2003-2004 SANTA CLARA COUNTY CIVIL GRAND JURY

AN INQUIRY INTO THE COUNTY'S ERROR RATE FOR ISSUING FOOD STAMPS

Summary

When the 2003-2004 Santa Clara County Civil Grand Jury (Grand Jury) learned of a significant drop in the food stamp error rate, it decided to conduct an inquiry into the reasons for the decrease. The Grand Jury discovered that changes in the Social Services Agency's (SSA) administrative and monitoring procedures led to a marked reduction in the county's error rate. The error rate is due to clerical mistakes, rather than fraud. The county's improved error rate will help the state negotiate a decrease in federal sanctions and might even earn it a bonus. These sanctions are essentially financial penalties imposed by the federal government on the states, and then passed on to and paid by the counties. The Grand Jury concluded its inquiry with two findings and three recommendations that urge the county to maintain its low error rate, and thus help the state minimize or even avoid federal sanctions. The Grand Jury also recommends that SSA continue to share any knowledge it has gained about how to reduce the food stamp error rate with other counties.

Background and Discussion

In order to understand the county's battle to lower its food stamp error rate, it is necessary to take a brief look at how activity at both the federal and state levels establish the legal, economic, and policy framework within which the county must operate. For that reason, this report begins with an examination of the federal and state roles before it gets to the county's role.

<u>The Federal Role in Food Stamps</u>

The Food Stamp Program began in 1964 as one of the War on Poverty programs. It reaches all fifty states and is largely funded by the federal government. It is generally characterized as the nation's first line of defense against hunger. In 2002, 19 million Americans received food stamps at a cost of $20.5 billion, or about $1,000 per person. The program's monies are distributed to the states by the United States Department of Agriculture's (USDA) Food and Nutrition Service. These monies provide the states with 50% of the administrative costs of the program and 100% of the cost of the benefits. While the federal government does not audit the states' operations on a regular basis, an audit was conducted on California's program in July, 2001. The audit revealed that California had a high error rate of ~14% for the year 2000 and a very high error rate of ~17% for the year 2001 (see Appendix A: Table 1 and Figures 1 and 2).

The error rate is a combination of overpayments and underpayments to individuals receiving food stamp payments. The rate equals the amount of dollars both overpaid and underpaid as a percentage of the total amount of dollars for which households are eligible. It is important to note that the error rate *sums* the amount overpaid and the amount underpaid. For example, a state with a seven percent overpayment error rate and a two percent underpayment error rate would have a combined error rate of nine percent. However, note that since underpayments actually save the government money, the net loss to the federal government is only five percent. Improper denial of funds or mistaken termination of accounts, both of which would decrease the net loss to the government, are not expressed in the error rate. In addition, overpayment is counted in the error rate whether or not the overpaid money is collected back; collected funds (an insignificant amount) decrease the net loss to the government. Timeliness of payments and the percentage of wrongly denied cases are not included in the error rate but are included in program evaluations and there are financial incentives for counties to improve their performance in these categories. According to an April 2002 news release by the Second Harvest Food Bank (a nonprofit agency that provides emergency food), fraud accounts for less than 2% of the combined error rate nationally.

The federal government can sanction with financial penalties states that have a high relative error rate. According to the new rules that go into effect in 2003, sanctions are the assessed financial penalties that states with error rates 5% above the national average for two consecutive years must pay. Prior to 2003, states were sanctioned on a yearly basis if they had combined error rates above the national average. If California is sanctioned and must pay a penalty, it will require the offending counties to pay their share of the penalty.

The national error rate has been steadily falling. The accompanying graph shows a general declining trend in the overpayment rate for the last 21 years (see Appendix A: Figure 3). The rate hit an all-time low of 8.26% in 2002 and appears to be heading down further with a 6.48% rate reported for the first six months of 2003.

The State Role in Food Stamps

California's Department of Social Services, Health and Human Services Agency administers the Food Stamp Program throughout the state's 58 counties. It sets guidelines for the counties and maintains data on county performance. The state also provides the counties with 37% of the administrative costs of running the program. Annual management evaluation reviews are conducted for large and medium counties, and Santa Clara County is considered a medium county. There is additional financial monitoring when counties submit their monthly quality control reports to Sacramento.

