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REPORT TO THE COMMITTEE
ON FINANCE
UNITED STATES SENATE

RELEASED

Observations Of The Test
Of The Simplified Method For
Determining Eligibility Of Persons
For Adult Public Assistance
Programs B-164031(3)

Department of Health, Education,
and Welfare

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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AUG 5, 1970



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

B-164031(3)

Dear Mr Chairman:

~~THURSDAY~~ AGC 00022

In accordance with a request of Mr Michael Stern of your staff, we are submitting to you our report on observations of the test by the Department of Health, Education, and Welfare of the simplified method for determining eligibility of persons for adult public assistance programs.

Although written comments have not been obtained, we have discussed our observations with officials of the Department of Health, Education, and Welfare

As agreed with your staff, copies of this report are being sent today to the Secretary of Health, Education, and Welfare. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report

Sincerely yours,

James B. Stets

Comptroller General
of the United States

The Honorable Russell B. Long
Chairman, Committee on Finance
United States Senate

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ABBREVIATIONS

GAO General Accounting Office

HEW Department of Health, Education, and
 Welfare

SRS Social and Rehabilitation Service

D I G E S T

WHY THE REVIEW WAS MADE

Additional
The traditional method of determining eligibility of persons for public assistance programs has been the object of criticism in recent years because it was considered to be too expensive and time consuming and too humiliating to the applicant. Generally under this method no decision on eligibility or extent of entitlement was made by welfare agencies until a caseworker had visited the applicant's residence and verified information (previously) furnished at the time of application, which included obtaining information from collateral sources. [For applicants deemed eligible,] redeterminations of eligibility were ^{then} made at least annually following ~~these~~ ^{the same} procedures.

The Department of Health, Education, and Welfare (HEW) developed a simplified method for eligibility decisions designed to reduce administrative costs, initiate payments to eligibles [recipients] more promptly, and make more time available for social workers to render services to recipients of public assistance.

The simplified method provides for eligibility determinations to be based, [to the maximum extent possible,] on the information furnished by the applicant, without routine interviewing of the applicant and without routine verification and investigation by the caseworker. In January 1969 HEW required all States to begin to implement the simplified method for adult public assistance programs in selected locations.

The Social and Rehabilitation Service of HEW instituted a test of the simplified method in July 1969, to determine whether the intended objectives were being achieved. The test included validating [the correctness of] decisions made by the caseworkers on eligibility and extent of entitlement through acceptance-sampling techniques. The test was carried out by State and local welfare agencies and was monitored by HEW. The results were reported to the Secretary, HEW, in January 1970. Largely on the basis of this report, HEW directed the States to fully implement the simplified method for adult programs. Implementation began in July 1970 and is to be completed by July 1971. States were also directed to develop a plan to be carried out over a period ending July 1, 1973, which would result in further simplification and improvement of the method.

Because of the continuing congressional interest in the rising costs of federally aided public assistance programs, and because of the potential significant impact of the simplified method on such costs, the General Accounting Office (GAO) observed the procedures followed in making the test and reviewed the results of the test. GAO's observations have been discussed with HEW officials but written comments have not been obtained.

FINDINGS AND CONCLUSIONS

GAO observed a number of *problems* in the implementation of the simplified method by the States in selected locations and in HEW's conduct of the test of the method. These *should* suggest that HEW *needs to* closely monitor the nationwide implementation of the simplified method.

In implementing the simplified method,

- few States pretested the simplified application form to the extent set forth in the HEW regulations, as a result, when the testing began many States found their simplified forms to be inadequate (see p. 15),
- many welfare agency workers found it was not possible to make decisions on eligibility solely on the basis of information provided by the applicant (see pp. 15 to 16), and
- some welfare offices conducted prescreening interviews with applicants, and, in cases where the welfare worker believed the applicant to be ineligible, the applicant was not allowed to complete a simplified application form (see p. 17)

GAO noted also that

- about 83 percent of the total cases included in the test were re-determinations of eligibility which had previously been subjected to the traditional method of determining eligibility, so that the overall results of the HEW test may not be indicative of the manner in which the simplified method will operate (see pp. 17 to 18),
- a 3-percent level of incorrect eligibility decisions for accepting sampled lots was established largely on a *discretionary* *arbitrary* basis (see pp. 19 to 20),
- the sampling plan used by HEW contained relatively high probabilities that the tolerable level of ineligibility was exceeded (see pp. 21 to 22), and
- a benefit-cost analysis of the simplified method was not made during the test period (see pp. 22 to 23)

GAO believes that the problems associated with the HEW test were, collectively, sufficient for questioning certain of the data from which conclusions were drawn to have the simplified method implemented on a nationwide basis. However, the problems we observed should not be construed as meaning that GAO is opposed to use of the method. ^{the cases}

HEW advised GAO that most of the problems were the result of a short time frame within which to plan, conduct, and report on the test.

