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**REFORMING THE NEGATIVE ACTION  
QUALITY CONTROL SYSTEM**

**A REPORT TO CONGRESS**

**July 1990**

**Office of Analysis and Evaluation  
Food and Nutrition Service, USDA**

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## EXECUTIVE SUMMARY

This report responds to a Congressional request to examine the Food Stamp Negative Action Quality Control system. In the Hunger Prevention Act of 1988 (P.L. 100-435), the 100th Congress instructed the U.S. Department of Agriculture (USDA) to assess "the feasibility of measuring payment errors due to improper denials and terminations of benefits or otherwise developing performance standards with financial consequences for improper denials and terminations." This report presents the results of the study and USDA's recommendations.

The fundamental aim of the Food Stamp Quality Control (QC) system is to help ensure the accuracy of food stamp eligibility and benefit decisions and thus maintain public confidence in the integrity of the Food Stamp Program. QC provides two general measures of payment accuracy. The first is based on an intensive review of a sample of program participants. The second, which is the focus of this report, is based on a sample of households whose application for food stamps is denied or whose benefits are terminated. Each negative action review determines whether the decision to deny or terminate benefits is procedurally correct and properly documented.

Quality control reviews are the basis for a system of financial liabilities and rewards whose purpose is to hold States accountable for payment accuracy. Under current law, States with payment error rates beyond a statutory threshold are liable for a portion of the cost of the payment errors. The payment error rate is the sum of payments to ineligible participants, overpayments to eligible participants, and underpayments to eligible participants as a percentage of total benefits issued to active cases. States with low error rates, including both payment errors and improper negative actions, are eligible for additional Federal funding of administrative costs. The Congress designed this system of incentives and liabilities to encourage States to improve payment accuracy.

In practice, negative action error rates carry direct fiscal consequences only for those few States with payment error rates low enough to make them potentially eligible for enhanced funding. This contrasts with historically stronger consequences attached to payment error rates among active cases in general and overpayments in particular. The different treatment of active and negative error rates led to a concern that State and local agencies might not give enough attention to this aspect of payment accuracy or adopt administrative practices that inadvertently increase improper denials and terminations while reducing payment errors. Thus, Congress directed USDA to consider feasible alternatives to the current review system and offer its recommendations.

In June 1988, USDA awarded a research contract to Abt Associates to develop and pilot test alternative negative action QC procedures in selected States. The pilot test's objectives were:

- o to assess the feasibility of alternative QC procedures to measure nonpayment error in a manner comparable to payment error among active cases; and
- o to assess the financial implications of alternative performance standards.

The pilot demonstrated that it is possible but difficult to estimate nonpayment error in the context of the quality control system. The pilot also demonstrated that:

- o the extent of nonpayment error is low enough relative to payment error rates (typically less than 1 percent of benefits for active cases) to call into question the need for a more intensive measurement system;
- o the noncompletion rate for negative reviews is high enough (about 13 percent of all cases subject to review--compared to 3 percent of all active cases subject to review) to potentially bias the estimate of nonpayment error and limit its usefulness as a basis for financial consequences; and
- o the additional reviewer time required to complete the negative review is substantially higher (about 55 percent) than the time now spent.

These concerns, while not so dominant as to rule out entirely the consideration of a modified quality control review process, are serious enough to direct attention to other options that achieve similar goals at lower cost.

USDA recommends an incremental strategy to strengthen monitoring of the negative action review process, renew emphasis on corrective actions to reduce improper negative actions, and hold States accountable within existing statutory and regulatory authorities. Specifically, USDA proposes to:

- o Increase Federal oversight of States' negative action review process. USDA will initiate a system assessment in all States, with periodic followup on those with evidence of problems. The system assessment will verify that States have in place procedures to identify, sample, and review negative action cases in accordance with program rules and regulations. These system reviews ensure careful monitoring of State QC practices.

- Emphasize corrective action planning, implementation, and monitoring. States with high negative case error rates must analyze systemic sources of errors, implement a Corrective Action Plan to reduce errors, and monitor progress. States must also demonstrate that adequate procedures are in place to restore benefits to eligible households improperly denied or terminated.
- Explore modifications to quality control reporting requirements to distinguish between procedural and circumstantial errors. State QC reviewers are now required to record a reason for an improper negative action. USDA will consider ways to enrich this information without substantial changes to the review process. If successful, largely procedural errors might be coded and reported separately from errors of basic eligibility.
- Require States to report on the frequency and amount of benefits restored to improperly denied or terminated households identified in the quality control sample. Systematic collection and reporting of this information offers a partial measure of the financial cost of improper negative actions.
- Continue to link enhanced funding to negative action error rates. USDA will continue to require Federal validation of State QC findings for those States potentially eligible for enhanced funding. States with low payment error rates do not qualify for a higher Federal share of administrative costs if their validated negative action error rate exceeds the previous year's national average. This ensures that States are not rewarded for good performance among active cases at the expense of improper negative actions.
- Use existing authority to suspend or disallow the Federal share of State administrative costs for noncompliance. States will face potential sanctions if they fail to maintain an adequate negative action review system, fail to take adequate corrective action to resolve performance problems, or fail to properly restore benefits to improperly denied or terminated households.

## 1. INTRODUCTION

This report responds to a Congressional request to examine the Food Stamp Negative Action Quality Control system. In the Hunger Prevention Act of 1988 (P.L. 100-435), the 100th Congress instructed the U.S. Department of Agriculture (USDA) to assess "the feasibility of measuring payment errors due to improper denials and terminations of benefits or otherwise developing performance standards with financial consequences for improper denials and terminations". This report presents the results of the study and USDA's recommendations.

The fundamental aim of the Food Stamp Quality Control (QC) system is to help ensure the accuracy of food stamp eligibility and benefit decisions and thus maintain public confidence in the integrity of the Food Stamp Program. QC provides two general measures of payment accuracy. The first is based on an intensive review of a sample of program participants. Each review determines whether the household is eligible and receiving the correct food stamp benefit given its income, expenses, resources, and living arrangements. The second is based on a sample of households whose application for food stamps is denied or whose benefits are terminated. Each negative action review determines whether the decision to deny or terminate benefits is procedurally correct and properly documented.

Quality control reviews are the basis for a system of financial liabilities and rewards whose purpose is to hold States accountable for payment accuracy. Under current law, States with payment error rates beyond a statutory threshold are liable for a portion of the cost of the payment errors. The payment error rate is the sum of payments to ineligible participants, overpayments to eligible participants, and underpayments to eligible participants as a percentage of total benefits issued to active cases. States with low error rates, including both payment errors and improper negative actions, are eligible for additional Federal funding of administrative costs. The Congress designed this system of incentives and liabilities to encourage States to improve payment accuracy.

Two recent reports to Congress from USDA and the National Academy of Sciences both noted differences in the treatment of active cases and negative actions in Federal QC policy.<sup>1</sup> In practice,

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<sup>1</sup> See U.S. Department of Agriculture, Food and Nutrition Service, The Food Stamp Program Quality Control System: A Report To Congress, May 1987; and Dennis P. Affholter and Fredrica D. Kramer (eds.), Rethinking Quality Control: A New System for the Food Stamp Program, Washington, DC: National Academy Press, 1987.

negative action error rates carry direct financial consequences only for those few States with payment error rates low enough to make them potentially eligible for enhanced funding. This contrasts with historically stronger consequences attached to payment error rates among active cases in general and overpayments in particular. The different treatment of active and negative error rates led to a concern that State and local agencies might not give enough attention to this aspect of payment accuracy or adopt administrative practices that inadvertently increase improper denials and terminations while reducing payment errors.<sup>2</sup>

The Hunger Prevention Act of 1988 modified the statutory emphasis on overpayments alone by including a measure of underpayments among participants in the calculation of State agency liabilities. While noting its conceptual appeal, Congress and USDA recognized that a broader measure of underpayment--one that incorporates the dollar value of nonpayments stemming from improper denials or terminations of eligible households--was not feasible within the existing negative action QC system.

Under the current review procedures, many erroneous negative actions involve purely procedural mistakes. Examples include a failure to document the basis for a denial or termination, to allow the prescribed time for applicants to provide information before denying benefits, or to provide adequate notice of an agency's decision. These procedural mistakes result in no benefit loss if the households are, in fact, ineligible. On the other hand, some instances where eligible households improperly lose benefits may go undetected. Thus, Congress directed USDA to consider feasible alternatives and offer its recommendations.

