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RONALD REAGAN
GOVERNOR

State of California
GOVERNOR'S OFFICE
SACRAMENTO 95814



December 20, 1974

The Honorable Gerald R. Ford
President of the United States
The White House
Washington, D.C.

My dear Mr. President:

I am pleased to know that your Administration is renewing the attack on welfare problems and inequities. As you know, here in California (and in several other states) the welfare caseload has been declining steadily as a result of reforms which improved eligibility standards and administrative procedures. In fact, in California, we have been able to increase the average grant to the truly needy by 43% as a result.

I believe that true reform requires the cooperative efforts of local, state, and federal officials, utilizing the experience of already successful reforms. Untried panacea, such as the proposed Income Supplement Program, should be avoided, for they may result in expansion and further complication of welfare problems rather than offering effective reform.

The fundamental concept of welfare in the United States has always been to provide assistance to those in true need. For the most part this has amounted to temporary assistance, for the recipients do not represent a static population, but a changing one. ISP would replace this concept with one based on permanent guaranteed income. Associating it with the tax system would only serve to institutionalize this radically different concept.

I sincerely regret I must oppose this scheme in concept, philosophy and basic design. No one can deny that the current arrangement of welfare payments and food stamp distribution is wasteful, inefficient, complex and unfair to both recipients and taxpayers. But to replace it with an unsound new scheme, is not the same as achieving effective reform.

ISP has been billed as a replacement for existing welfare programs. Even if it were passed, it is very unlikely that Congress would refrain from

adding various additional benefit programs or would eliminate all of the existing ones. Politically, ISP would serve as a jumping off point for the proponents of a welfare state. A concerted campaign by so-called welfare "rights" proponents and their allies would most likely result in compromises that would be more, not less, liberal.

As details of ISP emerge, they raise questions and specific problems. For example:

- * It would double the number of persons receiving cash handouts and drastically reduce the number of taxpayers shouldering the total burden of government.
- * It would cost \$26.5 billion more each year than the current program. This contrasts with a saving of \$1.87 billion which could be achieved under California's "Blueprint for National Welfare Reform" submitted by a special task force in September.
- * "Federalization" of all welfare is no panacea, as the problems associated with Supplemental Security Income attest. So far, federal takeover of the five million adult aid cases under that program has been a disaster. ISP proposes a similar takeover of all 41 million recipients. If the aged, blind and disabled -- who require little or no monthly eligibility determination to get their five million monthly checks -- has been too much for the Social Security Administration, how can IRS expect to cope with several times that many individually redetermined claims each month?
- * ISP does not address itself to state supplements. Some states, such as California, pay benefits higher than ISP proposes. If we don't continue a supplement under ISP, our recipients would suffer a benefit cut. If we do pay it, who would determine eligibility, and how would such payments be treated by IRS?
- * "Simplification" -- by replacing present welfare with ISP -- would be illusory unless eligibility checking is weakened or eliminated. That would result in welfare-by-affirmation.
- * ISP purports to make it possible to reduce the army of state and county employees now administering welfare programs. That was also the promise of HR 1 in the federal takeover of the relatively simple adult

aid categories by Social Security almost a year ago. To date no such reductions have been possible and, worse, the federally-administered system is incapable of getting ineligible persons off the rolls in timely fashion except when they die. It is difficult to imagine how IRS -- or any other federal agency -- could manage several times as many AFDC individual cases and childless couple cases each month, when most of them are much more complicated.

* Effectiveness of the proposed work requirement is doubtful, given the avowed opposition of the H.E.W. Staff.

As we learn more about this new scheme to redistribute the taxpayers' earnings as "guaranteed income", I'm afraid it will show more and more flaws, or at the very least be as complex, cumbersome and unmanageable as the present nonsystem.

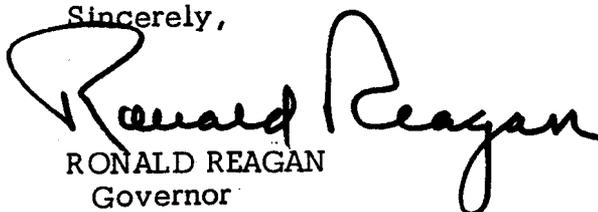
There is an alternative with demonstrated effectiveness. Our "Blueprint" outlines what has been done through reform at the state level and what still needs to be done to make welfare manageable on a nationwide scale.

The major problem today lies in the area of food stamps. ISP proposes to do away with the stamps, substituting cash. Yet, food stamps prevent taxpayers' cash from being used to purchase liquor, tobacco, jewelry and other nonessential luxuries. The program does need greatly improved eligibility standards and administration and needs a thorough overhaul and the means are detailed in our Blueprint.

There are federal barriers to effective welfare reform that must be removed if we are to bring caseloads under control. I urge you to seriously consider our "Blueprint" in detail. It bases cash payments on demonstrated need. It would control food stamps. It would provide for the truly needy and prevent abuse by the non-needy (something the ISP scheme cannot do). All of this can be accomplished at lower cost than the present system, and far lower expense than ISP.

Some have dismissed our reforms out-of-hand as "tinkering". But carefully planned, detailed welfare reform is no more "tinkering" than is piloting a space vehicle or managing a large, complex business. It can be done, given the will and the technical knowledge.

Sincerely,


RONALD REAGAN
Governor

CALIFORNIA'S BLUEPRINT
for
NATIONAL WELFARE REFORM

**Proposals for the Nation's Food Stamp and Aid to
Families with Dependent Children Programs**



Governor Ronald Reagan

September 1974



Office of the Governor

STATE CAPITOL
SACRAMENTO 95814

FOREWORD

Three years ago, in a determined effort to get control of California's runaway welfare system, this administration developed a detailed blueprint for reform.

The state's welfare and health care system had become a \$3 billion a year moral and administrative disaster leading us down the road to bankruptcy. The system was literally out of control. Welfare rolls were going up at a dizzying rate—40,000 a month. The truly needy—those who had nowhere else to turn but to government to meet the most basic, minimum requirements of living—were receiving too little because others were abusing the system by claiming, and getting, benefits they didn't deserve. The taxpayer was impatient and angry. While being asked to shoulder the entire burden, he was becoming more and more aware of the shocking abuses taking place daily in the welfare system.

Our 1970 task force worked for months to pinpoint the reasons for this gloomy state of affairs. After systematically going through a maze of state and federal laws, regulations, and procedures with a fine-toothed comb, the task force was able to recommend a detailed, comprehensive welfare reform program. Their findings and recommendations for change formed the backbone of the welfare and Medi-Cal reform proposals I submitted to the California Legislature on March 3, 1971.

We had already begun to put many of these reforms into effect administratively. Others required legislation. As a result of long negotiations between my office and certain legislators, some 70 percent of these reforms were enacted into law a half year later, in the Welfare Reform Act of 1971. It must be noted, however, that the fact that the legislative reforms became law at all is more a tribute to the tenacity and determination of the people of California who kept the pressure on, than to any broad commitment to change by the California Legislature.

Since then, because of the reforms, the taxpayers of California have saved some \$2 billion—funds which otherwise would have had to be raised in additional taxes. Had the reforms not been put into effect, we would have had to increase taxes each year since then. In fact, Californians would almost certainly be wrestling right now with how to raise taxes again.

But, this is not the case.

We are not adding 40,000 persons a month to the welfare rolls as we were. We would have been delighted three years ago to merely accept no increases in caseload. Yet, the reforms have achieved much more.



Today, there are 350,000 fewer persons receiving Aid to Families with Dependent Children in California than when we began three and a half years ago. Had the rolls continued to spiral upward at the same 40,000 per month rate during the years since, California today would have about 1.5 million more people on welfare than there actually are.

Because of the reforms, at least 42 of the 58 counties in California have been able to reduce property tax rates.

Because of the reforms, basic welfare grants to destitute families have gone up 41 percent.

Because of the reforms, and the work requirements we established for able-bodied, employable persons, we have been able to quintuple the number of placements in regular jobs since fiscal 1970-71. Without the work requirements and welfare sanctions which went with them, many of these job placements wouldn't have occurred. Work requirements have proven to be a deterrent to welfare in many cases.

Because of the reforms, the state's Medi-Cal program is no longer the fiscal nightmare it once was.

And, because of the successes of our reforms in California, many other states and the federal government have modeled some of their welfare reform efforts after ours.

Still, with all the success which has been achieved, much remains to be done. We never intended that the welfare reform program of 1971 would, or should, be the final chapter in California's efforts to prevent abuses, close loopholes, and eliminate red tape.

Abuses continue. Loopholes remain. Red tape persists.

Some of the reforms which were implemented have since been altered by changes in state and federal laws and regulations. Although our legislative program was sustained by the courts, some decisions have, on occasion, interpreted certain laws and regulations in ways different from this administration's intentions. And, the first-hand experience we have gained in working with the reforms during these last three years has provided insight into how many of them can be strengthened.

The task we began in 1971 was just that—a beginning. The process of refinement and improvement must continue if the purpose of welfare and the integrity of the system is to be maintained and abuses prevented.

Last fall, I requested that two blue-ribbon state/county task forces be organized to reexamine the AFDC program and take a close look at the Food Stamp program in California. Like previous task forces, the persons who agreed to serve were top leaders in their fields—county welfare directors, a district attorney, a county supervisor, and other career welfare experts. (Among the members of the AFDC Task Force were Al McCandless of the Riverside County Board of Supervisors; Jack McKay, Alameda County Welfare Director; Keith Comrie, Assistant Director for the Los Angeles County Department of Public Social Services; and Jacqueline N. Harker of the State Social Welfare Board. Included on the Food Stamp Task Force were William A. O'Malley, Contra Costa District Attorney and Vice President of the California District Attorneys Association; Robert Whittaker, Merced County Welfare Director and Vice President of the California County Welfare Directors Association; and Bennett Moe, Executive Secretary of the Los Angeles County Commission to Review Public Social Services. Key state government officials also served on both task forces.)

After months of analysis and study, the task forces presented their findings and recommendations. Many of these are included in this report; many have already been implemented. I fully support these recommendations.

The report concentrates on two areas: The Food Stamp program and the Aid to Families with Dependent Children (AFDC) program.

Because of its magnitude and the fact that it is federally administered, our reforms of 1971 did not attempt to cover the Food Stamp program. What we have learned about it, however, should be of the deepest concern to every taxpayer. I will discuss it later in this message.

Although we obtained passage of 70 percent of our state legislative proposals during 1971, problems remain in the welfare area. With regard to the AFDC program, the task force found federal loopholes which, together with the 30 percent of unenacted reforms, allow some welfare recipients to continue to circumvent the intent of the system.

The AFDC program permits a welfare family to have an outside income and still receive a welfare grant. The idea is to encourage the welfare recipient to seek, obtain and retain a regular job. This, in turn, is supposed to encourage the welfare recipient to work himself off the welfare rolls. The irony is that, because of federal requirements, the overall program continues, in many instances, to work against this objective. Instead of helping the AFDC family to get off welfare, a number of AFDC rules actually serve as an incentive to keep the family on welfare indefinitely.

Because federal law exempts large amounts of income for work-related expenses and other items, AFDC recipients with salaries as high as \$12,000-\$13,000 a year still can continue to qualify for welfare. And, eligibility for AFDC automatically carries with it free medical care, food stamps, and a host of other related benefits—all at the expense of the taxpayer.

State Department of Benefit Payments records show that a fully employed woman with two children and a monthly salary of \$977 is still on the welfare rolls. Another welfare mother with only one child earned \$1,109 in May and still received an \$89 welfare grant plus related benefits. A recent survey in Los Angeles County showed that yet another welfare recipient was earning \$1,200 a month but was still being carried on the welfare rolls. Each of these families qualified because of unrealistic provisions in federal law.

It might be easier to understand how a working mother of four with a monthly salary of \$400 receives a \$229 monthly welfare grant if it weren't for the fact that she just installed a new swimming pool, bought a car, and new living room furniture. She makes a \$94 a month payment on the pool, a \$68 a month utilities payment, a \$46 a month payment on the car and a \$122 a month house payment. How could this happen? It was entirely legal under federal requirements.

The fact is, current federal welfare rules permit persons on the AFDC rolls to use a complex formula for making sufficient exemptions from their gross income to perpetuate themselves on welfare indefinitely. Yet, other working families—those not on AFDC—but with similar incomes and expenses—are not permitted to use the formula to qualify for a welfare grant. Why? Because they're not already on AFDC.

It's no wonder that many working nonwelfare families resent seeing other families receiving welfare benefits to which they themselves are not entitled.

When a mother of two from a Southern California county with a \$600 a month salary decided to become a member of a car pool, her exemption for work-related expenses went down to the point that she no longer qualified for welfare. So, she quickly left the car pool in favor of driving her own car and staying on the rolls.

The formula determining the size of a working welfare grant actually encourages the recipient to increase the amount of work-related expenses in order to stay on welfare. One Northern California recipient is able legally to deduct more than \$600 a month in work-related expenses. What this means is this recipient is claiming more in work-related expenses alone than the entire outside incomes of many other AFDC recipients—or, for that matter, more than the incomes of many unaided wage earners.

Yet another recipient was legally allowed to exempt \$160 because he decided to purchase a gun which he said he needed for his job. A simple change in federal welfare regulations would close this loophole and put an end to this kind of abuse.

The task force also uncovered other instances of how current welfare rules legally twist and pervert the intent of the system. For example, one unmarried father, with a salary of \$12,000 a year, lives with an AFDC mother and her children. Despite his large income, she and the family continue to receive a full welfare grant.

Living arrangements like this are an affront, not only to the taxpayers, but also to those AFDC mothers who, because they do not choose to live out of wedlock, are not able to benefit from such shared expenses, and therefore must often limit their income to the welfare grant itself.

While much progress has been made, among the most shocking loopholes remaining in the AFDC program is one which enables welfare recipients to receive certain large, lump-sum cash payments, spend the money immediately for anything they wish, and continue to receive the same welfare grant.

A welfare recipient received an insurance settlement of \$4,455 and spent it all within two weeks. The grant was cut off—but for only one month. During that month, this person continued to be eligible for Medi-Cal benefits and food stamps. The following month, it was the welfare grant as usual.

Within a period of less than a year, one AFDC recipient received a \$5,893 workmen's compensation settlement and \$4,902 railroad disability payment. Within two weeks he had spent the first \$5,893 to buy new furniture and pay off old bills. He then used the \$4,902 to immediately make a down payment on a new home, even though his present home was fully paid for. During the entire period, his welfare grant was discontinued for only one month.

The most shocking example of all occurred recently. An unemployed father on welfare received a \$5,650 retroactive social insurance benefit. He proceeded directly to the gambling tables at Lake Tahoe and promptly lost it all. When the first of the month came around, he continued to receive the same welfare grant.

This is all legal. Current law and regulations merely require that such lump-sum cash payments be treated as personal property on the first of the month following the month in which they are received. But, if the money is spent before the first of the month, it cannot be counted as personal property and, therefore, cannot be considered in determining the family's welfare

eligibility. Under California law, some lump-sum cash payments aren't even recognized in the month they are received.

Beside being very unfair to the taxpayers, this loophole also is unfair to those on welfare whose grants are reduced because they receive *ongoing* living expense allowances from the same sources which contribute the lump-sum payments.

In addition, current state law places no practical limitation on the value of a home an AFDC recipient may have and still draw welfare. The law contains defects which actually permit a person on AFDC to qualify for welfare while holding, for example, a \$40,000 home with an equity of \$34,000. And, even though welfare is intended only to meet an AFDC family's most basic needs, and the courts sustained the Welfare Reform Act reforms in this area, the state's personal property regulations were recently weakened by the California Legislature to such an extent that recipients are now again able to assume obligations to pay for an expensive car, stereo systems, color television sets, period furniture and sterling silver and still remain eligible for full welfare benefits. These legal loopholes can be closed by again revising state law.

The report also points to other categories of present AFDC recipients who should not be entitled to welfare.

The Welfare Reform Act of 1971 specifically excluded illegal aliens from welfare. Yet, because the US Immigration and Naturalization Service (INS) is giving inadequate attention to the procedure for determining which aliens are legal and which are illegal, the process is six months behind in Southern California.

I want to make it clear that when I speak of illegal aliens, I am not referring to older persons who have lived in California for many years and have raised families who, by birth, are American citizens. Regardless of whether these persons are technically classified as illegal aliens, many of them have become productive members of our society and have contributed to the growth and betterment of our state. I have asked the State Department of Benefit Payments to review their status to insure that they are treated fairly.

Still, the matter of who funds taxpayer-provided benefits to aliens in this state is, and should be, a matter of concern to all of us. The State of California has no voice in determining federal immigration policy or in setting citizenship standards. Yet, California taxpayers are asked to share heavily in the direct funding of state and county welfare programs which benefit aliens. We will continue to insist that the Federal Government assume complete responsibility for alien public assistance.

Another matter which relates directly to federal law is welfare for strikers. Federal statutes and regulations do not prohibit strikers from obtaining AFDC welfare benefits or food stamps. Union organizers frequently encourage their members to immediately get on welfare when the strike begins. This enables the union to prolong the strike and, in effect, puts government on the side of the union in labor-management disputes. I believe this role is inappropriate, not only because it prevents the government from remaining neutral, but also because it diverts public funds from that large segment of welfare recipients who are in the greatest need. While a person's right to strike is fundamental, I do not believe taxpayers should be asked to help fund the strike. Whenever a person is voluntarily not working, regardless of the reason, he should not be entitled to welfare.

It should be mentioned that once a striker does get on the welfare rolls, he is entitled to all the work-related expense exemptions of the ordinary AFDC recipient, and may under certain

circumstances be able to stay on welfare long after the strike is over and he has resumed work. For as long as he remains on the rolls, he also qualifies for full Medi-Cal benefits.

Clearly, the welfare system was not intended to support strikers. We are therefore requesting that federal regulations be amended to preclude strikers from receiving AFDC benefits.

Our welfare reform program three years ago included a requirement that every able-bodied, employable welfare recipient must either accept regular employment, actively seek a job, participate in a job training program if necessary or take part in a Community Work Experience Program (CWEP).

Since then, the CWEP program has been put into effect in 35 California counties. The program, designed to put employable welfare recipients to work on community projects in return for their welfare grants, has proven to be a great success—not because of the number of recipients who are in the program, but because of the many who took a regular job in order to keep from having to take part in a CWEP activity. This is what CWEP was supposed to do from the beginning—to motivate able-bodied, employable welfare recipients to go to work in regular jobs. Placements of employables into regular jobs in CWEP counties are 30–50 percent higher than in non-CWEP counties. Some 38 percent of those welfare recipients in CWEP activities have been placed in regular jobs this year compared to only 27 percent for those not referred to CWEP activities. We were sure it would work from the start—and it is working. In fact, the over-all California Welfare Work System has achieved a remarkable record in placing employable welfare recipients in jobs—from 15,660 placements in fiscal 1970–71 to some 76,000 in fiscal 1973–74—a five-fold increase!

Nevertheless the process of applying sanctions against the employable welfare recipient who refuses to look for or accept employment continues to be so complex that it is very difficult to administer.

We are asking the Federal Government to grant California permission to streamline and simplify the sanction process to further improve its effectiveness.

In the area of welfare fraud prevention, we are recommending that the counties be able to keep a larger share of the restitution they receive as a result of fraudulent activities. The counties' current share is 16.25 percent with the rest going to the state and the Federal Government. Additional funds will not only help defray the costs of detection, prevention and prosecution of fraud but will also provide an additional incentive to the counties to beef up their efforts in this regard. Currently some 10 percent of the entire AFDC caseload in California is subject to investigation for alleged fraud. This is not to say that 10 percent of the caseload is defrauding the system. That hasn't been established. But, as a rule of thumb, each one percent of the caseload amounts to roughly \$10 million a year in welfare expenses. The fact is, welfare fraud continues to be a costly problem in California and, no doubt, in the nation as a whole. We are asking that a number of changes be made in state law to help district attorneys more effectively deal with the problem in California.

In the area of family responsibility, a fundamental goal of our welfare reforms of three years ago was to strengthen the role of the family as the basic unit of society. It is just as essential today.

This area is often the most frustrating of all for welfare officials and district attorneys. As a result of several recent court decisions based on the Federal Social Security Act, AFDC welfare mothers are no longer required to help welfare agencies identify and locate absent fathers—even though the fathers may be and often are affluent, fully employed and entirely capable of supporting their children. In one county, the rate of welfare applicants who refuse to cooperate with district attorneys in child support matters has reached 75 percent. One Northern California county recently granted welfare to a mother and her child who were living with a man known to family friends as the father of the child. Although the father was fully employed, the county was not able to consider his income in determining the amount of her welfare grant because she flatly refused to acknowledge his paternity to the welfare department. Yet, if they had been married, she wouldn't even have been eligible for welfare. This former requirement can be reinstated by amending the Federal Social Security Act.

Another family responsibility problem occurs because absent fathers who are federal employees can refuse to support their families without any fear their wages will be attached for this purpose. By simply being stationed away from home and refusing to support his family a serviceman can qualify as an absent parent and his family can legally get on welfare. The same applies to other federal employees. District attorneys are powerless to do anything about it.

Amendments to the Federal Social Security Act and changes in military regulations could close these glaring loopholes.

As a result of another recent court ruling, legal aid attorneys for AFDC recipients may now receive attorneys' fees even though these same attorneys already are employed at public expense and the welfare recipients are represented free of charge.

