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BY THE COMPTROLLER GENERAL
Report To The Chairman, **RELEASED**
Subcommittee On Oversight,
House Committee On Ways And Means
OF THE UNITED STATES

**Analysis Of Four States' Administration
Of The AFDC Program: Management
Improving But More Needs To Be Done**

Illinois, Massachusetts, and New York do not have management systems to produce appropriate cost and performance data to establish budgetary performance goals, maximize use of resources, and measure the cost effectiveness of day-to-day operations of the Aid to Families with Dependent Children program. The Department of Health and Human Services has not required States to develop this necessary information, and because of differences in State management practices, it has no assurance that it is only sharing the cost of efficient program management.

GAO recommends the development and use of administrative efficiency goals and the implementation of better management controls to improve the efficiency and cost effectiveness of program operations.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-197953

The Honorable Charles B. Rangel
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This is the second of two reports issued as a result of our analysis of the Aid to Families with Dependent Children (AFDC) program management in California, Illinois, Massachusetts, and New York, made in response to your Subcommittee's July 16, 1979, request. The first report (HRD-81-51, May 18, 1981) dealt with Federal actions needed to improve the accuracy of AFDC administrative cost allocation and to improve Federal oversight of State cost-allocation plans. This report deals with the actions needed to improve the cost effectiveness of State and local administration of the AFDC program through (1) the use of administrative efficiency standards and State administrative cost budgets, (2) regulations identifying particular management concepts to be included in State plans, and (3) technical assistance to Illinois, Massachusetts, and New York to help them better manage their programs.

This report also points out that, because of the significant organizational and procedural differences among these States, we did not attempt to directly compare the results of their operations in terms of administrative cost per case and error rates. Rather, we reviewed each State's operation in terms of its own management methods with the view toward ascertaining where in their administrative processes improvements were needed to achieve the goals of efficiency and effectiveness.

We asked the Department of Health and Human Services and the four States to comment officially on a draft of this report. Their comments, except for Massachusetts which did not respond, are included in the report.

As you directed, we will distribute this report after 7 days from its issue date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN, SUBCOMMITTEE
ON OVERSIGHT, HOUSE COMMITTEE
ON WAYS AND MEANS

ANALYSIS OF FOUR STATES'
ADMINISTRATION OF THE AFDC
PROGRAM: MANAGEMENT IMPROVING
BUT MORE NEEDS TO BE DONE

D I G E S T

In 1979 hearings before the Subcommittee on Oversight of the House Committee on Ways and Means, testimony indicated that administrative costs on a per case basis in the Aid to Families with Dependent Children (AFDC) program vary significantly among States with no apparent correlation between these costs and rates of erroneous payments. The Subcommittee was interested in exploring this issue further and requested GAO to evaluate AFDC program management in California, Illinois, Massachusetts, and New York in terms of differences in management practices, agency organization, and employee accountability as they relate to administrative costs and the level of erroneous payments. (See pp. 1 and 6.)

DEPARTMENT OF HEALTH AND HUMAN
SERVICES ROLE IN AFDC PROGRAM

Title IV-A of the Social Security Act requires each State to have an operational plan which contains methods of administration deemed by the Secretary of Health and Human Services (HHS) to be proper and efficient. Although the act neither defines proper and efficient nor states how this status is to be attained, it gives the Secretary of HHS the authority to make these determinations. HHS officials have defined their management role with the States as that of an advisor and have not asked State and local managers to develop any cost or performance data by which they and the States can measure the cost effectiveness of program operations.

This approach has been ineffective: three of the four States reviewed do not have systems to produce adequate cost and performance data. As a result, HHS cannot evaluate the cost effectiveness of State operations, and State and local managers have only limited data to establish budgetary and performance goals, maximize their use of resources, and measure the cost effectiveness of day-to-day operations. In 1980, the

administrative cost of the AFDC program exceeded \$1.3 billion of which about 50 percent was funded by the Federal Government. HHS has no assurance that it is only sharing the cost of efficient State and local administrative operations. California implemented a comprehensive management system that generated administrative cost savings of 18.8 million in its first year of operation. (See pp. 4, 9, and 10.)

STATE AND LOCAL MANAGERS NEED
BETTER COST AND PERFORMANCE DATA

State and local managers have the responsibility to achieve goals at the least practicable cost and make the best possible use of resources while remaining within spending and other limitations in the AFDC program. To do this, they must be able to identify total program cost through an equitable cost-allocation system, and the cost of carrying out specific work processes and measuring employee efficiency through scientifically based performance goals. They also must ascertain where in the work processes errors are made through quality assurance systems that are usable at the work process level. In the States reviewed, only California program managers have sufficient data to make valid decisions on establishing program budgets and assessing operational efficiency. Managers in the other three States are establishing program budgets with limited data and cannot determine the cost effectiveness of their individual programs or whether the level of efficiency of their employees is being maximized. (See ch. 2.)

AFDC MANAGEMENT IMPROVING
BUT MORE NEEDS TO BE DONE

In response to concern by the House Committee on Government Operations (see p. 6 and app. I), HHS began an intensive program of working with the States to develop effective AFDC management controls. Similarly, State legislatures and executive branches began to examine the administration of their programs more intently. The results have been encouraging. All four States have made substantial improvements in their management of the program, and two have reduced their respective payment error rates from 17.6

(Illinois) and 11.9 (New York) percent in 1977 to 9.4 and 6.96 percent during the October 1979 to March 1980 period. Conversely, Massachusetts has had some difficulty in reducing its error rate, but the prospects for improved performance are also evident.

California had incorporated progressive management concepts into its program in the mid-1970s and had a 6.3-percent error rate during the October 1979 to March 1980 period. (See pp. 36 and 37.)

Despite significant managerial improvements which are planned or have already been undertaken in Illinois, Massachusetts, and New York, the following program functions need further attention in one or more of these States:

- Accurately and timely verifying clients' eligibility.
- Tracking all clients' status on a continuing basis.
- Controlling client documentation.
- Holding workers accountable for the quality of their work.
- Placing qualified people in income maintenance positions.

Problems in effectively addressing these functions contribute to higher error rates and more erroneous payments. (See ch. 3.)

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In a draft of this report, GAO recommended in chapter 2 that the Secretary of HHS require that all State plans contain performance goals of administrative efficiency based on advanced management techniques. In its comments on this proposed recommendation, HHS agreed there was a need to work with the States to improve the management systems in State and local AFDC administration, but was not in favor of requiring States to take the recommended actions because this would alter the cooperative nature of the present Federal-State relationship.

HHS and the States are currently working to implement the changes made to the AFDC program by title XXIII of the Omnibus Budget Reconciliation Act. In addition, the President has announced his intention to turn the AFDC program over to the States. GAO is inclined to agree that altering the Federal-State relationship at this time would not be appropriate under these circumstances, as the proposed recommendation would have done. A high degree of HHS-State cooperation will be essential to accomplish both the required changes called for in the August 1981 legislation and a smooth transition, if it is to take place, of the transfer of the AFDC program.

RECOMMENDATIONS TO THE SECRETARY OF HHS

Because this report presents information that would be useful to the States to help them improve the efficiency and effectiveness of their AFDC operations and reduce or stabilize costs before the planned transfer date, the Secretary should send copies of this report to all States and work with them to develop statewide income maintenance worker goals of administrative efficiency. These goals should be based on appropriate work measurement and operational analysis techniques and quality assurance systems which assess the quality of specific work processes. HHS should also work with the States to develop administrative budgets based on these performance goals. These actions would help AFDC managers increase worker productivity and improve cost control. (See p. 35.)

GAO also recommends that the Secretary take certain regulatory actions to improve the States' general administration of AFDC in light of problems identified in Illinois, Massachusetts, and New York. (See p. 57.)

AGENCY COMMENTS

Concerning GAO's recommendation in chapter 3, HHS commented that it lacked the legal authority to disapprove State plan amendments which did not include actions to deal with

the specific problems GAO noted in three of the four States reviewed.

Both GAO and HHS agree that sufficient legal authority exists under the Social Security Act to require States, through the regulatory process, to make needed improvements in their administration of the AFDC program. GAO revised its earlier recommendation to incorporate the need for regulatory action.

HHS' comments are more fully discussed in chapters 2 and 3 of this report and are included in full in appendix III. The comments of California, Illinois, and New York are discussed in chapters 2 and 3 of the report, as appropriate, and are included in full in appendixes IV, V, and VI, respectively. Massachusetts did not respond.



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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
GAO	General Accounting Office
HHS	Department of Health and Human Services
OFA	Office of Family Assistance
SSA	Social Security Administration



CHAPTER 1

INTRODUCTION

During June 15, 1979, hearings before the Subcommittee on Oversight of the House Committee on Ways and Means, we and others presented information on the comparative effectiveness and efficiency of various States in managing the Aid to Families with Dependent Children (AFDC) program. Testimony indicated that administrative costs on a per case basis vary significantly among States with no apparent correlation between these costs and rates of erroneous payments. The Subcommittee was interested in exploring this issue further and requested us to evaluate AFDC program management in California, Illinois, Massachusetts, and New York. Specific emphasis was requested on our observation of management controls over the eligibility determination and case maintenance processes and how they related to keeping administrative costs and erroneous payments to a minimum.

This report discusses program management in the four above-mentioned States with specific emphasis on Los Angeles County, California; Cook County, Illinois; Boston, Massachusetts; and New York City, New York. It identifies management weaknesses; cites corrective actions taken by States, localities, and the Department of Health and Human Services (HHS); evaluates the actions being taken; evaluates HHS' role in fostering management improvements; and discusses HHS', States', and localities' need for additional cost and performance data to improve program management.

This is the second report which resulted from this assignment. The first report 1/ dealt with the problems encountered by HHS in assuring that State cost-allocation plans, upon which Federal financial participation in welfare administrative costs is based, accurately reflect the Federal reimbursable share of costs. In the report, we concluded that HHS does not have an adequate basis to make valid managerial judgments on the composition of costs or the relative effectiveness of States in controlling administrative costs. This situation exists because HHS has allowed States to use a variety of administrative cost-allocation methods which do not necessarily allocate costs to AFDC and other federally assisted programs according to the benefits received. (See app. II for the digest of the GAO report.)

1/"HHS Moves to Improve Accuracy of AFDC Administrative Cost Allocation: Increased Oversight Needed" (HRD-81-51, May 18, 1981).

THE AFDC PROGRAM

The AFDC program ^{1/} is a State-sponsored, federally supported effort to provide for the basic needs of children who are deprived of the financial support of one of their parents due to death, disability, absence from the home, or in some States, unemployment. To qualify for such assistance, a family's income must not exceed 150 percent of a standard of need which varies from State to State and its resources must not exceed \$1,000. The actual amount of an AFDC payment depends on the number of persons in the family and the amount of income the family is receiving from other sources. AFDC recipients are also eligible for medical and social services.

States have the option of extending eligibility to:

- Children age 18 but under 19, only if the child is a full-time student in a secondary or technical school and may reasonably be expected to complete the program before reaching age 19.
- Pregnant women with no other children during the 6th and later months of pregnancy.
- Needy intact families where the principal wage earner is unemployed.
- Families with children who are in need of emergency assistance.
- Other needy persons in the household who are not eligible for assistance in their own right.

PROGRAM ADMINISTRATION

Each State has the option of administering its AFDC program directly or allowing its county or city governments to do so under State supervision. In a State-administered program, such as in Massachusetts and Illinois, a designated State agency administers the AFDC program statewide. In Massachusetts, the designated agency is the Department of Public Welfare, and in Illinois, it is the Department of Public Aid. Conversely, in State-supervised programs, such as California and New York, a designated State agency supervises the local administration of the AFDC program by county or city agencies. The cognizant agency in each of these States is the Department of Social Services.

^{1/}Program information has been updated to reflect changes made by title XXIII of the Omnibus Budget Reconciliation Act of 1981 (Pub. L. 97-35, Aug. 13, 1981).

Regardless of the method adopted by a State to administer its program, an operational plan must be submitted to, and be approved by, HHS in order for the State to qualify for Federal financial participation in its assistance and administrative costs. Among other things, each plan must provide

- that a single State agency with authority to administer or supervise the administration of the plan be established;
- for such methods of administration as those found necessary by the Secretary of HHS for the proper and efficient operation of the plan be established;
- that the State agency will maintain records regarding applications, determination of eligibility, administrative costs, and other records necessary for the reporting and accountability required by HHS;
- that the single State agency has an approved cost-allocation plan on file with HHS;
- that applicants will be informed about the eligibility requirements and their rights and obligations under the program;
- that decisions will be made promptly on applications, pursuant to reasonable State-established time standards not in excess of 45 days from the date of application;
- that decisions regarding eligibility or ineligibility will be supported by facts in the applicants' or recipients' case record; and
- that where an individual has been determined to be eligible, eligibility will be reconsidered or redetermined (1) when required on the basis of information the agency has obtained previously about anticipated changes in the individual's situation, (2) promptly after a report is obtained which indicates changes in the individual's circumstances that may affect the amount of assistance to which he or she is entitled or may make him or her ineligible, and (3) periodically within agency-established time standards, but not less frequently than every 6 months.

The AFDC program centers on three administrative processes: application for aid and eligibility determination or intake (determining a client's initial eligibility for benefits), case maintenance or ongoing monitoring (evaluating and updating a client's eligibility status based on information volunteered by the client or obtained by the eligibility worker), and periodic eligibility redetermination. Each State handles these processes somewhat differently, but the basic elements are as follows.

AFDC eligibility is verified primarily through examination of documentary evidence provided by the client, such as birth certificates, social security cards, rent receipts, report cards, pay stubs, and either a statement from the client or a letter from a reliable community representative confirming the lack of support from the spouse. Localities can also make home visits to verify that a child is in the client's residence, and computer matches of a client's social security number with State tax, unemployment, and/or welfare program records can determine whether the person is working, is receiving AFDC or other welfare benefits in other jurisdictions, or has other income. According to Federal regulations, aid payments to eligible applicants must begin within 30 days of receiving a signed and completed application.

The case maintenance system is used to compile and maintain adequate, current files on each eligible recipient and should allow such things as changes in a client's circumstances to be recorded promptly and correctly. Such changes can be detected by voluntary client reporting, case monitoring, or through such actions as mandatory client monthly reporting and computer matches of case files with various data bases. Case maintenance also includes case assignment practices and physical handling of cases. Depending on the State involved, cases can be assigned to one worker, to a pool of workers, or to any available worker. Generally, however, cases are assigned to workers who are responsible for maintaining specific numbers of cases, keeping them current, and being the primary contact for clients with questions or problems.

Federal regulations require that clients' eligibility for AFDC be redetermined at least every 6 months. Redetermination generally involves a face-to-face meeting between the client and caseworker to verify all eligibility factors relating to the case. Like the eligibility determination process, some States opt to include a home visit in the redetermination process although it is not a requirement.

PROGRAM COST AND CASELOAD DATA

In fiscal year 1980, the total cost of the AFDC program exceeded \$12 billion--\$11.3 billion for assistance payments and about \$1.3 billion for administration. The Federal share of assistance payments and administrative costs was about 54 and 50 percent, respectively, with State and, in some cases, local governments sharing the balance. HHS estimates that total program costs will exceed \$14 billion in fiscal year 1981 due to increases in State assistance payments caused by inflation and an expected increase in the unemployment rate from 6.7 percent in 1980 to 7.5 percent in 1981, which should increase the number of recipients on the rolls. This cost growth should be partially offset by HHS'

initiatives to remove ineligible AFDC recipients from the payment rolls and reduce overpayments through intensified quality control. Continued emphasis on reducing abuse and waste as a result of the Michel Amendment 1/ should also have a significant impact on the level of AFDC costs. The following is a schedule of cost, caseload, and error rate data in the States reviewed.

	Program costs (note a)		Administrative costs (note a)		Caseload	
	Fiscal year <u>1979</u>	Fiscal year <u>1980</u>	Fiscal year <u>1979</u>	Fiscal year <u>1980</u>	Fiscal year <u>1979</u>	Fiscal year <u>1980</u>
	(000 omitted)					
California	\$1,809,755	\$2,154,767	\$219,468	b/\$259,633	480,405	476,146
Illinois	660,024	700,377	82,841	c/79,242	207,849	213,781
Massachusetts	464,736	523,850	38,882	49,585	121,930	124,396
New York	1,612,849	1,616,933	250,613	254,698	370,232	362,737

	Administrative costs per case		Percentage of total payments made to ineligibles and overpaid	
	Fiscal year <u>1979</u>	Fiscal year <u>1980</u>	<u>4/79</u> to <u>9/79</u>	<u>10/79</u> to <u>3/80</u>
	California	\$457	\$545	7.8
Illinois	399	c/371	11.9	9.40
Massachusetts	319	399	22.1	16.71
New York	677	702	8.8	6.96

a/ Cost figures reflect total program and administrative expenditures computed by the States for Federal participation before adjustments.

b/ According to a Financial Management Specialist from the Office of Family Assistance (OFA), the significant increase in California's administrative costs from fiscal year 1979 to fiscal year 1980 was due to the State's inflation rate during that period and a significant pay raise given to eligibility workers.

c/ The decrease in 1980 resulted from a change in the method of allocating administrative costs to the AFDC program.

1/ States are required to reduce their AFDC payment error rate for eligible but overpaid cases and ineligible cases to 4 percent by September 30, 1982, in three annual increments beginning with fiscal year 1980. Under the amendment, failure to meet the target each year could result in the loss of Federal matching funds associated with erroneous payment expenditures in excess of the target.

CONGRESSIONAL INTEREST IN
AFDC PROGRAM ADMINISTRATION

In 1977, the Subcommittee on Intergovernmental Relations and Human Resources of the House Committee on Government Operations held hearings to examine the operational effectiveness of the AFDC program and identify possible ways to make it function more efficiently and equitably. The hearings provided testimony from State and county welfare administrators, economists, staff training specialists, legal advocates for welfare recipients, and Federal officials. In its report, the Committee expressed its opinion that improvement in the management policies and practices of the existing AFDC program is essential, and it recommended a series of actions to HHS aimed at achieving needed improvements. The Committee's findings and recommendations, in part, have been implemented by HHS. (See app. I.)

In addition, in the June 1979 hearings, the Subcommittee on Oversight of the House Committee on Ways and Means explored the efforts of several California counties to improve administration of the AFDC program. The hearings--in which GAO, the Social Security Administration (SSA), and State and local officials participated--were meant to demonstrate that through the use of improved administrative and management techniques, administrative costs can be reduced without adversely affecting welfare recipients. The main subject of the hearings was a discussion of our evaluation of the effectiveness of work measurement techniques used in Contra Costa County, California, and their applicability to other counties' and States' AFDC programs and to other human service programs. This issue was the subject of a GAO report (HRD-78-159, Sept. 5, 1978).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this review were to analyze and evaluate management practices in California, Illinois, Massachusetts, and New York concerning AFDC applications for aid and eligibility determinations, ongoing case processing (case maintenance), and eligibility redeterminations. These data, together with our analysis of agency organization and employee accountability, was to be used to determine the degree to which ineffective practices affected administrative costs and error rates in each State. We were able to identify and analyze differences among States for eligibility determination, case processing, management controls, agency organization, and employee accountability matters. We were also able to identify areas where HHS should exercise its oversight responsibility and require administrative changes at the State and local levels through the regulatory process.

