the immigrant provisions enacted in the farm bill. Then, in October, we issued supplementary implementation guidance relating specifically to the April 2003 and October 2003 restoration provisions. Finally, in January 2003, we issued a compilation of all non-citizen eligibility policies to illustrate the interaction of existing policies with the farm bill changes.

As of April 1, 2003, immigrants who have lived in the U.S. for five years as qualified aliens and who are otherwise eligible may apply for and receive food stamp benefits. States have implemented the changes in a timely manner and without incident and continue to work with local advocates to reach out to their immigrant communities to spread the word about the new changes. We are on schedule to implement the October 1, 2003, provisions that will restore eligibility to approximately 60,000 children.

We expect immigrant eligibility restorations will be fully realized by fiscal year 2006, with over 400,000 legal immigrants receiving benefits, including immigrants from working-poor families, the elderly and disabled, and children.

We have just released the results from our annual monitoring of participation among people eligible for food stamps. I am pleased to report that it shows that the participation rate for eligible individuals rose three percentage points between September 1999 and September 2001, from 59 percent to 62 percent, after falling for five consecutive years.

Still, we are aware that not everyone eligible for food stamp benefits is taking part in the program, and we have many initiatives underway to publicize the availability of the Food Stamp Program and make it easier for low-income and working families to access the benefits to which they are entitled. Here are some of our recent activities:

On June 5, Secretary Veneman unveiled Mrs. Bush's National Hunger Awareness Day public service announcement (PSA) that encourages Americans to volunteer in the fight against hunger. The PSA is being broadcast nationwide on television.

The Secretary also announced the availability of new tools designed to increase access to the Food Stamp Program to help raise awareness of the resources available to those in need. Step1 is a new pre-screening tool available via the Internet to help partner organizations help their clients determine their eligibility for Food Stamps and get an estimate of monthly benefits in as little as 15 minutes. Step 1 is an example of another Presidential initiative—the Government initiative—to use technology more effectively to deliver programs to the public. The tool can be accessed as www.FoodStamps-Step1.usda.gov or at www.govbenefits.gov.

Providing bilingual services is a longstanding program requirement and essential to ensuring that nutritional benefits are accessible to all eligible households. To meet this need, FNS is working with contractors to translate general program materials into 34 languages. Information in 20 languages is already available on our website with the other 14 expected by the end of the month. The material explains general eligibility requirements as well as specific requirements for immigrants and how to apply for food stamps.

One of the complaints we heard over and over again when we were consulting with our stakeholders during reauthorization is that the length and complexity of State application forms create a barrier to participation. In response, FNS contracted with a firm specializing in document design (Kleimann Communication Group) to provide free technical assistance to States to make their forms more user-friendly. During the four-year contract, the firm will work with 6 to 8 States each year. Currently the contractor is working with California, Rhode Island, West Virginia, Nebraska, Wisconsin and Arizona.

To ensure States' compliance with national standards, minimize barriers to applicants, and provide technical assistance, FNS regional offices began conducting pro-

gram access reviews of selected certification offices in all States in fiscal year 1999. Review results have led to corrective action in some local offices to remove barriers or potential barriers to participation. FNS continues to work with States that are not in compliance with Federal standards and monitors States' implementation of corrective action.

INTEGRITY

A crucial part of the President's and Secretary Veneman's commitment to delivering nutrition assistance to needy Americans is ensuring the integrity of the Food Stamp Program by protecting it from those who would misuse or abuse it. The Food Stamp Program is our Nation's most important nutrition program, and protecting its integrity is one of our highest priorities. We work tirelessly to identify ways to strengthen program management and keep public confidence high in this vital program.

The Food Stamp Program delivers billions of dollars in benefits with a high degree of accuracy and accountability. The vast majority of program benefits go only to households that need them. Almost all households getting food stamps are eligible for some benefit, only 2 percent are ineligible.

On June 27, USDA announced States' fiscal year 2002 food stamp Quality Control (QC) payment error rates and I am proud to report that the error rate is now the lowest in the program's history at 8.26 percent, down from 8.66 percent in fiscal year 2001. We have now seen five years of sustained improvement. This is great news. About 6 percent of the error rate represents over-payments in which households received too many benefits and about 2 percent were under-payments in which households should have received more benefits. For their achievements in payment accuracy, 13 States are receiving approximately \$77 million in enhanced funding. I am gratified that so many States are being justifiably recognized for management improvements and excellent stewardship of Federal funds.

The farm bill made a number of changes to our approach to holding States accountable for accurately issuing benefits, revising the way sanctions and incentives are calculated for States' performance. In September, the Department issued guidance on the farm bill provisions governing high performance bonus criteria and these criteria are in place and ready to serve as the basis of next year's awards for fiscal year 2003.

Next year, under this guidance, USDA will be awarding \$48 million in performance bonuses, recognizing and rewarding States that have done the best job in: issuing benefits accurately; achieving the most improved combined payment error rate; achieving the lowest negative error rates (or making the most progress in reducing these errors); reaching more eligible households (increasing participation rates); and processing applications timely. We will be issuing new guidance for fiscal year 2004, as well as publishing rulemaking for 2005.