As mentioned earlier, the national error rate has been falling, making this benchmark rate lower and thus harder to attain for some states. The national error rate decreased from 8.66% in 2001 to 8.26% in 2002. In 2001, 15 states received sanctions. In 2002, a total of 20 states received sanctions as the national average rate dropped. The data does not yet indicate how many states are in *potential* danger of receiving sanctions for 2003, but, with the new rules in place, these states will be ultimately judged on the basis of a two year error rate record rather than a one year record.

There are reasons why California's error rate was so high a few years ago. The welfare to work movement, which had its genesis in the 1996 federal welfare legislation, meant that there were more working families entering the food stamp program. More than 50% of California's food stamp recipients work, as compared to 27% nationally. Why is this important? It is more difficult to calculate the food stamp allotment for an earner with variable income than for a welfare recipient with a steady stipend. There were difficulties in implementing the 1996 law when it called for denying food stamp eligibility to the majority of legal immigrants; California's program has long had to contend with large numbers of immigrants, both legal and illegal. The late nineties saw social service staff involved in moving recipients from welfare to work and less focused on non-cash programs like food stamps. The economic downturn that started to occur in 2000 resulted in an increased number of caseloads. At the same time, state government cutbacks meant that local agencies could not hire more workers to cope with the larger caseloads. There was little money available for computer upgrades or staff training.

Moreover, California is one of only eight states that require recipients to report their income on a monthly basis, and, as mentioned earlier, California has a relatively high percentage of recipients that work. Since the food stamp program has many complex rules and regulations that are periodically changed, a monthly income reporting requirement places a significant time constraint upon those doing the recordkeeping at the county level. Santa Clara County, for example, processes about 650,000 income and earning reports each month. It is difficult to process changes in employment status and income, as well as to calculate benefits to a high degree of accuracy within 30 days. Operating within these time constraints, mistakes are made, and are reflected in either overpaying or underpaying the recipient. The over or underpayment determination is reached after the payments have gone out to recipients and are analyzed for accuracy. In 2002, it was estimated that 60% of California's errors were due to overpayments and 40% were due to underpayments. Forty-two other states require these income reports from recipients on either a quarterly or a semiannual basis. After years of effort by concerned advocates, the state agreed to shift from monthly to quarterly income reporting by recipients. This shift takes place in May 2004. This change should yield more accurate calculations and fewer payment errors.

For its part, the federal government was trying to simplify certain procedures during these years. For example, new guidelines made it easier to report changes in financial circumstances and to figure out what counts toward income and asset limits. States now have the option to extend food stamp benefits by a number of months to former welfare recipients. This will help smooth the family's transition from welfare to work, will help further reduce California's error rate, and will bring about $70 million federal dollars annually into the state's economy.

<u>Sanctions</u>

As already noted, California had an unacceptably high error rate in 2000 (~14%) and 2001 (~17%). It remained very high at ~15% for 2002. The steadily declining national average for these years was 8.91% for 2000, 8.66% for 2001, and 8.26% for 2002. Since California's error rate was above the national average, it was subject to federal sanctions for each of these years.

Documents from the USDA dating back to 2001 threaten very large sanctions for California's past error rates. For example, $11.8 million for 2000, subsequently reduced to $10.4 million; $190 million for 2001, subsequently reduced to $115.7 million. Reductions in penalties were made after consideration was taken of the number of wage earners and non-citizens in the state's caseload.

The latest document is dated July, 2003. It indicates a sanction of almost $89 million for the 2002 error rate. This amount was reduced to about $63 million when, again, the large percentage of wage earners and non-citizens among recipients was considered. Collection of the sanction is accomplished by either the state writing a check to the USDA or by the USDA reducing its payment to the state.

Federal regulations allow the state to appeal the sanction. States may also opt to reinvest the total amount of the penalty or a portion of the penalty in programs designed to reduce error rates. Monies spent on these programs offset the total amount of penalty to be paid. Furthermore, if states reduce their error rate to the national rate or below, a portion of the sanction may be forgiven.

