

ERROR RATE VS. FRAUD RATE IN CALIFORNIA

Food Stamp Error Rate

Last year, the United States Department of Agriculture charged California with a penalty of \$114 million based on California's high error rate. All states are responsible for maintaining a low food stamp error rate. States with an error rate above the national average are sanctioned by USDA.

Error rate is not a measure of fraud. It is a measure of whether caseworkers apply federal and state food stamp rules correctly and within federally mandated time frames. Errors occur when *administrative mistakes* result in an issuance of the wrong benefit amounts, benefits issued to ineligible people, or eligible people improperly denied or terminated. In California, overpayments account for 60 percent of inaccurate benefit amounts, while underpayments account for 40 percent of inaccuracies.

The vast majority of food stamp errors made in California result from "failure to act" on reported changes in income. Caseworkers are required to adjust benefits based on reported changes in income within 30 days. If caseworkers are unable to process the paperwork within the 30 day period, the failure to adjust benefits becomes an error.

California's monthly reporting system greatly increases the state's chance of errors based on "failure to act." Because of this system—which is scheduled to end early next year—county food stamp offices are required to process some 650,000 reports every month. In addition, roughly half of all families in California who receive food stamps are working, compared to 27 percent of all cases nationally. Because of the Food Stamp Program's complex rules and regulations, fluctuations in earned income makes it harder for caseworkers to calculate an accurate benefit.

Food Stamp Fraud

Given its strict eligibility and verification requirements, the federal Food Stamp Program is very successful in preventing fraud. Nationally, less than 2 percent of all benefits are issued to people who are committing fraud.

Multiple-aid fraud—the only type of fraud that the Statewide Fingerprint Imaging System (SFIS) can prevent—is extremely rare, accounting for less than 1 percent of all food stamp fraud investigations in California. Between March 1, 2000 and September 30, 2002, investigators using SFIS found only 45 cases of multiple-aid fraud out of a statewide caseload of almost 2 million people.

The biggest fraud-related concern within the food stamp program is trafficking, or the sale of food stamps for cash. A recent USDA study found that the extent of food stamp trafficking is relatively small. The rate of trafficking has fallen from four cents per benefit dollar in 1993 to an average of three and a half cents per benefit dollar in 1996 through 1998.

California's use of the electronic benefit transfer card (EBT) to issue food stamp benefits will significantly curb trafficking. With an EBT card, food stamp customers no longer receive paper food stamp coupons that can be sold. And because it generates an electronic record for each transaction at the grocery store, abuse involving retailers is easier to detect.

Food stamp fraud is a crime under federal law as well as state law. Both the federal government and California have active programs to prosecute and punish offenders.