

Chapter One: Background and Objectives

This research on food stamp error rates has three major objectives:

- to examine recent year-to-year national trends in error rates as affected by three food stamp administrative processes—initial certification, interim action, and recertification;
- to examine state-by-state differences in error rates and to diagnose the performance of low-error and high-error states in terms of their effectiveness at conducting initial certification, interim action, and recertification; and
- to examine the extent to which more frequent recertification, as a measure intended to reduce payment error especially among cases with earnings, may also unintentionally reduce program participation.

This research uses a probability model to explain the underlying month-to-month dynamics of the annually measured food stamp case error rate and the level of food stamp participation among U.S. households.

The food stamp administrative processes examined here—initial certification, recertification, and interim action—influence the monthly opening and closing of food stamp cases, and the extent to which active food stamp cases are correctly or incorrectly paid. With respect to recertification, specific attention is given to both the accuracy of recertification decisions and the frequency of recertification. Of particular interest are the patterns of participation and error among cases with earnings. A motivating concern for this research is that the use of short certification periods (three months or less in duration) as a strategy to reduce error among cases with earnings may reduce program participation among such households; thus, some that are circumstantially eligible for assistance may be discouraged from participating by the added procedural requirements.

Two recent studies have provided evidence supporting the proposition that short certification periods tend to reduce food stamp participation for cases with earnings.

- Using national quality control (QC) data for 1990 through 2000, Kabbani and Wilde (2003) found that a 10-percentage-point increase in the proportion of cases subject to short certification periods was associated with a caseload decline of 2.6 percent for households with earnings. Under this same scenario, the corresponding reduction in the payment error rate was estimated at 0.8 percentage points (compared to the state average error rate of 13.1 percent).

- Kornfeld (2002) also obtained estimates of the effect on food stamp participation of a 10-percentage-point increase in the proportion of cases subject to short certification periods, using national QC data for 1987 through 1999. He found the associated caseload decline to be 2.3 percent for cases with adults living separately and 2.4 percent for cases comprised of multiple adults with children.

Trends in Food Stamp Participation and Error

To set the context for this research, we review here the major national trends in the rates of food stamp participation and error that occurred during federal fiscal years 1997 through 2001. This is the five-year period that followed the enactment of major federal policy reforms to cash assistance and food stamps under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (P.L. 104-193, enacted August 22, 1996 and first effective on October 1, 1996, the start of fiscal year 1997). Exhibit 1 shows key national statistics relating to food stamp participation. During this period the following national trends are noteworthy. (All of the changes noted here at the national level since 1997 are statistically significant, based on tests that make use of the standard errors of the national point estimates.)

- The monthly food stamp caseload declined from 9.452 million households in 1997 to 7.335 million in 2000, before rising to 7.450 million in 2001. The percentage of cases with earnings rose from 24.2 percent to 27.2 percent between 1997 and 2000 and then declined to 26.7 percent in 2001. The percentage of total benefits paid to cases with earnings also rose, from 26.8 percent to 33.7 percent between 1997 and 2000, and then dropped slightly to 33.3 percent in 2001.²
- Among individuals eligible for food stamps, the estimated participation rate declined from 64.0 percent in 1997 to 61.6 percent in 2001.³ For program-eligible individuals in households with earnings, the “conditional” participation rate fell slightly from 52.9 percent in 1997 to 52.1 percent in 2001. In both instances, the rate moved downward during 1998 and 1999 and then upward in the following two years.

² For a detailed analysis of the factors influencing food stamp caseloads between 1987 and 1999, see Kornfeld (2002).

³ Alternative estimates show national food stamp participation rates among program-eligibles that are higher in each year than those noted here, but with a similar trend over time. In Shirm and Castner (2002), the national participation rate was estimated at 60 percent for 1998, 58 percent for 1999, and 59 percent for 2000.

