



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, WI 53702

Dear Senator Roessler and Representative Jeskewitz:

At your request, we have updated information provided in our July 2000 audit of the Food Stamp Program (report 00-8). That audit was undertaken based on concerns raised about Wisconsin's Food Stamp Program, when a series of reports issued in 1999 suggested that not all eligible individuals and families were receiving benefits to which they were entitled. In particular, a July 1999 report by the General Accounting Office indicated that as welfare reform measures were implemented nationally, the percentage decline in food stamp recipients was greater in Wisconsin than in any other state.

The largest decline in the number of food stamp recipients began in March 1995 and reached its lowest point in July 1999. Since that time, the number of recipients has grown, increasing from 304,020 in 1999 to 417,371 in 2002. However, Wisconsin's food stamp benefit payment error rate—the extent to which the dollar value of program benefits is calculated inaccurately for program participants—has not improved with respect to the national average. In fact, during federal fiscal year (FFY) 2000-01 and FFY 2001-02, Wisconsin's error rate has been at an historical high of 4.4 percentage points above the national average. Since FFY 1993-94, the federal government has imposed a total of \$10.6 million in sanctions as a result of Wisconsin's high error rates.

The federal Farm Security and Rural Investment Act of 2002, which is known as the Farm Bill, made a number of changes to the Food Stamp Program that are intended to reward states that demonstrate good performance in administering the program and helping working families. In addition, the State is required to spend \$6.2 million in federal funds through FFY 2004-05 on projects intended to improve the accuracy of food stamp benefit determinations. If the State does not reduce its error rate to the national average for benefits paid in FFY 2003-04, it will be required to repay the federal government \$871,500, and an additional \$871,500 if it does not meet the national average in FFY 2004-05.

I hope you find this information helpful. Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/PS/bm

cc: Helene Nelson, Secretary
Department of Health and Family Services

Enclosure

FOOD STAMP PROGRAM

The Food Stamp Program was created by the federal Food Stamp Act of 1964 to assist low-income families in purchasing food. The program is administered at the federal level by the Food and Nutrition Service of the United States Department of Agriculture (USDA). In Wisconsin, the program has been administered by the Department of Health and Family Services (DHFS) since July 1, 2002, and by the Department of Workforce Development prior to that time. The Legislature shifted administrative responsibility for the program, based in part on the findings of our July 2000 audit of the Food Stamp Program (report 00-8), which raised concerns about limiting recipients' access to food stamp benefits and the extent to which mistakes had been made in determining appropriate benefit levels.

Except for benefits to some qualified resident aliens, Food Stamp Program benefits are entirely federally funded. Program administration costs are shared equally by the State and the federal government. In fiscal year (FY) 2002-03, an average of 288,855 recipients participated in the program each month and received benefits totaling \$223.1 million for the fiscal year.

Trends in Program Participation

The most precipitous decline in the number of food stamp recipients began in March 1995. Between March 1995 and July 1999, which is the lowest point for food stamp participation in the past decade, the number of food stamp recipients declined by 45.2 percent. Since July 1999, the number of food stamp recipients has grown by 37.3 percent. As shown in Table 1, the annual number of food stamp recipients has increased since 1999, growing from 304,020 in that year to 417,371 in 2002.

Table 1

Food Stamp Program Participation

<u>Calendar Year</u>	<u>Annual Number Of Participants*</u>	<u>Percentage Change</u>
1995	448,723	---
1996	404,212	(9.9)%
1997	346,309	(14.3)
1998	309,635	(10.6)
1999	304,020	(1.8)
2000	326,202	7.3
2001	365,406	12.0
2002	417,371	14.2

Represents the unduplicated number of individuals who participated
* at any point during the year.

According to the Food Research and Action Center, a nonprofit and nonpartisan research and public policy center, Wisconsin had the highest percentage increase in food stamp participation (50.7 percent) among all states during the five-year period from March 1998 to March 2003. The Center based its conclusions on data from the USDA.

Accuracy of Benefit Calculations

In order to be consistent with W-2 and Medical Assistance program requirements, the State in October 1997 changed how benefits are determined from a system that used past income to a system that estimates future income. Because calculating benefits based on an estimate of future income can be less accurate than using historical income data, the USDA encouraged the State to implement shorter periods between recertification of recipients' eligibility for food stamp benefits. Beginning in October 1997, the Department required eligibility for food stamps to be recertified every three months, rather than every six months. This initiative did not reduce Wisconsin's benefit payment error rate and the Department reverted to six-month recertification periods in April 2001.