RECOMMENDATIONS OR SUGGESTIONS

To ensure that the States implement HEW's simplified method in an effective manner and work toward further simplification and improvement of the method, the Secretary of HEW should

- provide the States with specific guidelines as to when, and the manner in which, inconsistent statements made by applicants at the time of application should be verified by information obtained from collateral sources (see p. 24),
- provide for an examination of the simplified application forms adopted by the States and, where the forms are found to be inadequate, provide assistance to the States in designing and implementing a simplified form upon which proper eligibility determinations can be based (see p. 25), and
- reevaluate the 3-percent tolerance level for ineligibility on the basis of experience gained through continued validating procedures when the simplified method becomes operational in a representative number of States (see 25)

CHAPTER 1

INTRODUCTION

GAO has observed the procedures followed by the Social and Rehabilitation Service, HEW, and the States in implementing and testing ~~the~~ simplified method for determining eligibility of persons for adult public assistance programs. GAO has not reviewed the appropriateness of ~~the~~ simplified method. The adult programs are authorized by title I, old age assistance, title X, aid to the blind; title XIV, aid to the permanently and totally disabled, and title XVI, aid to the aged, blind, or disabled, of the Social Security Act, as amended (42 U S C 301-1385) During fiscal year 1969 about \$1.6 billion of Federal funds were expended for these programs and about 2.8 million persons were provided assistance.

The traditional method of determining eligibility for public assistance programs has been the object of criticism in recent years. Welfare agency employees interviewed each person applying for assistance and completed an application form for the applicant. Decisions on an applicant's eligibility and the extent of entitlement were generally not made by the agency until a caseworker had visited the applicant's residence and verified the information previously furnished at the interview. In many cases collateral sources of information (such as birth certificates, interviews with landlords, and inquiries of the Social Security Administration) were sought in an effort to verify certain eligibility factors. Only after a thorough investigation would a decision on eligibility and extent of entitlement be made. For an applicant deemed eligible for an adult program, a redetermination of eligibility was made at least annually, following the same procedures.

Criticism of the traditional method has been that it is too expensive and time consuming and that it is humiliating to the applicant or recipient. Therefore, HEW developed a simplified method for determining eligibility designed to reduce administrative costs, initiate payments to eligible applicants more promptly, and make more time available for social workers to render services to recipients of public

assistance while ^{this} maintaining the validity of eligibility determinations. The simplified method provides for eligibility determinations to be based, to the maximum extent possible, on information furnished by the applicant, without interviewing the applicant for the purpose of verifying information and without verifying information through collateral sources.

In January 1969 HEW issued a regulation that required all States to begin to implement the simplified method of determining eligibility for adult public assistance programs in selected locations. The regulation stated that the testing of the simplified method would begin no later than July 1, 1969. The purpose of the test was to determine whether the simplified method was achieving its intended objectives.

The purposes of this report are to summarize our observations on the test conducted by the Social and Rehabilitation Service and the States and to indicate need for action by the Secretary of HEW which we believe will promote proper implementation of the simplified method. The scope of our review is described on page 26.

CHAPTER 2

INSTRUCTIONS RELATING TO

TESTING OF THE SIMPLIFIED METHOD

Social and Rehabilitation Service (SRS) Program Regulation 10-3, issued on January 24, 1969, provided guidance to State public assistance agencies in establishing and administering a simplified method for determining eligibility under all public assistance programs authorized by the Social Security Act. The Assistance Payments Administration of SRS issued supplementary guidance to the State agencies on March 28, 1969, explaining ~~more~~ fully the content and intent of SRS Program Regulation 10-3.

