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BY THE COMPTROLLER GENERAL  
Report To The Chairman,  
Committee On Finance  
United States Senate  
OF THE UNITED STATES

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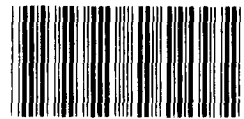
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**Better Management Information Can Be Obtained  
From The Quality Control System Used In The Aid To  
Families With Dependent Children Program**

Erroneous payments to Aid to Families with Dependent Children program recipients continue to concern both the Congress and the Department of Health and Human Services. HHS has tried to encourage error reduction by requiring States to implement the quality control system. Relying on a congressional conference committee directive, HHS plans to encourage States to reduce errors by withholding Federal funds for erroneous payments above certain tolerances based on quality control findings. However, these penalties are an incentive to report fewer errors.

This report discusses improvements needed in the quality control system to make it more useful to managers for reducing errors and recommends that application of fiscal sanctions against States be discontinued.



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

B-197135

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

Dear Mr. Chairman:

In response to your request of September 11, 1978, we have reviewed the quality control system for the Aid to Families with Dependent Children program. This report discusses actions needed by the Department of Health and Human Services to make the quality control system more effective for improving the administration of the program, and the need to discontinue the application of fiscal sanctions against the States.

Federal and State agency comments were obtained and were considered, where appropriate, in preparing this report.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its 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 black ink, appearing to read "James A. Starks".

Comptroller General  
of the United States



COMPTROLLER GENERAL'S  
REPORT TO THE CHAIRMAN,  
SENATE FINANCE COMMITTEE

BETTER MANAGEMENT INFORMATION  
CAN BE OBTAINED FROM THE  
QUALITY CONTROL SYSTEM USED  
IN THE AID TO FAMILIES WITH  
DEPENDENT CHILDREN PROGRAM

D I G E S T

Over \$900 million paid to poor families under the Aid to Families with Dependent Children (AFDC) program was paid in error during 1978. This estimate, which includes overpayments to eligible families and payments to ineligible families, is based on data reported by the quality control system. (See p. 1.)

The quality control system was established to improve administration of the AFDC program by identifying errors and developing corrective actions to eliminate them. The system is also the basis for fiscal sanctions against the States for erroneous payments in excess of error tolerance levels. (See p. 2.) There is a congressional conference directive for sanctions based on quality control error rates.

Fiscal sanctions create an adversary relationship between the Federal Government and the States at a time when a cooperative effort is needed to reduce errors. Using the quality control system as the basis for sanctions limits the system's value as a means for improving payment processes.

Because a high error rate will result in sanctions, there is an incentive to identify fewer errors. To be most effective, the quality control system should identify as many errors as possible. This will give management more information to develop corrective action plans. (See ch. 2.)

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Several weaknesses in the system reduce its value to program managers for improving administration of the AFDC program. The overall effect of weaknesses is to limit the value of information that the system produces on errors and causes of errors.

The following weaknesses were noted:

--Both State and Federal quality control reviews differ from State to State and Federal region to region. Some case reviews include extensive verification of eligibility and grant amount factors, while others rely heavily on statements by recipients. The Department of Health, and Human Services (HHS) <sup>1/</sup> has recognized the differences between quality control reviews, but has not determined how this affects the identification of incorrect payments. (See ch. 3.) HHS regional offices do not follow consistent procedures in assessing State quality control operations, and HHS has no assessment system for its regional offices' quality control functions.

--The quality control system does not provide for reporting incorrect payments of less than \$5 or those caused by changes in circumstances that occur during the payment review month or the month before it (administrative period). The system also provides for reporting only one error cause per case even if there are several. Program management is thereby denied information that could be useful for devising corrective actions for procedural or other problems causing such errors. (See p. 26.)

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<sup>1/</sup>On May 4, 1980, a separate Department of Education was created. The part of the Department of Health, Education, and Welfare responsible for the activities discussed in this report became the Department of Health and Human Services.

--The data resulting from the quality control review can be valuable for error reduction purposes if it is carefully analyzed. Quality control data were not being adequately analyzed at either the State or Federal level. (See ch. 5.)

RECOMMENDATION TO THE  
APPROPRIATIONS COMMITTEES

The House and Senate Appropriations Committees should retract a congressional conference directive for Federal fiscal sanctions against the States based on the AFDC quality control error rates.

RECOMMENDATIONS TO THE  
SECRETARY OF HHS

The Secretary should:

- Assess regional quality control procedures to insure adequacy and consistency and establish guidelines for reviews of State quality control cases by HHS regional offices, including criteria for making home visits to recipients and third-party verifications.
- Increase regional monitoring and periodic assessments of State quality control operations as well as HHS monitoring of its regional quality control operations.
- Change the Federal regulations to require reporting of incorrect payments of less than \$5 and those occurring because of changes during the administrative period.
- Require the States to report all causes of incorrect payments detected during the quality control review process.
- Encourage the States to perform more detailed analyses of quality control data to identify the causes of errors and provide management with better information for developing corrective actions.

--Require the Commissioner of the Social Security Administration to perform more analysis and special studies of quality control data to identify appropriate corrective actions for assisting States in their error reduction efforts.

#### AGENCY COMMENTS AND GAO EVALUATION

Regarding GAO's recommendation to retract the sanctions directive, HHS did not favor full retraction, while five of the six States GAO visited were in favor of such action. GAO still believes sanctions are not appropriate.

Regarding GAO's recommendations to the Secretary of HHS for more standardized quality control review procedures, increased data reporting, and additional data analysis, State officials generally agreed. HHS officials said that efforts now underway would bring about the improvements GAO believes are needed. Some States and HHS did not agree that incorrect payments of less than \$5 and those occurring because of changes in the administrative period should be reported. Disagreement generally centered around the cost of correcting these errors and their effect on error rates.

GAO is not proposing that such errors be necessarily corrected, only that they be reported for management analyses and evaluation purposes. GAO also recognizes that error rates may go up if such incorrect payments are reported, but believes that not tying error rates to sanctions will allay the States' concerns in this respect.

More detailed discussions of State and agency comments and GAO's evaluation can be found on pages 15, 24, 30, and 36 of this report.



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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
QC	quality control
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	social security number



## CHAPTER 1

### INTRODUCTION

Erroneous payments to Aid to Families With Dependent Children (AFDC) program recipients have continued to concern both the Congress and the Department of Health and Human Services (HHS). <sup>1/</sup> According to HHS, over \$900 million in overpayments to eligible recipients and payments to ineligible recipients were made in fiscal year 1978. HHS has attempted to encourage error reduction by requiring States to implement quality control (QC) programs. The congressional conference on the 1979 supplemental appropriations bill attempted to encourage States to reduce errors by directing HHS to withhold Federal funds for erroneous payments above certain tolerances based on QC findings.

This report discusses improvements needed in the QC program to make it more useful to managers for reducing errors. It is in response to a request from the Chairman, Senate Finance Committee, who expressed concern about the validity and administrative usefulness of QC error rates. Some of the questions he asked us were:

- Are QC program rules and procedures comparable among States, or can they be made comparable?
- What are the views of State welfare directors toward sanctions?
- Are QC findings useful to program administrators for improving the AFDC program?

### THE AFDC PROGRAM

The AFDC program, authorized by title IV of the Social Security Act (42 U.S.C. 601), provides for cash assistance and social services to needy dependent children and their parents or other relatives. The program is intended to encourage the care of children in their own homes or in relatives' homes.

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<sup>1/</sup>On May 4, 1980, a separate Department of Education was created. The part of the Department of Health, Education, and Welfare responsible for the activities discussed in this report became the Department of Health and Human Services.

Other program objectives are to maintain and strengthen family life and to help parents and relatives gain or retain the capacity for support.

AFDC is a program for needy families. Grant amounts under the program vary depending on need. Family size, income, and resources are some of the factors considered in determining need.

AFDC is one of the largest federally aided public assistance programs. In fiscal year 1979, about 10.3 million persons in 3.5 million families received program benefits. Welfare payments under the program amounted to about \$10.7 billion in fiscal year 1979, with the Federal share being about \$5.8 billion. During the same period, AFDC administrative costs were about \$1.3 billion of which the Federal share was about \$650 million.

The States must administer AFDC in accordance with the act and HHS regulations. Within HHS, the Social Security Administration's (SSA's) Office of Family Assistance (OFA) is responsible for overseeing the States' administration of the program. OFA reviews State AFDC program plans to assure that they are in compliance with the act and related Federal regulations and provides technical assistance to the States. OFA also conducts studies to improve program administration. SSA's Office of Assessment is responsible for the operation of the QC review system.

#### THE AFDC QC SYSTEM

The current QC system was established in 1973 to identify and measure incorrect payments for the purpose of giving management information for developing corrective actions to reduce errors. The system is operated mainly by States and the HHS regional QC staffs review and monitor State QC systems. HHS headquarters staff oversees the QC efforts and compiles national error rate statistics. HHS estimates that it and the States spend about \$22 million annually to administer the QC system.

The first step in the QC process is for each State to select and review a statistically valid sample of its AFDC cases every 6 months. The samples vary in size from about 150 cases in the States with fewer than 10,000 AFDC cases to about 1,200 cases in States with more than 60,000 AFDC cases. About 45,000 cases are reviewed nationwide in each 6-month sample.

Each State's sample cases are reviewed by State QC reviewers to determine the accuracy of the grant amount and to verify the recipient's eligibility in a given month. For each case, the reviewer verifies factors, such as family income, resources, and other basic program requirements, which affect both eligibility and the grant amount. The reviewer verifies these factors by contacting the recipient and often other (collateral) sources, such as landlords, employers, and banks.

Each State compiles the results of its review and computes both case and payment error rates for three categories of error: payments to ineligible recipients, overpayments to eligible recipients, and underpayments to eligible recipients. 1/

HHS then selects a subsample from cases in each State's QC sample and re-reviews the cases. The purpose of the re-review is to assure that the States are conducting their QC reviews correctly and to validate the State error rate. The results of the Federal re-review and the State review are combined using a statistical formula to compute the official State error rate.