A legal aid attorney is, of course, an employee of a federally-funded program created for the purpose of providing free representation to those who are unable to afford private counsel. These attorneys are not only prohibited from charging their clients for legal services but are specifically precluded by federal guidelines from taking cases for profit. Nevertheless the court held that attorneys' fees can be awarded even when a welfare recipient is represented, at no cost, by a legal aid attorney. The Legislature can pass a bill, which I would be pleased to sign into law, to forbid expressly the granting of such attorneys' fees. Additionally, the Federal Government should take steps to insure that its legal aid attorneys are not permitted to request such fees at public expense.

There are a number of other weaknesses in the AFDC program which are amply pinpointed in the report which follows, along with recommendations for eliminating them whenever possible and tightening up administration on the entire program, in order that the taxpayer can be assured that public funds are being spent prudently and for the purposes for which they were intended.

As in AFDC, we have made significant progress since 1971 in reforming the Medi-Cal program. Today, however, Medi-Cal recipients receive nearly unlimited free medical benefits, and this has caused a serious overutilization by Medi-Cal recipients of our already limited medical resources. To solve this problem, I propose that the co-payment plans, tested on a pilot basis in 1972, be made a permanent requirement. Those who must pay their own medical bills—and, at the same time underwrite the growing costs of the Medi-Cal program—may rightfully expect the recipient to meet a token share of his medical costs and exercise some of the same cost consciousness that the taxpayer does in making his own medical decisions.

The basic task of the Medi-Cal program, providing complete and comprehensive medical care for those who need it, will remain. Co-payment will serve as a control on the overutilization of this care, resulting in savings to the California taxpayer of about \$25 million annually.

Earlier in this message, I referred briefly to the federal Food Stamp program. I would like to discuss it in detail here.

Food stamps were first introduced in this country in 1939 as part of a continuing effort to help dispose of large national food surpluses. The U.S. Department of Agriculture was given administrative control of the program because of the emphasis, at that time, on improving the nation's farm economy and preventing agricultural prices from dropping to levels ruinous to the farmer.

But, by 1943, World War II had reduced unemployment and increased demand for farm commodities. So, for the next 18 years, USDA food assistance programs were limited to the direct distribution of food commodities. In 1961, President Kennedy reinstated the Food Stamp program on a pilot basis and this, in turn, led to the enactment of the Federal Food Stamp Act in 1964. Again, the stated purpose was to make possible the distribution of national food surpluses through normal retail channels, to stimulate the nation's agricultural economy and raise the nutritional levels of the needy. However, this time, far greater emphasis was placed on food stamps as a kind of welfare program.

Nevertheless, the program continues to be administered, at the federal level, by the Department of Agriculture even though it has become just another form of public assistance. What this means is that now two giant bureaucracies in Washington—HEW and USDA—are running parallel welfare programs. This is a source of many of the problems which plague the overall welfare system in our nation today.

Look at what has happened since the Food Stamp Act was enacted just a decade ago.

The Food Stamp program has multiplied from 367,000 recipients nationally in 1964 to more than 13 million this year. That's a 3400 percent increase! In just 10 years! During the same period federal expenditures for food stamps have increased 8700 percent—from \$26 million in 1964 to \$2.3 billion this year.

The percentage increases are so staggering they can hardly even be comprehended.

Food stamp coupons are rolling off the presses at the rate of \$20 million a day this year.

And, none of this even begins to take into account the cost of administering the program at the state and county levels. In California, this will amount to \$100 million this year alone.

The USDA estimates that by the middle of next year, 16 million Americans—one in every 14 persons—will be using food stamps. A report prepared for use by the Subcommittee on Fiscal Policy of the Joint Economic Committee of the Congress warns that within three years, at the present rate of growth, one in every four Americans could be eligible to receive food stamps at least one month during the year.

Certainly, by almost any standard, this projection far exceeds reasonable expectations for treating "nutritional deficiencies" in this country.

In fiscal year 1974-75 the Federal Government will contribute at least \$316 million in tax dollars to underwrite the Food Stamp program in California alone. This is above and beyond the \$100 million cost of actually administering the program in this state.

One out of every four Californians receiving food stamps today can't even qualify for welfare under the traditional programs.

Why? Federal food stamp eligibility requirements are far more lax than welfare eligibility rules. In addition, the income exemptions a food stamp applicant can claim to qualify for stamps are far more liberal than those in the AFDC program.

And, until food stamp rules are brought into line with welfare rules, the growth of the Food Stamp program will continue to multiply out of control.

In addition, the fact that the Food Stamp and AFDC programs are supervised by different federal agencies is an administrative nightmare for those in county welfare departments who must administer both. Eligibility workers must perform two lengthy, dissimilar and often conflicting procedures to determine benefit levels under both programs. This contributes to excessively high error rates for food stamp cases. The different rules are extremely confusing and time consuming for welfare workers. By consolidating food stamp regulations with AFDC rules, the taxpayers could save as much as \$31 million in California in administrative costs alone in one year.

Federal food stamp eligibility standards now allow families with incomes well over \$10,000 a year to receive food stamps, even though they are not on welfare.

The Federal Government today imposes no minimum age requirement for food stamp applicants. Yet, the parents of many minors are fully capable of supporting their children and in many cases they would be more than willing to do so if they were only asked.

It was very difficult to answer the irate father's telephone call asking how his son qualified for food stamps "out in California" when the father made over \$100,000 a year in his home state.

A 17-year-old California boy, still in high school, recently decided he no longer wanted to live with his parents. Now he stays with friends and receives free food stamps.

Many college students legally obtain food stamps simply because they live away from home, and because they've decided they want to go to school. I have no quarrel with their decision to get an education. It is a worthy goal. Our publicly financed institutions of higher education offer a wide range of educational opportunities in such forms as "free" or low cost tuition, student loans, grants, scholarships and inexpensive student housing, especially for young people from disadvantaged areas.

Nevertheless, a student's ability to qualify for food stamps simply because he chooses to continue his education away from home provides him with an unfair advantage over the young person who, for a myriad of reasons, may not be able or wish to do so. The fact is, students are exempted from some requirements other food stamp applicants must meet in order to qualify, even though they all have the same basic nutritional needs.

Because current food stamp rules specifically exempt students who are enrolled at least half time from the work registration and employment requirements that other food stamp recipients must meet in order to qualify, it's easy to see why a student would rather rely on free food stamps than go out and find a part time job to help support himself.

Recently, a girl studying witchcraft at a Southern California school was exempted from the food stamp work requirement because she was attending an accredited school at least half time.

There is no limit placed on the type of schooling a student may be receiving, even though the subject matter may, in no way, prepare the student to become self-supporting.

Even though the Food Stamp program requires that students who use food stamps eat separately, abuses of this rule are widespread and difficult to detect. Any number of students share common living quarters, and if each student merely puts his groceries on a separate shelf, or says he does, he can legally obtain food stamps as an individual household. This, in fact, enables students in common living arrangements to multiply their food stamp resources at taxpayers' expense. In this way, a group of six students living together, for example, could obtain a total of \$276 in free food stamps each month. Welfare officials are aware that this practice is common among students. But, because it is so widespread, it is almost impossible to control.

Because of the incredible laxity in federal food stamp requirements, some student groups have taken it upon themselves to publish step-by-step guides for qualifying for food stamps. One such publication provides students with "helpful hints" for taking advantage of food stamp loopholes. It suggests that those "willing to engage in a bit of financial legerdemain" and who are living with other persons can increase their food stamp bonuses by claiming to pay a disproportionately high share of the rent and utilities. Another student publication recently explained how a student could get a "decent" social worker. The same publication said "Food stamps are a game and few county welfare workers play it to win so give yourself the benefit of a situation even at stretching the truth just a little."

Students, traditionally, have been expected to make an honest, maximum effort to help pay those expenses associated with getting an education. However, current food stamp rules not only favor the student over other young people who must work to support themselves, but even worse, the rules have become a disincentive to work for those students who could otherwise benefit from a part-time job to help meet their expenses.

Another disconcerting aspect of the Food Stamp program relates to strikers. Strikers are allowed to qualify for food stamps for the first full month of the strike even though they may have as much as \$1,500 in readily available savings. Like welfare, the availability of food stamps to strikers forces government to abandon the neutral role it should play in labor-management disputes.

In addition, a food stamp recipient may not be required to accept a job if it involves joining a union even though there may be many jobs available.

In one county, a man who is a fully qualified plumber is not working because he owes back dues to his union. Because he has refused to rejoin the union, he is receiving \$150 in food stamps each month for which he must pay only \$28.

Food stamp regulations, unlike AFDC rules, do not prohibit a person from transferring cash or personal property to another individual in order to become eligible for food stamps. Eligibility workers are required to certify persons even though they may have transferred property in order to qualify.

Another glaring loophole in the Food Stamp program enabled a young man to meet the federal work requirements for food stamps by declaring he was a full-time gold prospector.

County welfare officials have reason to believe that a number of individuals roam back and forth across the Oregon-California border and, in so doing, claim to "maintain" residence in both states. These individuals get food stamps in both states.

Here are some other instances of the same types of abuse.

In 1971, an astute county worker became suspicious of a man and woman who were applying for food stamps. Subsequent investigations showed that the couple had received AFDC and food stamp benefits in at least four states including eighteen California counties.

Currently under investigation is the case of a farm labor contractor who travels within four western states including California. In addition to his contractor's fees, welfare officials have reason to believe he also has been receiving unemployment insurance, AFDC and food stamp benefits in each state.

While it is both difficult and costly to track down these kinds of abuses, we believe that implementation of an Earnings Clearance System like the one we've established in California to detect welfare fraud would help greatly in uncovering instances of food stamp fraud. While it could not detect *unemployed* food stamp cheaters—since the Earnings Clearance process checks earnings claimed by applicants for assistance against earnings reported by their employers—the system could nevertheless help to track down salaried persons wrongfully obtaining food stamps.

Although the Federal Government expects the states and the counties to take strong measures to recover food stamp losses, the entire cost of doing so must be borne by state and county governments. However, any amounts which are recovered must be turned over to the Federal Government. With incentives like that it's a wonder any losses are recovered! Public Law 93-347, which was enacted by the Congress this past July, may provide authority for the Federal Government to pay 50 percent of the cost of investigations and prosecutions. However, if the Federal Government is really serious about recovering losses in the Food Stamp program, it should pay the *entire* cost.

Food stamp recipients currently use a so-called identification card to identify themselves when they pick up their food stamps. The problem is, the identification card doesn't even include a personal photo. This makes it much easier for those who have illegally obtained such a card through forgery, theft or other means, to obtain food stamps. This report recommends that all food stamp recipients present a laminated photo-identification card when obtaining food stamp coupons.

Occasionally, a county employee is caught manipulating the Food Stamp program for personal gain. In some cases, county workers have been prosecuted for setting up "dummy" cases in order to obtain food stamps for themselves. Recently, the Federal Government demanded repayment by a county of over \$35,000 which allegedly was embezzled by an employee. In another case, a county worker was able to obtain more than \$12,000 by forging food stamp forms and using them to purchase food stamps. Fortunately, embezzlement represents only a small portion of food stamp related crimes. Nevertheless, it helps illustrate the difficulties which accompany the Food Stamp identification process.

All of the abuses which have been cited above could be eliminated if there were a genuine commitment to reform the Food Stamp program on the part of the Congress and those federal officials who oversee the program.

There is one other major concern that every responsible citizen must now face. We all know that food prices have been rising at an alarming rate—considerably higher than the overall rate of inflation pressing upon us all. Does it make any sense at all to attempt to treat this problem, along with the nutritional needs of the country by relying increasingly on a badly administered

program that has its origins—and now bases its entire reason for being—on the assumption of the necessity to distribute *food surpluses* that no longer exist and probably never will again?

To stick our heads in the sand and rely on this program as now constituted, stubbornly assuming the existence of large food surpluses, can lead only to further aggravation of the already out-of-phase agricultural economy. We must face the fact that this administrative monstrosity is possibly, and probably, a prime contributor to the inflation rampant in the general food economy.

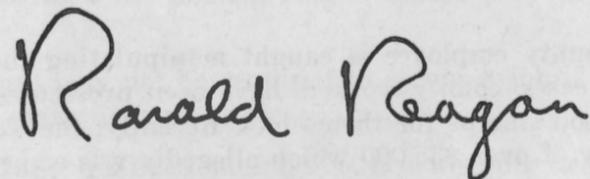
The Food Stamp program has become a national scandal. Like many aspects of the welfare system in a number of states, it has gotten completely out of control all across the nation.

It needs far more attention than it is now receiving if the public is to understand just how serious its implications are for the future. Anyone who takes the time to look at the Food Stamp program dispassionately will realize that it needs a drastic overhaul. Two separate bureaucracies running welfare programs—one of which is food stamps—is simply one bureaucracy too many. The Congress has delegated to HEW federal responsibility for welfare. And, that is clearly where the Food Stamp program belongs.

Only the Federal Government can bring this about. However, the State of California *can* continue to press for the reforms which are needed in Washington to put the food stamp house back in order.

This report not only looks at the glaring weaknesses in both the Food Stamp and AFDC programs, but even more important, it shows the way to solve the problems at each governmental level requiring corrective action. It is imperative that the findings of this report be given careful attention and consideration by every legislator, administrator, and taxpayer.

August, 1974



RONALD REAGAN
Governor

PROPOSALS FOR THE NATION'S FOOD STAMP AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAMS

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PART I: HISTORICAL PERSPECTIVE

The welfare picture during 1970 was dismal at both the state and national level. At that time federal officials described the existing system as an unqualified failure and predicted that its future would become worse, not better. The welfare problem had become so complex, confused, indeed chaotic, that most professionals involved had settled into an attitude of utter despair. At their annual meeting the National Council of State Welfare Administrators urged the Federal Government to relieve the states of the burden of managing the unwieldy welfare system and instead substitute a national welfare system financed entirely by the Federal Government and administered by the Department of Health, Education and Welfare. State and county governments throughout the country were finding the system totally unmanageable and growing uncontrollably.

At the federal level it was proposed that the existing welfare system be abolished and replaced with something even larger and more costly, i.e., a variation of a federally administered negative income tax concept called the Family Assistance Program (FAP). While widely viewed as a panacea, the federal solution was not only more costly than the existing system but was considered by some as totally disruptive to the American social and economic traditions. Of deep concern was the proposal to federalize the administration of all welfare programs and to provide a "guaranteed annual income" at a set level to all persons throughout the country. This concept lacked stimulus for family responsibility and was devoid of a meaningful work requirement. It ignored the basic principle that Americans should be guaranteed an opportunity, not an income unrelated to effort.

Throughout the welfare system the proposed federal solution created the illusion of relief. Since many states and local jurisdictions had already given up any hope of managing welfare, there was a tendency to assume the federalized plan would be enacted into law. The result was the abandonment of many reform efforts. A number of active supporters of the federalized plan considered any effort to reform the existing system to be a challenge to federal takeover. Thus, they actively opposed state reform efforts, fearing state success would jeopardize the passage of the federal proposal. A major cause of this situation was based on an eternal philosophical conflict. On the one hand, there are those who believe that the government is responsible for maintaining the well-being of all people at a relatively comfortable or acceptable level, regardless of cost and regardless of any disruption of the age-old fabric of our society. On the other hand, most would probably agree that our society is composed of free and compassionate individuals who attend to their own needs and those of their families, looking to the government not as a primary father figure, but only when all resources available to them are exhausted.

Intensive task force efforts during the Fall of 1970 led to the conclusion that a state could, in fact, accomplish true reform of the existing welfare system rather than succumb to a new and more costly federal program. Solving California's welfare problem was made the number one priority of State Government. On

March 3, 1971, the California blueprint for welfare reform was formally presented to the California Legislature. The stated objectives of the reform were to:

1. Cap the uncontrolled growth in the cost of welfare;
2. Reduce the welfare rolls to those strictly entitled to be there;
3. Reform the state/county system for the administration of the program in the future;
4. Require those able to work to do so or to seek work;
5. Strengthen family responsibility; and as a result of all of these, be able to
6. Increase assistance to the truly needy.

California had clearly demonstrated that there was a limit to the extent society could redirect its financial resources toward meeting the needs of its poor. At the time the blueprint for welfare reform was presented approximately 2.3 million Californians were receiving welfare benefits. The caseload was growing at the rate of 40,000 persons a month. It was estimated that welfare in California would cost more than \$3 billion during fiscal year 1971-72. At the same time, destitute families had never received any regular cost-of-living increases in their grants. In addition, the open-ended aspect of the welfare budget had seriously impeded other vital public programs—particularly in education, mass transit and environmental areas. Circumstances suggested either a gigantic state and local tax increase to keep pace with welfare growth or further diminution of other vital programs and projects.

California's welfare reform blueprint included a unique proposal to solve the problem by spending less money while at the same time more adequately meeting the needs of the poor. The key lay in tightening up and reforming the existing system, thus freeing funds for a more equitable allocation of welfare money.

While it was clear the vast majority of Californians sincerely desired to help those who, through no fault of their own, could not sufficiently help themselves, existing practices and policies had resulted in the most needy recipients having their needs satisfied the least. Many of the inequities resulted from the sharply conflicting philosophies of those responsible for formulating welfare policy over the preceding years.

The solutions in the plan for reform could never have become reality without everyone involved understanding the roots of the problem. Recipients, administrators, workers, courts, and taxpayers all had to realize that resources for welfare were not without limit, that funds had to be allocated in the most equitable manner possible, that to allocate otherwise would reduce funds which could be used to meet the needs of deserving recipients. Those involved had to understand, too, that proper recognition and treatment of income and other resources was essential to equitable allocation.

Much of the welfare reform program required changes in state legislation. A series of bills were presented to the California Legislature by the Governor. In August 1971, after months of hearings, debates, and delays, the Welfare Reform Act of 1971 was adopted. The Act included 70 percent of the legislative reforms contained in the welfare reform blueprint. The 30 percent not adopted now deserve further consideration. They will be discussed later.

Since March 3, 1971 when the blueprint for reform was presented, Californians have seen truly remarkable results. A study initiated within the Executive Office of the President found that by the most conservative estimates California's welfare reform savings exceeded \$1 billion for the two-year span ending June 30, 1973. Simultaneously, the majority of nearly 2 million recipients on California's welfare rolls have been provided grant increases of a magnitude unprecedented in the state's history—increases amounting to 41 percent for typical welfare families.

Substantial increases also were provided in the adult categories. The welfare reform program thus succeeded in affording some measure of fiscal relief to millions of Californians, whether on the paying or receiving end of the tax dollar.

The reforms also had a significant impact on California's welfare caseload. They served as a deterrent, keeping off the welfare rolls those families with adequate resources of their own and not truly dependent on welfare. Since March 1971 there are 350,000 fewer Californians on the AFDC welfare rolls. There are more than a million fewer persons on the rolls than had been projected without reforms, by even the most conservative estimates. During 1972, 42 of California's 58 counties were able to reduce their property taxes because of welfare reform. As of July 1973, the previously bankrupt State Treasury had a surplus of \$800 million, due in part to welfare reform.

A major provision of the welfare reform program involved redistribution of welfare monies. It generally had been concluded that there was a great disparity among families with needy children, resulting in families with other income and resources receiving at least 100 percent of their unmet needs while totally destitute families were receiving only 61-71 percent of their minimum needs.

The eventual solution enacted in the Welfare Reform Act was a specification of the exact amount of needs that would be met for all recipients on an equal basis. A standard amount was specified which, when combined with the value of food stamps, equaled what the Legislature determined to be the full need for all recipients. Destitute families without any resources were thereby raised from the statutory level of 61-71 percent of need to a position which, considering the availability of food stamps, was equal to 100 percent of their recognized needs. Recipients with outside income were reduced to this same level. Income and other resources were more fully recognized, although the work incentive exemptions were maintained. At no additional cost to the taxpayer through the redistribution, destitute families with needy children had their grants initially increased by approximately 30 percent of the amount previously specified by the California Legislature.

Other increased AFDC benefits were provided under the Welfare Reform Act without additional cost to the taxpayer. Destitute children for the first time could receive special need allowances in addition to their basic grant, because such allowances for those without income, were no longer limited by the maximum grant. An annual cost-of-living increase beginning July 1973 was also provided for the first time in state law. A provision was enacted to guarantee that if the Federal Government cashed out the Food Stamp program as proposed, AFDC grants would automatically increase to a level equal to 100 percent of need. Recipients also remained eligible for significant work incentives, food

stamps, full medical benefits, free social services, and other benefits when available, such as public housing and free legal services. Reform provisions enabling the additional increases at no cost to the taxpayer were a tightening of recognized work-related expense deductions for income recipients, an administratively efficient flat-grant system, and a fuller recognition of recipient income. The Welfare Reform Act also contained significant cost-saving features tied to absent parent support, relative responsibility, elimination of abuses and loopholes, and other matters unrelated to the grant structure.

Statistics are not the entire story of welfare reform. Also of significance is the philosophical effect on the nation's welfare program itself. It was clearly demonstrated that even under the present welfare system a state has the flexibility to make significant reform if it is willing to take on the task. Other states have now begun adopting the California blueprint, through the leadership of the Department of Health, Education and Welfare, utilizing the experience of a number of the architects of the California effort.

The remaining task at hand for California is to further refine the initial blueprint for reform now that there have been several years of experience, seek additional state legislation along the lines of the additional proposals that were not adopted in the Welfare Reform Act of 1971, and to cause Congress to adopt needed reforms in the existing program at the national level.