This chapter contains a brief description of SRS and Assistance Payments Administration guidelines concerning the manner in which the simplified method was to be implemented and tested by the States in the adult assistance programs. Testing for the aid to families with dependent children program, authorized by title IV-A of the act, and the medical assistance program, authorized by title XIX of the act, has not been completed by SRS. Thus, our observations in this report pertain only to the adult programs.

DEFINITION

The SRS regulation states:

"The simplified method means an organized method by which the agency accepts the statements of the applicant for, or recipient of assistance, about the facts that are within his knowledge and competence *** as a basis for decisions regarding his eligibility and extent of entitlement."

The simplified method ^{calls} called for use of a simplified application form; a pretest of this form; an organizational structure for implementing the method, including training of staff, testing, and validating the method on a sampling basis at the time of implementation to ensure proper

installation; and subsequent continuing reviews of samples of the decisions made (validation reviews).

SRS guidelines stated that the simplified method could not be effective in a State that required either a mandatory interview or a routine verification of information in all or a substantial number of cases. The guidelines stipulated that most applicants and recipients were capable of furnishing the necessary information and, therefore, the State should consider them as the chief source of information and should not verify the information. The simplified method was not to apply to eligibility factors for which policy required procedures beyond the applicant's statement, such as (1) a medical examination to determine the extent of blindness, (2) a medical and social determination as to permanent and total disability, and (3) a determination of whether training or employment had been refused for good cause.

TEST PERIOD AND LOCATIONS

States were to begin testing the simplified method for the adult categories no later than July 1, 1969. The test was to cover both new applicants and persons on the rolls for whom determinations of eligibility were due. (Redeterminations are made at least annually for adult programs.) Prior to July 1, 1969, States were to develop and pretest a simplified application form. The test for the adult programs was to cover the determinations of eligibility made during July and August 1969, and the results of the testing in each State were to be reported to SRS by October 1, 1969. Those States which had previously administratively adopted a simplified method were instructed to reexamine their existing systems for compliance with SRS regulations.

Generally, States were permitted to select the locations in which to carry out the test. It was required that at least one urban area in each State be selected. Locations selected were to be representative of the statewide case-load in terms of assistance categories, availability of staff, ethnic makeup of clients, areas of special needs, or other program peculiarities.

PRETESTING

SRS instructed the States to pretest their simplified application form. The purpose of pretesting was to discover and correct ambiguous language, ensure that the information requested was relevant, and show whether persons understood what information was being sought and why it was needed. States were instructed to pretest the form by using the traditional method for determining eligibility, including interviews and verification of each item of information furnished. SRS believed that this would reveal any problems in the use of the simplified form and would allow necessary changes to be made before the start of the test.

The SRS guidelines required that the simplified application form be reviewed and approved by SRS regional office personnel prior to the pretest. After initial approval, any significant revisions or supplements to the form were also to be approved by SRS regional office personnel.

PRUDENT-PERSON CONCEPT

The States were to use the information provided by the individual and recorded on the simplified form in determining eligibility and extent of entitlement. If questions arose concerning the information on the form, the individual was to be given the opportunity to furnish additional or clarifying information. If the person was unable to provide such information, the State agency was to obtain permission from the applicant to seek the information from other sources.

The States were instructed to establish criteria for unusual cases; that is, instances of inconsistencies or gaps in the information presented which could not be resolved by the applicant and which, to a prudent person, suggested the need for further explanation or verification. The SRS guidelines specified that there must be a particular reason for seeking additional information; that is, a specific factor of eligibility for a specific case must be in question and not a factor applicable to a sample of cases or all cases from a particular test location.

VALIDATION PROCESS

? States were to establish a validation review system to measure the correctness of decisions made through use of the simplified method. The system encompassed the use of a full field review (traditional method) of samples of local agency decisions and was to determine the reliability of the method in producing decisions of eligibility and the extent of entitlement. SRS designed a sampling plan for the States to follow in carrying out their validation reviews. This sampling plan was designed to review relatively few cases while producing statistically valid information in the test location. Under this plan, States were required to review a designated number of sample lots, each including 150 sample cases; the number of sample lots was dependent upon the total caseload in the State. The sampling plan was designed to determine whether the simplified method operated within a predetermined tolerance level of 3-percent incorrect eligibility decisions in the selected test locations.)