In spite of States' overall success in making payment accuracy a priority, this administration remains concerned over the failure of a few States to bring payment errors under control, and the millions of Federal dollars that are being wasted. For example, in eight out of the last ten years, California's error rate has exceeded the national average. And for the last 2 years, California's error rate has been the highest in the nation. While California did reduce its error rate from 17.37 percent last year (for fiscal year 2001) to 14.84 percent this year (for fiscal year 2002), California's error rate remains unacceptably high. Let me break this down: 10.15 percent of the error rate is attributed to overpayments representing a loss to the Federal Government of \$172 million. At the same time, recipients did not receive almost \$80 million in benefits to which they were entitled. Nationwide, California is responsible for 15 percent of the total dollars over-issued.

Sanctions will be imposed and resolved through a process that includes both repayment of funds to the Federal Government and investment of State funds to improve the administration of the program. But let me be clear: under no circumstances will the loss to taxpayers and people in need go unaddressed by this administration. Over the last several years, the Department has intensified its efforts with the State and individual counties to focus on the causes for these errors and to develop corrective measures. I personally have had numerous meetings with State officials and local administrators to emphasize our concern. Our Western regional office will redirect its ongoing work with the State to identify measures aimed at rapid improvement.

While we are very pleased with the continuing progress that States have made to reduce the national error rate, we are concerned that the farm bill's provisions governing sanctions and rewards diminished State incentives to maintain this progress. We at FNS are determined to do whatever it takes to assist troubled

States focus their resources on payment accuracy and we are using every measure within our power to help them succeed.

We need to be vigilant in pressing States for continued improvement in eligibility and benefit calculations. This administration is committed to working with States to achieve continued improvement in payment accuracy and finding effective ways to ensure that Americans in every State get the food stamp benefits to which they are entitled.

ELECTRONIC BENEFIT TRANSFER

Over 92 percent of all households now receive their benefits electronically. Fifty-two State agencies, including the District of Columbia, and the Virgin Islands have operating Electronic Benefit Transfers (EBT) systems, 49 of which are Statewide. Puerto Rico also has an island-wide operational EBT issuance system to distribute their Food Stamp Program Block Grant. We continue to make good progress in achieving EBT implementation nationwide.

And so, FNS has begun to phase out the use of paper food coupons. Last August, FNS placed the last order for food coupons. Until EBT is implemented nationwide, FNS will rely on coupons currently in inventory to issue to food stamp recipients in States that do not have an EBT system in place and to recipients that move to a non-EBT State.

FNS recently signed off on the EBT Inter-operability Final Rule. This rule lays out the technical requirements for food stamp interoperability and allows States to claim 100% reimbursement for the cost of switching and settling EBT transactions. The final rule also makes it optional for States to convert electronic benefits to coupons when a client moves to another State. States agencies, however, must continue to ensure that clients are able to use their electronic benefits upon relocation. All States, with the exception of Illinois, Wyoming and Ohio are interoperable. The Illinois system will be interoperable in September 2003, upon conversion to their new EBT system. Wyoming and Ohio were given an exemption to interoperability in the law because they have Smart Card Systems.

TRAFFICKING

Food stamps are intended for food. When individuals sell their benefits for cash it violates the spirit and intent of the Food Stamp Program as well as the law. This practice, known as trafficking, diverts food stamp benefits away from nutritional assistance and undermines public perceptions of the integrity and utility of the program.

I am glad to report that program integrity in this area has improved substantially. To control trafficking, FNS conducts undercover investigations of authorized food stores. In addition, over the last few years we have developed powerful new EBT-based tools to identify and sanction traffickers.

Ten years ago, USDA developed a method to estimate the extent of food stamp trafficking. Earlier this month, we released the latest prevalence estimate. We have improved the estimate to take advantage of the new EBT-based results. It is based on 14,642 undercover investigations of trafficking and 1,537 EBT-based administrative actions conducted between 1999 and 2002.

The new estimate shows important improvements. About \$395 million per year was diverted from food stamp benefits by trafficking between 1999 and 2002. This is less than two-thirds of the \$660 million per year diverted between 1996 and 1998 and less than half of the \$815 million diverted in 1993.

Trafficking now amounts to two-and-a-half cents of every benefit dollar issued, a 29 percent decline in the rate of trafficking between the periods 1996–98 and 1999–2002.

The stores that redeem the majority of food stamp benefits continue to be stores with the lowest trafficking rates. Supermarkets redeemed nearly 83 percent of all benefit dollars but few of those dollars are trafficked.

Mr. Chairman, I am proud of the efforts that we have made to ensure that the provisions this committee and the administration worked so hard on a year ago have been implemented and given every chance to succeed. Ensuring that all eligible individuals, families and especially our children have access to the nutrition assistance they need is a top priority for the Bush administration. We have worked very hard with our staff, with our States, advocates and other stakeholders to ensure that the intent and spirit of the law has been met and opportunities for enhancing the program are embraced, particularly in the areas of program simplification, access and integrity.

Mr. Chairman, this concludes my remarks. I will be happy to answer any questions that you might have at this time.

STATEMENT OF PHYLLIS K. FONG

Good afternoon, Mr. Chairman, and members of the committee. I appreciate the opportunity to testify regarding how well the Food Stamp Program is doing, how changes introduced through the 2002 farm bill have affected the program, and how the program might continue to improve.

Considering the size of the Food Stamp Program (over \$18 billion of benefits issued in fiscal year 2002), the program is working reasonably well. While FNS has worked diligently with States to reduce errors in issuing program benefits, there is always room for improvement. The recent changes made in the farm bill were, in fact, designed to improve program administration; these changes were made to provide the States flexibility in administering the program, improve access to program benefits, simplify program eligibility requirements, and enhance program integrity. The impact of these changes, however, will not be known for some time.

