

TESTIMONY OF
JULIE PARADIS, ADMINISTRATOR
FOOD AND NUTRITION SERVICE
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS, OVERSIGHT,
NUTRITION AND FORESTRY
JULY 28, 2010

Good Morning, Mr. Chairman and Members of the Committee. As the Administrator of the Food and Nutrition Service (FNS) at the United States Department of Agriculture (USDA), I am pleased to be here to discuss our work to ensure the integrity of the Supplemental Nutrition Assistance Program (SNAP) and our commitment to reach all eligible families with the assistance that they need and to which they are entitled.

SNAP is the largest program in the United States nutrition assistance safety net. It enables low-income families to buy nutritious food with electronic benefit transfer cards (or EBT cards) at authorized retail stores. SNAP ensures access to a more nutritious, healthful diet for over 40 million Americans each month. In addition, SNAP provides nutrition education to those eligible for and participating in the program. The goal of SNAP's nutrition education component is to improve the likelihood that persons eligible for SNAP will make healthy food choices within a limited budget and choose physically active lifestyles consistent with the Dietary Guidelines for Americans and MyPyramid.

While SNAP is operated by State governments, the Federal Government pays the full cost of SNAP benefits, more than \$50 billion for FY 2009, as well as approximately half of the expenses incurred by the States to administer the program. Given this substantial national investment, one of FNS's primary responsibilities is to ensure that SNAP benefits are accurately directed in

the correct amounts to those, and only those, who are eligible for them. FNS manages a nationwide Quality Control system that measures State performance for payment accuracy, provides bonuses for high-performing States, and directs corrective action for those with accuracy problems. Through this system of performance measurement and incentives, as well as other ongoing payment accuracy initiatives, FNS works actively with States to protect and maximize the impact of the taxpayer investment in this program.

THE CRITICAL ROLE OF PUBLIC CONFIDENCE

Those of you who know me are aware that I have spent much of my career working to promote and improve our Nation's nutrition assistance programs, including my work at the Department, in the private non-profit sector, and in support of this Committee. I know the critical importance of these programs to the lives of millions of low-income people across our country, and their reflection of America's commitment to ensure that, whatever other hardships they face, our people should not have to experience hunger.

I want to talk to you about program integrity in that context. For I have long recognized that the ongoing mission of SNAP and other nutrition assistance programs is not separable from strong and sustained attention to program integrity and stewardship of Federal funds. Waste and abuse draw scarce program resources away from the children and low-income people who need them the most – and we cannot afford such losses. Just as importantly, these programs are ultimately not sustainable without continued public confidence that their benefits go to those who qualify for them, are used appropriately, and achieve the purposes for which they are intended. My tenure as Administrator has only reinforced my conviction in this area. We simply cannot sustain the Nation's commitment to these programs without honoring and fulfilling the expectation that we can manage them with integrity. I recognize this matter is one of my, and one of our Agency's, fundamental responsibilities.

THE CHALLENGE OF RISING CASELOADS

Our discussion of these issues comes at a time of new challenges. There has been a substantial increase in participation in SNAP over the last few years. In April 2010, more than 40.4 million people received SNAP benefits, an increase of approximately 310,000 people from March. April is the seventeenth consecutive month that more people received SNAP benefits than at any time previously in the history of the program. The number of Americans receiving SNAP benefits has grown by more than 12 million in the last 24 months alone, an increase of nearly 44 percent. SNAP served more than 1 in 8 Americans in April 2010.

The Program is designed to respond to economic conditions, and the increase in participation reflects that it is responding as intended. That is the good news; however, these increasing caseloads have made it quite challenging for State agencies—many of whom have been coping with staffing reductions and budget cuts—to meet the demands. Yet, on June 24, Agriculture Secretary Tom Vilsack announced the SNAP national payment accuracy rate for FY 2009 had reached an all time high of 95.64 percent. The Secretary remarked that “program integrity is critical as participation in SNAP continues to grow to meet the nutrition needs of the most vulnerable Americans, and these results deliver on President Obama’s directive to decrease improper payments and protect taxpayer dollars...We are improving the accuracy and efficiency of program delivery while working to deliver on Obama administration efforts to reduce hunger and improve nutrition for people across the country.”