On February 1, 1972 the Governor of California personally presented the U. S. Senate Finance Committee a detailed listing of amendments to federal law. (See *Welfare Reform in California: Showing the Way, Appendix E*, December 1972.) These were the product of California's experience with a successful reform program and clearly demonstrated that a responsible approach to reform under the present welfare system is possible and that given tools, discretion, and adequate financial assistance, states and counties are in the best position to provide a welfare system patterned to meet the real needs of those in America who, through no fault of their own, have nowhere else to turn but to government. It is time that Congress act and adopt needed reforms of the kind urged over the last three years and reiterated in this document, if real welfare reform is to occur in the AFDC program.

The problems in the Food Stamp program were not addressed by the 1971 reform effort, primarily because that effort was aimed at welfare problems which could be solved by action at the state level. Conversely, the Food Stamp program has traditionally been viewed by the Federal Government as a "food" program and thus "beyond the scope of welfare". However, what was started in 1939 as a modest federal program to help resolve the farm relief problem while raising the nutritional levels of the unemployed, has been transformed into a welfare program with the same objectives, concerns and an even more massive caseload than other public assistance programs.

Loose federal eligibility requirements and excessive earned income ceilings have actually turned the Food Stamp program into the nation's only universal income guarantee, available to fully employed members of the working community as well as to legitimately needy persons who cannot work and who have nowhere else but welfare to turn for help. Food stamps are now being issued nationally at the rate of over \$5 billion annually. The national food stamp caseload has grown from an average of 367,000 recipients in 1964 to more than 13

million recipients this year, with annual federal expenditures for the food stamp bonus value alone growing from \$26 million in 1964 to about \$2.3 billion this year. This does not include the cost, in taxpayer funds, for administering the Food Stamp program. In California alone this will amount to \$100 million this year.

Expenditure problems are compounded and caused in part by a number of serious federal administrative problems. The growing disparity between federal AFDC and food stamp laws, regulations and procedures makes the successful day-to-day operation of the Food Stamp program difficult and joint AFDC-Food Stamp program improvements virtually impossible. Laws and policies covering fiscal accountability and the shipment of food stamp coupons are totally inadequate. Recognizing that food stamps are as negotiable as cash at the grocery store (and on some street corners), federal laxities open the door to administrative error and criminal activity.

The food stamp crisis is especially acute in California where the caseload is the nation's highest. In March 1974, for example, about 1.3 million Californians were receiving food stamps. The next largest food stamp states—New York and Texas—had March 1974 caseloads of about 1.2 million persons and 1.1 million persons, respectively. Now, in August 1974, the California caseload has jumped to nearly 1.6 million persons.

It is again time, as was done with the 1971 welfare reform effort, to initiate massive reform in what has become one of the nation's largest welfare programs: food stamps. Every state has a vested interest in food stamp reform because virtually all laws, regulations and procedures governing the Food Stamp program come directly from the Federal Government and apply equally across the nation. For this reason, it is also vital for the Federal Government to be an equal partner in food stamp reform.

The discussion which follows presents analyses of the Food Stamp program and AFDC program and their continuing problems. Specific federal and state reforms are recommended, where appropriate, to resolve these problems. (See Appendix A for a summary of specific recommendations.)

PART II: THE FOOD STAMP PROGRAM

CHAPTER ONE: COMMODITIES PROGRAM TO WELFARE PROGRAM

Following the Depression of the 1920's, the nation was faced with large-scale, continuing unemployment which was in part due to the growth of a serious farm surplus problem. The Federal Government responded in 1933 with the implementation of a commodities distribution program aimed at raising the nutritional levels of the general relief population while specifically assisting farmers to dispose of their surplus products.

A food stamp plan was implemented in 1939 as part of the original commodities distribution program. Its stated purpose was to increase consumer food purchasing power and to direct purchasing toward nutritional foods while insuring that the federal subsidy was actually used to increase food consumption rather than for other purposes. The unstated major purpose was to dispose of large national food surpluses without allowing agricultural prices to drop to levels ruinous to the farmer. Given this emphasis on improving the agricultural economy, and a close linkage between food stamps and direct commodities distribution, it is not surprising that the United States Department of Agriculture (USDA) was given federal administrative control over the Food Stamp program.

By 1943, World War II had reduced unemployment and increased demand on the nation's food abundance. This resulted in the termination of the 1939 food stamp plan. In fact, between 1943 and 1961, USDA food assistance programs were restricted to the direct distribution of food commodities.

In 1961, President Kennedy ordered the immediate implementation of a new Food Stamp program on a pilot basis. This led in 1964 to Congressional enactment of a new Food Stamp Act (Public Law 88-525), which formed the basis of the Food Stamp program as we know it today. While the stated purpose of the Food Stamp Act of 1964 was the same as for the 1939 program—to make possible the distribution of national food surpluses through normal retail channels, to stimulate the agricultural economy and to raise the nutritional levels of the needy—the relative focus was markedly different. That is, the nutritional needs of the poor became the prime concern, rather than a secondary factor, of the Food Stamp program.

This shift in priorities was due, in part, to the fact that the nation no longer had the massive food surpluses that existed in the 1930's and after World War II.

If anything, the United States is experiencing greater demands on its food supply in 1974 than in 1964. In his recent testimony before the Congress, Clayton Yeutter, Assistant Secretary of the USDA, pointed out that what was originally considered an agricultural problem has completely turned around. The demand for agricultural products worldwide has grown dramatically. American farmers are responding to growing market demands for food with all-out production of crops.

Although the Food Stamp program continues to be administered within the agricultural context by USDA, it has become another form of welfare assistance. In most California counties, persons receive Authorization to Purchase

certificates from their county welfare department. These certificates enable them to buy food stamps at a discount from a food stamp sales agent. The food stamps are then *used like money* to buy food at markets authorized by USDA.

The amount and cost of food stamps that may be purchased is determined by the number of persons in the household and their combined income after certain deductions. For example, a family of four with an adjusted net income of \$265.00 per month pays \$71.00 for \$150.00 worth of stamps. The remaining \$79.00, or the portion provided by taxpayers, is called the food stamp "bonus value."

Most families receiving benefits under the Aid to Families with Dependent Children program can get food stamps as "assistance" households. However, many people who are not eligible for welfare are eligible to participate in the Food Stamp program. These "nonassistance" recipients make up 22 percent of the approximate 1.6 million Californians presently benefiting from the Food Stamp program.

Under the Food Stamp Act of 1964, the Food and Nutrition Service of USDA sets policy and procedures for the Food Stamp program and contracts with the State Department of Benefit Payments to administer the program in California. Under the California county/state partnership, county welfare departments are responsible for certifying applicant eligibility, calculating the cost and value of food stamps allotted to each household, and issuing the food stamps. Counties issue food stamps either themselves or through contracting with food stamp sales agents, such as banks, post offices, community organizations or private entrepreneurs.

The Federal Government pays the entire cost of the food stamp "bonus value" given to recipients when they buy food stamps. In California this is approximately half the value of the food stamps used. In January 1974, for example, the Federal Government contributed \$24.4 million in bonus stamps to Californians, while \$20.3 million in cash was paid by program participants to purchase \$44.7 million in food stamp coupons.

The Federal Government, as of October 1974, will also pay 50 percent of a county's cost of certifying the eligibility of food stamp households, maintaining quality control, issuing food stamp coupons, and other administrative costs.

CHAPTER TWO: PROGRAM GROWTH AND THE NONASSISTANCE HOUSEHOLD

The United States Department of Agriculture (USDA) estimates that by the middle of next year sixteen million Americans—one in every fourteen persons—will be using food stamps. According to a report prepared for use by the Subcommittee on Fiscal Policy of the Joint Economic Committee of the Congress, within three years, more than 60 million persons—one in four—could be eligible to receive food stamps at least one month during the year—a projection of program growth which far exceeds reasonable expectations of meeting nutritional deficiencies in this country. (Appendix B outlines the dramatic program growth.)

In California alone, the Federal Government will contribute at least \$316 million tax dollars to underwrite the food stamp bonus value during the fiscal year 1974/75.

Food stamps not only has changed from a "food" program to a welfare program, but it has become a form of guaranteed annual income—underwritten by the taxpayers. Twenty-two percent of all Californians receiving food stamps today are not on categorical aid. For example, families with annual incomes well over \$10,000 can obtain food stamps legally. As the term "guaranteed income" implies, there is no incentive for food stamp families to get out of the program and become fully self-sufficient. This is because the federal work registration and employment requirements are easily circumvented, and also because of other federal provisions which arbitrarily assume that no more than 30 percent of the family's income, *after liberal deductions have already been subtracted*, is available for food.

Federal eligibility standards and benefit levels for nonwelfare families are highly inflationary because the food stamp values are tied directly to increases in the cost of food which have been going up much faster than the overall cost of living. This allows far more people to get on food stamps because income eligibility for food stamps is based only on a comparison of income with food prices. Federal eligibility standards constitute the major cause of continued uncontrolled food stamp growth. These issues are treated below under the headings Income Eligibility, Eligibility Loopholes, and Eligibility Loopholes for Students.

Income Eligibility

PROBLEM

Federal income eligibility standards allow families with incomes well over \$10,000 a year to receive food stamps, even if they are not on welfare.

DISCUSSION

Income eligibility refers to the amount of money a family can earn, or receive in insurance or other benefits, and still qualify for the purchase of food stamps. Income eligibility is based on three assumptions:



1. That food stamp benefits should increase in direct proportion to increases in food prices;
2. That a family cannot be assumed to have more than 30 percent of its income available for the purchase of food; and
3. That taxes, ten percent of gross earned income for work-related expenses up to \$30, generally a percentage of housing costs, child care costs necessary for employment, etc., should be discounted from gross income (to yield a figure called adjusted net income) prior to determining food stamp eligibility.

These three assumptions are incorporated into a formula which now determines whether a family is eligible for food stamps. By this formula the family's adjusted net income is multiplied by 30 percent in order to determine the maximum amount of money the family can "afford" to spend on food. This number is then compared with a figure published by the U.S. Bureau of Labor Statistics which states the actual amount a family of the size in question *should* be spending on food in order to have a nutritionally adequate diet. If the amount of money the family can afford, as determined by the formula, is even only slightly less than the Bureau of Labor Statistics figure, the family qualifies for *the full amount* of food stamps for a family of that size. The amount an eligible family pays for its allotment of food stamps is set by USDA based on family size and income.

For example, the Bureau of Labor Statistics presently states that a family of four should have \$150.00 available per month to spend on food in order to have a nutritionally adequate diet. Suppose that the adjusted net income of a particular family is \$265.00 per month. Applying the USDA formula (30 percent times \$265.00), this family can afford to pay no more than \$79.50 per month. However, this qualifies the family for the full \$150.00 worth of food stamps. The family pays \$71.00 and the taxpayer picks up the bill for the other \$79.00.

Close examination of the income eligibility and benefit determination process brings to light a number of disturbing factors. First, consider the manner in which the income of the recipient is treated. Before eligibility is computed, all mandatory taxes, certain work-related expenses, the total cost of child care incurred as a consequence of work, generally a portion of the amount the applicant spends on housing (rent, utilities, etc.), the actual cost of any medical expenses over \$10.00, and so on, must first be subtracted from the applicant's gross income. In this way, families with gross annual incomes well over \$10,000 can qualify for food stamps. The housing allowance alone, for example, can enable a person to own a home of unlimited value, with massive house payments actually assisting in participation in the Food Stamp program.

Another aspect of the income eligibility process which helps explain food stamp caseload increases is the arbitrary federal requirement that a family cannot "afford" to spend any more than 30 percent of adjusted net income on food. Given that the majority of living expenses are already subtracted from gross income before even considering eligibility, common sense suggests that the

30 percent food purchase limit is low. For example, consider the following comparison:

Assume a family of four is earning no more than the official Department of Health poverty index: \$4,550 per year. Of this amount, \$1,704 is for food, or 37 percent. Yet for food stamp purposes, the Federal Government says that any family need not spend more than 30 percent of its adjusted net income on food. Adjusted net income is the remainder after all kinds of exemptions and deductions are subtracted from gross income, as indicated above. There are at least three defects with this approach, as seems apparent:

1. Surely, it is not unreasonable to expect the food stamp family to spend, at the very least, approximately the same percentage of its income on food as the official poverty formula to meet governmentally established nutritional needs.
2. The 37 percent is applied to gross income for the family of four at the poverty level—yet the 30 percent is applied to "adjusted net income" for food stamp eligibility, allowing for a host of exemptions and deductions.
3. The 30 percent is used to calculate maximum income limits, which brings into the program families substantially above the poverty line.

Moving the 30 percent figure to 37 percent in the food stamp computational formula would result in bonus value savings in California alone of \$32.4 million annually.

Maximum food stamp benefit levels, and hence income eligibility, go up in direct proportion to the cost of food. The U. S. Bureau of Labor Statistics determines the cost of providing a nutritionally adequate diet. This is based on actual retail food prices across the nation. If income eligibility is based only on a comparison between this figure and 30 percent of the family's adjusted net income, as food costs go up the amount of money a family can earn and still be eligible will go up *in direct proportion*. This means that if food costs rise at a faster rate than other components of the family budget, income maximums will be inflated. In January 1974, for example, food stamp allotments and income maximums were raised by 22 percent; and in July, they were increased by an additional 5½ percent: a 29 percent increase between July 1973 and July 1974. This compares with an overall increase in the cost of living in California of only 7.8 percent between July 1973 and July 1974, an increase in the national poverty level of 7 percent for a family of four and an increase in maximum AFDC grants to families of four in California of 7.2 percent. If the percentage increases for food stamps were used in the escalator clauses of union contracts, for example, workers receiving \$1,000 in July 1973 would have gotten a \$300 per month raise in July 1974. If we were to project this trend out over the next few decades, virtually everyone in the United States would be eligible for food stamps, and about the only purpose the program could then serve would be to accelerate inflation, especially in light of the disappearance of the food surpluses on which the program was originally predicated.

Because cost-of-living wage increases, themselves, generally reflect increases in the cost of food, the nutritional needs of low-income working families are accounted for twice: (1) in wage increases; and (2) in the food stamp benefits for which they qualify.

RECOMMENDATION

1. Amend Section 7 of the Food Stamp Act of 1964 to establish:
 - a. A food purchase limit which more closely approximates the percentage of earnings low-income families should spend on food than the present arbitrary 30 percent level.
 - b. Food stamp benefit increase levels which are more reflective of the total resources available to recipients, and which account for wage and other cost-of-living increases which are based in part on food prices.
2. Revise federal regulations to base food stamp eligibility on gross rather than adjusted net income.

Eligibility Loopholes

PROBLEM

Federal eligibility loopholes open the door to widespread abuse of the Food Stamp program.

DISCUSSION

Food stamp measures are enacted by the Congress within the general category of "farm bills." This allows various provisions to be tacked on to food stamp legislation in the absence of any "welfare" connotation. It also permits other modifications to be enacted without considering the impact on the administrative complexities of other welfare programs. This opens loopholes for many categories of nonneedy persons to become eligible for food stamp benefits. There are seven areas which should receive immediate attention:

1. There is today no minimum age requirement for Food Stamp program applicants. The parents of many unemancipated minor recipients are fully capable of supporting their children away from home.
2. The federal work requirement states that food stamp recipients must register for, accept and retain "suitable" employment. However, food stamp recipients may not be required to accept a job if, as a condition of employment, they are required to join, resign from, or refrain from joining any legitimate labor organization. This problem is especially acute in some counties which have union shops. For example, most of the private employers in Humboldt County have union shop contracts. Therefore, food stamp recipients are not referred to these employers even when they have a great need for workers.

Also, some persons have legally avoided the work registration requirement by purporting to be fully self-employed even though earning nothing.
3. Food Stamp program regulations, unlike AFDC regulations, include no prohibition against immediate eligibility for an applicant who has transferred property or cash to another person for the express purpose of

qualifying for assistance. This opens the door to widespread abuse by persons who would otherwise be ineligible for food stamps.

4. Counties have long suspected that some individuals, particularly those with no fixed place of residence, receive food stamp benefits at the same time in more than one county. Moreover, duplicate benefits received from more than one state, as in the case of recipients frequently crossing the Oregon-California border at Del Norte County, enable these recipients to "maintain" a residence in both states in order to attempt to qualify for assistance in both states. To illustrate, in 1971 a man was convicted on welfare fraud charges and sentenced to prison in California. He and a woman companion had been receiving AFDC and food stamp benefits in Montana, Oregon, Utah and 18 California counties.

In the AFDC program, the number of abuses of this type occurring within California has been greatly reduced with the implementation of a "County Hopper" referral system. The Department of Benefit Payments maintains a system of transmitting information to all 58 county welfare departments when intercounty, multiple application for or receipt of aid is suspected. A system of this type should also prove beneficial in the Food Stamp program where the caseload is substantially higher than in AFDC and the eligibility requirements are far less strict.
5. The provision of food stamp benefits to strikers often enables them to qualify for free food stamps for the first full month of the strike even though they may have as much as \$1,500 in readily available savings. Food stamp benefits provide a significant economic advantage to strikers who are able to hold out longer for higher settlements. In effect, this removes government from the appropriate neutral role it should play in labor-management disputes and forces it to take sides.
6. Aliens, including persons under order for deportation, have found it advantageous to stay in the United States as long as possible because of their continuing eligibility to receive food stamps. Under new federal regulations, just published in July, illegal aliens and many legal aliens will no longer be able to get food stamps. However, the problems of enforcement, and the eligibility of aliens who have legally established permanent residency in the United States and who are on food stamps, still exist. California is especially affected by these problems due to its proximity to a national border. Yet, California has no voice in determining federal immigration policy, in setting citizenship standards, or in establishing food stamp eligibility requirements. The Federal Government can resolve this dilemma by assuming *complete* responsibility for alien public assistance.
7. Questionable living arrangements, such as a multiplicity of one-person households under one roof, are not sufficiently verified. As suggested by a recent college student publication, those "willing to engage in a bit of financial legerdemain," and who are living with other persons, can increase their food stamp bonuses by claiming to pay a disproportionately high share of the rent and utilities.

RECOMMENDATION

1. Amend the Food Stamp Act of 1964 to:
 - a. Require the Federal Government to assume complete responsibility for assistance to aliens.
 - b. Exclude strikers from Food Stamp program participation, unless a given striker would have been eligible for program participation if he were not on strike.
2. Revise federal food stamp regulations to:
 - a. Remove the prohibition against referring food stamp recipients to union-related jobs, and impose more realistic requirements for persons who are self-employed.
 - b. Prohibit program participation, for a reasonable period, by any person who deliberately transfers property for the purpose of attempting to qualify for benefits.
 - c. Set a reasonable minimum age limit for Food Stamp program applicants.
 - d. Allow routine contact with the parents of all questionably emancipated minors who are not fully capable of self-support.
3. Revise federal food stamp instructions to provide eligibility workers with precise guidelines for verifying the purported number of separate economic units sharing the same housing quarters.
4. Revise state regulations and develop:
 - a. A central clearing house of information and statewide referral system regarding those recipient households without a fixed place of residence.
 - b. An Earnings Clearance System for nonassistance household food stamp cases to check actual earned income against income reported by the recipient.

Eligibility Loopholes for Students

Many of the federal weaknesses and loopholes discussed in the previous section are exploited by students and persons claiming to be students in order to acquire food stamps. However, other means used by some students to obtain food stamps are so glaring they deserve special consideration.

PROBLEM

Because of the nature of their personal finances, living arrangements and special exemptions from work registration requirements, individuals who choose to become students can obtain food stamps much more easily than those who cannot or do not wish to continue in school and therefore must work for a living.

DISCUSSION

A student's ability to qualify for food stamps simply because he chooses to continue his education away from home provides him with an unfair advantage over the young person who, for a myriad of reasons, may not be able or wish to do so.

The fact is, students are exempted from some requirements other food stamp applicants must meet in order to qualify, even though they all have essentially the same nutritional needs.

Many college students legally qualify for food stamps simply because they live away from home and have little money in the bank, even though their parents continue to support them and maintain a home for them in their absence. Food stamp requirements exempt up to \$1,500 in personal property, even though the money may be available for use. One student had \$4,500 in student loans for the year, and he was able to draw the maximum amount of food stamps. Many loans or scholarships specifically include money for food, and there is no national requirement for crosschecks between financial aid offices and food stamp offices.

Because current food stamp rules specifically exempt students who are enrolled at least half-time from the work registration and employment requirements that other food stamp recipients must meet in order to qualify, it is easy to see why a student would rather rely on free food stamps than go out and find a part-time job to help support himself. There is no limit placed on the type of school which a student may attend, even though the school may in no way prepare the student to become self-supporting.

Despite the incredible laxity of federal food stamp eligibility requirements, some student groups have taken it upon themselves to publish step-by-step guides for qualifying for food stamps. One such publication provides students with "helpful hints" for taking advantage of federal loopholes by:

- . . . Paying a disproportionate amount for living expenses shared with others in common housing quarters; and
- . . . Setting money aside in a bank account.

Another student publication recently explained how a student could get a "decent" social worker (one who would try hard to get the student on food stamps). The same publication also said:

"Food stamps are a game, and few (county) workers play it to win. So give yourself the benefit of a situation even at stretching the truth just a little. Eat! You deserve it."