While it is generally conceded that managerial deficiencies contribute to higher overall administrative costs and error rates, we could not quantify in administrative dollars and error rates the effect of specific inefficient practices and problems with agency organization, employee accountability, and work processing. However, we could demonstrate that management improvements are accompanied by stabilized administrative costs and declining error rates.

In this review, we focused on one locality in each of the four States which had the most significant percentage of each State's total AFDC caseload. In New York, we chose New York City with about 70 percent of the caseload; in California, Los Angeles County with about 45 percent of the caseload; in Illinois, Cook County with about 70 percent of the caseload; and in Massachusetts, Boston with about 22 percent of the caseload.

We made our review:

- At HHS' OFA headquarters in Washington, D.C., and its offices in Federal regions I (Massachusetts), II (New York), V (Illinois), and IX (California).
- In California, at the Department of Social Services in Sacramento and Los Angeles and at Los Angeles County's Belvedere District Office.
- In Illinois, at the Department of Public Aid in Springfield and Chicago and at Cook County's Michigan District Office.
- In Massachusetts, at the Department of Public Welfare and the Hancock Street Community Service Center in Boston.
- In New York, at the State Department of Social Services in Albany, the New York City Human Resources Administration, and the Fort Greene and Bushwick income maintenance centers.

Data on how individual State programs were managed were obtained through interviews, document reviews, and observations of the systems in operation. Interviews were held with State and local income maintenance officials (49 in New York, 25 in Illinois, 20 in Massachusetts, and 30 in California), local income maintenance supervisors and workers (39 supervisors and 58 workers), and OFA headquarters and regional program and financial management officials. Documentation reviewed included congressional testimony, State plans, State and local procedures and policies, HHS and consultant reports, GAO and other audit agency reports, and State

and local reports. Observations of the eligibility, case maintenance, and redetermination processes were made at four local welfare centers selected in conjunction with State welfare officials as being representative (i.e., neither the best nor the worst) of their total operation. We also visited and analyzed activity at a model income maintenance center in New York City.

Data obtained through these methods were then compared and differences were identified. Because California has the lowest error rate of the four States and has adopted many innovative and effective methods to facilitate the management of their program, we used its management approach as the standard to evaluate the other three States. HHS' efforts to assist States were evaluated in terms of the assertiveness with which it encourages change and its ability to identify inefficient operations at the State level. We identified deficiencies; evaluated corrective actions; and discussed these matters with cognizant Federal, State, and local officials.

We requested written comments from HHS and the four States covered in the review on the matters discussed in this report. We received written comments from all parties (except Massachusetts which did not respond), which are evaluated in pertinent part at the end of chapters 2 and 3 and are included in full as appendixes III through VI.

CHAPTER 2

AFDC MANAGERS NEED ADDITIONAL DATA TO MEASURE ADMINISTRATIVE EFFICIENCY AND CONTROL ADMINISTRATIVE COSTS

HHS, State, and local managers are responsible for the proper and efficient administration of the AFDC program. To accomplish this, complete and accurate cost and performance data must be available to assure that the various State and local AFDC programs are operating in a cost-effective manner. HHS has traditionally advised States on how to improve performance and reduce the cost of their programs, but it has left implementation of its suggestions to the discretion of the States. This approach has not been effective; three of the four States reviewed do not have systems to produce adequate cost and performance data. As a result, HHS cannot evaluate the cost effectiveness of State operations, and State and local managers have only limited data and capability to (1) establish goals, (2) maximize their use of resources, and (3) measure the cost effectiveness of day-to-day operations. HHS cannot assure that it is only sharing the cost of efficient State and local operations. California implemented a comprehensive cost control and performance measurement system that in its first year of operation generated savings of \$18.8 million in administrative costs; the system produced savings ranging from 3.4 percent to 6.6 percent in the following three years.

HHS' MANAGEMENT ROLE IN THE AFDC PROGRAM

Title IV-A of the Social Security Act requires that each State plan contain methods of administration found by the Secretary of HHS to be proper and efficient. Although the act neither defines proper and efficient nor states how this status is to be attained, it gives the Secretary of HHS the authority to reject a plan if the Secretary deems the proposed methods of administration to be too inefficient or costly and to issue regulations requiring States to incorporate into their plans efficient and effective administrative practices after initial approval of the plan. HHS has not determined what proper and efficient administration is nor how to achieve it and has not asked the States to develop any cost or performance data by which HHS and the States can measure the efficiency and level of effectiveness of program operations. In addition, Federal funding formulas for sharing in AFDC costs do not consider efficiency. Essentially, the Federal Government will reimburse the States 50 percent of their actual administrative costs despite the fact that they may be operating totally inefficient programs. In an attempt to motivate the States to initiate

action to improve their own programs, HHS has provided States with funds for special projects, sponsored seminars, commissioned consultants, and disseminated pertinent program data.

HHS as an advisor

In September 1977, the Secretary of HHS requested the Commissioner of Social Security to, among other things, immediately define what is meant by "proper and efficient administration" of the AFDC program. The Commissioner did not define "proper and efficient administration," but did recommend the following series of program improvements for the Secretary's approval:

- Simplify Federal regulations and program guidelines.
- Increase uniformity in State AFDC programs.
- Develop new performance standards that focus both on error reduction and quality of service.
- Improve monitoring techniques to determine progress in meeting performance standards.
- Expand management and technical assistance to solve problems.
- Expand data processing and error reduction technology.
- Expand audit and compliance tools to focus State attention and resources on needed service and administrative improvements.

A series of major management initiatives were begun in 1978 to carry out these recommendations. Specifically, SSA:

- Developed a Six State Error Reduction Strategy to assist Massachusetts, New York, Illinois, Pennsylvania, Michigan, and Ohio to identify and correct deficiencies relating to their persistently high AFDC payment error rates. With advice from SSA's OFA, and sometimes its money, each State agreed to implement actions, such as computer matches with State revenue records, tests of monthly client reporting, and improvement of the eligibility redetermination process.
- Established the Welfare Management Institute, which identifies and facilitates the transfer of exemplary and innovative management technology among State and local agencies. The Institute sponsors Urban Welfare Exchanges nationwide where State and local staff meet, share, and exchange approaches to mutual problems. Some of the conference topics have included cost allocation, staff utilization, and staff

requirements. The Institute also disseminates information through publications, such as "A Work Measurement System for the Aid to Families with Dependent Children Program" and "How They Do It" - Work Measurement Studies for Public Assistance Functions.

- Commissioned numerous studies, such as the Comprehensive Study of AFDC Administration and Management, to identify problems in the administration of the AFDC program and recommend ways to improve administrative effectiveness; a personnel study, entitled Income Maintenance Worker Study - A Two-Way Taxonomy and Analysis, to determine what AFDC workers do, how they do it, and requirements needed to do it; and an Administrative Cost Survey designed to identify where and how States spend their administrative dollars.
- Provided funds to States to experiment with innovative programs and management techniques, such as New York City's Monthly Reporting System, which had the objective of developing a pilot program to have clients report their eligibility and income status monthly, and California's automated welfare eligibility determination system, which is designed to integrate the eligibility functions and automate time-consuming and error-prone clerical functions--the results of which are expected to be reduced paperwork, decreased administrative expenses, and improved client service.
- Established a national task force in October 1978, comprised of Federal, State, and local welfare officials and concerned representatives from professional organizations, to establish AFDC performance standards. They developed 11 preliminary performance measures designed to show accuracy, quality, and cost efficiency. Although the results have been released, OFA is still determining their value, evaluating States' reactions to the preliminary measures, and deciding how to best present the data. 1/

Our first report (HRD-81-51, May 18, 1981) on the results of this review discussed in detail a proposed guide that HHS is

1/In hearings before the Subcommittee on Oversight of the House Committee on Ways and Means, we commented on the performance measures as follows. "Several of HEW's [HHS'] so-called 'performance measures' are basically measures of outcomes of a program system which do not consider either the costs to operate the particular processes within the system to which they should relate or the efficiency with which these processes are carried out. As such, they do not measure work performance or serve as reasonable standards to be attained; they are simply calculated statistics at a particular point in time."

developing which sets forth principles and procedures for accumulating and allocating administrative costs incurred by State public assistance agencies for programs authorized by the Social Security Act. The guide requires the direct charging of costs to specific programs to the maximum extent possible and the distribution of multiprogram personnel costs based on random moment sampling of worker time to ascertain how much had been spent in each of the various programs. Because workers in all work processes can be included in the sample, administrative costs can be identified at the work process level, such as intake, ongoing, and redetermination. As of November 30, 1981, the guide had not been issued.

Since at least 1973, HHS has also provided work measurement information to State and local welfare agencies as a means to obtain data that can be used for cost-allocation purposes, productivity analysis, workload balancing, staff planning and scheduling, and budgeting. This effort is especially important since the majority of AFDC administrative costs--about \$1.3 billion in fiscal year 1980--involve personnel costs, the cost effectiveness of which can be measured through productivity goals based on work measurement. A survey done for HHS by Techassociates, Incorporated, in late 1978 and early 1979, found that 14 States had work measurement systems designed to provide measures of worker productivity and justify cost allocations. Further, in four of these States (California, Michigan, Minnesota, and Virginia) the State legislatures approved resources based upon work measurement data.

In June 1979, when GAO testified that HHS should require States to develop and incorporate into their management structures appropriate analytical tools to insure efficient and effective administration of the program regarding client service and staff productivity, HHS responded that rather than requiring States to develop and incorporate specific analytical tools, it had been directing its efforts toward developing and disseminating tools for States to use on a voluntary basis. Our testimony was based on work done in Contra Costa County where we demonstrated significant savings if techniques were required to be used (see p. 16).

In addition, HHS does not use efficiency data in allocating AFDC administrative funds to the States. In a June 1981 report 1/ to the Congress, we recommended that HHS develop and implement

1/"Millions Can Be Saved by Improving the Productivity of State and Local Governments Administering Federal Income Maintenance Assistance Programs" (AFMD-81-51, June 5, 1981).

systematic approaches to measure, analyze, and improve the productivity of State and local governments administering the AFDC program and use the data generated by those systems to allocate administrative funds to the States. HHS did not agree with the recommendation and suggested that it represented a new approach to sanctions.

BETTER PROGRAM INFORMATION NEEDED
BY STATE AND LOCAL MANAGERS

A manager's job is to achieve goals at the least practicable cost and make the best possible use of resources, while remaining within spending and other limitations. To ensure that administrative costs are minimized and error reduction efforts do not cost more than they save, State and local managers must be able to identify their programs' total cost through an equitable cost-allocation system; the cost of performing the eligibility, case maintenance, and redetermination processes and the efficiency level of employees through scientifically based performance goals; and where in the work process errors are made through quality assurance systems that are usable at the work process level.

In the four States reviewed, only California program managers have sufficient data to assess operational efficiency and make valid decisions regarding the establishment of program budgets. Managers in the other three States have inadequate data upon which to establish program budgets and determine the cost effectiveness of their individual programs or even the total cost of each of their programs, a matter discussed in our first report (HRD-81-51) on this review. In this regard, the HHS Inspector General wrote in 1978 that it is important to segregate costs by program and function because if the costs of an inefficient program are pooled with those of efficient programs, managers will lose the capability to identify problem areas and accurately target corrective actions. HHS has a vested interest in this situation because it is funding 50 percent of the administrative cost of the AFDC program, and without adequate cost and performance data, it cannot determine which States are cost effective and which are not.

California: cost and performance
data readily available

California assesses and controls the level of administrative efficiency of its 58 county welfare departments through a State-mandated cost control plan. The plan establishes goals of administrative efficiency based on historical data which are supported by work measurement studies in some counties. The counties must meet their established goals or incur State funding penalties. In addition, California and the counties evaluate the effectiveness of administrative processes through an extensive quality

assurance program which, in some counties, can assess the effectiveness of operations at the work process level. The benefit of California's system of cost control is well demonstrated by the fact that total administrative costs increased only 7.8 percent from 1975 to 1979, while inflation for the same period was about 36 percent. The system generated savings of \$18.8 million in administrative costs in its first year of operation; the system produced savings ranging from 3.4 percent to 6.6 percent in the following three years. HHS Region IX officials believe that California's overall AFDC program is cost effective and that its strongest asset is its effective management. Significant elements of California's program follow.

Cost control

California's cost control plan groups the 58 counties by caseload size (11 large, 14 medium, and 33 small) and applies controls to the major cost elements (staff, support, and direct). Staff costs include the salaries and benefits of eligibility workers and their first-line supervisors, which represent about 47 percent of total administrative costs. These costs are controlled by establishing worker productivity targets for the intake and case maintenance (includes redeterminations) functions of each county group against which the counties' actual performance levels are measured. For example, Los Angeles County's productivity target for intake workers was 23.79 intake actions per month for workers in 1978-79, and its actual performance was 23.77. Each year new targets are set forth by the State after negotiation between cost control and program officials to further refine and improve the cost control system.

Support costs, which account for about 50 percent of the total administrative costs, represent administrative and clerical support staff and operating costs, such as space, equipment, and utilities. Support cost targets are based on the ratio between staff and support costs, with a plus or minus 5-percent tolerance limit for each county grouping. For example, Los Angeles County's support cost target ratio was 1.26 in 1978-79, and its actual ratio was 1.11.

Direct costs--those which are easily identifiable to specific programs, such as fraud investigations and disability examinations--represent about 3 percent of the total administrative costs and are controlled by limiting counties to their prior fiscal year expenditure with appropriate annual cost-of-living increases. In fiscal year 1979-80, county expenditures were limited to fiscal year 1977-78 levels with appropriate cost-of-living increases.

Before determining their final administrative cost allotment for staff, support, and direct costs, the counties have the opportunity to justify any needed increases. Los Angeles County uses

data from its work measurement program to negotiate final targets with the State. However, once negotiated with the State, funding levels will only be changed if circumstances occur beyond the county's control, such as a change in the number of cases and inflation. Counties exceeding their overall allocation are faced with the possibility of State-imposed fiscal sanctions that could cause them to lose the State's portion of administrative cost reimbursement (25 percent) on the amount exceeding the budget. For example, in fiscal year 1977-78, San Francisco County lost \$139,000 in State reimbursements because of overstaffing and over-spending.

California also monitors administrative spending by examining the counties' quarterly administrative cost-reimbursement claims, workload statistics, and a comparison of reported activity levels for intake and ongoing functions to their targets. Each county is provided individual reports on its status and, as problems and questions surface, the State provides it with fiscal and program assistance. In addition, the State provides each county a quarterly report that contains selected statewide activity trends by county on the staff costs per intake action, continuing staff cost per case, eligibility worker staff costs per hour, support costs per hour, and the ratio of support costs to eligibility staff costs. This information allows both State and local managers to compare management efficiencies, plan and control operations, evaluate accomplishments, and determine where counties are spending their money.

Work measurement and operational analysis

Work measurement methods, coupled with operational analysis, provide data to managers which allow them to determine how many work units can be completed in a workday, workweek, or workmonth; set reasonable and equitable workload assignments; and assess staff needs more accurately. The data can also be used to (1) evaluate the performance of both individuals and groups, (2) identify such potential problems as declining production, processing bottlenecks and backlogs, and absenteeism, (3) determine county budgetary and personnel requirements, (4) prepare models for new systems, (5) run simulations of proposed changes in operations and programs, (6) develop alternative systems and procedures, and (7) provide data to identify the advantages/drawbacks and cost of alternatives. With the support of work measurement methods, Los Angeles County has limited AFDC administrative cost increases to 1.3 percent between fiscal years 1977-78 and 1978-79. Conversely, the county's consumer price index increased about 12 percent during this same period.

Alameda County, California, established a workload measurement program in 1977 to meet mandated production targets and budget allocations. Before workload measurement, the county's work

standards were based upon managers' estimates, hunches of what workers should be able to do, managers' using their own experience as former workers, and comparisons with other counties. After implementing such work measurement techniques as random moment sampling to determine what percent of available worker time should be allocated as productive and nonproductive, stopwatch time studies to develop average times per task for all worker tasks, and self-reporting for support activities, Alameda County had the data to support the elimination of 17 positions resulting in approximate annual salary savings of \$256,000. The cost of the work measurement study was a one-time expenditure of about \$65,750. Work measurement was also used to justify resource allocations, establish worker performance standards, and pinpoint and prioritize areas needing work simplification, ^{1/} such as the reduction of worker errors by using "easier-to-understand" procedures and forms.

Work measurement is not used in all counties, but the four largest counties use some type of work measurement method. The State's position is that although work measurement is an extremely precise management tool, it should only be applied in circumstances where simpler and easier-to-understand methods do not work.

We agree that simpler methods, such as using historical data, could enable a county to develop worker performance standards, support resource allocations, and prepare administrative budgets. However, using work measurement coupled with work simplification can help identify and eliminate inefficiencies. Although California's cost control system, which is based primarily on historical data, has been successful in controlling administrative spending, costs may be further controlled and efficiency improved if work measurement techniques were more widely used to support cost control targets.

For example, in 1978 we reviewed AFDC administrative practices in Contra Costa County, California, and applied work measurement and operational analysis techniques to its income maintenance operations. Using these techniques, we demonstrated that by revising the intake system each intake worker was capable of processing 46 actions a month compared to the State's cost control standard--which was based on historical data--of about 23 actions per month. By realigning some functions, our computed standard for ongoing eligibility workers was an average monthly caseload of about 162 compared to the 108-case standard used by the county.

^{1/}Work simplification is a technique to review the work processes and determine if they are unduly complex or take more time and effort than expected. It can also show if there is work overlap and duplication to indicate to an agency where it can take steps to simplify the process.

We estimated that Contra Costa County could achieve annual savings in AFDC administrative costs of about \$1.14 million. The cost of our study totaled \$148,400.

The workload standards we developed for Contra Costa County may not necessarily be applicable to other California counties because they were developed in the particular context of Contra Costa County's operations. We recognize that the techniques we applied may not all be required in other circumstances. There are a variety of work measurement methods available, each with a degree of accuracy commensurate with its operating cost. In this context, we use the term work measurement to include virtually any scientific and objective method that can be applied under varying circumstances. A county can weigh each method and choose the one that best fits its needs at the lowest price.