After each case was reviewed, the reviewer was to determine the correctness of the eligibility determination and the amount of payment. When the eligibility determination was considered to be incorrect, the causes for the incorrect determinations were to be identified as an agency error or an applicant error. An agency error resulted if the agency (1) misused correct information provided by the applicant or (2) failed to follow up on information which was incomplete, unclear, or inconsistent. An applicant error resulted if the applicant provided incorrect information.

CHAPTER 3

RESULTS OF TESTING SIMPLIFIED

METHOD OF ELIGIBILITY DETERMINATION

AS REPORTED BY SRS

Pursuant to guidelines issued by SRS, States implemented and tested the simplified method for determining eligibility. SRS regional office personnel were primarily responsible for evaluating and reporting on the States' activities relating to the test. The regional offices prepared reports for each State, describing the results of the testing and presenting the statistical data which had been gathered. The information from the States and the regional offices was forwarded to the SRS central office in Washington, D.C., where it was tabulated and analyzed.

On January 2, 1970, an SRS report entitled "A Report of Findings on Testing the Simplified Method in the Adult Categories - 1969" was forwarded to the Secretary, HEW, for his review. This report summarized the findings of the tests in the States and presented data relating to eligibility, correctness of payments, and problems encountered during the test period.

The report concluded that the use of simplified forms enabled applicants and recipients to provide sufficient information upon which accurate determinations of eligibility and extent of entitlement could be based and that these determinations could be made and assistance provided quicker and with less paper work than under the traditional method. The report also stated that, by using staff trained especially for determining eligibility and extent of entitlement, the simplified method could free social work staff for service programs. The report noted that, as a result, the simplified method could be more economical than the traditional method and still provide a basis for valid determinations of eligibility and extent of entitlement.

The report included a recommendation that the Secretary require the use of the simplified method on a

permanent basis for the adult public assistance programs. According to SRS, analysis of the test results supported the conclusion that the simplified method is superior to the traditional method and the national test supports earlier results of testing in some individual States.

Of the 54 States and jurisdictions that have public assistance programs, all but three participated in the test. Of the 51 States and jurisdictions that participated, five had not completed testing at the time the report was issued and seven had sample sizes deemed too small by SRS for drawing statistically reliable inferences. Therefore, the SRS report was based on the results of tests in 88 test locations, or sample lots in 39 States and jurisdictions. The report stated that the findings were statistically supported for the test locations sampled and that these test locations were representative of the entire State or jurisdiction.

The report to the Secretary stated that, of the 88 sample lots, the predetermined 3-percent level of incorrect eligibility decisions had been exceeded in 11 lots in seven States. For the 11 lots in which the tolerance level was exceeded, 115 cases were determined to be ineligible. For these 115 cases, there were 153 errors--102 were agency errors and 51 were applicant errors. Many of these errors were made in computing income or evaluating other resources.

In the report SRS explained that, since the underlying premise in the simplified method was reliance on the applicants' statements without routine verification, it was important to note that, in only one of the 11 sample lots, was the 3-percent tolerance level exceeded because of the applicants' giving incorrect information. In summary, the report stated that the testing had demonstrated that applicants could be relied upon to provide accurate information for the purpose of determining eligibility for assistance

A tolerance level was not established for the test relating to the number of incorrect payments in a given sample lot. Although the SRS report contained information on incorrect payments, they were not discussed on a sample-lot basis. The report stated that overpayments were involved

in 1,873 cases, or 14.8 percent of the 12,723 sample cases reviewed. The average overpayment was \$11.14 per month. Underpayments were reported for 1,118 cases, or 8.8 percent of the cases reviewed. The average underpayment was \$7.79 per month.

The report stated that, of the 51 States and jurisdictions which tested the simplified method, 43 continued using it in at least the test locations of the State after the test period. As of April 30, 1970, 20 States had extended the use of the simplified method statewide for all adult programs.

On May 28, 1970, the Secretary mandated the use of the simplified method for determining eligibility beginning July 1, 1970, for the adult public assistance programs. Its use is to be gradually extended so that it is in effect nationwide no later than July 1, 1971. At the same time the Secretary directed the States to develop a plan to be carried out over a period ending July 1, 1973, which would result in (1) further simplification of eligibility and procedural requirements, (2) further simplification of forms, (3) modernization of the payment mechanism, and (4) appropriate training and utilization of staff.