We are pleased to share this historic achievement with our State partners who are committed, along with FNS, to ensuring those who are eligible to participate in this critical nutrition assistance program receive the correct amount of benefits—not too much, not too little.

In fact, payment errors are less than half what they were ten years ago, dropping from 9.86 percent in FY 1999 to 4.36 percent in FY 2009. For the second straight year, SNAP’s national negative error rate also improved. Negative error rates measure whether States correctly deny, suspend, or terminate benefits.

Also on June 24, the Secretary awarded \$30 million in performance bonuses to eleven States

for exemplary achievement in payment accuracy in FY 2009. The eight States with the best payment accuracy rates and the two States with the most improved payment accuracy rates received a total of \$24 million. An additional \$6 million was provided to the four States with the lowest negative error rates and the two States with the most improved negative error rates.

This morning, I would like to give you an overview of how FNS and the States work together to prevent misuse of program benefits, while making every effort to make them readily accessible to eligible households. I will begin by describing our quality control process—this looks at how accurately States calculate the eligibility and benefits of households seeking SNAP help. Then, I will discuss the Administration’s and USDA’s current focus in ensuring quality control and payment accuracy. Finally, I will address our work with State partners related to intentional program violations by recipients as well as how we monitor retailers and guard against trafficking, the illegal exchange of benefits for cash or other non-allowable items.

QUALITY CONTROL

The SNAP payment accuracy rate is developed from a long-standing program integrity process called Quality Control (QC), a system mandated by the Food and Nutrition Act to determine the accuracy of the benefits authorized. In fact, in terms of eligibility, 98 percent of those certified for SNAP in FY 2009 were eligible for some level of benefit.

Every year, each State conducts a QC review of a random sample of its participating SNAP households and reports the findings to FNS. A QC review consists of a detailed examination of household non-financial and financial circumstances, including income, resources and deductions, to determine whether benefits were accurately authorized for active cases or improperly denied or terminated for negative cases. Subsequent Federal subsample reviews of a subsample of the States’ reviews verify the accuracy of the States’ determinations. A statistical adjustment uses both the Federal and State data to establish the error rates for each State. The National payment error rate is determined by calculating the weighted average of all of the individual State error rates.

FNS and organizations such as the National Association for Program Information and

Performance Measurement (NAPIPM), an affiliate of the American Public Human Services Association (APHSA), work together to improve and enhance the QC performance measurement system.

As I mentioned earlier, both overissuances and underissuances are important concerns to FNS. It is critical that payments are correct and that those who are eligible for the benefits receive the proper amount—not too much and not too little. So, for the most part, resolving errors is not about eliminating benefits to the wrong people, it is about getting the amount right. And that is where our payment accuracy initiatives come into play. The National Payment Accuracy Work Group, a group of subject matter experts from FNS headquarters and regional offices, monitor and evaluate payment accuracy progress, analyze error rate data, and exchange information on payment accuracy best practices and program improvement strategies. The group makes timely and useful payment accuracy-related information and tools available across regions and States.

An early detection system targets States that may be experiencing a higher incidence of payment errors based on preliminary QC data. States are arrayed based on error rate performance so that FNS can effectively and consistently deploy limited FNS resources for intervention and technical assistance to specific States in most need.

State partners must continue and renew their leadership commitment to excellence in payment accuracy. USDA provides leadership through interactions with State policy makers, including participation in meetings with State leaders; presentations at national, regional, and State conferences; and sponsoring regional meetings with State commissioners and SNAP directors with a direct focus on payment accuracy.