Quality assurance

To measure the effectiveness of county administrative functions, California has an extensive quality assurance program that provides payment and case error rate data which are representative at the welfare district office level. In conjunction with cost data from the work measurement and work simplification systems, this information can be used by management to evaluate the cost effectiveness of program operations. Los Angeles County also has a quality assurance program that provides management information on errors occurring at the county, individual district office, and work activity level. For example, an analysis of quality assurance reviews between March 1978 and March 1979 indicated that there was an increasing rate of client-caused errors attributable to recipients' failing to report changes which affected their eligibility or grant amount. On the basis of its work, county quality assurance review staff concluded that the major portion of client errors are willful rather than inadvertent. Therefore, because of the significant effect these errors had on program costs, the county expanded procedures for verifying birth documentation and confirming the identity of AFDC family members. A cost analysis of the new procedures showed that the county could reduce or discontinue aid to over 700 cases in the first year, resulting in savings of over \$2 million. The cost of installing and maintaining these procedures was estimated to be less than \$1 million.

Illinois: workload standards lacking and quality assurance insufficient

Illinois' current workload standards and operational performance data limit the State's ability to make meaningful analyses of the cost effectiveness of AFDC program operations. Presently, the State's workload standards are not reflective of what workers can efficiently achieve, and its quality assurance program is incomplete in that it only provides an indication of income maintenance

worker performance after the recertification process. As a result, neither HHS, State, nor local managers can totally evaluate the cost effectiveness of program operations and all may be sharing the cost of inefficient and ineffective work processes. These problems are discussed below.

Cost control

In 1977, the Governor of Illinois commissioned a task force to study ways of cutting the cost of State government. The task force found that the Department of Public Aid did not have a system to evaluate or improve the cost effectiveness of AFDC program operations, and it recommended the establishment of an office which would collect necessary cost accounting data, set cost-reduction targets, and perform continuous reviews of all agency programs and systems. The office designated to carry out these functions was the Cost Center Accounting Unit of the State's General Services Administration. Initially the office only collected data and prepared monthly reports which detailed current period and year-to-date expenditures by cost control center. However, in July 1981, the Office began establishing operating budgets for divisions and bureaus to which administrators will be held accountable. The Deputy Administrator of the State's General Services Administration told us that it is too soon to determine the effect of the new system and whether any administrators will be sanctioned; however, it seems that by and large bureaus and divisions are working within their budgets.

Work measurement

In Illinois, individual worker performance standards do not represent the level of productivity a worker could or should be achieving. In 1972, a time and motion study established that a worker could handle a caseload of 180 cases. Based upon this caseload, each worker had to do 30 redeterminations per month to keep cases current. A 1976 time study indicated that most workers should be able to do 45 redeterminations per month. Currently, workers have a maximum caseload of 235 cases, which is determined by dividing the legislative personnel budget into the total caseload. On this basis, each worker would need to do 40 redeterminations per month to keep current a caseload of 235 cases. However, the Department uses 30 redeterminations as a benchmark for disciplinary action against a worker.

The July 1981 collective-bargaining agreement with the worker union allows the Department to require reasonable standards of work. The Department recently completed a comprehensive work measurement study from which new caseloads per worker will be developed and implemented by the summer of 1982. In January 1982, Illinois officials could not provide us with the new caseload figures because the study data were still being consolidated.

Whether worker productivity will increase will depend on the new caseload level developed.

Quality assurance

To determine how effective local offices are in administering the program, the Department of Public Aid instituted a quality assurance review program in 1979 aimed at identifying errors at the local office level. The program is designed to review at least 200 recently recertified cases quarterly in each office, stress the importance of the quality of work, allow for comparison of local offices, and identify problem areas. These data can be used by local managers to evaluate the effectiveness of their programs and measure their accomplishments in terms of reduced error rates. The Illinois system, although a step in the right direction, is lacking in that it concentrates on income maintenance worker performance after the redetermination process and does not cover the intake process. The latter is extremely significant in keeping erroneous payments to a minimum. Hence, this review program cannot provide the State with the degree of assurance that the program is operating as effectively as it might otherwise be able to.

Massachusetts: work standards
inaccurate and performance data lacking

Massachusetts' worker performance standards are not representative of what a worker can do under current operations. They were established through negotiations with the employee union and are not based on work measurement. Massachusetts tried to develop an objective worker standard by conducting a work measurement study in 1979. However, the standards developed were based on a new method of administration that was not implemented so the new standards were never applied. As a result, Massachusetts cannot assure the efficiency of its local operation or that HHS is only sharing in necessary costs. Massachusetts' quality assurance program is sufficient to identify errors in the ongoing and redetermination processes, but cannot identify errors in eligibility determinations. Therefore, Massachusetts (like Illinois) cannot insure that its intake process is operating effectively.

Inappropriate work standards
impede efficiency

The Massachusetts Department of Public Welfare does not have a system for controlling administrative costs through increasing productivity. The level of spending is governed by the annual appropriation by the State legislature with little consideration given to achieving optimal efficiency. In fact, efficiency will be very difficult to attain because of inadequate performance standards.

The workload standard per income maintenance worker in Massachusetts is not based on work measurement, but was established by negotiation with the employee union. For example, each intake worker is required to process 30 cases per month regardless of whether the cases are deemed eligible or ineligible. Once workers achieve this standard, they are not required to process additional cases until the following month. Our review at Boston's Hancock Street income maintenance center showed that workers often complete their quota early in the month and sometimes refuse to see more applicants. As a result, applicants either have to be processed by a supervisor or wait until the next month to apply.

The Department of Public Welfare made an attempt in 1979 to evaluate and update worker productivity standards for Massachusetts' public assistance workers using work measurement techniques. However, the worker performance standards developed were based on a new method of administration. The Assistant Commissioner for Eligibility Operations stated that, after being tested in four offices, the new method was found to be impractical and was never implemented. However, he could not give us specific details on why the new method was impractical. Thus, AFDC managers still cannot use their resources with maximum effectiveness.

To keep obviously ineligible applicants from being interviewed by intake workers, speed processing of applications, and reduce the probability of error in the eligibility determination process, the State piloted the use of a prescreener in five local offices, including the Hancock Street center in 1980. The prescreener performs a preliminary eligibility determination and prevents many obviously ineligible applicants from seeing a worker (although the person can still apply). This enables the caseworker to spend more time with people who are actually in need and to perform a more thorough eligibility determination. The prescreener has also contributed to reduction in the error rate by insuring that the client has his or her documentation in order before he or she can see the caseworker. Despite the obvious benefits of the prescreener, the State legislature has not approved funds for the position and the State has not expanded the concept to all local offices.

Quality assurance

Massachusetts began a special quality assurance program in March 1979 to identify the specific causes of errors in the AFDC ongoing and redetermination processes in its 20 largest offices. A second round of reviews was performed in January 1980, and in April 1980 quality assurance was made a permanent program to provide information on the quality of redeterminations. This review is based upon a statistically valid sample of 1 month's AFDC redeterminations each quarter in each office. While this system provides valuable information on the effectiveness of operations in the redetermination and ongoing processes, the State does not

have a system for reviewing the effectiveness of the intake process. Hence, it cannot determine whether this function is operating in a cost-effective manner.

New York: State lacks cost and performance data--city has informal system

New York State does not have an adequate system to produce cost, performance, or quality assurance data for its AFDC program which can be used by managers to evaluate the cost effectiveness of State and local operations. Further, the State Department of Social Services has done little to encourage local districts to limit, control, or accurately identify local income maintenance administrative costs although it pays 25 percent of the counties' AFDC administrative costs. In fact, officials contend that State law inhibits their control over local operations and that they must reimburse local administrative costs regardless of inefficiencies. As a result, New York State cannot assure itself or HHS that local programs are operating efficiently and that both the State and HHS are only sharing in reasonable and necessary costs.

New York City's workload standards are not based on work measurement, and thus, they do not assure worker efficiency or provide a basis for improving the operation's cost effectiveness. City officials contend that they have their own systems which enable managers to determine the cost effectiveness of the intake and recertification processes. However, these systems do not cover case maintenance and parts of them are undocumented. Thus, New York City cannot determine the effectiveness of its case maintenance system, and New York State's and HHS' oversight of the city's management decisions is impeded. New York State performs indepth quality assurance reviews only in New York City, but city officials contend the data are useless for designing corrective actions.

Cost control

The New York State legislature is interested in cost containment. It has a Legislative Commission on Expenditure Review, and as part of the New York State Social Service Laws of 1977, it required the Department of Social Services to establish a cost control plan and present local administrative cost data to the legislature. In January 1978, the Department presented the legislature with an interim report stating that existing administrative cost data were misleading and inadequate for reliable calculations, comparison, and ultimate control of local administrative costs. However, according to a State official, two major management information systems--the Welfare Management

System and the Financial Management System ¹/--were being implemented and, when operable, could provide detailed administrative cost and performance data. According to a Department Associate Commissioner, no followup report on cost containment has been issued to the State legislature, nor has the legislature requested one. In addition, he stated that the original report clearly did not respond to the initial mandate of the legislature--which was to assess local income maintenance productivity and develop a cost control plan.

The State argues that initiatives in the cost control area have been limited by a State law which precludes it from mandating local staffing levels. However, Department of Social Service officials told us they have not attempted to change the law, nor have they suggested local staffing levels, an action which is not precluded by State law.

New York City has data on how many staff work in each major process at the various income maintenance centers, total staff costs at the centers, and the staffs' activity level (such as applications processed, telephone calls received, etc.). As part of an overall effort to reduce the number of the city's government employees and cut costs, the New York City Human Resources Administration is following a general policy of not replacing employees when they leave.

The Human Resources Administration's Deputy Administrator for Income Maintenance Programs uses the staff, cost, and activity data in administering the attrition policy. As the number of employees in a process declines, he monitors the activity level in that

¹/The Welfare Management System is intended to be a statewide computer system which collects, processes, and stores eligibility data for all public assistance recipients, without regard to differences in local organizational structures, thereby making comparisons of performance impossible. The original 1976 cost estimate of \$41.8 million to develop the system has been substantially exceeded and is now expected to exceed \$250 million. Although the system is now operating in several counties, it is not expected to be operational in New York City before 1983.

The Financial Management System reports only claim data submitted by local offices for administrative cost reimbursement, which State officials contend cannot be used to judge efficiency or effectiveness. If it were redesigned to collect cost data by process or activity, the system could report sufficient fiscal data at the county level to compare administrative costs. In conjunction with a revised Welfare Management System that contained common organizational definitions, the State could then obtain local productivity data.

process and if a problem (such as not determining eligibility within the allotted time) arises, he determines whether the problem is attrition related. If it is, the Deputy Administrator first tries to improve the productivity of the workers in the income maintenance center to cover the staff loss. If that is not effective, he uses the cost and other data to prepare a justification to the city administration for filling the position.

The Deputy Administrator also believes that by attriting staff until operations problems arise, he is assuring cost efficiency. We agree that New York City's policy will foster lower administrative costs, but we are not convinced it produces the best use of resources or the highest worker efficiency. We performed an analysis of 5 of the city's 42 income maintenance centers which showed a wide range in the number of cases per case maintenance worker (excludes redetermination process)--over 200-percent difference between the highest and the lowest ratios. The number of applications per application worker also varied widely. While city officials say they are trying to reduce this variance, and their new system (see p. 55) will result in approximately equal case maintenance caseloads among workers (at 162 cases per worker, including redetermination process), this equality will simply be the average of the current caseloads, not an objectively determined standard. Furthermore, the fact that some income maintenance centers can operate with much higher workloads than others indicates that the average workload may not be the best standard.

An Assistant Deputy Administrator of the Human Resources Administration told us that income maintenance center activity data are used to hold managers accountable. Office managers who are unable to achieve the citywide average activity level (applications, continuing case actions, etc.) per worker face the possibility of demotion or reassignment. However, no documentation was available to substantiate that any manager has ever been demoted or reassigned for not achieving the average, and the workload variances discussed earlier cause us to question how strictly the policy is followed. Further, the Deputy Administrator said he would not want to call the averages workload standards and hold workers accountable to the averages because the standards would tend to become a maximum workload, not a minimum, and workers who had exceeded the average in the past might tend to lower their performance to the average.

We agree with the above-expressed concerns about using averages as performance measures. Worker performance should be measured against what is achievable, which can be determined by using work measurement techniques.

Work measurement

New York State does not require its localities to employ work measurement techniques in establishing workload standards. In addition, the State has not initiated any projects or studies to determine the feasibility of using work measurement techniques to establish local district staffing standards or to develop a work measurement system. The State had applied for a demonstration grant from HHS to develop a work measurement/simplification project but, due to limited funds and other priorities, HHS rejected the State's application. In the absence of extra Federal funding, the State has chosen not to pursue the project.

New York City officials said that several years ago a city task force attempted to design a public assistance administration work measurement system. The city's Deputy Administrator of the Human Resources Administration told us the task force plan was unworkable, and he rejected it. The city has made no further attempts at objectively setting workload standards.

Quality assurance

New York City has a comprehensive program for assuring the quality of its eligibility and redetermination processes. However, its quality assurance program is deficient in that it does not cover a major portion of the case maintenance process. This allows errors in the case maintenance process to go undetected (and hence uncorrected) and limits New York State's and HHS' ability to evaluate New York City's cost effectiveness.

New York State performs local level error identification reviews in New York City, which show errors by category (i.e., absent parent, resources, earned income, etc.) and collateral verification (i.e., tax clearance, postal clearance, telephone contact with SSA, etc.) used to conclude that a case was in error. These examinations consist of a sample of 100 AFDC cases and 100 non-Federal public assistance cases that are reviewed in detail and could include obtaining verification of case information from such sources as the State Department of Taxation or by a visit to the recipient's home. However, these examinations are not performed in any other county in the State, and the city does not plan to use the data from these reviews for any management purpose other than correcting the specific errors found in the sample itself. Further, the data produced by these reviews, even if used by the city, would not provide information necessary to identify

--the activity in which the staff is making errors,

--weaknesses in operations due to local office procedures not being followed, and

--the need for new procedures which could prevent incorrect payments.

Because of this lack of management information and in an effort to provide an extra layer of management control, New York City established the Error Accountability Unit in the income maintenance centers to perform quality assurance reviews of newly accepted cases. With the implementation of the city's caseload concept (see p. 55), this review is being expanded to the recertification process, but will not identify errors resulting from other case maintenance activities. According to city officials, the review is designed to identify procedures workers need training in and ineffective workers. However, because the Error Accountability Unit reviews only application and recertification decisions, it cannot identify ineffectiveness in all processes where errors may originate.

Also, New York City has an audit group which is responsible for evaluating income maintenance center operations to determine the effectiveness of procedures and policies and the extent to which centers are complying with them. Two types of reviews are conducted: standard audits and special studies. Standard audits are designed to determine whether existing policies and procedures are being followed in the processes of eligibility determination, recertification, and a minor portion of case maintenance. They are performed about every 3 to 4 months at each income maintenance center and include evaluations of the application section, application control and statistics section, central processing unit, fraud control unit, employment unit, reception unit, quick service unit, telephone unit, and face-to-face recertification centers. These audits are used to develop corrective action plans for each office, and field managers later follow up on the findings to insure that corrective action was taken. However, these audits do not evaluate a significant portion of the case maintenance process, and thus, they cannot identify all problem areas. The city has not yet developed a program for conducting such audits of the new caseload concept (see p. 55).

Special studies are performed on an as-needed basis to evaluate the implementation of new procedures and policies. According to a city official, these audits are an effective management tool because they enable management to determine whether new procedures are being properly implemented and whether the procedures improve program operations and are cost effective.

Another less formal method used to ensure the cost effectiveness of error reduction efforts is the New York City Deputy Administrator's own analysis. Although he has no written documentation,

he claims that he performs a rough analysis of the program cost reduction and administrative cost increases resulting from administrative procedures. His decisions to implement an additional face-to-face recertification (see p. 53) and not to have home visits performed were based on this type of analysis. 1/

The Deputy Administrator told us that his analysis is rough and prone to error. Therefore, to ensure that he does not implement a procedure which is not cost effective, he requires that the benefit from the procedure be several times its cost. He agrees that as AFDC efficiency and effectiveness improves, the difference between costs and benefits will be smaller and he will need more accurate analysis, such as the accuracy given by work measurement, to make decisions. He told us he will obtain that information when he needs it. It is possible the city is approaching that level of efficiency and effectiveness now. In February 1981, the then Commissioner of New York City's Human Resources Administration said that the city may be very close to a point of diminishing returns; it will cost more to bring the number of errors down further than the amount that can be saved.

CONCLUSIONS

Except for California--which has systems in place to evaluate worker performance and measure the cost effectiveness of specific work processes within the program--cost and performance data available to State and local managers in Illinois, Massachusetts, and New York are insufficient. Presently, Illinois, Massachusetts, and New York do not have accurate goals to assess worker performance. They also lack adequate quality assurance systems which hinder their ability to assess the cost effectiveness of specific processes and activities.

From the Federal perspective, the deficiencies cited need to be corrected. HHS--as the agency responsible for the "proper and efficient" operation of the AFDC program--must be able to assure that the Federal Government is not subsidizing inefficient and ineffective State and local administrative operations. Now, it cannot. To have such assurance, HHS should work with each State to establish accurate and reasonable goals for efficient program operations. To encourage each State to meet its goal, HHS could

1/It is noteworthy that our analysis of home visits in another New York State social service district indicated that home visits for eligibility determination are cost effective. We do not believe this necessarily casts doubt on the city Deputy Administrator's analysis because worker salaries, security requirements, etc., can differ between districts, which will influence the cost effectiveness analyses.

develop a cost control mechanism that, for example, ties administrative funding levels to productivity rates (e.g., 40 intake actions per month per worker). Currently, however, efficiency goals cannot be established nor cost control developed because the necessary cost or performance data are not available.

Massachusetts took action to institute work measurement techniques which would allow managers to determine the efficiency of their work force and institute productivity improvements but has not implemented these techniques because they were predicated on a proposed change in administrative procedures which never took place. Neither New York State nor New York City have made an attempt to develop such techniques.

Work measurement can be used in establishing performance standards which, together with data on errors, can be used to determine the cost effectiveness of individual workers and administrative processes. Such standards, when based on simplified and improved work processes, would help managers maximize the productivity of workers and facilitate the establishment of program budgets and the achievement of goals at minimal cost.

While we recognize that work measurement combined with operational analysis can, depending on the techniques used, be expensive, there are a variety of techniques States can choose from. States should weigh each system and determine which is the most cost effective in meeting their needs. Each method has a degree of accuracy which is commensurate with its cost.

We believe, therefore, that HHS should actively assist the States to adopt performance measurement and operational analysis techniques and develop work goals and make staffing decisions based on those techniques. In addition, the States should work with employee groups to gain their acceptance. This is especially important in today's budget-tightening environment when every dollar must be effectively and efficiently spent.

AFDC managers have been successful at reducing their formerly high payment error rates without the benefit of detailed cost information. However, further progress in reducing errors and improving worker efficiency will necessitate that errors be identifiable not only statewide but also by locality, office, and work process (intake, ongoing, and redetermination) within each office. In this way, managers can evaluate the effectiveness of operations at these various levels, determine where and how errors were made, and make improvements where necessary.

