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ADDRESSING WASTE, FRAUD, AND ABUSE IN FEDERAL CHILD NUTRITION PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON EARLY CHILDHOOD, ELEMENTARY, AND SECONDARY EDUCATION

COMMITTEE ON EDUCATION AND THE WORKFORCE

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

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ADDRESSING WASTE, FRAUD, AND ABUSE IN FEDERAL CHILD NUTRITION PROGRAMS

Tuesday, May 19, 2015
House of Representatives,
Subcommittee on Early Childhood, Elementary, and Secondary Education,
Committee on Education and the Workforce,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:02 a.m., in Room 2175, Rayburn House Office Building, Hon. Todd Rokita [chairman of the subcommittee] presiding.

Present: Representatives Rokita, Thompson, Brat, Carter, Curbelo, Fudge, Davis, Bonamici, Takano, and Clark.

Also present: Representatives Kline and Scott.

Staff present: Lauren Aronson, Press Secretary; Janelle Belland, Coalitions and Members Services Coordinator; Kathlyn Ehl, Professional Staff Member; Matthew Frame, Legislative Assistant; Tyler Hernandez, Press Secretary; Amy Raaf Jones, Director of Education and Human Resources Policy; Nancy Locke, Chief Clerk; Daniel Murner, Deputy Press Secretary; Krisann Pearce, General Counsel; Mandy Schaumburg, Education Deputy Director and Senior Counsel; Alissa Strawcutter, Deputy Clerk; Tylease Alli, Minority Clerk/Intern and Fellow Coordinator; Austin Barbera, Minority Staff Assistant; Kelly Broughan, Minority Education Policy Advisor; Denise Forte, Minority Staff Director; and Tina Hone, Minority Education Policy Director and Associate General Counsel.

Chairman ROKITA. Good morning. A quorum being present, the Subcommittee on Early Childhood, Elementary, and Secondary Education will come to order.

Welcome to today's subcommittee hearing. I would like to thank our witnesses for joining us to discuss ways to prevent waste, fraud, and abuse in federal child nutrition programs.

Last month the Committee on Education and the Workforce held a hearing to discuss the importance of federal child nutrition programs, many of which need to be reauthorized by Congress later this year. Members engaged in a robust discussion about these programs, and we understand the role healthy food plays in a child's physical, mental, and emotional development.

However, tackling waste, fraud, and abuse must be a priority as we work to ensure eligible students who are most in need have access to nutrition programs.

The federal government has long invested taxpayer dollars in programs that provide healthy meals and snacks to low-income students and families. Through the Richard B. Russell National School Lunch Act and the Child Nutrition Act, it is estimated Congress will spend over $21 billion this fiscal year on a number of programs that include the Supplemental Nutritional Program for Women, Infants, and Children, otherwise known to us as WIC; the National School Lunch Program; and the School Breakfast Program.

Congress has a responsibility to ensure taxpayer dollars are well spent. That is why we are here today.

Recent reports from independent government watchdogs raise concerns about waste, fraud, and abuse in the administration of these programs. These concerns should be shared by every member of the committee for two important reasons.

First, taxpayer dollars are being misdirected toward individuals who do not need, or are eligible for, federal assistance. The Government Accountability Office has uncovered several troubling examples of fraud and abuse in the WIC program. Reports have also found WIC recipients and vendors reselling supplemental foods to non-WIC-eligible individuals, defrauding the federally funded program for millions of dollars.

Unfortunately, the misuse of taxpayer dollars does not stop there. In the first review of payment errors since 2007, the Department of Agriculture found that in just one school year it made $2.7 billion of improper payments under the school lunch and breakfast programs. According to the Wall Street Journal, the majority of improper payments stemmed from individuals who received the benefits for which they did not qualify.

American taxpayers deserve better management and oversight, especially at a time when the national debt continues to reach new heights.

This brings me to the second reason why we are here today, and it is just as important. Each and every dollar spent on a federal program should have a direct, meaningful, and lasting impact on those it is intended to serve, not those looking to cheat the system.

We must ensure federal nutrition programs effectively and efficiently serve the low-income children and families who desperately need this assistance. As a witness from last month's child nutrition hearing so aptly put it, quote: "When we aren't able to give our children the nutrition they need, we fail them," unquote.

Again, it is Congress' responsibility to ensure this multibillion dollar investment in child nutrition is in fact reaching the students who need it the most. This committee is committed to that goal as it works to reauthorize these important programs.

We look forward to learning from our witnesses about how to improve the fiscal integrity of federal child nutrition programs in order to serve our nation's mothers, infants, children, and students who are most in need.

And with that, I will now recognize the ranking member, Congresswoman Fudge, for her opening remarks.

[The statement of Chairman Rokita follows:]

Prepared Statement of Hon. Todd Rokita, Chairman, Subcommittee on Early Childhood, Elementary, and Secondary Education

Good morning, and welcome to today's subcommittee hearing. I'd like to thank our witnesses for joining us to discuss ways to prevent waste, fraud, and abuse in federal child nutrition programs.

Last month, the Committee on Education and the Workforce held a hearing to discuss the importance of federal child nutrition programs, many of which need to be reauthorized by Congress later this year. Members engaged in a robust discussion about these programs, and we understand the role healthy food plays in a child's physical, mental, and emotional development. However, tackling waste, fraud, and abuse must be a priority as we work to ensure eligible students who are most in need have access to nutrition programs.

The federal government has long invested taxpayer dollars in programs that provide healthy meals and snacks to low-income students and families. Through the Richard B. Russell National School Lunch Act and the Child Nutrition Act, it is estimated Congress will spend over $21 billion this fiscal year on a number of programs that include the Supplemental Nutritional Program for Women, Infants, and Children or WIC, the National School Lunch Program, and the School Breakfast Program.

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First, taxpayer dollars are being misdirected toward individuals who do not need, or are eligible for, federal assistance. The Government Accountability Office has uncovered several troubling examples of fraud and abuse in the WIC program. Reports have also found WIC recipients and vendors reselling supplemental foods to non-WIC eligible individuals, defrauding the federally funded program for millions of dollars.

Unfortunately, the misuse of taxpayer dollars does not stop there. In the first review of payment errors since 2007, the Department of Agriculture found that in just one school year it made $2.7 billion of improper payments under the school lunch and breakfast programs. According to the Wall Street Journal, the majority of improper payments stemmed from individuals who received benefits for which they did not qualify. American taxpayers deserve better management and oversight, especially at a time when the national debt continues to reach new heights.

This brings me to the second reason why we are here today, and it is just as important. Each and every dollar spent on a federal program should have a direct, meaningful, and lasting impact on those it is intended to serve – not those looking to cheat the system. We must ensure federal nutrition programs effectively and efficiently serve the low-income children and families who desperately need this assistance. As a witness from last month's child nutrition hearing so aptly put it, "When we aren't able to give our children the nutrition they need, we fail them."

Again, it is Congress' responsibility to ensure this multi-billion dollar investment in child nutrition is in fact reaching the students who need it most. This committee is committed to that goal as it works to reauthorize these important programs. We look forward to learning from our witnesses about how to improve the fiscal integrity of federal child nutrition programs in order to serve our nation's mothers, infants, children, and students that are most in need.

With that, I will now recognize the ranking member, Congresswoman Fudge, for her opening remarks.

Ms. FUDGE. Thank you very much, Mr. Chairman.

And thank you, to the witnesses, for being here today.

Certainly I welcome the opportunity to discuss ways that we can improve the programs feeding the nation's children. However, I continue to be disheartened by the way that we word things.

The title of this hearing is "Addressing Waste, Fraud, and Abuse in Federal Child Nutrition Programs." These words are inflammatory and do not accurately describe what is going on in this country.

The first reports we will discuss today and the written testimony of our witnesses will focus on error rates in the school meals pro-

gram and the improper sales of infant formula as it pertains to the WIC program. Every federal dollar should be spent appropriately, and we should be concerned about correcting any and all errors.

I applaud the Food and Nutrition Service of the USDA for creating an Office of Program Integrity for child nutrition programs to tackle the issues of error rates. This office has developed solutions to reduce errors and continually assesses programs—program policies, operations, and procedures to ensure a better performance record.

Further, the USDA has acknowledged that it needs to strengthen its policy and provide clarity to states for identifying attempted sales of WIC benefits. That work is not complete, but I am encouraged that the USDA is taking the issue seriously and moving forward to address it.

As we listen to the witnesses this morning, let's not forget the big picture. There are hungry children in this country.

Approximately 15.8 million children, or about 21 percent of all children living in the United States of America, are food-insecure. According to USDA, about 22 percent of the children who are eligible to participate in school lunch programs are not enrolled. We should focus on how we reduce these numbers.

The desire to improve the efficiency of our child nutrition programs is a good one, but must not lead to more hungry and food-insecure children. We can improve efficiency while ensuring children get the nutritious foods they need.

I urge my colleagues to focus on how we do both.

I yield back.

[The statement of Ms. Fudge follows:]

Prepared Statement of Hon. Marcia L. Fudge, Ranking Member, Subcommittee on Early Childhood, Elementary, and Secondary Education

While I welcome the opportunity to discuss how we can improve the programs feeding our nation's children, I must say I am disheartened with the title of this hearing, "Addressing Waste, Fraud, and Abuse in Federal Child Nutrition Programs." These words are inflammatory and do not accurately describe what is taking place.

The five reports we will discuss today and the written testimony of our witnesses will focus on error rates in the school meals program and the improper sales of infant formula as it pertains to the WIC program.

Every federal dollar should be spent appropriately and we should be concerned about correcting any and all errors. I applaud the Food and Nutrition Service of the USDA for creating an Office of Program Integrity for Child Nutrition Programs to tackle the issue of error rates. This office has developed solutions to reduce errors and continually assesses program policies, operations, and procedures to ensure a better performance record.

Further, the USDA has acknowledged that it needs to strengthen its policy and provide clarity to states for identifying attempted sales of WIC benefits. That work is not complete, but I am encouraged that the USDA is taking the issue seriously, and moving forward to address it.

As we listen to the witnesses this morning, let's not forget the big picture...there are hungry children in America. Approximately 15.8 million children, or about 21.6% of all children living in the U.S., are food insecure. According to USDA, about 22% of the children who are eligible to participate in the school lunch program are not enrolled. We should focus on how we reduce these numbers.

The desire to improve the efficiency in our child nutrition programs is a good one, but must not lead to more hungry or food insecure children. We can improve efficiency while ensuring children get the nutritious foods they need. I urge my colleagues to focus on how we do both.

Chairman ROKITA. Thank the ranking member.

Pursuant to committee rule 7(c), all members will be permitted to submit written statements to be included in the permanent hearing record. And without objection, the hearing record will remain open for 14 days to allow such statements and other extraneous material referenced during the hearing to be submitted for the official hearing record.

I will now turn to the introduction of our distinguished witnesses.

First, Mr. Gil H. Harden is the assistant inspector general for audit at the Office of the Inspector General for the U.S. Department of Agriculture here in Washington, D.C. Mr. Harden is responsible for all audits of the Department of Agriculture and its worldwide operations and programs. He has audited in the areas of food safety, nutrition assistance, animal and plant health, marketing, business, housing, and utility loans and grants.

Welcome.

Next, Ms. Zoe Neuberger is a senior policy analyst with the Center on Budget and Policy Priorities here in Washington, D.C. Since joining the center in 2001, Ms. Neuberger has provided analytic and technical assistance on child nutrition programs, such as WIC and school meals, to policymakers and state-level nonprofit groups. Previously, she was the budget analyst for these programs at the White House Office of Management and Budget.

Welcome.

Next, Ms. Kay Brown is the director for education, workforce, and income security within the U.S. Government Accountability Office here in Washington, D.C. Ms. Brown is responsible for leading GAO's work related to child welfare, child care, domestic nutrition assistance, Temporary Assistance for Needy Families—TANF, and services for older adults. Before joining GAO, Ms. Brown worked as a caseworker and manager in the human services department for county government in Pennsylvania.

Welcome.

Ms. Jessica Lucas-Judy is the acting director of forensic audits and investigative service for the U.S. Government Accountability Office here in Washington. GAO's forensic audits and investigative service team performs forensic audits, internal control reviews, and special investigations targeted at vulnerable federal programs and funding, including a recent review of federal school meals programs. Since 2000, Ms. Lucas-Judy has led a range of projects spanning national security, social services, and transportation accessibility.

Welcome to you, as well.

I will now ask our witnesses to stand and raise your right hand.

[Witnesses sworn.]

Let the record reflect the witnesses answered in the affirmative.

And you may be seated. Thank you very much.

Now, before I recognize you to provide your testimony, let me briefly explain our lighting system.

You will have 5 minutes to present your testimony. When you begin, the light, of course, will be green; when there is 1 minute left it will turn yellow; and when it turns red you are out of time.

And that is a reminder for us up here as much as it is for you, so thank you for considering that.

And I will recognize the witnesses for 5 minutes of questioning starting with Mr. Harden. Thank you.

You are recognized for 5 minutes.

STATEMENT OF MR. GIL HARDEN, ASSISTANT INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. HARDEN. Good morning, Chairman Rokita, Ranking Member Fudge, and members of the subcommittee. Thank you for inviting me to testify about OIG's oversight of USDA's programs providing nutrition assistance to children.

The School Lunch; School Breakfast; and Special Supplemental Nutrition Program for Women, Infants, and Children have each been subjects of a recent OIG audit and investigative work. Our audits have highlighted a number of areas for improving program operations and effectiveness.

As you know, OIG's mission is to promote the efficiency and effectiveness of USDA programs by performing audits to reduce fraud, waste, and abuse. We perform audits designed to ascertain a program—if a program is functioning as intended, if program payments are reaching those they are intended to reach, and if funds are achieving the purpose for which they are intended to accomplish. When we find problems, we make recommendations we believe will help the agency better accomplish its mission.

As the official responsible for these audits, I will outline the results of our work on improper payments, participant eligibility in the School Lunch and School Breakfast Program, and WIC controls. I will also highlight the work conducted by our Office of Investigations.

In 2014 the School Lunch and School Breakfast Programs provided nutritionally balanced low-cost or free meals to approximately 31 million children each school day. The program serves a vital interest of ensuring that schoolchildren, often from the most vulnerable homes, attend their classes hunger-free and ready to learn.

However, these programs have experienced high rates of improper payments, particularly regarding participant eligibility. Together, the two programs cost $16.3 billion in fiscal year 2014.

In fiscal year 2009, the School Lunch Program improper payments cost taxpayers an estimated $1.4 billion. In response to improper payments legislation in 2010, USDA identified School Lunch and School Breakfast as high-risk programs. The department was then required to measure and report improper payment estimates for these two programs each year.

In fiscal year 2013, these programs continued to experience high rates of improper payments: approximately 25 percent for School Breakfast and approximately 16 percent for School Lunch. We noted similar results in our recent report on USDA's compliance reporting for fiscal year 2014, as well.

In our recent work we have evaluated methods that FNS used to lower its error rates for both programs and to ensure children approved for free and reduced-price meals met eligibility require-

ments. However, these programs are self-reporting programs. Unlike other FNS program, proof of income is not required.

School food authorities annually verify children's eligibility, sampling 3 percent of household applications approved for the school year. Those verifications indicate that the rate of misreported income may be high.

During school year 2012 and 2013, as a result of the annual verification process, school food authorities reduced or eliminated benefits for almost 108,000 of the more than 199,000 sampled households nationwide because the income claimed on applications was unsupported or excessive. OIG maintains that the shortest path to correcting these problems surrounding the programs could be by requiring families to submit income documentation with their applications.

In addition, school food authorities are required to verify any questionable application. This verification is an important control for reducing improper payments.

However, our recent work found that 44 of the 56 school food authorities we reviewed did not question any applications. We later identified 42 applications that were potentially questionable based on FNS' criteria.

In recent work pertaining to WIC, OIG found that FNS has worked with states to reduce food costs. However, FNS could achieve additional cost savings.

For example, we found that FNS' management evaluations did not always identify significant issues that may impact a state agency's food cost. And when FNS did identify the deficiencies at state agencies, it did not always ensure that those agencies took appropriate and timely corrective action.

Another audit of FNS' controls over vendor management in WIC also found that management evaluations did not identify and correct significant issues in the vendor management process.

Overall, our audit work has shown that FNS has many opportunities to improve program oversight. In some cases it needs to strengthen its own controls; in other cases it need to improve how it communicates requirements to local authorities.

Like our audits, OIG criminal investigations indicate the need to improve oversight. In fiscal year 2014 and 2015, investigations involving WIC, School Lunch, and the Child and Adult Care Food Program resulted in 93 convictions and $79.2 million in monetary results.

The majority of these results stem from a significant WIC case investigation in Georgia. To defraud WIC, this ring canvassed neighborhoods for WIC recipients and then bought their benefits for pennies on the dollar.

This concludes my statement. I want to again thank you for the opportunity to testify, and I welcome any questions.

[The statement of Mr. Harden follows:]

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

STATEMENT OF GIL H. HARDEN

ASSISTANT INSPECTOR GENERAL FOR AUDIT

Before the

Subcommittee on Early Childhood,
Elementary, and Secondary Education

Committee on Education and the Workforce

U.S. House of Representatives

May 19, 2015

Good morning, Chairman Rokita, Ranking Member Fudge, and Members of the Subcommittee. I thank you for inviting me to testify before you today to discuss the Office of Inspector General's (OIG) oversight of the Department of Agriculture's (USDA) programs providing nutrition assistance to children. Administered by the Food and Nutrition Service (FNS), the National School Lunch Program (NSLP), the School Breakfast Program (SBP), and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) have each been subjects of recent OIG audit and investigative work. Overall, our audits have highlighted a number of areas for improving program operations and effectiveness, while our investigations have focused on program fraud.

As you know, OIG's mission is to promote the efficiency and effectiveness of USDA programs by performing audits to reduce fraud, waste, and abuse. We perform audits designed to ascertain if a program is functioning as intended, if program payments are reaching those they are intended to reach, and if funds are achieving the purpose they were intended to accomplish. When we find problems, we make recommendations we believe will help the agency better accomplish its mission.

As the official responsible for these audits, I will outline today the results of OIG's work concerning these programs, including our work on improper payments, participant eligibility in NSLP, food service management company activities, and WIC controls. I will also briefly present highlights of the work conducted by my colleagues in our Office of Investigations.

NSLP and SBP

Serving a significant public need, the two programs operate in over 100,000 and 89,000 public and nonprofit private schools and residential child care institutions, respectively. NSLP and SBP

provided nutritionally balanced, low-cost or free meals to approximately 31 million children each school day in 2014. Together, the two programs cost a total of $16.3 billion in fiscal year (FY) 2014.

NSLP has been an area of concern for some time. On the one hand, the program serves the vital interest of ensuring that schoolchildren, often from the most vulnerable homes, attend their classes hunger-free and ready to learn; on the other, historically, NSLP has experienced high rates of improper payments, particularly regarding participant eligibility—viz., whether or not households truly qualify for free or reduced price lunches, based on their income.

Improper Payments

In FY 2009, NSLP improper payments cost taxpayers an estimated $1.453 billion (16.28 percent of total NSLP outlays). In response to the Improper Payments Elimination and Recovery Act of 2010 (IPERA),[1] USDA identified NSLP and SBP as high-risk programs, and therefore was required to measure and report improper payment estimates for those two programs each year. In FY 2013, these two programs continued to experience high rates of improper payments. That year, USDA reported improper payment estimates of greater than 10 percent—approximately 25 percent for SBP and 16 percent for NSLP.

FNS proposed corrective action to improve these rates, and OIG concluded that NSLP's corrective action plans were appropriate, reasonable, and in compliance with Office of Management and Budget (OMB) guidance.[2] As part of our review, however, OIG statisticians reviewed NSLP's econometric models, which is the methodology FNS used to report NSLP's

[1] Pub. L. No. 111-204, 124 Stat. 2224.
[2] Audit Report 50024-2-FM, *Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report Review*, March 2011.

annual improper payment estimates.[3] They concluded that the estimates do not include an assessment of precision for the interim estimates of annual improper payment rates. Without having precision associated with NSLP improper payment estimates, we cannot determine whether the estimates are likely to be close to the actual percentages of improper payments; therefore, we do not have any assurance of the accuracy of the estimates.

We also noted that FNS' methodology to report NSLP's annual improper payment estimates was outdated and would not include an assessment of precision for future years; therefore, we did not believe FNS estimates projected from this study were reliable.

Although FNS officials affirm that new tools and strategies included in the Healthy, Hunger-Free Kids Act of 2010[4] will help reduce errors in SBP and NSLP, they maintain that it would take time to reduce the programs' error rate below 10 percent. In FY 2013 and 2014, FNS reported that the error rates for these two programs remained above 10 percent. OIG also found that FNS' SBP, NSLP, and WIC missed their reduction targets for these programs.[5] We concluded that SBP and NSLP were not compliant with IPIA for a third consecutive year.[6] As required by the law,[7] USDA must submit to Congress proposed statutory changes necessary to bring these two programs into compliance.

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[3] November 2007 NSLP/SBP Access, Participation, Eligibility, and Certification (APEC) study. FNS released an update to this study—APEC II—in May 2015. OIG has not reviewed the findings of APEC II.
[4] Pub. L. No. 111-296, 124 Stat. 3183.
[5] The reductions targets for FNS' SBP, NSLP, and WIC were 24.36 percent, 15.10 percent, and 4 percent, respectively.
[6] Audit Report 50024-0005-11, *U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2013*, April 2014.
[7] Pub. L. No. 111-204, 124 Stat. 2234.

Self-Reporting of Eligibility Requirements

In our recent work, we have evaluated the methods that FNS used to lower its error rates for both NSLP and SBP.[8] Specifically, we determined if FNS, State agencies, and school food authorities (SFA) had adequate controls to ensure children approved for free and reduced-price meals met eligibility requirements. Children from families with incomes at or below 130 percent of the poverty level are eligible for free meals. Those with incomes between 130 percent and 185 percent of the poverty level are eligible for reduced-price meals.[9]

However, NSLP and SBP are self-reporting programs. Unlike other FNS programs such as the Supplemental Nutrition Assistance Program (SNAP) and WIC, where proof of income is required, FNS does not require households to submit income documentation with NSLP and SBP applications. Rather, households are only required to submit a completed application to SFAs; regulations allow eligibility to be approved based on the self-reported, unsupported information provided on the application. Statute requires SFAs to annually verify children's eligibility, sampling 3 percent of household applications approved for the school year.[10]

Those verifications indicate that the rate of misreported income may be high. During school year 2012-2013, as a result of the annual verification process, SFAs reduced or eliminated benefits for 107,974 of the 199,464 sampled households nationwide (about 54 percent) because the income claimed on the applications was unsupported or excessive. As a result, we estimated that FNS may have spent nearly $12.5 million on lunches for students who later had their benefits reduced or denied after being selected for verification. Further, a

[8] Audit Report 27601-0001-41, *FNS—National School Lunch and School Breakfast Programs*, May 2015.
[9] 42 U.S.C. § 1758(b)(1)(A).
[10] 42 U.S.C. § 1758(b)(3)(D)(iii)(I).

large majority of households determined to be eligible for NSLP and SBP based on household applications—at least 97 percent—are *not* selected for annual verification and may receive benefits solely based on self-reported income.

SFA employees whose children are enrolled in NSLP and SBP are an important potential indicator of noncompliance since SFAs have access to their own employees' salary information. Investigations by other agencies have found instances of program abuse. For example, in 2012, the Chicago Board of Education's Office of Inspector General reported 21 cases of principals and assistant principals who were found culpable of falsifying information on their applications. For example, the investigation found that an elementary school principal and his wife, a high school assistant principal, asked the principal's mother to submit an application for their children because their annual income together exceeded $230,000.

Although an adult household member must certify the NSLP application is accurate, there are almost no consequences when a household misrepresents its income to receive free or reduced meals. FNS stated that households who misreport income information on the applications are removed from the programs for that year, but, typically, there are no penalties imposed. Applicants who misreported information on previous applications are able to reapply for the programs the following school year and are processed without any additional verification, unless selected as part of the required sample or "verified for cause" (see below).

OIG maintains that many of the problems surrounding these programs could be corrected by requiring families to submit documentation of household income at the time they submit

applications. We note that the Secretary has the authority to determine what constitutes appropriate "documentation" of household income.[11] However, FNS officials told OIG that FNS cannot require additional documentation, other than an application, unless Congress amends the program. FNS officials stated this definition has been used for at least 20 years, and any departure from it would be a significant change requiring legislation. FNS officials acknowledged that, technically, FNS could propose changes to the regulations, but since it is a contentious issue, they believe that any change regarding the definition of documentation needs to have support from Congress.

FNS stressed, in its response to our report, that it would continue its efforts to improve controls over NSLP and SBP without seeking the changes in regulations that would be necessary to require proof of income when participants applied for the program. Agency officials stated that they "will continue the[ir] efforts of increasing direct certification and [the] Community Eligibility Provision [...] both successful strategies in improving Program Integrity and reducing erroneous payments."[12] OIG accepted this position, although we continue to believe that requiring proof of income at the time of application, as FNS does for other food benefit programs, is the shortest path to reducing the high rate of error in NSLP and SBP. We do not believe that requiring this information would constitute a significant administrative burden.

[11] 42 U.S.C. § 1758(d)(2).
[12] Direct certification uses information from certain means-tested assistance programs to automatically certify students for free meals. The Community Eligibility Provision allows high-poverty schools and districts to provide free meals to all students without needing to collect applications, certify individual students, or manage student payment accounts.

Verification for cause

In addition, SFAs are required to verify any questionable application, a process also referred to as "verification for cause." "Verification for cause" is an important control for reducing improper payments in NSLP and SBP. For example, after an SFA in Florida verified questionable applications in school year 2012-2013, 72 of 101 students (71 percent) were denied benefits or were recertified from free to reduced-price meals. Verification of questionable applications by a California SFA resulted in benefit reductions for 228 of 240 students (95 percent). However, for most of our sampled SFAs, this control was likely underused.

Our recent work found that, during school year 2012-2013, 44 of the 56 SFAs we reviewed did not question any applications, even though we later identified at least 42 potentially questionable applications based on FNS' criteria. This occurred because there were insufficient criteria for determining what constituted a questionable application and SFAs were allowed to choose whether to verify an application for cause on a case-by-case basis. As a result, SFAs interpreted the "verification for cause" requirement differently, subjecting both NSLP and SBP to potential increased improper payments.

Another OIG review of food service management companies found that FNS could do more to ensure that SFAs received the full benefits of purchase rebates and USDA-donated foods.[13] Of the 18 SFAs we reviewed, we identified significant issues at 11 SFAs, which did not have sufficient controls in place to monitor food contracts and school food service operations. FNS stated that it did not require training on how to manage these contracts because it believed that States and SFAs were in the best position to determine what kind of oversight steps they should

[13] Audit Report 27601-0001-23, *National School Lunch Program—Food Service Management Company Contracts*, January 2013.

perform. We questioned almost $1.7 million in unallowable food management company charges and in USDA-donated foods that could not be accounted for.

Overall, the challenges NSLP and SBP have faced in reducing improper payments are ongoing. In 2013, FNS missed its reduction targets by about 0.59 percent and 0.90 percent, respectively. FNS officials stated that they believed that their corrective actions noted in the agency's action plan would reduce payment errors in these programs, and that missing its targets by less than one percent was reasonable and within the confidence interval calculated for its sampling methods.

Because NSLP has not complied with IPIA for 3 consecutive years, USDA is required by law to submit to Congress reauthorization proposals or proposed statutory changes necessary to bring high-risk programs into compliance.[14]

WIC

In recent work pertaining to WIC, OIG found that, though FNS has worked with State agencies to reduce food costs, FNS could achieve additional cost savings.[15] FNS regards its management evaluations (ME) as WIC's main oversight tool, but the evaluations themselves, as well as the ME process, have several weaknesses. For example, we found that MEs did not always identify significant issues that may impact a State agency's food costs, and when FNS did identify deficiencies at State agencies, it did not always ensure that those agencies took appropriate and timely corrective actions. We identified over $19.7 million in savings that could be realized by improving the ME process. Finally, although FNS is aware of policies that various State agencies have implemented to reduce their food costs, it has not evaluated those policies for

[14] Pub. L. No. 111-204, 124 Stat. 2234.
[15] Audit Report 27004-0001-22, *State Agencies' Food Costs for the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infants, and Children*, September 2014.

program-wide implementation. Not evaluating these policies and their implications has led to missed cost saving opportunities. We recommended that FNS develop a national strategy to reduce WIC food costs, including correcting issues identified in the States reviewed and ensuring broader implementation of policies to lower average food costs.