The Congressional mandate reinforced actions already taken by USDA to undertake a study of possible redesign options. In June 1988, USDA awarded a research contract to Abt Associates to develop and pilot test alternative negative action QC procedures in selected States. The pilot test operated in parts of six States--California, Illinois, Maryland, Michigan, Texas, and Utah--during the summer and fall of 1989. The pilot test's objectives were:

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<sup>2</sup> Some raised similar concerns about the relationship between overpayments and underpayments before the reforms enacted in the Hunger Prevention Act of 1988. The available evidence, however, does not indicate that recent reductions of overpayments led to more underpayments. See Robert Dalrymple, The Relationship Between Overpayments and Underpayments in the Food Stamp Program: A Preliminary Analysis, Alexandria, VA: Food and Nutrition Service, November 1985; and Gregory B. Mills, The Relationship Between Overpayments and Underpayments in the Food Stamp Program, Cambridge, MA: Abt Associates, September 1988.

- o to assess the feasibility of alternative QC procedures to measure nonpayment error in a manner comparable to payment error among active cases; and
- o to assess the financial implications of alternative performance standards.

The results of the pilot test form the basis for much of the discussion that follows.<sup>3</sup>

The report consists of five chapters. Chapter 2 presents basic background information on food stamp quality control and the rules for assessing financial liabilities and incentives. Chapter 3 offers a range of alternative approaches to monitoring the extent of improper denials and terminations, both in the context of the quality control system and apart from it. Chapter 4 examines the range of alternatives for establishing financial consequences. Chapter 5 presents USDA's recommendations. Finally, Appendix A summarizes the objectives, operations, and findings from the six-State pilot test of alternative approaches, and Appendix B contains some illustrative tables of trends in negative action error rates since 1984 and current State liabilities and incentive payments.

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<sup>3</sup> For details of the pilot test and its results, see Gregory B. Mills and David C. Hoaglin, Redesign of the Negative Action Quality Control System in the Food Stamp Program: Final Report, Cambridge, MA: Abt Associates, June 1990.

## 2. BACKGROUND

This chapter describes the current review process for both the active case and negative action QC systems; the rules for assessing financial incentives and liabilities; and features of an ideal negative action monitoring system.

### The Food Stamp Quality Control System

The current QC system has two components:

- o Active case quality control, which monitors payment accuracy for households participating in the Food Stamp Program. This includes payments to ineligible households and both overpayments and underpayments to eligible participants.
- o Negative action quality control, which monitors the correctness of agency decisions to deny or terminate benefits to households.

The active case QC system determines State payment error rates by reviewing random samples drawn each month from each State's active Food Stamp Program caseload. State QC workers review each case to determine if the household is in fact eligible to receive benefits and if the benefit amount is computed correctly. The review consists of a case record review; interviews with the household; and contacts with employers, banks, landlords, and others for supporting documentation. Federal staff undertake a second round of review to monitor the accuracy of State QC findings. The results of these reviews form the basis for the payment error rate--the cost of payment errors as a percentage of total issuance to active cases.

The negative action QC system, in contrast, determines a case error rate by reviewing random samples drawn each month from a universe of negative actions. State QC reviewers determine if the decision to deny or terminate benefits is valid. Reviewers usually rely on case record documentation when determining the correctness of the negative action. A decision is erroneous if administrative procedures are improperly followed or if the eligibility decision is incorrect. This process produces a negative action error rate--the number of improper negative actions as a percentage of all negative actions.

The negative action QC system differs substantially from the active QC system in two important ways. First, key differences in basic review concepts hamper any assessment of the financial loss of eligible households. Second, differences in the sampling universe and sampling procedures preclude any direct comparison of negative action error rates to payment error rates among active cases. Specifically:

- o The standards to establish the correctness of a negative action are weaker than the standards for active cases. Negative action reviews typically require only a review of documentation available in the case record, without any need for client contact or other investigation. Active case reviews, on the other hand, require extensive independent verification of information in the case record.
- o Some erroneous negative actions reflect solely the agency's noncompliance with procedural requirements for timely action, advance notice, and documentation. In such cases, a negative action error does not necessarily mean that the household is, in fact, eligible for program benefits. While the active error rate measures only verified payment errors, the current negative action review process does not give a direct indication of the extent to which truly eligible persons are denied benefits. Furthermore, the negative review does not attempt to measure the value of lost benefits and thus does not capture the extent of financial loss suffered by households improperly denied benefits or terminated from the program.
- o The sampling frame for negative actions is based on current actions, so that each decision to deny or terminate benefits is subject to sampling only once. However, the consequence of an improper denial or termination may persist for some time. If properly approved, households are certified to receive food stamp benefits for at least 3 months (with some exceptions) and as many as 12 months. An eligible household improperly denied thus loses benefits not only for the month in which they apply but also for any subsequent month in which they might have participated if certified. The current negative action sampling procedures exclude all of these subsequent months. Each active case, in contrast, is subject to sampling in every month of its participation.
- o The required negative action sample is smaller than the active sample, ranging up to 800 reviews in a year in the largest States compared to a maximum required active case sample of 2,400 reviews.
- o While Federal reviewers examine a subsample of active cases from every State every year, current regulations require Federal re-reviews of a subsample of negative actions only for States that appear likely to qualify for enhanced

funding. In Fiscal Year 1989, only seven States were subject to mandatory Federal re-reviews.<sup>4</sup>

Comparing payment and negative action errors is thus problematic at best.

### Financial Consequences

The food stamp QC system provides both financial incentives for States with low payment error rates and liabilities for States with high payment error rates.

To qualify for enhanced funding under current law (a Federal match of up to 60 percent of State administrative costs instead of the standard 50 percent), a State must have a payment error rate less than or equal to 5.90 percent and a validated negative action error rate below the previous year's national average. The Federal matching rate increases by a percentage point for each full tenth of a percentage point the payment error rate falls below 6 percent. Qualifying States with payment error rates less than 5 percent receive the maximum 60 percent match. In Fiscal Year 1989, seven States qualified for nearly \$8 million (see Appendix Table B-1).

States with payment error rates above a national threshold face a financial liability equal to the cost of payment errors above the threshold. The threshold is set by law at one percentage point above the lowest national average payment error rate ever achieved. The negative action error rate is not a factor in determining liabilities. In Fiscal Year 1989, the national average payment error rate was 9.80 percent, an all-time low. Thus, the threshold was 10.80 percent. Nine States exceeded this threshold and are potentially liable for about \$56 million (see Appendix Table B-2).

These statutory policies continue to give greater weight to payment errors among active cases. States with high payment error rates face liabilities. No liabilities are assessed on the basis of high negative action error rates. States facing the

which stand to lose incentive funding if their negative action error rates exceed the previous year's national average.

Negative action error rates can have additional consequences for State agencies within the broader Performance Reporting System of which QC is a part. The Performance Reporting System includes regular reviews of the program's success in meeting a broad set of program goals, including the timeliness of benefit issuance, the accessibility of the program, and the accuracy of certification decisions. The Performance Reporting System permits financial assessments if States fail to correct performance deficiencies.

Under the general requirements of the Performance Reporting System, USDA requires States to take corrective action to reduce negative action error rates above 1 percent. If a State fails to meet the objectives of its corrective action plan, USDA can suspend or disallow the Federal share of State administrative costs.<sup>5</sup> Procedures are in place to give States ample prior warning of possible suspension or disallowance actions and an opportunity to appeal any disallowance after USDA acts.

#### Desired Features of a Negative Action Monitoring System

An ideal monitoring system provides sufficient information to identify State or local agencies that improperly deny or terminate an excessive number of eligible households, suggests possible corrective actions, and holds States accountable for their performance. Such a system can be considered in the context of the existing quality control process or entirely apart from it.

An ideal negative action QC system captures those instances where eligible households are denied benefits and excludes those containing only procedural errors. Such procedural errors can still be noted and recorded but distinguished from errors causing benefit loss. This implies a corresponding need for a more intensive review process, requiring more field investigation and thus more cooperation from clients or collateral sources. Finally, the measures of error must have sufficient statistical quality to serve as a defensible basis for financial consequences. Such an ideal system necessarily entails increases

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<sup>5</sup> A suspension temporarily withholds all or part of the Federal share of a State agency's budget for administration of the Food Stamp Program until the State agency comes into compliance with the program's rules. A disallowance denies reimbursement for otherwise reimbursable costs claimed by a State agency. A suspension, if not acted on in a timely manner, can become a permanent disallowance.

in the operating costs and staffing requirements for both Federal and State agencies.