The State Exchange Program provides funds for States to travel to see where ideas for improvement have been successfully implemented and to participate in conferences where such ideas are presented.

When errors do occur, SNAP also has systems in place to aggressively recover erroneously issued benefits from SNAP recipients. Claims are established by State agencies against

households which have received more SNAP benefits than they should have. Households may pay back overissued benefits through reductions in their SNAP allotments or in a lump sum. In fiscal year 2009, States established a total of over \$367 million in new claims for overissuances to households and collected just under \$300 million. The Treasury Offset Program (TOP) offers another way to recover overissuances by reducing income tax refunds or other Federal payments to repay the SNAP debt. Since the establishment of TOP in 1992, FNS has collected more than \$1.2 billion in delinquent SNAP recipient claims.

IMPROPER PAYMENTS

On November 20, 2009, President Obama issued an Executive Order on Improper Payments intended to rein in improper payments while making sure that those who are eligible for government assistance continue to have access to these important Federal programs. One of the key messages of the Executive Order recognizes the interaction between program access and integrity. At USDA, we have a long standing commitment to these twin goals.

In addition, the Administration is committed to improved communication and collaboration among Federal agencies and departments which ultimately benefits clients who receive multiple Federal benefits and State workers who administer multiple benefit programs.

We are also working with the Office of Management and Budget, as well as many other Federal agencies and other stakeholders, on the Partnership Fund for Program Integrity Innovation (the Partnership Fund). The purpose of the Partnership Fund is to identify and test pilot projects to improve service delivery, payment accuracy and administrative efficiency for Federal assistance programs, including those administered by States or local agencies, while protecting access for program beneficiaries. The Partnership Fund will transfer resources to lead Federal agencies to execute selected pilots, and the results will be carefully evaluated. OMB has already set up a website called “Partner4Solutions.gov” where States, organizations, and members of the public can submit their best practices and innovative ideas.

INTENTIONAL PROGRAM VIOLATIONS

Only a very few households engage in intentional program violations (IPVs), such as purposely underreporting their income or overstating their household size in order to qualify for more benefits than they are entitled to receive. Such IPVs occur when a recipient intentionally makes false or misleading statements; misrepresents or withholds facts when applying for benefits; or commits any act that constitutes a violation of the Food and Nutrition Act, the SNAP regulations, or any State statute for the purpose of using or trafficking benefits. States are responsible for investigating and prosecuting IPVs. When State investigators find evidence of an IPV, a disqualification action against the accused is initiated. Individuals found to have committed an IPV are disqualified from participation in SNAP for a period of time ranging from 12 months to permanently, depending on the type of offense or number of offenses committed. Overpayments as a result of IPVs must be returned and the recipient is subject to criminal or administrative penalties. In fiscal year 2009, 50,145 recipients were disqualified from SNAP for IPVs. In fiscal year 2009, more than \$60 million in claims associated with IPVs were collected by State agencies. To defray their administrative costs and as an incentive to pursue IPVs, State agencies are allowed to retain 35 percent of the amount they collect for such claims.

TRAFFICKING

Trafficking, the illegal sale of SNAP benefits for cash or other non-allowable items, has decreased significantly over the past 15 years. The first trafficking assessment determined that \$811 million in program benefits were trafficked during fiscal year 1993. The most recent estimate, for the period 2002-2005, determined that trafficking diverted \$241 million in program benefits annually, or roughly, one cent of each benefit dollar. USDA is currently updating the trafficking study to cover the period 2006 through 2008. This study will be complete in fiscal year 2011.

The national implementation of electronic benefit transfer (EBT) as the issuance system for SNAP instead of paper coupons is credited in large part for the decrease in trafficking. While the overall rate of trafficking has declined, USDA has increased the number of retailers disqualified for trafficking. From 2000-2009, USDA permanently disqualified 7,677 retailers for trafficking - a 44 percent increase from the previous 10 year period, 1990-1999, when 5,338 retailers were

permanently disqualified for trafficking.