Another audit of FNS' controls over vendor management and participant eligibility in WIC also found problems with FNS' MEs.[16] In this instance, we found that these evaluations did not identify and correct significant issues in the vendor management processes at two State agencies operating WIC. These agencies lacked sufficient controls to track vendor violations for 42 vendors (2 in Illinois and 40 in Florida), and ensure timely and appropriate sanctions. As a result, these vendors were not disqualified, as required, and could redeem an estimated $6.6 million in WIC benefits during their required periods of disqualification.

Overall, our audit work has shown that FNS has many opportunities to improve how it oversees NSLP, SBP, and WIC. In some cases, it needs to strengthen its own controls directly. In other cases, it needs to improve how it communicates requirements to local authorities that operate the program.

Investigations into Program Fraud

Like our audits, OIG criminal investigations indicate the need to improve oversight of food nutrition programs for children, though our investigations focus more on instances of fraud in these programs. In FY 2014 through May 12, 2015, investigations involving WIC, NSLP and the Child and Adult Care Food Program resulted in 93 convictions and $79.2 million in monetary

[16] Audit Report 27601-0038-Ch, *Vendor Management in the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)*, March 2013.

results. The majority of the convictions and monetary results stem from a significant WIC investigation in Georgia. This investigation determined that a criminal ring opened multiple stores to defraud WIC, depositing over $19 million in WIC vouchers into their bank accounts. This ring canvassed neighborhoods for WIC recipients, and then bought their benefits for pennies on the dollar.

Our investigative work in NSLP recently led to a New Jersey public school district agreeing to credit NSLP $272,810 as well as pay $49,500 in civil penalties. Between 2008 and 2014, the school's board of education had the district's food service employees cater elaborate events with the costs for food and service being absorbed by NSLP funds. Our investigation disclosed that, over a six year period, the district failed to collect, reimburse, or apply $182,243 to its lunch program for catering services that were provided to its Board of Directors and $90,567 for catering services provided to various schools, principals, and administrators within the district for other special functions.

This concludes my written statement. I want to again thank the Chair, the Ranking Member, and Members of the Subcommittee for the opportunity to testify today. I welcome any questions you may have.

Chairman ROKITA. Thank you, Mr. Harden.

Ms. Neuberger, you are recognized for 5 minutes.

STATEMENT OF MS. ZOE NEUBERGER, SENIOR POLICY ANALYST, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, D.C.

Ms. NEUBERGER. Thank you very much for the invitation to testify on improving accuracy in the school meal programs and WIC. I am a senior policy analyst at the Center on Budget and Policy Priorities, a nonprofit policy institute that conducts research and analysis on budget and tax policy as well as poverty and social programs.

WIC and the school meal programs have a proven track record of promoting healthy growth and learning by providing nutritional support to our nation's children. WIC is both extremely effective and efficient, ensuring that our youngest children get proper nutrition during a critical period of development.

Likewise, school meals bolster nutrition throughout childhood. The roughly 30 million children who eat school lunch on a typical school day include more than 21 million low-income children for whom school meals may be the healthiest and most reliable meals they get.

Nearly 100,000 schools operate the meal programs—processing applications, providing healthy meals, and tracking individual students' eligibility to claim the appropriate federal reimbursement. Their work means that we have fewer hungry children and our students are better prepared to learn.

But it is essential for them to administer the programs accurately. The Department of Agriculture estimated that the Federal Government spent $444 million a couple of years ago on reimbursements for lunches that didn't meet nutrition standards. That is not acceptable.

The school meal programs must make sure that federal funds are used for meals that meet federal criteria. Fortunately, we have got some powerful tools to address the issue.

The verification process, which checks a sample of meal applications; a rigorous new review process; and a recent USDA study that gives a great deal of information about the causes of errors, which can facilitate effective policy solutions.

But there are also challenges to improving accuracy in a vast and complex system whose main focus is to educate children, not administer the meal programs. Schools aren't set up to do the kind of eligibility determinations that other public benefit programs do.

SNAP and Medicaid, for example, have teams of professional eligibility workers who spend all day every day sorting out the details of applications' income of household circumstances. A school might only have a cafeteria-worker or secretary who handles meal applications for a few weeks at the start of each year.

So given the tools at the program's disposal, how can Congress improve accuracy in the meal programs? An example can help show the way.

Beginning with the 2004 reauthorization and building on that in 2010, Congress set a clear expectation for school districts and states to make better use of the rigorous eligibility determinations

made by other programs, primarily SNAP, to approve children for free meals automatically. This saves time and reduces errors.

In the past decade we have seen striking improvement. Now, nearly half of children approved for free or reduced-price meals don't have to complete an application. Congress played an important role here by setting an expectation and then providing the tools and support to meet it.

My written testimony describes many other tailored steps Congress and USDA have taken to strengthen the school meal programs and WIC, but there is certainly room to do more. It is important to strengthen management and oversight across the board, provide more help to school districts that persistently struggle with errors, and pursue innovations that could open up new ways to improve accuracy.

For example, GAO recommends exploring the use of data-matching to identify school meal applications that might have incorrect information. That is worth trying.

USDA plans to develop a model electronic school meal application. That is another promising innovation.

WIC is moving toward offering benefits electronically, rather than relying on paper vouchers, which helps prevent errors and allows states to strengthen their vendor oversight while also reducing stigma for program participants.

As you develop ways to improve accuracy in these programs, I urge you to consider four questions.

First, does the proposal have a proven record of reducing error? Some ideas that sound promising, like requiring a household to submit pay stubs with their school meal application, have not been effective when tested.

Second, will it maintain program access for the most vulnerable children? Nearly 16 million children live in food-insecure households. We certainly don't want to worsen that problem.

Third, is it administratively feasible? Adopting a more time-consuming documentation or verification system might prevent some errors, but it could cause others by adding a step to the process, and it would force school staff to spend much more time determining school meal eligibility at the expense of other educational priorities.

Fourth, is it cost-effective? High-quality information management systems can be very effective but might cost too much for a small school district.

As I noted, it is critical that error reduction strategies not reduce access to school meals or WIC benefits for children who need them. The best way to improve integrity in these programs is not through punitive policy, but instead to continue sending a clear message to program officials that accuracy is important, that it will be measured, and that federal officials will support them in implementing needed improvements.

Thank you.

[The statement of Ms. Neuberger follows:]

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May 19, 2015

Testimony of Zoë Neuberger, Senior Policy Analyst, Before the House Education and the Workforce Subcommittee on Early Childhood, Elementary, and Secondary Education

Thank you for the invitation to testify today. I am pleased to be able to speak to you about accuracy and integrity in the school meal programs and WIC. I am Zoë Neuberger, a Senior Policy Analyst at the Center on Budget and Policy Priorities, where I have worked for 14 years. We are a Washington, D.C.-based policy institute that conducts research and analysis on budget, tax, and economic policy, policies related to poverty, and a number of social programs. The Center has no government contracts and accepts no government funds.

Part 1: The School Meal Programs

The National School Lunch and School Breakfast Programs play a critical role in ensuring that our nation's children are well nourished so they can learn and thrive. On a typical school day, these programs provide meals to more than 30 million children, nearly three in four of whom (72 percent) qualify for free or reduced-price meals due to their families' economic circumstances. Despite improvements in the economy since the recession, many families continue to struggle to afford basic necessities, like food and housing, each day. Nearly 16 million children live in a household experiencing food insecurity; 8.5 million children live in a household where children, not just adults, experience food insecurity. The federal food assistance programs, including school meals, play an important role in shielding children from hunger.

Hungry children can find it hard to focus and to perform in the classroom. School meals can help make their time in school more successful. Research shows, for example, that eating breakfast at school improves student achievement, diet, and behavior. In addition to helping meet children's immediate needs, the school meal programs yield longer-term benefits. Low-income children are more likely to face chronic health and developmental difficulties, which can have lasting negative consequences. Receiving healthy meals at school can mitigate the risk.

Making sure that eligible low-income children can access breakfasts and lunches, which support a successful school day and healthier lives, is the most fundamental goal of the school meal programs. We recommend that the Committee place top priority during the reauthorization process on

strengthening the programs to ensure that they continue meeting the needs of eligible low-income children.

At the same time, the programs must also endeavor to ensure that federal meal subsidies are provided only for meals that meet program requirements and only to children who qualify for them. Delivering the correct benefit to each child is a fundamental aspect of sound stewardship and a core responsibility of the programs. Moreover, public support of these very important programs is compromised if federal funds are not used as intended due to problems with program administration and operation.

My testimony will address this issue in four sections: a review of the school meal eligibility determination and counting and claiming processes, a discussion about the kinds of errors that occur during these processes, a review of the efforts in the 2004 reauthorization law to address errors, and a framework for assessing error-reduction policy proposals, including steps already taken as well as recommendations for areas to explore to make further progress on improving program accuracy.

TABLE 1

School Breakfast Program 2014-2015 Reimbursement Rates*

Meal Category	Rate**
Free	$1.62
Reduced Price	$1.32
Paid	$0.28

*These rates apply in the contiguous states. For the higher rates for Alaska and Hawaii, see http://www.fns.usda.gov/sites/default/files/cn/NAPs14-15chart.pdf.

**Schools that serve more than 40 percent of their lunches to children who qualify for free or reduced-price meals (among other criteria) receive an extra 31 cents in "severe need" reimbursement for each free or reduced-price breakfast.

Eligibility for Federal School Meals Subsidies

Generally, public or nonprofit private schools may participate in the school lunch or breakfast program. The school districts that choose to take part get cash subsidies from the U.S. Department of Agriculture (USDA) for each meal they serve; they also receive some foods for each lunch they serve. In return, they must serve meals that meet federal requirements and must offer free or reduced-price meals to eligible children.

TABLE 2

National School Lunch Program 2014-2015 Reimbursement Rates*

Meal category	Rate**
Free	$2.98
Reduced Price	$2.58
Paid	$0.28

* These rates apply in the contiguous states. For the higher rates for Alaska and Hawaii, see http://www.fns.usda.gov/sites/default/files/cn/NAPs14-15chart.pdf.

**School districts that serve more than 60 percent of their lunches to children who qualify for free or reduced-price meals receive an extra 6 cents per meal for each meal category. Each meal, regardless of category, also receives 24.75 cents worth of commodities from the federal government.

Any child at a participating school may purchase a meal through the National School Lunch Program or the School Breakfast Program. Children from families with incomes at or below 130 percent of the poverty level are eligible for free meals. Those with incomes above 130 percent and at or below 185 percent of the poverty level are eligible for reduced-price meals, for which students can be charged no more than 40 cents for lunch or 30 cents for breakfast. (For the period July 1, 2014, through June 30, 2015, 130 percent of the poverty level is $31,005 for a family of four; 185 percent is $44,123.) Children from families with incomes over 185 percent of poverty pay a full price, though their meals are still subsidized to some

extent. Local school food authorities set their own prices for full-price (paid) meals but must operate their meal services as non-profit programs.

Most of the support USDA provides to school districts through the school meal programs takes the form of a cash reimbursement for each meal served. School districts receive no additional federal funds for administrative costs. Tables 1 and 2 show the current (July 1, 2014 through June 30, 2015) basic cash reimbursement rates for breakfasts and lunches.

Eligibility Determination Process

Schools must determine which subsidy category students qualify for through an eligibility process. A single determination is made for breakfast and lunch. Federal rules govern eligibility determinations, although they are operationalized in different ways across the roughly 100,000 schools that participate in the meal programs. These schools are spread across over 13,000 school districts, which range from small rural, or charter, districts with a single school to large school systems that serve hundreds of thousands of students daily.

Certification

When possible, children are approved for free meals based on information from another program, a process known as "direct certification." Children receiving Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) or cash assistance benefits, for example, can be directly certified based on a data-matching process between a student database and the state's human services database. Children who are homeless can be directly certified if identified by the district's designated "homeless liaison." Once approved, children remain eligible for free meals for the rest of the school year, even if household circumstances change.

Children who are not directly certified and whose parents seek help from the free or reduced-price meal programs must apply. The application is often distributed as part of the package of enrollment forms at the start of the school year. Parents typically complete these forms on their own, without assistance. If they have a question about whether to include a certain kind of income, what "gross" income means, or whether to list a relative who's staying with them, clarifications may not be readily available. They could try to find the instructions online or seek out someone at the school to help, but they may instead do their best to provide the information they believe is asked for. If they make a mistake, it would be considered a "household error" that may affect eligibility.

Once a family submits an application, someone at the school or district must review it to calculate household size and income and compare them to federal poverty guidelines. Reviewing applications is rarely a school district employee's expertise or full-time job, as meal applications are submitted and processed primarily in the weeks just before the school year starts. Often, school officials process applications for just a small portion of the year while juggling many responsibilities. If the data from a paper application has to be entered into an electronic system, data entry errors can be made. When adding up income for multiple sources and multiple people, math errors can be made. More and more schools use electronic systems, which reduce opportunities for such errors, but many families still submit paper applications, and in some places that is the only option.

Verification

Once a child is approved based on an application, he or she receives free or reduced-price meals for the remainder of the school year unless the application is selected for eligibility verification. Under the annual verification process, a small sample of applications is selected and the school district must make sure that a correct determination was made based on the information on the application; then, the district confirms the child's eligibility again by obtaining documentation from a third party or the family. Verification is an important part of the eligibility process. It helps reinforce to districts and families the importance of accurate eligibility determinations. And, when the verification process catches errors, it can provide useful information to program operators about potential deficiencies in application and review processes.

If the school district cannot verify eligibility from a third-party source such as the state's human services office (which can inform the school whether the child is enrolled in SNAP, cash assistance, or Medicaid), it must contact the household to ask for documentation of the child's eligibility. If the household does not respond, the child's free or reduced-price meals are terminated. If the household provides satisfactory documentation, the district uses it to assess whether the child may continue to receive free or reduced-price meals.

Usually the verification sample is 3 percent of approved applications (capped at 3,000 in larger districts), selected from applications where monthly income is within $100 of the limit for free or reduced-price meals. The law targets those with reported income close to the limit because these applications are considered error prone. The process also is designed to encourage districts to obtain documentation from households. This is important because:

- The goal is to verify households' eligibility by reviewing their circumstances.
- Some households may need assistance to understand the verification process.
- Children in households that do not reply lose access to free or reduced-price school meals.

To encourage districts to obtain verification rather than terminate benefits to households, districts that successfully lower their non-response rate can choose the next year between a smaller sample size and selecting the sample at random from all approved applications, either of which is easier than the standard approach.

For the 2013-2014 school year, 35 percent of families selected for verification did not respond and their children stopped receiving free or reduced-price meals, regardless of whether they were actually eligible. The initial eligibility determination was confirmed for 38 percent of verified applications, changed for 24 percent to reduce the subsidy level, and changed for 2 percent to raise the subsidy level. It is important to note that these rates cannot be applied to the whole program because the verification system focuses on the most error-prone certifications.

In addition to this standard annual verification process, school districts must seek documentation of eligibility from applicants if they have reason to believe that the information on a household application is incorrect. This may occur, for example, if a parent employed by the school district does not list his or her correct income information or if the family has completed another form and provided different information. This is called "verification for cause."

The Government Accountability Office's (GAO) 2014 report on school meal verification, *USDA Has Enhanced Controls, but Additional Verification Could Help Ensure Legitimate Program Access*, and this week's report from USDA's Office of the Inspector General (OIG) on its audit of the National School Lunch and School Breakfast Programs, noted that some school districts do not use verification for cause because they are uncertain about the circumstances under which it is permitted. USDA issued guidance in February 2012 clarifying that school districts may use data on the salaries of district employees to identify applications with questionable income data for purposes of conducting verification for cause and added examples of appropriate circumstances in which to conduct verification for cause in the August 2014 *Eligibility Manual for School Meals*.

If a child's free or reduced-price meals are terminated as a result of verification, the family can reapply at any time but must provide income documentation along with the application.

Counting and Claiming Process

As noted above, in order for a meal to qualify for a federal subsidy, the school must ensure that the meal meets basic federal nutrition standards, count the meal to obtain reimbursement, and identify whether the child qualifies for the free, reduced-price, or paid subsidy rate. If the child is in the paid category, the school's meal fee is also collected. The counts of children by meal category must be tallied across schools and then submitted by the district to the state child nutrition program office for reimbursement. This aspect of the program is called the "counting and claiming process." It is another area where errors can occur.

Most of the aforementioned activities typically occur at the "point of service," which may be a cafeteria checkout line or the classroom. This process can be rushed. In many districts, students have less than 30 minutes for lunch, which includes time to wait in line, select their food, stop at the register, and eat. In some districts, the person operating the register may have little training or support. Errors in this area, known as "operational errors," are therefore not surprising. Research show that they tend to be concentrated in a limited number of school districts.

Overall, the processes for making eligibility determinations as well as counting and claiming meals for correct reimbursement aim to maximize program accuracy while being navigable for families and administratively feasible for schools and cost-effective for the program.

Assessing Errors in the School Meal Programs

USDA oversees the annual verification process and monitors school meal program accuracy. Every few years, USDA conducts the *Access, Participation, Eligibility and Certification* (APEC) study; the one released this week examined the 2012-2013 school year and built on one for the 2005-2006 school year. This study entails a comprehensive review of program accuracy with respect to eligibility and reimbursements. Household interviews are conducted to determine whether students were certified for the right category and whether the verification process resulted in needed corrections. Monitors observe cafeterias to determine whether only meals that meet nutrition standards are reimbursed and to determine whether schools count and claims meals accurately. The report helps make transparent the areas where errors occur and the ways in which state child nutrition and district officials can help schools improve accuracy.

The APEC report serves as a comprehensive audit of how well the program is managing each of these steps. In addition, it helps clarify the types of errors that occur:

- Certification errors that result from household errors, including math errors, unintentional mistakes, and deliberate misreporting;
- Certification errors that result from school clerk errors, including data entry errors, math errors, and fraud; and
- Counting and claiming errors, including reimbursements for meals that do not meet nutrition standards and math errors when tallying meals across a district or state.

In each category, APEC disaggregates overpayments and underpayments, which allows for a calculation of net costs and helps target interventions. Although the overall extent of improper payments remains consistent with the levels found in the earlier study, the share of children approved for the wrong meal category has been reduced slightly and errors associated with incorrectly tallying meal counts have been greatly reduced.

Certification Errors

Certification errors are mistakes by school staff or parents that cause children to receive higher or lower subsidies than they qualify for.

Household errors can result when a parent reports take-home pay net of withholding, instead of gross pay, on a school meal application or calculates a household's monthly income by multiplying its weekly income by 4 instead of 4.33 (the number of weeks in the average month). Consider a household of four with weekly earnings of $610. Calculating their monthly income by multiplying that figure by 4 would result in $2,440, whereas multiplying by 4.3 would result in $2,623. The former monthly income qualifies for free meals; the latter qualifies for reduced-price meals.

Similarly, forgetting to include a household member, such as a grandparent, on an application can result in overstating the household's income relative to the poverty line. As a result, the children in the household might get a lower subsidy than they qualify for.

Household errors also include intentional misstating of income in order to qualify for free or reduced-price meals. There is often no way to distinguish an accidental misstatement of income from a deliberate one, but it is important to recognize that most errors are likely unintentional. Nearly three-quarters (74 percent) of the underpayments associated with certification errors that APEC found for the 2012-2013 school year resulted from incorrect reporting by households. Because these households are unlikely to have deliberately reported information that reduced their own benefits, this finding highlights some parents' difficulty in understanding school meal applications.

Examples of administrative certification errors by school districts include transposing a number when entering data from a paper application into a data management system, applying the wrong income threshold, and making a math error when combining income obtained from multiple sources at different frequencies.

Operational Errors

While the focus of the May 2014 GAO report and this week's OIG report is the eligibility determination process, it is important to keep in mind that eligibility is only one source of program error. Operational errors are administrative mistakes by cashiers or school administrative staff that result in miscounts of the number of subsidized meals served in a given category. Typical examples include counting a meal that does not meet the nutritional requirements for reimbursement or incorrectly adding up the number of meals served at all schools in a district or state. The kinds of training and administrative oversight needed to prevent errors like these are very different than the kind of policy responses that can reduce certification error.

Operational errors can happen when the cafeteria is crowded and there is limited time to move many students through. There can also be trade-offs between reducing errors and reducing plate waste. If the server puts required foods on the plate with no student choice, there's less room for error and the line moves more quickly. Children, however, may not eat as much as they would if they had some choice and may throw away unwanted items. Likewise, putting robust checks in place at the register to ensure that each meal is categorized and counted correctly can cause the line to move more slowly, leaving children with less time to eat or necessitating that districts extend the lunch period.

Operational errors are also more likely in school systems that have less technological capacity and rely more heavily on paper processes. If the cashier has to check off each student on a paper list of all students and then make sure the meal meets nutritional standards, the process is more time consuming and error prone than if all students enter their personal account number (which tracks meal categories) into an automated system while the cashier checks the meal. Similarly, adding up the number of meals served by category across schools and days via a paper system creates opportunities for simple math errors. Minor mistakes can also occur in small schools when the cafeteria worker misses a day of work and someone else, often a front-office staffer or the principal, steps in to check out students during the lunch period.

To be clear, most schools count and claim meals correctly every day. But it is important to understand how the design and staffing of the system across 100,000 schools each day can contribute to honest errors.

Underpayments and Overpayments

It is also important to keep in mind that improper payments include underpayments as well as overpayments. The APEC study found that as a result of certification errors, 12 percent of children who applied for school meals received higher subsidies than they were eligible for. But certification errors also resulted in 8 percent of applicants getting *lower* subsidies than they were eligible for, causing them to miss out on needed benefits. And, the improper denial rate is very high. More than one-quarter of the children who were denied free or reduced-price meals should have received them.

While underpayments have the negative consequence of needy children not getting the meals for which they are eligible, they do lower federal costs. To identify the cost of errors to the federal government, one must subtract underpayments from overpayments to obtain a net figure. The net cost to the federal government of the errors studied was about $1.4 billion.

Making Sense of Different Errors

Adding up the different kinds of improper payments does not clarify the best ways to improve program accuracy and accountability. Different types of errors require different interventions. A math error by a school official requires a different response that a math error by a family. An antiquated paper application system requires a different response than a cashier who isn't properly trained to identify meals that meet federal standards. And different kinds of responses have widely different costs.

Errors that result from design or operational flaws, such as confusing forms or lack of time for meals, may be addressable through modest design improvements that may not cost much or through technical assistance on best practices. Errors that result from poorly trained staff or lack of automation can require significant investments. Errors that result from individuals seeking to defraud the program are likely specific to small numbers of individuals and typically require more targeted interventions.

To prioritize, it's important to look at the magnitude and scope of different kinds of error. Policymakers also must consider how much in new funds it makes sense to invest in error reduction and whether those resources are best devoted to error reduction at all. The Center on Budget and Policy Priorities' focus is to develop error-reduction strategies that do not cause eligible low-income children to lose free and reduced-price meals, do not overly burden schools that are already stretched thin trying to educate children, are effective and adequately financed, and do not cost more than they save.

Efforts in the 2004 Reauthorization to Address Error in the School Meal Programs

As Congress began developing the reauthorization legislation eventually enacted in 2004, some policymakers were concerned that ineligible children were being approved for free or reduced-price meals. Some suggested mandating that schools verify a larger share of approved applications. School officials, in turn, were deeply concerned at the possibility of new unfunded mandates and many believed that such efforts would cause eligible low-income children to lose access to school meals.

Research had consistently shown that a substantial portion of families that do not respond to the verification notice are actually eligible for free or reduced-price meals. They may fail to respond because they don't receive the notice, cannot read it, do not understand it, or are reluctant to share income information with school staff. We also worry that parents may not understand the consequences of failing to respond — particularly if their children do not inform them that they have lost eligibility for free or reduced-price meals or if the school begins charging parents but doesn't send home a bill for several weeks.

To inform the reauthorization debate, USDA conducted several studies on the impacts of expanded verification. It briefly described its findings in *NSLP Certification Accuracy Research — Summary of Preliminary Findings* in 2003 and several volumes detailing each study. We summarized them in a 2003 report *What We Have Learned from FNS' New Research Findings about Overcertification in the School Meals Programs*. As with GAO's May 2014 report and this week's OIG report, these studies did not involve nationally representative samples, but their findings can inform policy development.

- Expanded income documentation requirements did not reduce the extent to which ineligible children were certified to receive free or reduced-price meals.
- Expanded income verification requirements led substantial numbers of *eligible* children to lose free or reduced-price meals. In metropolitan areas, children in more than one of every three families selected for income verification lost their free or reduced-price meal benefits despite being eligible. For every *in*eligible child that lost benefits as a result of verification, at least one *eligible* child lost benefits as well.

As a result of these findings, Congress wisely focused on reducing opportunities for error and strengthening the verification process, rather than expanding verification or income documentation. In the Child Nutrition and WIC Reauthorization Act of 2004, the focus of verification sampling was shifted to error-prone applications (those close to the income limits for free or reduced-price meals). School districts were permitted to use Medicaid data to verify eligibility.

School districts were also required to follow up with households that do not initially respond to the verification notice. Despite an increased focus on obtaining responses to verification notices, more than one in three families selected for verification (35 percent) for the 2013-2014 school year did not respond. While some were likely ineligible, the research indicates that many eligible families likely lost access to school meals or reapplied following the verification process, which creates more paperwork for schools.

These findings also reveal why the recommendation in this week's OIG report to require income documentation at the time of application is unlikely to effectively prevent certification errors but would substantially increase the workload for school districts and result in eligible low-income children not applying for free or reduced-price school meals. USDA found that requiring income documentation at the time of application, which was then used to certify students, did not reduce the extent to which ineligible children were approved for free or reduced-price meals, which is the main argument in favor of this policy noted in the OIG report. But having to gather such documentation did deter eligible families from applying.

Even if districts did not use the documentation unless the application was selected for verification, as the OIG report recommends, collecting, managing, and storing large quantities of new documentation would create a significant new workload for school districts. They would need a process for maintaining documents submitted with applications, which are currently usually only a single page. They would need more file storage capacity or an electronic scanning and document management system. They would also need to ensure that sensitive personal information, such as that on pay stubs, was kept securely and that all confidentiality protocols were followed.

Framework for Strengthening Integrity in the School Meal Programs

We encourage the Committee to consider ways to continue supporting a culture of accountability and continuous improvement in the school meal programs at every level of administration — federal, state, and local. Given what we know about the programs' role in addressing child hunger, the challenges for resource-constrained schools in determining eligibility and claiming reimbursements, the extent of errors in different aspects of the program, and previous efforts to improve program accuracy, there is ample information to guide new initiatives in this area.

USDA's APEC report shows that there is significant room to improve program accuracy — and that school districts and state child nutrition programs can do so without compromising access for the most vulnerable children or imposing unreasonable burdens on schools and states. We know this because many districts and states have strong track records regarding certification and operational errors. Congress and USDA can work to better understand what distinguishes them from places that struggle with errors. Policymakers can use this information to equip the program at all levels with the resources and oversight needed to continue improving.

These efforts will likely require new investments to build administrative systems that prevent and catch errors, help train the hundreds of thousands of school food service and school district employees that oversee program operations, identify sound practices that can be exported from one successful system to another, and experiment with new methods of identifying and curbing errors and fraud.

We strongly recommend that that any new policy or effort to reduce improper payments be assessed against the following criteria:

- **Does it have a demonstrated impact on reducing error?** We can learn a great deal from districts and states that are successful in reducing errors and, where possible, export their practices to others.
- **Will it maintain program access for the most vulnerable children?** School meals are critical to children's immediate needs and long-term development. Strengthening program integrity must not come at the expense of ensuring that every low-income child receives needed nutrition.
- **Is it feasible?** High-quality information technology systems or reduced staff turnover due to competitive pay may have helped some districts lower error rates but may be too costly for all districts to adopt. Simplifying the school meal application with helpful instructions may be a much better solution to confusing applications than purchasing an expensive new online system. Likewise, a more time-consuming documentation or verification system might catch more errors but require school staff district staff to spend considerably more time on school meal eligibility determinations at the expense of other educational priorities.
- **Is it cost-effective?** The cost of an ineligible child getting free lunches and breakfasts for a school year is between $700 and $800; efforts that target infrequent problems could easily cost more than they save. Providing local school food officials with a clear message that program accuracy is important, that it will be measured, and that state child nutrition officials and USDA will support local program managers in their efforts to implement needed improvements, builds a stronger system in the long run than punitive policies.

Fortunately, the APEC report and recent efforts to address program errors offer a strong menu of ideas to explore as a part of reauthorization.

Reducing Opportunities for Error in the School Meal Programs

Preventing errors, rather than correcting them after the fact, is an important way to improve program accuracy. In the context of school meal eligibility determinations, the simplest way to

reduce errors is to import an eligibility determination from another program, a process known as "direct certification." This increases the accuracy of determinations and reduces the workload for school staff, allowing them to spend more time with applications that were actually necessary. Yet for the 2012-2013 school year, 1.7 million children approved based on applications should have been directly certified through data matching with state human services programs; all of these children could be directly certified.