As has already been mentioned, federal regulations now allow a student to work all summer, put up to \$1,500 in the bank for the school year, and still obtain as much as \$46 per month in food stamps—all billed to the taxpayers—without regard to the ability of the parents of the student to meet his nutritional needs. This situation often troubles parents who are powerless to do anything about it. The Federal Government should move quickly to close the loopholes which allow these situations to occur and insure that parents are given every opportunity to meet their obligations to their student children before food stamps are granted.

In sum, students should be expected to meet precisely the same requirements as other food stamp recipients. Traditionally students have been expected to make a maximum effort to help pay those expenses associated with getting an education. Current food stamp rules not only favor the student over other young people who must work to support themselves, but even worse, the rules actually are a disincentive to work for those students who could benefit from part-time jobs to help pay their expenses.

RECOMMENDATION

1. Amend the Food Stamp Act of 1964 to remove special provisions which totally exempt students from having to register for and accept any suitable employment.
2. Revise federal food stamp regulations to:
 - a. Set a reasonable minimum age limit for Food Stamp program applicants.
 - b. Require county welfare departments to let parents know their student children are applying for food stamps, and evaluate parental ability and/or willingness to support.
 - c. Prohibit participation in the Food Stamp program for any person who deliberately transfers property or money for the express purpose of qualifying for benefits.
 - d. Require a crosscheck between financial aids and food stamp offices.
3. Revise federal food stamp instructions to provide eligibility workers with precise guidelines for verifying the purported number of separate economic units sharing the same housing quarters.

CHAPTER THREE: ADMINISTRATIVE COMPLEXITIES

While growth trends in the Food Stamp program point directly to the need for more realistic nonassistance household eligibility standards and benefit levels, they point also to a more subtle yet equally important problem: The present federal structure for food stamp administration.

PROBLEM

The supervision of the Food Stamp and AFDC programs by different federal agencies is an administrative nightmare which encourages abuse of both the taxpayer and the truly needy welfare recipient.

DISCUSSION

Due to changes in the purpose and character of the Food Stamp program which were discussed in Chapters One and Two, a logical basis for continued USDA administration no longer exists. The effect of continuing to view food stamps as a "food" program, rather than a welfare program, in terms of federal policy, legislation and administration, is at the heart of many of the program's present problems.

For example, as each additional item of special consideration is tacked on to food stamp legislation, the confusion of the applicant and the eligibility worker is proportionately increased. The opportunities for (and incidences of) errors continue to increase with each new special consideration, particularly as the food stamp laws depart further and further from the laws for categorical aid recipients. This is strongly evidenced by a recent study which indicated a 27.2 percent error rate in food stamp cases handled by those county workers who must also handle the AFDC cases for the same recipients. The error rate for non-AFDC food stamp cases was less than half this rate. In one county, the error rate for nonwelfare food stamp cases was 0 percent while the error rate for combined AFDC-food stamp cases was 25.6 percent.

Administrative problems are compounded by the fact that separate federal agencies such as the USDA and HEW operate their own welfare programs, causing more complexities and still more room for error and illegal activities. It is obvious that administrative error is compounded by dissimilar federal AFDC and food stamp laws. This is also true for the myriad of regulations and procedures which come out of HEW and USDA for their own programs. For instance, while most AFDC recipients automatically qualify for food stamps, the local eligibility worker must perform two lengthy, completely different and often conflicting procedures to determine benefit levels under both programs. The same holds true for federal reporting requirements and administrative support systems.

The piggybacking of welfare programs, one on top of another, by different federal agencies demands reform. A person's eligibility for one public assistance program often means that he is also eligible for benefits under many other government programs. For example, an AFDC recipient may receive, in addition to his welfare grant, food stamps, public housing (where applicable), Medicaid,

and employment and other social services. Developed one by one, in isolation, these programs were enacted with little consideration for the level of their combined benefits or the difficulty of their joint administration. Nor was their net effect on recipient incentives for achieving self-sufficiency taken into account in a comprehensive manner.

Clearly, the philosophical and procedural tone of the Food Stamp program must be correlated to the public assistance programs presently administered by HEW. Overlapping benefits and duplicate administrative systems must be eliminated in order to reduce administrative costs, and insure that *combined* benefit levels more reasonably reflect the actual needs of the recipient.

By simply consolidating food stamp regulations with AFDC program regulations and instituting simplified food stamp benefit computations, the taxpayer could save as much as \$31 million annually in California alone. This savings would not alter the actual food stamp benefits now received by those who are, indeed, eligible for them.

RECOMMENDATION

1. Amend the Food Stamp Act of 1964 to:
 - a. Transfer administrative responsibility for the Food Stamp program from the USDA to HEW.
 - b. Conform assistance household food stamp eligibility criteria and AFDC eligibility criteria and institute simplified food stamp benefit computations.

CHAPTER FOUR: CASH AND COUPON ACCOUNTABILITY

The transfer of the Food Stamp program from the USDA to HEW will solve many of the present administrative problems. There are other administrative problems, however, which appear to exist irrespective of a particular federal control agency. These relate to the handling of cash and other negotiables, such as certificates authorizing the purchase of food stamps by recipients and the food stamp coupons themselves.

Cash Collections

PROBLEM

Counties are not properly notified of deposits by their food stamp sales agents to the Federal Reserve.

DISCUSSION

Under federal regulations, counties are accountable to the USDA to assure that both the counties and their sales agents collect the appropriate amount of money from each recipient to pay for food stamps, and that the money is deposited at a Federal Reserve Bank on a timely basis. However, the counties are precluded from knowing, until long after the fact, whether or not their contracted agents have made the deposits as prescribed. For example, auditors in Los Angeles County recently discovered that one of their sales agent corporations failed to deposit all funds collected from food stamp recipients during the period between January and June 1973. In this case, sales agent collections exceeded deposits by \$135,000.

The timeliness of sales agents deposits should not be determined by audits alone. It is important for counties to know *promptly* when their agents' deposits are delayed or are insufficient to account fully for collections, since these are often indications of bad management and, in some cases, of impending bankruptcy. In addition, the magnitude of funds involved is so large that interest earned by foot-dragging depositing agencies represents a substantial loss to the taxpayer.

On January 1, 1974, USDA implemented new instructions and forms for depositing cash receipts. While the new form, and the accompanying procedures, will substantially improve the capability of USDA to monitor the accountability of agents, it will not give timely information to *counties* regarding the depositing practices of their agents.

RECOMMENDATION

1. Revise the federal cash deposit system so that the Federal Reserve will send immediate confirmations of deposits both to the agent and to the state or county.
2. In order to assure timely deposits in appropriate amounts by contracted agents in California, revise agent contracts to impose fiscal sanctions against those sales agents who do not meet depositing requirements; also specify in the revised contract that monies received from recipients

in payment for food stamps become federal funds immediately upon receipt by the agent, and that these funds may not be used even temporarily for individual or corporate profit.

Food Stamp Coupons

PROBLEM

The counties are not notified of the values of food stamp coupons which are ordered by, shipped to, and received by food stamp sales agents.

DISCUSSION

The problems surrounding accountability for food stamp coupons are very similar to those discussed above with respect to deposits of cash collections. Counties are held totally accountable by the Federal Government for all coupons shipped to county sales agents. Yet, USDA does not inform counties of the values of the coupons which are ordered by, shipped to and received by these agents. Based on the size of the food stamp caseloads of the counties contracting for the sale of food stamps, it is estimated that an average of \$10 million per month in food stamp coupons is received by agents in this uncoordinated manner.

In many respects USDA has made significant improvements regarding the logistics of the delivery and receipt of coupons. However, the problems of USDA adjustments to coupon requisitions, and USDA-contracted armored car deliveries without an appropriate receiving point signatory, remain. For example, in one case \$2,476,000 in food stamps was delivered to a county welfare department after hours. They were signed for by a night watchman. In another case, \$455,200 in food stamps was delivered to a county welfare department, and after the janitor refused to sign the receipt, the coupons were dropped off, instead, at the sheriff's office.

RECOMMENDATION

1. Revise federal food stamp coupon shipment procedures to:
 - a. Insure that the state and/or the counties receive copies of the "Advice of Shipment" form from USDA when coupons are shipped to and received by food stamp sales agents.
 - b. Inform the state and/or counties each time an agent's monthly coupon order is adjusted regardless of whether the change is at the agent's request or at USDA discretion.
 - c. Centrally compute the adjustment that should be made to the agent's monthly coupon order and appropriately notify both the agent and the state and/or counties each time there is a change in food stamp coupon allotment tables.
 - d. Assure that armored car deliveries are made only to persons authorized by the sales agent to sign a receipt acknowledging the shipment.

Reconciliation of Records

PROBLEM

The Federal Government's failure to provide the states and the counties with adequate procedures for prompt reconciliation of food stamp records makes it very difficult to keep track of food stamp transactions.

DISCUSSION

A final monthly comprehensive reconciliation by counties and the Federal Government is needed to tie together all of the various records related directly, or indirectly, to the disbursement of food stamp coupons. As mentioned above, however, USDA has not yet provided a system whereby the state and/or counties may promptly verify that sales agents have appropriately deposited to the Federal Reserve. Nor has USDA yet provided a system whereby coupon shipments received by agents may be verified.

RECOMMENDATION

1. Conduct state reviews of county practices regarding the monthly final reconciliation of records, and assist the counties in improving their reconciliation practices.
2. Revise federal procedures to provide the state and/or counties with the results of the USDA monthly reconciliation of central records.

U. S. Postal Service

PROBLEM

Starting next January 1, the state and the counties will be made financially liable for food stamp losses by the U. S. Postal Service.

DISCUSSION

Currently 176 postal issuance sites operating in 13 California counties are under contract as food stamp issuance agents. The contracts currently in force are acceptable, but the state and the counties which are served by the Postal Service have been given notice that these contracts will not be renewed beyond December 31, 1974.

The USDA and the U. S. Postal Service have agreed to new contract terms, however, that are totally unreasonable. For example, the new terms would hold the Postal Service harmless for virtually any of its own losses, and would instead place the financial responsibility on the states and counties. The irony of this is that the Food Stamp program is a federal one. The states and the counties only administer it locally.

The Western Regional Postmaster General has been very cooperative with California in pursuing an equitable short-term solution to this problem. However, the problem can only be resolved through affirmative action in Washington, D.C.

RECOMMENDATION

1. Reopen federal negotiations in order to eliminate the unreasonable conditions under which, and *only* under which, the U. S. Postal Service will agree to continue as a food stamp sales agent.
2. If necessary, amend federal food stamp regulations or the Food Stamp Act of 1964 to provide:
 - a. A Congressional mandate requiring the Postal Service to serve as a food stamp sales agency upon request by a state or county.
 - b. That the Postal Service be held accountable for cash and coupons over which only it has control.
 - c. That sales agent transaction fees paid to the Postal Service by the counties be set at a reasonable rate so as not to exceed 10 percent above actual add-on costs to the Postal Service pursuant to providing this service.

Repayments

PROBLEM

The Federal Government requires cash repayments to the government by food stamp recipients for the over-issuance of food stamps to them in a prior month.

DISCUSSION

The federal policy of requiring that repayments for prior month over-issuances be made only in cash represents a double hardship for the current food stamp recipient. First, any cash repayment reduces the household's available cash for meeting *all* needs. Second, by reducing the household's available cash, the household is placed in jeopardy of losing its current legitimate entitlement to receive Food Stamp program benefits because less cash is available to meet the full month's food stamp purchase requirement.

RECOMMENDATION

Revise federal instructions to allow repayments for food stamp over-issuances to be made in food stamp coupons as well as cash.

CHAPTER FIVE: CRIMINAL ACTIVITIES

The last major source of problems in the Food Stamp program is perhaps the most vexing. It deals with the willful diversion of public funds for personal gain. Many of the recommendations already presented will help control criminal activities. For example, stricter accountability for cash and food stamp coupons, and improved food stamp coupon delivery procedures will reduce the capability for theft and related lawbreaking. The elimination of eligibility loopholes and the implementation of an Earnings Clearance System for certain nonwelfare households will enhance government's ability to detect and prosecute persons who are wrongfully obtaining food stamp benefits.

The reduction of criminal activities also should be pursued through concerted, joint federal/state/county efforts.

State/County Investigations

PROBLEM

The state and the counties must pay the cost of retrieving food stamp losses, but the retrieved losses must be turned over in their entirety to the Federal Government.

DISCUSSION

Before states and counties across the nation can be expected to pursue vigorous action to recover Food Stamp program losses, they must be given reasonable incentives for undertaking such action. Under current law, the entire cost of collecting losses must be borne by the states and the counties themselves. However, all the funds they collect must be turned over to the Federal Government. The Federal Government, under recent legislation, *may* begin to pay 50 percent of the cost of investigations and prosecutions, but even this is no substitute for full assumption of investigative and recovery responsibilities.

RECOMMENDATION

Amend the Food Stamp Act of 1964 so that the cost of investigations, prosecutions, collections of federal funds and related activities will be borne entirely by the Federal Government.

Misuse of Negotiable Instruments

PROBLEM

It is difficult to detect food stamp fraud because there is no systematic means for food stamp sales agents positively to identify legitimately certified recipients, and because food stamp coupons, identification cards and the authorization to purchase cards are easily forged or counterfeited.

DISCUSSION

Food stamp recipients currently use an identification card to prove who they are to food stamp sales agents. However, the card now in use does not even include a personal photo which would prove conclusively that the person attempting to buy or use food stamps is the person named on the card. This situation leaves the door open to individuals who have illegally obtained an identification card through forgery, theft, or other means to obtain food stamps.

Occasionally, a county employee is caught manipulating the Food Stamp program's intricate systems and processes for personal gain. In some instances, county workers have been prosecuted for setting up "dummy" cases in order to obtain food stamps for themselves. Recently, the Federal Government demanded repayment by a county of over \$35,000 which allegedly was embezzled by an employee.

In another case, a county worker was able to obtain more than \$12,000 by forging food stamp identification and authorization to purchase cards and using them to purchase food stamps. He would give the food stamps to two privately employed accomplices who would deposit the stamps into their company accounts in place of money they received for goods.

Fortunately, embezzlement represents only a small part of food stamp-related crimes. In most cases, the unlawful use of food stamp coupons, identification cards and authorization to purchase cards does not involve government employees. In September, 1970, two men walked into a county welfare department during the lunch hour and stole food stamp identification and authorization to purchase cards. Using these cards, they and 12 accomplices were able to purchase food stamps valued in excess of \$50,000 from a local bank.

These examples illustrate the difficulties which accompany the present identification and authorization to purchase card process. The legitimate food stamp recipient must be able positively to identify himself if the integrity of the Food Stamp program is to be protected. Institution by the state of a system of photo-identification cards and improved design of Authorization to Purchase cards for food stamp recipients will greatly reduce opportunities for forgery and alteration. The importance of vigorous prosecutions in criminal cases cannot be overstated. All levels of government must also enforce strict fiscal management and accountability for all negotiable instruments.

Counterfeiting is a related problem of potentially serious impact. In May 1974, three persons were arrested in connection with the counterfeiting of food stamp coupons. Federal agents also confiscated \$1,300,000 in bogus \$5 coupons, printing equipment, plates and negatives—the largest seizure of its kind in U. S. history. The coupons, judged by federal authorities to be of very good quality, were apparently being prepared for shipment to Chicago and the East Coast.

The illegal sale of food stamps in exchange for cash or goods also has become a problem of major proportion. Seventy-five separate incidents of illegally trafficking in food stamps in California have been investigated by federal authorities during the past 18 months. In addition, 22 retail markets in California have been disqualified for selling nonfood items, such as liquor or tobacco, in

exchange for food stamps. This is estimated to be only a small fraction of the actual number of occurrences.

The high negotiability of food stamp coupons makes it virtually impossible to control "black market" trafficking. The fact that food stamps are not manufactured to the same rigid standards as currency also makes them relatively easy to counterfeit. However, to solve the counterfeiting problem by printing food stamps like currency would be costly and could make the coupons even more negotiable than they are already, thereby compounding the problem of illegal trafficking.

The solution is to make food stamp coupons less negotiable and provide a more direct linkage between coupons and food stamp identification cards. This suggests a "warrant" system, much like modern day travelers' checks. The food stamp warrants would bear the recipient's name, address and case number. Validating countersignatures would be required at time of use. Used in conjunction with the recipient's photo-identification card, it would be relatively difficult for unauthorized persons to cash them at grocery stores, reducing opportunities for "black market" traffickers to fence food stamp warrants within the retail market system. The same logic applies to reducing opportunities for food stamp counterfeiters: To be successful, a counterfeiter would either have to manufacture both the identification cards *and* their corresponding food stamp warrants, or he would have to have a direct outlet of legitimate food stamp recipients and print the warrants to match their identification cards. In either case, the counterfeiting process itself would be made more difficult, and the number of available avenues for moving counterfeit warrants within the retail market system would be reduced if not eliminated.

RECOMMENDATION

1. In California, initiate a new system of identification which will include:
 - a. the use of laminated photo-identification cards by all persons obtaining food stamp benefits; and
 - b. the redesign of Authorization to Purchase cards to reduce or eliminate opportunities for forgery and alteration.
2. County welfare departments should enforce strict internal controls for the food stamp identification cards, Authorization to Purchase cards and food stamp coupons they handle. Employees using these instruments for personal gain should be vigorously prosecuted.
3. The state and counties should publicize penalties and successful prosecutions for the misuse of food stamp coupons, identification cards and Authorization to Purchase cards.
4. The Federal Government should replace food stamp coupons with food stamp warrants which would bear the recipient's name, address and case number, require a countersignature at time of use, and be negotiable at authorized markets only when presented with the matching photo-identification card.

PART III: THE AFDC PROGRAM

CHAPTER ONE: AFDC RECIPIENTS WITH INCOME

The Aid to Families with Dependent Children Program permits a welfare family to have outside income and still receive a welfare grant. The intent is to encourage welfare recipients to find jobs. This encouragement takes the form of incentives which consist largely of exempting part of the earned income when determining the amount of the welfare grant. These exemptions allow a working recipient to raise his standard of living over that of the non-working recipient. The laudable premise which underlies this concept is that if the recipient finds work he will be able to leave the welfare rolls. However, without very careful controls the provisions carrying out the concept can lead to abuse. A myriad of complexities, and the manner in which income exemptions can currently be used to keep a working recipient and his AFDC family on the welfare rolls, often defeat the purpose for which the work incentives were established. Instead of promoting a family's independence, outside income exemptions sometimes serve as an incentive to keep the family on welfare indefinitely.

The primary income exemption is the federally-required "30 and $\frac{1}{3}$ " gross earned income exemption. This provision exempts the first \$30 of a recipient's gross earned income plus one-third of the remaining income.

The primary deficiency with this concept is the absence of a gross income limitation and the absence of a durational limitation. Recipients with high earnings can continue to draw aid for an unlimited length of time. The 30 and $\frac{1}{3}$ rule also is unrealistic when extended to recipients who reapply for aid within four months of having left the welfare rolls.

During June 1971, due to an unusual sequence of court rulings, the State of California terminated aid to 27,500 nonneedy persons who were on aid for five consecutive months solely because of the 30 and $\frac{1}{3}$ gross earned income exemption. Subsequently, due to a further court order, the state contacted each of these individuals and gave them the opportunity to have their aid reestablished. Over 18,000 of these fully employed nonneedy persons chose not to go back on welfare.

Another deficiency of the generous income exemption system was that it created a great disparity between families with needy children. This inequity culminated in 1970 when California families with other income and resources were receiving at least 100 percent of their unmet needs while totally destitute families were receiving only 61 to 71 percent of their minimum subsistence needs. As indicated in Part I, many of these inequities were eliminated upon the enactment of the Welfare Reform Act of 1971. A major effort was made so that as much income and resources as permitted by federal law would be recognized in the eligibility and grant determination process. Philosophically, California changed from a state which would grant income exemptions to the maximum permitted by federal law, to a state which would recognize an income exemption only when required by federal law. The resulting savings were then redistributed to *all* recipients on an equitable basis. While California has made

substantial progress in this area, there are still deficiencies remaining which justify changes in federal law and regulations.

The other major category of exempt income is work-related expenses. These include mandatory withholding deductions such as income tax, Social Security and union dues, as well as personal expenses such as child care, transportation and uniforms, which are directly related to the job.

While the Welfare Reform Act allowed California to administratively tighten up the recognition of work-related expenses, there is much that Congress should still do in this area, especially relating to the amount of computation associated with work-related expenses.

A major flaw of the exempt income system is the application of the 30 and $\frac{1}{3}$ exemption against *gross* income instead of *net* income. By using *gross* income, work-related expenses are deducted not once, but twice.

These problems are discussed in the following pages.

Gross Income Limitation

PROBLEM

Welfare recipients with jobs which pay as high as \$1,200 per month can continue to draw welfare checks because there is no limit on the amount of income a recipient can earn and still stay on aid.

DISCUSSION

Income exemptions in welfare rules are supposed to provide incentive for AFDC recipients to become fully employed and leave the welfare rolls. However, it does not usually work that way. A working welfare recipient who obtains a relatively good job can remain on the rolls because of federally mandated exemptions. These exemptions include the first \$30, plus $\frac{1}{3}$ of the remainder of gross income, plus many work-related expenses including child care, transportation, work uniforms and union dues. The effect of these exemptions is to allow persons to remain on welfare long after high income has been attained.