PROPOSED RECOMMENDATION TO THE
SECRETARY OF HHS

In a draft of this report, we recommended that the Secretary require that all State plans contain statewide income maintenance worker goals of administrative efficiency. These goals should be based on appropriate work measurement and operational analysis techniques and quality assurance systems which assess the quality of specific work processes. HHS should begin working with the States to develop these performance goals and administrative budgets based on them to assist AFDC managers to increase worker productivity and improve cost control.

AGENCY COMMENTS AND OUR EVALUATION

Department of Health
and Human Services

In its comments on our proposed recommendation, HHS agreed that a need exists to work with the States on the problems discussed, but is not in favor of requiring States to take the recommended actions. HHS also noted that we made no cost estimates of the system and procedures advocated and that we used as a standard for comparison the cost control system of one State that has an administrative cost per case among the highest in the country. HHS commented that there are other approaches to administrative cost control which can be equally effective at a lower cost, as indicated by many other States with similar or lower error rates and lower administrative cost per case.

First, our report highlights the benefits California has achieved in restraining administrative cost increases to much less than inflation through its comprehensive system approach to program management. We also provided examples of individual California counties saving money by using scientific and objective means to improve operational efficiency. The cost to implement such a system and procedures and the resultant savings in a particular State would depend on system and procedure elements adopted and any resultant changes made in the administrative structure and practice.

Second, we used California's cost control system as a standard for comparison because it was the only comprehensive system in use in any of the four States visited. California's administrative cost per case is a matter of concern; as pointed out on pages 16 and 17, the limited use of work measurement to support historical data as a basis for worker performance standards could result in setting inappropriate standards with resultant excessive costs. Comparisons of administrative costs among States can be useful, but such comparisons must consider differences in States' goals, administrative structure, salary levels, cost-allocation methods, etc., which affect costs. What may be a high

administrative cost in one State may be a reasonable level in another. Each State can also be evaluated using its own appropriately developed administrative goals. Our review showed that where adequate cost control is used, costs can be restrained.

We recognize, however, HHS' concern that requiring States to develop standards of administrative efficiency would in essence change the nature of the Federal-State relationship--which up to now has been one where HHS suggests voluntary change at the State level.

Because of the President's recent announcement that he intends to turn the AFDC program over to the States, we are inclined to agree with HHS that now would not be an appropriate time to alter the Federal-State relationship as our proposed recommendation would have done. Our views on this matter are further discussed in a section of this chapter which follows our presentation and evaluation of State comments and provides a revised recommendation to the Secretary of HHS.

California

California commented that the report implies in discussing work measurement that, because historical data are the basis for its cost control effort, it is not totally efficient when compared to individual work measurement standards. First, while acknowledging that caseload targets are based on prior year data, California noted that the targets are reviewed and updated to reflect current operating levels. Our report points this out and is supported by the results of earlier work we did in Contra Costa County. However, California's comment supports our view of the need for wider use of work measurement and operational analysis techniques. Updating targets to reflect current operating levels merely shows what workers are doing, not what they could achieve. In our view, performance goals should be developed from objective and scientific methods of measurement, not primarily historical results.

Secondly, California commented that our view that the State could increase activity levels is incorrect because the county basis for determining these levels typically is different from the basis used by the State. The State's cost control target may be lower because it includes both case carrying and specialized workers who may not have caseloads, but work on cases while county work measurement workload standards typically would be computed based on only the number of workers with assigned caseloads, hence the standards would be higher.

Where work measurement results are available, we believe the State should encourage a county to strive to meet that goal when it exceeds the cost control target. Wider use of objectively determined workload standards would indicate whether cost control

targets represent goals promoting greater efficiency or are largely the results of past operations that may include inefficiencies.

In response to our proposed recommendation that the Secretary of HHS require all State plans to include administrative efficiency standards based on work measurement techniques and quality assurance systems, California believed that workload measurement is not necessarily a viable solution for administrative cost control in a county-administered structure. It noted that its cost control system works toward statewide uniformity, but also acknowledges counties' organizational differences which would not likely be considered in a workload measurement system.

Workload standards should represent, with as little bias as possible, the workload workers are capable of achieving so that any past inefficiencies are not continued. Such standards would then represent goals the agencies and their workers should strive to achieve while keeping associated administrative costs under control. We believe that workload measurement would consider organizational differences between counties because work measurement would determine how long an administrative procedure should take under a particular method of administration. County specific workload standards could be developed without the problem of incorporating past inefficiencies.

California also made some suggestions of a technical nature which we incorporated in the report where appropriate.

Illinois

Illinois made the following comments on our draft report.

1. The report proposed workload standards and performance criteria as the primary evidence of the quality of responsible management and that, if they are not scientifically developed, the Federal Government is open to exploitation.

The report demonstrates that, in at least three of the four States visited, objective workload standards and performance criteria are not part of AFDC program management. Because AFDC administrative costs are shared between the States and the Federal Government, the States also suffer when "higher than necessary" costs are incurred. To help overcome these problems and avoid bias, we believe workload standards and performance criteria should be objectively developed.

2. While promoting workload standards as an absolute prerequisite of the AFDC program, the report indicated that worker optimum efficiency is a given goal on which GAO, HHS, and

the State are in agreement. While disclaiming the payment error rate as the single criterion of efficiency, the report holds it to be the most important management efficiency criterion.

Each State's policies and procedures set forth program goals to be achieved, such as timeliness of actions for determining eligibility and for making payments to those found eligible, which relate to worker efficiency. Objectively determined workload/performance standards are needed to establish what this optimum efficiency level is in the environment in which the work is done. While they do relate to elements of worker efficiency, payment error rates deal more extensively with worker effectiveness in how accurately they do their work. Payment error rates are probably the most visible evidence of management effectiveness/efficiency because they are developed from a nationwide quality control program aimed at identifying the causes and reducing the incidence of erroneous benefit payments. Error rates, like administrative costs per case, are not the single criterion of efficiency, but they are important indicators.

3. While disclaiming a direct relationship between administrative costs and error rates, the report provides cost data that would permit a "total cost" evaluation, but does not conclude from the fact sheet that at Illinois' cost per case and error rate, California could have saved money. Also, Illinois believed the report was in error by citing it as inefficient when it had the lowest total administrative cost (including payment error) of the four States discussed and by not concluding that, based on this cost, it was efficiently using some management practices.

The fact sheet was developed and presented for information purposes only and was not intended to be used for comparative analysis. State to State comparisons would be inappropriate because total and per-case administrative costs and error rates are influenced by such factors as program management methods, salary and staffing levels, program complexity, and caseload size and composition (urban-rural, income-nonincome, etc.). The facts presented in the report about Illinois, taken together, demonstrate that its program management, although having made significant progress to improve program operations since 1978, needs to make further improvements.

4. The report should have included reference to agency program goals, such as timeliness of various administrative actions, adequacy of response to client appeals, and

adapting the assistance level to need level, as objectives to be achieved rather than concentrating on administrative cost and error rates as criteria of management efficiency.

These are important goals that the agency should strive to achieve. Ascertaining the extent to which a State was achieving such goals was beyond the scope of the review and would have necessitated examining a large sample of active and inactive cases.

5. Also, Illinois indicated that 30 redeterminations per month is the benchmark for discipline, but not the standard of performance. Currency of redeterminations is the standard. This is exemplified by the report's figure of 38 redeterminations per month made in covered caseloads in the Michigan District Office.

While we agree that currency of redeterminations is the performance standard, the State cannot discipline a worker unless the worker falls below 30 redeterminations per month. As stated in the report, the Michigan District Office averaged 38 redeterminations per month per covered caseload which is above the disciplinary benchmark, but below the number needed (40) to keep a standard caseload current and below the 45 cases per month, indicated in a 1976 time study, that would represent optimum efficiency.

Illinois also made some suggestions of a technical nature which we incorporated in the report where appropriate.

New York

New York questions our use of California as a role model and also the comparability of the four States chosen for review because of the difference in methods of administration--State supervised and State administered. New York indicated that each State has a substantially different income maintenance program, employing different administrative criteria and methodology.

California was used as the role model because it had the only comprehensive cost control and management system of the four States reviewed. The selection of the States was made at the direction of the Subcommittee in order to get a picture of the efficiency and effectiveness of different types of administration.

New York commented that the size and scope of a State's entire income maintenance program is the key factor in the final determination of administrative quality and efficiency. To illustrate this point, New York's administrative cost per AFDC case is

higher than California's, although New York's income maintenance program includes AFDC, Home Relief, Emergency Assistance to Families, and Adults; thus, the complex program structure requires more involved eligibility determinations which increases, not only the chance of error, but the overall administrative cost.

We believe New York's position points out the need for (1) an equitable cost-allocation system as stated in our previous report (HRD-81-51, May 18, 1981) and (2) cost and performance standards at the work process level to determine whether those processes are operating at optimal efficiency and effectiveness. This in turn will enable the State and HHS to determine whether New York's cost per case is in fact reasonable.

New York indicated that the congressional intent in establishing the AFDC program was to allow the State considerable flexibility of operation under HHS guidelines. In light of this, the State does not agree with the recommendation that a Federal mandate be established to require States to apply uniform standards of administration.

We are not proposing uniform standards of administration in this report. The standards which are discussed should be tailored by each State to their particular circumstances with HHS oversight. By encouraging the use of work measurement and operational analysis techniques and quality assurance, we seek maximum improvements in efficiency and effectiveness, not uniform methods of administration.

The State commented that the recommendations contained in the report are potentially harmful to effective State management of the AFDC program. It believes that flexibility in program administration can reasonably be expected to generate greater savings than those GAO insists will result from its cost-allocation proposal. The enforcement of such strict cost-allocation schedules could hamper the initiative of some States and pose a financial burden to others.

We do not believe this flexibility should ignore elements aimed at achieving optimum efficiency. We believe that allowing the States to work with HHS in establishing a budget to promote efficient operations should not be a financial burden on States operating efficient programs.

Our report on cost allocation primarily supports HHS efforts to promote a more equitable method of cost allocation. Where it can be justified, HHS will allow the use of methods other than random moment sampling of worker time. This again should not hamper initiatives or be a financial burden.

New York commented that, through the use of its various systems (Welfare Management System, Medicaid Management System, and Financial Management System), it is now capable of producing information on many aspects of the public assistance program. In addition, studies conducted by the State, such as Model Center Analyses and the Abt Associates Report on Monthly Reporting, have focused on the comparative analysis of cost per case as well as the effects of program changes on the numbers of cases.

We cite the Welfare Management System and the Financial Management System in the report and point out the partial cost data they make available. We also point out that these systems need to be revised in order to be fully effective. We were unable to obtain the results of either the Model Center Analysis or the Abt study so we do not know the extent to which they provide useful information on this matter.

New York commented that our statement to the effect that New York City's workload standards are not based on work measurement should be clarified. Work measurement has been attempted based on actual work observation, and an analysis of work performance was conducted at the Williamsburg and Concourse income maintenance centers, necessitating lengthy discussion with local unions. These studies were found to be successful management tools and the State plans to continue them. Furthermore, the State indicated that work standards in effect for the city's face-to-face recertification program are based on actual performance observations, while other work standards have evolved based on past experience. The measurements used include a worker's ability to meet certain regulations pertaining to timely action on appointments, applications, and recertifications. Work backlogs are also closely monitored by New York City to determine appropriateness of the workload.

In October 1981, we attempted to obtain details of these studies and observations so that they could be appropriately reflected in the report; however, no information was made available so we have no basis for making changes to the report.

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We are sympathetic to HHS' concern about altering the Federal-State relationship concerning the AFDC program, as highlighted on page 29. HHS and the States are currently working to implement the changes made to the program by title XXIII of the Omnibus Budget Reconciliation Act (Pub. L. 97-35, Aug. 13, 1981). Considerable effort will be needed in many States to make the administrative, policy, and procedure changes necessary to, for example, (1) recover any AFDC overpayment from current and former recipients and (2) apply retrospective accounting to applicants and recipients as well as obtain and use monthly reports from recipients on income and changes in resources and circumstances

which may affect their eligibility or grant amount. Also, the President announced, in his State of the Union address on January 26, 1982, his intention to seek legislation to turn the AFDC program over to the States in fiscal year 1984.

In our view, a high degree of cooperation between the States and HHS will be essential during this period to accomplish both the required changes called for by the August 1981 legislation and a smooth transition, if it is to take place, of the transfer of the AFDC program.

RECOMMENDATION TO THE
SECRETARY OF HHS

Because this report presents information that would be useful to the States to help them improve the efficiency and effectiveness of their AFDC operations and reduce or stabilize costs before the planned transfer date, we recommend that the Secretary of HHS send copies of this report to all States and work with them to develop statewide income maintenance worker goals of administrative efficiency. These goals should be based on appropriate work measurement and operational analysis techniques and quality assurance systems which assess the quality of specific work processes. HHS should also work with the States to develop administrative budgets based on these performance goals. These actions would help AFDC managers increase worker productivity and improve cost control.

CHAPTER 3

CHANGES IN STATE ADMINISTRATIVE

PROCEDURES HAVE IMPROVED AFDC

MANAGEMENT: FURTHER EFFORTS ARE STILL NEEDED

Federal regulations require States to keep erroneous payments to a minimum. To achieve this goal, managers of State AFDC operations should have management controls to

- assure the accurate and timely verification of clients' eligibility,
- track clients' status on a continuing basis,
- facilitate eligibility worker control and supervisory review of client documentation,
- maintain employee/system accountability for errors, and
- assure that workers have the educational background and training to effectively perform income maintenance functions.

California uses these concepts in its program and, as a result, has been successful in continuously sustaining a low error rate.

In response to congressional concerns expressed in 1977, HHS began an intensive program of working with the States to develop effective management controls. Similarly, State legislatures and executive branches began to examine the administration of their programs more intently. The results in Illinois, Massachusetts, and New York have been encouraging. Although there are significant differences in the program management of these States, all have made substantial improvements. Illinois and New York have reduced their respective error rates from 17.6 and 11.9 percent in 1977 to 9.4 and 6.96 percent during the October 1979 to March 1980 period. Conversely, while Massachusetts has had some difficulty in reducing its error rates, the prospects for improved performance are also evident. In the June to December 1977 period, the State's payment error rate was 11.7 percent, and in the October 1979 to March 1980 period, it had increased to 16.7 percent, but was tentatively estimated at 9.1 percent for the April to September 1980 period.

Despite significant managerial improvements, which are planned or have already been undertaken in Illinois, Massachusetts, and New York, the following program functions need further attention in one or more of these States:

- Accurately and timely verifying clients' eligibility.
- Tracking all clients' status on a continuing basis.
- Controlling client documentation.
- Holding workers accountable for the quality of their work.
- Placing qualified people in income maintenance positions.

Problems in effectively addressing these functions contribute to erroneous payments.

CALIFORNIA AFDC PROGRAM: EMPHASIS ON
EFFECTIVE MANAGEMENT

California has made significant progress in reducing payment errors in the AFDC program. In 1973, California had a 12.3-percent payment error rate, reduced it to 5 percent in 1976, and for the October 1979 to March 1980 period, the payment error rate was 6.3 percent. This situation is the result of the continuing interest of all responsible parties in maintaining an effective program. The interest starts with the State's executive and legislative branches and continues down the chain of command to the local managers. Programs have been developed at all levels to assure the operation of an efficient, effective, and equitable system. Our review has shown that the program goals of efficiency and effectiveness are being aggressively pursued and State and local managers are effectively managing the program.

Historical perspective

In an effort to control a "runaway" welfare system in which the welfare rolls were increasing at a rate of 40,000 per month and the truly needy were getting too little because others were abusing the system by claiming and receiving benefits they were not entitled to, California passed the Welfare Reform Act of 1971. The act contained significant cost saving features tied to absent parent support, relative responsibility, elimination of abuses and loopholes, and other matters.

California also began to improve AFDC administration when it undertook a concerted campaign in 1973 to improve the equity, efficiency, and effectiveness of the program. The State realized that, for this campaign to be successful, management commitment at all administrative levels was needed and a framework to measure success or failure would have to be developed. To accomplish this, California developed a program management performance model in 1976 which established the basic program goal as equity, efficiency, and effectiveness. It also established performance

measures to (1) determine the extent to which program goals were being met, (2) provide for manager performance feedback, and (3) establish managerial accountability.

Under the performance measures, equity is gauged based on such things as the timeliness of eligibility determinations, the provision of special need grants to those who are truly in need of such assistance, and the disposition of fair hearings equitably. Efficiency is achieved when the caseload standards set for workers are met. Although the standards vary by county, certain minimums have been established for the number of (1) applications to be processed in a given period, (2) cases to be maintained on a daily basis, and (3) redetermination actions to be handled over a specified period. The goal of effectiveness is attained when the aid dollars misspent, through either overpayments or payments to ineligible, and the number of incorrect denials of eligibility are minimized in accordance with established goals.

Based on their evaluation of how well these goals are met, State and local managers can determine actual performance, revise standards or target levels of performance, and develop corrective action plans. Further, the performance feedback obtained through this system provides AFDC managers with needed information to design and evaluate comprehensive management controls. State and county AFDC program managers use the data to compare actual worker performance to the standard or target performance levels and can immediately identify potentially weak performers or procedures. Management can then design and evaluate corrective action.

The first piece of major legislation geared to reducing error rates was the passage of State Senate Bill 154 in 1978. This bill required the State to obtain statistically valid error rates for the 35 largest counties and allowed it to sanction individual counties for erroneous payments made in excess of 4 percent. The counties have to pay the total non-Federal share of aid payments for error rates in excess of 4 percent.

Current managerial efforts to control error rates

We concentrated our review of California's administration of the AFDC program in Los Angeles County and found that the county has systems to insure effective program operations. Error rates in the county have declined from 5.4 percent in the July to December 1977 period to 2.9 percent in the October 1979 to March 1980 period. The following discussion provides specifics on how the county has accomplished this.

California closely monitors the timeliness of eligibility determinations to insure that counties comply with the 45-day federally mandated eligibility time frame. Los Angeles County requires that eligibility be determined within 30 days of

application and its caseworkers average 7 days. Further, Los Angeles County holds workers accountable for maintaining a standard of 27 intake cases per month.

The State assures the accuracy of eligibility determinations through a stringent quality control process wherein expanded case samples are taken to produce valid county error rates. The State imposes sanctions on its counties for payment error rates in excess of 4 percent. To facilitate accurate and timely determination of client eligibility, Los Angeles County eligibility workers specialize in only one program. This allows workers to concentrate on learning and understanding one set of eligibility criteria which, in turn, allows them to perform their functions more effectively.

The county also uses two types of review to assure the accuracy of eligibility determinations--100-percent supervisory review of all eligibility determination cases and a second review by district monitors. The latter can either review 100 percent of approved cases or a smaller sample, depending on the requirements of the district director. Extensive documentation requirements are imposed on the applicant, and a home visit to verify residence and the children's presence in the home is required. To assure the applicant's income and resources do not exceed established limits, various third-party verifications are also made.