An alternative model exists in the Management Evaluation (ME) component of the Performance Reporting system. The ME structure offers a systematic approach to monitoring and improving program operations in local areas. The process includes periodic reviews of every State and local area to monitor State and local compliance with a wide range of administrative requirements. It requires routine and structured reporting to State, regional, and national offices responsible for administrative oversight; offers the means to target and monitor necessary corrective actions; and includes a mechanism to hold States accountable for performance.

Thus, there are two key issues surrounding reform of the negative action QC system:

- o First, what changes, if any, should be made to the review process to improve monitoring improper denials and terminations?
- o Second, what changes, if any, should be made to the rules for incentives and liabilities to achieve greater balance among overpayments, underpayments, and nonpayments.

The next two chapters address these issues separately.

### 3. ALTERNATIVE REVIEW SYSTEMS

This chapter describes alternative review systems. These range from making no changes and retaining the current system to adopting review procedures comparable to those used in active reviews. The four alternative review procedures examined here:

- o Retain the current review, with no modifications;
- o Increase Federal and State oversight through more frequent Federal review and more intensive corrective action planning and monitoring;
- o Use quality control to determine eligibility and benefit loss, conforming the negative action review to active case review procedures; and
- o Use local offices to determine eligibility and benefit loss, using existing requirements to take corrective action on individual error cases and restore benefits where appropriate.

#### Retain the Current Review

The existing negative action review process provides--and can continue to provide--useful information on State agency compliance with the rules and procedures for denying or terminating food stamp participation. The existing reviews generate sufficient information to focus attention on States with apparent difficulties complying with those rules and to target State and Federal oversight.

While not designed to capture the extent of financial loss among eligible households, it is informative to ask how well the current system detects instances of benefit loss stemming from improper negative actions. There are two aspects to this question. First, among truly eligible households denied benefits, how many are called in error by the current system? Second, among the erroneous negative actions under the current system, how many denied benefits to eligible households?

The USDA-sponsored pilot test offers a useful, albeit preliminary, answer to both questions. The pilot test called cases in error only after finding a benefit loss under standards comparable to active case reviews. Roughly 90 percent (52 out of 57) of the cases where eligible households lost benefits under the modified standards were also in error under the current standards. In other words, the current system does capture most instances of real benefit loss. However, nearly half (44 out of 96) of the cases classified in error under the current standards did not lose benefits. Said another way, nearly half of the

cases called in error under the current standards were, in fact, not eligible for food stamp benefits. Cases now classified as errors were nearly as likely to have lost no benefits as they were to have lost some benefits. While the small number of observations limits confidence in these figures, the results suggest that the current process is not particularly efficient in identifying nonpayment errors.

The current estimates of negative action error rates, therefore, may overstate the extent to which eligible households lose benefits as the result of an improper denial or termination. Consequently, these estimates are relatively conservative measures of State agency performance. In all likelihood, many States are doing better than the error rates now reported (and shown in Appendix B) might indicate.

Finally, the current process meets its objectives with a relatively modest investment of State and Federal resources (approximately \$2 million to \$3 million a year). This is less than 10 percent of the resources devoted to food stamp quality control.

#### Increase Federal and State Oversight

Increasing Federal and State oversight is a first step towards ensuring good quality information about improper denials and terminations and reducing their frequency. This option retains the current negative action QC system for State agencies, increases the frequency of Federal review of State negative action QC systems, and strengthens the corrective action planning process for States and local areas with high rates of improper denials and terminations.

Increased Federal oversight can take a variety of forms: more frequent re-review of State negative action QC findings; an assessment of the State's operational procedures for conducting quality control and corrective action planning; and more rigorous monitoring of State corrective action plans.

Current USDA procedures for reviewing some State QC findings offer one approach to Federal oversight. The current Federal re-review monitors the accuracy of the State QC process and its application of certification and QC policy. USDA staff re-review a subsample of every State's active QC sample every year but typically re-review the negative QC sample less frequently. An annual review of a subsample of negative actions in each State improves the credibility and consistency of reported error rates.

More frequent reviews necessarily entail higher costs. An annual review in every State might increase Federal costs by as much as \$200,000 a year. State costs also increase to some extent as a

product of providing requested case records and resolving differences between State and Federal findings.

A system assessment offers a less costly alternative to Federal re-reviews of individual State QC findings. A system assessment determines whether States are operating a quality control review system in accordance with USDA's rules and regulations. The system assessment's objectives are to review State agencies' methods and procedures for conducting quality control reviews; ensure compliance of sampling techniques with approved sampling plans; assist State agencies to strengthen QC operations; and provide information for corrective action. Periodic assessments are a useful check that the procedures for reporting error rates are a sound basis for developing and taking corrective action.

Finally, the Performance Reporting System requires States to file corrective action plans to reduce negative action error rates above 1 percent. A concerted initiative under the Performance Reporting System to review and monitor these corrective action plans can ensure sound information and help reduce the frequency of improper denials and terminations. It moves the focus of attention into local offices in a fashion not possible with a Statewide QC system. It places responsibility on State and local areas to demonstrate that apparently high rates of improper negative actions do not deny benefits to eligible households. And it requires States and local areas to take corrective actions to reduce the frequency of improper negative actions to avoid possible administrative sanctions.

#### Use Quality Control to Determine Eligibility and Benefit Loss

This option conforms negative action review procedures to those currently in place for active cases to the extent possible. Except in those cases where the case record substantiates that a client fails to comply with procedural requirements, field investigations and collateral documentation of household circumstances is required.<sup>6</sup> Reviewers call in error only those cases where actual benefit loss occurred and calculate the dollar value of nonpayment for each error case.<sup>7</sup>

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<sup>6</sup> A variant of this approach was in place from 1979 to 1984. During that period, State QC reviewers conducted field investigations whenever they could not establish the validity of the reason for denying or terminating the household, could not identify the reason for the negative action, or determined the procedural basis for the action was incorrect.

<sup>7</sup> If adopted, some additional consideration must be given to the period over which benefit loss is calculated. Focusing solely on the initial month of the error ignores the persistent consequences of an improper denial or termination. The USDA-

The results of the pilot test demonstrate that it is feasible to produce estimates of nonpayment error rates comparable to the current estimates of payment error rates among active cases. The nonpayment error rates express the dollar amount of benefit loss associated with negative action errors as a percentage of benefits issued to active cases. These rates are typically less than 1 percent of the total issuance. In contrast, the overpayment error rate in 1988 was 7.4 percent, and the underpayment error rate was 2.5 percent. Moreover, the pilot demonstrated that the negative case error rate--the percentage of decisions that led to loss of benefits--was lower than the current estimate of improper decisions.

A negative action review process that conforms to active case review procedures requires more State staff resources. Based on results from the pilot test, State agency staff requirements for negative action quality control would increase by approximately 40 percent if implemented nationwide. In a large State now reviewing 800 negative cases, this translates into roughly half an additional staff year. Thus, while the relative increase in costs is substantial, the absolute cost is modest. Nationwide, the States' share of direct labor costs might increase by about \$380,000; Federal costs (including half of the increase in State costs) might increase by about \$700,000.

Moreover, a modified review process can lead to high nonresponse rates. The modified review process relies heavily on interviews with persons not currently receiving any food stamp benefit. Such persons may have little incentive to cooperate with the QC reviewer and many may not, preventing completion of the case review. The estimates of nonpayment error rates are biased if these households are more or less error-prone than the cases with completed reviews.

Information from the pilot test suggests there is cause for some concern about potential bias. Across all sites, reviewers could not complete 13 percent of the case reviews with the modified review requirements, a noncompletion rate significantly higher than the 3 percent rate observed among active case reviews. Moreover, among those cases needing some field investigation (about 30 percent of all cases), the noncompletion rate rose to over 40 percent. The primary cause for incomplete case reviews was either the refusal or failure of households to cooperate or the inability of the reviewer to locate households. The high

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sponsored pilot test operated by Abt Associates tested both a one-month and a three-month period, but other time periods are at least conceptually possible. Experience from the pilot test suggests that longer review periods present serious challenges to timely reporting of complete results.

non-completion rate calls into question the usefulness of the measured nonpayment error rates as a basis for financial liabilities or rewards.

### Use Local Offices to Determine Eligibility and Benefit Loss

The major expense of conforming the negative action review process to active case review standards is the field investigation undertaken by State QC reviewers to formally determine eligibility and benefit loss. It is useful to consider, therefore, whether the same end might be achieved through other, less expensive means.