Each State develops a corrective action plan, based on the payment errors identified to deal with their causes. The plan might include provisions for staff training, program procedural revisions, or changes in AFDC recipient eligibility requirements, as appropriate to the cause.

#### FISCAL SANCTIONS

The 1973 HHS regulations that established the current QC program provided for the assessment of financial sanctions or penalties against States with high error rates. According to the regulations, the Federal share of total erroneous AFDC expenditures in excess of 3 percent to ineligible cases and 5 percent for overpaid eligible cases in each State was to be withheld. States were to reduce their error rates below the 3- and 5-percent tolerance levels over three successive QC sampling periods.

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1/QC also reviews a sample of negative case actions which include denials of aid and aid terminations. We did not review any negative case actions.

Fourteen States challenged the legality of the sanction regulation in court. The court ruled that HHS could impose sanctions, but that the 3- and 5-percent limits were arbitrary and capricious and, therefore, unenforceable.

On July 7, 1978, HHS proposed a new sanction regulation. Federal funds were to be withheld for erroneous expenditures in excess of 4 percent of each State's total benefit payments. States were not required to meet the 4-percent rate immediately. They were only to be sanctioned if they were above the median error rate for all States and had not reduced their payment error rate from the previous QC period by 18 percent. The 18-percent figure represented the national error rate reduction that had been achieved between the April-September 1973 and July-December 1976 sample periods.

In response to opposition toward the sanctions proposed in 1978, HHS issued a final regulation in March 1979 that contained less severe sanctioning criteria. The regulation reduced the error improvement rate to 6.4 percent, which represented the national error rate reduction achieved between the January-June 1976 and July-December 1977 sample periods, eliminated the 4-percent goal and committed HHS to conduct a study to determine what the ultimate error rate goal should be.

In its report on deliberations on a fiscal year 1979 supplemental appropriations bill, the House-Senate conferees directed that HHS issue regulations requiring States to reduce the AFDC payment error rate to 4 percent by September 1982 or lose Federal matching funds associated with erroneous payments in excess of the target. In January 1980, HHS issued final rules to implement the sanctions directive.

#### FISCAL INCENTIVES

There currently is a fiscal incentive for the States to reduce their AFDC payment error rates. In the Social Security Amendments of 1977 (Public Law 95-216), the Congress established a formula by which States that reduce their QC payment error rates below 4 percent can participate increasingly in the Federal share of the money saved. For each one-half percent below 4 percent, a State receives an additional 10 percent of the Federal funds saved until its error rate is reduced below 2 percent, when the State's



for monitoring regional QC operations. HHS officials told us that, due to limited staffing, HHS headquarters' monitoring of the regions has consisted of reviewing biweekly reports on numbers and percentages of cases reviewed and dropped and responding to regional requests for assistance. There have been no field visits or onsite review programs to evaluate the quality or uniformity of regional QC procedures on an on-going basis. Because of the variations in regional QC procedures, it is important that HHS establish an effective regional monitoring system. In May 1980, HHS officials told us that they planned to establish a headquarters subsample review capability for assuring uniformity and quality in regional QC procedures.

#### CONCLUSIONS

Although the AFDC-QC system has led to improvements in the AFDC program, the QC system itself needs improvement. HHS needs to make sure that all States make adequate efforts to determine the correctness of AFDC payments and that its regions make their re-reviews of State QC cases uniformly. In this regard, HHS' planned changes in its QC procedures manual, if properly implemented, should help to correct these problems so that QC reviews can be made on a comparable basis. HHS' current monitoring of State and Federal QC performance also needs improvement.

#### RECOMMENDATIONS TO THE SECRETARY OF HHS

We recommend that the Secretary:

- Assess regional QC procedures to insure adequacy and consistency and establish guidelines for re-reviews of State QC cases by HHS regional offices, including criteria for making home visits to recipients and third-party verifications.
- Increase regional monitoring and periodic assessments of State QC operations as well as HHS monitoring of its regional QC operations.

#### AGENCY COMMENTS

Concerning our recommendations, the States generally agreed that QC review procedures should be more consistent and standardized and that HHS' assessment of State QC operations could be improved. HHS said its revised QC manual will provide more uniformity in review procedures at the

HHS assessment of  
State QC inadequate

Although HHS has developed a guide for making annual assessments of State QC systems, it lacks specific criteria against which State QC procedures can be measured and is used only sporadically.

Many HHS regional QC staff consider the annual assessments made in accordance with the Federal guide to be superficial and of limited value because they are subjective. The lack of objective measurable criteria in the guide can be seen in the following examples of questions from the Case Review Process section:

"Are adequate documents or statements from the case record accepted as adequate verification?"

"In instances where the recipient does not have available satisfactory information to verify eligibility and payment factors, is adequate use made of collateral sources, particularly for client negative responses?" (Emphasis added.)

We believe the guide provides insufficient criteria to judge "adequate" or "satisfactory" in reviewing the State QC procedures. Also, HHS regional reviewers do not have guidance on how many cases should be examined during the annual assessments or what constitutes an adequate assessment. Required assessments are not always made, and only limited use is made of these assessments when they are completed. The HHS regions made the most recent "annual" assessments of the States in our study in these following years:

California - 1976	Maine - 1978
Hawaii - 1979	Maryland - 1976
Indiana - 1978	New York - 1976

One region has not provided a State in our review with copies of its last three Federal assessments. In addition, officials in two of the five HHS regions in our review said that they do not attempt to monitor action taken by the States in response to Federal assessment recommendations.

Limited monitoring of regional QC

Another factor limiting HHS' ability to carry out adequate QC reviews is the absence of an HHS headquarters program

comparing one State's performance with another to identify effective error reduction techniques. A uniform QC review procedure would help make sure that error rates are comparable over time and between States.

In December 1978, HHS began revising the QC manual used by State and HHS reviewers to increase the uniformity of QC reviews. The new manual, which provides specific prioritized primary and secondary verification sources that are to be used for each item being validated, instructs QC reviewers to perform sufficient verification to confirm or disprove the correctness of the case.

For example, if the basis for eligibility is that the father does not reside with the recipient, and the father can be located, the revised manual requires the reviewer to obtain two of four recommended primary sources of verification of absence, such as the father's driver's license or rent receipts. If it is not possible to get the primary sources, the manual requires that two additional pieces of evidence be gathered from a prioritized list of eight secondary sources. This list includes such things as post office records and telephone directories. If the father cannot be located, the manual sets out similar procedures with a slightly different list of verification sources.

Although some differences will continue to exist in State QC practices because of differences in State programs, the revised QC manual requires that reviewers document why they cannot obtain primary verification. The revised manual has been reviewed by HHS regional QC offices and will be reviewed by the States before it is finalized. HHS anticipates that the revised manual will first be used by the States for the October 1980-March 1981 review period.

HHS SHOULD IMPROVE ITS SYSTEM  
FOR EVALUATING AND MONITORING  
STATE AND FEDERAL QC PERFORMANCE

In addition to the QC case re-review process, the HHS regions are required to monitor State QC operations through procedural reviews. An improved system for monitoring and evaluating the States is needed to insure the integrity and validity of the AFDC-QC system. HHS currently requires its regional offices to make only limited annual assessments of State QC systems. In addition, HHS has no systematic approach for monitoring its regions' QC efforts. This reduces HHS' ability to insure consistent QC reviews.

UNIFORM FEDERAL QC REVIEW  
PROCEDURES NEEDED

HHS regional reviewers examine a subsample of State QC cases to assure that State reviewers are accurately identifying and reporting the correctness of AFDC payments. There are inconsistencies, however, between HHS regional offices in how they carry out these re-reviews. In the absence of clear guidelines defining what is appropriate, the regions have developed differing QC methodologies. Differences among regions included the (1) extent to which reviewers contacted the recipients and (2) degree of additional verification they perform.

One difference between HHS regional QC re-reviews is the proportion of contacts that the regions make with recipients. Because Federal reviewers have been given only broad guidance on when to contact a recipient, the policies of the regional offices vary. HHS reviewers contact recipients to obtain additional information or leads that would be useful in determining the correctness of cases. Among the five regions in our review, the extent to which Federal reviewers contacted recipients ranged from 0 to 30 percent for the January-June 1978 review period. A 1978 HHS study on OFA by the SSA Division of Management Services reported a nationwide range from 4 to 60 percent in regional contacts with recipients. Some regions indicated that they considered a home visit with a recipient essential, while others considered it only as a last resort.

In addition, regions performed varying amounts of additional verification when making their re-reviews. The 1978 HHS report on OFA expressed similar concern about variations among regions regarding what constitutes adequate verification of different elements of eligibility.

There are differences among the regional QC practices and differences in the adequacy of State QC reviews. We believe that HHS regions should have consistent standards for making the QC re-reviews, particularly because of the variations among State QC procedures discussed earlier.

STANDARDIZATION EFFORTS IN HHS

QC is a measurement tool for improving AFDC program administration. As such, it has been used for tracking a State's ability to pay eligible persons correct amounts of assistance over a period of time. It has also been used for

The following table shows the number of cases State QC offices dropped from samples in the January-June 1978 sample period because the client refused to cooperate with QC or because reviewers could not locate recipients.

<u>State</u>	<u>Total sample selected</u>	<u>Total error cases reported</u>	<u>Number of cases dropped</u>	
			<u>Unwilling to cooperate</u>	<u>Unable to locate</u>
California	1,312	140	20	28
Hawaii	343	68	2	5
Indiana	1,311	98	1	3
Maine	608	109	1	0
Maryland	1,243	355	3	6
New York	1,297	425	8	6

The procedures followed by the QC reviewers before dropping cases from the QC sample varied among the States in our review. For example, California seldom used third-party collateral sources for locating recipients in the "unable to locate" category. We did not review any dropped cases in Indiana, but State officials told us that reviewers used a variety of third-party collateral sources, including the post office, the school attended by the dependent children, and the recipient's landlord or neighbors.