The Secretary's mandate was based in large part on the SRS report on the results of the national testing of the simplified method.

CHAPTER 4

GAO OBSERVATIONS OF THE TEST OF THE SIMPLIFIED METHOD IN THE ADULT PROGRAMS

In its January 1970 report to the Secretary, SRS pointed out that the States had encountered problems in testing the simplified method for the adult public assistance programs. Most of these problems related to States' adherence to the test guidelines. Although SRS mentioned these problems in its report, SRS expressed the opinion that the test methodology and findings had not been adversely affected.

During our observation of the testing, we became aware that the States were experiencing problems in adhering to the SRS guidelines. We found that many States did not comply with all the provisions of SRS Program Regulation 10-3 so that, in effect, many variations of the simplified method were tested rather than the method intended by SRS. By variations of the simplified method, we mean that certain key provisions specified by SRS were not followed.

According to an SRS official, two reasons that the States did not adhere to the SRS provisions were: (1) some States which had established a form of the simplified method prior to the national test found it difficult or impractical to change from the method in force for the short time allowed for testing and (2) several States questioned the validity of eligibility determinations based on the simplified method.

SRS regional office officials visited States and jurisdictions to observe the testing of the simplified method and prepare reports describing the test practices of the States. We noted that these reports were limited to a description of the States' practices in testing the simplified method and that, generally, attempts were not made to change those practices that were not consistent with the guidelines established by SRS. It appears that the States were permitted wide latitude in carrying out their tests so that the testing could be completed by October 1, 1969.

We observed a number of problems in the implementation of the simplified method by the States in selected locations and in HEW's conduct of the test of the method. A test conducted without the problems which we noted might have shown that the simplified method could operate nationwide in an efficient and effective manner. Nevertheless, the problems noted suggest that HEW needs to closely monitor the nationwide implementation of the simplified method.

State implementation problems consisted of

- limited pretesting of the simplified form (see p. 15),
- the need to use collateral sources of information in determining eligibility (see pp. 15 to 16), and
- prescreening of applicants, thus not allowing all to make application for assistance (see p. 17).

Problems noted in HEW's conduct of the test were

- inclusion in the sample lots tested of a significant number of cases which had previously been subjected to a traditional method of eligibility determination (see pp. 17 to 18),
- discretionary choice of 3 percent as the tolerance level of ineligibility (see pp. 19 to 20),
- sampling plan insufficient to ensure the desired reliability of results (see pp. 21 to 22), and
- absence of the benefit-cost analysis to demonstrate savings (see pp. 22 to 23).

HEW officials advised us that most of the problems noted above were the result of the short time frame within which to plan, conduct, and report on the test.

The details of our observations follow.

LIMITED PRETESTING OF SIMPLIFIED FORM

SRS instructed the States to pretest the simplified application form before testing the simplified method so the form could be revised and supplemented as necessary, to eliminate problem areas. SRS provided a model form to the States to give them an idea of how the form could be designed. HEW officials advised us, however, that variations in State laws and regulations governing the assistance program made it impracticable for them to prescribe use of a specific format.

According to the SRS January 1970 report, most States carried out some pretest activities but few States pretested to the extent set forth in the SRS regulations and no State was able to design a truly simplified form. ✓

When the actual testing of the simplified method began, many States found their simplified forms to be inadequate. They had to either alter their forms while the testing was in progress or continue to use the inadequate forms. It appears that, because sufficient time had not been allowed to adequately pretest the simplified form, some were not suitable. Many applicants were unable to complete the forms because of misunderstanding and confusion. Routine interviews between welfare agency workers and applicants became common because it was not feasible to determine eligibility solely on the basis of information furnished on the form.

USE OF COLLATERAL SOURCES OF INFORMATION TO DETERMINE ELIGIBILITY

SRS guidelines stated that the simplified method would not be considered effective if the State routinely interviewed applicants or independently verified data furnished by the applicant. We noted, however, that in many States workers found they had to obtain information by other means before a determination of eligibility could be made. These other means included routine interviews, home visits, completion of supplementary forms, or, in a case of redetermination of eligibility, reference to the recipient's case record. SRS acknowledged in its January 1970 report that many States required routine interviews.