The benefit payment error rate includes instances in which the amount of benefits provided was either higher or lower than the amount for which the food stamp recipients were eligible. As shown in Table 2, Wisconsin's benefit payment error rate has been above the national average since at least federal fiscal year (FFY) 1994-95. Although Wisconsin's error rate declined in FFY 2001-02, the extent to which Wisconsin's error rate is above the national average has increased since FFY 1995-96, reaching a high of 4.4 percentage points above the national average in each of the past two federal fiscal years. As a result, Wisconsin had the third-worst error rate in the nation during these two years. Only California and Michigan had higher error rates than Wisconsin.

Table 2

Food Stamp Benefit Payment Error Rates

<u>Federal Fiscal Year</u>	<u>Wisconsin's Error Rate</u>	<u>National Average</u>	<u>Percentage Point Difference</u>
1994-95	12.2%	9.7%	2.5
1995-96	11.4	9.2	2.2
1996-97	13.7	9.8	3.9
1997-98	14.6	10.7	3.9
1998-99	13.4	9.9	3.5
1999-00	12.7	8.9	3.8
2000-01	13.1	8.7	4.4
2001-02	12.7	8.3	4.4

Based on calculations of USDA auditors, in FFY 2001-02, 9.2 percent of benefits paid in Wisconsin, with a value of \$18.1 million, were too high; 3.5 percent, with a value of \$6.9 million were too low. Because food stamps are federally funded, USDA can impose monetary sanctions on states with error rates above the national average. Since FFY 1993-94, USDA has imposed a total of \$10.6 million in sanctions for Wisconsin's high error rates. To date, rather than withholding or requiring the return of federal funds, USDA has allowed the State to reinvest the sanctioned amounts in programs and activities that attempt to improve payment accuracy.

It should be noted that special provisions apply to the \$3.5 million in sanctioned liability USDA has placed on the State for food stamp benefit calculation errors made in FFY 2001-02. Under the terms of an agreement between DHFS and USDA, the State must spend \$1.7 million on program improvements by the end of September 2005. Unless additional funds are appropriated, DHFS will need to identify funds within its existing appropriations to cover these costs. In addition, if Wisconsin's benefit payment error rate is not at or below the national average for FFY 2003-04, the State will be required to repay the federal government \$871,500, as well as repay an additional \$871,500 if Wisconsin does not meet the national average for FFY 2004-05.

DHFS officials believe that substantial progress has been made in reducing Wisconsin's food stamp benefit error rate. For the first seven months of FFY 2002-03, they have calculated an error rate of 9.5 percent. If this trend holds through the end of the year, it would represent a substantial decline in the State's error rate and reflect progress in addressing the problem.

National Changes in the Food Stamp Program

Reauthorization of the Food Stamp Program under the Farm Security and Rural Investment Act of 2002, known as the Farm Bill, has resulted in some program changes. Beginning in FFY 2002-03, USDA replaced its current system of quality control with a performance-based system that awards bonuses for exemplary achievements in payment accuracy and service to eligible households. However, states that have long-term benefit payment problems are still subject to monetary penalties, and the new rules may increase the likelihood that some states will be monetarily penalized. Under the new rules, states will be subject to monetary sanctions if their combined benefit payment error rates exceed 105 percent of the national average for two consecutive federal fiscal years.

In addition to changes affecting benefit error rates, the federal reauthorization of the Food Stamp Program has also led to a number of changes intended to benefit working families, who represent an increasing percentage of food stamp recipients. For example, these changes included:

- expanding from three months to five months the period during which states may provide food stamps to families who are transitioning into the workforce and would not otherwise remain eligible for the benefit;
- removing a cap on employment and training expense reimbursement for recipients participating in the food stamp employment and training program;
- modifying the standard fixed income deduction to one that varies with family size and increases with inflation, allowing many households to increase their level of benefits;

- raising the asset limit for a household with a disabled member from \$2,000 to \$3,000;
- allowing states to exclude certain types of income for the Food Stamp Program that it excludes as income from programs funded through Temporary Assistance for Needy Families or Medical Assistance programs; and
- simplifying the treatment of child care payments and the standard utility allowance.