Current regulations require the referral of agency-caused error cases to local offices for individual corrective action and restored benefits if appropriate. Local eligibility workers determine if eligible households lost benefits and, if so, the amount lost. In theory, QC can use this information to establish the total value of benefits lost by eligible households improperly denied or terminated as a substitute for a QC field investigation.

In practice this procedure might have the following characteristics:

- o If the case record fully supports the negative action, then the QC reviewer considers the action correct.<sup>8</sup>
- o If the case record does not fully support the negative action and the household appears to meet basic eligibility requirements (income, resources, and citizenship for example), the QC reviewer refers the case to the appropriate local office for corrective action, including further investigation and possible restoration of benefits. The local office has a deadline to complete the investigation and inform the QC reviewer that the action was correct and no error occurred, or incorrect and the value of any restored benefit.<sup>9</sup>

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<sup>8</sup> This differs somewhat from the modified procedures tested in the pilot. The pilot test procedures required verification of information in the case record even if it appeared to support the agency's decision. The procedure presented here streamlines the review process and reduces the number of cases subject to further investigation. The pilot test indicates that the streamlined procedures miss about 10 percent of the cases with benefit loss.

<sup>9</sup> Special reporting provisions are needed if the local office is unable to collect, or clients are unwilling to provide, sufficient information to determine eligibility for restored benefits.

- o If the case record does not fully support the negative action and the action was taken for procedural reasons, the QC reviewer counts the case as an administrative deficiency but deems it correct for QC purposes.

Such an approach entails several changes to current operations. This process requires formal links between QC reviewers and local offices to ensure that referrals of potential error cases and results move expeditiously between organizations and across sites within each State. It also requires a formal deadline for determining and reporting the value of restored benefits and rigorous enforcement of the regulations to take corrective action on individual error cases and restore benefits when appropriate.

This approach may also entail some reconsideration of current restoration policies if a complete measure of the value of lost benefits is desired. Current regulations require State agencies to restore benefits only if lost because of a State agency's error. Benefits lost because of a client's error are not restored. Any measure of nonpayment error based solely on the value of benefits restored to eligible households under current policy will understate the extent of benefit loss since it excludes client-caused errors. On the other hand, a partial measure of nonpayment error may be sufficient to initiate corrective action.

The strength of this approach lies in its ability to measure benefit loss to eligible households in a fashion roughly comparable to the measures of payment error among active cases without a major overhaul of the existing quality control review process. It does so by relying on existing requirements to restore benefits. It also places responsibility on local offices to substantiate their actions in cases where documentation is not sufficient.

On the other hand, there is no existing evidence that this approach is possible. Local eligibility workers might face many of the same difficulties locating and obtaining client cooperation that surfaced during the course of the pilot test, and additional requirements to pursue such households are burdensome. It also allows local offices to monitor themselves since they will have responsibility for determining whether their initial decision is correct. Finally, it reduces the cost and burden on QC workers only at the expense of higher costs and increased burden for local eligibility workers.

#### 4. ALTERNATIVE FISCAL CONSEQUENCES

This chapter describes alternative ways to attach financial consequences to State performance on negative actions. These range from making no changes and retaining the current system to relying on existing administrative sanctions to relying on the QC system of rewards and liabilities. The four alternatives examined here:

- o Retain the current system, with no modifications;
- o Rely on existing administrative sanctions, to suspend or disallow the Federal share of State agency administrative costs;
- o Create a separate system of QC incentives and liabilities based on the negative action error rate; and
- o Create a unified system of QC incentives and liabilities by adding the nonpayment error rate to the current payment error rate.

##### Retain the Current System

The negative action error rate remains a factor in determining State eligibility for enhanced funding. States with low payment error rates do not qualify for the higher Federal match of State administrative costs if their validated negative action error rate exceeds the previous year's national average. Otherwise, the negative action error rate does not affect either the incentive payment amount or a State's liability for high payment errors.

This approach ensures that States are not rewarded for good performance among active cases at the expense of improper negative actions. However, it does not hold States strictly accountable for their performance in denying or terminating participation. A more balanced system establishes financial incentives and liabilities for all aspects of payment error, including nonpayment of benefits to eligible households.

##### Administrative Sanctions

The financial consequences for improper denials or terminations-- however defined and measured--do not have to be administered through the existing system of QC liabilities and rewards. An alternative exists in USDA's authority to suspend or disallow the Federal share of State administrative costs under certain circumstances. This existing authority is broad enough to establish financial consequences for high rates of improper denials or terminations.

States are responsible for administering the Food Stamp Program efficiently and effectively. Regulations also require USDA to determine State compliance with program rules using any available information source, including quality control, management evaluation, or other Federal reviews; audits and investigations; corrective action plans; and the public. If a State is out of compliance, USDA may suspend or disallow administrative funds.

Procedures are in place to warn States of possible suspension or disallowance actions and permit them to take appropriate corrective actions before USDA takes fiscal action. Formal procedures also exist for States to appeal any disallowance after USDA acts.

USDA can use this authority with any of the review options described in the preceding chapter to focus attention on areas with high rates of improper negative actions and to require corrective action. The authority is sufficiently flexible to enable USDA to target specific problem areas and tailor the size of the sanction to the size of the problem.

#### Separate System of QC Liabilities and Incentives

The negative error rate--however measured and defined--can form the basis of a separate system of financial incentives and penalties analogous to the current system for payment errors. Such a system of financial rewards and penalties involves the following:

- o A threshold for incentive payments for good performance. Ideally, the threshold is one States can reasonably attain with some effort.
- o A threshold for fiscal sanctions. The threshold identifies States with poor performance.
- o A basis for calculating fiscal incentives and liabilities. Currently, the incentive for low payment error rates is a higher Federal matching rate for State administrative costs calculated on a sliding scale as the payment error rate falls below 6 percent. The same type of formula can also serve as the basis for setting incentive payments for States with low negative action error rates.

State liabilities are based on two factors: the extent to which the payment error rate exceeds the threshold and the value of total food stamp issuance. For example, a State exceeding the payment error rate threshold by two percent is potentially liable for two percent of its total issuance. The same approach is adaptable to the situation of negative action error. If the negative error measure is a nonpayment

error rate, then a liability based on issuance reflects the dollar amount of excessive nonpayment.<sup>10</sup>

A separate system of financial incentives and sanctions based solely on negative action errors ensures that all States are held financially accountable for nonpayment error. Such a system highlights the importance of careful negative action decisions and sends a strong signal that providing benefits to all households who qualify is an important priority of the Food Stamp Program.

While the attractions of a separate system of fiscal consequences for negative action errors are powerful, the costs of implementing such a system are considerable. The negative action error measure, whether it is a case or a nonpayment error rate, must be statistically and legally defensible to form the basis for fiscal consequences. A sound review system might require larger samples, stronger verification requirements, and low non-completion rates. None of these are easily attained. Moreover, past experience demonstrates a willingness on the part of State agencies to challenge potential liabilities for error. Such challenges are costly to both State and Federal governments, in terms of both staff time and money.

#### Combined System of OC Liabilities and Incentives

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If the negative action review produces a nonpayment error--the estimated value of nonpayments as a percentage of total benefits issued to active cases--it is conceptually feasible to combine the separate measures of payment and nonpayment error. This combined measure can then serve as the basis for financial incentives and liabilities.

The pilot test considered a series of options using a combined payment error rate (summing both payment and nonpayment errors) as the basis for enhanced funding or fiscal liabilities. The pilot test evaluated these options by imputing nonpayment error rates to all States based on findings from the six pilot sites. The results are more suggestive than conclusive because of the limited number of observations, but they offer the only available evidence on the potential consequences of a system of rewards and penalties for a combined measure of overall payment accuracy.

Under hypothetical performance standards that apply the logic of current Federal policy to the combined payment and nonpayment error rate, the various options make very little difference in

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<sup>10</sup> If only a measure of negative action case error is available, an alternative approach is needed to account for the weak link between the frequency of improper negative actions and the value of benefits issued to active cases.

the current outcomes (see Appendix Table A-2). The estimated nonpayment error rates are simply too small to have any appreciable effect. The options alter neither the number of States subject to fiscal consequences (either enhanced funding or liability) nor the approximate total amount of such payments, although some options slightly change the mix of affected States.

## 5. CONCLUSIONS AND RECOMMENDATIONS

Any reform of Federal policy for negative action quality control must address two separate questions:

- o What is the appropriate approach to measuring negative action error?
- o What is the appropriate approach to setting performance standards and financial consequences for negative action errors?