The OIG has a long history in identifying fraud, waste, and abuse in USDA programs. OIG and the Food and Nutrition Service (FNS) have an excellent working relationship; our staffs have worked collaboratively to improve program integrity and to identify improvements needed in program administration, particularly as FNS moved forward to implement the delivery of food stamp benefits through electronic benefits transfer (EBT) systems. FNS has taken positive actions to implement many of our recommendations and we look forward to working with them as these new legislative initiatives are fully implemented.

After a brief overview of the Food Stamp Program, I will address three challenges facing FNS in its administration and management of the Food Stamp Program. One of these challenges will be to fully implement the Improper Payments Act and President's Management Agenda initiative of reducing improper (erroneous) payments. FNS is the only USDA agency that has had a statistically based quality control program (limited to its Food Stamp Program) in place to measure the extent of improper payments. FNS' challenge will be to continue to work with States to minimize and/or prevent erroneous payments before they go out the door. Another challenge that is more difficult to address is fraud; unscrupulous parties can always find ways to circumvent existing controls. We will continue to work with FNS to strengthen program integrity through our audits and investigations. Finally, while FNS is very close to successful implementation of EBT systems in all States, one of the largest States (in terms of program benefits issued) still needs to come online. I will also update you on Operation Talon. This initiative was put in place by OIG as a result of the Welfare Reform Act of 1996 to locate and apprehend fugitives who were illegally receiving food stamp benefits, thereby ensuring that program benefits go to those who are truly in need.

FOOD STAMP PROGRAM

The Food Stamp Program provides monthly allotments to households in the form of paper coupons or electronic benefits transfer (EBT) cards, which work like ATM cards at authorized retailers. People apply for benefits at State or local (e.g., county) welfare offices that certify eligibility based on a household's level of income and other resources. FNS funds the benefits and administers the program in cooperation with State agencies. In 2002, an average of 8.2 million households received just over \$18 billion in food stamp benefits.

ELECTRONIC BENEFITS TRANSFER (EBT) SYSTEMS

FNS has been at the forefront of developing and implementing electronic delivery of program benefits through EBT. In 1984, FNS began pilot implementation of EBT systems to deliver food stamp benefits and was the first Federal agency to publish standards for EBT systems. FNS now estimates that about 91 percent of the participating households receive food stamp benefits, representing 91 percent of the total program benefits issued, through EBT systems. The 1996 Welfare Reform Act mandated that all States use EBT systems by October 2002. As of July 2003, 47 systems are up and running State-wide and in the District of Columbia and the Virgin Islands. California, Delaware, Iowa, and Guam have EBT systems only in some county or local areas. FNS' challenge will be to work with State and county administrators to complete final EBT implementation.

Since 1986, OIG has actively monitored and reviewed EBT system development and deployment by FNS, as well as EBT implementation in 28 States. Our audits were designed to determine whether controls were in place and working to ensure that EBT systems could timely and accurately provide and account for program benefits. We also evaluated whether EBT program data was being used as a management tool to monitor and effectively administer the Food Stamp Program. FNS has consistently reacted positively to our recommendations and has worked with the States to address any weaknesses or vulnerabilities we have identified. Overall, we have found that EBT systems are doing what they are designed to do to provide effective electronic delivery and accountability of program benefits. However, more can be done in analyzing EBT data to identify questionable transactions that may be indicators of potential fraud and/or misuse of program benefits. EBT systems provide an electronic transaction record, making it easier to identify problem retailers and recipients, something that was not possible under the paper coupon system. We will continue to audit EBT systems as issues emerge or when new State contracts with EBT processors are awarded.

Our audits have also identified computer (IT) security concerns at States relating to access controls over EBT systems. We found that States did not always have controls in place to remove access to EBT systems when employee duties or employment status changed. Those States we reviewed took immediate action on our recommendations to reduce this vulnerability. We have also found that even when employees have been authorized access to EBT systems, food stamp caseworkers (those State and/or county employees responsible for determining the eligibility of households for food stamp benefits) sometime use their access to commit fraud in return for financial kickbacks. In some of our investigations, we found caseworkers used their EBT access to make unauthorized payments to ineligible individuals. One caseworker issued over \$80,000 in food stamps and benefits to two fictitious families; those fictitious families supposedly had 13 family members. The caseworker admitted using the food stamp benefits to purchase food for herself and her family. The caseworker and a co-conspirator pled guilty to theft and embezzlement of public monies, as well as unlawful possession of food stamps. These individuals were sentenced to 21 months in jail and ordered to pay restitution.

RETAILER ABUSES

Fraud and abuse in the Food Stamp Program generally occur when individuals sell their benefits for a fraction of its face value. Known as trafficking, this practice remains an area of significant mutual concern for FNS and OIG. FNS has recently estimated that between 1999 and 2002 authorized retailers trafficked over \$395 million each year, or 2½ cents of every food stamp dollar issued. This estimate was made using data from FNS compliance investigations of authorized retailers.