For example, local welfare officials in Baltimore, Maryland, informed us that, even though the simplified method was used, it was required that each new applicant for assistance be interviewed at the time of application; this requirement did not apply to redeterminations of eligibility. These officials explained that they believed it was necessary to check the applicants' answers provided on the form to make certain that the questions had been interpreted correctly and answered completely.

In New York City we observed that, before determinations of eligibility were made, documentation verifying certain information for new applicants was obtained. The verified information related to amounts of (1) income earned, (2) pensions received, (3) face value and premiums of insurance policies, and (4) property owned. An SRS official who made an onsite visit to New York City concluded that such routine verification largely defeated the purpose of the simplified method.

It appears that the use of routine interviews and verification checks was the result, to a certain extent, of SRS's failure to provide definitive guidance to the States relative to the prudent-person concept. (See p. 8.) SRS regulation 10-3 provided that

"When under the simplified method statements of the applicant or recipient are incomplete, unclear, or inconsistent, or where other circumstances in the particular case indicate to a prudent person that further inquiry should be made, and the individual cannot clarify the situation, the State agency will be required to obtain additional substantiation or verification."

Such general guidance allowed the States considerable discretion in developing more specific criteria concerning the circumstances which would indicate, in a particular case, that additional verification was necessary before a determination of eligibility could be made. Interviews or verification practices were a routine part of the systems adopted in Baltimore and New York City.

PRESCREENING APPLICANTS BEFORE THEY
WERE ALLOWED TO APPLY FOR ASSISTANCE

Under the simplified method for determining eligibility, applicants for public assistance were not to be routinely interviewed. Discussions were allowed to assist the applicant to complete the form and to discuss social service needs after the applicant had completed an application form. We were informed that in no case was a person to be interviewed prior to applying for assistance.

In New York City we were informed that, in a number of the welfare centers, applicants were being interviewed before being afforded the opportunity to apply for assistance. New York City Department of Social Services officials stated that, as a result of these prescreening interviews, many persons had not applied for assistance because the interviewer had decided that the person was not eligible. These officials stated that they did not know the extent of this practice because records were not maintained for those prescreened. We were not able to ascertain the extent to which this practice might have been followed in other States and cities which participated in the test of the simplified method.

This practice of prescreening could have adversely affected the conclusions based on the test results of the simplified method in New York City because there was no assurance that the individuals denied assistance in this manner would have been found ineligible had they been permitted to apply for assistance in accordance with SRS regulations, that is, by making formal application on the simplified form. Therefore, such cases could not become part of the total case load universe from which the sample cases were chosen for validation purposes and, to the extent omitted from the universe, introduced a bias into the sample lots.

SAMPLE LOTS INCLUDED CASES PREVIOUSLY
SUBJECTED TO THE TRADITIONAL METHOD
OF DETERMINING ELIGIBILITY

SRS regulation 10-3 provided that the test of the simplified method would include both new applicants for

assistance and persons on the rolls whose eligibility had been determined under the traditional method. In selecting the sample lot cases, the States were instructed to consider the entire case load of adult public assistance cases. There was no requirement that States select a minimum number of new cases or redetermination cases for the test.

We noted that, of the total cases reviewed during the test, about 17 percent were new applications and about 83 percent were redeterminations of eligibility. Few States gathered data to show whether a sample case found to be ineligible was a new application or a redetermination case.

We believe that the characteristics of redetermination cases might differ from the new application cases included in this test because the original decision of eligibility and any previous redeterminations would have been carried out under the traditional method--not the simplified method. Also, the life situation of individuals included in the adult categories--the aged, the blind, and the disabled--would probably not change significantly from one year to the next.

Accordingly, it would have been beneficial to SRS if ineligible cases had been identified as being new applications or redeterminations. This information would have helped to provide additional insight into the operation of the simplified method, would have identified in which groups of cases incorrect decisions occurred, and would have allowed corrective action to be initiated promptly.

In the future the simplified method will be used to make initial eligibility determinations and redeterminations. Since 83 percent of the test cases were redeterminations which had been subject to prior review under the traditional method, it is possible that the test findings are not indicative of the manner in which the simplified method will operate once most redeterminations are of cases which were initially accepted under the simplified method.

TOLERANCE LEVEL OF INELIGIBILITY

HEW established that a maximum level of 3-percent incorrect eligibility decisions was acceptable for the adult public assistance programs in each selected test location.