Dropping cases when the reviewer is unable to contact the recipient or the recipient is unwilling to cooperate may result in valuable management information on incorrect payments being lost because reviewers may be dropping error-prone cases. Recipients who cannot be contacted may have moved or may be on extended visits, both of which could affect their payment status. Recipients who are unwilling to cooperate with reviewers may be withholding information for computing the correct grant. If the incidence of error in the dropped cases is higher than the error incidence in completed cases, then overall error information would be understated.

Because of problems we identified, HHS should study dropped cases to ascertain how much error information is being lost. If this information could materially affect errors, HHS should consider tightening up QC policies that allow cases to be dropped from QC samples for these two reasons.

case considered to be in error. Maine had only 3 SSN-related errors of the 603 cases in the January-June 1978 review period.

#### Home visits and collateral contacts

The States' approaches toward visits to recipients' homes during the QC reviews also varied. In California, it was QC policy to schedule visits to recipients' homes in advance. Indiana prefers that home visits to recipients be unannounced. California QC reviewers are required to obtain a signed consent form from the recipient for each collateral contact they wish to make (excluding those involving public records). In contrast, New York reviewers use a general recipient authorization statement that is part of the original AFDC application form, rather than obtaining a consent form for each collateral contact.

#### Policy on dropping sample cases

Under Federal QC guidelines, States need not complete reviews of selected cases and can drop them from the QC sample. Two circumstances where cases can be dropped are when the recipient is unwilling to give information and when the recipient cannot be located. The following are examples of cases that were dropped even though they were likely to be in error:

- In a case dropped by the State, the Federal QC reviewer made four visits to the home of the recipient. The recipient was at home, but was unwilling to talk to the reviewer. The case was dropped from the sample even though (1) there were indications of unreported employment, (2) the recipient had three SSNs, and (3) reports that the client was married and that her husband was living at home conflicted with the recipient's claim of being single.
- A State reviewer dropped a case because he was unable to locate the recipient even though the State's earnings clearance system indicated unreported earnings for the recipient. The Federal reviewer found the recipient and made a home visit. However, the case was dropped at the Federal level when she refused to sign an authorization form allowing verification of earnings.

## Verification of earned income

Some States have computerized earnings clearance systems which provide reviewers with information for verifying whether recipients had any earned income. Of States we reviewed, California and Indiana had earnings clearance systems. Reviewers in those States used the system for 24 of the 25 cases that we examined in which a recipient denied having earned income. During the period from which we selected QC cases for our review, New York did not have an earnings clearance system. <sup>1/</sup> Reviewers in New York used a variety of other sources, including unemployment insurance information, the State tax department, and SSA, to verify whether recipients had income.

## Other procedural differences

We found that State procedures for verifying whether recipients had social security numbers (SSNs) varied as did their practices concerning home visits and collateral contacts, as well as dropping sample cases from the QC review process.

### SSNs

Federal QC policy directs reviewers to verify that the local agency has an SSN on file for each person in the AFDC family or that an application for an SSN has been made. A recipient's failure to have an SSN or to have applied for one will result in the recipient's ineligibility.

In Maryland, State QC reviewers consider a case to be in error if a copy of the recipient's SSN or SSN application is not in the case file. In the January-June 1978 review period, Maryland reviewers found SSN-related errors in 54 of the 1,200 cases in the sample.

QC reviewers in Maine also check a recipient's case file for the SSN. However, they also verify that the recipient has an SSN during the home visit. If the recipient does not have an SSN, the reviewer determines if the recipient has applied for one. Only if the recipient has not applied is the

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<sup>1/</sup>New York implemented an earnings clearance system in January 1979, which was after the January-June 1978 QC review period from which we selected cases for our review.

## State verification procedures differ

The six States used a variety of practices to verify the accuracy of AFDC eligibility and payment amount factors. We compared QC review cases from each State to identify the different practices. The differences discussed below were identified in our comparison of California, Indiana, and New York QC case review practices. We believe the types of verification differences discussed below indicate that some States may be making unnecessarily extensive reviews, and others may be making limited reviews that are not identifying all errors.

### Continued absence of a parent

To be eligible for AFDC, a child must be deprived of parental support or care because of the continued absence of a parent from the home, death of a parent, physical or mental incapacity of a parent, or in some States unemployment of a parent. Most AFDC cases are eligible due to the continued absence of a parent.

In California, of the 16 cases that we examined, 13 had an absent parent. The recipient was the source of verification in all 13 cases. Reviewers accepted recipients' verbal statements that the parent did not reside in the home as verification of the absence in 8 of the 13 cases. In the other five cases the recipient was asked to provide additional evidence.

In contrast to California, both Indiana and New York obtained additional collateral verification of the parent's absence in all 24 continued absence cases we reviewed. In Indiana, the number of collateral sources in addition to the recipient's statement for each case ranged from 1 to 3, and in New York, the number ranged from 2 to 11. Reviewers from these States made contacts with such collateral sources as the State division of motor vehicles, telephone companies, employment offices, and other third-party sources.

### Recipient denial of bank account

Variations existed in State practices for validating recipients' claims that they had no bank accounts. In California, QC reviewers accepted the clients' statements that they had no bank accounts and made no collateral bank checks in the 13 cases we examined. In contrast, Indiana and New York reviewers made collateral bank checks in the 24 similar cases we examined.



## CHAPTER 3

### HHS SHOULD DEVELOP

#### UNIFORM QC REVIEW PROCEDURES

To be an effective measurement tool and provide data that are comparable, QC reviews should follow uniform basic review procedures. We found several inconsistent QC procedures among States and HHS regions.

These differences existed because HHS had neither developed uniform QC review procedures nor implemented a system for making comprehensive evaluations of State and regional QC procedures. In our opinion, some States that limit verification may not be obtaining all the management information on incorrect payments available through the QC review process. However, other States may be performing unnecessarily extensive reviews.

HHS is attempting to increase standardization in the QC system through revisions of the QC manual. The purpose of the revision is to establish minimum verification procedures for all States and HHS regions to follow. In addition, HHS is conducting reviews and evaluations of regional QC programs on a pilot-test basis as an initial step toward developing an improved monitoring system.

#### UNIFORM PROCEDURES ARE NEEDED TO ELIMINATE VARIATIONS IN STATE QC PRACTICES

Federal guidance allows a great deal of flexibility in the way State QC cases are reviewed. The QC manual provides that reviewers will evaluate the eligibility and benefit amount factors on a case-by-case basis and determine how much and what kind of verification is needed. As a result, each State has been free to select the particular steps its QC reviewers follow to validate the correctness of the factors on which the AFDC eligibility and amount of payment are based.

In the six States in our review, we found several indications of how procedures for conducting QC reviews vary on important matters, such as the verification techniques used to determine the accuracy of AFDC payments and the conditions under which State QC reviewers drop certain cases from their review. Some procedures seemed unnecessarily complex, while others seemed to be too limited to discover all errors.

## AGENCY COMMENTS AND OUR EVALUATION

While five 1/ of the six States we visited were in favor of such action, HHS officials did not agree that sanctions should be retracted. They said that some form of sanction was needed to assure continued management attention to AFDC quality. They favored modifying the present stringent error reduction requirements.

We agree that continued management attention to AFDC quality is essential and that the threat of sanctions in the past had a beneficial effect on the States' management of the program. The issue, as we see it, is whether the threat of sanctions is as valid a method of obtaining program improvement today as it was in the past. For the reasons stated earlier in this chapter, we believe not.

We believe that the States now have sufficient motivation to improve AFDC quality in that they pay about half the cost of AFDC benefits. Furthermore, as we indicated earlier, in recent years there has been considerably more public awareness of the cost of the welfare programs, including the high level of erroneous payments, and it appears that this awareness will continue. This awareness, and its impact on State legislatures who are concerned with keeping the cost of State programs as low as possible, would seem to add a further incentive to AFDC program officials to carefully manage their activities.

We also believe, as discussed earlier, that sanctions tend to put the States and the Federal Government in an adversary role at a time when cooperation would seem more essential than ever because of the high costs and limited resources for such Federal-State programs.

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1/Officials from California and Indiana contacted during our review said they favored sanctions. (See p. 8.) However, in commenting on our draft report, California supported our recommendation to retract the sanctions directive. (See app. I.)

but overpaid cases and ineligible cases to 4 percent by September 30, 1982, in three annual increments beginning with fiscal year 1980. Failure to meet the error rate target each year is to result in the loss of Federal matching funds associated with erroneous payment expenditures in excess of the target.

#### CONCLUSIONS

Sanctions place the Federal and State governments in an adversary role at a time when cooperation is needed for reducing errors. Also, because identifying too many errors can cost States Federal funding, sanctions can be a disincentive to error identification efforts. This is contrary to the intent of QC to improve the administration of AFDC, because better error identification would make more data available to managers for developing corrective actions to reduce errors.

QC error rates are not sufficiently comparable to serve as the basis for sanctions. The statistical precision of the error rate estimates varies from State to State with some States being more likely to have error rate fluctuations due to chance. QC error rates can also be affected by both the QC review procedure differences and State program differences, which tend to reduce the value of QC as a comparative measure of administrative quality in State AFDC programs.

For these reasons, we believe efforts to sanction high error States based on QC error rates should be discontinued. Instead of sanctioning States, the Federal Government should provide more assistance in error reduction efforts. (See ch. 5.)

Because the current HHS effort to sanction States is based in part on a conference committee directive, the Appropriations Committees should play a role in discontinuing this effort.

#### RECOMMENDATION TO THE APPROPRIATIONS COMMITTEES

We recommend that the House and Senate Appropriations Committees retract the conference committee directive for Federal fiscal sanctions against the States based on the AFDC QC error rates.

--mothers on behalf of an unborn child if there are no other children in the family; and

--families in need because of an unemployed parent.

Two States in our review did not provide assistance to some of the groups. Indiana did not provide assistance to any of the three groups, and Maine did not provide aid on behalf of an unborn child or to families with an unemployed parent. QC directors from both States indicated that including one or more of these groups would increase their error rates because particular eligibility conditions require extensive monitoring, more recipients would be involved, and grant computations would be more complex, among other things, making these options difficult to administer without having errors.