SNAP uses a retailer fraud detection system, the Anti-Fraud Locator for EBT Retailer Transactions (ALERT) system, to monitor electronic transaction activity and identify suspicious retail grocers for analysis and investigation. To continue strengthening our retailer fraud detection capabilities, USDA has begun moving toward a next generation ALERT system with new, more advanced technology and analytical tools available in the private sector. FNS has hired a contractor to develop this system and engage in continuous data mining efforts. The first phase of the next generation system, a database redesign which will support all other efforts, is expected to debut in calendar year 2011. Eventually, higher level analytics, such as link analysis, predictive models, and geo-spatial analysis will be introduced in subsequent steps.

The authorization of retail food stores for participating in SNAP and the oversight of these stores is a direct Federal function conducted by USDA. As of March 2010, there were close to 207,000 authorized retailers nationwide. In addition, USDA SNAP has a team of investigators across the country that conduct undercover investigations of stores suspected of trafficking or of not complying with program rules. Annually, over 4,000 investigations are conducted. Over 30 percent of these investigations result in civil monetary penalties and/or disqualifications for the sale of ineligible items or trafficking in benefits. Investigators inform overall USDA retailer integrity efforts with intelligence gathered on the ground, thereby helping USDA to further gauge the types of fraud found in the universe of licensed retailers.

FNS has a strong working partnership with the Department's Office of Inspector General (OIG) in fighting SNAP fraud and abuse. Their help and commitment has been and continues to be invaluable to our work protecting the program's integrity and public confidence in the program.

In 2006, the Government Accountability Office (GAO) conducted a study of SNAP trafficking. In the study, GAO acknowledged FNS for having taken advantage of EBT and technology to detect trafficking and disqualify retailers. GAO recommended however, that USDA better target its limited compliance monitoring resources by developing criteria to

identify stores most likely to traffic, and to use this criteria to conduct risk assessments and provide more targeted and earlier oversight of stores most likely to engage in trafficking. Since this report was published, USDA began implementing a risk-based approach to the licensing, reauthorization, and monitoring of SNAP retailers. GAO also recommended that USDA develop a strategy to increase the penalties for trafficking. The statutory penalty at the time for trafficking was permanent disqualification. As a result of GAO's recommendation, USDA pursued and received authority through Section 4132 of the 2008 Farm Bill to assess significant monetary penalties in addition to the permanent disqualification of trafficking retailers.

Finally, GAO recommended that USDA promote State efforts to pursue recipients suspected of trafficking. States are required to follow up on all cases of suspected recipient trafficking; however, the State determines whether or not they can make a case against a recipient for trafficking. FNS field offices work with States to share suspected recipient trafficking information and encourage States to use the EBT transaction data to follow up on suspected traffickers. Many States, however, struggle to devote scarce resources to investigating suspected traffickers. FNS continues to work with State partners to emphasize the importance of program integrity at every opportunity.

CONCLUSION

Mr. Chairman, our Department is very proud of the progress we have made in ensuring that SNAP benefits provide nutrition assistance and are well targeted and efficiently and accurately delivered to the nation's needy families. We appreciate our partnerships with State agencies and USDA's OIG to meet our goals in proper administration of the Program. We continue to seek opportunities and strategies that result in improved program administration and look forward to working with you as preparations get underway for the 2012 Farm Bill. We are committed to maintaining public confidence in our nutrition assistance programs by ensuring that Federal dollars are used for the purpose for which they were intended. And, as intended in the President's Executive Order, we are doing this in a way that is responsive to the President's directive that emphasizes transparency, accountability, and strong compliance incentives while also continuing to focus on removing barriers and increasing access for those who are eligible

but not yet participating, especially those from underrepresented populations such as seniors and Latinos. Throughout the history of SNAP, USDA has been committed to achieving both access and integrity in the program and that commitment remains strong today.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions at this time.