SRS officials advised us that the 3-percent tolerance level was established largely on a discretionary basis. These officials stated that it was necessary for monitoring purposes to establish some threshold and that the 3-percent level seemed feasible for indicating whether the simplified method could produce acceptable results. Also, according to these officials, under the traditional method the level of ineligibility experienced was 3-percent and State officials indicated they could "live with" a 3-percent ineligibility factor under the simplified method.

The Secretary's mandate for use of the simplified method also establishes a 3-percent tolerance level on incorrect eligibility decisions. SRS regulations provide that:

"When it is determined that the rate of incorrect eligibility decisions exceeds a 3 percent tolerance level, the State *** agency must conduct a 100 percent verification of those specific factors of eligibility identified as causing the unacceptable incorrect decision rate. This more intensive investigation on specific factors of eligibility will be continued until the Federal agency and the State assess the situation and work out a solution."

We believe that SRS should reevaluate the 3-percent tolerance level on the basis of experience gained in the early months of implementation of the validation system for decisions made under the simplified method. In our opinion the 3-percent ineligibility level may be too high considering that the adult programs (aged, blind, or disabled persons) are much less susceptible to changes in eligibility status than the program for aid to families with dependent children (for which a 3-percent tolerance level also applies). On the other hand, the 3-percent level may be too low when considering that, under the traditional

method, the statistical data provided through the validation system was not designed to measure the rate of ineligibility but the effectiveness of the local caseworkers' actions leading up to the determination of the applicant's eligibility.

STATISTICAL SAMPLING DESIGN
IMPLEMENTATION AND INTERPRETATION

The SRS acceptance-sampling plan for testing the simplified method was designed on the assumption that ineligibility rates would not exceed 3 percent. Using a sample size of 150 cases per lot and an acceptance number of 8 incorrect eligibility cases, the plan provides for 96-percent probability of accepting sampled lots having ineligibility rates of 3 percent. According to the SRS report of January 1970, 11 of the 88 lots sampled were unacceptable because they contained more than 8 incorrect eligibility cases.

The SRS plan also provided a high risk (probability) of accepting lots whose ineligibility rates were greater than 3 percent. For example, a sampled lot with an ineligibility rate of 4-percent had an 85-percent probability of being accepted; a sampled lot with a 5-percent ineligibility rate had a 66-percent probability of being accepted; and a sampled lot with a 6-percent ineligibility rate had a 45-percent probability of being accepted.

The probabilities of accepting lots with ineligibility rates from 1 to 10 percent, under the SRS acceptance-sampling plan, are shown below.

<u>Ineligibility rate</u> <u>of lot submitted</u>	<u>Probability of</u> <u>accepting lot</u>
1%	100%
2	100
3	96
4	85
5	66
6	45
7	27
8	14
9	7
10	3

SRS could have selected any of a number of acceptance-sampling plans that would have reduced the risk of accepting lots whose ineligibility rates exceeded 3 percent. For example, with a sample size of 400 and an acceptance number

of 13, the probability of accepting an ineligibility rate of 4 percent is only 27 percent; of 5 percent, only 6 percent. The plan (400/13) also provides an almost certainty of accepting ineligibility rates up to 2 percent and almost 70-percent probability of accepting ineligibility rates of 3 percent.

We believe, therefore, that the sampling plan used by SRS was not sufficient to ensure that the simplified method did operate within the 3-percent ineligibility limits because of the high probability that ineligibility rates exceeding 3 percent would also have been accepted.

SRS officials advised us that, in their opinion, the probability of the tolerance level's being exceeded because of incorrect information furnished by the applicant--which is basic to the use of the simplified method--was very small since about two thirds of the errors which resulted in the 11 lots' being unacceptable were caused by agency errors and only one third were caused by applicant errors. (See discussion on pp. 11 and 12.)

BENEFIT-COST ANALYSIS OF THE SIMPLIFIED METHOD

Although a benefit-cost study was not included as part of the test, the SRS report states that studies made in three States showed that administrative costs could be reduced by using the simplified method rather than the traditional method of determining eligibility. The report summarized the findings in the three States as follows:

1. In Salt Lake County, Utah, for a 6-month period ended December 31, 1968, the cost per case for all public assistance programs (adult and aid to families with dependent children) was about \$11.50, compared with \$17.70 under the traditional method.
2. For the State of Maine during fiscal year 1968, the cost per case for all public assistance programs approximated \$6.30, compared with \$22.50 under the traditional method.