#### Differences in QC review procedures

The QC reviewers in different States followed different procedures in determining the correctness of cases they reviewed. (See ch. 3.) QC reviewers in some States relied heavily on the statements of recipients for verifying the accuracy of information that was the basis for the grant, while those in other States made extensive investigations and collateral checks with neighbors, employers, landlords, and financial institutions.

While HHS has been conducting a project to standardize the QC reviews by State and HHS reviewers, that project has not determined to what extent differences in the review procedures are reflected in State error rates. Without knowing these effects, the proportion of a State's error rate that is due to administrative problems and the proportion due to QC review differences cannot be determined.

#### APPROPRIATIONS COMMITTEES' ACTION NEEDED TO STOP FISCAL SANCTIONS

Current HHS efforts to implement a sanctioning system are based in part on a directive contained in a congressional conference report. During deliberations on a fiscal year 1979 supplemental appropriations bill (Public Law 96-38), the House-Senate conferees decided more ambitious error reduction efforts were needed. The conference committee directed the Secretary of HHS to issue new regulations requiring all States to reduce their AFDC payment error rate for eligible

bility workers are not considered errors, while the same mistakes by eligibility workers in New York are, and affect New York's error rate. The following cases demonstrate this.

In New York, an eligibility worker calculates that a family of four is eligible for the maximum need allowance of \$476. 1/ Since New York pays 100 percent of need, the family receives a \$476 grant. Later, a QC reviewer finds that the eligibility worker had made a \$15 mistake so that the correct need should be \$461. As a result, the correct grant amount should also be \$461, and not \$476; therefore, a \$15 error is reported in New York.

In Indiana, an eligibility worker calculates that a family of four is eligible for a grant equal to the maximum adjusted need standard of \$327. 2/ However, the most Indiana will pay to a family of four is \$275 1/--therefore, the family receives a \$275 grant. Later, a QC reviewer finds that the eligibility worker had made a \$15 mistake so that the correct adjusted need should be \$312. Since \$312 is still higher than the \$275 maximum grant, the family is still only eligible for \$275. Because the payment is not affected by the \$15 mistake, there is no error reported in Indiana.

For the April-September 1978 review period, mistakes in 42 cases were not considered errors by Indiana QC because the mistakes did not affect maximum payments. Indiana had reported 73 cases in error in its 1,204-case sample for that period.

#### Categories of potential recipients

Under the AFDC program, States can at their option provide assistance to

--children 18 to 21 years of age who are regularly attending a school, college, university, or course of vocational or technical training;

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1/As of April 1, 1978.

2/This standard, against which income is applied, is 90 percent of the full need standard.

States established the level of need based on the actual cost incurred by an applicant for such basic needs as food, clothing, and shelter.

Currently, need is established using either consolidated or partially consolidated standards. For example, Maine uses a consolidated standard in which all basic needs--food, shelter, clothing, utilities, household supplies, personal care items, and recreation--are included in a standard allowance which varies according to family size. New York uses a partially consolidated need standard in which all basic needs except for shelter and utilities are included in the standard allowance, which varies according to family size, while shelter and utilities are added at cost up to a maximum amount.

Consolidated need standards have generally been considered less error prone because eligibility workers need not keep track of changes in individual living expense items.

Contrasting the error rates of Maine with a consolidated standard and New York with a partially consolidated standard indicates the effect of full consolidation on errors. In the January-June 1978 review period, Maine had only two errors related to basic needs in its 603-case sample. New York, however, had 101 such errors in its 1,238-case QC sample in the same period.

A 1977 study by Touche, Ross and Company indicated that consolidation of standards has been a major factor in reducing AFDC error rates in the past 5 years. The firm found that, for 10 of 11 States examined that used consolidated standards, a subsequent decline occurred in payment error rates for the "basic needs" category after adopting consolidated standards. In eight of the States, the reduction was more than 70 percent. For example, Illinois reduced its payment error rate for basic needs by 93 percent, from 1.4 to 0.1 percent, and Louisiana experienced a reduction of 99 percent, from 1.5 to 0.01 percent.

Effect of need/payment  
standard relationship  
on error rates

The effect of mistakes made in calculating aid payments on error rates can depend upon whether a State has a payment standard that equals or is less than its need standard. For example, some computation mistakes made by Indiana eligi-

The reported QC error rate is an estimate derived from a sample. Such estimates have ranges which vary due to several factors, the most important being sample size. For example, if a State's reported error rate is 3 percent based on a QC review of 1,200 cases, 95 times out of 100 the State's "true" error rate will lie between 2.04 and 3.96 percent. However, if the reported error rate is based on a sample of only 150 cases, the State's "true" error rate will lie between 0.27 and 5.73 percent.

Because error rate precision differs so much between large and small AFDC caseload States, the QC system does not appear to provide equitable criteria for sanctions. The lack of precision of error rates in small caseload States increases the likelihood that the decision to sanction will be based on chance. For example, a State with a 150-case sample and a 10 percent "true" error rate would have to reduce its true error rate by 4.03 percentage points for the reduction to be statistically significant. That is, the change in the reported error rate is due to an actual reduction in error rates and not just sampling variation. States with a 1,200-case sample and a 10-percent error rate would need an error rate change of only 1.42 percent to be statistically significant.

State QC error rates do not clearly show the effects of State policy and program differences

Federal regulations give States much latitude in determining the way they operate their AFDC programs and the elements of assistance in those programs. Some of the policies that States adopt can increase the potential for error. Also, some States provide benefits to categories of recipients that other States do not. QC error rates do not clearly show the effects of these differences. Therefore, QC error rates are not completely satisfactory for comparing the quality of States' program administration that is needed for equitably applying sanctions. The following are examples of program differences that affect States' error rates and their comparability.

Treatment of basic need standard

The basic need standard is one factor, along with recipient income and the State payment limit, that is considered in computing a recipient's grant amount. Traditionally, most

negative effects on error reduction in high error rate States. Officials from Maryland, New York, Hawaii, and Maine expressed opposition to sanctions. Several reasons given for not favoring sanctions were:

- States will be encouraged to alter their programs so that various errors are no longer defined as errors.
- QC error rates are not comparable because of QC review procedural differences and AFDC program differences.
- The Federal-State working relationship is negatively affected.

Some officials told us that sanctions can negatively affect the potential of QC for identifying errors. For example, one State official said sanctions would undermine the integrity of the QC process in that the reviewers may be less vigilant in identifying errors.

QC ERROR RATES NOT SUFFICIENTLY  
COMPARABLE AS BASIS FOR SANCTIONS

Any basis for sanctions should equitably measure the administrative quality of a State's AFDC program in terms of the extent to which errors that affect payments are made. We question whether current QC system error rates reflect the same proportion of erroneous payments in all States because they do not take into account three kinds of differences unrelated to program administration. First, the statistical precision of QC error rates varies among States with some States having greater fluctuations in reported error rates because smaller samples of cases are reviewed. Second, the QC error rates can be affected by State program and policy differences. Finally, differences in the way QC reviews are made (discussed in ch. 3) can affect QC error rates regardless of how efficiently and effectively a State administers its program.

Statistical precision of  
State QC error rates vary

The statistical precision of the QC system error rates varies among the States. This raises the question of whether the QC error rates are comparable and adequate for administering sanctions.



be brought to bear on improving the administration of the nation's public assistance programs through a positive State-Federal partnership."

He went on to say that:

"\* \* \* once the issue of 'fiscal sanctions' was raised, it became the burning preoccupation of almost all involved federal and state officials. This has resulted in a misplaced and harmful emphasis on the value of fiscal sanctions and a corresponding neglect of positive assistance."

These concerns are not new; when sanctions were first proposed, many concerns were raised about their impact on State-Federal relationships. During hearings before the Subcommittee on Oversight of the House Committee on Ways and Means in 1975, the Subcommittee Chairman quoted several States' officials who had such concerns before sanction regulations were finalized in 1973. For example, the Chairman of the North Dakota Legislative Council stated:

"Proposed regulations [sanctions] would strike a serious blow to Federal-State relations. The partnership between these levels of government will be seriously weakened if the Federal Government chooses to penalize all of the States for administering programs which none are able to administer in a manner to avoid penalties."

The Director, Institutions, Social and Rehabilitative Services, in Oklahoma warned that sanctions could do irreparable harm to the Federal-State partnership. A group of officials from New Mexico, West Virginia, New Jersey, and North Carolina said:

"It would appear obvious that justice requires that no agency of government should withhold matching funds for malfunctions to which it has contributed."

Of the States in our review, California and Indiana officials favored sanctions but said they could have some

We generally favor incentives to encourage error reduction and preserve Federal-State cooperation, as indicated in recent testimony on proposed amendments to the Food Stamp Act of 1977 <sup>1/</sup> and in our report, "Review of the Better Jobs and Income Bill" (HRD-78-110, May 23, 1978).

CONCERNS ABOUT NEGATIVE EFFECT  
OF SANCTIONS ON COOPERATIVE STATE-  
FEDERAL EFFORT TO REDUCE ERRORS

Cooperation between the Federal Government, which establishes the basic framework for AFDC, and the States, which administer the program, is in our opinion essential for effective error reduction. The Federal Government possesses a nationwide perspective on program administration. States, however, are responsible for day-to-day operations of AFDC and are better suited for identifying the causes of errors.

An example of a cooperative effort is the development of profiles on error-prone cases. HHS has studied characteristics of cases that are predictive of errors and has developed profiles of error-prone cases. Such profiles have proven successful in targeting error reduction efforts on these cases. HHS cannot, however, do a profile analysis on a State's AFDC caseload unless the State provides it with information on its error cases. According to HHS officials, States are becoming more aware of error-prone case profiles and are requesting them for their AFDC caseloads. However, because of the negative feelings generated by sanctions, some States may be reluctant to cooperate in this effort.

Several States have pointed out to HHS that sanctions could harm the Federal-State relationship in administering the AFDC program. For example, in a September 1, 1978, letter to the Secretary of HHS, the Secretary of Maryland's Department of Human Resources stated that:

"\* \* \* the debate regarding the uses of the Quality Control system has overshadowed any progressive efforts and good will that could

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<sup>1/</sup>Testimony on proposed amendments to the Food Stamp Act of 1977 (H.R. 4318), October 17, 1979, before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition, House Committee on Agriculture.