Meaningful progress to reduce the subset of errors that result from placing children in the wrong meal category (free, reduced-price, or paid) can be made by finding ways that ensure low-income children who are known to be eligible for free school meals are certified for that category by leveraging more robust determinations of income done by other programs that specialize in reviewing income and household circumstances. In contrast to professional eligibility workers for other public benefit programs, who focus daily on assessing family income and generally have a wider array of information available, school staff are ill-equipped to make such determinations. Using data from other programs meets the criteria described above — it has been shown to improve accuracy, it does not impede access, it is feasible, and it is cost-effective.

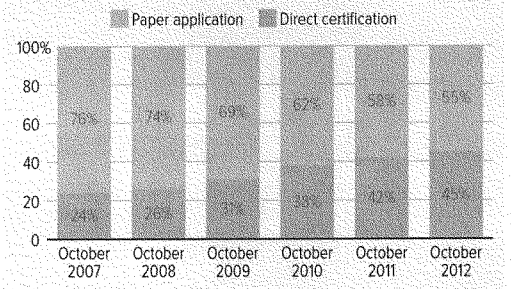
Over the last decade, the school meal programs have made increasing use of highly accurate data from other programs, abetted by provisions in the last two reauthorization laws. Relying on such data reduces the number of school meal applications, often paper applications, that schools have to certify and verify. This reduces opportunities for error and gives school personnel more time to focus on the applications submitted through the traditional process.

- There has been steady improvement in and expansion of the use of "direct certification" — approving children for free meals based on highly accurate data from another program, the largest of which is the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps). Direct certification improves the accuracy of eligibility determinations while reducing paperwork for schools and families. For the 2007-2008 school year, 76 percent of children approved for free or reduced-price meals were approved based on a paper application. As shown in Figure 1, by the 2012-2013 school year, the share of paper applications had fallen to 55 percent. As a result, even though 4 million *more* children were approved for free or reduced-price meals that year due to the recession, school districts processed applications for 2.5 million *fewer* children.

- A new option known as "community eligibility" allows schools with large concentrations of low-income students to be reimbursed on the basis of the share of students that are directly certified if they serve all meals at no charge, which eliminates the need for meal applications altogether and thereby greatly simplifies program administration. This new option builds on decades-old options under the National School Lunch Act to allow high-poverty schools to serve all meals at no charge. As a result, these schools have fewer opportunities for administrative errors and can shift resources from paperwork to improving their program.

FIGURE 1

Share of Children Approved for Free or Reduced-Price School Meals Based on Direct Certification* or Paper Application



*Direct certification = approving children for free meals based on data from another program, such as SNAP (food stamps).

Source: CBPP analysis of U.S. Department of Agriculture data.

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Additional School Meals Program Integrity Measures

Strengthening program rules so that school meal subsidies flow to meals and children that qualify for them is important. Such changes must meet the criteria described above by responding to specific issues without impeding low-income children's access to free or reduced-price meals or overly burdening schools, which already face many challenges when educating low-income children. Cost and cost-effectiveness are also important considerations. The funds needed to equip tens of thousands of schools with modern technology for online applications, access to third-party data sources, automated checkout lines, quality counting and claiming software, and training either require new federal investments or the cost would have to be covered within the meal budget in many districts.

Over the last decade, many carefully designed program integrity measures have been implemented. In addition to the 2004 changes to the verification process described above, the following well-tailored measures strengthen program integrity without impeding access or overly burdening schools.

Improving Direct Certification

As explained above, direct certification has been improved and expanded to reduce opportunities for certification error by reducing the number of children approved for free meals based on an application.

- States or school districts are required to conduct a minimum of three electronic data matches using SNAP records each year, with more frequent matching encouraged.
- USDA must issue an annual report analyzing state performance and highlighting best practices.
- The Healthy, Hunger-Free Kids Act of 2010 established performance benchmarks, requiring states to directly certify 95 percent of the school-age children in households receiving SNAP benefits.
- States that do not meet the direct certification performance standards are required to develop a Continuous Improvement Plan (CIP) identifying action steps, a timeline for implementing them, and measures to assess progress.
- Direct certification improvement grants have been available to help states improve their data-matching hardware or software and train school districts on direct certification.
- High-performing states and those that made substantial improvements in their direct certification performance have received bonus awards.
- Seven states participate in a demonstration project permitting them to use Medicaid data to directly certify eligible low income-children for free school meals.

Simplifying the School Meals Application to Reduce Errors

While applications must follow program rules and USDA makes a model available, school districts are not required to use a particular form. We have conducted several thorough reviews of applications over the last decade and found that many are confusing. They may be incomplete or imply that parents need to provide information that is not necessary. They are rarely translated into languages other than Spanish, even though USDA provides translations in 33 languages. The instructions are often in a separate document and use legalistic language that is hard to understand. As a result, families may make mistakes because they simply do not understand what is being asked of them and school nutrition staff may spend time following up with families to explain the forms.

It is important to help school districts improve their applications so families can understand them and staff can obtain the information they need. To reduce incidents of certification error due to household misreporting of information, USDA is improving its model application.

- Just last month, USDA released a newly designed prototype meal application, which includes clearer instructions on the form itself; separate instructions provide specific details about more complicated issues like the kinds of income that must be reported. The new design is also meant to reduce mistakes by school nutrition staff when reviewing applications. The new design will likely be broadly adopted, since many state model applications and large district applications have closely followed USDA's prototype in the past. USDA plans to assess understanding of the new application by households and school nutrition staff once it is in use in order to continue to improve it.
- USDA has announced plans to develop a prototype electronic application, which has never been available. Existing electronic applications do not take full advantage of the ways in which the electronic environment could simplify the application and provide more detailed instructions to elicit accurate information. By developing a prototype, USDA can reduce household errors. Moreover, states could incorporate the new electronic prototype into online

application systems that offer the potential for prompt comparison to other data sources to identify inconsistencies.

Strengthening Districts with High Rates of Certification Error

School districts with high rates of incorrect eligibility determinations warrant more support and intervention from state child nutrition staff and USDA. To reduce instances of certification error due to administrative mistakes, oversight has been strengthened.

- Under the Healthy, Hunger-Free Kids Act of 2010, school districts identified by state child nutrition officials as having high error rates regarding eligibility determinations based on applications must conduct a second, independent determination before approving any household for free or reduced-price meals. This is a targeted intervention designed to prevent errors from resulting in improper payments.
- USDA has established an Office of Program Integrity for Child Nutrition Programs, which will develop and test policies and practices to strengthen program integrity. This office is involved in improving USDA's prototype application. Dedicating federal staff to reducing program error sends a strong signal to state and local school food administrators that USDA values a culture of accuracy and continuous improvement.

Identifying and Addressing Operational Error

Errors that result from claiming reimbursement for meals that do not meet federal standards are concentrated in a relatively small number of school districts and can be addressed through targeted training and technical assistance. But maintaining low levels of operational errors amidst changing program rules and frequent staff turnover requires a commitment to ongoing training and oversight. Over the last decade, investments have been made in this kind of continuous improvement, which keeps counting and claiming error rates low in most places.

- As a result of the Child Nutrition and WIC Reauthorization Act of 2004, state child nutrition staff were required to conduct reviews focused solely on strengthening administrative processes in selected school districts with, or at risk of, high error rates. Under the Healthy, Hunger-Free Kids Act of 2010, these administrative reviews were incorporated into a more rigorous, risk-based review process that addresses all aspects of program management. Reviews are now conducted more frequently (every three years rather than every five years), the areas to be reviewed have been updated, and USDA is developing ways to use the results of the reviews to strengthen program management.
- Under the Healthy, Hunger-Free Kids Act of 2010, USDA developed new professional standards with regard to continuing education and training for school nutrition staff. One goal of the new standards is to reduce program error and improper payments.
- The Child Nutrition and WIC Reauthorization Act of 2004 established a $4 million annual grant program focused on reducing administrative error. USDA distributes the funds through a competitive process to states for technology improvements and to identify, review, monitor, and train school districts that have demonstrated a high level of, or a high risk for, administrative error. For example, the Kansas Department of Education received a $1.3 million grant to update its online claiming and review management system and improve staff training

regarding counting and claiming accuracy. These grants are likely partly responsible for the decrease in meal aggregation errors found in the recent APEC study.

Future School Meal Programs Improvements

The reauthorization process offers an opportunity to identify new ways to support school districts' efforts to reduce errors in the school meal programs and build a shared culture of accuracy and accountability. Once we have had time to review the APEC study, just released this week, more thoroughly, it may point the way toward additional promising ideas. In the meantime, we recommend that the Committee consider the following ideas for further exploration:

- **Electronic applications.** Electronic applications are becoming more prevalent in the school meal programs. In 2011, about one-third of the 100 largest school districts provided an electronic application; by 2013, about two-thirds did. But existing applications do not take full advantage of the opportunity to simplify the process, provide more detailed instructions as needed, or check income data against other sources. USDA's plan to development a model electronic application is a very promising way to improve the quality of electronic applications and the information parents provide on them. States could then explore whether electronic applications could be linked to other data sources to pre-populate certain fields or flag inconsistent information. Congress may also want to provide funding to support districts that cannot afford to build an online application platform on their own. With small grants, many districts might be able to adapt USDA's electronic form and software in lieu of building or buying new applications.
- **Improved direct certification of SNAP and TANF recipients.** Children who receive SNAP or Temporary Aid for Needy Families (TANF) cash assistance benefits who were not certified based on the direct certification data-matching process can submit an application with the household's SNAP or TANF case number. As direct certification improves, the number of applications that include a case number is shrinking. Nonetheless, for the 2012-2013 school year there were 1.7 million children approved based on applications with case numbers. The May 2014 GAO report recommends verifying or reviewing a sample of these applications. Because all of these applications should have been directly certified and there should be fewer of them each year, it does not make sense to establish a new verification process focused on them. A better approach would be to explore whether school districts should be required to develop a process for attempting to directly certify such applications, which some districts already do, by working with a state or local human services agency. If that process reveals that the human service agency cannot confirm benefit receipt, then the application would meet the existing criteria for verification for cause and the school district could follow up that way.
- **Expanded direct certification.** As noted above, seven states (California, Florida, Illinois, Kentucky, Massachusetts, New York, and Pennsylvania) are participating in a demonstration project that allows them to use Medicaid data to identify children eligible for free school meals. This option should be available to all states and school districts. Approximately 3.5 million children receive Medicaid but not SNAP or TANF cash assistance and have income low enough to qualify for free school meals. Making use of the robust eligibility determination already made by Medicaid would allow more children to be directly certified, further reducing the number of applications that school districts must review and verify.

- **Improper denials**. USDA's APEC study found that one in four applications that were denied free or reduced-price meals should have been approved based on actual household circumstances. To date, verification has focused on correcting improper approvals for benefits. It is equally important, if not more so, to correct improper denials. Methods of checking a sample of denied applications should be explored.
- **Data-matching to determine the verification sample verification.** The 2004 reauthorization law encouraged school districts to "directly verify" eligibility using data from other public benefit programs and permitted the use of Medicaid data for this purpose. If eligibility can be confirmed based on data from these programs, the school district does not have to contact the household, which reduces the paperwork burden for schools and low-income families. But these data are used once the verification sample has been selected. GAO's May 2014 report recommended using data-matching to *select* applications for verification. While this could prove to be a more effective approach than the current focus on applications near the income limits for free and reduced price meals, it needs to be explored further. Promising sources must be identified that have data recent enough to match the time period when the application was completed and can successfully be matched using the data elements available on meal applications. The cost-effectiveness of verifying applications based on discrepancies of various sizes would need to be explored. And policies would need to be developed to ensure that children do not lose benefits unless their parents have been given ample opportunity to explain or document any discrepancy. Once these factors have been explored, policy makers could consider whether to expand the share of applications verified using this approach, as recommended by the GAO, which would increase the workload for school districts, or instead substitute it for the current focus on error-prone applications.
- **Expanded direct verification.** School districts are already permitted to use data from SNAP, Medicaid, and TANF to verify eligibility without having to contact households. Additional data sources could be explored, such as state tax or wage databases. For example, a pilot could be conducted in a large district with the technological capacity to explore the feasibility of linking these data bases with student databases or school meal program systems and, if this is possible, whether the share of applications that can be directly verified can be increased. Data-matching, however, is a complex process. Often the information available from third-party sources, such as state wage databases or private wage data sources, is not available in formats that are easily translatable to the school meals household. School staff would need to be trained on the implications of accessing private data (including having appropriate security measures in place) and using the data appropriately in a school meal programs context.
- **Verification for cause.** Both the May 2014 GAO report and this week's OIG report highlighted the limited use of verification for cause in some districts and recommended that USDA develop further guidance regarding its use. Further guidance would help school districts understand when it is appropriate to conduct verification for cause and provide safeguards to ensure that it is not used in a discriminatory manner. During the 2013-2014 school year, about 1,600 school food authorities out of nearly 20,000 that submitted data to FNS made use of verification for cause. Other districts could certainly benefit from using verification for cause in appropriate circumstances. It is worth exploring, for example, whether it would be beneficial to routinely verify for cause any application submitted by a household that was found to have misreported income during the prior year's verification process, as recommended in the OIG report. It would not be wise, however, to routinely verify for cause any application for which benefits were reduced or terminated as a result of the verification process, as further

recommended in the OIG report. Of the students whose benefits were reduced or terminated as a result of the 2013-2014 verification process, three in five lost benefits due to non-response, not because the school district found misreporting.

- **Data mining.** It is worth exploring whether data mining, a process by which statisticians look for unusual patterns in data, could be used to identify potential fraud by finding patterns in applications; in a district that houses applications in an automated system, for example, it might be possible to identify applications that appear suspicious. Again, this approach could be tested in a large district with both a school meal data system into which income information is entered and the technological capacity for data mining.

Part 2: The Special Supplemental Nutrition Program for Women, Infants, and Children

The Special Supplemental Nutrition Program for Women, Infants, and Children, popularly known as WIC, provides nutritious foods, counseling on healthy eating, breastfeeding support, and health care referrals to more than 8 million low-income women, infants, and children at nutritional risk.

Infants and very young children can face lifelong cognitive and health consequences if they don't get adequate nourishment. WIC aims to ensure that pregnant women get the foods they need to deliver healthy babies and that those babies are well-nourished as they grow into toddlers.

Extensive research shows that WIC contributes to positive developmental and health outcomes for low-income women and young children. In particular, WIC participation is associated with:

- **Healthier births.** Women who participate in WIC give birth to healthier babies who are likelier to survive infancy.
- **More nutritious diets and better infant feeding practices.** WIC participants now buy and eat more fruits, vegetables, whole grains, and low-fat dairy products, following introduction of new WIC food packages more closely aligned to current dietary guidance.
- **Stronger connections to preventive health care.** Low-income children on WIC are just as likely to be immunized as more affluent children, and are likelier to receive preventive medical care than other low-income children.
- **Improved educational prospects.** Children whose mothers were on WIC while pregnant scored higher on assessments of mental development at age 2 than similar children whose mothers were not, and they later performed better on reading assessments while in school.
- **Healthier neighborhood food environments.** Improvements to the WIC food packages in recent years have contributed to healthier food environments in low-income neighborhoods, enhancing access to fruits, vegetables, and whole grains for all consumers regardless of whether they participate in WIC.

WIC is not meant to provide the full array of foods that a family with young children needs. Instead, it provides vouchers for specific types of foods chosen through a rigorous science-based process because they tend to be lacking in the diets of low-income women and young children. USDA revised the WIC food packages in 2009 based on recommendations from the Institute of Medicine, which is conducting a new review of WIC foods to recommend any needed updates.

While WIC promotes breastfeeding as the optimal feeding choice for infants, it provides infant formula to mothers who do not breastfeed. To contain program costs, it uses a competitive bidding process under which infant formula manufacturers offer discounts, in the form of rebates, to state WIC programs in order to be selected as the sole formula provider to WIC participants in the state. This process yields $1.5 billion to $2 billion a year in rebates, with WIC paying on average only 8 percent of the formula's wholesale cost.

As a result of these savings, while WIC provided an average value of $61.58 in food per participant per month in fiscal year 2014, the average monthly cost to the federal government was much lower: $43.42 per participant.

In addition, while food prices rose by 28 percent between fiscal years 2004 and 2014, WIC food costs grew by only 16 percent. Over the last five years, food prices rose by 10 percent, while WIC food costs rose by only 2 percent.

The portion of WIC funds devoted to nutrition education, breastfeeding support, and other services — a key part of the program's success — has remained stable over time. Similarly, WIC's administrative costs were 8 percent of total program costs in fiscal year 2013 and had been at that level or lower for more than a decade. By law, WIC funding per participant for nutrition services and administration combined may rise no faster than inflation. This constraint on administrative costs has limited federal expenditures but also can impede new initiatives, such as data system improvements, that require up-front investments in order to secure longer term administrative savings.

Eligibility for WIC Benefits

Pregnant, postpartum, and breastfeeding women, infants, and children up to age 5 are eligible if they meet income guidelines and an appropriate professional has determined them to be at "nutritional risk." Most applicants who meet the income requirements have a medical or dietary condition, such as anemia, that places them at nutritional risk.

All postpartum women who meet the income guidelines and nutritional risk criteria are eligible for WIC benefits for up to six months after childbirth; women who continue to breastfeed their infants beyond six months are eligible for WIC benefits for up to a year after childbirth.

Applicants who receive no other relevant means-tested benefits must have gross household income at or below 185 percent of the federal poverty level (currently $36,612 for a family of three) to qualify for WIC benefits. To simplify program administration, an applicant who already receives SNAP (formerly food stamps), Medicaid, or Temporary Assistance for Needy Families cash assistance is automatically considered income-eligible for WIC, even if the program's income limit is above 185 percent of poverty. Roughly 75 percent of people approved for WIC benefits receive one of these other benefits.

Women may be referred to WIC by their doctor or when they apply for Medicaid or SNAP. They can apply for WIC benefits at one of WIC's 9,000 local clinics, located in community health centers, schools, hospitals, and local health departments. Applicants must provide documentation

confirming where they live, their identity, and their income or receipt of other qualifying benefits. Once approved, an individual usually receives WIC benefits for six months or a year, after which the participant must reapply. Errors can occur during this process if the applicant reports income or household size incorrectly or the WIC agency miscalculates income.

Purchasing WIC Foods

More than 48,000 grocery stores nationwide have been approved to accept WIC food vouchers based on their prices and the variety of foods they offer. Participants select their WIC foods from the shelves and use WIC vouchers to pay at the register. The state WIC program then reimburses the store for the retail value of the WIC foods. To ensure that WIC pays market prices, stores must charge the same price to all customers, regardless of whether they are participating in WIC.

Most states still use paper vouchers, but WIC is gradually transitioning to electronic benefit cards, which simplify WIC transactions in the check-out line, eliminate the stigma of paying with paper vouchers, and allow for stronger program management and oversight. Approximately one in four WIC participants receive electronic benefits; all states must make the switch by 2020. USDA anticipates that this change will increase efficiency and reduce inadvertent errors in the check-out line.

To be approved to accept WIC food vouchers, grocery stores must meet WIC food stocking and pricing requirements. WIC-approved vendors can be the source of program error and improper payments in various ways. To ensure compliance with program rules, managers, clerks, and cashiers at each of the thousands of WIC-approved vendors must be trained. And because there may be frequent staff turnover, such training must occur frequently.

Grocery Store Transactions

For WIC participants, especially the majority who still use paper food vouchers, choosing the correct WIC foods and going through the check-out line can be a daunting process. Within federal rules that determine the foods that can be offered to WIC participants, states are encouraged to adopt restrictions to contain costs. For example, a state might require participants to purchase a block of cheese rather than the same amount of shredded cheese or a gallon of milk rather than two half-gallons. States may also require participants to choose a generic brand or the least expensive brand available.

These are important cost-saving mechanisms, but they make it harder for participants to choose the correct items and harder for vendors to ensure that program rules are followed. Local WIC staff train participants on these rules, but they can be hard to apply in the grocery store aisle. Once a participant goes through the check-out line, the cashier must make sure that each item is allowable and that the participant has a current voucher for that item. Participants report that when a mistake is identified, the process of correcting it can be so embarrassing and time-consuming that they sometimes forgo the food item rather than trying to correct it.

Although a single voucher can only be used during a specified month, WIC clinics often issue more than one month's worth of vouchers at a time to reduce multiple trips to the clinic or multiple mailings. Vouchers typically contain more than one food, but each participant may receive several vouchers each month, which together cover all of the prescribed WIC foods. So if a mother with an

infant and a toddler is receiving WIC benefits, and each of them received five vouchers each month, the mother would receive 45 separate vouchers at a single appointment. When at the register, she must provide the correct vouchers to the cashier for the date she is shopping and the items she is purchasing.

Vendor Management

To ensure that the WIC program pays fair prices for foods, each state WIC program must implement a vendor management system with three main components: vendor peer groups, vendor pricing criteria, and maximum reimbursement rates.

When authorizing vendors, state WIC programs must ensure that all participants have reasonable access to a WIC-approved grocery store. WIC participants live in areas with widely divergent grocery stores and retail prices, and WIC-approved stores reflect this diversity. While the bulk of WIC-approved stores are large supermarkets, which tend to have the lowest retail prices, in some instances the WIC program authorizes smaller or more remote stores with higher retail prices to ensure participants have access to a store. Stores are categorized into "peer groups" based on factors such as size or geographic location, so that they can be compared to similar stores when considering pricing.

For each peer group, the state WIC program sets pricing criteria. To become a WIC-authorized vendor, each store must have retail prices that meet these pricing criteria. In addition, the state sets a maximum reimbursement amount for each voucher. These maximum reimbursement levels must take into account that even within a peer group or a single store, prices will vary somewhat over time and across similar items. But WIC does not reimburse stores for amounts in excess of the maximum reimbursement.

Electronic Benefits

Under the Healthy, Hunger-Free Kids Act of 2010, state WIC agencies are required to transition to electronic benefit issuance by 2020. Most states have begun to develop the data systems necessary to make the transition, but currently only about one in four WIC participants receive electronic benefits. The one-time investment needed to develop and launch electronic benefits are difficult for states to funds with their regular WIC funding. Therefore, in recent years Congress has provided dedicated funding to improve management information systems, including the transition to electronic benefit systems.

Electronic benefits offer tremendous promise with regard to improving program integrity as well as simplifying the shopping experience for participants and store clerks. Electronic benefits can be programmed to prohibit the purchase of foods that are not allowable, without relying on cashiers' understanding of WIC rules. They also allow state WIC programs to track reimbursements for each food separately, which is not possible with paper vouchers that cover several WIC foods. As a result, states can monitor reimbursements for patterns of high pricing or evidence of fraud. In addition, the information from electronic benefit systems can help states determine the best approach to peer grouping and setting pricing criteria and maximum reimbursement levels.

Assessing WIC Errors

USDA monitors and oversees WIC program accuracy. WIC errors have been thoroughly examined in two recent, nationally representative, studies: the 2012 *National Survey of WIC Participants*—II and the 2013 *Vendor Management Study*. These studies measure error rates and improper payments in two areas:

- Certification errors that result from household mistakes or mistakes by WIC staff, which are assessed by reviewing income documentation and conducting household interviews;
- Vendor errors that result from violations of program rules or errors when seeking reimbursement for WIC sales, which are assessed through "compliance buys" at WIC-approved stores.

In each category, USDA disaggregates overpayments and underpayments, which allows for a calculation of net costs and helps target interventions. These reports help make transparent the areas where errors occur and the ways in which federal and state program managers can improve accuracy.

WIC Program Integrity Measures

Since 1997, when Congress began providing enough WIC funding so that all eligible applicants can be served, USDA and Congress have taken steps to strengthen program integrity. While state WIC programs have discretion over specific vendor management practices, federal WIC rules require State agencies to authorize and manage their vendors to ensure the lowest practicable food prices while ensuring adequate access to WIC foods. About 1,900 local agencies in about 10,000 clinics around the country work hard on balancing these priorities, so it is important to ensure widespread understanding and consistent application of program rules regarding eligibility and allowable services and foods.

To strengthen efforts to reduce improper payments and ensure compliance with program rules, USDA in 2014 created a new WIC Program Integrity and Monitoring Branch. This is an important development that ensures USDA has a dedicated team of staff focused on strengthening oversight and supporting state efforts to ensure sound stewardship of federal funds. Additional efforts to address the main sources of program error are described in the remainder of this section.

Reducing Certification Errors

WIC eligibility rules have changed very little since the program's inception. To ensure consistent application of those rules and provide additional direction in areas where there is state or local discretion, USDA issued updated guidance on income eligibility and documentation rules in April 2013. USDA then held a webinar in each region to train state staff on the guidance and address questions that emerged. State WIC staff are then responsible for training local staff on the guidance.

To assess implementation of the new guidance and adherence to all eligibility rules, USDA will focus on eligibility determinations in its regular reviews, known as "management evaluations," of state agencies over the course of fiscal year 2015 and 2016. These reviews are underway and will continue to be conducted over the next year and a half.

Strengthening Vendor Management

There are multiple kinds of vendor errors. For example, a vendor could allow participants to purchase foods or other items that are not part of WIC's carefully tailored food package, either deliberately or because a cashier or participant does not understand WIC rules. A vendor could allow a participant to use an expired voucher. Or a vendor could seek reimbursement from the state for more foods than the participant actually received or for higher prices than the store actually charges.

State WIC programs are responsible for vendor oversight. As described above, states are required to establish criteria for approving WIC vendors based on business practices, pricing, and stocking practices. States also assign them to peer groups, ensure that their prices are consistent with local grocery prices, and set limits on the reimbursement WIC will provide for each voucher.

At various points in WIC's history, WIC-approved vendors have found ways to violate, or exploit loopholes in, vendor rules. In the late 1990s and early 2000s, there was a rapid proliferation of "WIC-only" stores. These stores generally sold only WIC foods and only attempted to serve WIC participants. Because they made the shopping transaction much easier than at regular grocery stores and provided incentives to participants to shop there, they quickly attracted large segments of WIC participants in certain states. For example, in California, where these stores were most prevalent, 40 percent of WIC purchases in 2004 were made at WIC-only stores.

But WIC-only stores tended to have higher shelf prices than regular stores and as a result were driving up the cost of providing WIC benefits. WIC participants receive the same food items regardless of the shelf price charged for these foods. Participants consequently are not price-sensitive to the amounts that stores charge for WIC food items. Since regular retail food stores need to attract a wide customer base, market forces induce them to keep prices for WIC food items low enough to attract non-WIC shoppers; if a store prices these items too high, it is likely to lose customers to other stores. But WIC-only stores had no need to attract non-WIC customers — and thus no need to keep prices for WIC foods in line with the amounts charged at comparable stores that serve non-WIC customers. Therefore, WIC-only stores tended to have higher shelf prices than regular competitive stores.

The Child Nutrition and WIC Reauthorization Act of 2004 strengthened vendor management rules for all stores and curbed the ability of WIC-only stores to drive up program costs. Since then, if a state chooses to authorize WIC-only stores, their peer group placement and pricing criteria must be designed to ensure that WIC-only stores are cost-neutral to the program. Moreover, WIC-only stores are not permitted to offer incentives of more than minimal value to entice WIC participants to shop there.

More recently, vendors in a few states found ways to violate program rules and exploit loopholes. For example, regular small grocery stores in California, which are not subject to the rules that apply to WIC-only stores, began applying for WIC authorization in increasing numbers and charging much higher prices for WIC-approved foods than other similar products. USDA's regular management evaluation uncovered the problem and USDA worked closely with the state WIC program to establish an entirely new vendor management system, which quickly brought program costs back in line with competitive pricing. While the new system was being developed and

implemented, USDA required the state to maintain a moratorium on authorizations of new vendors. USDA allowed the state to lift the moratorium only when the new system had been implemented, specific corrective actions had been taken, and the state program had sufficient vendor monitoring staff in place to ensure compliance with the new vendor rules.

In response to similar troubling findings in management evaluations in a couple of other states, USDA decided to focus management evaluations during fiscal year 2013 and 2014 on vendor management. USDA is now using those findings to identify areas where states could benefit from additional support and where stronger oversight is needed. In addition, USDA has identified specific follow-up activities that state WIC programs must take to address deficiencies.

Up until now, states have designed their vendor management rules and targeted oversight efforts without the benefit of a systematic review of best practices. To provide states with more guidance and information, USDA has launched two studies focused on vendor management. One study is closely examining peer grouping in six states to assess the effectiveness of the peer group criteria in use and hypothetical alternatives. This study will also identify best practices and innovative approaches to peer grouping. The other study focuses on how states can best identify high-risk vendors so they can target oversight and compliance resources most effectively.

Future WIC Program Integrity Improvements

The reauthorization process offers an opportunity to identify and support strategies to reduce errors in the WIC program. We recommend that the Committee consider the following ideas for further exploration. Some of these ideas do not require authorizing language but would require sufficient appropriations to support the new or expanded activity.