Clearly, states were under strong pressure from the USDA to reduce their error rates. Some new approaches worked well toward that end. Others actually drove eligible families away from the food stamp program. As a result of these concerns, the 2002 federal farm bill reflected a new way of thinking about sanctions. The new approach will allow the USDA to focus on those few states with consistently high error rates. The USDA will now have a broader range of options in dealing with the needs of individual states. Chronic offender states will receive stiff penalties, while states with short term problems will be given time and assistance to correct those problems. Specifically, beginning with the 2003 error rate, states with error rates exceeding *5% above* the national average for *two consecutive years* will be subject to sanctions. States that have exceeded the threshold rate for the first year have a year to take corrective action to get their error rate down. If the new rules had been in effect for 2002, only a handful of states would have been sanctioned instead of the 20 that were.

At the time of this report writing, California was still negotiating with the USDA over the issue of past and current sanctions; no settlement has been reached. To date, the Grand Jury is not aware of any finalized sanction that has been incurred by the state for any year.

Statistics for the first six months of 2003 indicate that California has drastically reduced its error rate to an estimated 6.83%. Note that the national average rate also went down – to 6.48%. The new rules also require each state with an error rate above 6% to work with USDA to develop a plan to improve its performance.

<u>The County's Role in Food Stamps</u>

The Department of Employment and Benefit Services (DEBS), within the Social Services Agency, manages the county's food stamp program and implements the directives that emanate out of Sacramento. DEBS also has its own policies and procedures. The largest 19 counties in the state, including Santa Clara, together account for 90% of the food stamps issued (see Appendix A: Chart 1).

Remember, when the state is sanctioned for having a high error rate, it passes that sanction on (pass-on) to the counties that have error rates in excess of the nation's average error rate. The sanction will show up as a reduction in the county's General Fund. An individual county's share of the sanction is proportional to its share of California's error rate.

Santa Clara County maintained an error rate that was below the national average until 1999. While the county's error rates for 2000 (~10%) and 2001 (~13%) were higher than the nation's average error rate – for reasons explained earlier – they were also lower than the state's error rate for 2000 (~14%) and 2001 (~17%). Santa Clara County was one of ten counties in 2000 that received a sanction pass-on from the state and one of thirteen that received a pass-on in 2001. By 2002, there were nine counties in California that received a sanction pass-on, but Santa Clara County, having reduced its error rate down to 7.81%, was not one of them. Its 7.81% error rate was not only lower than the state error rate of 14.84%, but it was *also* lower than the national average error rate of 8.26%. The county reduced its error rate *even further* for fiscal year 2003 to 4.96%.

How was the county able to make such giant strides in reducing its error rate? With a corrective program launched in 2001, the county began a concerted effort to tackle the problem. The Grand Jury learned that the county enlisted the assistance of federal and state analysts to develop a secondary review process and an automated system to report food stamp error data. Tasks were broken down and detailed timelines were established to meet deadlines. A full time staff member was hired to focus exclusively on lowering the error rate. Supervisors, newly trained in case review techniques, reviewed food stamp cases and generated monthly reports about high error prone areas. They developed a Quick Reference Food Stamp Guide, devised a database that provided real time information on cases, and created a corrective action web page that is now on the social services intranet. Teams were linked to each of the eight food stamp district offices in the county. As a result of these actions, the error rate dropped from a high of 17% at the beginning of fiscal year 2001 – the second highest error rate in the state – to 11% by the end of the fiscal year. As noted above, the rate has proceeded steadily downward ever since. The corrective action program has been funded with county money. Time and money allotments for some of the six projects in the program have been exceeded; however, the county has been advised by both federal and state officials that exceeded monies might be used to offset future sanctions. The county has been commended by both national and state officials for its phenomenal performance.

When the county begins quarterly income and earnings reporting by recipients in May 2004 the number of cases to be reviewed each month will drop from 200 per staff member to 70 per staff member. This should result in even fewer payment errors.

County representatives attended a Food Stamp Best Practices Seminar in April 2003 to discuss the best ways to reduce the error rate. They helped in the development of a *Food Stamp Program Best Practices Guide.* The county should be further commended for sharing its expertise and knowledge with other counties.

Finding I-A

In 2001, Santa Clara County funded and implemented a corrective action plan that has steadily and dramatically reduced its food stamp error rate over the past two years. It is expected that the implementation of quarterly, rather than monthly, income reporting requirements will further decrease the county's error rate. The rate is now at 4.96% for fiscal year 2003.

Finding I-B

The county's food stamp administrators have already begun to share their knowledge and expertise with others, as evidenced by the April 2003 best practices seminar.