Both the State and the counties--including Los Angeles--have instituted a number of systems to track clients' status on a continuous basis. The State has assisted the counties in developing systems, such as:

Retrospective accounting. ^{1/} The amount of the AFDC grant is based on income received in the second month before the month for which the checks are issued (e.g., June checks are based on April's income). This method of budgeting eliminates the problem of unreported income changes occurring in the budget month, associated with a current month accounting system.

Client monthly reporting. ^{1/} All AFDC recipients are required to submit a monthly update of eligibility factors on

^{1/}Section 2315 of the Omnibus Budget Reconciliation Act of 1981 requires that States (1) determine recipient monthly benefits based on a previous month's actual income except for the first month of eligibility and (2) require all recipients to provide monthly reports on income, family composition, resources, etc., unless a State can demonstrate to the Secretary of HHS that specified classes of recipients should report less frequently because the administrative cost of monthly reporting for them is not worthwhile. Both provisions became effective October 1, 1981.

a form mailed to them by their county welfare department. This form allows recipients to report on a timely basis changes affecting eligibility and grant amount. The timeliness of information has had a strong impact on overpayment and underpayment errors.

Earnings clearance. This is a quarterly computerized system that matches State employment department records of earnings with the State's file of AFDC recipients. County welfare departments use the reports to verify recipient reported earnings and to detect possible fraud.

Unemployment and disability insurance benefits verification. County welfare departments submit forms to the State employment department to verify the existence of and amount of unemployment and disability insurance benefits being received by AFDC applicants and recipients.

Alien status verification. Forms are sent to the U.S. Immigration and Naturalization Service to determine the legal status of aliens.

Veterans' benefits verification. County welfare departments obtain verification from county veterans' services offices of the existence of and amount of veterans' benefits being received by AFDC applicants and recipients. The system is also used to request certain AFDC applicants and recipients to apply for veterans' benefits.

Individual counties have developed additional tracking techniques, such as:

Tickler files. These are sets of reminders to eligibility workers of changes in factors affecting the eligibility of specific recipients. Common ticklers are the sixth birthday of the youngest child, sixteenth birthday of any child, and due dates for reinvestigations. Many counties use data processing to provide ticklers automatically.

School verification. County welfare departments obtain the cooperation of local school districts to verify school attendance for children over 16 years of age. This is usually done twice during the school year.

The State does not impose a standard case maintenance procedure on counties but, according to a State official, the counties have instituted procedures to facilitate both the control and review of case documentation. Los Angeles County uses two procedures which facilitate its operations: assignment of case files to individual workers and standardized filing procedures for case records. Assigning case files to individual workers reduces time in

locating a case record and facilitates worker familiarity with the records. The county's computerized case control lists each worker by file number and cites all cases assigned to a file number. Further, workers spend little time locating cases because they keep the current case file at their desk, readily available for review. Standardized case format also facilitates worker familiarity with cases and makes supervisory review of the cases easier.

Los Angeles County holds caseworkers accountable for accurate and timely case actions. An eligibility supervisor reviews the case files on a sample basis and determines the accuracy and timeliness of workers' case actions. This information is considered when the workers' annual performance evaluations (which are used for retention and promotion purposes) are prepared. To assure that caseworkers are properly trained, Los Angeles County provides eligibility workers with indoctrination training for 3 weeks, post-indoctrination training for 12 sessions, and reinforcement training tailored to meet designated needs.

The State pinpoints errors and holds managers accountable for them by conducting an expanded version of the federally required statewide quality control sample. This sample yields valid error rates for the 35 largest counties, which at the time of our review comprised 85 percent of the States' AFDC caseload. In addition, large county welfare departments conduct their own quality control efforts, allowing them to pinpoint the need for corrective action at the district office level within the county. Also, many counties conduct desk reviews of AFDC cases which allow for a greatly expanded case sample and identification of performance problems at the unit and sometimes individual worker levels.

In almost all counties, local managers routinely include AFDC corrective action in their planning and decisionmaking process. In large counties, staff are assigned evaluative functions similar to those performed by State staff. In many counties, line staff have modified duties to include supervisory review of cases to prevent and correct errors. In some cases, specialized clerical staff have been assigned to check selected aspects of casework for accuracy.

ILLINOIS: SIGNIFICANT PROGRESS,
BUT MORE NEEDS TO BE DONE

Illinois is making considerable progress in improving its management of AFDC program operations. Since 1977, it has instituted a series of administrative changes which have reduced its payment error rate from 18.6 to 9.4 percent for the October 1979 to March 1980 period. The State accomplished this by improving its ability to accurately and timely verify client eligibility, track clients' status on a continuing basis, and maintain employee accountability for errors. Most of these improvements were incorporated into the corrective action plans of the HHS-sponsored

"Six State Strategy for Error Reduction," which began in 1978. In addition, the State is attempting to further improve its ability to determine client eligibility through a separate initiative which began in 1978--the Intake Project Task Force. However, despite these improvements, our review at the Michigan District Office in Cook County and the Department of Public Aid headquarters showed that problems still exist in the following areas which contribute to errors and erroneous payments:

- Monitoring all clients' status on a timely basis.
- Controlling client documentation.
- Placing qualified people in income maintenance positions.

Illinois recognizes problems and
has taken corrective action

In December 1977, the Illinois' payment error rate was 18.6 percent. This high error rate was due partly to an eligibility determination system that hindered workers' ability to effectively implement policies and procedures and contributed to client and worker confusion. Illinois' Department of Public Aid officials recognized this and--prompted by congressional and HHS concern over the program in general--instituted a series of corrective actions in 1978 which were specifically designed to improve program management.

The Intake Project Task Force studied the existing system of handling eligibility determinations and found that (1) there was a significant lack of supervisory feedback in the local offices, (2) workers were continuously making mistakes without ever being aware of their errors, and (3) the errors found were usually corrected by the individual finding them rather than by the person who made them.

The Illinois Department of Public Aid operates two intake systems. The first system, which is used in most downstate offices, involved three caseworkers in the eligibility decision--an interviewer/eligibility worker, a verifier, and a supervisor. The eligibility worker conducts the applicant interview and subsequently instructs a verifier to check certain eligibility factors during a home visit. Upon completion of the home visit, the verifier returns the case to the eligibility worker who makes the eligibility decision. A supervisor then reviews the case for accuracy.

The second system, known as forward flow, is the same as the first except that the verifier forwards the case to a different eligibility worker called a reviewer who makes the final eligibility decision. The task force also found that using a verifier adds to client confusion. They concluded that, by doing away with the position and having one worker perform the entire process, the client would receive better service and greater accuracy would result. This problem has been greatly mitigated since Illinois no longer requires a home visit in all instances.

The principal recommendations of the task force were to:

- Standardize the intake process statewide.
- Computerize the intake process through the installation of nine computers in local offices.
- Develop a combined application form for all categories of assistance as a backup to the computer system.

The State has developed and implemented the combined application form in three offices and is computerizing the intake process in one local office. The State is also preparing to test the computerized system in another office.

In addition to the Intake Project, Illinois participated in the HHS-sponsored "Six State Error Reduction Strategy," which was initiated in 1978. Under this program, HHS provided the State with a list of the principal types of errors causing erroneous AFDC payments in Illinois and received a commitment from the State to take corrective action. For example, in 1977, 21 percent of the dollars misspent related to the State's failure to register its clients in the Work Incentive Program and another 21 percent related to the clients' failure to report changes in income.

To overcome these problems, Illinois implemented a data exchange program with the Illinois Department of Labor to identify Work Incentive Program registrants and is planning to develop a computer-generated list of children approaching the ages of 6 and 16 to alert caseworkers to the impending status change. To control the earned income error element which resulted from unreported employment or changes in income, Illinois initiated a requirement that clients with earnings report their eligibility status on a monthly basis. In addition, the State instituted a system wherein selected workers would specialize in handling cases known to have earned income. This allowed workers to develop a strong knowledge of earned income cases and facilitated accurate and timely case processing.

Various other actions either have been or are being taken to overcome error tendencies. Included are data exchanges, computer cross-matches between the AFDC rolls and the rolls of private sector employers, and the aforementioned recommendations from the Intake Project Task Force. As a result of these efforts, Illinois experienced a 34-percent decline in the number of cases in error. An HHS official in OFA told us that the success of the "Six State Error Reduction Strategy" in Illinois can be attributed to the fact that the Department of Public Aid has (1) been highly receptive to its suggestions for improvements, (2) solicited ideas, and (3) requested information about effective management practices in other States.

To further improve operations, Illinois implemented a Local Office Performance Indicator system in 1980 to measure the performance of local offices in all Department of Public Aid-administered programs. Performance expectations are determined based upon established goals, objectives, standards, and desired levels of performance. Performance indicators were developed for local offices using six performance indicator categories--intake processing, case management, office management, program integrity, social services, and client/community relations. Points are awarded to each office based on its performance, and each local office in the State is measured, ranked quarterly, and tracked over time.

Although we completed our fieldwork in Illinois before the system was implemented and did not have an opportunity to evaluate it, the system further demonstrates the State's willingness to improve its AFDC program operations. A State official recently told us, however, that this initiative has had an important effect in improving performance in all aspects of the program, including improving the accuracy of AFDC cases.

Management improvements still
needed to strengthen program

Although Illinois has made significant progress since 1978 in improving its management of AFDC operations, it still has problems in its ability to track clients' status on a continuing basis, control client documentation, and insure the competence of its eligibility determination personnel. Problems in each area can contribute to increasing the level of erroneous payments. Our review at the Michigan District Office in Cook County indicated that some of these areas are recognized by Department of Public Aid officials, and corrective action is underway. Others are either unrecognized or considered by the county to be impossible to remedy because of such external pressures as budgetary constraints and union contracts.

Tracking client status

Illinois has no regular monitoring system at the local office level to identify changes in a case which could affect the level of benefit payments a client receives before redetermination. Only known earned income cases, through monthly reporting, receive extra attention between redeterminations. Cases which had no income at the time of eligibility determination or redetermination but which subsequently receive income cannot be identified at the local office level unless the information is volunteered by the client. Illinois recognizes this shortcoming in its case maintenance system and is currently pilot-testing monthly reporting on the entire caseload of one local office. However, until monthly reporting is required in all offices, Illinois counties will not be capable of tracking all clients' status on a continuing basis.

Client documentation control

The filing systems used to control client documentation vary according to local need. Some smaller offices allow workers to maintain their own files while larger offices have central filing systems. In March 1980, the Michigan District Office, which handles about 12,000 cases, instituted a central filing and check-out system for most caseworkers. Caseworkers who handle earned income clients continue to maintain possession of individual files. However, all other files are maintained centrally by four file clerks and a supervisor. If a caseworker wants a file, it must be checked out, and the caseworker is not allowed in the file area. Despite this elaborate routine, we noted the following problems with the central filing system:

- Files are frequently lost or misfiled which require caseworkers to create duplicate files.
- File clerks are not sufficiently trained, and the staff size is understrength.
- Caseworkers continue to obtain their own files although not officially allowed in the file area.
- File retrieval is very slow.

We tested the filing system by randomly selecting 25 cases to trace back to the case files. Of the 25 files selected, 22 were in the file cabinets and 3 had been checked out. Of the three, we were able to locate only one. The other two files were either misfiled or lost.

Staffing problems

Tracking client status and case maintenance are both hampered by local staffing problems. Michigan District Office officials said that the office had nine caseloads in the income maintenance sections--consisting of 2,115 cases--which were not being worked on. This represented 18 percent of their workload. In Cook County, 13.2 percent of all caseloads were similarly uncovered in October 1979. In this instance, the caseloads were redistributed among available caseworkers in each district office (including Michigan), but these cases received inferior coverage since the primary responsibility of each caseworker is to service his or her own regular caseload. In fact, the office administrator and regional director both stated that the uncovered caseloads were either delinquent in redeterminations or received less than the best treatment.

This is an understatement. Our analysis in the Michigan office showed that uncovered caseloads were barely serviced at all. The average number of redeterminations per covered caseload in Cook County was 38, while the average for uncovered caseloads was only 7. Further, as a result of the workload benchmark of 30 redeterminations per month--which inhibits the amount of work that can be performed--and the uncovered caseload, the State is not performing the required number of redeterminations each month. In 1978, 595,299 redeterminations were scheduled, but only 77 percent (or 456,360) were completed. In 1979, 435,926 redeterminations were scheduled and 74 percent (or 321,431) were completed. Cases which are not redetermined on a timely basis are more prone to error because circumstances could occur which affect the grant, but go undetected unless volunteered by the client.

The staffing problems are compounded by what Illinois officials believe to be an overall decline in the quality and professionalism of the State's eligibility workers because of the equivalency formulas for hiring and the seniority system for promoting staff. Specifically, position descriptions allow for the equivalent of specified education requirements and various combinations of equivalent training and experience to qualify for a caseworker job. The Chief of the Department of Public Aid's Office of Personnel Management told us that the original eligibility worker job descriptions were acceptable for the requirements of the jobs, but they have been undermined by the equivalency formulas which were established in 1974. As a result, some workers have not finished grammar school and, in his opinion, cannot write complete sentences. Further, union contracts have resulted in an eligibility worker career ladder and a promotion system that assures that all vacant positions will be filled primarily on the basis of seniority, rather than merit.

In 1979, the accounting firm of Coopers and Lybrand performed a compliance audit of the Department of Public Aid and reported that:

"* * * the agency does not have sufficient competent supervisory staff necessary to administer its daily operations with a high degree of accuracy or efficiency. Some supervisory personnel lack the educational qualifications specified by the Department of Personnel position descriptions for their position. The absence of an adequate and competent supervisory staff has resulted in inaccurate recordkeeping, failure to follow policies, failure to recover funds that the Department is entitled to and violations of Department Rules and Regulations and State Statutes and Regulations."

MASSACHUSETTS' INITIATIVES IN AFDC MANAGEMENT
HAVE LOWERED THE LEVEL OF ERRONEOUS PAYMENTS:
THE TREND SHOULD CONTINUE

Massachusetts is experiencing a rapid decline in its AFDC payment error rates. From a high of 24.8 percent during the October 1978 to March 1979 period, Massachusetts expects no more than a 9.1-percent error rate during the April to September 1980 period. This is the culmination of numerous initiatives designed to isolate causes of error, strengthen quality control, and improve supervisory review. However, more needs to be done. Massachusetts still has difficulty tracking clients' status on a continuing basis, accurately and timely verifying clients' eligibility, and holding workers accountable for the quality of their work.

Historical perspective

During the July to December 1977 period, Massachusetts' AFDC payment error rate was 11.7 percent. During the October 1978 to March 1979 period, this rate had increased to 24.8 percent and was the cause of extreme consternation at both State and Federal levels. The increase was due primarily to a low priority given to obtaining client social security numbers and staff shortages resulting in uncovered caseloads. In 1979, major initiatives were made by the State to reorganize its welfare operations and to improve program management; however, Massachusetts Department of Public Welfare officials indicated that their efforts in 1979 were inhibited by circumstances beyond their control. They contend that the high error rate (22.1 percent) during the April to September 1979 period is directly attributable to (1) a U.S. district court order which resulted in a 5-month reevaluation of the entire program, (2) significant legislative changes affecting the administration of the Food Stamp program which had to be implemented by July 1, 1979, and (3) planning for a major reorganization of the welfare function which was completed by July 1980.

In 1978, the Department of Public Welfare requested SSA to match the State's recipient files to its records of employee earnings. By early 1979, the match had been completed and the results

made usable for Public Welfare field staff. Because of the project's great potential to identify past fraud and reduce quality control earnings errors, the State wanted to use the information before it became outdated. Thus, in March 1979 it sent notices to recipients identified by the match, notifying them that their eligibility was about to be reviewed. Within 2 weeks, the U.S. district court enjoined the State for "mixing inquiries into possible fraud and present eligibility in an impermissible manner" and required the State to rescind all actions already taken and suspend redetermination activities on cases identified as a result of the match.

The temporary restraining order issued by the court was the beginning of 5 months of court involvement in every aspect of the project. The court required field staff to perform a series of tasks which were both time consuming and harmful to morale. Specifically, field staff had to:

- Contact recipients to cancel redetermination interviews that had been scheduled as a result of the March notices.
- Rescind all negative actions taken as a result of the match and remove from the case folder any information obtained from the match.
- Review case records for all cases identified by the match (an average of about 20 cases for a typical worker) and decide if a redetermination is necessary.
- Redetermine the above-identified cases (about 6 to 8 cases for a typical worker statewide, about 16 to 18 cases for a typical worker in Boston) based on new and very specific rules concerning what information about earnings could and could not be considered.

Major legislative changes in the Food Stamp program were required to be implemented by July 1, 1979. Since AFDC workers in Massachusetts handle Public Assistance Food Stamps for AFDC households, carrying out these changes thoroughly disrupted the normal AFDC eligibility process. Specifically, the reevaluation of Food Stamp eligibility and benefit levels under the new regulations required case reviews of all AFDC cases. Since Public Welfare's computer system could not handle the conversion automatically, the only way to complete it by July 1, 1979 (the deadline established by the U.S. Department of Agriculture), was to sharply reduce AFDC redeterminations to create more time for manual reviews of all case folders. Therefore, redeterminations were completely suspended in April 1979, and the redetermination quota was cut in half for May and June.

On July 1, 1980, the social services functions performed by the Department of Public Welfare were transferred to a new agency, the Department of Social Services. This agency was authorized by Massachusetts law in 1978, and from June 1979 to July 1980, the Commissioner of Public Welfare was empowered to transfer positions and funds into the new department. This impending separation produced great anxiety among staff who worried about downgradings and the possible loss of jobs. In addition, regional and local office directors who formerly supervised both income maintenance and social services were forced to choose one function or the other. This led to a good deal of reorganizational change and resulted in a sizable number of inexperienced office managers in the AFDC program. The reorganization also resulted in a title change for workers, from social worker to financial assistance worker, causing a morale problem with workers who viewed this as a lessening in the quality of their professional lives because they would no longer be counseling clients.

These events disrupted AFDC error reduction efforts in two ways. First, the extra work generated by court involvement in the computer match process removed any possibility of completing the Food Stamp conversion quickly, and ultimately the file match and Food Stamp redeterminations had to be suspended from March to August 1979. Secondly, the intense frustration that field staff felt as the result of the litigation and the impending reorganization translated into a disruption of morale that lasted most of 1979.

By late 1979, Massachusetts was well on its way to resolving its internal problems and had undertaken a concerted effort to reduce its payment error rate. As a result, the payment error rate dropped to 16.7 percent during the October 1979 to March 1980 period and is expected to be 9.1 percent when the April to September 1980 quality control statistics are published in late 1981.

The first action was geared to reducing so-called "paper errors." From January to April 1980, the State campaigned to reduce the number of errors relating to missing social security numbers. The results were impressive. In the October 1979 to March 1980 quality control period, 92 of the 1,200 sampled cases lacked social security numbers. In the April to September 1980 period, only 4 of 1,200 cases sampled lacked numbers. In addition to this campaign, the State committed itself to reducing resource and income-related errors and improving its quality assurance program and supervisory review.