Exhibit 1: National Food Stamp Program Indicators, 1997-2001

	1997	1998	1999	2000	2001
Annual food stamp benefits (fiscal year, billions) ^a	\$19.5	\$16.9	\$15.8	\$15.0	\$15.5
Monthly food stamp caseload (households in thousands) ^a	9,452	8,246	7,670	7,335	7,450
Percentage of food stamp households with earnings (%) ^a	24.2	26.3	26.8	27.2	26.7
Percentage of benefits paid to households with earnings (%) ^b	26.8	30.2	33.1	33.7	33.3
“Conditional” participation rate (among eligible individuals, %) ^c					
Individuals in all households	64.0	59.8	58.8	59.7	61.6
Individuals in households with earnings	52.9	49.9	42.7	50.9	52.1
Average length of certification period (months) ^a					
Total food stamp households	9.9	9.9	9.7	9.6	9.7
Food stamp households with earnings	8.1	7.8	7.5	7.2	7.3
Cases with certification period of 3 months or less (%) ^a					
Total food stamp households	12.1	15.0	16.9	18.5	17.2
Food stamp households with earnings	25.6	30.5	32.9	36.5	33.1

Sources:

- Food and Nutrition Service, U.S. Department of Agriculture, "Characteristics of Food Stamp Households," fiscal years 1997-2001.
- Food and Nutrition Service, U.S. Department of Agriculture, "Food Stamp Quality Control Annual Report," fiscal years 1997-2001. Overpayment error includes payments to ineligible cases and overpayments to eligible cases. Underpayment error includes underpayments to eligible cases.
- Karen Cunnyingham, "Trends in Food Stamp Program Participation Rates: 1994 to 2000," Mathematica Policy Research, June 2002; and Karen Cunnyingham, "Trends in Food Stamp Program Participation Rates: 1999 to 2001," Mathematica Policy Research, July 2003. The indicated participation rates are for September of each year. We use the term "conditional" participation rate to distinguish this measure from the later-defined "aggregate" participation rate.
- Beginning in 2000, the error tolerance was raised from \$5 to \$25 in classifying eligible cases as overpaid or underpaid.

- The average length of assigned certification periods declined between 1997 and 2000, but then rose slightly in 2001. For total cases, the average length dropped from 9.9 to 9.7 months over the entire period. The reduction was more pronounced for cases with earnings, from 8.1 to 7.3 months. Exhibits A-1, A-2, and A-3 in Appendix A show the detailed distribution of food stamp households by length of certification period, for total households, households with earnings, and households without earnings, respectively.
- Contributing to the reduced average length of certification periods was the more prevalent use of certifications of three months or less. The percentage of all cases assigned to these “short” certification periods rose from 12.1 to 18.5 percent between 1997 and 2000, but then dropped to 17.2 percent in 2001. For cases with earnings, the corresponding increase was from 25.6 to 36.5 percent during 1997-2000, declining to 33.1 percent in 2001.

During this same time period, USDA allowed states increasing flexibility to adopt reporting systems that eased the requirements upon clients for reporting income changes or other circumstantial changes within a certification period. Some of the new options (such as quarterly or semiannual reporting) called for less frequent client reporting of changes affecting one’s eligibility or benefit. Other options (such as status reporting) limited the reporting requirement only to major shifts in one’s employment situation. This increasing federal flexibility was intended to encourage program participation, reduce administrative burdens, and help states control their error rates.

The trends in food stamp error rates during this period are somewhat difficult to track because of a change in error measurement instituted in 2000. Beginning in that year, the error tolerance was raised from \$5 to \$25 for eligible cases. Thus, eligible cases with variances of \$5 to \$24 are now considered correctly paid, although previously they were considered in error. This change did not affect the error findings for ineligible cases, which are considered in error (overpaid) regardless of their monthly benefit. Nor did this affect the error findings for negative actions (denials and terminations of assistance).

Exhibit 2 shows the national error rates during 1997-2001 for active cases and for negative actions (denials and terminations). For active cases, the exhibit shows both the dollar error rates (dollars in error as a percentage of total dollars paid) and case error rates (active cases in error as a percentage of total active cases); these error rates are shown for overpayment errors (payments to ineligible cases and overpayments to eligible cases), underpayment errors (underpayments to eligible cases), and combined errors.

Exhibit 2: National Food Stamp Error Rates, 1997-2001

	1997	1998	1999	2000	2001
Active cases^a					
Overpayment dollar error rate (%)	7.28	7.63	7.01	6.51 ^b	6.47 ^b
Underpayment dollar error rate (%)	2.47	3.07	2.85	2.40 ^b	2.19 ^b
Total dollar error rate (%)	9.75	10.70	9.86	8.91 ^b	8.66 ^b
Standard error (%)	0.17	0.17	0.18	0.18	0.18
 Overpayment case error rate (%)	15.18	15.98	14.27	9.92 ^b	9.54 ^b
Underpayment case error rate (%)	8.51	9.42	9.05	4.64 ^b	4.56 ^b
Total case error rate (%)	23.68	25.40	23.32	14.56 ^b	14.11 ^b
 Distribution of overpayment dollars (%)					
Households with earnings	38.17	43.57	49.14	49.83	53.21
Households without earnings	61.83	56.43	50.86	50.17	46.79
Total	100.00	100.00	100.00	100.00	100.00
 Negative actions (denials and terminations)^a					
Negative case error rate (%)	3.25	2.44	2.61	3.57	5.49