Recommendation I

The Grand Jury recommends that the county's food stamp administrators continue to implement policies that will even further reduce the food stamp error rate and share what they have learned with other administrators in the food stamp program on a regular basis.

Finding II

The county's corrective action plan that reduced food stamp error rates was funded with county money.

Recommendation II

The Grand Jury recommends that the Board of Supervisors maintain funding for the administrative improvements in the food stamp program so that the error rate will remain below the national rate, thus avoiding federal sanctions.

Appendix A

Table 1

FOOD STAMP COUNTY ERROR RATES

Consolidated State and Federal Samples

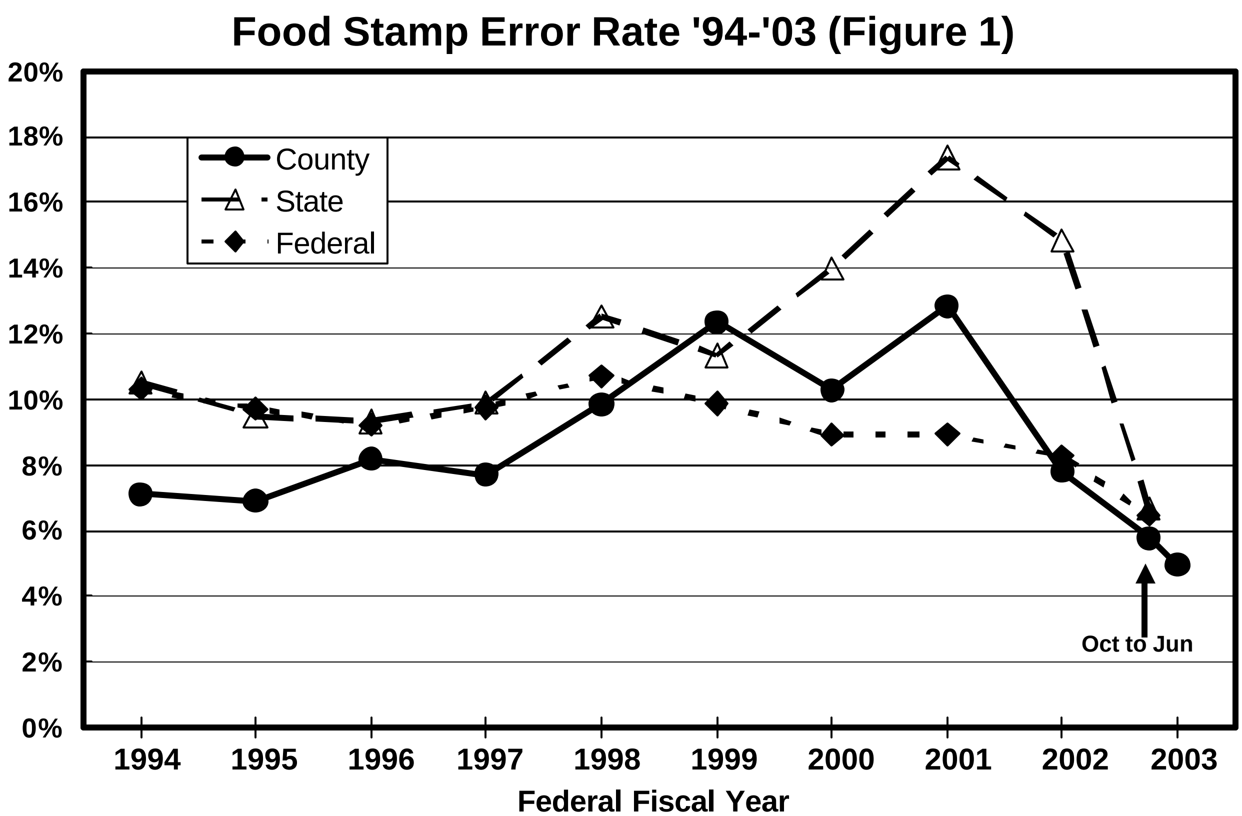
	County	FFY 2000	FFY 2001	FFY 2002	FFY 2003 (10/02-6/03)
1	Alameda	7.73%	7.45%	6.60%	6.84%
7	Contra Costa	12.90%	13.99%	10.56%	5.26%
10	Fresno	14.77%	11.89%	7.68%	4.03%
15	Kern	11.42%	9.55%	6.75%	8.57%
19	Los Angeles	17.19%	22.92%	18.75%	7.48%
24	Merced	7.26%	7.56%	8.70%	4.92%
27	Monterey	8.11%	9.73%	8.17%	4.47%
30	Orange	9.40%	7.99%	12.54%	8.26%
33	Riverside	6.63%	10.52%	7.30%	7.11%
34	Sacramento	9.77%	10.48%	9.87%	6.19%
36	San Bernardino	13.08%	14.50%	9.95%	3.59%
37	San Diego	8.29%	10.31%	9.60%	7.23%
38	San Francisco	11.65%	7.27%	7.19%	5.23%
39	San Joaquin	8.55%	11.36%	11.70%	6.36%
43	Santa Clara*	10.27%	12.84%	7.81%	5.44%
48	Solano	7.63%	9.23%	7.38%	7.14%
50	Stanislaus	7.58%	4.76%	5.57%	3.45%
54	Tulare	9.16%	8.90%	12.89%	6.59%
56	Ventura	7.29%	4.70%	4.54%	6.95%
	39 Small Counties	9.71%	13.14%	11.20%	8.00%
	California **Federal**	13.20%	16.65%	14.31%	6.69%
	Calif. Official Combined	13.99%	17.37%	14.84%	est. 6.83%
	National Avg Error Rate	8.91% official	8.66% official	8.26% official	6.48% state reported