Present exemption provisions are also inequitable. Imagine two secretaries sitting side by side, each has two children and no husband, each earns \$600 per month. If one had been unemployed and a welfare recipient before she found her job, she may still be receiving a welfare grant of \$262 per month. *This is the same amount she was receiving while unemployed.* The other secretary, with identical family needs, is not and cannot be receiving welfare. The difference? The second secretary has never been on welfare. If she applied, she would not be entitled to all of the exemptions that enable the first secretary to continue receiving welfare payments. The inequity does not stop at \$262. As a result of being a continuing welfare recipient, secretary #1 can receive food stamps and complete medical care under the Medi-Cal Program. Secretary #2 receives none of these benefits. Instead, she pays taxes to help provide them.

A recent survey found that Los Angeles County welfare rolls included over 1,600 persons earning \$600 per month, or more. In another county, a recipient earlier this year was receiving a \$282-a-month welfare check and earning a gross

monthly income of \$1,110. Again, federally required exemptions and work-related expense allowances permit this to happen.

These situations make it clear that some limit on earnings must be imposed. Recipients who have achieved a wage level significantly above their basic needs cannot be allowed to stay on the welfare rolls indefinitely.

The remedy: When a working welfare recipient attains gross earnings in excess of 150% of the family's actual need (as indicated in the State's Minimum Basic Standard of Adequate Care Table), the family should no longer be eligible for welfare. A gross earnings cap on eligibility could save the taxpayers as much as \$52 million a year in California alone.

RECOMMENDATION

Amend the Social Security Act to allow for a gross income eligibility limitation of 150% of the welfare family's total needs.

The Four Month Rule

PROBLEM

Working, nonneedy AFDC recipients can get on the welfare rolls and remain there indefinitely due to the application of the 30 and $\frac{1}{3}$ earned income exemption.

DISCUSSION

When a parent who has never received AFDC payments applies for welfare, his family's need is determined by a financial eligibility test which considers gross income, minus work-related expenses, in relation to the need standard for the family unit. If this amount is less than the family's minimum needs, and the family is deprived in some way of the full support or care of one parent, the family is eligible for AFDC. However, when an individual who *has been* on AFDC in any one of the four preceding months *reapplies* for aid, eligibility is determined in a very different manner: Gross income is considered, but *minus the 30 and $\frac{1}{3}$ exemption* and minus work-related expenses. The result is that a nonneedy family can receive aid by virtue of their former eligibility.

Furthermore, this nonneedy family can continue to receive aid indefinitely because there is no time limit on the 30 and $\frac{1}{3}$ exemption.

This is not reasonable. The purpose of the 30 and $\frac{1}{3}$ exemption is to motivate welfare recipients to find employment and provide for their own needs. Once this has been accomplished, the 30 and $\frac{1}{3}$ exemption has done its job and should no longer apply.

The problem can be solved by applying the 30 and $\frac{1}{3}$ earned income exemption for no more than four consecutive months. Any recipient who has earned income in four consecutive months would have his need redetermined every subsequent month without benefit of the earned income exemption. If he is still needy without the exemption, his grant would be determined by using the 30 and $\frac{1}{3}$ exemption.

RECOMMENDATION

Amend the Social Security Act to require eligibility to be redetermined without benefit of the 30 and $\frac{1}{3}$ exemption for (1) any individual who has earned income in four or more consecutive months, and (2) any applicant or re-applicant.

Excessive Income Exemptions: Gross Vs. Net

PROBLEM

Because the "30 and $\frac{1}{3}$ " earned income exemption is applied to gross income rather than net income*, employed AFDC recipients can exempt 133% of work-related expenses* from their earnings. The exemption is so great it actually encourages recipients to maximize their work-related expenses in order to receive higher welfare payments.

DISCUSSION

The major flaw in the exempt income system is the application of the 30 and $\frac{1}{3}$ exemption against gross income instead of net income. By using gross income, work-related expenses are in effect deducted not once, but twice. Instead of allowing a full, 100% exemption for work-related expenses, the gross income base permits a double exemption which totals 133%.

Here is how it works. After a standard \$30 exemption, $\frac{1}{3}$ of the recipient's gross income is exempted in calculating his income for welfare purposes. This gross income includes money covering work-related expenses, hence $\frac{1}{3}$ of the recipient's work-related expenses are exempted at the outset of the exemption process.

Then, 100% of the recipient's work-related expenses are exempted. This is the second time work-related expenses have been exempted. Both exemptions add up to 133%.

The effect is to encourage the recipient to convert as much spendable income as possible into work-related expenses (to benefit from the double exemption) and make the total exemption even greater.

Why? The greater the exemptions, the larger the welfare grant.

The effect in terms of cost to the taxpayer is more than \$28 million in California alone. Most significantly, this "extra" money goes to welfare recipients who are least needy—those with jobs and related income exemptions. It would be far more equitable to redistribute \$28 million to those recipients who have the greatest need.

Under the gross income method, when work-related expenses of an employed recipient increase, the welfare grant is increased by the same amount. When a recipient pays out money for anything he can class as a work-related expense, he can virtually spend with abandon, knowing that whatever is spent will be made up to him 100% in a higher welfare grant. He may choose private transportation to public, or expensive child care facilities to a more modest variety.

* The term "work-related expenses" includes all allowable expenses and deductions. Net income is gross income less work-related expenses.

Or he may spend on work-related items which he really does not need at all. These and other kinds of personal expenses can be readily increased by the recipient to yield the benefits of an increased exemption, at the same time significantly increasing the cost of welfare.

The recipient is similarly encouraged to manipulate payroll deductions. For instance, state AFDC regulations require a recipient to claim the maximum allowable number of income tax exemptions. The intent is to maximize the paycheck and minimize the welfare grant. However, if the working recipient takes the fewest possible income tax exemptions, his take home pay is smaller and his grant goes up correspondingly. By using this tactic, the working welfare recipient can get a large income tax refund, neglect to report it, and then spend it without any of the tax refund being deducted as income from his grant payment.

If the net method were used, a reduction in work-related expenses would reduce the grant. But the reduction would be less than the actual expense decrease and the recipient would keep the difference. Therefore, the "30 and $\frac{1}{3}$ against net" method would financially encourage the recipient to reduce expenses. And it would continue to promote the underlying aim of encouraging recipients to find work.

Use of the net method would also result in significant administrative savings since less time would have to be devoted to keeping track of work-related expense claims. Recipients would seek to minimize expenses on their own. (Examples below and on the following page illustrate the gross vs. net argument, assuming maximum payment level (\$311) for a family of four is used.)

RECOMMENDATION

Revise federal regulations to allow the 30 and $\frac{1}{3}$ exemption to be applied against net income.

30 $\frac{1}{3}$ Exemption Applied to Gross Income		30 $\frac{1}{3}$ Exemption Applied to Net Income	
Example A: \$600 Gross Earnings and \$180 Work Expense			
Gross Income	\$600	Gross Income	\$600
30 $\frac{1}{3}$ Exemption	-220	Work-Related Expenses	-180
	380	Net Income	420
Work-Related Expenses	-180	30 $\frac{1}{3}$ Exemption	-160
Income Deducted from Maximum Payment Level	200	Income Deducted from Maximum Payment Level	260
Grant	\$111	Grant	\$51
Cash to Family (Net Income plus Grant 600 - 180 + 111)	\$531	Cash to Family (Net Income plus Grant 420 + 51)	\$471
Total Resources (600 + 111)	\$711	Total Resources (600 + 51)	\$651

CHAPTER TWO: IMPROPER BENEFICIARIES OF PUBLIC ASSISTANCE

Many AFDC recipients should not be on the welfare rolls. Here are some reasons why.

- In 1971 California expressed concern over the disproportionate number of alien immigrants who continue to apply for and receive AFDC benefits in California. The federal government controls all aspects of entry of aliens into the country and then requires the states to fund welfare programs to aid many of these noncitizens, even though the states and the counties have no voice in determining immigration policy, admission or citizenship standards.
- Under federal AFDC program provisions, strikers are allowed to apply for and receive welfare, thus helping to prolong strikes and putting government on one side in labor-management disputes.
- Federal and state requirements for the WIN (Work Incentive) program and other employment readiness programs (for AFDC recipients) make sanctions for refusal to seek work impractical and unworkable.
- Fraud prevention, detection and prosecution are not being pursued as fully by the counties as they would be if the counties were receiving a higher share of fraud collections.
- The lack of precision of current state law significantly hampers effective fraud prosecution.

Aid to Aliens

PROBLEM

The federal government, which has sole authority over immigration and naturalization requires the state's taxpayers to pick up a share of the cost of welfare for legal aliens, even though the state has no voice in determining immigration policy, admission or citizenship standards. While federal law prohibits illegal aliens from receiving welfare, the U.S. Immigration and Naturalization Service (INS) is not giving sufficient attention to the legal status of aliens in California, resulting in ineffective implementation of the law.

DISCUSSION

Under the Welfare Reform Act of 1971, California ceased to give aid to *illegal* aliens. Enactment of the law was necessary in order to try to stem the increasing tide of foreign nationals who were surreptitiously crossing the border in hopes of getting on one of California's generous welfare programs. Even though the law is on the books, the provision is still not being effectively implemented. The State Department of Benefit Payments uses what is called a WR-6 referral form when the alien applies for aid. This form is designed to determine the legal status of the alien. INS, due to inadequate staffing and attention to the alien problem,

30 $\frac{1}{3}$ Exemption Applied to Gross Income		30 $\frac{1}{3}$ Exemption Applied to Net Income	
Example B: \$600 Gross Earnings and \$120 Work Expense			
Gross Income	\$600	Gross Income	\$600
30 $\frac{1}{3}$ Exemption	-220	Work-Related Expenses	-120
	380	Net Income	480
Work-Related Expenses	-120	30 $\frac{1}{3}$ Exemption	180
	260	Income Deducted from Maximum Payment Level	300
Income Deducted from Maximum Payment Level	260	Grant	\$11
Grant	\$51	Cash to Family (Net Income plus Grant 480 + 11)	\$491
Cash to Family (Net Income plus Grant 600 - 120 + 51)	\$531	Total Resources (600 + 11)	\$611
Total Resources (600 + 51)	\$651		

The difference in total resources, within each example (\$711 vs. \$651, and \$651 vs. \$611), is $\frac{1}{3}$ of the work-related expenses being counted twice.

Note that under the gross method, cash available to the recipient remains the same after work-related expenses are decreased by \$60. But under the net method, available cash *increases* by \$20 when work-related expenses are reduced by \$60. This is as it should be. *The purpose of the "30 and $\frac{1}{3}$ " exemption is to increase cash available to the recipient, not to increase work-related expenses.*

Standard Work-Related Expense Allowance

PROBLEM

The administrative cost to government of itemizing work-related expenses to compute net earned income is higher than it need be.

DISCUSSION

The use of a standard allowance, based on fair averaging, for work expenses (much like the standard deduction allowed by the federal income tax regulations) would substantially reduce administrative costs and would decrease the amount of grant errors made by eligibility workers.

A standard allowance also would provide an incentive for recipients to reduce their controllable expenses to a level as much below the standard allowance as possible. This would make "extra" cash available to them.

RECOMMENDATION

Amend the Social Security Act to provide for a standard work expense allowance option.

is six months behind in its processing of WR-6's in Southern California, despite the willingness of local INS officials to attempt to solve the problem.

Properly authorized legal aliens comprise yet a different problem. Since 1971, California has taken the position that the federal government should fully fund welfare assistance to legal aliens.

Controlling the entry of aliens into the United States is the responsibility of the United States Immigration and Naturalization Service. The states have no effective means of regulating the number of aliens who either legally or illegally gain entry. Since the federal government controls their entry, and prescribes the conditions and restrictions under which the aliens may enter and remain, the federal government should be required to fully finance welfare benefits for any legal alien who becomes dependent on public assistance. States should not be required to support citizens of another country, when the state and county governments have no effective voice in determining admission and/or citizenship standards.

The noncitizen population in California is slightly less than 5 percent, not including illegal aliens, while legal aliens comprise 5.3 percent of AFDC (Family Group) and 8.9 percent of AFDC (Unemployed fathers). It is evident that aliens comprise a significantly higher percentage of the welfare caseload than that of the general population. Some legal aliens come to the United States to take advantage of the many assistance programs which are far more generous here than in their country of origin. The Immigration and Naturalization Act requires that immigrants not become public charges within five years of their entry into this country under threat of deportation. However, in regard to AFDC recipients this provision of the Act has not been enforceable. A stronger law is required.

If the federal government chooses to continue to staff INS inadequately *and* refuses to amend federal law to permit effective deportation of aliens who receive AFDC, then the federal government should not only take over complete funding of assistance to aliens, but should actually administer and operate the welfare program for aliens. The State and the counties must now administer the program and share in funding it.

RECOMMENDATION

1. The federal government should assume complete responsibility for alien public assistance.
2. INS should staff up to effectively operate the WR-6 referral process.
3. Amend federal law to permit effective enforcement of deportation procedures in alien welfare cases.

Aid to Strikers

PROBLEM

Strikers not only are eligible for public assistance but often retain eligibility for welfare even after the strike is over and they have returned to work.

DISCUSSION

Federal law does not expressly prohibit strikers from obtaining AFDC benefits. They are also eligible for Food Stamps. In states where strikers can qualify for AFDC, the first day of a strike produces an immediate surge in applications. The strikers are generally well briefed by the union staff regarding how, when and where to apply; how much to expect and when. AFDC caseloads continue to increase during the strike until most eligibles have found their way onto welfare. When the strike is ended, however, some remain on the rolls. Due to the 30 and $\frac{1}{3}$ income exemption, deductions for work-related expenses, and other factors discussed in previous sections of this report, some persons may be able to remain on the welfare rolls indefinitely.

In considering the sources available to them, labor unions include welfare. This substantially bolsters the financial position of the union and its ability to prolong a strike. During the 1970 General Motors strike in Michigan, \$14.3 million in AFDC benefits were paid to strikers. It has been estimated that as much as \$150 million per year is spent on AFDC and Food Stamp benefits for strikers.

In diverting public funds away from those who are rightfully entitled to AFDC benefits, the strikers are able to hold out for higher settlements for themselves. Persons at the lowest end of the economic spectrum, such as those on fixed retirement incomes, end up paying the highest proportion of the cost of such settlements.

While a person's right to strike is fundamental, government should not be forced into taking sides in labor-management disputes, but this is what happens when government provides welfare to strikers and thereby prolongs the strike.

In February, 1972, before the United States Senate Finance Committee, California recommended federal action to deny welfare benefits to strikers. At this juncture, either a federal law or regulation can firmly resolve this national problem. Action should be taken to ensure that strikers do not qualify for welfare.

RECOMMENDATION

Amend federal law or regulations to preclude strikers from receiving AFDC benefits.

Sanctions for Employables

PROBLEM

The process of applying sanctions against able-bodied employable welfare recipients who refuse to look for or accept employment is so complex that it is very difficult to effectively administer.

DISCUSSION

The five sanctions now applied are:

1. Making a family ineligible for welfare until the employable parent registers for employment.

2. Making an individual recipient ineligible for welfare if he refuses to register with the state Employment Development Department, accept regular employment or manpower training, or look for a job.
3. Making the family ineligible for welfare during a one-month period if the father fails to report, accept employment, or look for a job.
4. Making an employable WIN program participant ineligible for welfare if he refuses to accept work or training after a 60-day counseling period.
5. Making an employable parent ineligible for welfare from 90 days to a year if he refuses to participate in a Community Work Experience Program (CWEP).

The choice of the applicable sanction depends upon the nature of the violation, composition of the family, the type of program, and other factors.

The item of greatest concern is the federally required Work Incentive (WIN) program sanction which provides for a 60-day counseling period for an able-bodied, employable individual who is certified to the WIN program but refuses to work or participate in a job training program. If the individual accepts "counseling" in this 60-day period, his grant is maintained at the full level, and the only sanction is that the family's basic expenses are paid directly to the landlords and merchants, etc., in lieu of a welfare grant. If, at the end of the counseling period, the individual still refuses to cooperate, he is taken off welfare completely although his family remains eligible for assistance. However, he does have the option of cooperating sometime within the 60 days and if he does so he retains full eligibility. This sanction is simply not an effective administrative tool for insuring that AFDC recipients actively pursue employment. The process actually tends to encourage a lackadaisical attitude on the part of the recipient, and increases the administrative costs associated with both the counseling period by social workers and the time-consuming matter of providing basic aid to the family in lieu of a cash grant. The WIN counseling program has had a very poor record in encouraging employables to seek and obtain jobs. An employable recipient can learn the ins and outs of the game and manage to retain his eligibility while successfully avoiding either employment or job training.

In addition, the WIN sanction is unfair to other employable AFDC parents who may not be able to get into the WIN program. They are subject to immediate sanctions if they refuse to accept employment, job training or participation in a CWEP activity, depending upon their own case.

The inequities which result from this complex sanction process emphasize the need for simplification. This can be accomplished through combining the five sanctions into two. The first sanction would be for all AFDC Unemployed fathers (AFDC-U) who flatly refuse a regular job, to seek work or accept training. The sanction removes the entire family from welfare for 30 days. The other sanction would apply to AFDC Family Group (AFDC-FG) cases in which the able-bodied employable individual is removed from the welfare rolls and his portion of the family's welfare grant is terminated for from 90 days to a year, depending upon how long he remains unwilling to work. The proposed sanction against AFDC-Unemployed father cases is more stringent because in these cases the father's unemployment is the sole basis of welfare

eligibility. In the AFDC Family Group cases, however, the noncooperating member of the family is the mother or her child. Here, the family remains deprived of parental support or care regardless of whether the sanctioned individual is working.

Even when an individual is taken off welfare, he usually remains in the home and may benefit from the welfare grant to his family, though he is no longer entitled to it. This is a violation of state law governing misuse of welfare funds. The counties can minimize this kind of abuse by establishing procedures to monitor cases like this in order to take appropriate legal action.

RECOMMENDATION

Change federal law to enable a modified sanction process for employable AFDC recipients. In the meantime the federal government should grant California's request for a waiver of federal regulations for this project, so that the state can implement a modified sanction process for employable AFDC recipients.

Fraud Prevention

PROBLEM

County welfare departments have insufficient funds available for maintaining and improving fraud detection, investigation and prosecution efforts.

DISCUSSION

Welfare fraud, while not classified as one of the top crimes in California, accounts for the loss of tens of millions of dollars every year. Estimates regarding the precise percentage of welfare recipients fraudulently receiving AFDC assistance have varied greatly. A computerized crosscheck in 1972 showed that, of the top ten percent of working recipients, there were discrepancies between actual income (based on earnings reported by employers) and reported income in more than 40 percent of the cases. In 1969 the firm of Ernst and Ernst conducted a study with reported potential fraudulent activity in 15 percent of the AFDC caseload.

Approximately one out of every 10 cases on AFDC is currently subject to investigation for alleged fraud. This is not to say that 10 percent of the AFDC recipients are defrauding the system. That has not been established. Nor is it to indicate that the figure might not be higher or lower than the 10 percent figure. However, if one were to hypothesize that 10 percent of the current AFDC caseload was ineligible for benefits, it would mean a loss to the taxpayer of \$93 million per year.

In addition to the state's Earnings Clearance System—which compares the income the recipient reports with the amount reported by his employer—Welfare Reform has brought about many other changes which have had a significant impact on fraud prevention. For example, working recipients are now required to file a standardized monthly income report. Many counties had some form for income reporting prior to this standardized report, but did not adequately handle the income problem. Also, counties are increasingly using the news media to inform the public of their efforts in fraud detection, prevention and

prosecution. Besides keeping the taxpayer abreast of these efforts, fraud publicity serves as a deterrent to recipients who are contemplating or actually engaging in fraudulent activities.

Counties are now utilizing their Special Welfare Investigative Units to a greater extent than before and the State Department of Benefit Payments has been playing an active role in training and providing assistance to these personnel to help them understand both fraud detection and case preparation. The training also includes a review of these units by the Operations Security Office of the Department of Benefit Payments. Once the reviews are completed the counties are informed of shortcomings within the programs. The Department of Benefit Payments sets up regional training, and in certain instances, individualized training sessions to help establish uniform procedures where appropriate.

The Department is presently formulating new regulations to give greater emphasis to the special investigative units in each county and recommend an ideal staff size in relation to the county caseload. Additionally, these regulations call for thorough fraud training for not only investigators but for service workers, eligibility workers, and first line supervisors. Once fraud is suspected it will be required that the case be referred directly to the county investigative unit within five days. Eligibility workers will be required to certify that they have advised applicants and recipients of the possibility of criminal penalties for making false statements or withholding information in order to gain eligibility or increase their grant.

The counties are spending considerable amounts of money to detect, prevent, and prosecute fraud cases. The counties should be aided in defraying costs they incur in investigating and prosecuting these cases. Where welfare has been unlawfully received, the counties, by means of monies collected through restitution, may offset costs they have incurred in obtaining restitution, but only to the extent of their share of the original grant expenditure.

RECOMMENDATION

Amend state regulations and claiming procedures to increase the counties' share of restitution collected in order to provide an incentive to increase staffs and revise procedures to resolve fraud referrals.

Fraud Prosecutions

PROBLEM

Sanctions imposed for welfare fraud have been ineffective. Presently they don't have sufficient provisions for deterrence nor do they provide an incentive to the district attorney to file and pursue criminal charges.