Massachusetts reduced (1) resource, (2) earned income, and (3) unearned income-related payment errors through computer matches with the State Department of Revenue, State Division of Employment Security, Veterans' Administration, and State personnel files from 2.5, 1.8, and 1.2 percent, respectively, in March

1980 to 1.9, 1.6, and 0.8 percent in September 1980. The quality assurance review program was expanded from the 20 largest offices in March 1979 to all 90 local offices in March 1980. The program was designed to assure the quality of the case maintenance process statewide.

To improve the level of supervisory review, Massachusetts instituted a review system whereby supervisors meet each month with their workers and establish a weekly schedule of redeterminations to be made during the next month. This allows for timely supervisory review because it prevents workers from overburdening the supervisor in the last week of the month. In addition, it prevents workers from leaving too many cases until the end of the month which usually end up receiving superficial treatment because the worker is trying to meet his or her quota. The review system also includes the use of a quality assurance questionnaire for all newly redetermined cases. The questionnaire improves and expedites the supervisor's review of the case because it is designed to predict the possibility of an error.

Massachusetts can further improve its program

Although Massachusetts has significantly improved its AFDC operations, more still needs to be done. Our work at the Hancock Street income maintenance center in Boston and at the Department of Public Welfare headquarters showed that the State still cannot (1) insure that eligibility will be determined (see p. 20) and redetermined timely, (2) hold workers accountable for the quality of their work, and (3) track client status on a continuing basis. This condition is occurring because of (1) union-negotiated workload quotas which require workers to perform only a specified number of eligibility determinations and redeterminations each month, (2) State emphasis on the quantity rather than quality of work produced, and (3) the lack of a system for the State to determine changes in a client's status as they occur.

Redetermination control system

Massachusetts' redetermination control system does not insure that redeterminations are done timely. The State requires that the cases be redetermined every 6 months, and according to union contract, workers are required to redetermine a specific percentage of their total caseload each month. If workers repeatedly fall below the standard, they are subject to dismissal.

To attain timely redetermination, three statewide workload reports are used to prioritize the redeterminations by the cases' error proneness and to track the number of redeterminations completed by workers for the most recent 3 months. However, these

reports are prone to errors, and workers believe that the priorities established in the first report are only guidelines which do not have to be explicitly followed. As a result, to meet their quotas, workers concentrate on the easier (less error-prone) cases, and the more error-prone cases go without review for long time periods. Massachusetts is attempting to resolve this problem by meeting monthly with workers and their supervisors, wherein supervisors insure that workers follow a priority redetermination list in scheduling their redeterminations.

Another possible limitation on workers' ability to perform redeterminations is the State's home visit policy. The State requires a home visit at redetermination to verify the children's presence in the home and that the house address is the same as that reported by the client. In a prior report (AFMD-81-51, June 5, 1981), we questioned the cost effectiveness of home visits and noted that Massachusetts could save a substantial amount of staff time if it limited the number of home visits performed.

Furthermore, the Assistant Director of the Hancock Street office told us that home visits are very expensive and worthless for verifying residence and detecting fraud. According to a supervisor in the Hancock Street office, most workers make two home visits in an afternoon, which take about 1 hour, and go home for the balance of the day. We believe that the cost effectiveness of home visits in Massachusetts is questionable.

Worker accountability

Currently, workers are held accountable for the quantity of their work, but little consideration is given to quality. To remedy this deficiency, supervisors are reviewing cases after redetermination using a quality assurance review instrument. A sample of these cases is then reviewed by the office director, and every 3 months quality assurance reviewers analyze samples of these cases to determine who is making errors and the types of errors that are being made. The purpose of each of these reviews is to identify errors, assure that the errors are corrected, identify workers who need training, and provide information to the State which it plans to use to develop quality standards for which workers will be held accountable. A State official told us that they hope to have such standards established by the end of 1981.

Case maintenance system

The Massachusetts case maintenance system does not provide for keeping case information current because it does not include a system for identifying changes in client status as they occur. Changes are identified only at redetermination or as a result of special computer matches or other special projects. To overcome this problem, the State has been experimenting since October 1980

with mandatory monthly client reporting using a sample of 708 cases from two local offices. The preliminary results of this experiment have been encouraging:

--In October 1980, total monthly payments to the 708 cases amounted to \$253,000, while in April 1981, the payments dropped to \$214,000 (a 15.8-percent decrease).

--None of the 708 cases ever reported having income, but by April 1981, 15 percent were reporting income.

--Ninety cases were closed based on information reported.

By June 1981, the State planned to expand the experiment to the entire caseload of one of these offices and half of the caseload of the other office. At that time, Massachusetts planned to initiate a second client reporting system in the Hancock Street office wherein the client will be required to fill out an income report and return it only if circumstances change. This system will be tested for 1 year. According to a Department of Public Welfare official, the State is undecided as to whether it will implement a monthly reporting system or the exception reporting system. In his opinion, the State will probably opt for the mandatory reporting because it requires a response from the client and failure to respond will result in case closure.

NEW YORK: REDUCTION IN ERRONEOUS
PAYMENTS BECAUSE OF SIGNIFICANT
IMPROVEMENT IN NEW YORK CITY

New York State has realized a significant reduction in its payment error rate. During the July to December 1977 period, the total error rate for overpayments and payments to ineligibles was 11.9 percent, and during the October 1979 to March 1980 period, the rate was 6.96 percent. Much of this progress can be attributed to significant administrative improvements made by New York City-- which represents 70 percent of the State's AFDC caseload. These improvements were mostly self-initiated or encouraged through the Six State Strategy. Specifically, the city improved its ability to accurately and timely verify client eligibility, track clients' status on a continuing basis, maintain employee accountability for errors, and facilitate eligibility worker control and supervisory review of documentation. However, the problems are not entirely resolved, and a series of initiatives is now either underway or being instituted to further address them. The primary problem which the city will continue to face for the foreseeable future is a personnel system which impedes its ability to insure the competence of its eligibility staff.

Criticism and fiscal crises
prime motivators for change

Prompted by the city's financial crises and criticism from HHS over the high rate of erroneous payments to ineligible, the city administration, in conjunction with its Human Resources Administration, initiated a massive program in early 1976 to find ways to reduce such payments. The former First Deputy Mayor convened meetings with a wide range of persons involved in welfare including critics and current and former welfare administrators. Every suggestion that was given by any critic was thoroughly explored. In addition, senior members of the Department of Income Maintenance visited their counterparts in Chicago, Detroit, Boston, and Baltimore to review the way the welfare programs were administered in these cities and to identify any new ideas or concepts.

As a result of these efforts, 11 new programs were developed in 1977 to augment the city's investigation procedures. The most significant programs provided for:

- A more thorough application investigation to augment previous procedures.
- Increasing the frequency of face-to-face redetermination interviews from 2 to 3 times per year and tightening the administration in that program.
- An internal audit of samples of newly accepted cases to determine whether the decisions were made correctly, whether every relevant item affecting eligibility had been examined and documented, and whether contacts with other agencies and leads developed through these contacts have established the applicant's eligibility.
- A mail redetermination 3 times a year so that recipient responses on family composition, absent parents, residence, and shelter payments could be compared to information in the computer files.
- Expanding the computer matches of recipient files to the files of other governmental programs (such as Unemployment Insurance and Supplemental Security Income) and to the payrolls of city and State governments; quasi-public agencies, such as the Health and Hospitals Corporation, the Transit Authority, etc.; and some large private employers in New York City. Through these computer matches over 20,000 instances of unreported and underreported income were discovered in fiscal year 1977.

Through these and other actions, the city denied assistance to over 77,000 ineligible applicants in fiscal year 1977, removed

about 67,000 ineligible recipients from the rolls, and reduced the payments to another 12,500 recipients who were receiving income they had not reported. Further, the error rates have been reduced from 12.8 percent during the July to December 1977 period to 8.2 percent during the October 1979 to March 1980 period.

A series of initiatives was also undertaken by the city in 1978 under the "Six State Strategy." Two of the more significant of these are the model income maintenance center and the client monthly reporting system.

Model income maintenance center

Before May 1979, New York City's system of redetermining and maintaining cases was basically a random assignment of cases to a worker and fragmentation of functions among various units. Clients could see any available worker, and redeterminations were performed in separate centers using the same random assignment system. Because workers were not assigned caseloads, it was nearly impossible for workers to be well informed about the cases on which they were making eligibility and payment decisions. Also, this system contributed to client confusion because he or she was shuttled from worker to worker and usually the worker was not familiar with the client's situation. Further splintering of responsibility occurred in the assignment of certain income maintenance tasks to other units. For example, housing and employment related matters were forwarded to separate housing and employment units.

In addition, the system separated the redetermination function from the income maintenance center. With the redeterminations done outside of the income maintenance center, it was difficult for the worker to do a thorough job because he or she no longer had access to the case record. The worker was provided a case extract which did not show past problems, such as unreported income that might suggest a need for more intensive investigation. Further, the workers at the redetermination centers could not process changes resulting from the interviews, since the forms necessary to input the changes to the computers were in the case record at the income maintenance center. At the income maintenance center, another worker would have to pull the case record, interpret the comments provided by the redetermination worker, and process the necessary papers to effect the change in the computer. This led to both delays in processing changes and additional errors by having two workers deal with a case. Because there are so many people involved in the case maintenance process, it was also difficult to find out who was making errors and hold them accountable.

Under the old system, files were maintained in a central filing unit. Due to the volume of files being maintained, controls over the files tended to be limited. As a result, workers had difficulty locating cases when they needed them, and according

to the Deputy Administrator of the Human Resources Administration, almost every audit conducted in this area indicated a difficulty in locating between 10 and 20 percent of the requested records. The same problem existed at one local welfare center we reviewed. We requested 25 randomly selected case files from the file supervisor. Eight files were found the same day requested. Nine regular files were found after a 3-week waiting period, two files were never found, and six dummy files were found after a 3-week waiting period. Dummy files are created when the original files cannot be found. In addition, we saw numerous documents that could not be filed because the case files could not be located.

To overcome these systemic problems, the city began experimenting in 1979 with the assigned caseload concept at the Bushwick income maintenance center. Under this concept a specified number of cases are assigned to and completely maintained by one worker. After eligibility is determined, all case actions (including re-determinations) are handled by that worker. The results at this model income maintenance center have been rewarding. Our review showed that workers now take greater pride in their work and provide better service to clients. Supervisors can easily determine which workers are making errors and initiate the necessary corrective action. Clients no longer have to wait long periods to see workers at the income maintenance and redetermination centers-- they now can make an appointment to see a specific worker when they need assistance and see that same worker at a specified time for redetermination. In addition, at redetermination the worker has access to the complete case file, and all the records are processed and maintained in one center by the specified worker.

According to city officials, it is too soon to tell whether this concept has had an appreciable effect on the level of erroneous payments. However, preliminary results of the city's evaluation seems to indicate a positive trend. For example, the city found that there are fewer reopenings of closed cases at the model center compared with other sites. Further, client waiting time appears to be reduced from an average of 1 hour to half an hour and case records are more readily available. Currently, 14 of 41 centers are using this concept. City officials contend that the entire program will eventually be run this way, but refused to provide any specific dates for expanding the concept to the other centers. However, they are very pleased with the results to date. Once the system is in place, the city plans to experiment with workers being assigned specialized caseloads (AFDC only, etc.) which should further improve the workers' effectiveness.

Client monthly reporting

To insure that AFDC clients receive proper payments, New York City began experimenting with an automated monthly client reporting system in 1979 that, if implemented, would have maintained a

current data base on a client's earnings and eliminated two of the three annual face-to-face redeterminations and the triannual mail redetermination. To perform this experiment, New York City established a test income maintenance center where a computerized data base of current client data was created. All clients served by that center were mailed a form each month that they were required to complete and return to the center. The data on the reports were then entered into the computer, matched against the data base, and an exception report was generated which a worker was required to follow up on.

Although the test is still in progress, New York City has decided not to implement this system citywide because its computer cannot handle the volume of work and is constantly backlogged in producing exception reports. City officials realize the possible benefits which can result from a monthly reporting system and have not totally discounted the concept. As soon as city officials determine what effect the project had on the test center's error rate, they will make a decision on whether to pursue other monthly reporting systems. Officials are now considering adopting a totally manual system similar to the one used by California.

New York City's personnel system needs improvement

New York City's personnel system hinders its ability to assure that the most competent supervisors and staff are working on the AFDC program. According to the Deputy Administrator of the Human Resources Administration, the personnel system is a textbook example of everything a personnel system should not be:

- Hirings and promotions are based on examinations that are not job related; therefore, sometimes workers are promoted to positions for which they are not qualified.
- Managers are precluded from rewarding workers with promotions solely on the basis of good performance.
- Workers' employment status is protected by the personnel system; therefore, management is unable to hold workers accountable for poor performance.

According to the Deputy Administrator, the current New York City Mayor is trying to improve the system and has been able to eliminate examinations for some positions so that management can promote people based on merit. However, other positions still require that all applicants take an examination. In addition, he indicated that he would like to fill some management positions laterally, but the current system requires that all positions be filled through promotion.

CONCLUSIONS

Since 1977, Illinois, Massachusetts, and New York have made substantial improvements in the way they administer their AFDC programs. This is evident by the decline of error rates and in the States' efforts to apply proven management approaches to administrative problems. However, while each of the States has made progress in improving the effectiveness of its programs, none can fully carry out the critical program functions of (1) accurately and timely verifying a client's eligibility, (2) tracking a client's status on a continuing basis, (3) controlling client documentation, (4) holding workers accountable for the quality of their work, and (5) placing qualified people in income maintenance positions.

During discussions regarding HHS' written comments on our draft report, HHS program officials told us that once a State plan is approved, HHS cannot require changes to the plan unless directed by law or regulation. While we agree that HHS cannot, under the present circumstances, impose specific new requirements on the States we reviewed, we do believe that HHS should issue regulations which would generally require all States participating in the AFDC program to incorporate in their plans management controls over these five functional elements.

RECOMMENDATIONS TO THE SECRETARY OF HHS

We recommend that the Secretary issue regulations which would require all States participating in the AFDC program to have in their respective plans systems to enable (1) accurately and timely verifying a client's eligibility, (2) tracking a client's status on a continuing basis, (3) properly controlling client documentation, (4) holding workers accountable for the quality of their work, and (5) placing qualified people in income maintenance positions.

In the interim, we recommend to the Secretary that HHS, within its current capacity (perhaps as an exercise in technical assistance), work with:

- Illinois to have sufficient staff to cover its entire caseload.
- Illinois to properly implement the controls in its centralized filing system to determine whether the system can be effective as designed. If the centralized system is found to be ineffective, work with Illinois to pilot test a decentralized filing system to determine a better way of controlling client documentation.

- Illinois and New York to improve their personnel systems to more fully develop a cadre of qualified workers.
- Massachusetts to expand the prescreener concept to all district offices.
- Massachusetts to (1) improve the accuracy and quality of reports generated from the redetermination control system and (2) hold workers accountable for following the priorities established by the system.
- Massachusetts to justify the cost effectiveness of doing home visits in the income maintenance process.
- Massachusetts to (1) continue its efforts to place greater emphasis on the quality of the work produced by its income maintenance staff and (2) implement a planned system by which it can hold its workers accountable for quality.

AGENCY COMMENTS AND OUR EVALUATION

Department of Health and Human Services

HHS did not concur with our recommendations, stating that it had no legal authority to disapprove State plan amendments that did not include steps to implement these actions. Rather, HHS believes these matters are more suited to Federal-State negotiations and technical assistance and will add them to its planning processes on that basis, rather than as a directive on which to condition State plan approval.

In our view, the Secretary of HHS has the statutory authority pursuant to title IV-A of the Social Security Act to require of States methods of administration that insure the proper and efficient operation of the State plan. In a later meeting, HHS officials agreed that the original Department comments were incorrect--the agency has the authority to impose requirements on States participating in the AFDC program so long as these requirements are first made a matter of regulatory policy. As a result of this discussion, we do agree that, once approved, HHS cannot direct States to incorporate specific administrative methods in their State plans unless directed by regulation or change in law. For this reason, we have modified our earlier recommendations as indicated on page 57. The current recommendation reflects our view, once again, that the Secretary should take an active leadership role in directing the administration of the AFDC program.

Illinois

Illinois commented that some of our findings in this chapter represented predrawn conclusions, based on documentation about inefficiency in the Michigan District Office, as follows.

1. Monthly reporting is necessary for tracking clients' status on a continuing basis--we found no regular monitoring system at the local office level in Illinois to identify between redeterminations case changes which could affect the amount of payment except for monthly reporting required of known income cases. Illinois' pilot test of monthly reporting for an entire caseload at one local office indicates it believes this to be one method of establishing regular case monitoring.
2. A distributed filing system is much more efficient than a central filing system--our test of the Michigan District Office central filing system showed that it was not functioning as designed; if its problems were corrected, it might be an efficient system for that office's needs. We believe HHS should assist Illinois to properly implement the central filing system controls to see if the system can be effective as designed; if it is not, we believe that a decentralized system should then be pilot tested.
3. All cases must be redetermined every 6 months or they will be prone to errors--this is not an "either/or" issue. There is a requirement in the Federal regulations that recipient eligibility for AFDC benefits be redetermined at least every 6 months. In addition, an HHS publication in May 1980, summarizing an earlier conference on using case characteristic or error prone profiles in workload planning, pointed out that cases likely to be in error (such as those with earned and unearned income) with error prone eligibility factors (such as earned income and liquid assets) should receive more attention depending on the point at which the case is likely to be in error (at application, at redetermination, or in between) than should cases not likely to be in error (such as one parent deceased, no assets, unemployed).

Also, Illinois commented that the "Six State Strategy" was not a major factor in reducing its error rate.

While the State is entitled to a substantial portion of the credit for initiating and reducing errors, we believe that the report should and does indicate that the corrective actions which resulted in the reduction of errors were within the realm of the

"Six State Strategy." The initial strategy paper shows that Illinois' corrective actions, including those begun before the strategy started, were incorporated into it.

Illinois also indicated that the Coopers-Lybrand audit report we referenced to support our conclusion on the lack of competence of income maintenance workers and supervisors was incomplete, and that the findings were later materially qualified in hearings before a State legislative committee. The State contends that we were wrong in citing only the summary findings.

In October 1981, we discussed the State's contention with the Executive Director of the Legislative Audit Commission. He stated that he had reviewed the transcripts of the subject hearing and could find no such qualification of the audit findings.

On October 24, 1981, the Director, Operations Administration Division, Illinois Department of Public Aid, told us that Illinois no longer requires home visits for all eligibility determinations and redeterminations and that the State has left the need for home visits up to the discretion of each district office director. Since this means that the effect of the problems related to using the verifier to perform home visits (see p. 43) have been greatly mitigated, we have deleted from this final report our recommendation in the draft report to require elimination of the verifier position.