## CHAPTER 2

### FISCAL SANCTIONS SHOULD

#### BE DISCONTINUED

To encourage States to improve their AFDC program administration, HHS and a congressional conference committee have taken steps to impose fiscal sanctions, which will result in Federal funds being withheld from States that have rates of erroneous payments that exceed error rate tolerances based on the QC system.

In our opinion, fiscal sanctions place the Federal and State governments in an adversary role at a time when cooperation is needed for reducing errors. Because a high error rate can result in sanctions, States have an incentive to identify fewer errors. As a result, basing sanctions on QC measurements can discourage error identification and thereby reduce QC usefulness as a management tool for developing corrective actions aimed at the causes of errors.

In addition, we question whether current QC system error rates are sufficiently comparable to be the basis for sanctions because they (1) vary in statistical precision, (2) do not clearly show the effects of program and policy differences among the States, and (3) are not based on the same error identification procedures in all States. (See ch. 3.)

#### PAST EFFECT OF SANCTIONS

HHS officials responsible for QC in the AFDC program believe that fiscal sanctions or the threat of them has been a major impetus to States in reducing their AFDC error rates. They pointed out that, from the time sanctions were first proposed until the error rate basis for sanctions was invalidated by the courts, error rates declined significantly.

While the threat of sanctions in the past was undoubtedly a factor which helped focus management attention on reducing errors, we believe other factors, such as increased public awareness of the existence of high error rates in the AFDC program, also provided an impetus to States to improve program administration. As discussed later in this report, we believe that applying sanctions based on QC results will not treat the States equitably.

maximum share of the Federal funds saved is 50 percent. This provision became effective during calendar year 1978.

#### SCOPE OF REVIEW

We made our review at HHS headquarters in Washington, D.C.; HHS regional offices in Boston, Chicago, New York City, Philadelphia, and San Francisco; and in California, Hawaii, Indiana, Maine, Maryland, and New York. These States were selected based on the size of their AFDC caseload and their payment error rates.

We also interviewed Federal and State officials to obtain their views on the use of fiscal sanctions by the Federal Government.

We did not review the overall accuracy of the individual AFDC case reviews made by State and Federal QC reviewers. Instead, we concentrated on identifying overall system problems that reduce the effectiveness of the QC system.

We analyzed the six State programs to identify differences which could affect the error rates of each State. We examined about 3,300 QC sample cases from the January-June 1978 sample period in five of the States to determine the type and amount of management information that was not being gathered by the QC system.

We reviewed the QC sampling plans for selecting AFDC cases for review in the six States where we made this audit. In our opinion, all of the sampling plans yielded a representative sample of active AFDC cases.

We provided copies of the draft report to HHS and the States and obtained oral comments from HHS and written comments from the six States. (See app. I - VI.)

State and Federal levels, with the Federal reviewers being required to follow the revised procedures during the April-September 1980 sample period. Also, HHS said Federal staff will make necessary home visits and third-party verifications on all State dropped cases in the "refused to cooperate" and "unable to locate" categories and also in 20 percent of State completed review cases.

HHS told us of assessments it conducted in 1979 and 1980 of its 10 regional quality control operations, and said it plans to make regional assessments of virtually all State QC operations during 1980.

## CHAPTER 4

### QC SHOULD REPORT ALL INCORRECT AFDC PAYMENTS

As a management tool for improving the AFDC payment process, State QC systems should give program managers a complete view of incorrect AFDC payments. States' current QC systems do not always give such a view because they do not report all incorrect payments identified. As a result, information that could be useful for developing corrective actions is not available to AFDC program managers.

### QC DOES NOT REPORT ALL INCORRECT PAYMENTS

QC's effectiveness as a measurement system is reduced because it does not report all identified incorrect payments. According to the definition of incorrect payments in the Federal regulations, payments that are incorrect by less than \$5 are not considered to be in error and are not reflected in State or HHS QC reports.

Federal QC guidance also gives States a grace period of up to 2 months during which changes in recipient circumstances, such as income, living arrangements, or resources, need not be reflected in the AFDC payment for error determination purposes. Under current QC guidance, incorrect payments resulting from such changes during this "administrative period" are not defined as errors and do not have to be reported.

Also, QC reviewers need only record the primary cause of error in cases with two or more errors.

### Incorrect payments: less than \$5 and occurring in administrative period

To determine how much information on incorrect payments detected is not being reported by QC, we reviewed QC cases from the January-June 1978 sample period in five States. The table on the next page summarizes our results.

	<u>Cases we examined</u>	<u>Error cases reported in cases we examined</u>	<u>Cases with incorrect payments State QC did not report</u>		
<u>Total</u>			<u>Less than \$5</u>	<u>Administrative period</u>	
California	610	70	18	13	5
Hawaii	325	68	28	24	4
Indiana	582	48	101	58	43
Maine	608	155	45	17	28
New York	1,165	425	82	54	28

As shown by the table, management is not receiving information on large numbers of incorrect payments detected.

Incorrect payments of less than \$5

In our opinion, reporting incorrect payments of less than \$5 is important because (1) combining this information with that on larger incorrect payments would give managers a greater data base for identifying possible causes of errors and (2) in States that have high rates for this type of incorrect payment, some underlying programmatic or procedural problem may exist that is not being revealed with the current QC error rate. HHS officials commented that the fiscal impact of these small incorrect payments may be limited, but agreed that failure to report them does reduce the amount of information available for analysis of error causes.

Incorrect payments resulting from administrative period changes

Following is an example of an administrative period incorrect payment.

--During the month of the QC review, a recipient was not registered for the Work Incentive program, which is administered by the Department of Labor. Registration with the program is a requirement for AFDC eligibility, but the recipient had been exempt from registering for medical reasons. Her exemption, however, had expired the month before the case was selected for review by QC. Normally QC would consider a person not registered for the Work Incentive program to be ineligible, but in this case, because the recipient's change in status--the expiration of her exemption--occurred during the administrative period, no error was reported.

The effect of not reporting incorrect payments occurring in the administrative period is reflected in the error rates. The study by Touche, Ross and Company, discussed in chapter 2, estimated that, in 15 States examined, adoption of the administrative period policy resulted in a 16-percent "reduction" in reported payment errors between April-September 1973 and January-June 1976. This is particularly significant since the administrative period policy did not become effective until the July-December 1975 period.

For the July-December 1975 period, the national case-error rate was 26.7 percent, and the payment-error rate was 11.2 percent. These rates were substantially less than the 39.3-percent case-error rate, and the 13.3-percent payment-error rate in the preceding January-June 1975 review period.

According to an OFA official, the administrative period policy was instituted in response to States' concerns about the threat of sanctions and in recognition that not all changes in a case can be made immediately. If the Appropriations Committees act on our recommendation to retract the conference committee directive for fiscal sanctions (see ch. 2), it would appear that the States would no longer have the first concern. While we recognize that not all changes can be made to an AFDC grant immediately, we believe it is important that managers receive all available information on incorrect payments so that they can determine if any of the factors causing incorrect payments are controllable and need to be changed.

An example of the potential usefulness of administrative period data comes from the SSI quality assurance program, which records administrative period errors. Using administrative period error data, SSI-QA staff concluded that the untimely exchange of benefit information between the Social Security Retirement and Survivors program <sup>1/</sup> and the SSI program had been a cause of SSI errors. The SSI quality assurance program found that more timely exchange of data between the two programs could reduce these incorrect payments. The implementation of an automated data exchange solved this problem.

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<sup>1/</sup>Federal Old-Age and Survivors Insurance and Federal Disability Insurance.



## Secondary errors

The total dollar value of all detected errors in each case is reflected in QC error data. However, only the primary cause of error--that which (1) results in the largest dollar amount of the overpayment or underpayment or (2) is the first error that causes ineligibility--is reported for each incorrect case. For example, if a case contained three errors--of (1) \$15 in earned income, (2) \$20 related to shelter and utility costs, and (3) \$5 in work-related expenses--the QC reviewer would report the total \$40 in error under shelter and utility, which is the "primary" error category. The program manager therefore would not receive information on the magnitude or type of the secondary errors detected in this case.

A factor affecting the significance of secondary errors is whether or not they are directly attributable to the primary error. For example, incorrect mandatory income deductions could be a secondary error resulting from a primary error of unreported earned income. In this case, correcting the cause of the primary error would probably correct the secondary error as well.

Some cases, however, can have multiple errors that are caused by unrelated mistakes. An example would be a case in which both the child care allowance and mandatory income deductions are calculated incorrectly. In this case, correcting the child care allowance error would not correct the mandatory income deduction error because one does not influence the other. Unrelated secondary errors may indicate the need for other types of corrective actions.

## CONCLUSIONS

QC is not reporting all incorrect payments detected. The effect of not reporting and compiling all of them is that AFDC managers do not have the total picture of incorrect payments being made in the program. If the QC system reported and compiled incorrect payments of less than \$5, those occurring because of changes during the administrative period, and secondary errors, we believe that managers would have additional useful information for developing corrective actions to reduce incorrect payments.

RECOMMENDATIONS TO THE  
SECRETARY OF HHS

We recommend that the Secretary:

- Change the Federal regulations to require reporting of incorrect payments of less than \$5 and those occurring because of changes during the administrative period.
- Require States to report all causes of incorrect payments detected during the QC review process.

AGENCY COMMENTS AND OUR EVALUATION

Officials from HHS and several States disagreed that incorrect payments resulting from changes during the administrative period and those of less than \$5 should be reported for reasons that included

- gathering, reporting, and correcting such incorrect payments is not cost effective and
- recording those incorrect payments of less than \$5, which were not included in the base period against which States are measured for sanctioning and incentive purposes, will make it impossible to measure error reduction progress.