The research findings from the pilot test offer useful guidance in response to these questions. The pilot demonstrated that it is possible but difficult to estimate nonpayment error in the context of the quality control system. Moreover:

- o the extent of nonpayment error is low enough relative to payment error rates (typically less than 1 percent of benefits for active cases) to call into question the need for a more intensive measurement system;
- o the noncompletion rate for negative reviews is high enough (about 13 percent of all cases subject to review--compared to 3 percent of all active cases subject to review) to potentially bias the estimate of nonpayment error and limit its usefulness as a basis for financial consequences; and
- o the additional reviewer time required to complete the negative review is substantially higher (about 55 percent) than the time now spent.

These concerns, while serious, do not rule out entirely the consideration of a modified quality control review process. First, although nonpayment error rates are low, preventing benefit loss to eligible households is important. Second, although noncompletion rates are high, the degree of noncompletion in the pilot test may reflect the newness of the modified procedures. Finally, although the estimated increase in administrative costs is sizable in relation to existing costs for negative action QC, the additional costs comprise a small fraction of the total cost of food stamp quality control.

The evidence of the pilot test, however, suggests that it is premature to redesign the negative action quality control process without first considering other options that might achieve similar goals at lower cost. USDA's recommendations follow such an incremental strategy.

## Recommendations

- Increase Federal oversight of States' negative action review process. USDA will initiate a system assessment in all States, with periodic followup on those with evidence of problems. The system assessment will verify that States have in place procedures to identify, sample, and review, negative action cases, in accordance with program rules and regulations. These system reviews ensure careful monitoring of State QC practices.
- Emphasize corrective action planning, implementation, and monitoring. States with high negative case error rates must analyze systemic sources of errors, implement a Corrective Action Plan to reduce errors, and monitor progress. States must also demonstrate that adequate procedures are in place to restore benefits to eligible households improperly denied or terminated.
- Explore modifications to quality control reporting requirements to distinguish between procedural and circumstantial errors. State QC reviewers are now required to record a reason for an improper negative action. USDA will consider ways to enrich this information without substantial changes to the review process. If successful, largely procedural errors might be coded and reported separately from errors of basic eligibility.
- Require States to report on the frequency and amount of benefits restored to improperly denied or terminated households identified in the quality control sample. Systematic collection and reporting of this information offers a partial measure of the financial cost of improper negative actions.
- Continue to link enhanced funding to negative action error rates. USDA will continue to require Federal validation of State QC findings for those States potentially eligible for enhanced funding. States with low payment error rates do not qualify for a higher Federal share of administrative costs if their validated negative action error rate exceeds the previous year's national average. This ensures that States are not rewarded for good performance among active cases at the expense of improper negative actions.
- Use existing authority to suspend or disallow the Federal share of State administrative costs for noncompliance. States will face potential sanctions if they fail to maintain an adequate negative action review system, fail to take adequate corrective action to resolve performance problems, or fail to properly restore benefits to improperly denied or terminated households.

These recommendations strengthen monitoring of negative action QC review practices, encourage States to take appropriate steps to reduce high rates of improper negative actions, and hold States financially accountable for persistently high error rates without placing undue strain on limited State and Federal resources. Moreover, improved reporting requirements promise a better understanding of the costs of negative action error.

## APPENDIX A: THE PILOT TEST

In June 1988, USDA awarded a research contract to Abt Associates to develop and pilot test alternative approaches to measuring the extent of nonpayments to eligible households. The pilot test operated in parts of six States--California, Illinois, Maryland, Michigan, Texas, and Utah--during the summer and fall of 1989. The pilot test's objectives were:

- o to assess the operational and statistical implications of alternative QC procedures to measure negative action error in a manner comparable to the measures of error among active cases; and
- o to assess the financial implications of alternative performance standards that incorporate measures of negative action error, along with measures of payment error, in determining fiscal liabilities and enhanced funding for States.

What follows summarizes the pilot test. A more complete discussion of the pilot test's design, operation, and results is found in Gregory B. Mills and David C. Hoaglin, Redesign of the Negative Action Quality Control System in the Food Stamp Program: Final Report, Abt Associates, June 1990.

The first section of this appendix describes the pilot test design and implementation. The second section describes the principal effects of the pilot procedures on error rates, administrative feasibility, and liabilities and incentives.

### Pilot Test Design and Implementation

The pilot test occurred in six different sites: San Diego County, California; Cook County, Illinois; Baltimore City, Maryland; Lapeer, Livingston, Macomb, and Oakland Counties, Michigan; San Antonio Region, Texas; and Davis, Morgan, Weber, and part of Salt Lake Counties, Utah. The chosen sites were significantly different in terms of socioeconomic conditions, caseload characteristics, geographic location, current negative case error rates, and administrative practices.

The test directly compared four alternatives:

- o the current system with limited standards needed to establish the correctness of agency actions, an error definition which included procedural mistakes, a reported error rate based on the percentage of improper decisions, and no measure of benefit error;

- o a modified system with stricter standards needed to establish the correctness of an action (sometimes requiring field investigation and contacts with clients and collateral sources of information), an error definition which included only cases where benefit loss occurred, a reported error rate based on the percentage of cases which lost benefits, and no measure of benefit error;
- o a second modified system with the same standards and error definitions as above and a nonpayment error rate based on the value of benefits lost in the first effective month of an incorrect action; and
- o a final modified system producing a nonpayment error rate based on the value of benefits lost in the first three effective months of an incorrect action.

Following current QC operational procedures, Federal QC reviewers reexamined a subsample of the State reviews.

The four systems required incremental levels of review activity; State and Federal QC reviewers could follow a constant review sequence through the current and each of the modified systems for each case. The error outcomes and the amount of time spent on each step are thus available for each case selected into the pilot sample.

Each site had a target of 250 fully completed case reviews. The original sample size for the sites was adjusted to account for differing rates of cases not subject to review and expected noncompletion. The six sites selected a total of 2,364 cases (of which 1,574 were subject to review), with State review activity extending over the five months between mid-June and mid-November 1989. Federal staff re-reviewed a subsample of 397 cases.

#### **Pilot Test Results**

The pilot test evaluated the level and reliability of reported error rates, administrative feasibility (start-up and operating costs, staffing requirements, and timeliness of review activity), and anticipated consequences for fiscal liabilities and incentives for each of the alternative systems.

**Error Rates:** In general, the estimated error rates under the modified standards suggest that the current definition of error overstates the extent to which eligible households lose benefits as the result of improper denials and terminations.

- o **Case Error Rates:** The case error rate under the modified standards was lower than (or not significantly different from) the case error rate under the current standards in all sites. Among those cases with findings available under both standards, 7.4 percent were in error under the current standards and 4.5 percent under the modified standards.
- o **Nonpayment Error Rates:** The nonpayment error rate--expressed as a percentage of issuance to active cases--was typically less than 1 percent. The one-month nonpayment error rate for the six sites averaged 0.19 percent, while the three-month nonpayment error rate averaged 0.42 percent. Both nonpayment error rates are much smaller than either the national average underpayment error rate of 2.53 percent or the overpayment error rate of 7.42 percent in Fiscal Year 1988.
- o **Regressed Error Rates:** Federal staff agreed with the State finding 96 percent of the time. This high rate of agreement suggests that regressed nonpayment error rates might differ only slightly from the corresponding State-reported rates.

**Reliability of Error Rates:** Noncompletion rates in the pilot test exceeded rates typically found among active case reviews.

- o **Noncompletion Rate:** No review finding could be determined for 13 percent of all cases subject to review. State QC reviewers did not complete 43 percent of the cases needing additional effort beyond the current review standards. The noncompletion rates were higher still among those cases in error under the current standards.
- o **Reasons for Noncompletion:** Over 60 percent of the incomplete case reviews resulted from households' refusal or failure to cooperate with the review. Nearly a quarter were incomplete because the reviewer was unable to locate the household.
- o **Potential Bias:** The difficulty of locating households and obtaining cooperation and the extent of incomplete reviews raise some concern about the validity of the alternate error measures. The pilot examined the possible size and direction of bias under two scenarios. Under the most plausible--assuming the incomplete cases are as error-prone as completed cases with similar characteristics--the estimated negative case error rate rises from 4.5 percent to

10.0 percent. The comparable case error rate under the current review standards is 15.5 percent.