DISCUSSION

Welfare fraud continues to be a costly and continuing problem in California. A number of welfare fraud prosecution problems continue to merit attention to provide for a more effective procedure and for penalties that are in line with commensurate offenses.

Misappropriation of welfare funds, which is prohibited by Section 11480 of the Welfare and Institutions Code, results from conduct whereby the recipient or others utilize the welfare grant for purposes other than for the support of the needy children and the caretaker involved. Presently such an offense is a misdemeanor, regardless of the amount of money so misappropriated.

Section 11482 of the Welfare and Institutions Code makes it a misdemeanor to knowingly make a false statement or representation in order to obtain welfare funds. Although violation of this section is only a misdemeanor, district attorneys often prosecute welfare fraud cases under this section to avoid the restitution requirements of Section 11483. In practically every other area of California criminal law, knowingly making a false statement to mislead, when such statement is required to be truthful, is perjury and is prosecuted as a felony.

When a recipient obtains aid to which he is not entitled, Section 11483 prescribes either felony or misdemeanor prosecution, depending upon the amount of money unlawfully obtained, but requires an attempt to secure restitution prior to the institution of criminal proceedings. Superior Courts in a number of counties have ruled that once restitution is secured, *prosecution is barred*. Other courts have ruled to the contrary. This split of opinion has created a greater burden on the prosecution and has had the effect of curtailing the number of prosecutions sought.

In imposing criminal sentences in prosecutions in which there has been property damage or loss, or personal injury, the courts have conditioned probation upon restitution. This method not only seeks to make the injured parties whole, but punishes the wrongdoer and enhances the integrity of the court by permitting the exercise of discretion. Presently, however, if a person is given probation for such an offense, there is no provision for a fine. Many district attorneys believe that giving the court the power to impose a fine would have a substantial deterrent effect.

Finally, there are instances where the conduct of a person would support a finding that he employed a common scheme or device to defraud the welfare program. If each act were isolated, however, the conduct would constitute only a misdemeanor. It is unclear that the district attorney can accumulate the various offenses to permit a felony prosecution. Specific language would resolve the problem.

RECOMMENDATION

Amend Section 11480 of the Welfare and Institutions Code to differentiate between misappropriations under and over \$200; for those under \$200, retain misdemeanor jurisdiction, and as to those over \$200 provide for felony prosecution.

Amend Section 11482 of the Welfare and Institutions Code to provide for felony prosecution only, to conform to the general Penal Code provisions on perjury.

Amend Section 11483 of the Welfare and Institutions Code to delete the reference to restitution, and provide for imposition of a fine not to exceed \$10,000.

Add new sections providing for the accumulation of offenses in which a common scheme or device can be proven.

CHAPTER THREE: SHARED HOUSING AND NEED— THE SLIDING FLAT GRANT

Before the 1971 Welfare Reform Act, determining a potential recipient's "need" was a cumbersome process. A wide array of facts required special consideration merely to determine whether the need was minimal, special, or continuous, and whether it was recurring or nonrecurring. The number, ages and sexes of the various members of the applicant's household also entered into the determination. These were but some of the factors weighed, balanced, and computed on a virtual case-by-case basis. The system resulted in inequities, abuse and a varied application of standards between different counties and even between different cases within a single county.

California replaced this cumbersome system in 1971 with a flat grant method of assistance payments in AFDC. All minimum, continuous needs (food, clothing, housing, etc.) which were common to a majority of recipients were averaged to produce a single need table varying only by the size of the recipient household. The flat grant system was relatively easy to administer, produced fewer errors, and permitted a more equitable distribution of grant funds to eligible families. With implementation of the flat grant system, monthly grants to needy families increased by approximately 27 percent. The Welfare Reform Act of 1971 also provided for annual cost-of-living grant increases.

The Sliding Flat Grant

PROBLEM

Many AFDC families receive monetary benefit from nonneedy persons living in the household. But this fact is often not considered in the grant determination process.

DISCUSSION

When an AFDC family is receiving outside income, the federal Social Security Act requires that an appropriate amount be subtracted from the flat grant figure to arrive at the correct grant. If this amount is the recipient's earnings, the calculation is simple. It becomes complicated when "income" is the item of need itself, such as free rent provided by someone not a member of the needy family.

Ignoring this "income" results in a payment to the recipient in excess of his items of need. However, it is frequently difficult to establish the proper deduction amount in such "in-kind income" situations. This leads to increased errors with accompanying overpayments and underpayments.

If the amount of in-kind income provided is less than the total monthly requirement for the particular item of need (for instance, if 50% of the rent is paid by someone else), then the grant is not adjusted at all. For example, assume that an AFDC family of four has housing, food and utilities expenses of \$210 a month. A fully employed friend moves into the house and increases these expenses to \$232 a month. However, the friend agrees to pay half these expenses,

\$116. Although the AFDC family's expenses have been reduced from \$210 to \$116 (a savings of \$94), the amount of the grant received remains the same (\$311 for a family of four). The inequity involved is clear—welfare dollars are paying for a need which in part does not exist.

Many unmarried fathers, stepfathers, other relatives and friends are living with AFDC families. They constitute a major source of support for the family. In some instances there is even a legitimate question as to whether the family is actually deprived. In any event, it is clear the family has a resource not being taken into account when determining need. Under present law, no reduction to the level of need may be made to reflect this resource unless the AFDC recipient reports a specific dollar contribution.

The unrelated adult male case constitutes one of welfare administrators' most vexing problems. An unrelated male who moves in with a welfare mother is required by law to contribute to the AFDC family the amount of money he would need to support himself living independently. The aim is to prevent persons who are not needy from living off payments to a welfare family. The male's contribution is used to reduce the welfare grant because his contribution reduces the family's need. However, many of these surrogate husbands do not make direct cash contributions. They may share expenses, though, without this fact being taken into account in determining overall need.

The inequity associated with these cases becomes obvious when one considers that the needs of similar AFDC families which do not have an additional person sharing expenses are computed at exactly the same level.

The sliding flat grant is an equitable improvement of the present system. The flat grant approach recognizes the validity of determining needs on the basis of the number of needy persons in the welfare family. The sliding flat grant takes into account the fact that nonneedy persons may be living in a welfare household and sharing the expenses of the welfare family. The sliding grant is based on the fact that while two cannot live as cheaply as one, the *average* living expenses of each person are certainly less in a shared housing situation. The cost of common-use needs such as rent, telephone and utilities does not rise in direct proportion to additional members of the household. Such common costs increase at a far lesser rate. The sliding flat grant is a mathematically-valid mechanism which takes into account this lower average need. At the same time, it retains in part the advantage which accrues to the family by sharing expenses with the other person(s) in the household.

The sliding flat grant system will provide a more equitable and simpler approach to grant determination in the problem situations which have been described. From a management standpoint, the greatest benefit of the sliding flat grant system will be administrative efficiency. Overall savings in California are expected to exceed \$11 million.

RECOMMENDATION

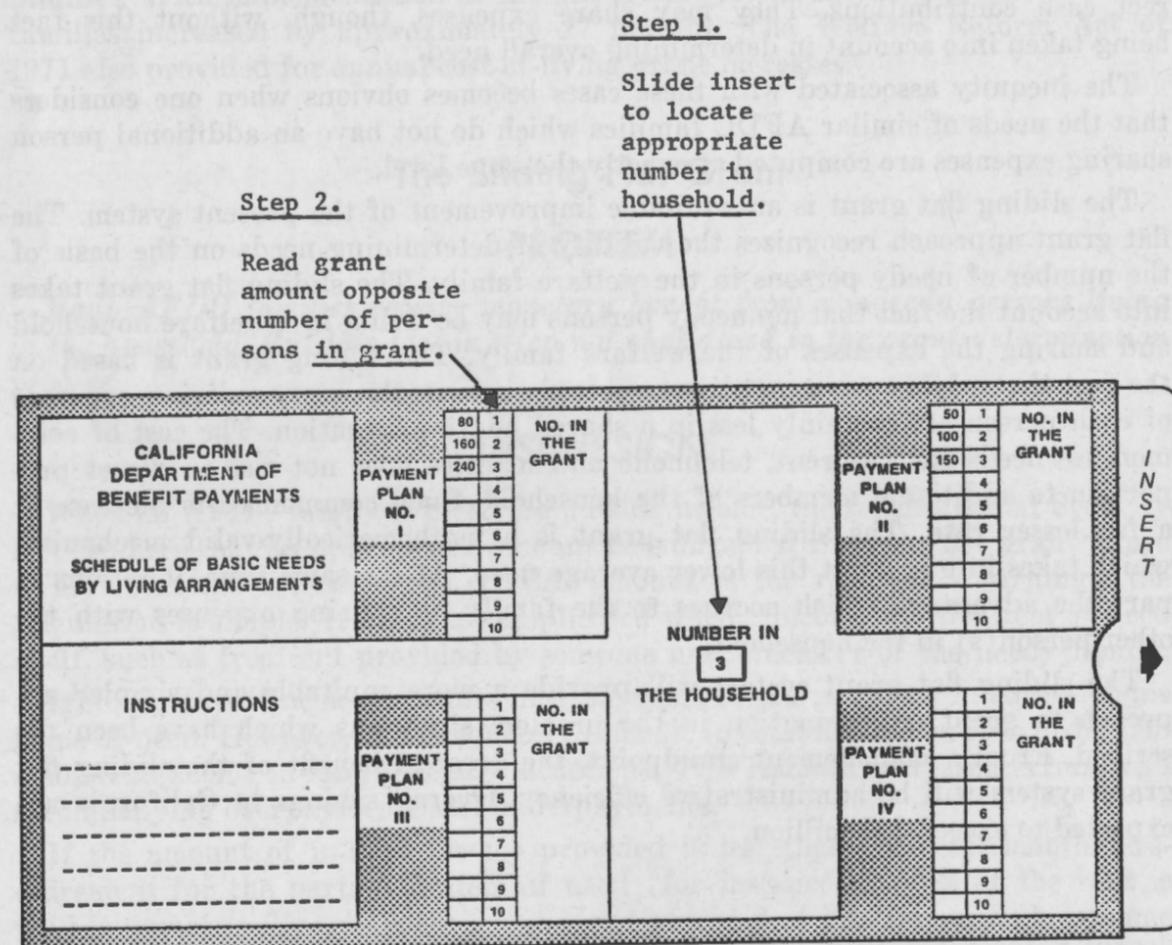
Amend state law to permit use of the sliding flat grant.

SLIDING FLAT GRANT AID

Eligibility workers will be able to quickly determine the appropriate grant by use of the slide rule illustrated on the following page. This slide rule is an opaque plastic envelope with transparent windows. A card insert with varying payment levels slides along the inside of the envelope.

The windows reveal the appropriate number of persons in the household, and the corresponding payment levels depending upon how many of the household persons are in the grant. Payment Plan tables can be constructed for all possible need combinations which may exist. Note: The payment levels indicated on the slide rule are for illustrative purposes *only*.

Sliding Flat Grant Aid



CHAPTER FOUR: RESOURCES UTILIZATION

As indicated in Part 1, considerable progress has been made under the Welfare Reform program concerning the recognition and utilization of resources. However, there still is a need for further state and federal legislation on this subject.

Under current state and federal law, recipients are not always required to fully utilize all income and resources that are available to them. Some recipients who receive large lump-sum benefits still are able to gain these benefits without reducing their ongoing welfare assistance payments. Recipients who receive AFDC grant overpayments are often permitted to retain these overpayments without any future adjustment. AFDC recipients are permitted to retain almost unlimited equity in real property. The families of many California veterans are receiving AFDC benefits paid for by California taxpayers instead of utilizing federally funded veterans benefits to which they are entitled. Legal Aid attorneys who represent AFDC recipients may receive attorney's fees ordered by the courts, even though these same attorneys are funded at public expense and their clients (recipients) have not incurred any expense.

The recommendations which follow are designed to maximize the application of a recipient's resources to meet his needs and to insure that recipients do not receive special awards or payments to which they are not entitled.

Nonrecurring Lump-Sum Benefits

PROBLEM

Even though an AFDC recipient can receive thousands of dollars in a one-time lump-sum payment, he can still stay on the welfare rolls.

DISCUSSION

One of the biggest legal loopholes currently available to AFDC recipients is embodied in the state statute governing nonrecurring lump-sum benefits. These benefits include such items as retroactive payments for Social Security, Railroad Retirement Benefits, Veterans' Benefits, Workmen's Compensation or other private insurance payments. There is presently no way to insure that these one-time payments, to the extent that they represent a "windfall", are spent for any purpose related to the family's needs. Recipients should not be permitted to spend windfall payments frivolously and, at the same time, call upon the taxpayers to meet their needs. The money should be allocated in such a way that the burden on welfare system is relieved to some extent when a lump-sum payment is received.

Now, when lump-sum social insurance benefits are received by AFDC recipients, they are treated as personal property on the first of the month following the month they are received. And any *unspent* balance over \$600 in the next month is considered income. Non-social insurance lump-sum payments are income in the month received and an *unspent* balance in excess of the needs standard is income in the following month. Under this provision, the welfare system is open to such

abuses as recently occurred when an AFDC unemployed father received a \$5,650 retroactive social insurance benefit and proceeded directly to the gambling tables at Lake Tahoe. Since he had none of that income left on the first of the month following the month of receipt, the \$5,650 could not be considered in computing the family's grant.

The practice of allowing some recipients to retain both aid payments and lump-sum benefits—which are usually recoveries of past living expenses—is extremely inequitable when one considers the reduction or denial of aid to individuals who receive ongoing living expense allowances from the same sources. For example, an individual who receives monthly temporary disability payments pending the resolution of a workman's compensation claim will be ineligible for aid or will receive a correspondingly reduced aid payment. Yet another individual who receives only a lump-sum payment for his living expenses can remain eligible for welfare and spend the entire lump-sum payment with no reduction in his welfare grant. This places undue importance on the timing of payments received from other sources. In fact, it is possible for an AFDC recipient to delay receiving social insurance benefits, (by not applying for them on a timely basis) in order to obtain duplicate benefits at taxpayer expense.

There are two remedies for this situation which should be made available to the counties. Enactment of a state statute authorizing recovery of aid payments made to individuals who receive lump-sum benefits for any past living expenses duplicated by AFDC would allow the state to consider this lump-sum income retroactively. There already is legal provision for such treatment of lump-sum payments in other aid programs. For example, General Relief and Medi-Cal payments made on behalf of recipients can now be recouped from lump-sum recoveries subsequently received by those recipients. Several states have enacted legislation specifically authorizing recovery of aid from a variety of lump-sum payments obtained by AFDC recipients. These authorizations for recoupment have been upheld by the United States Supreme Court.

Second, federal and state law should be changed to allow the counties to consider all lump-sum income from any source as available to meet the *ongoing* needs of the recipient when the lump-sum payments do not duplicate past welfare payments. For example, a family which becomes eligible for AFDC due to the death of the father in one month, and which receives a life insurance benefit in the next month, should be required to spread the insurance benefit at the rate of the AFDC need standard until the benefit is exhausted. Currently, such a family can spend the entire benefit immediately upon receipt and remain on the rolls.

RECOMMENDATION

1. Amend the State Welfare and Institutions Code to require all lump-sum payments received as recoveries of past living expenses to be used to offset past welfare payments.
2. Amend federal law and the State Welfare and Institutions Code to require lump-sum benefits which do not duplicate past aid payments to be spread over a period of time—consistent with the need standard—until the benefit is exhausted.

3. Explore all possible means of insuring that lump-sum benefits be available to meet current and future needs including: 1) A legal agreement between the recipient and the county establishing that the benefit will be apportioned at the need standard in future months, and 2) A trust fund to hold the benefit to meet ongoing needs.

Overpayment Adjustment

PROBLEM

Federal law and regulations and California's statutes governing overpayment adjustment allow recipients to keep erroneous aid payments.

In situations where no hardship will be created, the counties should have authority for recouping overpayments made to recipients who neglect to report some change in their circumstances which significantly reduced their need for aid. Federal regulations hold that such overpayments cannot be adjusted unless the recipient "willfully" failed to report a significant change in circumstances, or has some current resource such as exempt earned income or money in the bank. The intention of the AFDC recipient, which is very difficult to determine, should not be a governing factor in overpayment adjustment. The evaluation of intent—that is, trying to determine whether a recipient "willfully" failed to report—is not a reasonable administrative process.

Also, California should revise its overpayment adjustment statutes on administrative inadvertence overpayments. These overpayments occur because the counties make errors in grant computations or because their computers slip a cog and send a recipient more than one aid payment at a time. The latest court ruling on the present state overpayment statute requires that recipients be allowed to keep these overpayments and prohibits counties from making any grant adjustments to recoup them. This results in an excessive expenditure of welfare monies.

RECOMMENDATION

1. Amend federal law and regulations and state law to allow adjustment of overpayments from the grant, regardless of fraudulent intent and regardless of administrative inadvertence.

Real Property

PROBLEM

Present state law places no practical limitation on the value of a home an AFDC recipient may have and still draw welfare, because of a defect in the property formula.

DISCUSSION

The Welfare and Institutions Code requires that AFDC recipients own no real property with an assessed value, minus encumbrances, of more than \$5,000. However, assessed value is defined as one-quarter of the market value established by the county assessor—a \$20,000 home has an assessed value of \$5,000. The same

one-quarter division is not applied to encumbrances. The encumbrance on real property relates logically to market value, not the assessed value. When encumbrances are subtracted from assessed value, an illogical value results. In fact, the majority of non-welfare Californians probably have real property within the AFDC limitation. The statute permits an AFDC recipient to retain eligibility while holding a \$40,000 home with a \$34,000 equity. The fact is, present statutes permit an unwarranted accumulation of equity in real property by persons who continue to receive welfare. Moreover, persons who actually have available assets which can be utilized to meet their own needs are permitted to stay on the welfare rolls.

RECOMMENDATION

Amend state law to limit real property for AFDC recipients to no more than \$20,000, computed at market value minus encumbrances. If assessed value is used (a \$5,000 limit) then encumbrances should also be divided by four.

Personal Property

PROBLEM

California's personal property regulations have recently been weakened to the extent that AFDC recipients can possess expensive cars, stereo systems, color television sets, period furniture, and sterling silver and still remain eligible for full welfare benefits.

DISCUSSION

The Welfare Reform Act of 1971 included personal property limitations which were intended to function as a lid on personal assets. Prior to passage of the Act, the personal property limitation was \$600. This included cash, securities, cash surrender value of insurance policies, instruments of indebtedness and any automobile not exempted for a plan of self-support.

The Welfare Reform Act retained the \$600 limitation and specified that no more than this amount could be retained as cash or liquid assets. The package then established a \$1,000 limit for all other personal property except:

- 1) All household furnishings with a combined gross value of less than \$1,500.
- 2) Items used to provide, equip or maintain a household with an individual gross value of less than \$300.
- 3) Tools or equipment required in a plan of self-support with a gross value of less than \$200.
- 4) Automobile(s) with a gross value of less than \$1,500.

The gross value test for the automobile was immediately enjoined in the *Rojas v. Carleson* case. The gross value tests for household items were upheld in the *Wheat v. Hall* case but the gain was almost immediately offset by AB 134 which required consideration of the net market value of household items. The assessment of net market value requires inclusion of all allowable encumbrances

and depreciation. This computation is not only cumbersome, it also undermines the intent of the personal property limitations.

These limitations were designed to insure that AFDC recipients did not retain valuable personal property which should more appropriately have been utilized to meet their ongoing needs. Such items as expensive automobiles, stereo systems, color television sets, and other expensive household furnishings were, under the gross limitation, to be considered resources to be converted to cash and utilized to meet living expenses before AFDC eligibility could be established. The limitation as modified by AB 134 allows AFDC recipients to retain personal property with unlimited gross value so long as the items are sufficiently encumbered to have a net market value within the limitations. AFDC recipients can now own or assume obligation to pay for expensive cars, home entertainment systems, period furniture, and sterling silver and still remain eligible for full AFDC benefits. Once a recipient has assumed an obligation to pay for a luxury item, he has committed welfare funds to pay for them, even though welfare is intended only to meet an AFDC family's most basic needs.

RECOMMENDATION

Amend state law to return to the original Welfare Reform intent in personal property limitation—gross market value rather than net market value.

Veterans Benefits

PROBLEM

Many AFDC recipients could be receiving substantial veterans benefits but are not. They have not even applied for them. This results in individuals utilizing welfare money when they could be receiving federally funded veterans benefits which, in many cases, would do more to help them become productive members of society.

DISCUSSION

A recent California Department of Benefit Payments study has determined that usually AFDC families eligible for but not receiving veterans benefits are in this situation because they are unaware of their entitlement to these benefits. No comprehensive system exists to inform them of possible eligibility, to refer them to the appropriate veterans office, and to later insure they receive all benefits to which they are entitled. The existing veterans referral system has not been developed fully in this regard. Several large counties have not utilized it at all and most counties have not made full use of it. The state is now in the process of developing a comprehensive Veterans Referral System to correct this situation.

The tragic effect is that a veteran receiving AFDC may not be taking advantage of educational and training benefits which would help him and his family achieve economic independence. The situation is unfortunate from a state's fiscal standpoint because almost all veterans benefits received by an AFDC recipient can be used to reduce welfare costs.

In other cases, unemployed AFDC recipients unknowingly eligible for G.I. educational benefits are being trained under the WIN program. Since there are a limited number of WIN training slots, eligible G.I.s should be encouraged to train or study in schools whenever possible.