The advent of EBT has not prevented fraud from occurring food stamp trafficking has just moved primarily from the street to the store. Since only authorized retailers can redeem program benefits, OIG has been concerned about the legitimacy and eligibility of these retailers to participate in the Food Stamp Program. We have testified in the past about the need for on-site reviews to determine if a retailer should be authorized or reauthorized to participate. In a 1995 review of retailer eligibility entitled "Food Stamp Program, Store Eligibility Task Force," we visited over 5,000 authorized stores and found more than 850 that should have been ineligible and another 450 whose eligibility was questionable. These stores had minimal or no staple foods, were out of business, or, at the time of our review, did not exist. FNS had routinely authorized stores to participate based solely on information submitted by the retailers in their application. Site visits were not a requirement for either authorization or reauthorization. For both processes, we recommended that FNS conduct routine onsite visits prior to approval.

In response to OIG's review, FNS hired outside firms to verify retailer information through onsite visits. FNS required the contractors to complete a food inventory checklist and to take photographs of each store's layout. We reviewed this process and found it to be effective in determining those retailers eligible for participation in the program. When we began reviewing retailer eligibility in 1995, there were about 208,000 authorized retailers. At the end of fiscal year 2002, through on-site monitoring and critical assessments, that number had been reduced to 146,000. FNS must remain vigilant in identifying and addressing problem retailers.

As previously mentioned, EBT systems provide data that can help identify questionable transactions and retailers by providing an electronic record of individual transactions. With the majority of food stamp benefits now being issued through EBT systems, OIG's focus needs to remain on using this data to identify problem retailers and refining analyses as problem retailers change their techniques to avoid

detection. Between 1996 and 2002, we conducted 2,235 food stamp retailer-related investigations. Over the past 7 years, our investigations in the Food Stamp Program have resulted in 2,969 indictments, 2,740 convictions, and over \$264 million in monetary judgments. The overwhelming majority of these results are attributed to retailer cases.

FNS can also take administrative action against authorized stores that violate food stamp regulations using its own analyses of EBT data. These actions include temporarily or permanently disqualifying stores and owners. When an FNS compliance investigation uncovers a trafficking operation, FNS alerts OIG about a potential criminal investigation. Since fiscal year 1996, OIG has opened 1,159 trafficking investigations based on FNS referrals.

One example of an OIG investigation based on an FNS referral happened in Philadelphia. Through a joint investigation with FNS Compliance and the U.S. Secret Service, we found two owners of an authorized store had fraudulently redeemed \$1.3 million in EBT benefits. These individuals were sentenced to either prison or home detention and ordered to pay \$1.3 million in restitution. In addition, one of the owners agreed to testify against the food stamp recipients who sold him their benefits. So far, the owner has identified about 3,000 recipients; 2,000 of them have been notified they will be removed from the food stamp rolls. The State of Pennsylvania has also indicted over 120 recipients in this matter.

Over the last few years, we have investigated a number of food stamp trafficking cases involving the transfer of monies overseas. As a result of these cases, which often involve a large amount of money, we are participating in Federal Joint Terrorism Task Forces (JTTF) around the country, as well as Operation Green Quest (a national project to identify mechanisms used to transfer funds overseas to terrorist groups). An OIG representative serves on the National JTTF, and we currently have active investigations with many of the 44 local JTTFs.

In one overseas transfer case, we uncovered a network of stores owned by individuals who trafficked in food stamp benefits. Most of the trafficking occurred at a video store located a few storefronts away from a food stamp issuance center. The video store would get cash from another store in the scheme and use the money to buy food stamps from people who had just received them. The video store would turn around and give the illegally obtained food stamps to an authorized retailer for redemption. Due to the large volume of benefits fraudulently collected, many authorized retailers had to be involved in the network so that FNS would not be tipped off by evidence that one store was redeeming too many food stamps. During this investigation, we discovered that approximately \$1 million was transferred overseas. Two of the retailers, who pled guilty and were issued a court judgment against them of over \$71 million, have fled the country.

IMPROPER PAYMENTS

Eligibility for the Food Stamp Program is generally based on an applicant's household income and other resources such as bank accounts and real estate. Certain deductions are allowed from a household's gross income including dependent care, shelter, medical, and child support payments. Applicants must provide proof of income in order to participate. Since 1974, FNS has measured payment accuracy using a statistical sampling system called the Quality Control (QC) system.

Every month, each State reviews a sample of households receiving food stamp benefits and those denied benefits, to measure payment accuracy (overpayments and underpayments) and the correctness of decisions to deny benefits. Between fiscal years 1993 and 2002, the national annual error rates have fluctuated between 10.81 percent and 8.26 percent. For fiscal year 2002, out of about \$18.2 billion in total issuances, about \$1.5 billion was erroneous (approximately \$1.1 billion was over issued and \$384 million was under issued).

FNS' analyses of the causes of such error rates for fiscal year 2000 (the latest year the results of such analyses were published) show that 54 percent of the dollar errors were the fault of the certifying agency while the rest were attributed to the food stamp recipients. Determining or reporting income makes up over half of the errors—the biggest factor. Deductions from the household's gross income are the next most prone to error at about 28 percent.

We note that the Food Stamp Reauthorization Act of 2002 contains provisions to simplify the definitions of income, utility allowances, housing costs, resources, and deductions. These provisions became effective October 1, 2002, and FNS plans to publish corresponding regulations as soon as possible. While one would expect these provisions to result in fewer certification errors, it will depend on how well FNS and the States implement them. We will not know whether these changes will impact

the error rate until fiscal year 2004 data is tested and FNS analyzes and reports the QC results, which should occur in mid-FY 2005.