- **Certification guidance**. The findings of USDA's management reviews focused on eligibility determinations will offer a rich supply of information to help target additional efforts to improve the accuracy of eligibility determinations. Once USDA has conducted the reviews, the department can assess the findings to identify areas where more guidance or oversight would be helpful. USDA can then develop guidance and conduct trainings focused on these areas.

- **Electronic benefits.** In certain recent years, Congress has provided dedicated funding for management information system improvements, including the transition to electronic benefit issuance. Continued funding for these improvements is essential to reducing errors in the WIC program and enabling state WIC programs to strengthen program management and compliance on a long-term basis. It will also make it substantially easier for participants to obtain WIC foods, enhancing WIC's effectiveness. Providing the full amount of funding needed to allow states to transition to electronic benefits without the uncertainty of the annual appropriations process would allow USDA and states to plan their transitions and would help ensure that all states are offering electronic benefits by the 2020 deadline in federal law.

- **Management evaluations.** Since fiscal year 2013, USDA has focused its regular reviews of state WIC programs, known as management evaluations, on the two primary areas of program error: certification error and vendor error. These evaluations have identified specific weakness that states are then required to address. Another important use of the information gathered in these evaluations is to identify patterns across states so that USDA can provide support where

it is most needed and share best practices. USDA has begun the process of gathering this kind of information, but it is worth exploring whether this Committee can further that process.

- **Implement vendor study findings.** The two studies that are underway — focused on identifying vendor peer grouping best practices and identifying high-risk vendors — will yield important information that states can use to restructure and strengthen their vendor management rules and oversight efforts. But the release of the reports is only the first step. It will be important to develop channels for disseminating the results and helping states implement them.

- **Identify and disseminate cost-containment best practices.** USDA encourages states to adopt policies that contain the costs of the foods WIC provides. But it has been more than a decade since a systematic assessment of the effectiveness of these policies was conducted. USDA has launched new research to identify best practices with regard to food package cost containment, such as policies related to the brand and form of WIC foods participants may purchase. One study will update a 2003 analysis of the effectiveness of specific cost-containment practices. In addition, the Duke-UNC-USDA Center for Behavioral Economics and Healthy Food Choice Research is offering research grants focused on WIC food cost-containment. As in the arena of vendor management, the findings from these research grants can inform the policy decisions that states regularly make. Developing a plan for trainings or peer-to-peer sharing that will allow states to apply these and other research findings will help ensure that investments in research yield real world results.

Conclusion

The school meals and WIC programs help to shield children from hunger, are important investments in children's health and development, and prepare them to learn and thrive. To keep these programs strong, it is important to make sure that program rules are sensible and followed. USDA's nationally representative studies of the school meal programs and WIC show that there is room for improvement in program accuracy and integrity. The APEC report, in particular, includes a wealth of information that can be used to develop measures to improve program integrity by building on the efforts of the many school districts and states that have already achieved high accuracy. USDA's recent oversight actions on WIC provide a strong framework for identifying and addressing current concerns and targeting future program integrity measures.

When developing program integrity proposals, we urge Congress and USDA to carefully tailor interventions to specific problems and assess whether a proposed measure meets key criteria:

- Will it have a demonstrated impact on reducing error?

- Will it maintain program access for the most vulnerable children?

- Is it feasible?

- Is it cost-effective?

Proposals that meet these criteria can be pursued without exacerbating food insecurity for low-income children or overly burdening schools. Proposals that focus on expanded use of data from other programs and sources are especially promising, as are measures that take advantage of more widespread use of technology by school systems in recent years. To ensure that low-income children receive the benefits for which they qualify, it is important to address errors that result in underpayments as well as overpayments.

Chairman ROKITA. Thank you, Ms. Neuberger.

Ms. Brown, you are recognized for 5 minutes.

STATEMENT OF MS. KAY E. BROWN, DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

Ms. BROWN. Chairman Rokita, Ranking Member Fudge, and members of the subcommittee, thank you for inviting me here today to discuss our work of online sale of WIC infant formula. I will also touch on one aspect of USDA monitoring of the school meal program.

The $6.5 billion WIC program is designed to improve the health of low-income pregnant and postpartum women, infants, and young children, and infant formula is a key component of the food package made available to WIC participants. According to the rules, these participants are not permitted to sell foods they receive from the program. However, news reports have suggested some participants have attempted to do so.

So what is the extent of these online formula sales? The bottom line is we really don't know.

Neither USDA nor officials we talked to from 12 states systematically collect data on this issue. However, officials from five of the states told us they had found WIC formula for sale online, but most said the numbers were very small.

So to gather more information on this issue, we monitored a popular e-commerce Web site in four large metro areas for 30 days looking for posts offering infant formula for sale. We found more than 2,500 posts that included the term "formula," but only two of them that were explicitly identified as WIC formula.

However, we identified more than 400 other posts that could have been advertising WIC-provided formula because it was of the same brand, type, quantity, or container volume that is offered through the state WIC program.

To be clear, though, we don't know whether these posts were made by WIC participants or not. This formula is available at retail stores and purchased by others not participating in WIC. However, we believe these posts do raise questions that we think warrant attention by USDA, particularly in light of the growth of e-commerce in recent years and the high value of infant formula.

Even before our study, USDA had taken some constructive steps. The department issued guidance and then proposed regulations to make clear that offering to sell WIC benefits, including online, is a program violation. Violations can result in sanctions ranking from a written warning to benefit termination.

The department also sent letters to four e-commerce Web sites requesting that they notify their customers that the sale of WIC benefits is prohibited, and two of these sites agreed to post this notification.

Beyond these efforts, we made some recommendations for additional action. First, we focused on making sure the program participants know that selling formula is not permitted. We recommended that USDA tell state agencies to include this information in the rights and responsibilities statements that all WIC participants must sign.

Also, because we found wide variation in how and how often the 12 states we spoke with monitor for online sales, we recommended that USDA require states to spell out their procedures for this monitoring in their annual planning documents.

USDA included both actions as best practices in April guidance to the states and also plans to include them as requirements in new regulations.

Finally, because state officials noted their scarce resources and the difficulty in distinguishing between WIC and non-WIC online formula sales, we recommended that USDA identify cost-effective techniques to monitor for these sales, and USDA plans to explore ways to identify and share best practices and new approaches.

Before I conclude, I would like to mention one component of our work on school meals monitoring. States are required to monitor school food authorities to make sure they are in compliance with federal requirements.

Beginning in school year 2012–2013, as school food authorities were implementing the new school lunch nutritional requirements USDA encouraged states to focus their oversight on technical assistance and support rather than on documenting problems and noncompliance. While this may have helped school food authorities, evidence suggests that this approach may also have resulted in some SFAs being certified as "in compliance" even though they may not have fully met the new requirements.

As a result, and as this approach continues, SFAs lack information on needed corrective actions and USDA lacks complete information on problem areas that require attention.

This concludes my statement. I would be happy to answer any questions you might have.

[The statement of Ms. Brown follows:]

United States Government Accountability Office

Testimony before the Subcommittee on Early Childhood, Elementary, and Secondary Education, Committee on Education and the Workforce, House of Representatives

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NUTRITION ASSISTANCE

Actions Needed to Address Potential Online Sales of Infant Formula

Statement of Kay E. Brown, Director
Education, Workforce, and Income Security

GAO-15-605T

GAO Highlights

Highlights of GAO-15-605T, a testimony before the Subcommittee on Early Childhood, Elementary, and Secondary Education, House of Representatives

May 19, 2015

NUTRITION ASSISTANCE

Actions Needed to Address Potential Online Sales of Infant Formula

Why GAO Did This Study

WIC provides supplemental foods—including infant formula—and assistance to low-income pregnant and postpartum women, infants, and young children. WIC regulations prohibit participants from selling the foods they receive from the program. However, the Internet has substantially increased as a marketplace in recent years, and news reports suggest that some participants have attempted to sell WIC formula online.

This testimony addresses: (1) what is known about the extent to which participants sell WIC formula online, and (2) USDA actions to prevent and address online sales of WIC formula. It is based on a December 2014 report, and includes April 2015 updates on actions USDA has taken to address the report's recommendations, which GAO obtained by analyzing USDA documents. For the 2014 report, GAO reviewed relevant federal laws, regulations, and USDA guidance; monitored online advertisements to sell formula in four metropolitan areas; reviewed a non-generalizable sample of policy manuals from 25 states, selected for their varied WIC caseloads and geography; and interviewed USDA and state and local officials.

What GAO Recommends

GAO recommended, in December 2014, that USDA better ensure WIC participants are aware of the prohibition against selling formula, require states to describe how they identify attempted sales, and assess online sales, including techniques for monitoring. USDA agreed, has taken some action, and plans to do more.

View GAO-15-605T. For more information, contact Kay Brown at (202) 512-7215 or brownke@gao.gov

What GAO Found

The U.S. Department of Agriculture (USDA) does not have data to determine the national extent of online sales of infant formula provided by the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Nevertheless, state WIC officials and GAO's own limited monitoring suggest that some WIC participants have offered formula for sale online. Of the officials we spoke with in 12 states, those from 5 states said that they have found WIC formula offered for sale online by participants. GAO monitored one online classified advertisements website in four large metropolitan areas for 30 days and found 2 posts in which individuals attempted to sell formula specifically identified as WIC—from among 2,726 that advertised infant formula generally. A larger number, 481 posts, advertised formula generally consistent with the formula brand, type, container volume, and amount provided to WIC participants, but these posts did not indicate the source of the formula. Because WIC participants purchase the same formula brands and types from stores as non-WIC customers, monitoring attempted online sales of WIC formula can present a challenge. State officials GAO spoke with cited other challenges to monitoring online sales, such as the fact that individuals posting formula for sale online are able to remain relatively anonymous, and their posts may contain insufficient information to allow staff to identify them as WIC participants.

USDA has taken some steps toward helping states prevent and address online sales of WIC formula but has not collected information that could assist states in determining cost-effective approaches for monitoring such sales. In December 2014, GAO found that USDA had not specifically directed states to tell participants that selling WIC formula was a participant violation, which could have led to participants making these sales without realizing doing so was against program rules. GAO also found that states were not required to report their procedures for controlling participant violations—including sales of WIC benefits—to USDA, leaving the department without information on state efforts to ensure program integrity in this area. Through interviews with state and local WIC agency officials from 12 states, GAO found that states varied in the method and level of effort devoted to monitoring these sales and lacked information to determine cost-effective approaches for monitoring. Without information on the national extent of online sales of WIC benefits or effective monitoring techniques, both USDA and the states are unable to target their resources effectively to address related risks. As a result, GAO recommended that USDA require state agencies to inform participants of the prohibition against selling WIC formula and describe to USDA how they identify attempted sales. GAO also recommended that USDA collect information about the national extent of attempted online sales of WIC formula benefits and determine cost-effective techniques states can use to monitor them. In response, USDA issued revised guidance in April 2015 stating that it expects states to (1) inform participants that selling WIC benefits violates program rules and (2) report their procedures for monitoring attempted WIC benefit sales to USDA. Also in April 2015, USDA officials reported that although they had not yet taken action to assess the national extent of online sales and determine cost-effective techniques to monitor them, they planned to explore ways to do so.

Chairman Rokita, Ranking Member Fudge, and Members of the Subcommittee:

Thank you for the opportunity to discuss our work on the online sale of infant formula received through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). [1] In fiscal year 2013, the federal government spent approximately $6.5 billion on WIC, which provided food, nutrition education, breastfeeding support, and health and social service referrals to about 9 million low-income pregnant and postpartum women, infants, and young children. U.S. Department of Agriculture (USDA) regulations establish the types and maximum amounts of food, including infant formula, participants may receive, and state and local agencies administering the program establish policies and procedures for determining specific amounts of WIC foods—at or below these maximum levels—to provide to participants.[2] WIC rules prohibit participants from selling foods they receive from the program, including infant formula,[3] and participants who violate WIC rules are subject to various sanctions, including repayment of the value of benefits and disqualification from the program. In our 1999 study of WIC fraud and abuse, we found that there were relatively few documented cases nationwide of participants selling infant formula for cash, and generally low rates of WIC participant fraud overall, in contrast to the relatively high rate of WIC vendor fraud.[4] However, the use of the Internet as a marketplace has substantially increased in recent years, and news reports suggest that some participants have attempted to sell WIC formula online. Improper use of WIC benefits undermines the integrity of the program and its ability to provide key nutrition assistance and services to vulnerable populations.

My testimony today will focus on (1) what is known about the extent to which participants sell WIC formula online, and (2) what steps USDA has taken to prevent and address the online sale of WIC formula.

[1] 42 U.S.C. § 1786.

[2] WIC regulations are found at 7 C.F.R pt. 246.

[3] See 7 C.F.R. § 246.2.

[4] GAO, *Food Assistance: Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened,* GAO/RCED-99-224 (Washington, D.C.: August 1999). Since we issued this report, USDA has conducted several studies of WIC vendor management issues. In contrast, the department has not conducted studies of WIC participant fraud.

This statement is based on a report we issued in December 2014 addressing online sales of infant formula and includes updates conducted in April 2015 on the actions USDA is taking to address our prior recommendations.[5] For our December 2014 report, we collected and analyzed information using a variety of methods. We reviewed relevant federal laws, regulations, and guidance from USDA to determine requirements related to the provision of formula to infants receiving WIC benefits, as well as to identify federal, state, and local roles related to preventing and addressing online sales of WIC formula. In addition, we assessed USDA's controls against GAO Standards for Internal Control in the Federal Government.[6] To determine the role USDA regulations and guidance play in preventing and addressing online sales of WIC formula, we reviewed a non-generalizable sample of 25 state WIC policy and procedure manuals. While not generalizable to the U.S., we selected these states primarily for their varied WIC caseloads and diverse geographic locations. Also, as a group, these states provide services to approximately two-thirds of all WIC participants in the U.S. We also monitored online classified advertisements offering formula for sale using one popular e-commerce website in four metropolitan areas over 30 days between June and July 2014.[7] We selected these areas based on (1) high number of births, (2) high WIC caseloads, and (3) geographic dispersion. In addition, we interviewed USDA officials, as well as 17 state and 2 local WIC officials representing 12 states.[8] More detailed information on our objectives, scope, and methodology for our work can be found in the

[5] GAO, *Nutrition Assistance: Additional Guidance Could Assist States in Reducing Risk of Online Sale of Infant Formula*, GAO-15-94 (Washington, D.C.: December 2014).

[6] GAO, *Government Operations: Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1 (Washington, D.C.: Nov. 1, 1999). GAO's internal control standards, issued pursuant to the requirements of the Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, 96 Stat. 814, provide the overall framework for establishing and maintaining internal control in the federal government, and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

[7] "E-commerce" websites allow users to advertise the sale of goods and services. This monitoring provided some preliminary information about the extent to which WIC participants in the four metropolitan areas attempted to sell WIC formula online. We did not investigate individual cases as part of these efforts.

[8] National WIC Association staff assisted us in contacting these officials, more than half of whom were Association board members. While the WIC administrators we interviewed represented a range of geographic locations, the views they shared are not generalizable to all states.

issued report. To obtain updates on USDA's actions to address our prior recommendations, we reviewed information provided by USDA officials and analyzed documents describing actions the department has taken.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Established as a national program in the mid 1970s, WIC is intended to improve the health status of low-income pregnant and postpartum women, infants, and young children by providing supplemental foods and nutrition education to assist participants during critical times of growth and development.[9] Pregnant and post-partum women, infants, and children up to age 5 are eligible for WIC if they are found to be at nutritional risk and have incomes below certain thresholds.[10] According to USDA, research has shown that WIC helps to improve birth and dietary outcomes and contain health care costs, and USDA considers WIC to be one of the nation's most successful and cost-effective nutrition intervention programs.

WIC Food Benefits

WIC participants typically receive food benefits—which may include infant formula—in the form of paper vouchers or checks, or through an

[9] For the purposes of this report, an "infant" is a person younger than 1 year of age.

[10] See 42 U.S.C. §§ 1786(b), (d), 7 C.F.R. § 246.7(c)-(e). Prospective participants who have nutritionally-related medical conditions, such as anemia, or dietary deficiencies that impair or endanger health, such as inadequate diet, meet the nutritional risk criteria for WIC eligibility. WIC applicants must also be living in the state in which they apply (except for Indian state agencies). While federal statute and regulations define criteria that must be used to determine applicants' income eligibility for WIC, state and local agencies are also given some discretion. To be eligible, applicants' income generally must fall at or below 185 percent of the U.S. Poverty Income Guidelines. A person who participates in certain other programs, such as the Supplemental Nutrition Assistance Program, Medicaid, or Temporary Assistance for Needy Families, automatically meets the income eligibility requirement. We previously reported on WIC's income eligibility determination process in *WIC Program: Improved Oversight of Income Eligibility Determination Needed*, GAO-13-290 (Washington, D.C.: February 28, 2013).

electronic benefit transfer card, which can be used to purchase food at state-authorized retail vendors.[11] USDA has established seven food packages that are designed for different categories and nutritional needs of WIC participants. Authorized foods must be prescribed from the food packages according to the category and nutritional needs of the participants.[12] USDA recently revised the food packages to align with current nutrition science, largely based on recommendations of the National Academies' Institute of Medicine.[13]

Infants who are not exclusively breastfeeding can receive formula from WIC until they turn 1 year of age.[14] While federal regulations specify the maximum amount of formula different categories of infants are authorized to receive, state and local agency staff also have some flexibility in determining precise amounts to provide, depending on an infant's nutritional needs. Staff at local WIC agencies play a critical role in

[11] State agencies will be required to implement WIC electronic benefit transfer systems by October 1, 2020, unless exempted by USDA. 42 U.S.C. § 1786(h)(12). USDA issued a proposed rule to implement this provision in February 2013. Special Supplemental Nutrition Program for Women, Infants and Children (WIC): Implementation of the Electronic Benefit Transfer-Related Provisions of Public Law 111–296, 78 Fed. Reg. 13,549 (Feb. 28, 2013). As of May 5, 2015, a final rule had not yet been published.

[12] See 7 C.F.R. § 246.10(e). The regulations also establish nutritional standards and maximum monthly allowances for the supplemental foods to be provided to participants. In general, reductions to the maximum monthly allowances in the food packages are permitted only when medically or nutritionally warranted, or in certain other circumstances. Such reductions cannot be made for cost-savings, administrative convenience, caseload management, or to control vendor abuse. 7 C.F.R. § 246.10(c).

[13] See Institute of Medicine of the National Academies, *WIC Food Packages: Time for a Change* (Washington, D.C.: 2005). In 2007, USDA issued interim regulations revising the WIC food packages, which state agencies were required to implement by October 1, 2009. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): Revisions in the WIC Food Packages, 72 Fed. Reg. 68,966 (Dec. 6, 2007), Special Supplemental Nutrition Program for Women, Infants and Children (WIC): Revisions in the WIC Food Packages; Delay of Implementation Date, 73 Fed. Reg. 14,153 (Mar. 17, 2008). FNS issued final regulations in 2014. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): Revisions in the WIC Food Packages, 79 Fed. Reg. 12,274 (Mar. 4, 2014).

[14] USDA, through regulations and guidance, has emphasized the importance of encouraging participating mothers to breastfeed. WIC regulations require state and local agencies to create policies and procedures to ensure that breastfeeding support and assistance are provided to WIC participants throughout the prenatal and postpartum period. 7 C.F.R. § 246.11(c)(7), (d). Further, formula amounts issued to breastfed infants are to be tailored to meet but not exceed the infant's nutritional needs. See 7 C.F.R. § 246.10(e). For example, a fully-breastfed infant would not receive any formula.

determining infants' feeding categories, and they have the authority to provide them with less formula than the maximum amount allowed for each category, if nutritionally warranted. Nutrition specialists, such as physicians or nutritionists, working at the local agency perform nutritional assessments for prospective participants as part of certification procedures.[15] They use the nutritional assessment information to appropriately target food packages to participants.

WIC Program Oversight and Administration

USDA's role in operating WIC is primarily to provide funding and oversight, and state and local WIC agencies are charged with carrying out most administrative and programmatic functions of the program. Specifically, USDA provides grants to state agencies, which use the funds to reimburse authorized retail vendors for the food purchased by WIC participants and to provide services. As part of its federal monitoring and oversight obligations, USDA annually reviews the state plan for each state WIC agency, which provides important information about the agency's objectives and procedures for all aspects of administering WIC for the coming fiscal year.[16] For their part, state agencies are responsible for developing WIC policies and procedures within federal requirements, entering into agreements with local agencies to operate the program, and monitoring and overseeing its implementation by these local agencies.

The WIC oversight structure is part of the program's internal controls, which are an integral component of management. Internal control is not one event, but a series of actions and activities that occur on an ongoing basis. As programs change and as agencies strive to improve operational processes and implement new technological developments, management must continually assess and evaluate its internal controls to assure that the control activities being used are effective and updated when

[15] To be certified as eligible for the WIC program, a competent professional authority on the staff of the local agency must determine that the applicant is at nutritional risk through a medical and/or nutritional assessment. 7 C.F.R. § 246.7(e). A "competent professional authority" must be a physician, nutritionist, dietitian, registered nurse, physician's assistant, or state or local medically trained health official. 42 U.S.C. § 1786(b)(3), 7 C.F.R. § 246.2. These specialists perform nutritional assessments for each certification period, which varies depending on the type of participant. Infant participants are recertified approximately every 6 months. 7 C.F.R. § 246.7(g)(1).

[16] 42 U.S.C. § 1786(f)(1), 7 C.F.R. § 246.4(a). USDA regulations also provide for other monitoring activities, such as management evaluations and reviews, audits, and investigations. 7 C.F.R. §§ 246.19-.21.

necessary. Management should design and implement internal controls based on the related cost and benefits. Effective internal controls include: (1) communicating information to management and others to enable them to carry out internal control and other responsibilities and (2) assessing the risks agencies face from both external and internal sources.[17]

National Data on Online Sales of WIC Infant Formula Are Unavailable, but Evidence Suggests Some Participants Attempt Them

USDA does not have data that can be used to determine the national extent of online sales of WIC formula, and department officials told us that USDA has not conducted a comprehensive study to assess these sales.[18] According to the officials, the department does not collect data on this issue, in part because it is not the department's responsibility to sanction WIC participants for program violations. Rather, they said, it is the responsibility of state agencies to establish procedures to prevent and address participant violations, including attempts to sell WIC food benefits.[19]

According to state officials, states' monitoring efforts have revealed some WIC formula offered for sale online. Of the officials we spoke to from 12 states, those from 5 states said that they have found WIC formula offered for sale online by participants. Officials in 3 of these states said that they have found fewer than 0.5 percent of their WIC participants attempting these sales online. Officials in 2 other states did not estimate percentages but stated that the incidence is low.[20]

[17] See AIMD-00-21.3.1.

[18] In addition, we conducted a literature search on this topic and found no studies that estimated the national extent of online sales of WIC formula.

[19] Under the WIC regulations, the sale of WIC benefits is a participant violation. A participant violation is defined as any intentional action of a participant, parent or caretaker of an infant or child participant, or proxy that violates federal or state statutes, regulations, policies, or procedures governing the WIC program. Participant violations include "exchanging cash-value vouchers, food instruments or supplemental foods for cash, credit, non-food items, or unauthorized food items, including supplemental foods in excess of those listed on the participant's food instrument." 7 C.F.R. § 246.2. State agencies are required to establish procedures designed to control participant violations, as well as sanctions for those who commit them. 7 C.F.R. § 246.12(u). If the state agency determines that program benefits have been obtained or disposed of improperly as the result of a participant violation, the state agency must establish a claim against the participant for the full value of such benefits. 7 C.F.R. § 246.23(c)(1).

[20] Officials from four other states discussed their regular online monitoring efforts, but did not characterize the incidence of attempted online sales of WIC formula in their states.

Consistent with these state accounts, our own monitoring of a popular e-commerce website for 30 days in four large metropolitan areas found few posts in which individuals explicitly stated they were attempting to sell WIC-provided formula. Specifically, we identified 2,726 posts that included the term "formula," and 2 of these posts explicitly stated that the origin of the formula was WIC.[21] In both posts, the users indicated they were selling the WIC formula because they had switched to different brands of formula.

Posts Advertising WIC-Provided Infant Formula For Sale

- **A posting from late June 2014 included the container size in the title and stated:** "I am looking to sell 5 [brand name] 12.5oz cans (NOT OPENED) because [infant] is super picky and does not want to drink it no matter what i do. [Infant] will drink the [store brand] kind for some reason. I told my WIC office to switch me to another brand but they say it might take 3 months. Im asking 35$ but best offer will do since the brand I buy is from [store] so Im not looking to make a profit here if you consider each can is 16$ at the store. please text if interested!!
- **A posting from early July 2014 included the brand, type, and container size in the title and stated:** "I have 7 powder cans of [brand name] they dnt expire for another year at least just got them from my wic n we ended up switching formulas so its $65.oo for pick up all 7 cans or $70 if i have to drive."

Source: GAO monitoring of online classified advertisements. | GAO-15-605T

From the same e-commerce website, we also identified 481 posts, of which any number could have been advertising WIC-provided formula. However, these posts did not state that the advertised formula was from WIC, and while the formula offered for sale was generally consistent with formula provided through WIC, we could not identify it as such. Specifically, during our 30 days of monitoring formula advertisements, we applied a number of criteria to narrow the broad pool of advertisements to identify those that may have been selling WIC formula. First, because state agencies are generally required to award single-source contracts for WIC formula,[22] we searched for posts advertising formula brands that matched the state-specific WIC-contracted brand. We found that about three-quarters (2,013 posts) fit this criterion. We then reviewed each of these posts and determined that 346 of the posts fit each of three additional criteria, which we chose because they are generally consistent with WIC formula provided to infant participants.

1. The formula type, such as soy or sensitive, advertised for sale was equivalent to one of the types provided to WIC participants in the state in which the posting was made.

2. The volume of the formula container advertised was equivalent to the volume of one of the containers provided to WIC participants in the state in which the posting was made.

[21] We did not investigate these two cases, or other cases, as part of our monitoring efforts, but we provided information about these cases to USDA officials.

[22] Subject to certain exceptions, WIC state agencies are required to use either a single-supplier competitive bidding system for infant formula, or use an alternative cost containment system that provides equivalent or greater savings. "Competitive bidding" means the state agency selects a single source (a single infant formula manufacturer) offering the lowest price, as determined by the submission of sealed bids. 42 U.S.C. § 1786(b)(17), (h)(8), 7 C.F.R. § 246.16a.

3. The amount of formula advertised represented a large proportion of the maximum amount of formula authorized to be provided to fully formula-fed WIC infant participants each month, averaged across all ages.[23]

Examples of Posts Advertising Formula Generally Consistent with that Provided to WIC Participants

- **A posting from mid-June 2014 stated:** "$10 a can! 14 -12.9 oz Cans of [brand name and type] Formula. Expiration Date is - July 1, 2015. Please take it all. I will not separate the formula! NOT FROM WIC!!! [Child] is now 14 months and no longer needs this. Email only please
- **A posting from mid-June 2014:** "[Child] Turn A Year Already, and we Just bought her 7 Brand New Cans of [brand name and type]. She no longer needs Formula. Selling each Can for $10. Brand New, NOT Open. 12.4 Oz. EXP. 1 March. 2016."

Source: GAO monitoring of online classified advertisements. | GAO-15-605T

Beyond the 346 posts that matched these three criteria, we found another 135 that met at least one, but not all, of the criteria. However, since we did not investigate any of these posts further, we do not know if any or all of these 481 posts were attempts to sell WIC formula.

Through our monitoring efforts, and through interviews with USDA and state and local WIC officials, we identified a number of key challenges associated with distinguishing between WIC-obtained formula sales and other sales:

- Each state's specific WIC-contracted formula brand is typically available for purchase at retail stores by WIC participants and non-WIC participants alike, without an indicator on the packaging that some were provided through WIC.
- There are a number of reasons why individuals may have excess formula. For example, a WIC participant may obtain the infant's full monthly allotment of formula at one time; alternatively, non-WIC parents may purchase formula in bulk at a lower cost to save money. In either case, if the infant then stops drinking that type of formula, parents may attempt to sell the unused formula.
- Individuals posting formula for sale online are able to remain relatively anonymous, so WIC staff may not have sufficient information to link the online advertisement with a WIC participant. According to one WIC official we spoke with, staff in that state identify approximately one posting a week with sufficient detail about the seller—such as name or contact information—for staff to pursue. A WIC official from

[23] We included this criterion because participants receiving WIC vouchers for formula may be likely to purchase the infant's entire monthly allotment of formula at one time. This may result in WIC participants having multiple cans of unused formula, for example, if the infant switches formulas during the month, as noted in the two posts we found that explicitly stated the individuals were attempting to sell WIC formula online. A relatively large amount of formula may also indicate an intent to traffic WIC benefits in bulk in order to make a profit. We recently reported on trafficking of food benefits in another federal nutrition program. See GAO, *Supplemental Nutrition Assistance Program: Enhanced Detection Tools and Reporting Could Improve Efforts to Combat Recipient Fraud*, GAO-14-641 (Washington, D.C.: August 21, 2014).

another state said that staff previously used phone numbers to identify WIC participants posting formula for sale, but they believe participants then began to list other people's phone numbers on posts.