We believe the QC system should give program management a complete view of program quality. Without all available information, management is not in the best position to develop appropriate corrective actions. Without compiling information on incorrect payments of less than \$5, program management cannot be sure its ranking of errors by cause is accurate, nor might it be aware of the causes of such incorrect payments and potential corrective actions.

For example, Maine officials said that incorrect payments caused by fluctuations of less than \$5 in earned income are probably not correctable and should not be errors, whereas those of \$5 or less resulting from Social Security and Veterans Administration benefit changes should be reported as errors. If management does not have information on the causes of such incorrect payments, it would not be able to develop appropriate corrective actions.

Officials from several States also disagreed with including administrative period incorrect payments in the quality control process because they believed such payments are in many cases impossible to avoid and in other cases are not cost effective to correct. In our opinion, incorrect payments caused by changes during the administrative period should be reported to and evaluated by management to determine if they are avoidable and at what cost.

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In the draft of this report provided to the States and HHS for comment, this chapter contained a discussion of how QC reviews treat recipient earned income in determining the correctness of AFDC grants. We noted that some States used estimates of recipient income made in accordance with their approved AFDC plan for QC review purposes. In our opinion, using such an estimate as criteria for the QC review results in an evaluation of how well the eligibility worker followed the State plan estimating procedures, but does not measure how well the State's estimating procedures predict recipient earned income received in the grant month. Because different States used different estimating procedures, we believe that QC should measure how effective these procedures are at predicting earned income.

Consequently, we recommended in the draft report that HHS require States to periodically gather and evaluate data on earned income available to meet recipient needs in the grant month when performing QC reviews.

HHS and State officials believed that QC reviews should continue to be made in accordance with approved State plans. HHS officials said that gathering such additional data on grant month income might divert resources from error reduction efforts.

After considering these comments, and because we plan to review separately the relative accuracy of different State income estimating practices, we deleted the section and related recommendation from this final report.

## CHAPTER 5

### INSUFFICIENT ANALYSIS OF QC INFORMATION

#### AFFECTS CORRECTIVE ACTION PLANNING

Detailed analysis of QC data to identify specific causes of errors is needed if effective corrective actions are to be developed. Some States and HHS do not perform enough detailed analysis of QC data to identify specific causes of errors primarily because their staffs do not have enough time during QC review periods. In our opinion, this is occurring because HHS has not given data analysis sufficient priority to make sure that it is performed.

#### NOT ENOUGH DATA ANALYSIS TO IDENTIFY CAUSES OF ERRORS

Officials from Hawaii, Maine, and Maryland stated that they perform little, if any, special analysis of QC error rate data to identify specific causes of errors, although they felt such analysis would be useful.

Hawaii officials stated that they had not performed any special studies of error rates, error causes, or cost analysis of corrective actions because they did not have enough data processing capability and not enough personnel available to perform such analysis.

Maine officials stated that they had not performed any special studies to determine AFDC error rate trends or error concentrations because the QC staff does not have enough time or technical expertise to develop an evaluation capacity. According to the QC director, the State must devote its entire QC effort each year toward completing the two federally mandated 6-month reviews. She said the QC review and reporting cycle had become an end in itself with little time to use QC data effectively.

However, Maine officials indicated that special studies and analysis would be a valuable addition to the QC program. The State's QC director said that periodic evaluations of error trends and error concentrations in earned income, employment, and deprivation would be useful on a regional basis within the State. During such studies, reviewers could analyze statistically valid samples at a sub-State level and could gather data on recipient circumstances and characteristics for developing profiles of error-prone cases.

Maryland QC officials also stated that special analysis of QC data was minimal because most of their resources were needed to meet basic Federal QC reporting requirements and that they did not have enough time for detailed analysis.

ANALYSIS OF QC DATA CAN YIELD USEFUL  
INFORMATION FOR CORRECTIVE ACTION

We believe that detailed analysis of errors identified during the QC review process can yield valuable information on why errors are made and how they can be avoided. The following are examples of how QC data have been analyzed to determine what causes errors.

In 1978, Los Angeles County made an error cause determination study using QC data to identify common error trends that could be corrected with procedural changes. Based on the results, management concluded that the transferring of AFDC cases between workers with specialized caseloads--earned income or unemployed father cases--was a primary cause of error. The study showed that, of the total 51 errors found in 28 cases, 15 were attributed to the case transfer process, 11 to a failure to control a case for significant case events, and 7 to incomplete action on inconsistencies in the case record. The study provided recommendations for improving the case transfer system and for eliminating other procedural difficulties that tended to cause errors.

Another type of analysis using AFDC-QC data is the development of case profiles relating recipient characteristics to recorded errors. We believe that characteristic profiles are useful for identifying cases that are likely to be in error so that eligibility worker time can be concentrated on them, thus increasing the chance of reducing welfare payments. In 1979 we reported 1/ to the Secretary of HHS that the District of Columbia needed an effective method to identify potential error cases to permit more efficient use of staff, to increase the number of error cases reviewed, and to materially reduce errors and incorrect payments. According to the District, limited staff allowed only 20 percent of its 31,300 AFDC cases to be reviewed. We worked with the District's Department of Human Resources and developed three formulas that assigned computer-derived numerical scores to cases that needed to be reviewed and ranked them in order of their potential for error.

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1/"Welfare Payments Reduced: An Improved Method for Detecting Erroneous Welfare Payments" (GGD-78-107, Feb. 5, 1979).

The formulas have helped the District select for review more cases that are likely to be in error. We believe that similar methods could be used in other States.

Officials from several of the States in our review told us that the results of the QC review--statewide error rates--were not valuable for identifying corrective actions to reduce errors because they were too general in terms of geographic coverage and too broad in terms of the categories of errors for developing or evaluating corrective action. For example, the deputy director of QC in Maine told us that the QC system only indicates general problems at the State level. He said the State QC process does not provide sufficient analysis of errors or their causes to identify specific corrective actions. Because of this, State corrective action planning is "hit or miss" with some actions being effective and others being ineffective. He said that QC data are not detailed enough to provide any more than a gross indicator of the success of a corrective action.

Also, Maryland officials stated that they review QC error rates when considering what corrective actions should be taken; however, the error rates are only indicators of problems because the QC system does not produce information on the original causes of the errors. They also pointed out that the error rates in the city of Baltimore with its large AFDC population have a major impact on State error rates and, as a result, these rates are not useful to other Maryland counties for identifying problem areas.

#### ANALYSIS OF QC DATA HAS NOT BEEN GIVEN ENOUGH PRIORITY

The overall emphasis of the QC system has been to develop statistically valid error rates for each State. While the QC manual addresses the need for analysis, we believe that HHS has not given enough priority to it.

Most of HHS' efforts in the QC area are apparently directed to making sure State error rates accurately reflect the proportion of assistance payments made in error rather than to data analysis. While HHS is attempting to develop useful analytical capabilities, little of its emphasis is directed toward this aspect of the QC system. The lack of emphasis was noted in the 1978 report on OFA discussed in chapter 3. The report noted an absence of data analysis and little capability for carrying it out. The report concluded that the lack of data analysis was a major breakdown in the

QC system because such analysis is a necessary prerequisite to providing useful advice to the States.

Historically, HHS has given priority to compiling statistically valid State error rates. In its regional offices, HHS employs about 80 people to primarily re-review samples of State QC cases by performing verifications similar to those each State follows of the factors of eligibility to ascertain whether the State did its QC job correctly. This re-review effort results in adjustments for mistakes made by State reviewers to the State computed error rate. We found that regional QC staff performed little, if any, analysis of the gathered data.

At HHS headquarters, QC data are not analyzed to identify error causes for corrective action purposes because there is no mechanism set up to accumulate QC data for analysis.

HHS' analytical function at headquarters is handled by SSA's Division of AFDC-QC in Washington, D.C. The division develops QC policy, monitors State procedural operations, and is responsible for analyzing State QC findings and the consolidation of State and Federal findings and preparing national AFDC statistics derived from State submitted data. The division's analysis of State QC data consists mainly of compiling statistical tables that compare States according to certain characteristics and types of AFDC errors. These tables demonstrate the difficulties States may be having with certain aspects of their AFDC programs, but do little to increase understanding of the causes of errors.

Another factor affecting data analysis is HHS' requirement that States develop valid State error rates and submit semiannual statistical reports on QC findings. According to some State officials, this requirement limits the States' ability to effectively analyze and study identified problem areas. In this regard, two States--Minnesota and New York--formally requested an alteration of the semiannual reporting requirement. Both States indicated that they would like to use one 6-month review period each year to study previously identified problems. Also, Maine informally requested a similar waiver to allow the State to concentrate its resources on performing overdue redeterminations because these are the cases that the State QC data indicated were severely error prone.

In denying Minnesota's request, HHS stated that the QC data gathered for the two sample periods each year were needed

for sanctioning purposes and because the Congress and the Secretary of HHS wanted more timely reporting of AFDC errors. Maine's request was denied by HHS regional officials because QC procedures required data to be obtained for two sample periods each year. At the time of our review, HHS had not responded to New York's request.

#### CONCLUSIONS

The AFDC-QC system has directed management attention toward general AFDC problem areas. However, the system is not as useful to program managers as it could be for developing corrective actions because there is insufficient analyses to identify the specific causes of errors. States need time to make the necessary analyses. HHS needs to place more emphasis on data analysis.

#### RECOMMENDATIONS TO THE SECRETARY OF HHS

We recommend that the Secretary encourage the States to perform more detailed analyses of the QC data to (1) identify the specific causes of errors and (2) provide management with better information for developing appropriate corrective actions. We recognize that States are currently required to review two QC samples a year and therefore have difficulty making resources available to perform data analysis. If the directive for sanctions is retracted by the Appropriations Committees, HHS should consider revising the sampling requirement to one a year so that States can then devote existing resources to making needed analyses to ascertain the causes of errors.

We also recommend that the Secretary require the Commissioner of SSA to perform more analysis and special studies of QC data to identify appropriate corrective actions for assisting States in their error reduction efforts.