Source: CalWORKs and Food Stamps Data Systems Design Taskforce

*Santa Clara County—4.96% (FY2003)

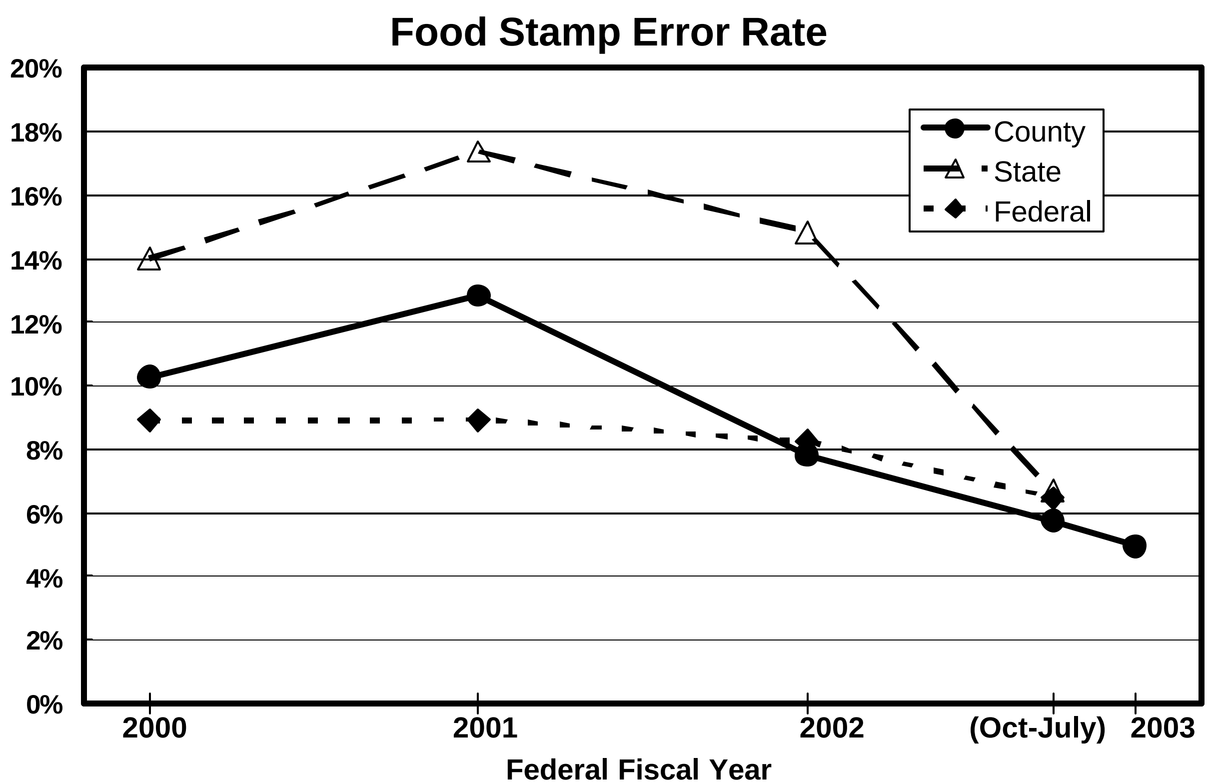
Appendix A

Figure 1



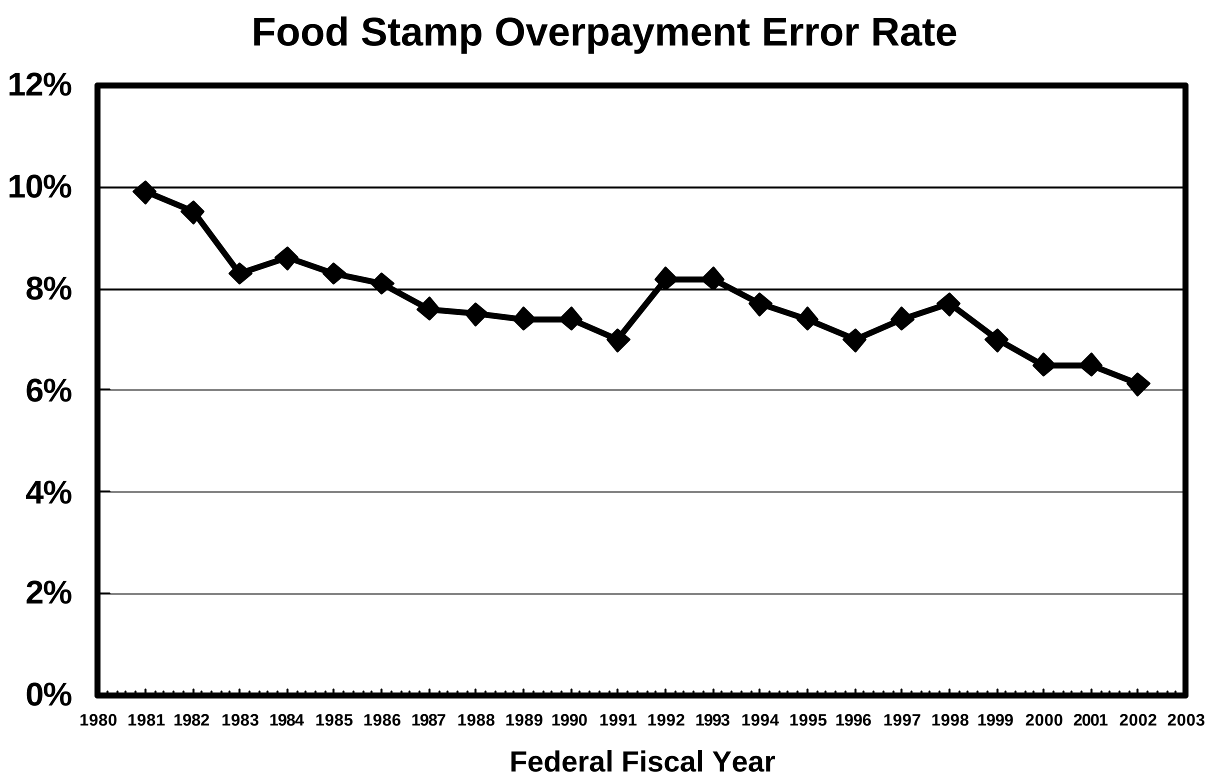
Appendix A

Figure 2



Appendix A

Figure 3



Source Quality Control Branch, Food and Nutrition Service, USDA

PASSED and **ADOPTED** by the Santa Clara County Civil Grand Jury on this 18th day of March 2004.

Richard H. Woodward
Foreperson

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Chart: FY 2001 Sanctions, California Unadjusted Sanctions $138,596,123 and Sanctions Adjusted for Earners and Aliens $115,755,306.

Chart: Food Stamp Error Rate, FFY 1999 to FFY 2002. (FFY means federal fiscal year)

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INTERVIEWS

Meetings with Santa Clara County Department of Employment and Benefit Services Managers, August 26, 2003 and March 5, 2004.