Sources:

- a. Food and Nutrition Service, U.S. Department of Agriculture, "Food Stamp Quality Control Annual Report," fiscal years 1997-2001. Overpayment error includes payments to ineligible cases and overpayments to eligible cases. Underpayment error includes underpayments to eligible cases. All estimates include Guam and Virgin Islands.
- b. Beginning in 2000, the error tolerance was raised from \$5 to \$25 in classifying eligible cases as overpaid or underpaid.

The published error rates for active cases generally rose slightly from 1997 to 1998, fell marginally from 1998 to 1999, fell dramatically from 1999 to 2000 (reflecting to some degree the change in error measurement), and then fell slightly from 2000 to 2001. In contrast, the negative case error rate rose between 1998 and 2001. It is important to note that all of these measures are sample-based and that some of the national year-to-year changes are not statistically significant. For the total dollar error rate (whose standard error is shown in Exhibit 2), all year-to-year changes are statistically significant except for that between 2000 and 2001.

During this period, errors among cases with earnings comprised an ever-growing share of national overpayment dollars. By 2001, as shown in Exhibit 2, such cases were responsible for 53.2 percent of overpayment dollars, much larger than their 26.7 percent share of active cases and their 33.3 percent share of total benefit dollars in that year (shown in Exhibit 1).

Developments in Food Stamp QC Policy

Since the early 1980s, food stamp error rates have been a focus of attention among states as a result of federal policies making states vulnerable to some loss of federal funds (“fiscal liabilities”) for failing to meet national error rate standards.⁴ During the period examined, the national error rate standard was the national average of the total dollar error rate.

Starting in 1998, the imposition of a liability on a state with an above-average error rate also depended on the share of the state’s caseload comprised of households with earnings and households with immigrants.⁵ For each state subject to a “potential liability,” an adjusted error rate was calculated by assuming that the caseload shares comprised by households with earners and households with immigrants equaled the national shares in a base year. (For liabilities in 1998 and 1999, the base year was 1996. Starting with 2000, the base year was moved back to 1992, to remove the effect on the adjustment formula of state welfare-to-work initiatives that raised the caseload share of working poor households between 1992 and 1996.)

Only those states whose unadjusted and adjusted error rates both exceeded the national average for a given year then became subject to an “adjusted liability.” The liability amount was calculated on a sliding scale, depending on the difference between the state’s adjusted error rate and the national average. The number of states subject to adjusted liabilities was 16 in 1998, 16 in 1999, 18 in 2000, and 15 in 2001. The adjusted liability amounts totaled \$27 million in 1998, \$31 million in 1999, \$46 million in 2000, and \$134 million in 2001. (Of

⁴ See Affholter and Kramer (1987), Chapter 3.

⁵ The following discussion draws heavily from Rosenbaum and Super (2001).

the total liability amount in 2001, \$114 million was associated with California, whose total dollar error rate was 17.37 percent.)⁶

States subject to adjusted liabilities typically entered into negotiation with USDA regarding federal collection of these sanctions. Under these settlements, USDA agreed to waive outright some liability amounts, with states committing to reinvest some amounts in management improvements aimed at reducing error. USDA also then regarded other liability amounts as “at risk,” or subject to future collection, if the state’s error rate performance did not improve in the following years.

Another component of food stamp QC policy has been the financial incentive of “enhanced funding” of administrative costs (normally matched federally at 50 percent) for states whose total dollar error rate is below 6 percent and whose negative case error rate is below the national average. As with fiscal liabilities, the amount of enhanced funding is computed on a sliding scale, depending on the difference between the state’s performance and 5.9 percent. The number of states subject to enhanced funding was 6 in 1998, 6 in 1999, 11 in 2000, and 10 in 2001. (The increase in the latter two years reflected in part the raising of the error threshold for eligible cases from \$5 to \$25.) The amount of enhanced funding in total was \$27 million in 1998, \$39 million in 1999, \$55 million in 2000, and \$52 million in 2001. (For each of these years, Texas accounted for more than half of the nationwide amount of enhanced funding.)

⁶ Food and Nutrition Service (May 24, 2002).