**Administrative Feasibility:** The pilot test demonstrated that modifications to the current QC system to produce a measure of nonpayment error are administratively feasible.

- o **Timeliness:** Most pilot sites disposed of case reviews either within target timetables or reasonably close to them.
- o **Administrative Cost:** Using the modified standards increased the time and cost of a State negative QC review by approximately 55 percent. Most of this increased expenditure in time and funds was used to conduct the field reviews needed to determine eligibility. The additional cost of calculating actual dollar loss was minimal. Federal costs are approximately 20 percent higher. Because the sites in the pilot test had somewhat higher than average error rates and reviews of error cases were more expensive than reviews of correct cases, the costs of a national system might rise by only 40 percent.
- o **Staff Requirements:** For a typical State completing 800 negative case reviews per year, the increased time required under the modified systems requires an increase from approximately one full-time reviewer to roughly 1.6 full-time reviewers. The corresponding increase in Federal staff, assuming an annual re-review sample of 160 cases, is 0.1 full-time equivalent.

**Fiscal Consequences:** The pilot test results permitted an estimate of the likely consequences of a modified review process on State liabilities and incentives. Using estimates of State error rates imputed on the basis of the six pilot sites, adding nonpayment error to payment error has almost no effect on the number of States subject to liabilities or incentives nor on the value of those payments (see Appendix Table A-2).

- o **Imputed Nonpayment Error Rates.** Table A-1 illustrates estimated negative action error rates for each State and the nation as a whole under four different definitions. The imputed one-month nonpayment error rates ranged from 0.01 percent to 0.26 percent, with a national average of 0.06 percent. The imputed State three-month nonpayment error rates ranged from 0.03 percent to 0.58 percent, with a national average rate of 0.15 percent.
- o **Incentive Payments.** Under current law, seven States would have been eligible to receive incentive payments in Fiscal Year 1988, totaling \$5 million. Using a combined system incorporating both payment and nonpayment error rates, seven

States still receive around \$5 million in incentive payments.

- o Liabilities. Had the unified system been in effect in Fiscal Year 1988, the same nine States subject to sanctions under current law continue to face liabilities, and the sanction amount is virtually unchanged.

**APPENDIX TABLE A-1  
IMPUTED NEGATIVE ACTION ERROR RATES  
FISCAL YEAR 1988**

| State             | Current<br>Case<br>Error<br>Rate <sup>a</sup> | Modified<br>Case<br>Error<br>Rate <sup>a</sup> | 1-Month<br>Nonpayment<br>Error<br>Rate <sup>b</sup> | 3-Month<br>Nonpayment<br>Error<br>Rate <sup>b</sup> |
|-------------------|---|--|---|---|
| Alabama           | 5.91  | 1.73   | 0.10  | 0.22  |
| Alaska            | 1.50  | 0.74   | 0.09  | 0.21  |
| Arizona           | 1.01  | 0.63   | 0.05  | 0.12  |
| Arkansas          | 0.11  | 0.44   | 0.03  | 0.06  |
| California        | 12.57   | 3.33   | 0.26  | 0.58  |
| Colorado          | 1.28  | 0.69   | 0.02  | 0.05  |
| Connecticut       | 3.42  | 1.17   | 0.04  | 0.09  |
| Delaware          | 1.60  | 0.76   | 0.03  | 0.07  |
| Dist. of Columbia | 2.38  | 0.93   | 0.02  | 0.04  |
| Florida           | 7.44  | 2.09   | 0.07  | 0.15  |
| Georgia           | 3.78  | 1.25   | 0.08  | 0.19  |
| Guam              | 5.96  | 1.74   | 0.06  | 0.12  |
| Hawaii            | 1.13  | 0.66   | 0.02  | 0.05  |
| Idahao            | 0.74  | 0.58   | 0.05  | 0.10  |
| Illinois          | 10.66   | 2.86   | 0.10  | 0.24  |
| Indiana           | 12.16   | 3.23   | 0.12  | 0.27  |
| Iowa              | 7.76  | 2.16   | 0.15  | 0.35  |
| Kansas            | 1.69  | 0.78   | 0.05  | 0.11  |
| Kentucky          | 0.13  | 0.44   | 0.01  | 0.03  |
| Louisiana         | 2.07  | 0.87   | 0.02  | 0.05  |
| Maine             | 12.81   | 3.39   | 0.10  | 0.23  |
| Maryland          | 14.18   | 3.74   | 0.09  | 0.20  |
| Massachusetts     | 14.29   | 3.77   | 0.06  | 0.13  |
| Michigan          | 8.57  | 2.35   | 0.15  | 0.34  |
| Minnesota         | 10.72   | 2.87   | 0.17  | 0.38  |
| Mississippi       | 1.33  | 0.70   | 0.02  | 0.03  |
| Missouri          | 1.35  | 0.71   | 0.03  | 0.06  |
| Montana           | 1.46  | 0.73   | 0.04  | 0.08  |
| Nebraska          | 1.99  | 0.85   | 0.04  | 0.09  |
| Nevada            | 1.00  | 0.63   | 0.08  | 0.19  |

(Continued)

APPENDIX TABLE A-1 (Continued)

| State          | Current Case Error Rate <sup>a</sup> | Modified Case Error Rate <sup>a</sup> | 1-Month Nonpayment Error Rate <sup>b</sup> | 3-Month Nonpayment Error Rate <sup>b</sup> |
|----------------|--------------------------------------|---------------------------------------|--|--|
| New Hampshire  | 3.59                                 | 1.20                                  | 0.08                                       | 0.18                                       |
| New Jersey     | 0.73                                 | 0.57                                  | 0.03                                       | 0.07                                       |
| New Mexico     | 4.80                                 | 1.48                                  | 0.10                                       | 0.22                                       |
| New York       | 2.98                                 | 1.07                                  | 0.03                                       | 0.08                                       |
| North Carolina | 1.76                                 | 0.80                                  | 0.04                                       | 0.09                                       |
| North Dakota   | 1.42                                 | 0.72                                  | 0.05                                       | 0.11                                       |
| Ohio           | 10.23                                | 2.75                                  | 0.05                                       | 0.11                                       |
| Oklahoma       | 2.38                                 | 0.93                                  | 0.04                                       | 0.08                                       |
| Oregon         | 5.44                                 | 1.62                                  | 0.04                                       | 0.10                                       |
| Pennsylvania   | 6.75                                 | 1.92                                  | 0.07                                       | 0.16                                       |
| Rhode Island   | 1.54                                 | 0.75                                  | 0.03                                       | 0.06                                       |
| South Carolina | 3.60                                 | 1.21                                  | 0.05                                       | 0.11                                       |
| South Dakota   | 0.00                                 | 0.42                                  | 0.02                                       | 0.05                                       |
| Tennessee      | 3.58                                 | 1.20                                  | 0.04                                       | 0.09                                       |
| Texas          | 1.60                                 | 0.76                                  | 0.03                                       | 0.06                                       |
| Utah           | 1.21                                 | 0.68                                  | 0.06                                       | 0.14                                       |
| Vermont        | 1.15                                 | 0.67                                  | 0.04                                       | 0.10                                       |
| Virginia       | 4.78                                 | 1.47                                  | 0.06                                       | 0.15                                       |
| Virgin Islands | 0.57                                 | 0.54                                  | 0.01                                       | 0.03                                       |
| Washington     | 4.13                                 | 1.32                                  | 0.06                                       | 0.14                                       |
| West Virginia  | 1.00                                 | 0.63                                  | 0.04                                       | 0.08                                       |
| Wisconsin      | 13.43                                | 3.55                                  | 0.22                                       | 0.50                                       |
| Wyoming        | 1.13                                 | 0.66                                  | 0.06                                       | 0.14                                       |
| United States  | 6.04                                 | 1.79                                  | 0.06                                       | 0.15                                       |

Note: <sup>a</sup>Total case error rates are weighted by State monthly negative cases.

<sup>b</sup>Total nonpayment error rates are weighted by State monthly issuance.

Source: Mills and Hoaglin (1990), Redesign of the Negative Action Quality Control System in the Food Stamp Program: Final Report, Exhibits VI-3 and VI6.