Although one would expect that high error rates in payment accuracy are caused by large increases in participation without corresponding increases in State certification personnel, we found this not to be the case. Between 1995 and 2001, the number of participating households declined significantly, with a 34 percent decrease in program outlays. Yet, the error rate for that period only declined 11 percent. This indicates that error rates are not directly linked to participation levels.

Reducing the error rate, and corresponding program losses, has remained an area of focus for FNS. The Under Secretary for Food, Nutrition and Consumer Services, stated in his fiscal year 2003 budget hearing that the Department will focus on States with the most serious problems and the highest error rates. The Department has recently fined California, Michigan, and Wisconsin, the three States with the highest error rates for 2002.

The current law imposes QC liabilities each year a State's payment error rate is above the national average. Recent legislation (2002 farm bill) made substantial changes to FNS' quality control system. Effective for fiscal year 2003, the reforms raise this error rate threshold so that States are not penalized unless there is a 95 percent probability that their error rate exceeds 105 percent of the national average for 2 consecutive years. The law also contains various provisions for waiving penalties and provides bonuses for high performance. The impact of these changes on the payment accuracy rate and FNS' ability to encourage corrective actions by State administering agencies may not be known until fiscal year 2005. We plan to monitor implementation of these program changes and their impact on FNS' ability to encourage actions by States to reduce their error rates.

OPERATION TALON: FUGITIVE FELONS MADE INELIGIBLE TO RECEIVE FOOD STAMP BENEFITS

The 1996 Welfare Reform Act made felony fugitives ineligible for food stamps. This law allows for comparing law enforcement fugitive felony information with food stamp recipient records. Under this provision, OIG created Operation Talon in conjunction with other law enforcement agencies across the United States to locate and apprehend fugitives illegally receiving program benefits.

Since its inception in early 1997, Operation Talon has resulted in 8,793 arrests, simultaneously getting many dangerous criminals off the welfare rolls and off the streets. Serious crimes perpetrated by those arrested include homicide offenses, sex offenses, kidnapping, assault, robbery, and narcotics. For example, Operation Talon identified an individual who, along with two others, was alleged to have executed a victim as part of a cocaine distribution conspiracy. OIG agents and detectives from the New Jersey State Police, the New York State Police, and the New York City Police Department apprehended the individual at the address he reported on his food stamp application.

Since they determine food stamp eligibility, individual States are best positioned to estimate how much money Operation Talon has saved. It is difficult, however, for most States to determine cost savings because, even though a fugitive is removed from eligibility, there may be other people in that household who receive benefits. New Jersey, which has developed a formula for approximating savings, estimates that \$1.9-million has been saved since 1996 in that State.

You asked me here today to talk about my view of the Food Stamp Program and how it can do better. The Food Stamp Program is working reasonably well, but it faces three major challenges: two systemic and one criminal.

There will always be people looking for ways to take advantage of the system. Food stamp traffickers will continue their attempts to defraud the program. As I have made clear in this testimony, however, transaction records provided by the EBT system make it easier to catch even the cleverest swindlers. FNS and States must continue to use this data to better manage and administer the Food Stamp Program to identify questionable transactions and remove those who abuse the program from participation.

The second challenge, as I see it, is for FNS to continue its success in lowering the payment accuracy error rate, as well as to put control processes in place to prevent erroneous payments from being made in the first place. Although this rate has come down since fiscal year 1993, the magnitude of erroneous payments, over \$1.5 billion, is still material to the overall program. FNS must continue on its path of working with States to develop and implement action plans to reduce the high error rates.

The third challenge is getting all States to fully implement EBT systems. FNS has made great progress, but three States still do not have statewide systems in

place even though the mandated deadline has passed. One of those States, California, is the largest in terms of benefits issued. Finally, OIG is concerned that, on the surface, the recent changes made in the 2002 farm bill may have weakened FNS' QC process and its ability to encourage States to reduce their error rates. The impact of these changes, however, will not be known until the first 3-year cycle of determining the penalties to be assessed and bonuses to be paid to the States has been completed.

OIG will continue to work collaboratively with FNS through our audits and investigations to improve program administration, as well as its integrity. Our audit work during the next year will continue to focus on FNS and State implementation of EBT systems. We will also monitor the impact of the recent legislative changes to its quality control system and error rate reduction activities. In terms of our investigative activities, we will continue to work with FNS to identify and pursue prosecution of those who violate the Food Stamp law.

This concludes my statement. I would be pleased to entertain any questions the committee may have.

ANSWERS TO SUBMITTED QUESTIONS

Question: What tools aside from the Quality Control (QC) system do you now have to improve States' performance?

Answer: FNS continues to employ effective and efficient strategies and activities to improve payment accuracy and assure program integrity. For the past several years, the agency has received \$1.9 million in funding per year to augment its staffing and efforts to increase payment accuracy nationwide. FNS also allocates nearly \$400,000 annually to support State travel to conferences, workshops, and other meetings between States, to facilitate the sharing of best practices of effective and efficient program management techniques.