To further encourage veterans' educational development, California is revising its regulations on educational loans and grants to exempt from consideration as income that portion of G.I. benefits (and other educational loans and grants) needed to meet educational expenses. This is a departure from former policy which required that the entire benefit be counted to reduce the grant.

RECOMMENDATION

1. Revise state regulations to exempt that portion of any educational loan or grant, including G.I. benefits, which is needed to meet educational expenses;
2. Improve the present Veterans Referral Program to maximize veterans benefits to AFDC families.

Award of Attorneys' Fees to Legal Aid Offices

PROBLEM

Legal Aid attorneys for AFDC recipients may now receive attorneys' fees even though these same attorneys already are employed at public expense and the recipients are represented free of charge.

DISCUSSION

Welfare recipients have the right to a state level administrative hearing to review actions of county welfare departments which terminate, reduce or suspend payments. If the affected recipient receives an adverse decision following the administrative hearing and believes it is not supported by the evidence introduced at the hearing, he may obtain judicial review of the decision by filing a lawsuit in Superior Court.

Section 10962 of the Welfare and Institutions Code provides that if the recipient wins his lawsuit he may be awarded reasonable attorneys' fees which he has incurred. This takes into account the fact that welfare recipients are among those least able to afford the cost of litigation. This law enables the welfare recipient to retain a private attorney to represent him with the assurance that, if successful in the lawsuit, he will be awarded attorneys' fees by the court.

The Department of Benefit Payments believes the intent of this law was that an award of attorneys' fees should not be made to the recipient if the recipient has not paid or incurred any liability to pay for attorneys' fees. If a recipient is represented by an attorney employed by a Legal Aid Office, he obtains representation at no cost. Since he has not incurred any liability to pay for attorneys' fees, court awarded attorneys' fees are clearly improper.

The Legal Aid attorney is an employee of a federally-funded program created for the purpose of providing *free* representation to persons unable to afford private counsel. These attorneys, whose salaries are paid from public funds, are prohibited from charging their clients for their services. They are also precluded by federal guidelines from accepting cases for profit.

Nevertheless, a recent California court ruling held that, on the basis of state law, attorneys' fees can be awarded even when a recipient is represented, at no cost, by a Legal Aid attorney. In that case, the court required the state to reimburse attorneys employed by three federally-supported legal aid groups in California a total of \$18,525, even though the cost of these attorneys' services was fully covered by federal funds.

RECOMMENDATION

1. Amend state law to forbid expressly the granting of attorneys' fees to recipients who are being represented in court at public expense.
2. Revise federal practice to preclude federally-funded attorneys from requesting attorneys' fees from courts at public expense.

CHAPTER FIVE: QUALITY CONTROL

A Quality Control program is one which seeks to insure uniform high quality through comparisons of sample products against a given standard. The quality control concept was developed by and for industry, which continues to make heavy use of this technique.

In 1964 the Department of Health, Education, and Welfare (HEW) adopted a quality control program to assess the accuracy of eligibility determinations and grants of aid in the national welfare program. This initial application of quality control techniques to a social program came at a time when welfare caseloads and expenditures were beginning to rise dramatically.

Initial quality control findings nationally were that numerous AFDC families were ineligible for assistance and that an even larger number of eligible families were receiving welfare overpayments. These findings were not surprising in view of the fact that welfare, as set forth in the 1935 Social Security Act, was designed to deliver maximum benefits to as many individuals and families as possible. For thirty years, the thrust of federal welfare programs was to increase caseloads and benefits. States which most successfully met this emphasis were judged to be the most "progressive."

California's response to the skyrocketing caseloads and welfare expenditures included support of the HEW Quality Control program to reduce administrative inefficiencies while reexamining the basic premises of welfare. In addition to setting up a state Quality Control program utilizing HEW procedures, California undertook a very basic program review which culminated in the Reagan Administration's Welfare Reform Program of 1971.

Since that time, increased emphasis has been placed upon quality control by the federal government.

The original HEW Quality Control program, implemented in 1964, was solely intended to supply each state with performance indicators. HEW determined that target error rates, or tolerance levels for states to achieve, should be no more than 3 percent for ineligible cases and 5 percent for overpayments or underpayments to eligible cases. If error rates exceeded these tolerance levels, state and local welfare agencies were expected to take appropriate corrective action. The incentive for state and local governments to do so was a reduction of their own share of welfare expenditures.

In December 1972, HEW announced a zero defect program to take effect immediately and announced their intention to exclude from federal financial participation all expenditures for payment of aid to ineligible families or overpayments to eligible families. This action represented an abrupt change of direction in the use of quality control findings.

Since most state case error rates far exceeded the original 3 percent and 5 percent tolerance levels and no state expected to immediately effect a zero defect program, discussions between HEW and most states followed announcement of the zero defect program. In April 1973, HEW announced that it had modified its zero defect policy and would implement a program intended to require each state to attain the original 3 percent and 5 percent error tolerance levels by July 1, 1975.

The modified HEW program called for each state to establish a "base error rate" using quality control findings for the April-September 1973 period. Im-

provement was to be measured against this "base error rate" over successive six month periods, beginning January 1, 1974. All states were expected to make reductions of at least one-third of the amount by which their "base error rate" exceeded the 3 percent and 5 percent tolerance levels in each of the three six-month periods. HEW announced their intention to withdraw federal financial participation in payments to ineligible families and overpayments to eligible families by one-third of the amount in excess of the 3 percent and 5 percent tolerance levels during each of the three six-month sanction periods.

In California, the base period (April-September, 1973) findings revealed a case error rate of 8.4% for ineligibility and 17.8% for overpayments. These represented *case* error rates and not *dollar* error rates.

The quality control findings indicated that corrective action should be taken to deal with the problems of welfare administration. These problems ranged from misrepresentation of eligibility and grant entitlement information by AFDC applicants and recipients, to complex regulations affecting administration at the county welfare department level.

Misrepresentation of facts was one of the first areas targeted for corrective action. This continues to account for 25 percent of all eligibility and grant determination errors. A series of report forms were implemented as a component of the Welfare Reform program to provide information needed to correct program administration. County welfare departments now receive complete eligibility and income information on every AFDC family on a monthly basis plus quarterly reports of each family's earned income through the computerized Earnings Clearance System.

Other reports provide the legal residency status of individuals who are suspected of being illegal aliens who are ineligible for AFDC. The reports also provide the means to verify, or place a claim, for AFDC families eligible for veterans benefits. In addition to report forms and procedures, research is being conducted to determine what elements of the quality control case review process can be useful for early detection and correction of errors.

The Department of Benefit Payments also has undertaken a series of activities to provide county welfare departments with the technical information and assistance they need to administer a correct welfare payment program. As examples of these activities, the Department has conducted a series of income training workshops for county welfare staffs, and is following up with technical clarifications of income regulations. Workshops to train county welfare staffs on other complex portions of the program are scheduled for presentation in the future. The Department also has conducted research to determine what skills are necessary for effective performance by eligibility workers. The objective is to assist county welfare departments in recruiting and retaining staff with the skills required to effectively perform as AFDC eligibility workers.

The Department of Benefit Payments is also engaged in an ongoing review of state and federal regulations which contribute to error rates. Revised personal property regulations have been developed. Suggestions for revised federal regulations have been forwarded to HEW for appropriate action. A review of state work-related expenses is currently underway to determine if the incentive for AFDC families to seek work or job training can be retained in these regulations while administrative errors are reduced. The Department also has initiated a program which studies the operations of individual counties. These studies

consist of complete management and systems reviews of county procedures to increase total effectiveness and uniformity of AFDC operations.

Additional programs of corrective action are planned for future implementation. The most significant of these are embodied in the recommendations contained in this report. These recommendations, if enacted, should result in significant reductions in eligibility and grant determination error rates.

While much has been accomplished by the Quality Control program, further improvements are possible to improve quality control as an effective management tool and to assist in the identification of and elimination of payment errors. Areas of improvement include the further examination and refinement of the tolerance levels and manner of application thereof, the development of ways to establish scientifically flexible performance standards to further encourage states to tighten up grant and eligibility requirements, and to tailor quality control to a greater extent to varying operational conditions.

Case Error Rates Versus Payment Error Rates

PROBLEM

The HEW Quality Control program measures a state's performance in terms of the number of caseload errors made rather than the dollar value of those errors.

DISCUSSION

Although the objective of HEW's Quality Control program is the control of incorrect grant expenditures, the index they have chosen for establishing and sanctioning state performance is the incidence of incorrect case actions.

Measuring performance by case error can grossly misrepresent a state's true performance and result in an inequitable application of any associated sanction. States with a higher incidence of case errors but a very low dollar value per error will be penalized more than a state with a low incidence of case errors which may be making a larger total incorrect grant expenditure.

In the current sanction period, preliminary data suggests that California's overpayment case error rate may exceed 15 percent while incorrect grant expenditures resulting from these incorrect case actions will be less than 5 percent. A performance measure based upon erroneous expenditures would more suitably address the problems needing attention and would allow a more productive focus for corrective actions.

RECOMMENDATION

HEW should measure performance based upon appropriate grant expenditures rather than the incidences of incorrect AFDC case actions.

Tolerance Levels

PROBLEM

The HEW Quality Control program utilizes inflexible tolerance levels on a national basis.

DISCUSSION

Although HEW has modified its target dates for achieving specific tolerance levels and the tolerance levels themselves, there are still opportunities to improve the standardized approach by recognizing geographical and urbanization distinctions. Utilizing an inflexible tolerance level results in the same performance standard being prescribed for California as for Nevada, even though California's AFDC caseload is more than 260 times as large as Nevada's. Similarly, it would imply that corrective actions which are appropriate for dealing with problems in the very rural Nevada setting or in rural California counties are equally appropriate and administratively feasible for application in Los Angeles, which is one of the nation's largest cities. It also is possible to scientifically establish realistic area tolerance levels which take into account the operational realities of each administrative level.

Also, tolerance levels currently in use could better reflect the cost-benefit issue with regard to the establishment of welfare staffing levels. The degree of error which can be discovered by a quality control analyst differs significantly from what must reasonably be expected from an eligibility worker in the face of complex and constantly changing regulations.

Flexibility, such as that described above, should reinforce management commitment to reduce error levels and should significantly contribute to achieving maximum error reduction.

RECOMMENDATION

HEW should join California and other states in developing ways to scientifically establish flexible performance standards for state and local welfare agencies which recognize urban and geographical distinctions.

"Boomerang" Effect

PROBLEM

Inflexible quality control can sometimes encourage results which are counter to Welfare Reform objectives.

DISCUSSION

While it may appear that quality control and welfare reform go hand-in-hand, in fact they can sometimes work against each other. Making eligibility and grant determinations more stringent often *increases* the possibility of error. And, seemingly, the easiest way to avoid errors and the federal fiscal sanctions which result is to loosen state eligibility requirements which are more stringent than those required federally. The objective of HEW's Quality Control program—which is applied to a state's total welfare program—is to control incorrect aid payments and payments to ineligible families. California has supported both the program and its objectives. The Welfare Reform Act of 1971, and California's continuing welfare reform efforts, all are designed to achieve expenditure control objectives while assisting families to become self-sufficient.

Those states such as California which have made a rigorous effort to close loopholes in the basic federal program—which cause inequities and inconsistent

program applications—have, of necessity, introduced the most specific and comprehensive regulations in describing their welfare program. Federal quality control methods, when applied to the total state welfare program instead of limiting their review to those portions of the state program designed to insure minimum program conformity, often penalize states which are conducting the most vigorous attempts to limit caseloads and expenditures.

As an example of this problem, 20 percent of ineligible case error findings in the base period from April–September 1973 were attributed to a state regulation designed to insure that AFDC families report and utilize income available to them from income tax returns as an alternative to public assistance funds. This regulation is not specifically required by federal regulations but was implemented to insure that the federal directive requiring utilization of resources was implemented.

RECOMMENDATION

HEW should revise quality control reviews so as to encourage, not discourage, states to have *tighter* grant and eligibility requirements without adverse quality control consequences.

Administrative Complexities

PROBLEM

Administration of welfare continues to be plagued by innumerable complexities, countless forms, and detailed and cumbersome procedural requirements.

DISCUSSION

In addition to the program reforms discussed on the following pages, the AFDC task force which worked on this report presented more than 50 recommendations to streamline and make more cost effective the administrative systems and procedures involved in providing public assistance in California. Close review was undertaken and recommendations developed on the role of the person most critical to the success or failure of effective welfare administration—the on-line eligibility worker. The need for greater uniformity in the administration of the Food Stamp, AFDC, and Medi-Cal programs was also identified as an area of critical concern. The current methods of eligibility determination in these programs are cumbersome to the recipient and the eligibility worker, and costly to the taxpayer. The refinement of the AFDC program regulations to enhance effective administration also was included and will result in a more current and concise direction to those charged with program management.

Many of the recommendations affecting program management are now being implemented. Others will follow. A review of the means of administering public assistance should be a vital element in our continuing assessment of the AFDC program to insure the most efficient use of public funds.

RECOMMENDATION

The Department of Benefit Payments shall continue its thorough-going review and overhaul of regulatory requirements to insure simplified administration, enhance welfare reform objectives and obtain uniformity in the administration of the Food Stamp, AFDC, and Medi-Cal programs.

CHAPTER SIX: FAMILY RESPONSIBILITY

A fundamental goal of the 1971 Welfare Reform Act was to strengthen the role of the family as the basic unit in society. The increasing occurrence of family dissolution has resulted in reliance on public assistance instead of parental support. Absent fathers frequently fail to assume their responsibility for supporting their children. Many AFDC mothers refuse to disclose the identities of the fathers of their AFDC children. Unborn children are aided as persons and/or destroyed through abortion, both with public assistance funds. The following recommendations are designed to help solve these problems.

The recommendations in this chapter are designed, however, to see to it that only those who have no recourse other than welfare are maintained on the public assistance rolls. In order to accomplish the recommended changes, some federal and state laws must be amended and federal and state regulations must be revised accordingly.

Child Support Enforcement for AFDC Children

PROBLEM

AFDC mothers are not required to help welfare agencies identify and locate absent fathers, even though the fathers may be affluent, fully employed, and entirely capable of supporting their children.

DISCUSSION

Several recent court decisions nationally, and a specific ruling of the U.S. District Court in San Francisco, found no basis in federal law or regulations for states to condition the eligibility of a needy child or its mother on the disclosure of the identity of an absent father by the mother. Any attempt on the part of welfare administrators to secure this information, without informing the mother that her eligibility cannot be affected if she refuses to provide it, is considered an infringement on her rights. This situation has created a climate which contributes to serious exploitation of the welfare system. The frequency of non-cooperation by AFDC mothers has increased notably in California since the federal court ruling. The rate of welfare applicants refusing to cooperate with the District Attorneys in child support matters has reached 75% in one county. One Northern California county recently granted aid to a mother and her child who were living with the man who was known to family friends to be the father of the child. Although the father was fully employed, the county was not legally permitted to consider his full income in determining the grant because the mother had refused to acknowledge his identity to the welfare department. The county would not have granted aid to this family if the parents had been married to each other because the child would not have been legally defined as deprived of parental support.

The Social Security Act should be revised to permit the state to require that the AFDC mother cooperate in identifying the absent father. Aid could be denied to any AFDC mother who failed to cooperate. This approach would

maximize the likelihood that the mother would cooperate in child support enforcement, and would benefit the child in two ways. First, the child would receive AFDC to meet his ongoing needs, and second, he would stand a better chance of receiving support from his own father once his mother cooperated in pursuing that support.

RECOMMENDATION

Amend the Social Security Act to require cooperation with law enforcement officials in child support matters as a condition of the mother's eligibility for AFDC.

Federally Employed Absent Fathers

PROBLEM

Absent fathers who are federal employees can refuse to support their families without any fear their wages will be attached for this purpose.

DISCUSSION

Federal law prohibits state attachment of a federal employee's wages for any reason. In effect, this provision allows absent fathers who are federal employees to refuse to support their children with little fear of redress by local law enforcement agencies.

A special category of federal employees—servicemen—is of particular concern. The frequency and duration of their assignments away from home allows many of them to legally qualify as absent parents even though they may fully intend to return to their families. County welfare departments, having extended welfare benefits to service families, are unable to secure child support contributions from the absent fathers in a number of cases where the father's wages would normally be attached.

This problem is exacerbated by the fact that the military already extends ample supplementary benefits to service families. For example, take the situation of a young corporal with a family. In addition to an approximate taxable income of \$393 per month (which is exempt from state taxes in many states), he and his family qualify for a number of special tax-free benefits each month: \$122.50 housing allowance, \$47.88 subsistence allowance, \$30 family separation allowance, "hardship" pay if he is stationed in a restricted zone, and special duty pay if he is on airborne, flight or other high risk status. The family also qualifies for free medical and dental care, free travel, and a discount on food, clothing and other family items of need through the post-exchange system. The resources available to the average serviceman are sufficient to meet the basic needs of his family. Yet, by simply being stationed away from home, severing his family ties and refusing to support his family, he can legally qualify as an absent parent, and his family can legally obtain AFDC benefits. Prior to 1973, servicemen separated from their families were *required* to send an allowance home. This policy has been discontinued.

Other federal employees also receive liberal tax-free benefits to cover the needs of their families while working away from home. Somewhat like servicemen, they not only can refuse to support their families, they can actually shift this responsibility to government without risking wage attachment by District Attorneys.

RECOMMENDATION

1. Amend the Social Security Act to allow District Attorneys to attach the wages of federally employed absent parents.
2. Military personnel should be required to request and forward the Basic Allowance for Quarters to their families, restoring the mandatory nature of support that existed prior to 1973.

Federal Support Enforcement Incentive Fund

PROBLEM

Many absent fathers are escaping their child support responsibilities because not enough funds are available to track them down and make them pay.

DISCUSSION

Child support payments in California have increased considerably since the Welfare Reform Act of 1971. Before Welfare Reform, 14.7 percent of AFDC Family Group cases received support contributions from absent fathers. These contributions totalled \$36 million annually. The latest figures on absent parent contributions show that 20.6 percent of the AFDC family group cases now receive support contributions amounting to almost \$60 million annually.

This tremendous increase in support contributions is due, in large measure, to the Support Enforcement Incentive Fund (SEIF) which was established as part of the Welfare Reform Act. This fund provides a fiscal incentive to the counties to aggressively pursue child support collections. The counties have responded actively to this incentive program, and their efforts have enabled the state to return more than \$14 million of incentive funds since the establishment of the SEIF program. There is still room for improvement. District Attorneys' offices are still understaffed, and as a result, many absent fathers are still avoiding their support responsibilities.

California's experience with the SEIF program indicates that such a fund on the federal level would significantly improve absent parent collections nationwide. In a 1971 study, HEW determined that only 13.4 percent of all AFDC cases nationwide received absent parent contributions. A federal support enforcement incentive program which returned support collection monies to the states would allow the states to disburse these funds to their collection enforcement agencies. The enforcement agencies would then be able to increase their staffing allocations and to boost the efficiency of their collection processes.

Once the collection process is initiated, California's experience indicates that the advantages to the state far outweigh the initial cost. AFDC grants and case-

loads can be reduced in direct proportion to absent parent contributions received, and the far-reaching effects of welfare dependency can be lessened. The short-term increase in federal expenditures required by this program should be quickly offset by increased collections and by caseload and grant reduction.

RECOMMENDATION

Amend the Social Security Act to provide for a federal Support Enforcement Incentive Fund.

The Unborn

PROBLEM

The AFDC program is intended to provide support for deprived and needy children. But, the mother of an unborn child can receive the same size grant for the fetus as the mother of a child who is already born, even though the latter mother's child support needs for food, clothing and shelter are much greater.

DISCUSSION

California has for many years recognized the needs of a mother when she is pregnant. The U. S. Department of Agriculture calculates that a pregnant woman requires additional food at a cost of \$6.45-\$7.31 per month. Yet, the mother of the unborn child receives \$38-50 per month for food even though she does not require that much. It should be noted that the pregnant woman receives full medical care under the Medi-Cal program.

However, from the standpoint of distributing welfare monies to the truly needy, it is difficult to justify allowing the full grant amount to meet the minimal needs of the unborn—above and beyond the additional food required by the mother.

Recent California court decisions, it must be pointed out, have resulted in a curious state of law relative to the unborn child. For welfare purposes, the unborn must be regarded as a person, with a complete payment for every need component in the welfare grant (food, utilities, housing, clothing, etc.). Ironically, the same unborn child is subject to surgical destruction through abortion—at taxpayers' expense. As others have pointed out, it seems strange that the unborn child must be protected from malnutrition but not from the scalpel.

RECOMMENDATION

Enact state legislation to allow a standard \$10 grant increase to a pregnant woman.

PART IV: MEDI-CAL COPAYMENT

Government operated health care programs, among which is California's Medi-Cal Program, are founded on the principle that all persons are entitled to adequate medical care and preventive medical services regardless of their social or economic status. Throughout the nation, the increasing demand for all types of medical services, the inherent limitations of society's ability to continue to expand such services, and the resultant spiraling cost of health care threaten the well-being of both the recipient of public assistance and the taxpayer.

Medi-Cal recipients presently receive nearly unlimited medical benefits free of charge, creating a propensity for the over-utilization of these benefits. Besides contributing to the scarcity and increased cost of medical services, unrestricted treatment availability discourages the development of recipient skills and attitudes related to the proper management of personal resources of the kind which the taxpayer must exercise daily.