- Advertisements for infant formula sales can be numerous online, and formula for sale originates from varied sources. For example, through our literature search, we found multiple news reports on stolen infant formula advertised for sale online.

USDA Has Assisted States in Preventing and Addressing Online Sales, but Monitoring Guidance is Lacking

USDA has taken steps aimed at clarifying that the online sale of WIC benefits is a participant violation. For example, in 2013, USDA proposed regulations that would expand the definition of program violation to include offering to sell WIC benefits, specifically including sales or attempts made online.[24] Earlier, in 2012, USDA issued guidance to WIC state agencies clarifying that the sale of, or offer to sell, WIC foods verbally, in print, or online is a participant violation.[25] This guidance stated that, in accordance with federal regulations, USDA expects states to sanction and issue claims against participants for all program violations,[26] but it did not provide direction on ways to prevent online sales of WIC foods, including formula. That same year, USDA also sent letters to four e-commerce websites—through which individuals advertise the sale of infant formula—requesting that they notify their customers that the sale of

[24] This proposed rule focused on implementing electronic benefit transfer for the WIC program. Special Supplemental Nutrition Program for Women, Infants and Children (WIC): Implementation of the Electronic Benefit Transfer-Related Provisions of Public Law 111-296, 78 Fed. Reg. 13,549, 13,561 (Feb. 28, 2013).

[25] WIC Policy Memorandum #2012-1, *Offering to Sell WIC Foods, Benefits and/or EBT Cards Publicly or Online* (February 10, 2012).

[26] The regulations require state agencies to establish sanctions for participant violations, which may include disqualification from the program for a period of up to 1 year. 7 C.F.R. § 246.12(u)(1). Mandatory sanctions are required for certain types of violations: for example, when a state establishes a claim of $100 or more against a participant who improperly disposed of program benefits—such as through online sales—it must disqualify the participant for 1 year. However, the regulations also provide state agencies some flexibility, allowing them to establish exceptions to, or terminate, mandatory disqualifications in certain circumstances. 7 C.F.R. § 246.12(u)(2). Beyond the mandatory sanctions, in most cases the regulations do not specify how severely states should sanction participants for particular violations. The WIC regulations also require that, when appropriate, the state agency must refer participants who violate program requirements to federal, state, or local authorities for prosecution under applicable statutes. 7 C.F.R. § 246.12(u)(5).

WIC benefits is prohibited, and two of the companies agreed to post such a notification.[27]

More generally, USDA has highlighted the importance of ensuring WIC program integrity through guidance issued in recent years aimed at encouraging participants to report WIC program fraud, waste, and abuse to the USDA Office of the Inspector General (OIG). For example, in 2012, USDA disseminated a poster developed by the OIG and attached it to a guidance document describing its purpose, which includes informing WIC participants and staff how to report violations of laws and regulations relating to USDA programs. The following year, USDA issued additional guidance that encouraged states to add contact information for the OIG to WIC checks or vouchers, or to their accompanying folders or sleeves.[28] USDA indicated that both guidance documents were intended to facilitate participant reports of suspected fraud, waste, and abuse to the OIG, but neither specifically directed states to publicize the fact that attempting to sell WIC benefits, either online or elsewhere, qualifies as an activity that should be reported.

Although WIC regulations require that state agencies establish procedures to control participant violations,[29] we found that states vary in whether their required procedures include informing participants of the prohibition against selling WIC formula. The WIC regulations require that all participants (or their caretakers) be informed of their rights and responsibilities and sign a written statement of rights and obligations during the certification process.[30] The regulations also require certain program violations to be included in the information provided on rights and responsibilities. However, according to USDA officials, the sale of WIC food benefits is not required to be included, nor do the regulations

[27] We recently reported that USDA has also made similar efforts to curb potential online trafficking of benefits in the Supplemental Nutrition Assistance Program. See GAO, *Supplemental Nutrition Assistance Program: Enhanced Detection Tools and Reporting Could Improve Efforts to Combat Recipient Fraud,* GAO-14-641 (Washington, D.C.: August 21, 2014).

[28] WIC Policy Memorandum #2013-4, *OIG Hotline Information on WIC Food Instruments* (June 10, 2013).

[29] 7 C.F.R. § 246.12(u)(1).

[30] 7 C.F.R. § 246.7(i)(10), (j).

require participants be informed of this violation through other means.[31] In our review of rights and responsibilities statements from 25 states' WIC policy and procedure manuals, we found that 7 did not require local agency staff to inform participants that selling WIC benefits is against program rules.[32] Inconsistent communication to participants about this violation conflicts with federal internal control standards,[33] and participants who are unaware of this prohibition may sell excess formula online, thus inappropriately using program resources. Based on these findings, we recommended in our December 2014 report that USDA instruct state agencies to include in the rights and responsibilities statement that participants are not allowed to sell WIC food benefits, including online. USDA agreed with this recommendation, and in April 2015, department officials reported that they intend to revise WIC regulations to require state agencies to include in participant rights and responsibilities statements the prohibition against selling WIC food benefits online. In the interim, USDA included this as a best practice in the 2016 WIC State Plan guidance it disseminated to state agencies on April 6, 2015. Department officials indicated that USDA expects states to move forward on this action and not wait for regulations.

In addition, we found that states vary in the ways they identify attempted sales of WIC formula through monitoring efforts, and USDA has not collected information on states' efforts to address these sales. Of the officials that we spoke to from 12 states, those from 9 states mentioned that they regularly monitor online advertisements.[34] However, the method

[31] State agencies are required to ensure that local agencies advise participants, or their caretaker, when appropriate, that the supplemental foods issued are only for their personal use. 7 C.F.R. § 246.10(b)(2)(ii)(D).

[32] In addition, we found that 18 of the states' rights and responsibilities statements did not require local agency staff to inform participants that selling WIC benefits online specifically is prohibited.

[33] Federal internal control standards call for agency management to ensure that there are adequate means of communicating with external stakeholders that may have a significant impact on the agency achieving its goals. See AIMD-00-21.3.1.

[34] Although not regular monitoring, an official from one state said that staff monitor some e-commerce websites as time allows, focusing their efforts on following up on complaints the state receives that indicate potential formula sales. An official from another state said that some local agency staff monitor e-commerce websites on their own, but it is not required by state policy. Officials from the final state did not provide information on the extent to which staff monitor online sales of WIC formula.

of monitoring and the level of effort devoted to this activity varied across states. For example, officials in one state said that a number of staff within the state office, as well as a number of those in local agencies, search social media websites daily. In contrast, officials from another state said that staff spend about a half day each week monitoring online sites for attempted sales of WIC food benefits, and an official from a different state said that staff monitor for such sales only when time allows. A USDA official told us that the department would like to provide more support to states in pursuing likely cases of participant fraud related to the online sale of WIC food benefits, but it has not yet determined how to be of assistance.

USDA officials indicated they believe states are monitoring attempted sales of WIC formula online to identify this participant violation; however, the department has not gathered information on the status of state efforts to address online sales. Although USDA officials review each WIC state plan annually to ensure that it is consistent with federal requirements, a state's procedures for identifying participant violations are not among the required elements for WIC state plans included in federal statute and regulations.[35] Because USDA does not require that state agencies document their procedures for identifying participant sales of WIC foods, including online sales of infant formula, USDA does not know whether or how states are working to ensure program integrity in this area. The fact that the department does not work more directly with states on this issue is also inconsistent with federal internal control standards.[36] We recommended in our December 2014 report that USDA require state agencies to articulate their procedures for identifying attempted sales of WIC food benefits in their WIC state plans and analyze the information to ascertain the national extent of state efforts. USDA agreed with this recommendation, and department officials reported in April 2015 that they intend to revise WIC regulations to require state agencies to include in state plans their procedures for identifying attempted sales of WIC food

[35] 42 U.S.C. § 1786(f)(1), 7 C.F.R. § 264.4(a). One related required element is the state agency's plan for collecting and maintaining information on cases of participant fraud and abuse. We also found that the guidance USDA provides to states on developing their state plans, while relatively detailed in some respects, does not direct states to describe their plan for identifying program violations, including sales of WIC food benefits.

[36] AIMD-00-21.3.1. According to federal internal control standards, agency management needs operating information to determine compliance with laws and regulations. Also, the standards note that factors outside management's control or influence can affect an agency's ability to achieve all its goals.

benefits. In the interim, USDA included this as a best practice in the 2016 WIC State Plan guidance it disseminated to state agencies on April 6, 2015.

USDA and the states also lack information to determine cost-effective approaches for monitoring these attempted sales. According to USDA, state, and local WIC officials, because of the various challenges state WIC staff face in distinguishing between WIC-obtained formula sales and other sales, the return on investment for monitoring these sales is low. One USDA official noted that it is difficult for states to prove that participants are selling WIC food benefits, which increases the amount of time and effort state staff need to spend to address these cases.[37] Officials from one state WIC agency and one local WIC agency we spoke to said that efforts by state and local agency staff to identify and address online WIC formula sales result in few confirmed cases and draw away scarce resources from other aspects of administering the program. One USDA official said that states that sanction a participant for attempting to sell WIC formula without sufficient evidence that it occurred will likely have the violation overturned during the administrative appeal process.[38] These cases also appear unlikely to result in court involvement, as when we asked the 19 officials from 12 states how these cases were addressed, only one said that a couple had gone through the legal system.[39] Federal internal control standards state that agencies should

[37] As noted previously, proving that a WIC participant is attempting to sell WIC infant formula is difficult in part because online advertisements do not always include the name or phone number of the seller.

[38] See 7 C.F.R. § 246.9. According to USDA, each state must balance the need to ensure WIC program integrity by imposing sanctions with the likely costs and benefits of these activities, taking into account, for example, the potential impacts on sanctioned participants' nutritional needs. An official from one of the states that we spoke with noted that when state staff are considering sanctions for participants, they must be careful to do so without adversely affecting child participants. For example, the official said that when suspending benefits for adult participants, staff sometimes allow the child to continue receiving benefits if a different adult agrees to be the person responsible for those benefits. As mentioned previously, state agencies have some flexibility in determining sanctions for participant violations, subject to federal requirements. In our review of 25 state policy and procedure manuals, we found that state approaches for addressing participants' attempted sales of WIC foods vary. For example, the sanctions for this violation included a written warning in 10 states and either a 6-month or 1-year disqualification in 5 states.

[39] As noted earlier, when appropriate, state agencies must refer participants who violate program requirements to federal, state, or local authorities for prosecution under applicable statutes.

design and implement internal controls based on the related costs and benefits. According to USDA, because of the substantial risks associated with improper payments and fraud related to WIC vendor transactions, both USDA and the states have focused their oversight efforts in recent years on addressing vulnerabilities in the management of this area, rather than focusing on possible participant violations. However, because the use of the Internet as a marketplace has substantially increased in recent years and the national extent of online sales of WIC food benefits is unknown, USDA and the states have insufficient information to assess the benefits of oversight efforts related to this participant violation.[40] Because of this, we recommended in our December 2014 report that USDA collect information to assess the national extent of attempted online sales of WIC formula benefits and determine cost-effective techniques states can use to monitor online classified advertisements. USDA agreed with this recommendation, and department officials reported in April 2015 that they plan to explore ways to assess the extent of online sales of WIC formula and identify and share best practices, cost-effective techniques, or new approaches for monitoring online advertisements with state agencies. To do this, they noted that they will draw on funds designated for addressing high-priority programmatic issues. We believe this approach will help states to strike the appropriate balance of costs and benefits when determining how to target their program integrity resources.

Chairman Rokita, Ranking Member Fudge, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions you may have at this time.

[40] AIMD-00-21.3.1. Federal internal control standards call for agencies to analyze risks from both external and internal sources and employ mechanisms to identify and deal with any special risks brought on by changes in economic or industry conditions. They also note that the attitude and philosophy of management toward control operations such as monitoring can have a profound effect on internal control.

GAO Contact and Staff Acknowledgements

If you or your staff have any questions about this statement, please contact Kay E. Brown, Director, Education, Workforce, and Income Security, at 202-512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this statement include Sarah Cornetto, Aimee Elivert, Rachel Frisk, and Sara Pelton.

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Chairman ROKITA. Thank you, Ms. Brown.

Ms. Lucas-Judy, you are recognized for 5 minutes.

STATEMENT OF MS. JESSICA LUCASJUDY, ACTING DIRECTOR, FORENSIC AUDITS AND INVESTIGATIVE SERVICE, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

Ms. LUCAS-JUDY. Chairman Rokita, Ranking Member Fudge, and members of the subcommittee, thank you very much for inviting me here today to discuss GAO's May 2014 report on school meals programs and three key opportunities that we identified to further strengthen program integrity while ensuring legitimate access: first, providing additional guidance for verifying eligibility; second, using data-matching to verify household income; and third, expanding the types of applications that are subject to verification.

As you know, access to healthy meals is essential for students' well-being and academic achievement. USDA administers school meals programs to provide such access and spent more than $15 billion on them in fiscal year 2014.

Most students participating in these programs received the meals for free or at a reduced price. While many are legitimately eligible for this benefit, the school meals programs have a high rate of improper payments.

As we reported in 2014, USDA has taken a number of steps to enhance controls to identify and prevent ineligible households from receiving school meals benefits. For example, USDA has increased the frequency of administrative reviews to determine whether eligibility decisions were made correctly.

However, we identified opportunities for further improvement. The first opportunity involves a process known as for-cause verification, where school districts review the applications that they have deemed questionable and determine whether any corrections are needed.

We interviewed officials from 25 school districts in the Dallas and the D.C. metropolitan areas. Officials from nine of those school districts said that they do not conduct any for-cause verification, and five others said that they do so only if someone informs them of a need.

Thus, we recommended that USDA collect additional data on this issue and consider developing guidance with criteria to help school districts identify questionable applications, which the agency has agreed to do.

The second opportunity involved data-matching to verify income information. Households can apply for school meals benefits on the basis of income and don't have to provide any supporting documentation with their applications.

We obtained actual income data for federal employees and matched it against a sample of approved applications from 25 school districts in the Dallas and D.C. areas for the 2010–2011 school year to determine whether the earnings matched up with the income that was stated in the application. We found that nine out of the 19 households in our review appeared to have income too high to qualify for the school meals benefits that they received.

School districts are required to select a sample of applications that fall within $1,200 of the income eligibility threshold for a re-

view process that is known as standard verification. Seven out of the nine applications that we identified would not have been subject to that standard verification process because the income that was listed on their application was outside of that $1,200 range.

For instance, one household with two children stated an income of $26,000 per year in the application and was approved for reduced-price meals. By matching payroll records, we found that the income was actually $52,000. We interviewed the applicant who admitted underestimating her income.

While our results were from a small sample and can't be projected to the whole population, we recommended that USDA study the feasibility of using income data, as we did, to conduct computer matching to find questionable applications for review, and USDA agreed.

The third opportunity involves verifying a sample of applications that indicate so-called categorical eligibility—that is, eligibility through participation in other public assistance programs, such as SNAP, or meeting an approved designation, such as foster children. Households can check a box on the application indicating that they meet one of those requirements and qualify for free meals.

Categorical applications are not subject to standard verification. We found that two out of six households in our sample were not actually eligible for free meals, and another one could have been eligible for reduced-price meals based on income instead.

To illustrate, one household was approved for free meals after providing a public assistance benefit number. When we contacted the state agency that administered that program, however, officials told us the household had not been receiving benefits at that time.

We recommended that USDA consider verifying a sample of applications that indicate categorical eligibility, which the agency says it will do.

So in summary, the three actions that we identified to help strengthen the verification process—providing guidance to identify questionable applications, using data-matching to verify household income, and including categorically eligible households in the verification process—can all help USDA better ensure that the funds are used to serve students who are truly in need.

Chairman Rokita, Ranking Member Fudge, members of the subcommittee, this concludes my prepared statement and I will be happy to answer any questions that you have. Thank you.

[The statement of Ms. Lucas-Judy follows:]

United States Government Accountability Office

Testimony

Before the Subcommittee on Early Childhood, Elementary, and Secondary Education, Committee on Education and the Workforce, House of Representatives

For Release on Delivery
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SCHOOL MEALS

USDA Could Improve Verification Process for Program Access

Statement of Jessica Lucas-Judy, Acting Director,
Forensic Audits and Investigative Service

GAO-15-634T

GAO Highlights

Highlights of GAO-15-634T, a testimony before the Subcommittee on Early Childhood, Elementary, and Secondary Education, Committee on Education and the Workforce, House of Representatives

May 19, 2015

SCHOOL MEALS

USDA Could Improve Verification Process for Program Access

Why GAO Did This Study

In fiscal year 2014, 30.4 million children participated in the National School Lunch Program and 13.6 million children participated in the School Breakfast Program, partly funded by $15.1 billion from USDA. In May 2014, GAO issued a report on (1) steps taken to help identify and prevent ineligible beneficiaries from receiving benefits in school-meal programs and (2) opportunities to strengthen USDA's oversight of the programs.

This testimony summarizes GAO's May 2014 report (GAO-14-262) and January 2015 updates from USDA. For the May 2014 report, GAO reviewed federal school-meals program policies, interviewed program officials, and randomly selected a nongeneralizable sample that included 25 approved applications from civilian federal-employee households out of 7.7 million total approved applications in 25 of 1,520 school districts in the Dallas, Texas, and Washington, D.C., regions. GAO performed limited eligibility testing using civilian federal-employee payroll data from 2010 through 2013 due to the unavailability of other data sources containing nonfederal-employee income. GAO also conducted interviews with households. GAO referred potentially ineligible households to the USDA Inspector General.

In its 2014 report, GAO recommended that USDA explore (1) using computer matching to identify households with income that exceeds program-eligibility thresholds for verification, and (2) verifying a sample of categorically eligible households. USDA generally agreed with the recommendations and is taking actions to address them.

View GAO-15-634T. For more information, contact Jessica Lucas-Judy at (202) 512-6722 or lucasjudyj@gao.gov.

What GAO Found

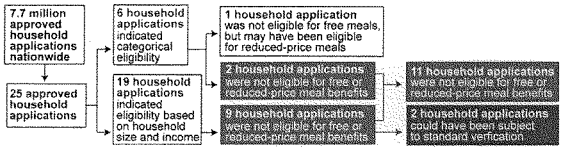
In May 2014, GAO reported that the U.S. Department of Agriculture (USDA) had taken several steps to implement or enhance controls to identify and prevent ineligible beneficiaries from receiving school-meals benefits. For example:

- USDA worked with Congress to develop legislation to automatically enroll students who receive Supplemental Nutritional Assistance Program benefits for free school meals; this program has a more-detailed certification process than the school-meals program.
- Starting in the 2013–2014 school year, USDA increased the frequency with which state agencies complete administrative reviews of school districts from every 5 years to every 3 years. As part of this process, state agencies review applications to determine whether eligibility determinations were correctly made.

In its May 2014 report, GAO identified opportunities to strengthen oversight of the school-meals programs while ensuring legitimate access, such as the following:

- If feasible, computer matching income data from external sources with participant information could help identify households whose income exceeds eligibility thresholds. As of May 2014, school districts verified a sample of approved applications deemed "error-prone"—statutorily defined as those with reported income within $1,200 of the annual eligibility guidelines—to determine whether the household is receiving the correct level of benefits (referred to as standard verification in this testimony). In a nongeneralizable review of 25 approved applications from civilian federal households, GAO found that 9 of 19 households that self-reported household income and size information were ineligible and only 2 could have been subject to standard verification.
- Verifying a sample of categorically eligible applications could help identify ineligible households. GAO reported that school-meal applicants who indicate categorical eligibility (that is, participating in certain public-assistance programs or meeting an approved designation, such as foster children) were eligible for free meals and were generally not subject to standard verification. In a nongeneralizable review of 25 approved applications, 6 households indicated categorical eligibility, but GAO found 2 were ineligible.

Results of GAO's Analysis of a Nongeneralizable Sample of 25 Approved Household Applications from the 2010–2011 School Year



Source: GAO analysis of school-meals household applications. | GAO-15-634T

Chairman Rokita, Ranking Member Fudge, and Members of the Subcommittee:

I am pleased to be here today to discuss the findings of our May 2014 report on oversight of federal school-meals programs.[1] A well-balanced and nutritional diet for school children is essential for their overall health and well-being, and helps promote academic achievement. With children spending a considerable amount of their day at school, meals served during the school day play an important role in providing such a diet. During fiscal year 2014, about 30.4 million children participated in the National School Lunch Program and about 13.6 million participated in the School Breakfast Program.[2] Both of these programs are administered by the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) through state agencies that oversee local entities that provide school meals. The federal government provides cash reimbursements for each meal that meets nutritional requirements that is served at schools that participate in the lunch and breakfast programs. In fiscal year 2014, USDA spent about $15.1 billion on these programs.

Students who participate in these programs may qualify for free or reduced-price meals depending on their household income and household size.[3] School districts determine individual student or household eligibility for free or reduced-price meals by reviewing applications submitted by households or through a process referred to as "direct certification." Under direct certification, state agencies provide school districts with a list of students whose households receive certain public-assistance benefits, such as through the Supplemental Nutrition Assistance Program (SNAP), and school districts confer eligibility for free school meals to these students. Thus, directly certified participants are automatically certified for school-meals benefits without having to fill out a separate school-meals application. Students receiving certain public-assistance benefits or meeting an approved designation, such as if they

[1]GAO, *School-Meals Programs: USDA Has Enhanced Controls, but Additional Verification Could Help Ensure Legitimate Program Access*, GAO-14-262 (Washington, D.C.: May 15, 2014).

[2]This figure includes all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands, as well as children of Department of Defense armed forces personnel attending schools overseas.

[3]Students may also pay full price for these meals.

are homeless or foster children, are categorically eligible for free-meal benefits. School districts can certify categorically eligible students into the school-meals program either through review of an application or through direct certification.

The Office of Management and Budget (OMB) has designated the National School Lunch Program as 1 of 13 federal "high-error" programs due to its large estimated improper payments—approximately $1.7 billion in fiscal year 2014.[4] According to OMB guidance, an improper payment is any payment that should not have been made; that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; or for which insufficient or no documentation was found.[5]

My remarks today highlight the key findings of our May 2014 report on oversight of school-meals programs. Specifically, like the report, this testimony discusses (1) USDA's steps taken to help identify and prevent ineligible beneficiaries from receiving benefits in school-meal programs and (2) opportunities to strengthen USDA's oversight of the school-meals programs. Because of limited salary and income data available for all U.S. households, our case-study examples were limited to civilian executive-branch employees and United States Postal Service (USPS) employees.[6]

My statement is based on our May 2014 report with selected updates from USDA related to the status of our recommendations. For our May 2014 report, we reviewed FNS policies and regulations and interviewed

[4]High-error programs are those programs that reported roughly $750 million or more in improper payments in a given year, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or have not yet established a program error rate and have measured components that were above the threshold. USDA estimates that approximately $959 million of its fiscal year 2014 improper payments represents certification errors and approximately $789 million represents school-district counting and claiming errors. USDA estimates that the School Breakfast Program had approximately $923 million in improper payments in fiscal year 2014. USDA uses extrapolations from statistical models to develop estimates of improper payments for school-meals programs.

[5]Improper payment estimates reported by federal agencies are not intended to be an estimate of fraud in federal agencies' programs and activities.

[6]Throughout this testimony, we use the term "federal employees" to refer to both civilian executive-branch employees and USPS employees.

program officials. We also randomly selected a nongeneralizable sample that included 25 applications from federal-employee households out of the 7.7 million approved household applications from 25 of 1,520 school districts in the Dallas, Texas, and Washington, D.C., regions—areas with different federal-employee concentrations—in the 2010–2011 school year.[7] We performed limited eligibility testing using civilian federal-employee payroll data from 2010 through 2013 due to the unavailability of other data sources containing nonfederal-employee income. We also conducted interviews with the 25 households. Households we identified as potentially ineligible were referred to the USDA Office of the Inspector General for further examination.[8] Further details on our scope and methodology are included in the May 2014 report.[9] For the selected updates, in January 2015 USDA provided us information on the status of its implementation of our recommendations. The work upon which this statement is based was conducted in accordance with generally accepted

[7]The Washington, D.C., and Dallas, Texas, metropolitan regions ranked 1st and 18th, respectively, among the 50 metropolitan regions with the largest number of executive-branch federal employees during fiscal year 2012. The Washington, D.C., region includes Washington, D.C.; Maryland; and Virginia. We initially obtained data from 28 school districts for our review—14 located in the Dallas, Texas, metropolitan region and 14 in the Washington, D.C., metropolitan region, which includes Washington, D.C., and its Maryland and Virginia suburbs. In the Dallas, Texas, metropolitan region we selected school districts with student enrollment over 10,000 students. We selected all school districts in the Washington, D.C., metropolitan region excluding 56 charter school districts in Washington, D.C. However, we did not use data from 3 school districts—1 located in the Dallas, Texas, metropolitan region and 2 located in the Washington, D.C., metropolitan region—because the data were not reliable for our purposes. During the 2010–2011 school year, there were 57 school districts in Washington, D.C.; 49 in Maryland; 1,260 in Texas; and 154 in Virginia for a total of 1,520. This selection is not representative of all states, school districts, or school-meal participants. For our May 2014 report, we also selected 23 households that were directly certified in to the program in the selected school districts. Of the 25 selected school districts, 2 did not have any directly certified households that matched with federal-employee payroll data. Our analysis of the 23 directly certified households is not discussed in this testimony.

[8]In addition, we referred the cases to the appropriate school district and state oversight agency. As of May 2015, school districts had followed up on many of these referrals, while some were still under review. For example, one school district conducted for-cause verification of five households we referred as being potentially ineligible for school-meals benefits. As a result of this verification, all five households were removed from the program because they failed to respond to the verification request. Another school district to which we referred potentially ineligible households told us that it removed two households from the program after conducting verification.

[9]GAO-14-262.

government auditing standards and standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

Background

Within USDA, FNS has overall responsibility for overseeing the school-meals programs, which includes promulgating regulations to implement authorizing legislation, setting nationwide eligibility criteria, and issuing guidance. School-meals programs are administered at the state level by a designated state agency that issues policy guidance and other instructions to school districts providing the meals to ensure awareness of federal and state requirements. School districts are responsible for completing application, certification, and verification activities for the school-meals programs, and for providing children with nutritionally balanced meals each school day. The designated state agency conducts periodic reviews of the school districts to determine whether the program requirements are being met. Schools and households that participate in free or reduced-price meal programs may be eligible for additional federal and state benefits.

Depending on household income, children may be eligible for free or reduced-price meals. Children from families with incomes at or below 130 percent of the federal poverty level are eligible for free meals; the income threshold for a family of four was $28,665 in the 2010–2011 school year. Those with incomes between 130 percent and 185 percent of the federal poverty level are eligible for reduced-price meals. Income is any money received on a recurring basis—including, but not limited to, gross earnings from work, welfare, child support, alimony, retirement, and disability benefits—unless specifically excluded by statute.[10]

In addition, students who are in households receiving benefits under certain public-assistance programs—specifically, SNAP, Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR)—or meet certain approved designations (such as students who are designated as homeless, runaway, or migrant;

[10]Income not to be counted in the determination of a household's eligibility includes, but is not limited to, the value of benefits under SNAP or Food Distribution Program on Indian Reservations (FDPIR), student financial assistance benefits, and loans. 78 Fed. Reg. 17628 (Mar. 22, 2013). Children from families with incomes over 185 percent of the federal poverty level pay full price, although their meals are still subsidized to some extent.

or who are foster children) are eligible for free school meals regardless of income.

USDA Has Taken Steps to Help Identify and Prevent Ineligible Participants from Receiving Benefits

In May 2014, we reported that USDA had taken several steps to implement or enhance controls to identify and prevent ineligible beneficiaries from receiving school-meals benefits.[11] For example:

- USDA worked with Congress to develop legislation to automatically enroll students who receive SNAP benefits for free school meals; SNAP has a more-detailed certification process than the school-meals program. For our May 2014 report, USDA officials told us that they were emphasizing the use of direct certification, because, in their opinion, it helps prevent certification errors without compromising access. Direct certification reduces the administrative burden on SNAP households, as they do not need to submit a separate school-meals application. It also reduces the number of applications school districts must review. The number of school districts directly certifying SNAP-participant children increased from the 2008 through 2013 school years. For example, during the 2008–2009 school year, 78 percent of school districts directly certified students, and by the 2012–2013 school year, this percentage had grown to 91 percent of school districts, bringing the estimated percentage of SNAP-participant children directly certified for free school meals to 89 percent. USDA was also conducting demonstration projects in selected states and school districts to explore the feasibility of directly certifying children that participate in the Medicaid program.
- USDA requires state agencies that administer school-meals programs to conduct regular, on-site reviews—referred to as "administrative reviews"—to evaluate school districts that participate in the school-meals programs. Starting in the 2013–2014 school year, USDA increased the frequency with which state agencies complete administrative reviews from every 5 years to every 3 years. As part of this process, state agencies are to conduct on-site reviews of school districts to help ensure that applications are complete and that the correct eligibility determinations were made based on applicant information. School districts that have adverse findings in their administrative reviews are to submit a corrective-action plan to the

[11]GAO-14-262.

state agency, and the state agency is to follow up to determine whether the issue has been resolved.