Fiscal year 2003–04 current and planned activities include:

- Creating and maintaining a national team of experts to monitor and evaluate payment accuracy progress, analyze error rate data, and exchange information on payment accuracy best practices and program improvement strategies.
- Targeting high issuance/high error rate States for enhanced Federal intervention and technical support. This is accomplished by establishing a tier methodology for States (based on error rate performance) to support effective and consistent deployment of limited FNS resources for intervention and technical assistance.
- Identifying areas of concern through management evaluations and working with States to enact program improvements.
- Continuing the exchange of best practices information through the State Exchange Program, and the publication of a Best Practice Guide.
- Further facilitating the commitment, involvement and collaboration among State partners and leadership at all levels through the utilization of a web-based environment dedicated to the exchange of information and discussion forums on error reduction issues and strategies.
- Continuing to work with States to optimize analysis based on quality control data in an effort to develop and monitor corrective action.

Question: Are there efforts, outside of the QC system to work with states to ensure accountability throughout the entire system and help states that operate an effective Food Stamp Program to assist those states that have deficiencies?

Answer: This practice of state-sharing of best practices is supported by and, in many cases, facilitated by FNS. One of the roles of the FNS payment accuracy workgroup is to accumulate and disseminate best practices. FNS has also developed an interactive intranet website available to states to act as a forum for discussing and sharing payment accuracy strategies and successes. In addition, FNS allocates nearly \$400,000 annually to support State travel to facilitate the sharing of best practices and effective techniques at FNS and State-sponsored conferences, workshops, and other meetings.

Question: Moving beyond the current QC system, has FNS considered other measures beyond error rates to monitor and seek improvement in States' operation of the Food Stamp Program?

Answer: The 2003 farm bill did away with enhanced funding (which was awarded based solely on error rates) and provided \$48 million a year to reward States with high or improved performance in the administration of the FSP. The first performance year against which States will be measured is fiscal year (FY) 2003. In structuring the performance measures for fiscal year 2003, FNS allotted half of the \$48 million (\$24 million) to 10 states with the lowest and most improved payment error rate. Payment accuracy is one of FNS' highest priorities as well as a good measure

of customer service. FNS also allotted \$24 million for other performance measures as an incentive for States to maintain or improve performance in areas beyond payment accuracy. We allotted \$6 million for the 6 States with the lowest and most improved negative error rate (a measure of the accuracy of application denials and case terminations), \$12 million to the 8 States with the highest and most improved Participant Access Rate, and \$6 million to 6 States with the highest percentage of applications processed timely.

FNS continues to monitor and work with States to improve their operations by: 1) conducting annual reviews of State level operations and requiring States to conduct periodic reviews of their local offices' operations. These reviews combine an examination of State and local office compliance with Federal rules and technical assistance to improve administration. The reviews focus on high priority areas identified each year by FNS. FNS also conducts periodic reviews of local offices to measure quality of service and program access.

Question: Are monetary awards and sanctions the most effective incentive?

Answer: We believe that administering a high quality Food Stamp Program requires the active and total commitment from top management within the State. While practically all States want to do a good job, tight budgets and competing priorities sometimes lead States to not place enough emphasis on Food Stamp Program integrity. Fiscal incentives and sanctions are a necessary tool for obtaining and maintaining State management focus on these issues.

Question: How does FNS measure outcomes for program participants?

Answer: Outcomes for program participants are measured through the quality control (QC) system. The QC system measures whether program participants are overpaid, underpaid or received the correct amount of benefits. The overpayment rate includes those who were found ineligible to participate. For fiscal year 2002, the overpayment rate was 6.16 percent and the underpayment rate was 2.16 percent. The QC system also tracks negative actions (i.e., participants who were incorrectly denied or terminated). The validated negative error rate for fiscal year 2002 is 7.87 percent.

For an equally important outcome measure, FNS calculates the percentage of the eligible population that participates in the program in each State.

Question: According to the Department of Health and Human Services, welfare reform helped to move 4.7 million Americans from welfare dependency to self-sufficiency within three years of enactment, and the number of welfare caseloads has declined by 54 percent since 1996.

Reforms provided significant flexibility and changed incentives in the structure and administration of cash assistance programs. While the 2002 farm bill gave States more flexibility in how they administer the Food Stamp Program, the program did not undergo the same kind of restructuring as Federal cash assistance programs under welfare reform.

Are there further steps FNS or Congress could take to help States better coordinate these programs? Does FNS believe further alignment between these programs could be helpful?

Answer: Since 1996, Congress and FNS have provided States with unprecedented authority through waivers, regulations and legislative changes to adopt policies that make it easier to administer the Food Stamp Program. At the same time, the number of food stamps recipients receiving welfare dropped from 36.6 percent in fiscal year 1996 to 20.9 percent in fiscal year 2002. In recent years, more families have relied on the combination of work and food stamps to make ends meet than relied on welfare and food stamps. In fiscal year 2002, over one-quarter of households (28.1 percent) had earnings, up from 22.5 percent in fiscal year 1996. A goal of this administration is to make it easier for all low-income families to receive food assistance while also reducing the administrative burden for States administering the program.

Question: USDA has responsibility for promoting the good nutrition of millions of Americans receiving food stamps. Section 17 of the Food Stamp Act regarding research, demonstration, and evaluations requires the USDA Secretary to develop and implement measures for evaluating, on an annual or more frequent basis, the effectiveness of the food stamp program in achieving its stated objectives, including, but not limited to, the program's impact upon the nutritional and economic status of participating households. Furthermore, under the Government Performance and Results Act (GPRA), management of the food stamp program and other food assistance programs should be guided by the nutritional quality of the dietary intakes of program recipients compared to similar non-participants. How does the Food and Nutrition Service use the NHANES/CSFII integrated survey re-

sults to guide nutrition policies of the food stamp program and also the nutrition education component of this program?