FINDINGS AND RECOMMENDATIONS OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS ON
ADMINISTRATION OF THE AFDC PROGRAM

House Report No. 96-285, June 18, 1979 (pp. 3 through 6)

1. Differing administrative practices among the States reflect the large measure of State autonomy in the AFDC program. There are marked differences among the States in benefit levels, as well as in application forms and procedures, eligibility verification procedures, income reporting practices, treatment of work expenses, degree of automated processing, error rates, administrative costs, and other program characteristics. While these variations in State policies and procedures result in the unequal treatment of individuals from State to State, they do provide an opportunity for the States to experiment with alternative and better ways to administer the program. It does not appear, however, that the States have made optimum use of this opportunity to improve their AFDC operations.

2. HEW has not established administrative cost standards, does not monitor State administrative costs on a regular basis, and has not analyzed cost differences among the States.

3. It is presently difficult to measure the relative administrative efficiency of State programs because of the paucity of reliable and comparable data. Two commonly used measures of efficiency are error rates and administrative costs. While error rates are useful for gauging a State's administrative performance over a period of time, they are not as satisfactory for making interstate comparisons because differences in error rates among States reflect, in part, differences in the complexity of State programs.

4. The Social Security Act specifies that the Secretary of the Treasury shall pay to each State 50 percent of the expenditures found necessary by the HEW Secretary for the "proper and efficient administration" of the State's approved AFDC plan (75 percent of such expenditures for staff training). However, HEW has not defined proper and efficient administration except implicitly and piecemeal, by establishing maximum error rate levels for State caseloads that will be acceptable for full Federal reimbursement (these tolerance levels, first introduced in 1973, were never enforced and were invalidated by a 1976 Federal court decision; new tolerance levels were adopted in March 1979), and by issuing regulations interpreting the statutory requirements that States offer fair hearings, act with reasonable promptness on applications, and disregard specified income received by AFDC families.

5. No machinery exists for informing all States promptly and systematically of the experimental activities and successful practices adopted by individual States, although HEW has inaugurated a series of "How They Do It" publications as a step in this direction. Inadequate communication of program developments retards the improvement of AFDC administration in the States and permits wasteful duplication of effort.

6. No effective enforcement tools are readily available to HEW for use against welfare agencies that violate AFDC regulations. The Social Security Act requires the HEW Secretary either to withhold all matching funds from States found not to be in compliance with the statute or to withhold only those funds that are related to a specific violation. Historically, this penalty has been deemed too damaging to AFDC recipients for practical application. Furthermore, any withholding of funds, whether due to audit findings or another cause, is taken against future grant awards, often long after the violation.

7. States that require monthly reports on income and other relevant family circumstances from all or selected recipients have found this procedure advantageous in several ways. The reports enable grants to be based on actual income, provide the State with a signed statement of income and related information that serves to deter fraud, and help to reduce error rates.

8. The drive to reduce error rates has been marked by efforts to standardize and simplify AFDC administration, including steps to reduce program variations. While standardization diminishes the program's capacity to adjust benefits to the special circumstances of individual families, it also fosters greater equity by narrowing the range of discretion left to welfare agency personnel. The committee views the simplification and standardization of AFDC practices and procedures as an essential step for reducing error rates and otherwise improving the management of this complex program.

9. HEW's quality control program, reinforced by the threat of fiscal sanctions, has helped achieve a sharp reduction in erroneous AFDC payments. However, error rate reductions, the "state of the art" in management improvement techniques, and the overall quality of AFDC administration have reached a point where increased emphasis on Federal incentives is advisable.

RECOMMENDATIONS

Clarifying Administrative Responsibility and Monitoring Performance

1. *Delineation of responsibilities.*—It appears unlikely that legislative action will be taken in the near future to transfer the administrative responsibility for AFDC from the States to the Federal Government, as was proposed in the last Congress by the Administration's Better Jobs and Income Plan. The committee, therefore, recommends that HEW act expeditiously to define more precisely the respective Federal and State roles in AFDC administration.

2. *Standards of administrative performance.*—The committee recommends that HEW develop better tools and procedures for monitoring the use of Federal funds for AFDC administration, including standards for judging the reasonableness of costs and adequacy of performance.

To help develop such standards, the committee recommends that HEW undertake work measurement and productivity studies. The committee further recommends that HEW regularly publish an analysis of State administrative costs.

Assisting the States

3. *Computerized management information systems.*—The committee recommends that HEW encourage States to make optimum use of computerized information systems for determining eligibility and for managing cases. The committee also recommends that HEW determine whether the higher Federal reimbursement rate applicable to such systems in the Medicaid program has produced favorable results, and, if so, whether the same incentive would be beneficial in the AFDC program.

4. *Clearinghouse function.*—The committee recommends that HEW establish machinery for collecting information about experimentation underway in the States, for promptly notifying all States of such experimental projects, and for promoting the dissemination of information about successful State administrative practices.

5. *Model program manuals.*—The committee recommends that HEW develop model program manuals to help the States improve the consistency and efficiency of case management.

6. *Technical assistance.*—The committee recommends that HEW expand technical assistance to the States and provide highly targeted help to States and localities with special management problems.

7. *Program simplification.*—The committee recommends that HEW promote simplification of the AFDC program, by such measures as (a) encouraging further State use of consolidated payment standards ("flat" grants); (b) simplifying and clarifying Federal regulations

and guidelines; and (c) developing and promoting the use of a single application form for AFDC, food stamps, and Medicaid. The Congress can contribute to this objective by establishing a standard work expense disregard.

8. *Use of incentives and sanctions to improve administrative performance.*—The committee recommends that the legislative committees of the Congress consider the advisability of modifying the fiscal incentives provided in Public Law 95-216 to give more adequate recognition to the improvement each State makes in reducing payment errors from its own error rate base and in improving the quality of its service. The committee further recommends that HEW consider adoption of a sanctions policy that would restrict the disallowance of matching funds, if such action is found necessary, to the Federal share of State administrative expenses; and that HEW employ court suits more extensively to compel compliance with statutory requirements.

9. *Monthly reporting.*—The committee recommends that HEW require each State to collect information monthly on family income and other basic eligibility factors from all AFDC recipients or, as a minimum, from "error-prone" cases such as those known to have fluctuating income.

10. *Greater use of quality control sampling.*—The committee recommends that HEW intensify efforts to identify factors that can reduce AFDC payment errors and, as part of that effort, expand its quality control program to monitor the various State areas and types of cases on a regular schedule.

11. *Quality of service.*—The committee recommends that HEW monitor the quality of service provided to applicants and recipients, particularly the promptness of action on applications.

Fraud Prevention

12. *Verifying eligibility and benefits.*—The committee recommends that HEW, at a State's request, assist in the matching of welfare recipient lists with Federal wage and benefit records in order to identify possible cases of ineligibility, fraud, overpayment, or underpayment for further State investigation. This should be done following an immediate review of the cost-effectiveness of test projects.

13. *Combating fraud.*—The committee recommends that the Federal role in combating fraud be greatly strengthened through such means as assistance in establishing State fraud detection and prevention systems, and help in facilitating the prosecution of individuals who defraud the welfare system.

Interagency Cooperation

14. The committee recommends that HEW and the Department of Agriculture develop joint regulations and performance standards for the AFDC and food stamp programs. Steps also should be taken to coordinate these programs more effectively with other closely-related welfare programs.

Improved Public Information

15. The committee recommends that HEW require States to give each AFDC family basic information, in writing, about the operation of the program, including benefit schedules, reporting requirements, and work rules (with examples showing how benefits are reduced by only a fraction of earnings). The committee also recommends that HEW help State agencies to develop reliable public information programs for use by the media, social agencies, churches, and citizen groups.

GAO REPORT DIGEST: "HHS MOVES TO IMPROVE
ACCURACY OF AFDC ADMINISTRATIVE COST ALLOCATION:
INCREASED OVERSIGHT NEEDED" (HRD-81-51, MAY 18, 1981)

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN, SUBCOMMITTEE
ON OVERSIGHT, HOUSE WAYS AND
MEANS COMMITTEE

HHS MOVES TO IMPROVE ACCURACY
OF AFDC ADMINISTRATIVE COST
ALLOCATION: INCREASED OVER-
SIGHT NEEDED

D I G E S T

The Department of Health and Human Services (HHS) is responsible for assuring that State cost-allocation plans, upon which Federal financial participation in administrative costs for the Aid to Families with Dependent Children (AFDC) program are based, accurately reflect the Federal reimbursable share of costs. But, HHS' principal oversight agencies--the Division of Cost Allocation (DCA) and the Office of Family Assistance (OFA)--are not adequately reviewing, analyzing, and questioning data in State cost-allocation plans either before or after their approval.

GAO's review of administrative costs incurred in California, Illinois, Massachusetts, and New York indicated that the Federal Government may be incurring unnecessary charges which, in two of these States, could amount to \$6.6 million annually. Overcharges are occurring because HHS has not provided DCA and OFA with adequate review guidance, a clear definition of their respective roles for reviewing cost-allocation plan implementation, and sufficient staff to accomplish their work effectively. (See pp. 6 and 8.)

In the four HHS regions encompassing the States GAO reviewed, OFA has 27 staffmembers involved in welfare administrative cost-allocation plan oversight. To perform comprehensive onsite reviews at both the State and local levels, OFA estimates that it would need 48 staff. DCA officials also contend that their staffs are insufficient to accomplish regular onsite verifications. Presently, detailed onsite verifications of a plan or its amendments are not made regularly by DCA and OFA to assure that it correctly reflects the manner and extent to which salaries and other expenditures of State and local organizations benefit Federal programs. (See pp. 8, 9, and 10.)

Adding to the problems of review guidance and lack of staff is HHS' failure to clearly define DCA's and OFA's respective roles for monitoring the implementation of cost-allocation plans after approval. HHS is considering designating DCA as the coordinator for cost-allocation compliance reviews as a means of reducing the confusion over oversight responsibilities, but the specific review responsibilities of DCA and OFA have not been defined. (See p. 10.)

ERRONEOUS REIMBURSEMENT CLAIMS:
A LONGSTANDING PROBLEM

HHS has known about these problems for years but to date has been ineffective in correcting them. In 1964, 1967, and 1972, GAO reported to the Congress that HHS paid excessive amounts to States for public assistance administrative costs because it did not insure that claims for reimbursement were proper before paying them. In 1972, GAO recommended that the Secretary of HHS insure that States properly claim costs. HHS responded that it was exploring ways of monitoring which would permit early detection and correction of deficient State procedures and more timely adjustment of excessive State claims.

In 1977 HHS' Inspector General compiled a summary report on audits of administrative costs claimed under the AFDC program. In the 38-month period ended August 31, 1977, the Inspector General issued 66 reports which questioned \$78.2 million claimed by States as not eligible for Federal reimbursement. (See pp. 7 and 8.)

From 1977 to 1980, HHS auditors conducted eight more administrative cost audits in California, Illinois, Massachusetts, and New York and although the scope of these audits varied significantly and only one focused on a review of the AFDC program, the auditors questioned \$31.7 million in reimbursement claims and cost allocations. (See p. 11.)

VARYING COST-ALLOCATION
METHODOLOGIES IMPEDE
COST COMPARISONS

HHS has not required a uniform method of accumulating and allocating States' costs and has approved some methods which cannot assure that administrative cost expenditures in a given program are as directly proportional to the administrative support received as possible. The varying methods of cost allocation also preclude HHS from making meaningful comparisons of administrative cost expenditures among States.

Federal Management Circular 74-4, dated July 18, 1974, establishes the accounting principles and standards to be used by the States in determining costs allowable for Federal reimbursement under any Federal grant program. But the circular does not specify how administrative cost pools should be designed or what the basis for distributing costs to benefiting programs should be. Further, HHS has not developed guidelines for distributing costs in welfare cost-allocation plans and does not require States to distribute administrative costs on any standardized basis. States are allowed considerable latitude in developing cost accumulation and allocation methodology. (See pp. 15, 16, and 17.)

CORRECTIVE ACTION UNDERWAY

In August 1979, HHS' Assistant Secretary for Management and Budget recommended that a welfare cost-allocation guide establishing uniform cost principles and accumulation methodology be developed for use by HHS and States. The Assistant Secretary believed that such a guide was needed because there was a lack of adequate and specific guidance that could be used by States, OFA and DCA to fulfill their respective responsibilities. In response to the Assistant Secretary's recommendation, a task force was established--consisting of State and HHS personnel--to develop such a guide. The proposed guide, which was still in draft form as of March 9, 1981, sets forth principles and procedures for accumulating and allocating administrative costs incurred by State public assistance agencies for programs authorized by the Social Security Act. (See p. 16.)

HHS personnel informed GAO that the provisions of the guide will not be inserted in regulations. But if States cannot demonstrate that their proposed or current method will produce equitable results, DCA personnel will be instructed to challenge any new plan submissions or amendments which are not in compliance with the terms of the guide. States with approved plans will be subject to audit exceptions on claimed costs by OFA and the HHS Audit Agency. HHS' General Counsel stated that HHS can issue an enforceable cost-allocation policy through an appropriate combination of regulations and other policy issuances. (See pp. 21 and 22.)

RECOMMENDATIONS TO THE
SECRETARY OF HHS

GAO recommends that the Secretary

- define the specific cost-allocation plan review and monitoring responsibilities of DCA and OFA;
- develop adequate guidelines for DCA/OFA use in future cost-allocation plan review efforts;
- evaluate existing staffing and workload levels to assure that both DCA and OFA have the technical capacity and numerical strength to effectively review, approve, and monitor the implementation of cost-allocation plans and claims for reimbursement;
- issue guidelines establishing a system of uniform cost principles, procedures, and methodology for all welfare cost-allocation plans;
- instruct DCA and OFA to conduct comprehensive reviews of State cost-allocation plans to identify areas in which the Federal Government may be bearing more than its fair share of AFDC administrative costs; and
- instruct DCA and OFA to follow up on GAO's findings to assure that Federal funds are recovered. (See p. 25).



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

OCT -9 1981

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "An Analysis of Four States' Administration of the AFDC Program: Progress Is Being Made But Significant Problems Still Exist." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "R. Kusserow".

Richard P. Kusserow
Inspector General

Enclosure

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
GENERAL ACCOUNTING OFFICE'S DRAFT REPORT ENTITLED "AN ANALYSIS OF
FOUR STATES' ADMINISTRATION OF THE AFDC PROGRAM: PROGRESS IS
BEING MADE BUT SIGNIFICANT PROBLEMS STILL EXIST"

General

We agree with the general thrust of this draft report urging improved management systems in the administration of the Aid to Families with Dependent Children (AFDC) program by State and local governments. As a matter of fact, GAO notes that the four States reviewed are making major improvements in program management and in reducing their rates of erroneous payments.

Later in these comments, in response to GAO's recommendations, we describe some of the many initiatives taken and underway to improve the efficiency of AFDC program management and operations. Having said this, we believe several cautions should be borne in mind in assessing the draft report's findings and conclusions and in understanding the underlying reasons behind our responses to GAO's recommendations.

- The report focuses on administrative costs; fiscally, the bottom line is total program cost. Payments to recipients account for the vast majority of total costs.
- Improving the validity and accuracy of assistance payments is a national goal to which we and the States have expressed a current commitment. There are many initiatives underway at all levels of government in pursuit of this goal.
- The AFDC program is a joint Federal-State program designed to provide considerable flexibility to the States in both program and administrative areas.
- States have a very substantial monetary stake in the efficiency of AFDC administration since they pay almost half the cost.

GAO Recommendation

That the Secretary require that all State plans contain standards of administrative efficiency based on work measurement techniques and quality assurance systems which assess the quality of specific work processes. In conjunction with this requirement, HHS should

- (a) work with the States to develop performance goals and develop administrative budgets based on these goals.

- (b) establish incentives for States to keep costs within budgets by not sharing in costs incurred in excess of the budget unless caused by economic or other factors beyond the State's control, or by changes in Federal requirements.

Department Comment

We agree that a need exists to work with the States on the problems mentioned, but we are not in favor of the methods proposed by this recommendation.

As we indicated earlier, the report does not contain any cost estimates related to the systems and procedures it advocates. GAO is very complimentary about one State's administrative cost control system and uses it as a standard against which to compare others. However, that State's administrative cost for processing a case is among the highest in the country. Many other States have similar or lower error rates and lower administrative cost per case; which indicates that there are other approaches to administrative cost control which can be equally effective at a lower cost.

We do plan to work with the individual States to develop performance goals that can be used to assess the efficiency with which Federal and State funds are expended in the administration of the AFDC program. And we have worked and are working with the States in a number of other ways to improve AFDC administration and productivity. Among the things we have done or are doing:

- Development of a general systems design (Family Assistance Management Information System) which provides a model for State adaptation in upgrading their computer systems capabilities. We will supply the States technical assistance in planning, designing and developing their systems.
- Preparation and dissemination to the States of a series of technical assistance reports, such as "Task Analysis and Job Design for Public Assistance Agencies", "Managing the Intake Process", and a series of "How They Do It" publications.
- Ongoing analysis of administrative cost variances between States for technical assistance in problem identification.
- Continuing advocacy of State use of Error Prone Profile systems which can lead to better State utilization of staff resources.
- Consultant studies performed and reported under HHS auspices. Notably, a study titled "Comprehensive Study of AFDC Administration Management", and another titled "Work Measurement and Work Simplification." We have used these studies as the basis for various technical assistance efforts.

- Creation of the Department's Welfare Management Institute and the Profile on State Performance Report. The Institute has taken many steps to improve administration and productivity in State AFDC agencies. The Report provides indicators for comparisons between States on quality, accuracy of payments, and administrative costs; it is designed to provide a basis for targeting technical assistance in problem States.
- Extensive training efforts aimed at improving States' AFDC administration and productivity.
- Intensive management reviews of local program operations.
- Establishment of a task force to look at our technical assistance efforts and capability and make recommendations on strategy, technology transfers and application of technical assistance.

We agree that more needs to be done and are continuing to broaden our efforts in this direction.

With respect to the last part of GAO's recommendation--that we establish incentives by not sharing in costs incurred in excess of performance-based budgets--a similar recommendation was made in GAO's June 5, 1981 report, "Millions Can Be Saved By Improving the Productivity of State and Local Governments Administering Federal Income Maintenance Assistance Programs". We explained then, and we continue to believe, that this would be considered by the States as a new approach to sanctions. In our opinion, the present climate of Federal-State relationships would make the necessary statutory and/or regulatory changes impractical of achievement, even if they were found desirable.

GAO Recommendations

That the Secretary of HHS take the following actions before approving future Illinois, Massachusetts and New York State plans.

- Require that there are sufficient staff in Illinois to cover the entire caseload.
- Direct Illinois to pilot test a decentralized filing system to determine a better way of controlling client documentation.
- Assist Illinois and New York in improving their personnel systems to more fully develop a cadre of qualified workers.
- Direct Illinois to justify the cost effectiveness of the verifier position in the home visit process. If it is found not to be cost effective, direct the State to eliminate the position.