- In February 2012, USDA distributed guidance to state administrators to clarify that school districts have the authority to review approved applications for free or reduced-price meals for school-district employees when known or available information indicates school-district employees may have misrepresented their incomes on their applications.

USDA Could Explore Options to Enhance the Verification Process to Further Strengthen Integrity While Ensuring Legitimate Access

In our May 2014 report, we identified opportunities to strengthen oversight of the school-meals programs while ensuring legitimate access, including clarifying use of for-cause verification, studying the feasibility of electronic data matching to verify income, and verifying a sample of households that are categorically eligible for assistance.

For-Cause Verification

As described in USDA's eligibility manual for school meals, school districts are obligated to verify applications if they deem them to be questionable, which is referred to as for-cause verification.[12]

We reported in May 2014 that officials from 11 of the 25 school districts we examined told us that they conduct for-cause verification. These officials provided examples of how they would identify suspicious applications, such as when a household submits a modified application—changing income or household members—after being denied, or when different households include identical public-assistance benefit numbers (e.g., if different households provide identical SNAP numbers). However, officials from 9 of the 25 school districts we examined told us that they did not conduct any for-cause verification. For example, one school-district official explained that the school district accepts applications at face value. Additionally, officials from 5 of the 25 school districts told us they only conduct for-cause verification if someone (such as a member of the

[12] 7 C.F.R. § 245.6a(c)(7).

public or a state agency) informs them of the need to do so on a household. Although not generalizable, responses from these school districts provide insights about whether and under what conditions school districts conduct for-cause verifications.

In April 2013, USDA issued a memorandum stating that, effective for the 2013–2014 school year, all school districts must specifically report the total number of applications that were verified for cause. However, the outcomes of those verifications would be grouped with the outcomes of applications that have undergone standard verification. As a result, we reported in May 2014 that USDA would not have information on specific outcomes, which it may need to assess the effectiveness of for-cause verifications and to determine what actions, if any, are needed to improve program integrity. While USDA had issued guidance specific to school-district employees and instructs school districts to verify questionable applications in its school-meals eligibility manual, we found that the guidance did not provide possible indicators or describe scenarios that could assist school districts in identifying questionable applications.

Hence, in May 2014, we recommended that USDA evaluate the data collected on for-cause verifications for the 2013–2014 school year to determine whether for-cause verification outcomes should be reported separately and, if appropriate, develop and disseminate additional guidance for conducting for-cause verification that includes criteria for identifying possible indicators of questionable or ineligible applications. USDA concurred with this recommendation and in January 2015 told us that FNS would analyze the 2013–2014 school year data to determine whether capturing the results of for-cause verification separately from the results of standard verification would assist the agency's efforts to improve integrity and oversight. USDA also said that FNS would consider developing and disseminating additional guidance, as we recommended.

Income Verification

In addition to for-cause verification, school districts are required to annually verify a sample of household applications approved for free or reduced-price school-meals benefits to determine whether the household has been certified to receive the correct level of benefits—we refer to this

process as "standard verification."[13] Standard verification is generally limited to approved applications considered "error-prone." Error-prone is statutorily defined as approved applications in which stated income is within $100 of the monthly or $1,200 of the annual applicable income-eligibility guideline. Households with reported incomes that are more than $1,200 above or below the free-meals eligibility threshold and more than $1,200 below the reduced-price threshold would generally not be subject to this verification process.

In a nongeneralizable review of 25 approved civilian federal-employee household applications for our May 2014 report, we found that 9 of 19 households that self-reported household income and size information were not eligible for free or reduced-price-meal benefits they were receiving because their income exceeded eligibility guidelines. Two of these 9 households stated in their applications annualized incomes that were within $1,200 of the eligibility guidelines and, therefore, could have been selected for standard verification as part of the sample by the district; however, we determined that they were not selected or verified. The remaining 7 of 9 households stated annualized incomes that fell below $1,200 of the eligibility guidelines and thus would not have been subject to standard verification.

For example, one household we reviewed submitted a school-meals application for the 2010–2011 school year seeking school-meals benefits for two children. The household stated an annual income of approximately $26,000 per year, and the school district appropriately certified the household to receive reduced-price-meal benefits based on the information on the application. However, we reviewed payroll records and determined that the adult applicant's income at the time of the application was approximately $52,000—making the household ineligible for benefits. This household also applied for and received reduced-meal benefits for the 2011–2012 and 2012–2013 school years by understating

[13]Pursuant to statute, school districts are required to verify a random sample of applicants. The sample size is equal to the lesser of 3 percent of approved applications, selected from error-prone applications, or 3,000 error-prone applications unless an alternative sample size is used. For the purposes of standard verification, federal law defines error-prone applications as approved applications with monthly income within $100 of—or with annual income within $1,200 of—the income eligibility limits for free or reduced-price meals. Households that indicate categorical eligibility on an application and households that enter the program through direct certification are generally not subject to the standard verification process.

its income. Its 2012–2013 annualized income was understated by about $45,000.

Because the income stated on the application during these school years was not within $1,200 per year of the income-eligibility requirements, the application was not deemed error-prone and was not subject to standard verification. Had this application been subjected to verification, a valid pay stub would have indicated the household was ineligible.

One method to identify potentially ineligible applicants and effectively enforce program-eligibility requirements is by independently verifying income information with an external source, such as state payroll data. States or school districts, through data matching, could identify households that have income greater than the eligibility limits and follow up further. Such a risk-based approach would allow school districts to focus on potentially ineligible families while not interrupting program access to other participants. Electronic verification of a sample of applicants (beyond those that are statutorily defined as error-prone) through computer matching by school districts or state agencies with other sources of information—such as state income databases or public-assistance databases—could help effectively identify potentially ineligible applicants.

In May 2014, we recommended that USDA develop and assess a pilot program to explore the feasibility of computer matching school-meal participants with other sources of household income, such as state income databases, to identify potentially ineligible households—those with income exceeding program-eligibility thresholds—for verification. We also recommended that, if the pilot program shows promise in identifying ineligible households, the agency should develop a legislative proposal to expand the statutorily defined verification process to include this independent electronic verification for a sample of all school-meals applications. USDA concurred with our recommendations and told us in January 2015 that direct-verification computer matching is technologically feasible with data from means-tested programs, and that data from SNAP and other programs are suitable for school-meals program verification in many states. USDA said that FNS would explore the feasibility of using other income-reporting systems for program verification without negatively affecting program access for eligible students or violating statutory requirements. Depending on the results of the pilot program, USDA said that FNS would consider submitting a legislative proposal to expand the statutorily defined verification process, as we recommended.

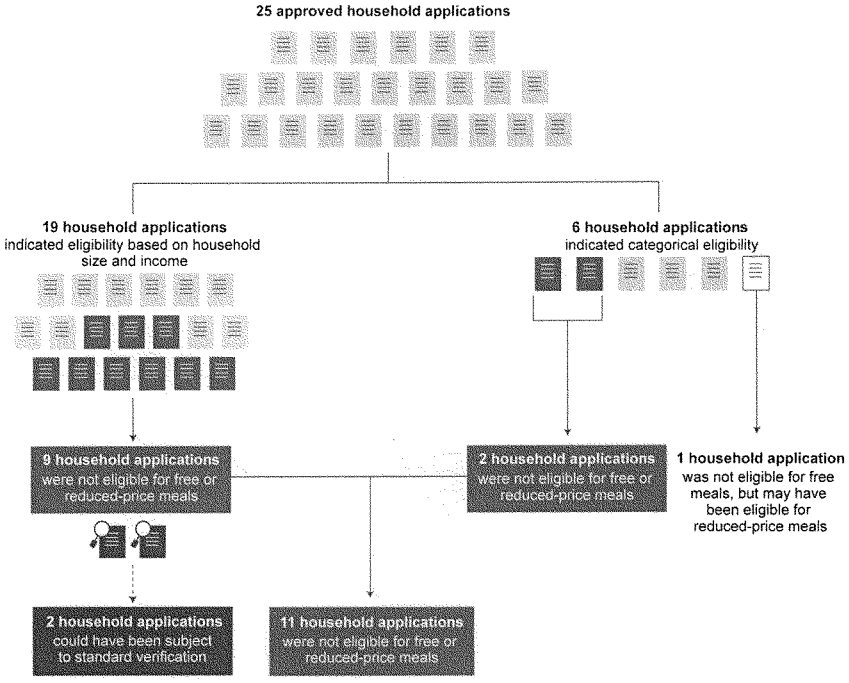
Verification of Categorical Eligibility

In May 2014, we found that ineligible households may be receiving free school-meals benefits by submitting applications that falsely state that a household member is categorically eligible for the program due to participating in certain public-assistance programs—such as SNAP—or meeting an approved designation—such as foster child or homeless. Of the 25 civilian federal-employee household applications we reviewed, 6 were approved for free school-meals benefits based on categorical eligibility. We found that 2 of the 6 were not eligible for free or reduced-price meals and 1 was not eligible for free meals, although that household may have been eligible for reduced-price meals.

For example, one household applied for benefits during the 2010–2011 school year—providing a public-assistance benefit number—and was approved for free-meal benefits. However, when we verified the information with the state, we learned that the number was for medical-assistance benefits—a program that is not included in categorical eligibility for the school-meals programs. On the basis of our review of payroll records, this household's annualized income of at least $59,000 during 2010 would not have qualified the household for free or reduced-price-meal benefits. This household applied for school-meals benefits during the 2011–2012 and 2012–2013 school years, again indicating the same public-assistance benefit number—and was approved for free-meal benefits.

Figure 1 shows the results of our review.

Figure 1: Results of GAO's Analysis of a Nongeneralizable Sample of Approved Applications



Source: GAO analysis of school-meals household applications. | GAO-15-634T

Note: There are two ways children may be classified as categorically eligible: (1) through participation in certain public-assistance programs, such as the Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF), or (2) through meeting an approved designation, such as homeless or foster child.

Because applications that indicate categorical eligibility are generally not subject to standard verification, these ineligible households would likely

not be identified unless they were selected for for-cause verification or as part of the administrative review process, even though they contained inaccurate information. These cases underscore the potential benefits that could be realized by verifying beneficiaries with categorical eligibility. In May 2014, we recommended that USDA explore the feasibility of verifying the eligibility of a sample of applications that indicate categorical eligibility for program benefits and are therefore not subject to standard verification. USDA concurred with this recommendation and told us in January 2015 that FNS would explore technological solutions to assess state and local agency capacity to verify eligibility of a sample of applications that indicate categorical eligibility for school-meals-program benefits. In addition, USDA said that FNS would clarify to states and local agencies the procedures for confirming and verifying the application's status as categorically eligible, including for those who reapply after being denied program benefits as a result of verification.

Chairman Rokita, Ranking Member Fudge, and Members of the Subcommittee, this concludes my prepared remarks. I look forward to answering any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

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Chairman ROKITA. Thank you, Ms. Lucas-Judy.

We will now turn to member questioning. I am going to reserve my question time and defer to the full committee chairman, Mr. John Kline of Minnesota.

Mr. KLINE. Thank you, Mr. Chairman. Thanks for the hearing and thanks for allowing me to question.

Thanks, to the witnesses, for being here. It is a great panel.

I look out there and I see two witnesses from the GAO and it reminds me of how much we rely on the very fine work that you do, so it is good to see you here. And in that line, I am going to start with Ms. Brown.

We have seen you here on a number of occasions. We are always glad to have your testimony.

You sort of wrapped up your testimony talking about the work that your team had done on the new meal standards and what USDA was doing in emphasizing technical assistance rather than documenting instances of noncompliance, and I think technical assistance is probably a very good idea, but it does raise a question because USDA has been touting, I would say, a 95 percent compliance rate. How do we have confidence in that number if a significant number of schools is doing technical assistance rather than checking on compliance?

Ms. BROWN. Based on the work that we did, including surveys of state administrators and our on-site visits in schools as well as multiple discussions with state officials, I think we would conclude that number is probably optimistic and I do want to clarify from our perspective that while we fully support the need for technical assistance and support from USDA, because this is a difficult process and the schools are going through a big transition, we think it is particularly important that they document the places where schools are out of compliance, because otherwise they won't know what needs to be fixed in the future.

And what we know from the most recent report on improper payments is that one of the key areas in error rates is menus that are not meeting the nutritional requirements. So we think the documentation of noncompliance is very important.

Mr. KLINE. Yes. Thank you for that.

I, too, support providing technical assistance. Seems like a smart thing to do when you have got new rules and new challenges.

But it does seem a little bit incongruous to then talk about—and proudly talk about—95 percent compliance when the process would suggest otherwise. And I appreciate your testimony on that.

Jumping to the inspector general, Mr. Harden, your report covers several examples of millions of dollars being lost through improper payments. Can you distinguish how much of that is fraud, how much of it is waste, how much of—is abuse? And in the end, as we look at reforms, do those distinctions matter in how we put forward new policy?

Mr. HARDEN. I guess I would start off from the fraud category. In preparing for this hearing I talked to my counterpart for investigations to find out in child nutrition programs is this really a significant thing.

And for child nutrition, it is not a significant fraud risk. The number of cases we have are minimal compared to the overall investigative caseload that our investigative office carries.

The one exception is WIC, and that is where we see fraud schemes that are very similar with regard to trafficking that we also see in the SNAP program.

So from a fraud perspective it is not big. I would put it more in the abuse or, you know, better management of programs category, where, you know, you have to have the right program delivering the right oversight to make sure that the benefits get where they are supposed to go and they accomplish what they are intended to accomplish.

Mr. KLINE. Okay. Thank you.

I am going to try to set the standard here, Mr. Chairman, and yield back the balance of my time.

But again, my thanks to the witnesses.

Chairman ROKITA. I thank the chairman.

Mr. Scott, you are recognized for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Harden, Ms. Neuberger mentioned one of the problems, just the logistics of doing this. I understand the families have to apply for school lunches at the beginning of the year and they are eligible for the rest of the year.

Exactly who should be doing the oversight? Should you hire compliance officers for 2 weeks, or what?

Mr. HARDEN. We didn't exactly address that type of question, but, you know, what we did find was that, as other witnesses have also talked about, the school food authorities and the people that are doing this do have many other responsibilities, and so this is not always their first, you know, point of reference in terms of their job responsibilities. So it might be a good idea to pursue looking at could you have some specialized skill brought in to look at this at the very beginning of the year, because they only look at a 3 percent sample, which is a very structured sample based on the—

Mr. SCOTT. Yes. Yes, but the initial verification is self-reporting and the results come in. Should you have people with accounting backgrounds hired for the—I mean, how long a period are we talking? We are only talking about a week or 2 when all this information comes in, aren't we?

Mr. HARDEN. It is my understanding that does happen in the first, you know, 6 months through 6 weeks of the school year, yes.

Mr. SCOTT. Okay. So, I mean, it would be—you are talking about hiring somebody for those 6 weeks?

Mr. HARDEN. Again, we didn't specifically look at that, but as an idea to look at, I would agree that it is something to be looked at.

Mr. SCOTT. As you indicated, the school personnel aren't people that have these particular skill sets.

Mr. HARDEN. Right. When we looked to see how they followed through in verifying income we found, you know, examples, where they didn't follow up, they didn't ask the questions even though there might be information available on the application that would indicate the household has more income than they do.

Mr. SCOTT. That is if they have the knowledge background of knowing what is suspicious and what isn't.

One of the things that Ms. Neuberger mentioned is the cost-effectiveness of the cure. In a school, how much money are we potentially saving if we hired accountants and CPAs to do this information—to get this information?

Mr. HARDEN. I think the overall improper payment rates for School Lunch is in the $1.4 billion category, so, I mean, it would be a significant amount of money if they were meeting their reduction targets, if they were meeting what they were required to for improper payment reporting.

Mr. SCOTT. Right. But how many people would you have to hire all over the country to accomplish that?

Mr. HARDEN. That I would have to give some thought to and get back to you on that.

Mr. SCOTT. Now, there are also underpayments, as I understand it, so if they did all the work they would be identifying money that we actually should not have collected.

Mr. HARDEN. Yes. When they do the sample, the 3 percent sample, they do identify students that should be getting free meals that are having to pay for meals, so it works both ways.

Mr. SCOTT. And would a lot of—how many people would—because the information needs to provided, how many people would not receive the free lunch because they just don't complete the process?

Mr. HARDEN. In the school year that we looked at there were 55 percent of the ones that were asked to provide information that did not respond. So when they did not respond they were kicked out of the program.

Mr. SCOTT. So you are talking about losing half the students in free lunch because of the logistics of applying?

Mr. HARDEN. Because they did not provide the income documentation that they—

Mr. SCOTT. Right. And when you got—we are all politicians up here trying to get people to register to vote. It is a hassle because they just don't go—want to go through the process.

When you have all of these extra steps to take, some people will not comply. So are you talking about a potential 50 percent loss in students who would qualify if they provided the information, just never get around to providing the information and lose their access to free lunch?

Mr. HARDEN. It is my understanding that yes, some of them would be able to qualify. In other instances, others would not.

Mr. SCOTT. And 50 percent would lose that eligibility?

Mr. HARDEN. In the school year that we looked at that is the number that didn't respond, so yes, they didn't—they lost—

Mr. SCOTT. So we have kind of policy questions. We can get better accuracy, but a lot of students wouldn't participate. Is that the question we have before us?

Mr. HARDEN. I am sorry, I didn't hear the question.

Mr. SCOTT. If we got the information perfectly straight, we could lose 50 percent of the participation?

Mr. HARDEN. Or, if I am understanding your question, you could have that many more that were participating, too, if they qualified for the program—

Mr. SCOTT. Right. But the fact is they—a lot of people will not supply the information and will lose eligibility, and that number could be as much as 50 percent of those participating.

Mr. HARDEN. Yes.

Chairman ROKITA. Gentleman's time is expired.

Mr. Thompson is recognized for 5 minutes.

Mr. THOMPSON. Thank you, Chairman. Chairman, thanks for this incredibly important hearing.

And thank you, to the panel of witnesses, for bringing your expertise.

I am heartened. I appreciate your testimony, your written and your verbal testimony. I am kind of heartened that many of our nutrition programs we are looking at sounds like while there may be some issues, it is kind of minimal. Others, in terms of significant, is, if I heard correctly, specifically trafficking of food commodities obtained by the WIC and SNAP program.

You know, and I think that is important that we look at that. I don't have a problem with the title of this hearing because I—every dollar that we—that is abused or fraudulently obtained is a dollar of food out of the mouth of someone—some child, some person, some citizen that needs it.

I know when my wife and I were just starting out in life, we were early 20s, we didn't have much. And we were blessed with our first son. Today he is a 30-year-old pastor, but we were WIC-eligible, and those—it served a very important—it plugged a very important hole financially, in terms of assuring that Parker and Penny had the nutrition.

And so, but I take very seriously any type of fraud and abuse with these programs because it is taking mouth out of the food of those who are truly deserving and eligible.

Mr. Harden, in your testimony you discuss the issue of improper payments in the National School Lunch Program and the costs of error rates to taxpayers. And I agree that increased accountability will strengthen this program and others like it, but we would remiss if we didn't acknowledge the amount of work the schools have to do to verify income, especially in districts that have a high number of kids who qualify for free or reduced meals.

And aside from direct certification, is there anything the USDA is looking at or doing to share best practices on income verification between both states and also with local districts?

Mr. HARDEN. Yes, sir. In response to our most recent report they provided some of those other opportunities or other initiatives that they were trying. It is also why we were agreeable to look at other alternatives other than providing income documentations we recommended.

Some of those things that are—the reforms or initiatives that they are trying but we haven't looked at yet but do appear to be good alternatives are their improved oversight and data collection, where they are doing a risk-based analysis on a more frequent basis, where they are going to do more reviews or a second review if they know a school system has a high error rate.

A third initiative that I thought was a good one is that they have proposed rules on training cafeteria workers or people at the local

level so that they know more about how to look for errors and inconsistencies.

Mr. THOMPSON. Very good. I appreciate that, what the agency is doing.

Ms. Brown, you—thank you for your work you have done to improve government performance and services to children, families, and individuals. Under the WIC program, can you point to specific areas and the way the program is implemented that allow for or invite waste, fraud, and abuse?

Ms. BROWN. Well, as you know, what we looked specifically at this time was the possibility of online formula sale, and the reason we looked at that was because of the vast increase in e-commerce, and that creates new opportunities. And that is the trick with situations like this with fraud is to make sure that the entities that are managing the program are staying one step ahead of the others who may be more creative in thinking of ways to abuse the program.

The other situation in the WIC program that I think Mr. Harden talked about was fraud on the part of the vendors or the providers of the WIC food products. We haven't done any work in that area in a number of years, but I know that has been a concern on the part of the I.G.

Mr. HARDEN. Yes. In a recent report where we looked at vendor management in the WIC program we saw that they weren't—that FNS wasn't using its management evaluations and that tool to oversee things in the way they should.

By not doing so, they were not timely disqualifying vendors that should be disqualified. They weren't investigating high-risk vendors that should be looked at. And they weren't using the reciprocal disqualification that would also go with SNAP retailers.

Mr. THOMPSON. My final question really has to do with the abuse of the categorical eligibility and that—and I know that is something we have relied upon and has some benefits, in terms of efficiency. And I just wondered, are there any conclusions or findings of why those inaccuracies exist? Obviously we had this robust debate as part of the farm bill, as well, with the SNAP program.

And, Ms. Lucas-Judy?

Ms. LUCAS-JUDY. So if I understand your question, you are asking why there are errors with categorical eligibility?

Mr. THOMPSON. Well, actually, I am about ready to be cut off by the chairman so—

Chairman ROKITA. Yes. I am sorry. The gentleman's time is—

Mr. THOMPSON. Look forward to talking with you more about that issue.

Ms. LUCAS-JUDY. Okay.

Chairman ROKITA. Gentleman's time is expired.

The Gentlelady from Oregon is recognized for 5 minutes.

Ms. BONAMICI. Thank you very much, Mr. Chairman.

And I want to thank you, Chairman Rokita and Ranking Member Fudge, for holding this hearing. It has been an interesting discussion, and certainly we can all agree that if there are improper payments being made we need to address that issue.

I just want to address the title of the hearing for a moment, because that is a topic that has come up. "Fraud" is a very harsh

term and it incorporates an intent. And I don't want the public to think that there is fraud in the School Lunch Program if we haven't shown that.

And, Mr. Harden, you sort of clarified that there may be some risk of fraud in the WIC program, but we are not really talking about this perception that, unfortunately, the title of the hearing may convey. So I just wanted to clarify that when we are talking about this fraud, Mr. Harden, you said that the significant risk is in the WIC program.

And it is problematic, and I noticed, Ms. Brown, in your—if it is in your testimony—you have a couple of examples of posts advertising WIC-provided infant formula for sale, and one family needed $35 because their infant was picky, and the other one wanted $65 for their formula that their kids aren't consuming. I would question whether there was really intent to defraud in those advertisements. So let's clarify that we—if there is abuse and if it is against the law, that is very different from someone intentionally committing fraud.

So, given that about one in five eligible children are currently not receiving free or reduced-price lunch, I want to make sure that our efforts to address improper payments, which include underpayments as well as overpayments, coincide with efforts to reach more eligible families. Because it is clear that the positive benefits of good nutrition in school, after school, in the summer, and in child care settings are undeniable.

So, Ms. Neuberger, you talk about the schools' use of direct certification that is more common, and you cite the share of paper applications that has fallen from 76 percent to 55 percent from 2007–2008 to 2012–2013, suggesting there is wider use of direct certification. And I know the GAO found that 89 percent of children who received SNAP benefits are directly certified.

Now, in my state of Oregon less than 80 percent of eligible children are directly certified, so can you discuss the challenges that remain to enrolling more children through direct certification? Can we learn lessons from high-performing states?

And I want to save time for another question as well.

Ms. NEUBERGER. Sure. That is a really important point.

States and school districts have come a long way in terms of making better use of the highly reliable data from other programs. Using direct certification reduces errors and makes the program simpler to run for schools and simpler for families to get connected with.

At the same time, there is a lot of room for improvement. You talked about Oregon's situation. Only 12 states, in fact, currently meet the national performance standards that Congress put in place. That means that there are lots of children who could be automatically enrolled, and there is a lot of room for simplification there.

There are also students who are putting case numbers down on applications. All of those children could be automatically enrolled. That would be another important simplification.

Fortunately, there are resources available. USDA has grants available. They provide a lot of technical assistance. They do and promote peer-to-peer sharing.

Ms. BONAMICI. Thank you so much.

And, Ms. Neuberger and Mr. Harden, I wanted to ask you about the new design of the traditional paper application. Can you explain the development process for that application?

And certainly preventing errors is the way to go, rather than, you know, coming in afterward and saying, "Wait, there are overpayments or underpayments." So can you talk about what are some of the common errors that the new application is designed to prevent, please?

Ms. NEUBERGER. Sure. So the way applications work is they have to meet certain requirements, but states and districts don't have to use a particular form.

And we have periodically done very thorough reviews of applications in use, and they have been a mixed bag. Some of them don't follow the program rules. They are certainly not all user-friendly.

USDA went through a thorough process, working with the Office of Personnel Management's Innovation Lab, to test out changes. So they were hoping to accomplish two things: to make it easier for families to understand what is being asked of them—there is very clear evidence from the reports that USDA has done that families don't understand what is being asked of them. Sometimes they over-report income; sometimes they under-report income and disqualify themselves. So—

Ms. BONAMICI. And I don't mean to cut you off, but I want to know, Mr. Harden, how successful do you expect this change to be, and when will we know if it is making a difference, this new paper application?

Mr. HARDEN. It is something that we have not looked at yet, and so I don't have a definite answer on that. But I would agree, from what they are proposing it looks to be a positive step forward. We just have to look at it in the future.

Ms. BONAMICI. Terrific. And again, emphasis on prevention is important.

I look forward to following up on your recommendations, Ms. Neuberger, about positive steps that we can take. It is really important.

Thank you, Mr. Chairman. I yield back.

Mr. THOMPSON. [Presiding.] Thank the gentlelady for yielding back.

Now I am pleased to recognize the gentleman from Florida, Mr. Curbelo, for 5 minutes.

Mr. CURBELO. Thank you, Mr. Chairman.

And I thank our leadership for raising this important issue. I served on the Miami-Dade County School Board for 4 years, and oftentimes families came to my office complaining about what they perceived was rampant abuse in a lot of these programs. So this is an important issue.

Any time someone cheats, whether it is an individual or a company, in any of these programs, it is low-income families, poor families that are losing out. It is the U.S. taxpayer that is being defrauded. So I appreciate this very important conversation.

And, Mr. Harden, I want to hone in on WIC, since it is the program where there is some evidence of concrete fraud. And I want to ask you about the report the GAO published in 2013 regarding

the eligibility determination process for WIC applicants at the point of enrollment.

The GAO enumerated a few concerns in that report, including inconsistent income criteria for access into the program. The report cites allowable discretion given to state agencies in determining income status for a prospective beneficiary at the time of application.

Does the agency believe that allowable discretion means that local agencies can use any definition of "current income" or "household" that they would like in any given circumstance? Are there guidelines on when they can or cannot use certain definitions, and are any of these guidelines mandated?

Mr. HARDEN. I am going to ask that I can follow up on that because I haven't done—we haven't done specific work in that area and so I would like to go back and look a little more closely at what the criteria are.

The most recent work that we did on vendor management in the WIC program also looked at participant eligibility. We did not find issues with participant eligibility, so I would need to go back and look a little closer at that to see if I can answer your question.

Mr. CURBELO. Okay. I look forward to hearing from you on that. I also—

Ms. NEUBERGER. Excuse me. I just wanted to let you know that since that—

Mr. CURBELO. Please.

Ms. NEUBERGER.—report, USDA has actually issued updated guidance providing much more clarity, and they have embarked on reviews looking specifically at whether states and districts are—states and clinics are following that guidance.

Mr. CURBELO. Thank you.

And this question is for all of you, and if you have time I would like to hear from all of you.

Direct certification: Has it helped prevent fraud, waste, and abuse in these programs, or has it made the programs more susceptible to it all? I would like to get your impressions on that.