3. In Indiana County, Pennsylvania, for the quarter ended September 1968, the cost per case for all public assistance programs was about \$34.50, compared with \$48.80 under the traditional method.

The SRS report stated that the cost reductions were primarily attributable to a reduction in the amount of staff time involved in eligibility determinations. Also, according to the SRS report, the number and complexity of State eligibility requirements and the extent of verification are responsible for the differences in the per case cost figures in each State.

The studies in these States were conducted at least 6 months before the simplified method prescribed by SRS regulation 10-3 was tested. Therefore, we believe that these studies analyzed three forms of the simplified method which were different from the method prescribed by SRS. Further, although these studies indicated that administrative costs could be reduced by use of the simplified method, the report did not show whether the ineligibility rate under the simplified method was more than, less than, or the same as the ineligibility rate under the traditional method. This comparison seems important because any reduction in administrative costs resulting from use of the simplified method could be nullified if the ineligibility rate under the simplified method is higher than the ineligibility rate under the traditional method.

CHAPTER 5

CONCLUSIONS AND INDICATED NEED FOR ACTION

BY THE SECRETARY OF HEW

The mandating of the simplified method of determining eligibility in the adult public assistance programs on a nationwide basis was based in large part on the results of the test of the simplified method. We believe, that the problems associated with the SRS test were, collectively, sufficient for questioning certain of the data from which the report conclusions were drawn. The problems we observed should not be construed as meaning that we are opposed to use of the method. We believe, however, that there is a need for the Secretary of HEW to take steps to help ensure that the States implement the simplified method in the manner prescribed by HEW now that the method has been mandated on a nationwide basis. In this connection, we note that the Secretary has directed the States to develop a plan to simplify and improve the simplified method over a period ending July 1, 1973.

HEW conclusions concerning the validity of eligibility decisions and administrative cost reductions were generally not based on experience from using the simplified method prescribed by HEW. Prescreening, obtaining collateral information, and conducting investigations at the time of application were specifically prohibited under the simplified method prescribed by HEW. Although the inadequacies of the simplified application forms contributed to the need for additional information-gathering techniques for decision-making, we believe that the broad prudent-person concept and the reluctance of State agencies to accept the information furnished by applicants have impeded implementation of the HEW-prescribed method.

Accordingly, to assist the States in implementing the simplified method as prescribed, we believe that the Secretary needs to provide the States with specific guidelines as to when, and the manner in which, inconsistent statements made by applicants at the time of application should be verified by information obtained from collateral sources.

The simplified application form is essential to the functioning of the simplified method, and it must therefore be designed to ensure that eligibility decisions can be based on the information furnished by the applicant. Unless the simplified application forms designed by the States provide the type of information upon which proper determinations of eligibility can be made, the simplified method as prescribed by HEW--that is, no routine interviews and routine verification of information--will not be effective.

Accordingly, the Secretary needs to provide for an examination of the simplified application forms adopted by the States and, where the forms are found to be inadequate, provide assistance to the States in designing and implementing a simplified form.

We believe further that, since the 3-percent tolerance level for ineligibility was not based upon experience with the simplified method, the Secretary should reevaluate this level--through continued validating procedures--considering the experience gained when the simplified method becomes operational in a representative number of States.

CHAPTER 6

SCOPE OF REVIEW

Our observations of the implementation and testing of the simplified method in the adult public assistance programs by SRS and the States were made primarily at the central office of HEW in Washington, D.C. We reviewed the test design, the reports submitted by the State welfare agencies and SRS regional offices concerning the manner in which the testing was carried out, and the results of the testing. We analyzed certain data that had been prepared by the SRS staff which summarized the reports submitted by the State welfare agencies, and we discussed our observations with SRS officials.

In addition we accompanied SRS review teams on visits to New York City and Baltimore, Maryland, to observe and discuss the means used by the States in implementing and testing the simplified method.

We also analyzed the SRS report of January 1970, which summarized the experiences and findings of the States in carrying out the testing of the simplified method, and compared the information included in the report with the information we developed during our observations of the testing.