Wisconsin has already taken action to implement many of the 2002 Farm Bill Provisions. For example, in October 2002, DHFS made policy changes modifying the standard fixed income deduction to one that varies with family size and reinstated food stamp eligibility for qualified aliens that receive a disability benefit. In 2003, it excluded student financial aid in determining income and excluded real property in counting assets; made the food stamp application available as a downloadable document from the DHFS website; and implemented a simplified change reporting policy. These changes did not require legislative review or approval.

State Efforts to Improve the Accuracy of Benefit Determinations

In June 2003, DHFS submitted a plan to the USDA regarding its proposal to address Wisconsin's payment error rate problem. This plan was submitted as a consolidation and update of five other existing plans and details numerous projects and activities intended to reduce Wisconsin's food stamp payment error rate. From FFY 1999-2000 through FFY 2004-05, DHFS has proposed to spend \$6.2 million on projects that it believes will reduce the statewide error rate to a level at or below the national average by FFY 2003-04, which includes the \$1.7 million it is required to spend on program improvements as a result of USDA sanctions for errors made in FFY 2001-02.

The projects include implementing program changes and enhancements to the Client Assistance for Reemployment and Economic Support (CARES) system, funding program improvement and payment accuracy staff, creating a reporting center in Milwaukee to address changes in the status of food stamp recipients that may affect their eligibility for program benefits, holding conferences and conducting workshops and other training sessions for eligibility determination workers, publishing updates to a desk aid reference for workers, and contracting with a private vendor to evaluate previous and current reinvestment activities undertaken by the State. A list of the projects and their estimated costs is shown in the Appendix. Although the projects included in the plan are subject to USDA review, we did not review them nor were they required to be reviewed or approved by the Legislature.

It should also be noted that in June 2003, DHFS was awarded a \$1.7 million USDA grant, which must be spent between June 2003 and March 2006. DHFS intends to use the grant funds to create a web-based customer services tool that will allow anyone with Internet access to assess their potential eligibility for food stamps, Medical Assistance, and other public assistance programs and to submit applications for these programs over the Internet.

Finally, changes in federal law and waivers of Food Stamp Program requirements, have allowed states to extend food stamp certification periods and reduce reporting requirements. Beginning in early 2004, DHFS plans to extend the certification period for most food stamp recipients to

12 months, while also making semi-annual efforts to collect information on changes in recipients' employment, income, and other conditions, as required by federal law.

Appendix

Wisconsin Food Stamp Reinvestment Plan Consolidation Projects

<u>Project</u>	<u>Description</u>	<u>Budget</u>
Improved record management	Creating capacity to scan verification documents and provide online filing in order to provide workers with immediate access to these data and enhance case management.	\$1,761,808
Payment accuracy staff	Devote staff to promoting payment accuracy by identifying food stamp errors within local agencies and coaching workers responsible for errors.	1,462,500
CARES support and training	Move to a 12-month certification period with semi-annual change reporting of recipient status.	695,000
CARES updates	Enhance computerized systems to reduce errors related to changes in recipient status.	416,500
Food stamp conferences and training	Provide training to approximately 450 food stamp staff through 2004.	396,000
Program improvement staff	Provide central office staff to work directly with a corrective action team and others on error reduction initiatives.	372,000
Local error reduction projects	Support local projects, such as local agency change tracking and recipient education projects.	278,027
Performance measurement	Contract with an outside vendor to evaluate reinvestment activities and evaluate the effectiveness of food stamp program administration.	208,722
Change center creation and operation	Work with Milwaukee County to create a food stamp change-reporting center in Milwaukee in order to reduce the frequency of changes that are not acted upon or not reported.	190,000
Corrective action staff	Provide staff to work directly with program improvement and other staff on error reduction initiatives.	174,000
Outreach to nontraditional retailers	Allocate funds to the Fondy Farmers Market to participate in the delivery of food stamp benefits. Work with several food pantries and hunger groups to promote food stamps in low-income population areas.	100,000
Interviewing skills training	Improve the interviewing skills of approximately 1,500 workers through statewide training.	85,000
Error rate improvement events	Host two events for local and state agency staff.	36,466
Recipient education projects	Implement a recipient education campaign—through mass mailings, posters, and other materials—to inform recipients on when, how, and what to report to their case worker.	25,000
Payment accuracy workshops	Work with other states to share ideas and best practices to improve food stamp program administration.	10,000
Food stamp desk aid kit	Update the desk aid kit (publishing and printing) as policy changes occur or clarifications are needed.	10,000
Total		\$6,221,023