Ms. NEUBERGER. It has definitely reduced opportunities for error. The application process in school meals is a very error-prone process. Families fill out those applications on their own without much help and, as I said, don't necessarily understand what is being asked of them.

Using data from other programs where they are doing a very rigorous income determination improves the accuracy of the program.

Mr. CURBELO. Thank you.

Mr. HARDEN. And I would agree that it would seem to improve the accuracy. That was part of their alternatives that they proposed in response to some of our recommendations that they are moving forward on. We will have to look at that in the future to see how it went.

Ms. BROWN. Yes. I would just like to say that the—whenever we see that kind of eligibility that is linked to eligibility determinations for another program, the most important question is how solid or sound is the original program's eligibility process? And in the case of situations like SNAP, where they are building so many new avenues for direct certification, SNAP does have a much more

rigorous process than some of these other programs, particularly school meals.

So it is not perfect, but it has a lower error rate and so it provides a good foundation.

Ms. LUCAS-JUDY. And I would agree with that, as well. The SNAP program has a much lower improper payment rate than the school meals program, and in the study that USDA just released they found that the certification errors—the errors for people being put into the wrong category of eligibility—was much lower with direct certification than it was with the application process.

Mr. CURBELO. I thank you all for your testimony.

And, Mr. Chairman, I yield back.

Mr. THOMPSON. Thank the gentleman.

Now I am pleased to recognize the gentlelady from Massachusetts, Ms. Clark, for 5 minutes.

Ms. CLARK. Thank you, Mr. Chairman and Ranking Member Fudge, and to all the panelists for being with us today on this important topic.

As we look across our country and see almost 16 million children going to bed hungry every night, and we know on this committee the direct impact that has on their ability to get to school and be ready to learn. When you are hungry, that is almost impossible to do, and we have seen it across test scores that go up almost 17 percent if you are receiving breakfast at school, reduces absenteeism.

So I think this is a critical topic on how we can do both things. We have to reduce error.

When families are not eligible and receiving this benefit, we know that takes it away from families that need it the most. But we also—and one of the surprising things to me was in Ms. Neuberger's testimony—about one in four children who are eligible are not receiving benefits. Is that the right statistic?

Ms. NEUBERGER. Of the applications that were denied—

Ms. CLARK. Right.

Ms. NEUBERGER.—one in four were actually eligible for benefits.

Ms. CLARK. Okay. So a smaller number than the way I phrased it. But still, that is a large underpayment of benefits.

So following up on what we have been talking about with this application, seems to be the real sticking point as far as the difference between SNAP benefits having less rates of error. If we can roll out this simplified application form, do you think that is our best way in the short term to guarantee accuracy plus access for children?

Ms. NEUBERGER. I think the most important first step is to reduce the number of children going through that application process in the first place. So we talked about improving the use of SNAP data.

In addition, there is a demonstration project using Medicaid data. That is only going on in seven states. That could be expanded.

And then for the children who end up going through the application process, certainly a better application is a step in the right direction. That application is available right now to any school district.

And USDA is developing a new model electronic application, which also offers opportunities to make the process clearer and less error-prone.

Ms. CLARK. And with the electronic application, would that be done by families on their own or would there be someone to help walk them through that?

Ms. NEUBERGER. It could be either way. But one of the benefits of electronic environment is that it can ask probing questions, so—

Ms. CLARK. And it can give prompts—

Ms. NEUBERGER. Yes. That is right.

Ms. CLARK.—to help, because I think there is a lot of confusion over net income, gross income, those sort of definitions that we are asking families to do on their own.

Ms. NEUBERGER. Exactly.

Ms. CLARK. What else do you see as a key area for increasing access? How else can we increase access to these School Lunch and Breakfast programs?

Ms. NEUBERGER. One option that we haven't talked about yet is a relatively new provision that is kind of a twist on older options called the Community Eligibility Provision. This essentially is an option available only to very high-poverty schools, but essentially, data from other programs—again, the highly accurate data—is used to set the school's reimbursement rate. In exchange, they no longer collect applications or track who is in which meal category at the school.

It reduces the opportunities for error and it streamlines administration. So schools have more funds available to put into meals and have to spend less on paperwork. Also, children in those schools have better access because they don't have to go through an application process.

Ms. CLARK. Thank you.

I yield back.

Mr. THOMPSON. Thank the gentlelady.

And I am pleased to recognize the gentleman from Georgia, Mr. Carter, for 5 minutes.

Mr. CARTER. Thank you, Mr. Chairman.

And thank all of you for being here.

Mr. Chairman, I will be very brief. I have just a couple of questions.

Mr. Harden, you mentioned in your opening testimony about a fraud ring in Georgia. Very quickly, can you describe what happened there to me? I am from Georgia, so I am obviously very interested.

Mr. HARDEN. I may have to follow up to have our investigators talk to you more—

Mr. CARTER. Okay.

Mr. HARDEN.—completely about this, but it is basically—

Mr. CARTER. Very briefly.

Mr. HARDEN. Very briefly, it was selling benefits—or working with beneficiaries to sell their benefits for pennies on the dollar, just like they do with SNAP, paying 50 cents for them and giving them cash.

Mr. CARTER. And giving them cash. And then what do they do with it?

Mr. HARDEN. I would have to get back to you on that. I am not well-versed in the investigation details.

Mr. CARTER. So they buy them, but then what do they do with the coupons?

Mr. HARDEN. Oh, the people that are trafficking them then can redeem them for the full value.

Mr. CARTER. Redeem them where?

Mr. HARDEN. They would set up stores and they would be WIC vendors. And so they would run the benefits through and capture the whole amount for themselves and pay the recipients less—

Mr. CARTER. Okay. Okay. I am a WIC vendor in my retail—or I was in my retail business, but do you ever audit them to see if they are indeed buying those products and—that they are getting reimbursed for, that they are turning the coupons in for?

Mr. HARDEN. Right. And the most recent work that we have done on vendor monitoring is where FNS wasn't doing the oversight they needed of the vendors themselves to make sure that those that should be disqualified are disqualified, the high-risk vendors are being looked at, and that if you are disqualified under SNAP that you are also disqualified under WIC.

Mr. CARTER. Okay.

Ms. NEUBERGER. There have actually been some very serious issues with vendor errors and fraud in Georgia and elsewhere. And one of the points that came up earlier is whether it makes sense to—how much to focus on participant fraud.

And one of GAO's recommendations in this regard was actually very important. They recommended that the first step is trying to assess the extent of the problem before shifting resources. An important reason to do that is because USDA has focused their efforts on preventing vendor error and fraud, and taking resources away from them may not make sense.

Mr. CARTER. Okay. But I don't think I have ever been audited to see, and, you know, we redeem WIC coupons all the time but I don't know that I have ever been audited in my business to see that I am indeed making those purchases from a wholesaler or wherever.

Ms. NEUBERGER. There is an ongoing monitoring process—

Mr. CARTER. Not that I want to be audited.

[Laughter.]

Ms. NEUBERGER. I was going to say, in general states—

Mr. CARTER.—make sure you understand that.

Ms. NEUBERGER.—states focus their resources on high-risk vendors, so maybe you are doing a good job.

Mr. CARTER. Well, let me ask you, Ms. Brown, very quickly, what about recipients who were caught selling their coupons? What is the punishment?

Ms. BROWN. Well, one of the things that we saw was there is a range of options across the states that we looked at. We looked at policy manuals for states, and we saw everything from a warning letter in a number of states to benefit termination from 6 to 12 months in others states.

What we found in this program as well as other programs like SNAP is that the likelihood that a local prosecutor would get in-

volved and actually want to take some legal action against that program, that benefit recipient, is pretty low.

Mr. CARTER. You said a warning letter?

Ms. BROWN. Yes.

Mr. CARTER. Give me a break. A warning letter? I mean, seriously. They know that is wrong.

Ms. BROWN. States have flexibility—

Mr. CARTER. Okay.

Ms. BROWN.—the way the program is set right now.

Mr. CARTER. And one last question.

And, Mr. Chairman, if you will indulge me for a moment, I promised a constituent I would ask this, and if it is outside the realm of what we are doing I apologize.

But many of the food banks now that are participating in the Child and Adult Care Food Program and the Summer Food Service Program, they are telling me now that they are having to do year-long RFPs in order to buy—in order to procure the food. Are any of you familiar with that?

Okay. Well, I apologize. Just FYI, that is causing a lot of vendors to drop out, therefore causing the cost to increase. We are here talking about waste, fraud, and abuse, and that, to an extent, would help with the efficiency of the program. So I hope that is something that you will look at, as well.

Mr. Chairman, that is all I had. I yield back the remainder of my time.

Mr. THOMPSON. The gentleman made up for that last question by yielding back.

I am now pleased to recognize the gentleman from California, Mr. Takano, for 5 minutes.

Mr. TAKANO. Thank you, Mr. Chairman.

Ms. Neuberger, I think we all can agree that helping struggling mothers and hungry babies and young children is a good thing to do, and it is good public policy. I don't think anyone disagrees with that, and I think we all want an efficient, well-run program that doesn't allow for abuse.

We invest considerable money in the WIC program, and you recently authorized—authored a report summarizing the research on WIC. Can you speak to the return on an investment in the WIC program?

I know we want to minimize unnecessary losses, but can you comment on the—what the return on investment is, and is this program a good use of taxpayer dollars in general? Is it good public policy?

Ms. NEUBERGER. Absolutely. One of the most striking things about WIC is that it is not only highly effective at things like improving birth outcomes and even having positive impact on cognitive development, but it is also a very cost-effective program.

The funds that are provided for services are limited so that they increase only with inflation, and food costs, which are the bulk of WIC expenditures, actually rise much more slowly than inflation. So over the last 10 years food costs have risen by 28 percent; WIC food costs have risen by only 16 percent. It is a very sound investment.

Mr. TAKANO. Great. So while we want to make sure that people aren't doing untoward things online, and we are not really sure that is happening, of course, we want to empower law enforcement to make sure that people aren't abusing this program. The fact that it is good public policy and that it is also helping us save dollars, in terms of adverse health consequences to malnutrition—children with malnutrition, babies with malnutrition.

Along those lines, childhood obesity has more than doubled in the past 30 years and poses a serious health risk. Also, there is more and more research coming out showing the long-term and sometimes irreversible effects of toxic stress on babies and young children living in poverty.

The WIC program provides specific foods, and nutrition education, and breastfeeding support to low-income pregnant women and very young children. What does the research and nutrition science show regarding how WIC benefits—WIC benefits the physical, mental, and economic well-being of young children, and how might WIC be of particular benefit to young children who experience the stressors of living in poverty?

Ms. NEUBERGER. There is actually an extraordinary body of research showing WIC's effectiveness on a range of measures. So participants tend to eat better—more fruits and vegetables, more whole grains, lower-fat dairy products. They follow better infant feeding practices, like delaying the introduction of solid foods or cow's milk.

In addition, WIC participation is associated with healthier births and lower infant mortality, which are very important effects. WIC participants who are children have higher immunization rates than other low-income children. In fact, their rates are comparable to those of more affluent children.

And recent research has focused on effect on cognitive development. So 2-year-olds whose mothers participated in WIC when they were pregnant performed better on cognitive tests, and those results continue to show up during the school years on reading tests.

So very profound effects in a number of areas.

Mr. TAKANO. So the research is extensive. I mean, there is widespread scientific agreement in the research arenas that show the benefits of this government policy?

Ms. NEUBERGER. Yes.

Mr. TAKANO. And the key for us is to try and get it right to remove all doubt from the public's mind that the program is being efficiently administered. But from what I am hearing, I mean, the—addressing the needs of a 2-year-old, making sure—2-year-old, making sure that 2-year-old has got all the right nutrition, is going to pay off in terms of that child's educational success.

And of course, I mean, we can do the economic analysis and know that the more children that succeed because they have had a firm foundation in nutrition, it is going to cost us less educationally, it is going to cost us less in terms of the health care of that child into adulthood. The obesity that affects young children often follows them into adulthood. And a lot of these eating habits are established at a very, very early age.

I thank you for your testimony, and thank you for the opportunity for us to examine this program.

Mr. Chairman, I yield back.

Mr. THOMPSON. Thank the gentleman.

Now recognize the gentleman from Virginia, Mr. Brat, for 5 minutes.

Mr. BRAT. Thank you, Mr. Chairman. I have no questions. I yield my time back to the chair for questions.

Mr. THOMPSON. Gentleman yields?

Mr. BRAT. Yields.

Mr. THOMPSON. For 5 minutes. I—

Mr. BRAT. Five minutes.

Mr. THOMPSON. I appreciate that.

Wanted to follow up where I—where the chairman so appropriately cut me off last time. We were kind of going down the path of looking at categorical eligibility. I mean, I think that is an important tool that was created by past Congresses for efficiency purposes, but we want to make sure it is accurate.

And so this sounds like there were some concerns with some of the nutrition programs. I would be curious to see which ones where we found evidence of kind of abuse when we have done the audit on individuals who were categorically eligible according to the provision but when the audit was done not so much, you know, when we really started to look at the facts.

And so just briefly, where we have seen evidence of abuse of that, and—or fraud, I guess I would classify that as fraud. But more importantly, are there any findings or recommendations—excuse me—obvious recommendations so that essentially we can have a little more confidence that category eligibility is accurate?

Ms. LUCAS-JUDY. So in our work we did look at some of the applications that indicated categorical eligibility, and of the six that we had in our sample, three of them were not eligible on the basis of the information that they provided.

It is difficult for school districts to determine whether something, you know, is actually accurate on the basis of what is in the application; somebody is just checking a box. They are supposed to provide a benefit number, for example, if they are eligible for SNAP or some other program.

So somebody can use a number that looks like a SNAP number. They can use a number for, you know, a former benefit that they are not receiving anymore and get reviews that way.

So we made recommendations that USDA consider sampling categorically eligible applications as part of a standard verification process, and the agency said it would consider doing that.

Mr. THOMPSON. Very good. Sounds like an important provision, because category eligibility, like I said, I think it has tremendous efficiency, little more ease for people in terms of redundancy of applications, but we have to have confidence that it is working. And so I appreciate that.

Someone had mentioned—

Ms. NEUBERGER. Point out there—

Mr. THOMPSON. Please, go ahead.

Ms. NEUBERGER. All of those children could be automatically enrolled through direct conversations with a relevant agency. They should not be going through the application process at all.

So that would actually be a better way of ensuring accuracy. And then states, if there ever were a questionable case number, could use the kind of verification for cause that you talked about. We should be seeing fewer and fewer of those categorically eligible applications.

Mr. THOMPSON. Just a question of clarification. Someone, or maybe more than one, had mentioned about a Medicaid pilot, using Medicaid data. And so this is just a—I am looking for clarification on this.

Pilot is being done. Are they just taking if somebody falls in the Medicaid eligibility, or are they truly starting there and looking at kind of drilling down and looking—are they actually looking at income eligibility within that data? Because when you look at eligibility for Medicaid, especially after the Affordable Care Act, I mean, there—I mean, it is approaching six figures depending on the size of the family. It is pretty significant. That is rare, but it is out there.

So I was just curious of what are they actually looking at in terms of the Medicaid pilot?

Ms. NEUBERGER. Sure. So the Medicaid pilot is in the school meals program. Seven states are participating in it now and they can only participate if they are able to look at income within the Medicaid system.

Mr. THOMPSON. So they actually are looking at Medicaid?

Ms. NEUBERGER. So they have to be able to do data-matching and make sure that income is below the—

Mr. THOMPSON. So it is just not a matter of being basically Medicaid-eligible, but they are actually looking at—

Ms. NEUBERGER. That is right.

Mr. THOMPSON.—incomes within—excellent.

And I will yield back. Thank you.

And I am pleased to recognize the gentlelady from California, Mrs. Davis, for 5 minutes.

Mrs. DAVIS. Thank you, Mr. Chairman.

Thank you all for being here. I am sorry I missed the—I guess the bulk of the hearing, really, but I wanted to then go back and just have an opportunity to look a little bit more at the community eligibility program and what we have learned from that. I know we are looking at waste, fraud, and abuse, but we are also interested in efficiency, and where we are able to have the dollar, really, going for what we want, which is nutrition for children.

Do we know more or should we be really tasking agencies to do more to understand the impact of that overall? You know, in terms of studies, in terms of really being able to look over a number of years and what the impact of that is, what do we know about that? And can you still be challenged in terms of—you know, you reached the wrong kids, even though those kids might have had an impact on the entire school because they also were in a better position?

Ms. NEUBERGER. So community eligibility is one of these options that make the programs much simpler to run. It simplifies the rules. It is highly accurate as a result of that, and it means that schools don't have to devote as much resources to administrative processes and can really focus on providing healthy and appealing meals.

So it is very positive. Schools have had very positive experiences that have tried it.

Mrs. DAVIS. I guess what I am looking for—

Ms. NEUBERGER. At this point, though, only about half of eligible schools are participating, so there is lots more room for schools to benefit.

Mrs. DAVIS. All right. But when we say that they are doing better, how engaged are the studies in really being able to track achievement? In what ways are achievement being—

Ms. NEUBERGER. So USDA did a comprehensive evaluation. It did not look at achievement. It looked at participation in meals; it looked at error rates and factors like that.

We certainly hear anecdotally from schools about improved attendance and reduced tardiness, and from teachers that they are very enthusiastic about the results that they see in the classroom, but those are anecdotal at this point.

Mrs. DAVIS. Do you think we should be looking at that issue? I mean, it seems to me that it is really quite possible to look at studies and not to necessarily use school scores or—I mean, there are a variety of ways that you can tell whether a child is able to apply their time in school to doing better, and whether or not that carries over. Does it carry over from week to week? Does it carry over in the summer time?

You know, all those things, and I am hoping that we would have a chance to look at something—

Ms. NEUBERGER. Well, there has been quite a lot of research on the contribution that school meals can make. So, for example, eating a breakfast at school is associated not only with better diets and reduced absenteeism, but also better academic performance.

Mrs. DAVIS. Well, we will hope that we are able to move forward with that.

And the other question is, we know that the WIC program—and I think many people have addressed this, in terms of the efficiency of the program—are there some lessons that we could and should be learning from those efficiencies that would carry over into a school lunch program that we really haven't applied?

Ms. NEUBERGER. Well, one thing that we haven't talked about WIC that is—in WIC that is actually a very important transformation going on within that program is a move toward electronic benefits.

So right now most states are still actually using paper vouchers that participants have to take to the store when they are grocery shopping. That is a complex process, and it is error-prone.

States are required to transition to electronic benefits by 2020, and that is a tremendous improvement both from a program management and integrity perspective and also from a participant perspective.

Also in WIC there are, in general, opportunities to rely on data from other programs, as we have talked about in school meals, is very promising—

Mrs. DAVIS. The EBT program, which we actually have had a bill, helping families in the summer time to be able to access meals that children otherwise wouldn't be able to get. They are not able to get to some of the programs that are active in the summer time,

and one could assume that if a child is really struggling and having issues around hunger, that they may not be really, you know, learning in the summer time from some basic opportunities around them.

Is this something that you think is a good idea and we should follow through with that?

Ms. NEUBERGER. It is absolutely important to make sure that children get the nutrition they need all year round, not just through school meals.

Mrs. DAVIS. Thank you, Mr. Chairman.

Chairman ROKITA. [Presiding.] Gentlelady yields back.

I will now yield myself 5 minutes.

Ms. Brown, let's start with you.

By the way, thank you all, again, for your testimonies. This is very educational for me.

You, Ms. Brown, have been before us several times, and at one of our previous hearings you mentioned that one challenge to the implementation of the new school meal regulations was the overwhelming volume of guidance issued. Yet, for WIC you are recommending more guidance.

Now, I know these are different programs with different participants, but can you address the disparity for us?

And then I want to turn the same question to Ms. Lucas-Judy, because you advocated for more guidance, as well.

Go ahead.

Ms. BROWN. Well, I think the distinction I would like to make there is in the school meals program there was a flood of guidance that set out expectations and then created some changes based on what was initially issued. And while the people on the receiving end appreciated the extra help, it was confusing to them sometimes and a little overwhelming.

In the case of the WIC program, what we are asking for is the—with the full realization that there are 10,000 clinics across the country that are implementing this program, and that the states are receiving funds from USDA and it is their job to oversee these clinics and how they are implementing it, we are making suggestions that USDA would do a better job of making sure that the states were overseeing the programs accurately.

So basically all we are asking USDA to do is improve their oversight through what they are asking. For example, when they are asking the states to submit a plan once a year, in that plan we are suggesting that USDA, and they have agreed, would require the states to be more clear on what they are doing to monitor some of the abuses that we identified.

Chairman ROKITA. Thank you.

Ms. Lucas-Judy, anything to add to the idea of how much guidance is too much?

Ms. LUCAS-JUDY. Sure. USDA already has some guidance out for conducting for-cause verification, and what we found in talking to school district officials is that they really didn't know what it was they were supposed to be looking for. You know, for example, what are some red flags that would indicate that an application is questionable?

And so we were suggesting—USDA is in the process of collecting data on outcomes of for-cause verifications to find out, you know what kind of results they are getting, and so we were suggesting that they look at actually distinguishing the results for the for-cause verification versus the standard verification to figure out if there are places where they could use additional guidance, additional clarification to help the states—help the school districts do those reviews more effectively.

Chairman ROKITA. Okay. Thank you.

And continuing on with you, Ms. Lucas-Judy, I continue to be concerned about the certification process, as well. Your report seems to indicate that some of the cases you found were indeed intentional. Not might be your word. That is mine.

But when you give an example that someone who is making $26,000 a year in fact reported making $52,000 a year, in Indiana I call that intentional. In your opinion, do we know how big a problem there is out there with regard to fraud, abuse, whatever word you want to use, in the program? And is USDA close to figuring that out?

Ms. LUCAS-JUDY. Well, as you mentioned, you know, fraud involves the willful intent to deceive in getting a benefit, and that was something, you know, where we found indicators of potential fraud, we referred them to USDA, to the states, and to the school districts for further investigation and action there.

As far as the amount of fraud that might be out there, the overall improper payment rate for the School Lunch Program, for example, was estimated at about 15.25 percent. Not all of that is going to be fraud; some of that could be due to other factors.

So USDA just recently released a study where they looked at some of those different elements of the improper payments and they found that about 8 or 9 percent improper payments rate is due to certification errors. Of that, about 70 percent results in overpayments. And then of that amount, you have got about half that were the result of application errors. So that would be the place that they would be looking for potential fraud.

Chairman ROKITA. Thank you.

And a follow up, another question for you in the 30 seconds we have left: The $1,200 range issue that you brought up, what is your solution there? Should the range be broadened, or the threshold be broadened, or should we—should it be eliminated?

Ms. LUCAS-JUDY. That is actually one of the recommendations that we made was that USDA do a pilot program to assess using data-matching the way that we did to determine, you know, because we found applications that had stated income that was below the range when, in fact, you know, we found them to be above the range. And if the pilot program was successful we recommended that USDA seek legislative authority to expand its certification process.

Chairman ROKITA. Thank you.

My time is expired.

I will now recognize Ms. Fudge for 5 minutes.

Ms. FUDGE. Thank you very much, Mr. Chairman.

And I thank all of you for your testimony today.

I thank my colleagues for being here and being involved in this discussion.

Let me just for the record say that I understand fiscal responsibility and accountability as well as anyone. I believe that those who break the law should be punished.

I also believe that it is important that when you make recommendations to USDA or any other agency you give them the opportunity to make the corrections, and I appreciate the fact that you have done that and USDA has agreed that they want to do it.

It is important for us to understand a couple of things. One is that when we use the words "waste, fraud, and abuse," we don't use it in defense; we don't use it in transportation and infrastructure. We use it for poor people. We use it in domestic programs. We use it in Social Security, Medicaid, and Medicare.

We create a narrative that is stereotypical, that is unfair and inaccurate. We are doing it in this committee and we are doing it in Agriculture, where I also sit, which has some oversight of nutrition.

I have come to the point where it is my understanding that the only thing we are concerned about is poor people and if they are scamming the system.

We didn't do it in Iraq and Afghanistan, where we have spent more than $800 billion. I don't recall a hearing about waste, fraud, and abuse. Only in these programs.

I appreciate the fact that you are working very hard to make sure that the taxpayers' money is spent appropriately. I agree with what you do.

I also agree that it is important to feed hungry children. I agree with that.

I agree with the fact that we need to have this oversight in this committee. What I don't agree with is how we go about it, so uneven and heavy-handed.

And so I want to again thank you for being here. I want to thank you for your work.

But I also want you to understand that this is just not about hungry children. This is about how we treat and respect people we represent—the taxpayers that send us here.

Mr. Chairman, I yield back.

Chairman ROKITA. Gentlelady yields back.

Now it is time for closing remarks.

I would like to again thank our witnesses for taking the time to testify today. Your comments and your ideas are very much appreciated.

And I would like to again turn it over to Ms. Fudge for her closing remarks.

Ms. FUDGE. I have no comments to add.

Chairman ROKITA. With that, I will offer my closing remarks.

In addition to the thanks that I just extended to each of you, I ask you to continue doing your work. It is important. Most of all, it is important to the poor people Ms. Fudge talked about.

We have limited funds. As a member of the Budget Committee, I can definitely tell you that we are broke. And we are broke through bad decision-making, quite frankly, but that is another hearing.

We need to get limited funds to those children who need it the most, and that is our goal here. That should be the goal of all of government.

You have done your jobs in exemplary fashion in that regard. Your work needs to continue.

Please help us. Please help us stay on the USDA and other agencies that need to get these reforms in place so that we can get these funds to the kids that desperately need them.

And the goal, frankly, should be to get the kids off these programs. Our success should not be measured by how many are on these programs. Our success should be measured by how many we can elevate off these programs.

So with that, hearing no more—seeing no more business before the committee, this committee remains adjourned.

[Questions submitted for the record and their responses follows:]

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June 12, 2015

Ms. Kay E. Brown
Director
Education, Workforce, and Income Security
Government Accountability Office
441 G St., NW
Washington, D.C. 20548

Dear Ms. Brown:

Thank you for testifying at the May 19, 2015 hearing on "Addressing Waste, Fraud, and Abuse in Federal Child Nutrition Programs." I appreciate your participation.

Enclosed are additional questions submitted by members of the subcommittee after the hearing. Please provide written responses no later than Monday, July 6, 2015 for inclusion in the final hearing record. Responses should be sent to Matthew Frame of the Committee staff who can be contacted at (202) 225-6558.

Thank you again for your important contribution to the work of the subcommittee.

Sincerely,

Todd Rokita
Chairman
Subcommittee on Early Childhood, Elementary, and Secondary Education

Chairman John Kline (R-MN)

1. The GAO published a report in 2013 regarding the eligibility determination process for WIC applicants at the point of enrollment. The GAO highlighted inconsistent income criteria for access into the program. The report cites 'allowable discretion' given to state agencies in determining income status for a prospective beneficiary at the time of application, meaning that state agencies are able to change income criteria from applicant to applicant. The agency issued a policy memo to states in response to that memo issuing recommendations for when to use certain definitions and criteria. Does the agency believe that allowable discretion means that local agencies can use any definition of 'current income' or 'household' that they would like in any given circumstance? Are there guidelines on when they can, or cannot use certain definitions, and are any of these guidelines mandated?

Chairman Todd Rokita (R-IN)

It has been suggested that less than 2% of WIC participants have incomes above 185% of the Federal Poverty Guidelines (FPL), which is WIC's statutory income limit.

As I understand it, the 2% figure cited is sourced from original income data collected by the states' WIC agencies and complied by USDA. However, according to your 2013 Government Accountability Office (GAO) Report (GAO 13-290 WIC Program), 69% of WIC participants came into WIC via categorical eligibility – meaning only 31% of WIC participants provided income data to the WIC agency upon enrollment.

A 2015 USDA Economic Research Service report indicated that over 10% of WIC households had no reported income or reported zero income, and were excluded from the calculations on the number of WIC enrollees above 185% FPL (EIB-134 Economic Research Service/USDA). Further, this same ERS report indicated that for some applicants among the 69% who are categorically eligible to enter the program - a mid-point from an income range was arbitrarily assigned, without any actual income measurement.

1. Assuming my interpretations of the above data points from USDA and GAO are correct, can you confirm for me that there are groups – potentially large groups - of enrollees who come into the WIC program via categorical eligibility who have no actual measurement of their income on file? Is it accurate that only 31% of WIC participants provided actual and verifiable income data to the WIC agency upon enrollment?

2. As a follow-up, if large groups of enrollees lack income verification, is it also likely that more than 2% of enrollees have household income above the 185% FPL statutory income limit? Are there additional government data sources that could be utilized, such as the Census Bureau's Survey of Income and Program Participation (SIPP), to more accurately calculate the income characteristics of WIC enrollees?