#### AGENCY COMMENTS AND OUR EVALUATION

The States' comments on our first recommendation generally agreed with what they told us during the review, that there was a need for more time to do detailed QC data analysis. HHS officials cited actions taken in recent years to improve the States' ability to perform data analysis, including training in techniques and making available various types of packaged statistical analysis approaches, but did not address the main problem the States mentioned, that of the lack of enough time to analyze data.



Although HHS officials did not disagree with our second recommendation, they questioned whether there was a need for SSA to undertake more analyses of QC data. They said that their recent efforts put major emphasis on having States modify their operating procedures to reduce errors with Federal assistance in developing various error reduction strategies. They cited a number of actions taken and planned aimed at assisting States to change administrative practices and obtain better eligibility and case management information.

Where a modified administrative procedure has been developed as a corrective action for an identified cause of error, we agree with HHS that a commitment by a State to implement such a change is needed for it to become effective. We recognize, also, that if properly implemented by the States, the results of HHS' actions taken and planned that are based on its analysis and studies should help to reduce some of the causes of AFDC payment errors.

However, we continue to believe that additional analysis and special studies of QC data by SSA are necessary, particularly in specific areas, such as ascertaining how much error information is being lost as a result of Federal QC policy which permits dropping sample cases where recipients cannot be located or are unwilling to give information to QC reviewers. (See ch. 3.) SSA needs to know if this information could materially affect errors; if it does, tightening up the policy that allows sample cases to be dropped for these reasons should be considered. HHS' plans to take certain actions on these cases, as its comments in chapter 3 indicate, should result in gathering the information needed to make an appropriate analysis.

We continue to believe that all available information about incorrect AFDC payments should be obtained and analyzed to ascertain their causes so that appropriate corrective actions can be developed and implemented to improve the management of the AFDC program. Because of the substantial Federal interest in the program, SSA needs to be involved in this effort.

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

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**DEPARTMENT OF SOCIAL SERVICES**  
744 P Street, Sacramento, CA 95814

June 25, 1980

Mr. George J. Ahart, Director  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

Mario Obledo has referred your March 21, 1980 letter and draft report entitled "Opportunities for Getting Better Management Information from Quality Control in the AFDC Program" to me for response.

Thank you for allowing us the opportunity to review the report. We found it to be an informative and objective discussion of the quality control system. Our comments are attached.

Sincerely,

A handwritten signature in dark ink, appearing to read "Marion J. Woods".  
MARION J. WOODS  
Director

Attachment

cc: Alec Velasquez, Health &amp; Welfare Agency

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

State of California  
Department of Social Services

AFDC Program Management Branch  
May 13, 1980

COMMENTS ON THE DRAFT GAO REPORT ENTITLED  
"OPPORTUNITIES FOR GETTING BETTER MANAGEMENT  
INFORMATION FROM QUALITY CONTROL IN THE  
AID TO FAMILIES WITH DEPENDENT CHILDREN  
PROGRAM"

Summary of the Report and Recommendations

The draft GAO report noted several weaknesses in the current AFDC quality control (QC) system. These were:

1. QC review procedures differ from state to state and region to region,
2. The QC system measures how accurately the state plan is administered; it does not measure the correctness of the grant based on circumstances in the month the grant was received,
3. The QC system does not identify secondary error causes or errors of less than five dollars, and
4. QC data is not being adequately analyzed at either the state or federal level.

The draft report recommends that Congress rescind the requirement for federal sanctions based on QC error rates. In making its recommendations the report cites the lack of comparability of QC error rates. It also points out that the imposition of federal sanctions will place the state and federal governments in an adversary relationship.

The report also recommends that the Secretary of HHS:

1. Establish uniform, cost effective QC review procedures,
2. Require states to periodically gather data on earned income available to meet recipient needs in the grant month,
3. Include administrative period errors and errors of less than five dollars,
4. Require states to report all causes of payment errors, and
5. Encourage states and require SSA to perform more analysis of QC data.

Summary of State Comments

If QC data are not used as the basis for the application of federal sanctions, it is not of critical importance to have an absolutely standardized QC review process. In order to maintain the QC system as a cost-effective management

tool, it must be recognized that extensive federal monitoring of state QC corrective action activities and strict QC review procedures do not necessarily translate into improved error reduction ability. It has been our experience that error reduction efforts are most successful at the local level. Accordingly, federal involvement in corrective action should be limited. An example of such limited involvement would be assisting states with unacceptably high error rates in implementing, where appropriate, corrective actions proven in other states.

#### Specific State Comments

##### Chapter 1

The final March 1979 regulations also eliminated 4.0% as the goal and revised the national performance standard from the median to the weighted mean (see page 6).

##### Chapter 2

- A. We support the recommendation that Congress rescind the legislative requirement that QC error rates be used to apply federal fiscal sanctions. If there is to be a sanction policy the authority should be permissive, thus allowing the Secretary the flexibility to withhold sanctions until (1) a reasonable sanction approach has been developed, (2) error rates are demonstrated to be comparable, and (3) a reasonable national performance standard(s) has been established.
- B. While we support the concept of incentive payments as a reward for error reduction, the QC error rate problems noted with respect to sanctions also apply when the same error rates are used for incentive purposes.
- C. The current incentive regulations do not provide a real incentive, in part because the error rate for incentive purposes includes the results of negative action QC (erroneous denials and discontinuances). Even assuming that an incentive dollar error rate of 3.5 percent was achieved in California, the incentive payment would be less than \$200,000 (based on total program expenditures of \$698,000,000).

##### Chapter 3

- A. If QC error rates are not used for sanction purposes, the importance of standardization of QC review procedures is less critical. For management information and error reduction purposes it is more important that each state get the data necessary to identify the amount and types of errors resulting from its program components and administrative systems. It is probable that verification techniques which may be cost-beneficial in some states may not be in others.

- B. There are probably good reasons for differences between the states with respect to home visits and collateral contacts. In California, our primary reason for making an appointment for a home visit is to save reviewer time by alerting the recipient to have the necessary documentation available for the reviewer's scrutiny.
- C. We are concerned that your recommendation for increased monitoring and assessment of state QC operations may result in a flurry of useless paperwork. Such monitoring and assessment should, with as little effort as possible, simply verify that the state is complying with QC manual requirements.
- D. The revised QC manual is not being used for the April-September 1980 review period (see page 31).

#### Chapter 4

- A. We agree with your recommendation that QC be made a better information gathering system by:
  - 1. Determining how well assistance payments match a recipient's current needs,
  - 2. Identifying errors not currently identified, such as those less than \$5, or those occurring during the administrative period, and
  - 3. The reporting of secondary as well as primary errors in a case.
- B. The improved error information will aid in the identification of factors causing errors only if states make the necessary additional effort. Whether states do so will depend largely on their perception of the cost effectiveness of such an effort.

#### Chapter 5

- A. The report states that there is a lack of sufficient data analysis to identify causes of errors. It has been our experience that QC error data does not provide the detail necessary to determine likely causes of errors. It is necessary to do onsite analysis at the local level. The Los Angeles County error cause determination study you cited is an example of in-depth onsite analysis. It should be noted that this study was performed by state staff in conjunction with Los Angeles County.
- B. The report recommends that HHS significantly increase the amount of data analysis it is doing for corrective action purposes. We believe that this is properly a state responsibility and the fact that some states have not recognized this is no reason to pass it off on HHS. In fact, each successively higher level of government is that much more ineffective in carrying out corrective plans. Data should be analyzed at the federal level to determine the impact on proposed policy or for future policy guidance.

- C. We agree with those states that said that statewide error data are not very valuable for developing appropriate corrective actions. You might mention that California gathers individual county error data for 35 of the 58 counties, representing approximately 98 percent of statewide aid payments. Knowing where the errors are being made is necessary for program management accountability and for targeting error cause determination analysis and corrective action efforts.
- D. You should emphasize that error finding and the development of corrective actions should be ongoing, simultaneous activities. In the real world you don't find errors in one period and correct those errors in the next. This is because error categories tend to be fairly stable over time and it isn't necessary to have the error results of a specific period in order to develop corrective actions. In fact, the time lag built into the system makes such an approach nearly impossible.
- E. We would like to caution against an over-reliance on recipient characteristic or error-prone profiles. While these may be of some assistance, particularly in states unable to keep up with the federal redetermination requirement, it has been our experience that the key to error rate reduction is management action at the local level. Error-prone profiles do not identify causes of error nor do they identify action needed to correct errors.

GEORGE R. ARIYOSHI  
GOVERNOR



STATE OF HAWAII  
DEPARTMENT OF SOCIAL SERVICES AND HOUSING  
P. O. Box 339  
Honolulu, Hawaii 96809

ANDREW I. T. CHANG  
DIRECTOR

LAWRENCE K. KOSEKI, DSW  
DEPUTY DIRECTOR

RICHARD PAGLINAWAN  
DEPUTY DIRECTOR

April 16, 1980

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

Dear Mr. Ahart:

This is in response to your request for our review and comments on your draft of "Opportunities For Getting Better Management Information From Quality Control In The AFDC Program".

Our comments are confined essentially to specific statements and recommendations contained in the "Digest".

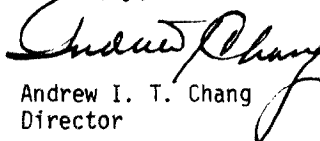
- (1) Fiscal sanction regulations do not serve as incentive to identify fewer errors because:
  - (a) The Q.C. System is not administratively responsible to State program administration;
  - (b) To identify fewer errors would increase Federal/State Q.C. differences (level of errors). Such a situation would work against the State as Federal Q.C. errors are incorporated into the regression formula used to determine final State error rate.
- (2) Standardization of the Q.C. review procedures at both the State and Federal levels; i.e., among Regional offices and all States, are welcomed and necessary if data and findings are to be compared and the same sanction regulations are to be applied.
- (3) Federal Q.C. regulations do require measure of how well the financial needs of recipient families are being met in terms of current month circumstances; current month being defined to mean the Q.C. sample month or review month. States which

are measuring circumstances existing at the time the grant was calculated instead of measuring the correctness of the grant based on circumstances in the month the grant was received are not adhering to current regulations. It appears that those States are following (very) old Federal regulations which required Q.C. to measure correctness of case actions. Current Q.C. regulations call for measuring case status for the sample month or review month.