The discussion which follows describes these deficiencies as they impact the recipient and the taxpayer, and recommends as a solution that Medi-Cal recipients be required to share nominally in the cost of the medical services they receive.

PROBLEM

The Medi-Cal Program contains no provision for recipients to share in the cost of the health care services they receive.

DISCUSSION

Inadequacies in the government operated medical care programs have been the subject of considerable debate during recent years. According to Doctor Sidney Garfield, the founder of the Kaiser system, today's medical crisis has been caused by the inexorable spread of free care throughout the nation, expanding and altering the demand for services incompatible with the capabilities of existing health care delivery systems, wasting medical manpower, and threatening the quality and economics of medical care.

This position is supported by the growth of the Medicare and Medicaid (Medi-Cal) Programs since 1967. Before these programs were in operation (1961-66) the national medical care price index was increasing at a rate of 2.7 percent annually. Between 1967 and 1969, after the programs were in operation, the average yearly increase jumped to 6.6 percent; and for the cost of hospital services the jump was from 6.4 to 15.5 percent annually. California, having less than 10 percent of the nation's population, contributed more than 21.7 percent of the money paid nationally by state and local governments for these programs.

California responded in January 1972 with a pilot "copayment project" which was authorized by a special waiver of federal regulations. The thrust of the copayment experiment was to reduce services of questionable value to Medi-Cal recipients by requiring them to pay a nominal fee for each service they received.

About 30 percent of the Medi-Cal population was required to pay a dollar for each of the first two visits to providers (physicians, chiropractors, etc.) each month, and fifty cents for each of the first two prescriptions they had filled each month. This copayment was paid by the recipient directly to the provider or pharmacist when the service was rendered. Copayment was required only of those who had resources above a defined level.

The results of the experiment indicate that copayment, properly structured, can strengthen the "cost consciousness" of Medi-Cal recipients, causing a reduction in the over-utilization of health care services without adversely affecting their ability to obtain medical care when it is necessary. In the process, government spending and the strain on available health care delivery systems are reduced.

Given the importance of diagnostic and preventive medical services (e.g., early childhood screening) in the early detection and treatment of illness, services of this type should be provided free of charge under a copayment system. This is especially important for children receiving Medi-Cal benefits.

The copayment experiment was discontinued in June 1973 because the special waiver of federal regulations by which it was authorized expired. Since that time Public Law 92-603 has been enacted which gives states the option of establishing permanent copayment systems.

Reinstatement of a copayment plan will assist the state in controlling abuse and over-utilization of the Medi-Cal program and will help to instill in the recipient a sense of responsibility for his own health, well-being, and self-determination. The estimated savings to the taxpayer will be approximately \$25 million during 1974-75 if copayment is reinstated for the Medi-Cal Program.

RECOMMENDATION

Amend state law to:

- a. Mandate a permanent Medi-Cal copayment system to be administered by the State Department of Health;
- b. Authorize the Director of Health to set reasonable copayment fees consistent with federal regulations; and
- c. Exempt diagnostic services, such as early childhood screening and family planning, from copayments.

APPENDIX A

SUMMARY OF RECOMMENDATIONS

Report recommendations are summarized below according to their application to the Food Stamp Program, the AFDC Program, or the Medi-Cal Program, and according to whether the recommendations require changes in law or administrative systems, at both the federal and state levels.

FOOD STAMP PROGRAM

The Federal Food Stamp Act of 1964 should be amended to:

1. Establish a food purchase limit which more clearly approximates the percentage low-income families should spend on food than the present arbitrary 30 percent level. (Page 12)
2. Establish food stamp benefit increase levels which are more reflective of the total resources available to recipients, and which account for wage and other cost-of-living increases which are based in part on food prices. (Page 12)
3. Require the Federal Government to assume complete responsibility for assistance to aliens. (Page 14)
4. Exclude strikers from Food Stamp program participation, unless a given striker would have been eligible for program participation if he were not on strike. (Page 14)
5. Remove special provisions which totally exempt students from having to register for and accept any suitable employment. (Page 16)
6. Transfer administrative responsibility for the Food Stamp program from the United States Department of Agriculture to the Department of Health, Education, and Welfare. (Page 18)
7. Conform assistance household food stamp eligibility criteria and AFDC eligibility criteria, and institute simplified food stamp benefit computations. (Page 18)
8. Insure that the cost of investigations, prosecutions, collections of federal funds and related activities will be borne entirely by the Federal Government. (Page 23)

Separate administrative action should be taken by the Federal Government to:

1. Base food stamp eligibility on gross rather than adjusted net income. (Page 12)
2. Remove the prohibition against referring food stamp recipients to union-related jobs, and impose more realistic requirements for persons who are self-employed. (Page 14)
3. Prohibit Food Stamp program participation by any person who deliberately transfers personal property for the purpose of attempting to qualify for benefits. (Pages 14, 16)
4. Provide eligibility workers with precise guidelines for verifying the purported number of separate economic units sharing the same housing quarters. (Pages 14, 16)
5. Set a reasonable minimum age limit for Food Stamp program applicants. (Pages 14, 16)

6. Allow routine contact with parents of all questionably emancipated minors and students who are not fully capable of self-support. (Pages 14, 16)
7. Require a crosscheck between financial aids and food stamp offices. (Page 16)
8. Revise the federal cash deposit system so that the Federal Reserve will send immediate confirmations of deposits both to the sales agent and to the state or county. (Page 19)
9. Insure that the state and/or the counties receive copies of the "Advice of Shipment" form from USDA when coupons are shipped to and received by food stamp sales agents. (Page 20)
10. Inform the state and/or counties each time an agent's monthly coupon order is adjusted regardless of whether the change is at the agent's request or at USDA discretion. (Page 20)
11. Centrally compute the adjustment that should be made to each agent's monthly coupon order and appropriately notify both the agent and the state and/or counties each time there is a change in food stamp coupon allotment tables. (Page 20)
12. Assure that armored car deliveries are made only to persons authorized by the sales agent to sign a receipt acknowledging the shipment. (Page 20)
13. Provide the state or counties with the results of the USDA monthly reconciliation of central records. (Page 21)
14. Reopen negotiations (and amend federal law if necessary) in order to eliminate the unreasonable conditions under which, and *only* under which, the U. S. Postal Service will agree to continue as a food stamp sales agent. (Page 22)
15. Allow repayments for prior month food stamp over-issuances to be made in food stamp coupons as well as cash. (Page 22)
16. Replace food stamp coupons with food stamp warrants which would bear the recipient's name, address and case number; require a counter signature at the time of use; and be negotiable at authorized markets only when presented with the matching photo-identification card. (Page 25)

Separate state administrative action should be taken to:

1. Develop a central clearing house of information and statewide referral system regarding those recipient households without a fixed place of residence. (Page 14)
2. Extend the Earnings Clearance System to nonassistance household food stamp cases to check actual earned income against income reported by the recipient. (Page 14)
3. Revise Food Stamp sales agent contracts to impose fiscal sanctions against those agents who do not meet depositing requirements; also specify in the revised contract that monies received from recipients in payment of food stamps become federal funds immediately upon receipt by the agent, and that these funds may not be used even temporarily for individual or corporate profit. (Page 19)

4. Conduct state reviews of county practices regarding monthly final reconciliations of records, and assist the counties in improving their reconciliation practices. (Page 21)
5. Initiate a new system of identification which will include the use of laminated photo-identification cards by all persons obtaining food stamp benefits in California. (Page 25)
6. Redesign the food stamp authorization to purchase card to reduce or eliminate opportunities for forgery and alteration. (Page 25)
7. Enforce strict internal controls for the food stamp coupons, identification cards and authorization to purchase cards handled by local agencies. Vigorously prosecute persons using these as instruments for personal gain. (Page 25)
8. Publicize the penalties and successful prosecutions for the misuse of food stamp coupons, identification cards and authorization to purchase cards. (Page 25)

AFDC PROGRAM

The Federal Social Security Act should be amended to:

1. Establish a gross income limitation of 150 percent of the family's total needs. (Page 29)
2. Redetermine eligibility without earnings exemption for recipients who have received earned income for four consecutive months; and for any applicant or re-applicant. (Page 30)
3. Allow the states to use a standard work-related expense deduction. (Page 32)
4. Have the Federal Government assume complete responsibility for alien public assistance; permit effective enforcement of alien deportation procedures in alien welfare cases. (Page 34)
5. Enable a modified sanction process for employable AFDC recipients; meanwhile grant a waiver allowing California to adopt a modified sanction process. (Page 37)
6. Require that lump-sum income be considered available for current and future needs. (Page 45)
7. Permit overpayment adjustment regardless of fraudulent intent. (Page 45)
8. Condition the eligibility of an AFDC mother on her cooperation with law enforcement official in child support matters. (Page 56)
9. Allow law enforcement officials to attach federal wages for child support; require military absent fathers to forward their housing allowances to their families. (Page 57)
10. Establish a federal Support Enforcement Incentive Fund to return a higher share of child support collections to the counties. (Page 58)

Separate administrative action should be taken by the Federal Government to:

1. Deduct earnings incentive ($\$30 \frac{1}{3}$) from net earnings rather than gross earnings. (Page 31)
2. Establish an effective system for screening illegal aliens. (Page 34)

3. Preclude strikers from receiving AFDC benefits. (Page 35)
4. Preclude federally-funded attorneys from requesting attorneys' fees. (Page 49)
5. Base quality control performance measures on payment error rates rather than case error rates. (Page 52)
6. Join California in developing the methodology to scientifically establish appropriate and achievable performance standards for quality control. (Page 53)
7. Revise federal quality control reviews so as to encourage tighter requirements. (Page 54)

Amend state law to:

1. Provide for more effective fraud prosecutions. (Page 39)
2. Permit use of the sliding flat grant. (Page 41)
3. Require lump-sum payments which cover past living expenses to be recovered to offset past aid paid. (Page 44)
4. Apportion all unrecovered lump-sum payments at the need standard until the benefit is exhausted. Also explore ways to ensure this. (Page 44)
5. Permit overpayment adjustment regardless of whether administrative inadvertence was involved. (Page 45)
6. Limit real property for AFDC recipients to no more than \$20,000, computed at market value minus encumbrances. (Page 46)
7. Return to the original welfare reform requirements on personal property which considered only gross market value and not encumbrances. (Page 47)
8. Prohibit award of Attorney's fees to Legal Aid Attorneys who represent recipients at public expense. (Page 49)
9. Provide for a standard \$10 grant increase to a pregnant woman. (Page 58)

Separate state administrative action should be taken to:

1. Increase the counties' share of monies recovered through restitution of fraudulent payments. (Page 38)
2. Exempt that portion of any educational loan or grant including G. I. benefits which are needed to meet educational expenses. (Page 48)
3. Refer all recipients potentially eligible for veterans benefits to veterans' offices, and follow through to ensure that they receive all benefits to which they are entitled. (Page 48)
4. Simplify welfare program operations so that errors can be avoided while retaining tight eligibility criteria. (Page 54)

MEDI-CAL PROGRAM

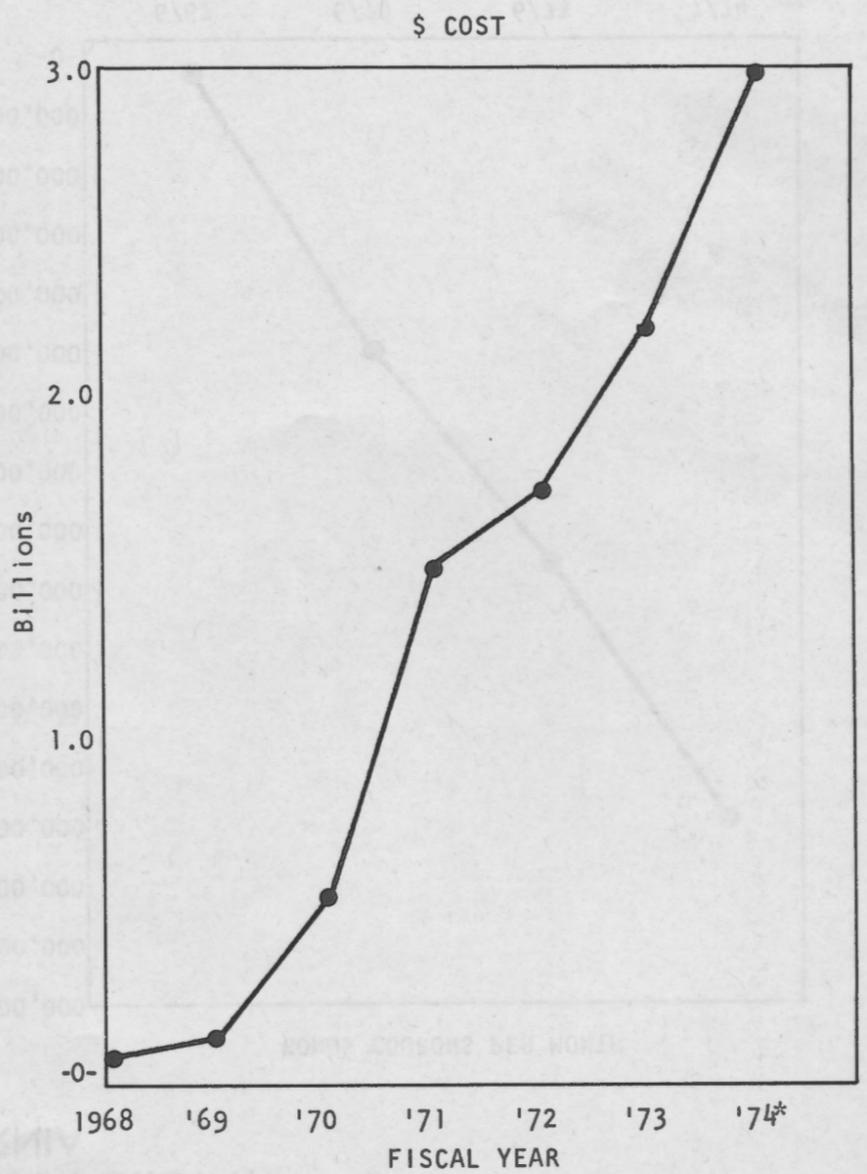
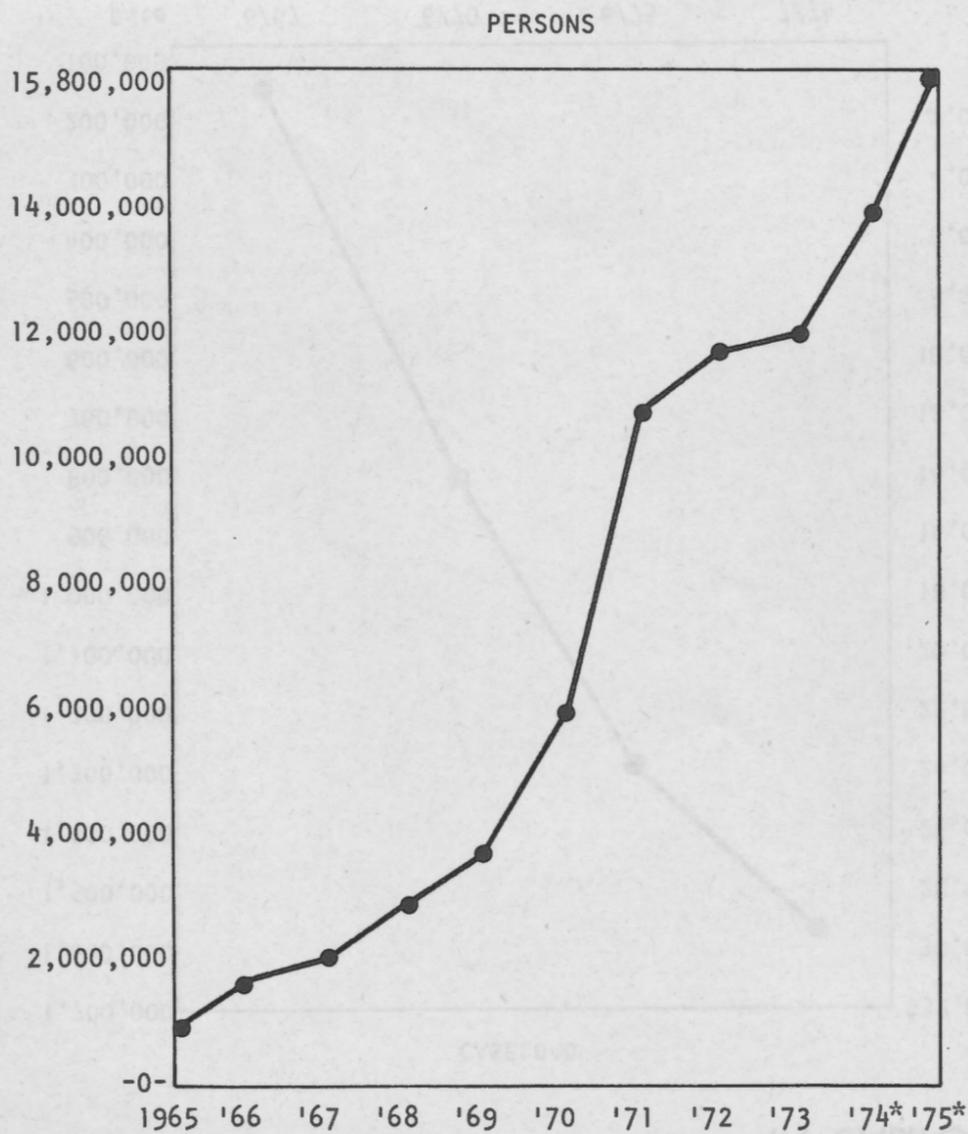
Amend state law to:

1. Mandate a permanent Medi-Cal copayment system to be administered by the State Department of Health. (Page 60)
2. Authorize the Director of Health to set reasonable copayment fees consistent with federal regulations. (Page 60)
3. Exempt diagnostic services, such as early childhood screening and family planning from copayment. (Page 60)

APPENDIX B

FOOD STAMP PROGRAM GROWTH

FOOD STAMP GROWTH NATIONWIDE

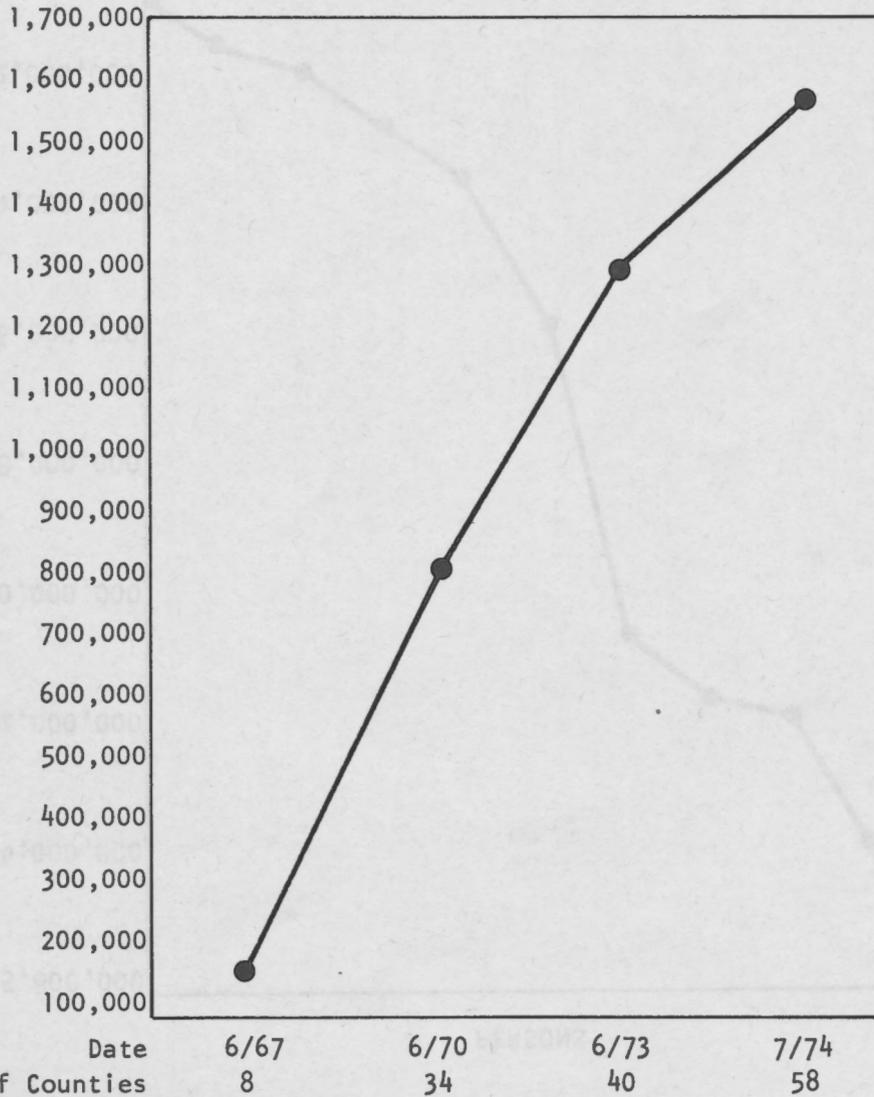


*Estimated

*Estimated

FOOD STAMP PROGRAM GROWTH IN CALIFORNIA

CASELOAD



BONUS COUPONS PER MONTH