**APPENDIX TABLE A-2  
ILLUSTRATIVE OUTCOMES FOR  
FISCAL LIABILITIES AND ENHANCED FUNDING  
FISCAL YEAR 1988**

| Option             | Fiscal Liabilities |                            | Enhanced Funding |                            |
|--------------------|--------------------|----------------------------|------------------|----------------------------|
|                    | Number of States   | Total Amount (\$ millions) | Number of States | Total Amount (\$ millions) |
| Current            | 9                  | 35.7                       | 7 <sup>a</sup>   | 4.6 <sup>a</sup>           |
| 1-Month Nonpayment | 9                  | 37.1                       | 7                | 4.6                        |
| 3-Month Nonpayment | 9                  | 38.5                       | 7                | 4.0                        |

Note: <sup>a</sup>Under the Federal policy actually in effect for Fiscal Year 1988, two States received enhanced funding totaling \$1.0 million. Had current rules been in effect, seven States would have received \$4.6 million.

Source: Mills and Hoaglin (1990), Redesign of the Negative Action Quality Control System in the Food Stamp Program: Final Report, Exhibit VI-8.

**APPENDIX B**

|           |                                       |                        |
|-----------|---------------------------------------|------------------------|
| Table B-1 | States Receiving Enhanced Funding:    | Fiscal Year 1989       |
| Table B-2 | States Subject to Fiscal Liabilities: | Fiscal Year 1989       |
| Table B-3 | Negative Case Error Rates:            | Fiscal Years 1984-1988 |
| Table B-4 | Negative Case Sample Sizes:           | Fiscal Year 1988       |

**APPENDIX TABLE B-1  
STATES RECEIVING ENHANCED FUNDING  
FISCAL YEAR 1989**

| State        | Payment<br>Error<br>Rate | Enhanced<br>Funding<br>Factor | Incentive<br>Funding<br>(\$ thous) |
|--------------|--------------------------|-------------------------------|------------------------------------|
| Alabama      | 5.88%                    | 1%                            | \$425                              |
| Kentucky     | 4.79%                    | 10%                           | \$4,975                            |
| Montana      | 5.52%                    | 4%                            | \$248                              |
| North Dakota | 5.78%                    | 2%                            | \$95                               |
| South Dakota | 4.97%                    | 10%                           | \$374                              |
| Hawaii       | 5.06%                    | 9%                            | \$910                              |
| Nevada       | 4.82%                    | 10%                           | \$578                              |
| <b>Total</b> |                          |                               | <b>\$7,605</b>                     |

**APPENDIX TABLE B-2  
STATES SUBJECT TO FINANCIAL LIABILITIES  
FISCAL YEAR 1989**

| State         | Payment<br>Error<br>Rate | Excess<br>Over<br>Threshold | Financial<br>Liability<br>(\$ thous) |
|---------------|--------------------------|-----------------------------|--------------------------------------|
| New York      | 15.24%                   | 4.43%                       | \$41,201                             |
| Vermont       | 11.04%                   | 0.23%                       | \$40                                 |
| West Virginia | 11.47%                   | 0.66%                       | \$1,117                              |
| Florida       | 11.09%                   | 0.28%                       | \$1,275                              |
| Ohio          | 11.33%                   | 0.52%                       | \$3,908                              |
| Wisconsin     | 10.86%                   | 0.05%                       | \$78                                 |
| Louisiana     | 11.82%                   | 1.01%                       | \$4,893                              |
| Nebraska      | 14.09%                   | 3.28%                       | \$1,645                              |
| California    | 11.07%                   | 0.26%                       | \$1,939                              |
| <b>Total</b>  |                          |                             | <b>\$56,096</b>                      |

**APPENDIX TABLE B-3  
NEGATIVE CASE ERROR RATES  
FISCAL YEAR 1984 THROUGH 1988**

| State               | 1984 | 1985 | 1986  | 1987  | 1988  |
|---------------------|------|------|-------|-------|-------|
| <b>NORTHEAST</b>    |      |      |       |       |       |
| Connecticut         | .48  | .51  | .31   | .00   | 3.42  |
| Maine               | 1.82 | .61  | .40   | 5.38  | 12.81 |
| Massachusetts       | .49  | 1.03 | .71   | 3.73  | 14.29 |
| New Hampshire       | .80  | 2.69 | 2.24  | 3.13  | 3.59  |
| New York            | 1.42 | 1.10 | 1.43  | 1.47  | 2.98  |
| Rhode Island        | 1.53 | 1.48 | .70   | .35   | 1.54  |
| Vermont             | 3.50 | 2.74 | 5.57  | 1.37  | 1.15  |
| <b>MID-ATLANTIC</b> |      |      |       |       |       |
| Delaware            | .00  | .00  | .00   | .00   | 1.60  |
| Dist. of Columbia   | 3.88 | 1.12 | 1.59  | 1.42  | 2.38  |
| Maryland            | 3.33 | 2.43 | 2.95  | 8.04  | 14.18 |
| New Jersey          | .51  | .82  | 1.54  | .24   | .73   |
| Pennsylvania        | 4.15 | 4.45 | 4.11  | 7.33  | 6.75  |
| Virginia            | 3.11 | 2.73 | 4.08  | 5.24  | 4.78  |
| Virgin Islands      | 4.32 | 6.29 | 5.85  | 1.44  | .57   |
| West Virginia       | .54  | .36  | .57   | .31   | 1.00  |
| <b>SOUTHEAST</b>    |      |      |       |       |       |
| Alabama             | .94  | 1.91 | .60   | 1.42  | 5.91  |
| Florida             | 1.89 | 1.50 | 5.71  | 8.65  | 7.44  |
| Georgia             | 2.34 | 3.91 | 4.98  | 3.70  | 3.78  |
| Kentucky            | 5.22 | 3.00 | 2.96  | .92   | .13   |
| Mississippi         | .69  | .72  | .62   | .36   | 1.33  |
| North Carolina      | 2.42 | 1.21 | 2.62  | 3.38  | 1.76  |
| South Carolina      | 2.27 | 1.68 | 4.25  | 2.68  | 3.60  |
| Tennessee           | .59  | .11  | .12   | .57   | 3.58  |
| <b>MIDWEST</b>      |      |      |       |       |       |
| Illinois            | 7.51 | 9.13 | 17.86 | 18.54 | 10.66 |
| Indiana             | 1.57 | 2.79 | 2.86  | 8.22  | 12.16 |
| Michigan            | 5.41 | 6.56 | 6.56  | 7.11  | 8.57  |
| Minnesota           | 7.20 | 5.34 | 4.36  | 3.17  | 10.72 |
| Ohio                | 6.43 | 6.99 | 6.15  | 7.39  | 10.23 |
| Wisconsin           | 1.56 | .82  | 2.19  | 1.80  | 13.43 |

(continued)

APPENDIX TABLE B-3 (Continued)

| State           | 1984  | 1985  | 1986 | 1987  | 1988  |
|-----------------|-------|-------|------|-------|-------|
| SOUTHWEST       |       |       |      |       |       |
| Arkansas        | .49   | .11   | .12  | .12   | .11   |
| Louisiana       | 2.13  | 5.57  | 3.85 | 3.19  | 2.07  |
| New Mexico      | 2.40  | 3.14  | 5.01 | 4.02  | 4.80  |
| Oklahoma        | 8.44  | 6.42  | 6.14 | 4.43  | 2.38  |
| Texas           | 1.87  | 1.35  | 1.77 | 1.64  | 1.60  |
| MOUNTAIN PLAINS |       |       |      |       |       |
| Colorado        | 1.12  | 1.08  | 1.75 | 2.06  | 1.28  |
| Iowa            | 4.43  | 1.89  | 2.18 | 3.07  | 7.76  |
| Kansas          | 1.97  | .00   | 1.73 | 1.53  | 1.69  |
| Missouri        | .71   | .61   | .72  | 1.51  | 1.35  |
| Montana         | 1.59  | 1.81  | 2.70 | 2.36  | 1.46  |
| Nebraska        | 3.11  | 1.84  | 1.49 | 2.41  | 1.99  |
| North Dakota    | 1.35  | .67   | .36  | 1.04  | 1.42  |
| South Dakota    | .52   | .36   | .00  | .00   | .00   |
| Utah            | .30   | .17   | .16  | .76   | 1.21  |
| Wyoming         | 1.23  | .47   | .00  | .35   | 1.13  |
| WESTERN         |       |       |      |       |       |
| Alaska          | 2.91  | 1.25  | 1.31 | .55   | 1.50  |
| Arizona         | 2.38  | 1.43  | .60  | .66   | 1.01  |
| California      | 2.43  | 4.43  | 5.05 | 9.31  | 12.57 |
| Guam            | N/A   | 2.00  | 1.24 | 11.18 | 5.96  |
| Hawaii          | 1.73  | 3.20  | 3.21 | 1.47  | 1.13  |
| Idaho           | 2.29  | 2.11  | .87  | 1.31  | .74   |
| Nevada          | .60   | .29   | .78  | 1.58  | 1.00  |
| Oregon          | 4.23  | 4.71  | 1.76 | 2.19  | 5.44  |
| Washington      | 11.17 | 11.36 | 6.92 | 7.36  | 4.13  |
| United States   | 3.07  | 3.18  | 3.83 | 5.03  | 6.04  |

Source: Food and Nutrition Service, USDA, Quality Control Annual Report: Fiscal Year 1988, Alexandria, Virginia, October 1989, Table 6.