Answer: Integrated survey operations began in January 2002. It is our understanding that the data collected in 2002 will be available in 2004. As a result, we do not yet have any direct experience with the analysis and use of the integrated survey results. FNS, however, has used the predecessor NHANES and CSFII dietary intake data over the years to answer many policy questions. We expect to continue to use the data from the integrated survey for comparable purposes. For example:

- FNS used data from both NHANES and CSFII to identify the micronutrient, macronutrient and calorie intake of food stamp recipients and compare them to low-income non-participants, as well as to the general U.S. population. Comparisons across these three groups offer some indications of where gaps or other problems may exist. One analysis based on both NHANES and CSFII data (and reported to Congress in *The Use of Food Stamps to Purchase Vitamin and Mineral Supplements*, September 1999) indicated that food stamp participants are somewhat more likely than low-income non-participants to meet the RDAs for 11 micronutrients that have been designated as current or potential health concerns.

- FNS used CSFII dietary intake data to revise the Thrifty Food Plan, which serves as the basis for Food Stamp Program benefits.

- FNS and the Center for Nutrition Policy and Promotion used CSFII data in the development of the Healthy Eating Index—a tool to identify the extent to which the diets of those surveyed, including food stamp participants, conform to the recommendations of the Dietary Guidelines for Americans and the Food Guide Pyramid.

Information from these and other surveys is also used in planning and developing nutrition education interventions for the general food stamp population and for subgroups such as the elderly. The NHANES/CSFII data sets are also used for program planning by state and local cooperators to better align nutrition education services with the needs of participants.

Question: How has the Food and Nutrition Service used its research funds in the food stamp program to monitor the nutritional quality of food stamp recipients compared to non-recipient to meet the requirement of Section 17?

Answer: Prior to the elimination of appropriated funds for studies and evaluations in fiscal year 1998, the Food and Nutrition Service sponsored several different types of analysis that contributed to our understanding of nutrition quality of food stamp recipients compared to non-recipients. These include analyses of existing national survey data, primarily the Continuing Survey of Food Intake by Individuals, a national survey of program participants, and special purpose demonstrations to test the effects of cash-out on food purchases and nutrient availability. A listing of relevant studies funded by the Food and Nutrition Service follows.

Three comprehensive reviews sponsored by USDA and others since 1990 provide authoritative assessments of the scientific literature. These reviews suggest that food stamp participation (1) leads to an increase in food expenditures, (2) contributes to increased nutrient availability in the home food supply, and (3) may contribute to increased nutrient intake. (The predominant pattern across a substantial number of studies is that participants have somewhat greater nutrient intake than non-participants, but the differences are not statistically significant.)

The prohibition on use of appropriated funds for studies and evaluations between 1998 and 2001, and the limited funding provided in 2002 (\$3 million to meet the research needs of all nutrition assistance programs), prevented FNS from continuing this line of research. Plans for fiscal year 2003, however, include a systematic assessment of nutrition education in the Food Stamp Program, and a critical review of the scientific literature on the relationship between program participation and obesity.

FNS Research on Nutrition and Diet Quality Among Food Stamp Program Participants

Dietary Intake and Dietary Attitudes Among Food Stamp Participants and Other Low-Income Individuals by Philip Gleason, Anu Rangarajan, and Christine Olson, Mathematica Policy Research, October 2000.

The Use of Food Stamps to Purchase Vitamin and Mineral Supplements, Food and Nutrition Service, USDA, September 1999.

Food Stamp Participants Food Security and Nutrient Availability by Barbara Cohen, James Ohls, Margaret Andrews, Michael Ponza, Lorenzo Moreno, Amy Zambrowski, and Rhoda Cohen, Mathematica Policy Research, July 1999.

Understanding the Food Choices of Low Income Families by Steven Bradbard, Eileen Michaels, Kathryn Fleming and Marci Campbell, Lisboa Associates, May 1997.

The Effects of Food Stamp Cash-Out on Participants and Food Retailers in the Alabama ASSETS Demonstration by Elizabeth Davis and Alan Werner, Abt Associates, April 1993.

The Effects of Cash-Out on Food Use by Food Stamp Participants in San Diego by James Ohls, Thomas Fraker, Alberto Martini, and Michael Ponza, Mathematica Policy Research, December 1992.

The Evaluation of the Alabama Food Stamp Cash-Out Demonstration by Thomas Fraker, Alberto Martini, James Ohls, Michael Ponza, and Elizabeth Quinn, Mathematica Policy Research, September 1992.

The Effects of Food Stamps on Food Consumption: A Review of the Literature by Thomas Fraker, Mathematica Policy Research, October 1990.

Analyses of the 1985 Continuing Survey of Food Intakes by Individuals: Estimating Usual Dietary Intake, Assessing Dietary Adequacy, and Estimating Program Effects by Thomas Fraker, Sharon Long, and Charles Post, Mathematica Policy Research, September 1990.

Analyses of the 1985 Continuing Survey of Food Intakes by Individuals: Estimating the Effects of the WIC and Food Stamp Programs on Dietary Intake by Women and Young Children by Thomas Fraker, Mathematica Policy Research, March 1990.