- Direct Massachusetts to expand the prescreener concept to all district offices.
- Direct Massachusetts to improve the accuracy and quality of reports generated from the redetermination control system and to hold workers accountable for following the priorities established by the system.
- Direct Massachusetts to justify the cost effectiveness of doing home visits in the income maintenance process.
- Direct Massachusetts to continue its efforts to place greater emphasis on the quality of the work produced by its income maintenance staff and to implement a planned system by which it can hold its workers accountable for quality.

Department Comment

We do not concur. Under present law we do not have legal authority for disapproving the States' Plan amendments based upon failure to implement directions pursuant to the above recommendations. We believe that these recommendations are more suited to Federal-State negotiations and technical assistance than to a directive upon which State plan approval is conditioned. We will factor them into our planning processes on that basis.

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814
916/445-7046



October 15, 1981

Mr. James Carlan
U. S. General Accounting Office
855 Central Avenue
Albany, New York 12206

Dear Mr. Carlan:

AN ANALYSIS OF FOUR STATES' ADMINISTRATION OF THE AFDC PROGRAM: PROGRESS IS BEING MADE BUT SIGNIFICANT PROBLEMS STILL EXIST

Attached is California's State Department of Social Services (SDSS) comments on the above subject U. S. General Accounting Office report.

This report mentions that in a previous GAO review entitled "HHS Moves to Improve Accuracy of AFDC Administrative Cost Allocation: Increase Oversight Needed," it was stated that HHS does not have an adequate basis to make valid managerial judgements of the composition of costs or the relative effectiveness of States in controlling administrative costs, and that this situation exists because HHS has allowed States to utilize a variety of administrative cost allocation methods which do not necessarily allocate costs to the AFDC and other federally-assisted programs according to the benefits received. California feels that the utilization of a variety of cost allocation methods does not cause inappropriate charges. Allocation methodologies must be flexible to recognize various organizational structures and limitations. We object to the implications that the review of California's Cost Allocation Plan supported the need for a unified cost allocation method and reference you to our response to the former GAO report (copy attached).

The report mentions that each State must submit an operational plan to HHS for approval in order to qualify for federal financial participation and that one item each plan must provide is that decisions will be made promptly on applications, pursuant to reasonable State-established time standard not in excess of 45 days from the date of application. This is contrary to federal regulations that state that aid payments to eligible applicant must begin within 30 days of application.

The report cites that California had a \$259 million expenditure level in Fiscal Year 1980. The report does not specify the source of this information or whether it reflects state or federal fiscal year. In either case this amount exceeds all of California's expenditure records.

GAO notes: The page references in this appendix may not correspond to the page numbers in the final report.

Attachment not included in this report.

The report further explains that in California each year new targets are set forth by the State and negotiated with each county to further refine and improve the cost control system. This is a misunderstanding of our system. The counties have input but are not directly involved in the negotiation process that takes place at the State level.

The report implies in its discussion of work measurement, that because historical data is the basis for California's Cost Control effort, it is not totally efficient when compared to individual work measurement standards. This conclusion is based on several incorrect assumptions. First, while it is correct that caseload targets are based on prior year data, the targets are reviewed and updated to reflect current operating levels. Second, the implication that the state could increase activity levels is incorrect as the county basis for determining these standards has typically differed from that used by the State. This is particularly true with respect to case carrying staff.

California recommends the following two wording changes to the report:

- 1.) Page 54, second paragraph should read. "The counties have to pay the total share of aid payments for error rates in excess of 4 percent."
- 2.) Page 59 second paragraph should read: "In 1978, the State expanded the federally required statewide quality control sample to yield valid error rates for the 35 largest counties which comprise 98 percent of the State's APDC caseload."

GAO Recommendation to the Secretary of HHS

Require that all State plans contain standards of administrative efficiency based on work measurement techniques and quality assurance systems which assess the quality of specific work processes.

California's Response

Workload measurement is not necessarily a viable solution for controlling administrative costs within a county administered structure such as California's. California's cost control system employs an effort toward statewide uniformity but also acknowledges organizational difference's between counties. This would not likely be considered in a workload measurement system.

California, therefore, suggests that the report acknowledge the effectiveness of California's system and accept it as an alternative for a formal work measurement system.

If you have any questions concerning this response, please contact
Sue Turek, Audits and Evaluation Section at 916/323-0263.

Sincerely,



for CLAUDE E. FINN
Deputy Director
Administration

Attachment

cc: Mr. Frank Minore
U. S. General Accounting Office
855 Central Avenue
Albany, New York 12206



STATE OF ILLINOIS
DEPARTMENT OF PUBLIC AID

JEFFREY C. MILLER
DIRECTOR

October 6, 1981

316 SOUTH SECOND STREET
SPRINGFIELD, ILLINOIS 62763

Mr. Gregory J. Ahart
855 Central Avenue
Albany, New York 12206

Dear Mr. Ahart:

This is to respond to your request for comment on the draft report "An Analysis of Four States' Administration of the AFDC Program".

The AFDC program has problems - conceptual, administrative and regulative. Each of the States in turn adds its own particular problems to these. The goal of this audit was clearly a challenge: to evaluate this complex program as it touches the self-determined needs of four States and to arrive at an assessment of primary administrative problems and solutions. I believe that the report is only partially successful in pointing out problem areas. Unfortunately, even this partial success is marred by serious flaws in factual findings, misunderstandings and debatable assumptions.

1. There is little question that accurate workload standards and performance criteria are useful management tools. The report is not willing to propose these simply as good, even essential, management tools, but makes their presence the absolute touchstone of responsible management.

The report will not even allow for shadings of responsible management: if these are not scientifically developed workload standards and performance criteria, the Federal government is open to exploitation (p. 28). The report ignores much of its own cost analysis in promoting this single criterion assessment of State programs.

2. The report advocates the need of workload standards and performance criteria as the sine qua non of the AFDC program:

"Without such standards or equivalent measurements, cost information only shows what a process costs under current operations and not what it should cost if workers are operating at optimum efficiency" (p. 48).

The assumption inferred is that "optimum efficiency" is a given goal regarding which the auditors, HHS and the State are in agreement. This issue is never clarified. The auditors are not even consistent within the report as to what "optimum efficiency" is. The auditors set out the solid disclaimer that the error rate is not the single criterion of efficiency:

GAO note: The page references in this appendix may not correspond to the page numbers in the final report.

"A manager's job is to achieve goals at the least practicable cost and make the best possible use of resources, while remaining within spending and other limitations. In 1978, the HHS Inspector General wrote 'A cost-conscious agency would presumably want to minimize its total (administration plus error) costs. At some point, the incremental administrative cost of finding the next error exceeds the cost of the error found.' To ensure that administrative costs are minimized and error reduction efforts are not counterproductive, State and local managers must be able to identify their programs' total cost." (p. 22).

Continuously, however, throughout the report the payment error rate is held up as the most important criterion of management efficiency:

"CALIFORNIA AFDC PROGRAM: A TRIBUTE TO EFFECTIVE MANAGEMENT
California has made significant progress in reducing payment errors in the AFDC program" (p. 51).

"Although Illinois has made significant progress since 1978 in improving its management of AFDC operations, it still has problems...Each of these problems can contribute to increasing the level of erroneous payments" (p. 66).

"Since 1977, Illinois, Massachusetts and New York have made substantial improvements in the manner in which they administer their AFDC programs. The most visible evidence of this is in the decline of error rates and in their efforts to apply proven management approaches to administrative problems" (p. 84).

3. Although in the report considerable cost data is presented that allows for a "total cost" evaluation, the auditors disclaim (through reference to a previous audit) a direct relationship between administrative costs and error rates. They refuse, however, even to address the conclusion that can be derived from the report's fact sheet (p. 9) that California, for instance, would have saved \$16 million in 1980 if it had Illinois' per case administrative cost and payment error rate, and that Illinois had the lowest per case total administrative cost. There seems to be misrepresentation or omission in the report when the State that has the lowest total administrative cost (including payment error) is cited as inefficient. It seems fair to say that figures based on total administrative costs indicate that Illinois is more efficiently utilizing some management practices that have not been addressed in the report. If the report has chosen to ignore this conclusion, although based upon the report's stated principle of total cost (p. 22), then it leaves a significant gap in its logic.
4. The question about "optimum efficiency" touches on a much higher level than the report acknowledges. The report sets "total cost" as a singular benchmark of efficiency but then slides toward "payment error" as the single criterion of efficiency (as discussed above). I reject even total cost as a single criterion of management efficiency, or workload standards or performance criteria. These are but several tools available to management to achieve the Agency's goals. Nowhere in the report is reference made to program goals. The report either assumed that these are appropriate and in place, or chose to ignore them.

In theory, a caseworker can perform according to accurately determined workload standards and performance criteria, reduce error and total administration costs and still be ineffective as far as the Agency's program goals are concerned. The standards and criteria must be developed in reference to the Agency's goals for the program. Clearly, only one feature of these is cost control. There are other goals, for instance: prompt response time to an applicant's need; adaptation of assistance levels to level of need; interrupting the generation chain of welfare assistance; adequate responses to client appeals; timely case management actions and benefit issuance. Although the efficiency of these could be structured into properly drawn standards and criteria, the report addresses only cost control and, specifically, payment error. I find fault with this emphasis.

5. The report has a number of predrawn conclusions that it presents as obvious assumptions. A sampling of these would be:
 - a. Monthly reporting is necessary for tracking clients' status on a continuing basis (p. 66).
 - b. A distributed filing system is much more efficient than a central filing system (p. 58 and 67).
 - c. All cases must be redetermined every six months or they will be prone to error (p. 67a).

The auditor's use of these seems to carry a connotation of documenting predrawn conclusions (the inefficiency of the Michigan District Office) by resorting to arguable findings.

6. There is considerable factual error in the report. I can speak only for Illinois, of course, and we have not had the time to validate all the findings. The errors we did find, however, suggest strongly that GAO auditors should return to Illinois to discuss the findings with me and my immediate staff and confirm for themselves the errors we point out. We noted the following:
 - a. The report makes reference to an Illinois "Office of Cost Control" (p. 30 et al.). We know of no such office.
 - b. "The State's Quality Assurance Program...only provides error data on the redetermination process" (p. 30). The Quality Assurance Program provides data on several headings of case-worker performance including:
 1. Permanent eligibility verifications (birth certificates, etc).
 2. Completeness of entire case record.

Moreover, the Quality Assurance Program has been a major new initiative in the past 18 months and stands, we believe, as a sign of our commitment to error reduction.

- c. "Although the monthly reports on cost data were designed to include budgets for cost centers, there is no plan to develop them" (p. 31). The Agency has already implemented a cost center reporting system for which each manager is held accountable.
 - d. "Thirty redeterminations per month is the standard for case-workers" (p. 32). This is incorrect. Thirty cases per month is the benchmark for discipline, but not the performance standard. "Currency of redeterminations" is the standard. This is exemplified by the report's own figure of 38 redeterminations per month made in covered caseloads in the Michigan District Office (p. 67a).
 - e. "Efforts by Illinois...to institute work measurement techniques which would allow managers to determine the efficiency of their work force and institute productivity improvements have encountered strong opposition from local unions..." (p. 47-48). No such strong opposition is documented. A comprehensive study has just been completed, with standards implementation scheduled for this fiscal year.
 - f. "The improvements in Illinois error rate from 18.6% to 9.4% resulted from two initiatives begun in 1978 - the Intake Project Task Force and the HHS-Sponsored 'Six State Strategy for Error Reduction'" (p. 60). The Intake Task Force report has applicability in only two of 130 local offices. The findings of the task force have had virtually no impact upon our error rate reduction. The "Six-State Strategy" was not a major factor in reducing errors in Illinois.
 - g. "The Combined Application Form has been implemented Statewide" (p. 63). This is incorrect. The CAF is being pilot tested in only a few local offices.
 - h. "The forward flow process has been eliminated" (p. 63). This is incorrect.
7. I am concerned that there are document references in the audit report which create a significant misimpression. Again, I believe that it is important that key GAO staff meet with my immediate staff to resolve this issue and verify the errors we point out:
- a. The audit report, to support one of its conclusions, cites the Auditor General's 1979 Compliance Audit Report of IDPA (produced by Coopers-Lybrand) (p. 68). This finding faults the Agency for lack of qualified supervisors. The GAO report cites only the summary finding of Coopers-Lybrand and does not address the Agency's response. Our response cited lack of documentation for this finding. This was discussed with the Auditor General at a hearing with the General Assembly's Legislative Audit Committee where the Auditor General materially qualified this finding. The GAO auditors were wrong in citing only the summary finding.

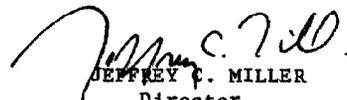
- b. The GAO audit cites a 1979 internal audit report of the Michigan District Office to document its stand on lost case records. It cites the internal audit "finding" that 4 of 50 cases could not be located. This was not a finding of the audit, but a qualification in the internal auditor's projections, because the auditor could not lay hands on the records. Consequently, the auditor made no finding in this regard. The Quality Assurance Monitors reported on this office in their statistical samples of case records over four quarters (January 1980-December 1980) that office staff were unable to locate only 10 out of 703 records requested.

This preliminary report heightens our concern about the GAO audit process. The issues discussed in the report were not discussed with upper level management. The auditors chose to gather much of their information from the caseworker level. The factual error and the misunderstandings need not have entered into this draft report had there been open discussion with higher level staff.

The time allowed to us to respond to this audit report has been very difficult within which to work. Your staff has had over a year to write this report and we have been allowed to respond within only one month even after a two week extension. Our ability to comment, consequently, has been limited.

If your staff would like to meet with mine to clarify the issues raised in this letter, please contact me or my Chief Auditor, Dan McCarthy, to arrange for a suitable time and location (217-785-0704).

Sincerely,


JEFFREY C. MILLER
Director

JCM:dr
CC: Jane Snowden

NEW YORK STATE
DEPARTMENT OF SOCIAL SERVICES
40 NORTH PEARL STREET, ALBANY, NEW YORK 12243

BARBARA B. BLUM
Commissioner



October 26, 1981

Dear Mr. Ahart:

Re: *Your Draft Audit Report, "An Analysis of Four States Administration of the AFDC Program: Progress is Being Made But Significant Problems Still Exist"*
 (#81-048)

We have reviewed the subject report and wish to provide you with the following comments. The report has been shared with New York City, but due to the extensive nature of the report, the City's comments have not yet been completed. We wish to assure you, however, that once we receive the City's response, we will forward it to you.

We were pleased to note that your report recognizes the significant reduction in the AFDC payment error rate in New York City (11.9% to 6.9%). However, many of the administrative improvements which have been initiated and implemented by NYC, were not highlighted in the report. The City has done an outstanding job, over a relatively short period of time, and we firmly believe that the final report should place greater emphasis on these results.

This Department questions the auditors' use of the State of California as a role model and also the comparability of the four states chosen for review. Of the four states chosen, California and New York are State supervised, locally administered systems, while Illinois and Massachusetts have State administered systems. Each State has a substantially different Income Maintenance (IM) Program employing different administrative criteria and methodology. California, for example, does not have a broadly based State and local general assistance program and their State administered AFDC system exercises stringent control over local costs, detailed client reporting techniques, and retroactive client budgeting.

It is our position that the size and scope of a State's entire IM Program is the key factor in the final determination of administrative quality and efficiency. To illustrate this point, NYS administrative cost per AFDC case is reportedly higher than California, although NYS's IM Program includes AFDC, Home Relief, Emergency Assistance to Families, and Adults; thus the complex Program structure requires more involved eligibility determinations which logically increases, not only the chance of error, but the overall administrative costs. This has not deterred the State, however, from making a strong commitment to meet the needs of its client population, as we have demonstrated by our willingness to support program initiatives with our own resources.

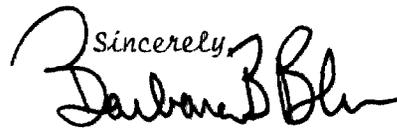
A recent study entitled "Corrective Action and AFDC Dynamics: An Empirical Study in Six Jurisdictions", which was conducted by the Public Assistance Data Analysis Laboratory in the Social Welfare Research Institute, Boston College, found that implementation of the Quality Control Program in NYS has led to measured reductions in error rates as well as reductions in caseload and expenditure levels. Specifically, they noted that "... New York City utilized a wide range of corrective actions to remove ineligible recipients from the active caseload Entire caseload recertification programs, more frequent and thorough individual case recertification programs, and tighter controls in initial aid determinations were significant contributors to caseload and expenditure reduction in New York City."

As you know, Congressional intent in establishing the AFDC Program was to allow the State considerable flexibility of operation under HHS guidelines. In light of this, we do not agree with your recommendation that a Federal mandate be established to require States to apply uniform standards of administration. The Department believes that this is a needless and unwarranted intrusion into State Administrative practices and is contrary to current and previously expressed Congressional and Executive intent. That does not mean, however, that we are against the objective of management improvement. We wholeheartedly agree that the Federal government should encourage States to establish management improvement projects and develop methods to adequately measure workflow, performance standards, and performance analysis. These improvements, to be both quality effective and cost efficient, should be developed and tailored to meet the individual needs of each State. We would further add that the recommendations contained in the report are potentially harmful to effective State management of the AFDC Program. It is our belief that flexibility in State Program administration can reasonably be expected to generate greater savings than those GAO insists will result from their cost allocation proposal. The enforcement of such strict cost allocation schedules could very well hamper the initiative of some States and pose a financial burden to others.

In response to the auditors' statement that NYS does not have an adequate system to produce cost, performance and quality assurances data, we believe you should be aware that through the use of our various systems (Welfare Management System (WMS), Medicaid Management Information System (MMIS), and Financial Management System (FMS)), we are now capable of producing information on many aspects of the Public Assistance Program. We are already developing a productivity effectiveness system and once the aforementioned systems are fully operational, we will use the information they generate to further improve program delivery, and also make local districts more accountable for Federal and State funds expended. In addition, recent studies conducted by the Department, such as Model Center Analyses and the Abt Associates Report on Monthly Reporting, have focused on the comparative analysis of cost per case as well as the effects of program changes on the numbers of cases. We also receive, on an on-going basis, detailed statistics which reflect caseload indicators such as the rate of case acceptances and closings.

The statement to the effect that NYC's workload standards are not based on work measurement should be clarified. Work measurement has, in fact, been attempted based on actual work observation and an analysis of work performance, which was conducted at the Williamsburg and Concourse IM Centers, necessitating lengthy discussions with local labor unions. We found these studies to be very successful measurement tools and plan to continue with them in the future. Furthermore, work standards in effect for the City's face-to-face recertification program are based on actual performance observations, while other work standards have evolved based on past experience. Measurements utilized include a worker's ability to meet certain regulations pertaining to timely action on appointments, applications, and recertification. Work backlogs are also closely monitored by NYC to determine appropriateness of the workload.

We wish to thank you for sharing this report with us and trust that our comments will be considered in the preparation of the final report.

Sincerely,


Barbara B. Blum
Commissioner

Mr. Gregory Ahart
Director
Human Resources Division
US General Accounting Office
Washington, D.C. 20542

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