**APPENDIX TABLE B-4  
NEGATIVE CASE SAMPLE SIZES  
FISCAL YEAR 1988**

| Region/<br>State    | Avg.<br>monthly<br>caseload <sup>a</sup> | Minimum<br>sample<br>size <sup>b</sup> | Selected<br>cases | Cases<br>not<br>subject<br>to review | Cases<br>not<br>compl. | Completed<br>case<br>reviews |
|---------------------|--|--|-------------------|--------------------------------------|------------------------|------------------------------|
| <b>NORTHEAST</b>    |  |  |                   |                                      |                        |                              |
| Connecticut         | 1,772                                    | 333                                    | 490               | 56                                   | 25                     | 409                          |
| Maine               | 1,493                                    | 293                                    | 338               | 18                                   | 0                      | 320                          |
| Massachusetts       | 2,623                                    | 456                                    | 569               | 53                                   | 33                     | 483                          |
| New Hampshire       | 781                                      | 190                                    | 224               | 1                                    | 0                      | 223                          |
| New York            | 28,904                                   | 800                                    | 1,607             | 616                                  | 51                     | 940                          |
| Rhode Island        | 1,196                                    | 250                                    | 331               | 70                                   | 2                      | 259                          |
| Vermont             | 1,266                                    | 260                                    | 273               | 11                                   | 0                      | 262                          |
| <b>MID-ATLANTIC</b> |  |  |                   |                                      |                        |                              |
| Delaware            | 589                                      | 163                                    | 221               | 30                                   | 4                      | 187                          |
| Dist. of Columbia   | 676                                      | 175                                    | 201               | 32                                   | 1                      | 168                          |
| Maryland            | 3,152                                    | 532                                    | 694               | 84                                   | 81                     | 529                          |
| New Jersey          | 8,378                                    | 800                                    | 1,446             | 594                                  | 33                     | 819                          |
| Pennsylvania        | 17,285                                   | 800                                    | 1,068             | 311                                  | 2                      | 755                          |
| Virginia            | 7,449                                    | 800                                    | 1,009             | 124                                  | 6                      | 879                          |
| Virgin Islands      | 131                                      | 150                                    | 186               | 12                                   | 0                      | 174                          |
| West Virginia       | 5,910                                    | 800                                    | 995               | 248                                  | 1                      | 746                          |
| <b>SOUTHEAST</b>    |  |  |                   |                                      |                        |                              |
| Alabama             | 11,534                                   | 800                                    | 1,494             | 546                                  | 1                      | 947                          |
| Florida             | 9,011                                    | 800                                    | 832               | 19                                   | 7                      | 806                          |
| Georgia             | 15,577                                   | 800                                    | 1,120             | 180                                  | 0                      | 940                          |
| Kentucky            | 6,210                                    | 800                                    | 1,114             | 304                                  | 48                     | 762                          |
| Mississippi         | 4,414                                    | 714                                    | 800               | 121                                  | 3                      | 676                          |
| North Carolina      | 9,982                                    | 800                                    | 1,244             | 278                                  | 0                      | 966                          |
| South Carolina      | 4,932                                    | 788                                    | 1,032             | 217                                  | 6                      | 809                          |
| Tennessee           | 7,907                                    | 800                                    | 843               | 32                                   | 2                      | 809                          |
| <b>MIDWEST</b>      |  |  |                   |                                      |                        |                              |
| Illinois            | 17,248                                   | 800                                    | 1,175             | 279                                  | 5                      | 891                          |
| Indiana             | 4,766                                    | 764                                    | 905               | 88                                   | 3                      | 814                          |
| Michigan            | 27,487 <sup>c</sup>                      | 800                                    | 1,585             | 384                                  | 0                      | 1,201                        |
| Minnesota           | 6,883                                    | 800                                    | 1,162             | 336                                  | 5                      | 821                          |
| Ohio                | 10,912                                   | 800                                    | 956               | 157                                  | 6                      | 793                          |
| Wisconsin           | 8,101                                    | 800                                    | 861               | 92                                   | 4                      | 765                          |

(Continued)

APPENDIX TABLE B-4 (Continued)

| Region/<br>State       | Avg.<br>monthly<br>caseload <sup>a</sup> | Minimum<br>sample<br>size <sup>b</sup> | Selected<br>cases | Cases<br>not<br>subject<br>to review | Cases<br>not<br>compl. | Completed<br>case<br>reviews |
|------------------------|--|--|-------------------|--------------------------------------|------------------------|------------------------------|
| <b>SOUTHWEST</b>       |  |  |                   |                                      |                        |                              |
| Arkansas               | 6,960                                    | 800                                    | 915               | 17                                   | 6                      | 892                          |
| Louisiana              | 8,452                                    | 800                                    | 1,001             | 147                                  | 14                     | 840                          |
| New Mexico             | 4,165                                    | 678                                    | 822               | 87                                   | 6                      | 729                          |
| Oklahoma               | 5,491                                    | 800                                    | 1,477             | 549                                  | 3                      | 925                          |
| Texas                  | 21,252                                   | 800                                    | 809               | 50                                   | 8                      | 751                          |
| <b>MOUNTAIN PLAINS</b> |  |  |                   |                                      |                        |                              |
| Colorado               | 3,214                                    | 541                                    | 592               | 33                                   | 11                     | 548                          |
| Iowa                   | 6,469                                    | 800                                    | 1,041             | 188                                  | 3                      | 850                          |
| Kansas                 | 3,740                                    | 617                                    | 1,123             | 292                                  | 2                      | 829                          |
| Missouri               | 6,537                                    | 800                                    | 1,228             | 321                                  | 6                      | 901                          |
| Montana                | 1,233                                    | 256                                    | 282               | 8                                    | 0                      | 274                          |
| Nebraska               | 1,958                                    | 360                                    | 526               | 121                                  | 2                      | 403                          |
| North Dakota           | 1,171                                    | 247                                    | 317               | 36                                   | 0                      | 281                          |
| South Dakota           | 1,135                                    | 241                                    | 268               | 6                                    | 0                      | 262                          |
| Utah                   | 3,547                                    | 589                                    | 950               | 285                                  | 3                      | 662                          |
| Wyoming                | 1,175                                    | 247                                    | 308               | 42                                   | 1                      | 265                          |
| <b>WESTERN</b>         |  |  |                   |                                      |                        |                              |
| Alaska                 | 1,526                                    | 298                                    | 373               | 40                                   | 0                      | 333                          |
| Arizona                | 7,889                                    | 800                                    | 973               | 65                                   | 9                      | 899                          |
| California             | 54,105                                   | 800                                    | 1,580             | 677                                  | 28                     | 875                          |
| Guam                   | 152                                      | 150                                    | 165               | 14                                   | 0                      | 151                          |
| Hawaii                 | 1,328                                    | 269                                    | 408               | 54                                   | 0                      | 354                          |
| Idaho                  | 2,118                                    | 383                                    | 499               | 89                                   | 3                      | 407                          |
| Nevada                 | 2,739                                    | 472                                    | 540               | 42                                   | 0                      | 498                          |
| Oregon                 | 3,003                                    | 510                                    | 641               | 69                                   | 2                      | 570                          |
| Washington             | 7,228                                    | 800                                    | 969               | 143                                  | 3                      | 823                          |
| United States          | 383,156                                  | 30,927                                 | 42,582            | 8,668                                | 439                    | 33,475                       |

Notes: <sup>a</sup> Average monthly caseloads estimated by FNS using sampling interval and number of selected cases.  
<sup>b</sup> Minimum sample size calculated by FNS.  
<sup>c</sup> The average monthly caseload for Michigan was reported by the State agency on the FNS-247 form.

Source: Food and Nutrition Service, USDA, Quality Control Annual Report: Fiscal Year 1988, Alexandria, Virginia: October 1989, Table 10.