Assessing the Dietary Effects of the Food Stamp Program by Barbara Devaney, Pamela Haines, and Robert Moffitt, Mathematica Policy Research, February 1989.

The Food Choices of Low-Income Households by Ellen Kisker and Barbara Devaney, Mathematica Policy Research, January 1988.

Question: In your testimony, you describe the various outreach strategies that are ongoing to inform communities about the program, in particular, those new eligible groups such as immigrants. What is the department doing specifically to outreach to the immigrant communities and inform them that they may be eligible?

Answer: The USDA Food and Nutrition Service (FNS) has implemented a number of strategies to outreach to immigrant communities. It is FNS's goal to ensure that all eligible persons, including eligible immigrants, receive Food Stamp benefits with dignity and respect. The first step is to inform eligible people about the program so they can make an educated decision about participating.

To that end, FNS contracted with the Hispanic Radio Network (HRN) to air fifty 60-second Spanish-language information capsules about the Food Stamp Program (FSP) during the months of March and April 2003. These messages were designed to inform immigrants about the immigrant restorations of the 2002 farm bill that became effective on April 1, 2003. In addition, FNS officials appeared on HRN radio programs to promote the program, and columns about the FSP appeared in several HRN affiliated newspapers. As a result of this project, FNS experienced a large increase in the number of calls to our toll free FSP number (1-800-221-5689) and thousands of immigrants heard positive messages about the benefits of food stamps for keeping their families healthy.

Second, FNS has created a library of multi-lingual publications. Five FSP documents are now available in 32 languages (<http://www.fns.usda.gov/fsp/outreach/translations.htm>). When the project is complete, 34 language sets will be available. An "I Speak" document will also be available to enable a non-English speaker to indicate their preferred language. These documents are designed for use by partners and advocates to distribute to people who may be eligible for food stamp benefits. The sets include one document with questions and answers about eligibility for immigrants based on the changes in the 2002 farm bill and another document that reassures immigrants that receiving Food Stamp benefits will not make them a public charge and will not affect their immigrant status.

Question: Many States have not yet implemented some or all of the most helpful program simplification options. Do you believe that fingerprinting requirements in near-fraudless States, overly strict motor vehicle limits, and lack of transitional benefits is an obstacle to allowing hungry American citizen and immigrant families to participate in the program?

Answer: The Food Stamp Program is a nutrition assistance and work support program. To enable all eligible participants to receive benefits with dignity and respect, FNS works in partnership with States to allow implementation of provisions that simplify the application process and minimize the burden on participants. At this time, very few States use a fingerprinting policy. FNS policy permits States to implement fingerprinting requirements only if it is done in such a way that is not a

condition of eligibility, or even perceived as such. In this way, FNS assures that a fingerprinting requirement is not a barrier or deterrent for a hungry American citizen or immigrant eligible for food stamp benefits to participate in the program.

Beginning in July 1999, the Department made it easier for households to have a reliable vehicle and still receive food stamps by using its executive authority to expand the number of TANF households whose resources are excluded for food stamp purposes. In July 2001, legislative changes also made it possible for States to use their more liberal TANF vehicle rules for all households not just those receiving TANF. Almost all States are using one of these optional policies to exclude from consideration as a resource at least one vehicle when determining eligibility for food stamps. Together, these changes have significantly reduced the barriers to participation for working families with vehicles.

The farm bill expanded the length of time from three to five months that households leaving cash welfare number may receive transitional benefits. While only 6 States have adopted transitional benefits, the majority of States have opted to use one of several reporting systems to reduce the paperwork for working households.

Question: Mr. Bost, you have notably helped expand the food stamp program with the goal of feeding more American citizen and immigrant families that are suffering from hunger, malnutrition or food insecurity. With the Chairman's permission, now I wish to ask a quick question about another important set of nutrition programs, those in the Children's Nutrition Reauthorization. According to USDA research, an overcertification initiative would prevent participation in the School Lunch Program to far more hungry and eligible children, than the ineligible children that would be weeded out. What assurances can you give that the department will not take any steps on the overcertification issue that would chill participation by eligible children?

Answer: As you know, we are currently working towards the reauthorization of the Child Nutrition Programs. Our reauthorization efforts are based on three guiding principles: (1) improving access to all eligible children; (2) promoting a healthy school environment; and, (3) ensuring program integrity through improvements in certification procedures application and verification of household eligibility for free and reduced price meals.

Our recommendations on overcertification are designed to address program integrity by enhancing existing requirements and providing for a number of changes that would make the application and verification process more user friendly. However, we will do all we can to ensure that the participation of eligible children is not jeopardized.

We have recommended changes that would streamline the application process by providing for an annual certification period, requiring direct certification of children in Food Stamp Program households, and when direct certification is not applicable, requiring a household application rather than permitting one application per child. We would support a robust follow-up process for households who do not respond to verification effort by requiring every school to follow up in writing and by phone at least three times. We believe that reaching out to non-respondent households will provide those eligible households with both opportunity and confidence to participate in the school lunch program.

While there is no consensus on the exact number of ineligible children receiving free and reduced price benefits, there is consensus that the problem exists. As stewards of Federal funds, the U.S. Department of Agriculture must actively pursue changes to ensure the integrity of the Child Nutrition Programs. We believe that it would be irresponsible for USDA, as we seek to learn more, not to take steps to address the problem consistent with the administration's commitment to ensure that all eligible children have access to free and reduced-price meals.