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FREDERICA S. WILSON, FLORIDA
SUZANNE BONAMICI, OREGON

June 12, 2015

Mr. Gil H. Harden
Assistant Inspector General
Office of Inspector General
United States Department of Agriculture
1400 Independence Ave., SW, Room 117-W
Washington, D.C. 20250

Dear Mr. Harden:

Thank you for testifying at the May 19, 2015 hearing on "Addressing Waste, Fraud, and Abuse in Federal Child Nutrition Programs." I appreciate your participation.

Enclosed are additional questions submitted by members of the subcommittee after the hearing. Please provide written responses no later than Monday, July 6, 2015 for inclusion in the final hearing record. Responses should be sent to Matthew Frame of the Committee staff who can be contacted at (202) 225-6558.

Thank you again for your important contribution to the work of the subcommittee.

Sincerely,

Todd Rokita
Chairman
Subcommittee on Early Childhood, Elementary, and Secondary Education

Chairman Todd Rokita (R-IN)

Testimony presented by the Center for Budget and Policy Priorities (CBPP) indicated that in the Child Nutrition and WIC Reauthorization Act of 2004 school districts "were permitted to use Medicaid data to verify eligibility" in the School Lunch Program.

1. Is that statement accurate, and if so, can you describe the systems or processes employed to implement this function?

Also in the CBPP's testimony, they argue that the option to verify eligibility using Medicaid data "should be available to all states and school districts. Making use of the robust eligibility determination already made by Medicaid would allow more children to be directly certified".

2. Do you agree that Medicaid's eligibility determination processes are "robust"?

3. Would you agree that expanding the use of Medicaid data for School Lunch eligibility determinations could lead to greater efficiencies, more accurate eligibility determinations and lower error rates?

4. If the use of Medicaid data in School Lunch eligibility determinations is determined to be efficient and effective, would the use of that same data in other USDA nutrition programs, such as WIC, also have the potential to yield efficiencies and lower error rates?

In the School Lunch Program, school districts are permitted to use data from Medicaid to verify eligibility.

5. Should data sources, such as federal tax, state tax or wage databases, be explored for use as additional data sources for income verification processes in federal nutrition programs, such as School Lunch and WIC?

Rep. Carlos Curbelo (R-FL)

1. Can the IG comment on the GAO report addressing online fraud in the WIC program, and the resale of infant formula purchased with WIC benefits? Is the agency pursuing this and other kinds of fraud?

2. What guidelines are available to local agencies to determine the definitions of "current income" or "household"? Are any of these guidelines mandatory?

3. What steps could be taken to strengthen income verification?

4. Has the Department considered requiring more frequent income recertification, evaluating income over a greater period of time when determining eligibility, or including all sources of income within shared households when determining eligibility?

5. Is there additional guidance that could be provided to states to help standardize and improve income verification and measurement?

6. Does the Department have sufficient authorities to address inconsistencies in income verification methodologies?

[Responses to questions submitted for the record follows:]

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

September 14, 2015

The Honorable John Kline
Chairman
Committee on Education and the Workforce
House of Representatives

The Honorable Todd Rokita
Chairman
Subcommittee on Early Childhood, Elementary, and Secondary Education
Committee on Education and the Workforce
House of Representatives

Dear Chairman Kline and Chairman Rokita:

Thank you for inviting me to testify before the Subcommittee as part of the May 19, 2015 hearing on waste, fraud, and abuse in federal child nutrition programs. The enclosure provides my responses to the questions for the record provided to me on August 7, 2015. If you or your staff have any questions concerning these responses, please contact me at (202) 512-7215 or brownke@gao.gov.

Kay E. Brown

Kay E. Brown
Director, Education, Workforce, and Income Security Issues

Enclosure

cc: Mandy Schaumburg

5.19.15 Education and Workforce Hearing Questions for the Record

Chairman John Kline (R-MN)

1. **The GAO published a report in 2013 regarding the eligibility determination process for WIC applicants at the point of enrollment. The GAO highlighted inconsistent income criteria for access into the program. The report cites 'allowable discretion' given to state agencies in determining income status for a prospective beneficiary at the time of application, meaning that state agencies are able to change income criteria from applicant to applicant. The agency issued a policy memo to states in response to that memo issuing recommendations for when to use certain definitions and criteria. Does the agency believe that allowable discretion means that local agencies can use any definition of 'current income' or 'household' that they would like in any given circumstance? Are there guidelines on when they can, or cannot use certain definitions, and are any of these guidelines mandated?**

Federal regulations for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) broadly define the family or economic unit to be used for WIC income eligibility determination purposes. At the time of GAO's February 2013 report,[1] the U.S. Department of Agriculture's (USDA) guidance to state agencies administering WIC provided some clarification of this definition while it also indicated that state and local agencies needed to exercise discretion and use judgment in determining each applicant's income eligibility within the general framework of regulatory requirements and basic program policy. For example, when assessing eligibility, USDA's guidance at the time of GAO's February 2013 report indicated that local agencies may review families' income from the last 30 days, 12 months, or another time period, as well as include the income of all members of an applicant's household or just the income of the mother and child. As a result, a family correctly deemed income-eligible for WIC in one locality could be considered ineligible in another locality.

Partly in response to GAO's February 2013 report, in April 2013, USDA issued guidance to provide state agencies with additional clarification on WIC income eligibility determination. For example, USDA's April 2013 guidance encourages state agencies to define current income as income received by the household during the 30 days prior to the date the application for WIC benefits is made, to provide more consistency and accountability.[2] The guidance adds that a state agency that uses any other definition of current income is required to submit a justification to USDA in its State WIC Plan. Concerning whose income is counted for eligibility determination purposes, the April 2013 guidance restates FNS's previously-issued guidance, noting that, while the terms "household," "economic unit," and "family" can be used interchangeably for WIC, "economic unit" is the more appropriate term because it correctly conveys that familial relationship is not relevant to the determination of WIC family size and income. The guidance further states that the most important rule to apply to all applicants, including minors, is that an economic unit must have its own source of income, and in making economic unit determinations, state and local agencies need to exercise judgment.[3]

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[1] GAO, *WIC PROGRAM: Improved Oversight of Income Eligibility Determination Needed,* GAO-13-290 (Washington, D.C.: February 28, 2013).

[2] The April 2013 USDA guidance also states that if the income assessment is being done prospectively, such as when the sole support of the family has just been laid off but has been authorized to receive unemployment benefits for the next six months, current income is that which will be available to the family in the next 30 days.

[3] The April 2013 USDA guidance states that it is reasonable to assume that persons living in the residences of others, whether related or not, are likely to be receiving support and some commingling of resources which renders

5.19.15 Education and Workforce Hearing Questions for the Record

Chairman Todd Rokita (R-IN)

It has been suggested that less than 2% of WIC participants have incomes above 185% of the Federal Poverty Guidelines (FPL), which is WIC's statutory income limit. As I understand it, the 2% figure cited is sourced from original income data collected by the states' WIC agencies and complied by USDA. However, according to your 2013 Government Accountability Office (GAO) Report (GAO 13-290 WIC Program), 69% of WIC participants came into WIC via categorical eligibility – meaning only 31% of WIC participants provided income data to the WIC agency upon enrollment. A 2015 USDA Economic Research Service report indicated that over 10% of WIC households had no reported income or reported zero income, and were excluded from the calculations on the number of WIC enrollees above 185% FPL (EIB-134 Economic Research Service/USDA). Further, this same ERS report indicated that for some applicants among the 69% who are categorically eligible to enter the program - a mid-point from an income range was arbitrarily assigned, without any actual income measurement.

1. **Assuming my interpretations of the above data points from USDA and GAO are correct, can you confirm for me that there are groups – potentially large groups - of enrollees who come into the WIC program via categorical eligibility who have no actual measurement of their income on file? Is it accurate that only 31% of WIC participants provided actual and verifiable income data to the WIC agency upon enrollment?**

Adjunctive eligibility for the WIC program was created by the Child Nutrition and WIC Reauthorization Act of 1989, and it makes recipients of Medicaid, Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP) automatically income-eligible for WIC. In practice, once WIC applicants provide proof of their participation in one of these programs, they are determined income-eligible and do not need to provide proof of their incomes. However, FNS asks state agencies to obtain self-reported income information from these applicants. Consequently, these data do not have to be verified either through participant-provided documentation or other means, such as state wage records, and they are also not consistently reported to states. According to federal guidance, WIC administrators are not required to verify income information reported by adjunctively-eligible WIC participants because it is assumed that income was already verified by the program through which the participant is adjunctively eligible. As reported in GAO-13-290, 69 percent of WIC participants were adjunctively eligible in 2010. WIC applicants who are not adjunctively eligible—the remaining 31 percent of WIC participants in 2010—are required to provide proof of income to WIC administrators.

2. **As a follow-up, if large groups of enrollees lack income verification, is it also likely that more than 2% of enrollees have household income above the 185% FPL statutory income limit? Are there additional government data sources that could be utilized, such as the Census Bureau's Survey of Income and Program Participation (SIPP), to more accurately calculate the income characteristics of WIC enrollees?**

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them members of the economic unit with which they live. At the same time, the guidance notes that it is possible to establish that more than one economic unit lives under one roof through appropriate questioning aimed at determining the general economic independence of the units.

5.19.15 Education and Workforce Hearing Questions for the Record

As noted above, WIC administrators are not required to verify income information reported by adjunctively-eligible WIC participants because it is assumed that income was already verified by the program through which the participant is adjunctively eligible—Medicaid, TANF, or SNAP. However, since adjunctive eligibility was enacted, some states have increased the income eligibility thresholds for SNAP and Medicaid above the WIC income eligibility threshold of 185 percent of the federal poverty guidelines. For example, as reported in GAO-13-290, some states have since increased income eligibility thresholds for these programs to 200 or 300 percent of the federal poverty guidelines.[4]

As we reported in GAO-13-290, according to national WIC administrative data, about 2 percent of all WIC participants were adjunctively eligible and had incomes over the WIC eligibility threshold of 185 percent of the federal poverty guidelines in 2010. Because income data were not reported for an additional 7 percent of participants who were adjunctively eligible in that year, we could not determine if these participants were also eligible for WIC solely due to adjunctive eligibility in that year.

Although we determined the national WIC administrative data to be the best available for examining the income of the entire population of WIC participants, we also reported that federal WIC requirements and the exercise of state discretion affect these income data and other datasets may also be used to assess WIC participants' incomes. In particular, other researchers have used the Census Bureau's Current Population Survey (CPS) and the Survey of Income and Program Participation (SIPP) to examine WIC participant characteristics, including income. In 2003, the Committee on National Statistics of the National Research Council published a report that reviewed the use of CPS and SIPP data for estimating WIC eligibility and participation. The Committee noted that research has shown that WIC participants' characteristics are generally similar in the CPS, SIPP, and WIC administrative data, with the exception of participants' incomes, which have been found to be higher in the CPS and SIPP than in the administrative data. The Committee concluded that this is not surprising given the flexibility that WIC administrators have in determining the time period for which income is measured to establish eligibility, as well as income variability over the course of a year, which has been found to be significant for the WIC-eligible population.[5]

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[4] As of November 2012, 13 states had implemented broad-based categorical eligibility policies for SNAP that increased the SNAP income eligibility limit to 200 percent of the federal poverty guidelines, according to USDA. For Medicaid, some states similarly increased income eligibility thresholds up to 200 percent of the guidelines, while others increased thresholds up to 300 percent of the guidelines Specifically, infants in families with incomes greater than 185 percent of the guidelines were Medicaid-eligible in 25 states, pregnant women in such families were Medicaid-eligible in 23 states, and children aged 1 to 5 in such families were Medicaid-eligible in 14 states, as of January 2012.

[5] For more information on the use of CPS and SIPP to estimate WIC participant incomes, see GAO-13-290, Appendix I.

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE INSPECTOR GENERAL
QUESTIONS FOR THE RECORD
HOUSE EDUCATION AND WORKFORCE COMMITTEE HEARING
MAY 19, 2015

Questions submitted by Chairman Todd Rokita (R-IN)

Testimony presented by the Center for Budget and Policy Priorities (CBPP) indicated that in the Child Nutrition and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Reauthorization Act of 2004 school districts "were permitted to use Medicaid data to verify eligibility" in the National School Lunch Program (NSLP).

1. **Is that statement accurate, and if so, can you describe the systems or processes employed to implement this function?**

   Response: Yes. The Child Nutrition and WIC Reauthorization Act of 2004 grants local education agencies the authority to obtain and use income and program participation information from public agencies administering a State's Medicaid program. The statute mandates that direct verification be done in accordance with criteria established by the Secretary.[1] To more fully address this question we also consulted with FNS.

   FNS stated that, in general, if a household's application for free and reduced price meals is selected for verification, the verification process using Medicaid data is accomplished through direct verification where the NSLP and Medicaid administering State agencies establish agreements for data sharing. They then conduct an automated process for matching student records with Medicaid eligibility records and determining if the family income information in the Medicaid record corroborates the information provided by the household on the NSLP application for free and reduced price meals. If so, no further verification is required from the household.

Also in the CBPP's testimony, they argue that the option to verify eligibility using Medicaid data "should be available to all states and school districts. Making use of the robust eligibility determination already made by Medicaid would allow more children to be directly certified".

2. **Do you agree that Medicaid's eligibility determination processes are "robust"?**

   Response: A review of Medicaid's eligibility determination processes is outside USDA OIG's purview. We did, however, pose this question to FNS staff and they believed that the Medicaid program uses a robust process in determining eligibility, particularly as it relates to establishing/confirming household size and family income through data exchanges (as well as other means) with a variety of sources. FNS staff also stated that the use of Medicaid data to verify information on a household's application for free and reduced price meals is already available to all States. However, the use of Medicaid data to directly certify children for free or reduced price meals, without requiring an application, is not available to all States. The Healthy Hunger–Free Kids Act of 2010 (HHFKA) authorized demonstration projects to

[1] Pub. L. 108-265 Sec. 105(F) (June 2004).

directly certify students for free meals and seven States currently participate in such demonstrations under pilot authorities in the National School Lunch Act (42 U.S.C. § 1769(d)(b)).

3. **Would you agree that expanding the use of Medicaid data for School Lunch eligibility determinations could lead to greater efficiencies, more accurate eligibility determinations and lower error rates?**

Response:

Since OIG has not performed work in this area, we cannot opine whether the use of direct certification using Medicaid data could lead to efficiencies, more accurate eligibility determinations, and a lower error rate. However, in general, any eligibility determination process that eliminates duplicative work should yield efficiencies. HHFKA requires the Secretary to conduct a demonstration project in selected local educational agencies to determine, among other objectives, the potential of direct certification with the Medicaid program to directly certify children who are enrolled for free meals based on a household application. In January 2015, FNS released a preliminary report on the impacts of direct certification of Medicaid recipients' participation and cost for the first year of the demonstrations (http://www.fns.usda.gov/evaluation-demonstrations-national-school-lunch-program-and-school-breakfast-program-direct). HHFKA required USDA to submit a final report related to this project to the Committee on Education and Labor of the House of Representatives and the Committee on Agriculture, Nutrition, and Forestry of the Senate.

In our view, a key question to consider at the outset is the quality and reliability of Medicaid data. (If such data are reliable, then the question posed should be considered; if data are not reliable, then expanding their use for NSLP eligibility determinations could create additional problems.) The Committee may find it useful to inquire of the appropriate oversight bodies that may be able to provide information on the quality of Medicaid data.

We also posed your question to FNS.

FNS expressed that expanding the use of Medicaid data for School Lunch eligibility determinations could lead to greater efficiencies, more accurate eligibility determinations and lower error rates. The FNS report, "Program Error in the NSLP and SBP: Findings from the Second Access, Participation, Eligibility and Certification Study (APEC)" (APEC II, published May 4, 2015, found at http://www.fns.usda.gov/nslpsbp-access-participation-eligibility-and-certification-study-ii) indicates that direct certification through data matching with other means-tested programs significantly reduces certification errors, while it also removes the administrative and household burden of submitting and processing applications. FNS further advised that increases in direct certification also lead to broader opportunities for school districts to adopt the Community Eligibility Provision which also increases operational efficiencies and, per the APEC II study, reduces certification errors.

4. **If the use of Medicaid data in School Lunch eligibility determinations is determined to be efficient and effective, would the use of that same data in other USDA nutrition programs, such as WIC, also have the potential to yield efficiencies and lower error rates?**

Response: OIG has not done work in this area; however, we did pose this question to FNS. According to FNS, the adjunct income-eligibility in WIC streamlines the WIC certification process by removing a second burdensome round of income documentation for program applicants who also participate in the Supplemental Nutrition Assistance Program (SNAP), Medicaid, or Temporary Assistance for Needy Families (TANF). FNS also noted that the adjunct income-eligibility in WIC would allow more time to be spent on nutrition services delivery.

In the School Lunch Program, school districts are permitted to use data from Medicaid to verify eligibility.

5. **Should data sources, such as federal tax, state tax or wage databases, be explored for use as additional data sources for income verification processes in federal nutrition programs, such as School Lunch and WIC?**

   Response: Exploring additional data sources may be useful. However, Federal tax disclosure laws would need to be explored. For example, Federal tax law does not require submission of non-taxable income such as child support which is included in household income for the NSLP. According to FNS, the agency recently executed a research contract for expert assistance in identifying other government programs/sources where data matching may be a feasible option to support certification and verification in the NSLP. The results of the research are scheduled to be published in late FY 2016. In addition, FNS staff stated that Federal WIC regulations authorize (but do not require) the State or local agency to verify income.

Questions submitted by Rep. Carlos Curbelo

1. **Can the IG comment on the GAO report addressing online fraud in the WIC program, and the resale of infant formula purchased with WIC benefits? Is the agency pursuing this and other kinds of fraud?**

   Response: The GAO report identified concerns regarding the resale of infant formula that was purchased with WIC benefits online. OIG Investigations has not conducted any work involving infant formula being fraudulently resold online. Our work, as it pertains to WIC and infant formula, has focused primarily on stolen infant formula. Stolen infant formula presents a potential health and safety issue for USDA and WIC participants. When infant formula is stolen, there is no way of confirming the manner in which the formula was handled or maintained. Without control over the formula, there is no way to confirm the formula's safety, if and when it reenters the market for sale. This presents a food safety issue for USDA. Due to high consumer demand and expense, infant formula is among those items targeted for theft, re-packaging and re-sale. In fiscal year 2015, our investigative work involving WIC resulted in 122 convictions and $115.6 million in monetary results.

   We have not done any audit work on online fraud, so we are uncertain of its pervasiveness. According to FNS, GAO released the report in January 2015 suggesting that additional guidance from USDA could assist States in reducing the risk of online sales of infant formula. FNS noted that GAO's own monitoring of a popular e-commerce website for 30 days in four large metropolitan areas found only 2 out of 2,726 posts that included the term

"formula" in which individuals explicitly stated they were attempting to sell WIC-provided formula.

The sale of infant formula has always constituted a participant violation. WIC participants who sell or offer to sell WIC benefits online may be subject to up to a one year disqualification from the WIC Program. They may also be subject to fines or other sanctions, depending on the State in which they live. All State agencies must establish procedures to control participant abuse, and have sanctions for participant violations. In addition, when appropriate, the State agency must refer participants who violate program requirements to Federal, State or local authorities for prosecution under applicable statutes.

FNS stated that the agency has issued policy memoranda recommending that WIC food instruments, or their accompanying folders/sleeves, include the USDA's Office of Inspector General (OIG) Hotline number in order to make reporting abuse easier for participants. In addition, FNS stated that SNAP posters for retailers include warnings reminding participants that buying or selling SNAP or WIC benefits is a federal crime. FNS also stated that, in response to a request from FNS, the major e-commerce websites continue to post warnings to sellers that offering WIC benefits for sale is a federal violation.

The following are additional steps FNS said they have taken to prevent and address the online sale of infant formula:

- Awarded a contract to assess WIC State agencies' policies and practices for addressing online sales of WIC infant formula. This assessment will help identify best practices and cost-effective techniques for State agencies to use when pursuing attempted online sales.
- Released a Request for Applications (RFA) for the 2015 WIC Special Project Grants with a focus on Participant Integrity in the WIC Program. These grants support State agencies' efforts to develop, implement and evaluate new or innovative methods to ensure participant integrity in the WIC Program. FNS identified the evaluation of investigative tools to prevent, monitor and investigate the online sale of infant formula and other WIC foods as an example of a project that could be funded with these resources.

2. **What guidelines are available to local agencies to determine the definitions of "current income" or "household"? Are any of these guidelines mandatory?**

Response: With regard to the National School Lunch Program, both of these terms are defined in program regulations. *See* 7 C.F.R. § 245.2; *see also* 7 C.F.R. § 245.6(a)(5)(ii) (providing examples of "current income"). FNS also published guidance on how to determine a household's composition as well as the household's current income. *See* USDA-FNS, *Eligibility Manual for School Meals: Determining and Verifying Eligibility*, at 9, 28-38 (July 2015), http://www.fns.usda.gov/2015-edition-eligibility-manual-school-meals. The regulatory definitions are "mandatory" in that they cannot be modified except through the Federal regulatory process. The guidance set forth in the Eligibility Manual is mandatory.

Neither of these terms is specifically defined in the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) program regulations. *See* 7 C.F.R.

pt. 246. However, FNS has published a policy document that provides guidance to State and local agencies on what these terms mean. *See* Memorandum from Debra R. Whitford, Director, Supplemental Food Programs Division, FNS, to Regional Directors, Special Nutrition Programs, All Regions, & WIC State Agency Directors, All Regions, attach. (Apr. 26, 2013) (WIC Policy Memorandum #2103-3, Income Eligibility Guidance), at http://www.fns.usda.gov/sites/default/files/2013-3-IncomeEligibilityGuidance.pdf. Section III of the attachment to Policy Memo 2103-3 states that the term "household" can be used interchangeably with the terms "economic unit" and "family," the latter of which is defined in 7 C.F.R. § 246.2. Section IV.B. of the attachment addresses the term "current income." The guidance set forth in Policy Memo 2103-3 is mandatory.

3. **What steps could be taken to strengthen income verification?**

Response: Currently for NSLP, verification for recipients who receive benefits based on household applications (as opposed to direct certification) is limited by statute to 3% or less of all applications. School food authorities, however, are allowed to verify, on a case by case basis, any application they deem questionable. OIG had two recommendations for FNS' school breakfast and lunch programs related to this question in our audit report, *FNS - National School Lunch and School Breakfast Programs (27601-0001-41)*. See below:

> **Recommendation 1**
> In consultation with the Office of the General Counsel, determine if FNS has the authority to modify existing regulations so that households are required to submit income documentation with applications for free or reduced-price meals. Based on this determination, take the appropriate actions to revise the programs' documentation requirements.
>
> **Recommendation 2**
> Develop a strategy, in collaboration with State agencies, for School Food Authorities to verify for cause applications of households, which were found to have misreported income information on their prior year's applications.

We also asked FNS to opine on this question. According to FNS, local education agencies (LEAs) are limited by statute from selecting a base verification sample in excess of 3 percent of approved applications. However, that restriction does not apply to applications selected and verified for cause. Relatively few districts verified any applications for cause in school year 2014-2015. Greater use of this existing authority, where appropriate, would focus additional attention on questionable applications.

According to FNS, LEAs may also use direct verification as a complement to contacting households by mail. To the extent that LEAs are able to directly verify part of their verification sample, they eliminate the risk that households will lose program benefits by failing to respond to LEA verification requests. With Federal assistance over several years, State and local agencies have invested in systems to strengthen both direct certification and direct verification. Continued investment in those systems, particularly in States that are working to meet the statutory direct certification performance target, will position more districts to take advantage of direct verification.

FNS states that it is also targeting application error at its source through a redesigned paper application prototype released earlier this year, and through the planned development of the agency's first electronic application prototype. Both efforts attempt to reduce error through design elements informed by behavioral and cognitive research.

Finally, FNS notes that LEAs are also encouraged to use direct verification, including with Medicaid, to determine if children are in households that are categorically eligible based on receipt of other programs' benefits. Direct verification with Medicaid is optional for LEAs with access to records from other assistance programs, so additional use of this option could assist with verification efforts.

4. **Has the Department considered requiring more frequent income recertification, evaluating income over a greater period of time when determining eligibility, or including all sources of income within shared households when determining eligibility?**

Response:

We are unaware if the Department has considered requiring more frequent income recertification or evaluating income over a greater period of time when determining eligibility. FNS, however, did state that NSLP and WIC applicants provide information about all sources of income from all household members. In addition, FNS provided the following:

For NSLP: Section 9 (b)(9)(C) of the Richard B. Russell National School Lunch Act (42 U.S.C. § 1758(b)(9)(C)) requires that a child's eligibility for free or reduced-price meals begins with the date of eligibility approval in the current school year and ends on a date in the subsequent school year as established by USDA. 7 CF.R. § 245.6(c)(1)-(3) provides that eligibility in the subsequent school year is for up to 30 operating days or until a new eligibility determination is made. However, eligibility status must be adjusted (including termination of free or reduced-price meal benefits) during the school year if the household voluntarily withdraws or if verification results do not validate eligibility. Households are instructed to provide all sources of income from all household members. This includes child support, alimony or other assistance provided to the applicant household by another household.

Unlike other programs, such as the SNAP and WIC that have caseworkers that process applications for these programs, certification and verification of school meals benefits are handled by staff of LEAs that has a myriad of other duties. Further, processing time for school meals benefits is concentrated around the beginning of the school year and staff is working to certify children quickly to ensure that they have access to free or reduced price meals as soon as possible.

For WIC: USDA currently requires local agencies to evaluate current income as income received by the household within the past 30 days. In most cases, thirty days of household income most accurately reflects a family's status. However, WIC local agencies do have some flexibility in using the annual rate of income in the case of families of self-employed individuals, including farmers or seasonally employed workers whose income may fluctuate. WIC regulations define "household" as a group of related or nonrelated individuals who are

living together as one economic unit. Household members share income and consumption of goods and/or services. All gross cash income of all members of the household is considered when making a WIC income eligibility determination.

5. **Is there additional guidance that could be provided to states to help standardize and improve income verification and measurement?**

Response:

FNS informed us that they already provide this type of guidance. According to FNS:

For NSLP: USDA periodically issues policy memoranda and other guidance when issues arise that relate to verification efforts and to the required verification results report. In addition, the *Eligibility Manual for School Meals--Determining and Verifying Eligibility* provided extensive guidance on these concepts and how they are applied. Results of administrative reviews conducted by State agencies of LEAs may also highlight areas where additional guidance and clarifications are needed.

For WIC: FNS regularly provides technical assistance to WIC State agencies on income eligibility determination as part of the certification process. To that end, FNS plans to issue guidance in the form of a handbook in the first quarter of FY 2016 that provides clarification regarding income eligibility determination, to include adjunctive income eligibility determination, to ensure consistent use and application of income determination policy across State agencies.

6. **Does the Department have sufficient authorities to address inconsistencies in income verification methodologies?**

Response:

For NSLP, FNS currently has the statutory authority to prescribe income guidelines for determining eligibility under the National School Lunch Act. FNS also issues mandatory guidance for determining and verifying eligibility that includes guidance on methods to verify income for States implementing NSLP. Although multiple methods to verify eligibility are available to States, such as direct certification, we believe that FNS has the authority to ensure that each NSLP income verification method is applied consistently by each State. Unlike NSLP, WIC requires the relevant applicant to submit income documentation upon receiving their full benefits. States may require verification of the income documentation provided by the WIC applicant, but they are not required to do so. *See* 7 C.F.R. § 246.7(d)(2)(v)(D) ("The State or local agency *may* require verification of information it determines necessary to confirm income eligibility for Program benefits."). Therefore, in our opinion, FNS has sufficient authorities to address inconsistencies in income verification methodologies for NSLP, but not WIC because income verification is encouraged, but not required.

Furthermore, we felt that FNS would be better suited to provide additional details on those authorities related to income verification methodologies. FNS has specified that:

For NSLP: Section 9(b)(3)(D)-(H) of the Richard B. Russell National School Lunch Act (42 U.S.C. § 1758(b)(3)(D)-(H)) outlines the requirements for conducting verification and USDA has established regulatory requirements to comply with the statutory mandates in 7 C.F.R. § 245.6a. In addition, the Eligibility Manual for School Meals--Determining and Verifying Eligibility details how verification efforts are conducted and the results of verification are part of State agencies' administrative reviews of LEAs. If needed, State agencies may require that the LEA follow a corrective action plan to address failure to properly conduct verification efforts.

For WIC: FNS developed a monitoring process to identify areas in need of correction or improvement based on the review and analysis of WIC Certification/Eligibility Management Evaluations (MEs). The process uses an automated ME Tool output report developed to more readily identify WIC problem areas and trends. Based on the report, policy clarification, training or other corrective action will be taken in response to frequency of findings during MEs.

[Whereupon, at 11:26 a.m., the subcommittee was adjourned.]

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