- (4) Reporting of errors reflecting less than \$5.00 and all error causes in each case is not necessary and would negatively affect the cost-benefit ratio. The level of Q.C. data analysis, currently limited to the primary error cause is adequate for corrective action/error reduction purposes. Q.C. is a continuous process. Concentrating on the primary error makes for more effective corrective action planning. Once the primary error cause has been identified and resolved, the second, third and fourth error causes would in turn be identified as primary errors and appropriately addressed for corrective actions.
- (5) We have no way of knowing whether the various HEW regional offices follow uniform and consistent procedures in assessing State Q.C. operations. We can only assume that there is national uniformity at the Federal level.
- (6) With regard to level of analysis sufficient for program management, we find that the current level is adequate and meaningful for devising corrective action. More time and effort expended for detailed analysis, special studies, and additional filling of forms and tables may negatively affect cost benefit ratio.
- (7) We concur with your recommendations to the Congress that it rescind the Legislative requirements for Federal fiscal sanctions of States based on AFDC, Q.C. error rates. Fiscal sanctions create an adversary relationship on a program which is a partnership program between the Federal Government and the States. Directives of the Federal Government should be in simplifying the administration of the AFDC program for the States and in providing technical assistance to reduce error rates rather than in imposing fiscal sanctions.

Thank you for the courtesy you have extended in requesting our review and comments of your draft report.

Sincerely,

  
Andrew I. T. Chang  
Director



## STATE - INDIANA



INDIANAPOLIS, 46204

## DEPARTMENT OF PUBLIC WELFARE

100 NORTH SENATE AVENUE - ROOM 701

WAYNE A. STANTON  
Administrator

OTIS R. BOWEN, M. D.  
Governor of Indiana

April 18, 1980

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

Dear Mr. Ahart:

Indiana offers the following comments on the draft of the proposed report by the General Accounting Office to the Chairman, Committee on Finance, U. S. Senate entitled "Opportunities for Getting Better Management Information from Quality Control in the Aid to Families with Dependent Children Program". When the information for this report was gathered from Indiana, I, as the Director of Quality Control, was primarily responsible for providing information and data to the GAO interviewers while in this State. Therefore, Mr. Stanton has requested that I respond to this draft report.

Although the GAO representatives spent quite a lot of time at this Department interviewing staff members, learning how the welfare program is administered here as well as how the Quality Control program operates in this State and in this region, GAO's report does not reflect any of Indiana's concern about some of the pressing weaknesses in the system which were explained at that time. It had been our understanding, prior to agreeing to participate in this study, that GAO might be instrumental in assisting with some badly needed changes in the system, especially with regard to the establishment of an appeal procedure which would protect the states' rights when there is disagreement with Federal error findings. We are disappointed to note that none of our suggestions for improvement of the system are addressed in this report.

Indiana would disagree with many evaluations and suggestions for improvement contained in GAO's report. Specifically, we disagree that fiscal sanctions should be disregarded since they only cause negative effect with states being encouraged not to identify all errors at a time when errors need to be identified and corrected. We believe that the threat of fiscal sanctions is effective and the effect is not negative. Additionally, GAO recommends that the Quality Control function be expanded rather than streamlined and the review should include identification of all factors and changes in the client's

situation whether or not an error of \$5.00 or more occurs. We do make the county department aware of information, however, we do not feel there is value in reporting it to DHEW if it does not result in a fiscal error.

Four major weaknesses of the system are described by GAO in this report. The first deals with inconsistency in reviews by both State and Federal Quality Control reviewers as well as inconsistencies from state to state and Federal region to region. Further, it is noted that DHEW has no assessment system for its regional office Quality Control functions. With regard to this point, Indiana would agree that inconsistencies do exist and the annual management review which is the only form of assessment conducted in this State by Regional Office staff, is time consuming and not impressively handled. Usually a staff of five people fly here from Chicago for a two-day visit to ask questions about our operation. Pertinent questions are few in number and are re-asked each year and several times throughout each session, although Federal staff already know the answers to these questions. Many other questions are asked but need not be because they do not apply to this State and Federal staff are aware of this. Other questions are so poorly worded that interpretation must be provided with Federal staff apologizing, but nevertheless, wasting time asking questions that cannot be answered. This question/answer session requires two to three hours and the expense of five Federal staff people coming into this State for a two-day visit seems unnecessary and to be a needless waste of tax money.

The second weakness noted by GAO is that the current Quality Control system does not measure how well the financial needs of recipient families are being met in terms of current month circumstances. We are at a loss to understand exactly why GAO would consider such a measurement to be important or relevant since no such welfare system exists. It is probably not feasible or cost-effective to design a plan to provide assistance in the current month based on current month's needs and income. Therefore, it would not be beneficial or cost-effective to gather such data.

The third weakness identified by GAO is that the system does not provide for reporting payments with errors of less than \$5.00 or incorrect payments caused by changes in circumstances that occur during the payment review month or the month before it. In contrast, Indiana sees this system provision as a strength and not a weakness and a product of refinement in the system. DHEW has appropriately recognized errors less than \$5.00 as insignificant, the correction of which is not cost-effective. Errors occurring in the administrative period also should not be recorded since they cannot be avoided due to case processing time constraints. The states should not be required to report such "errors". Although information about such situations is provided to the county departments so that appropriate adjustments can be made, additional coding and reporting for Federal Quality Control purposes is unnecessary and a waste of time. Dealing with errors less than \$5.00 and changes in the administrative period represent a step backward - not forward!

The last weakness noted by GAO is that data resulting from the Quality Control review can be very valuable but is not adequately analyzed at either the State

or Federal level. Indiana would object to this general statement as such data is thoroughly analyzed in this State and from it effective corrective action is developed and implemented. Indiana is not concerned with how such data is used at the Federal level since we are capable and quite successful in dealing with the matter at the State level. Our record of error reduction will testify to the success of our efforts in this area.

According to this report, the recommendation of GAO to the Congress is to rescind the legislative requirement for Federal fiscal sanctions of the states based on the AFDC Quality Control error rates. GAO contends that fiscal sanctions should not be applied because the effectiveness of the system for improving the (1) eligibility determinations and (2) payment process is compromised.

A fact GAO seems to forget is that error rate reduction is not a recently voiced concern of the Federal government. States were warned long ago and have had years to tackle this problem. Many have made significant strides toward a reasonable tolerance level of error while other states have failed to demonstrate a genuine commitment to reducing errors. States that choose not to be accountable must be encouraged some way to take action. It is a generally accepted theory that money motivates. Therefore, we believe that sanctions as well as rewards are effective and should definitely not be removed.

Recommendations by GAO to the Secretary of Health, Education, and Welfare include a revised Quality Control Manual specifying review verification techniques and establishment of uniform review procedures for regional offices. While this State believes that consistency and standardization in review procedures are desirable, we believe that some variation absolutely must exist simply because each state has a separate and unique state plan. We feel that the current Quality Control Manual adequately specifies appropriate verification guidelines, and includes reasonable primary and secondary sources. We feel strongly that there is an urgent need to simplify the system and reduce paper work rather than to make an already complex system more complex requiring even more documentation than is already required. Although the majority of the cases reviewed by Quality Control are not found to contain an error, numerous forms and page after page of written material must nevertheless be prepared and retained in the case file. For years, the states have reiterated their objections to the needless demand for so much documentation, particularly in cases where no errors exist. All of us suffer staff turnover problems because the reviewer's job is both demanding and monotonous. There is little room for creativity and a stifling amount of structure to the job. Aside from the fact that reviewers tire of this meaningless activity and seek other jobs leaving vacancies, reassigned work, and increased workload on others until vacancies are filled, the abundant paper-work requirements are not cost-effective when review staff salary expenditures are compared with low error rates such as Indiana's. The answer then is a reduction in case reviews and simplification of review procedure, not an increase in work requirements.

With regard to GAO's recommendation for in-depth assessments of Regional Quality Control procedures, Indiana would agree.

The fourth recommendation, to require states to periodically gather data on earned income available to meet recipient needs in the grant month, has been addressed earlier in the letter. Indiana objects to data gathering when it serves no worthwhile purpose.

The next recommendation by GAO, to require the citing of errors less than \$5.00 and those occurring because of changes during the administrative period, was also addressed earlier in the letter. DHEW has established such activity is simply not cost-effective and Indiana totally agrees.

Another recommendation is to require states to report all causes of payment errors detected during the Quality Control review process. In Indiana, this procedure has been in operation for several years, therefore, the State would not object to this requirement.

The last two recommendations are for detailed analyses of Quality Control data at both the Federal and state levels. Again Indiana has, for several years, performed this detailed analyses identifying error causes and developing effective corrective action. Whether or not this activity is also carried on at the Federal level is of no great concern to Indiana as no assistance is needed in identifying problem areas or solutions for reducing errors in Indiana.

This State does not recognize the same general problems as the writers of the GAO study to be significant and, therefore, in need of immediate attention. We see absolutely no merit in redefining a Quality Control "error" making the definition more inclusive and thereby inflating the error rates. Identifying, coding, and recording additional but less significant potential error factors is simply a waste of time.

And with regard to the part of the report addressing "errors not identified" which occur in states with need standards and/or payment maximums occurring as a result of miscalculations or situation changes which do not call for an award adjustment, we contend that these are not errors and, therefore, there is no need to identify them for Quality Control recording purposes. GAO suggests that error rates are not comparable between states that meet full need and those states that have need standards and/or payment maximums. Indiana would disagree since these changes do not affect the assistance payment and, therefore, cannot be considered as errors, identified or not. GAO is concerned that states meeting full need suffer a higher error rate, however, these states have more liberal constituents and legislators who are less concerned with controlling the expense of the state's welfare cost. They, like all states, were given the opportunity to elect and select optional programs and budgeting procedures. They were aware that their error rates would probably be affected.

As the state is a primary contributor to the program expense, it does and should have some voice in choosing how monies will be spent and how accountable the

system should be for the expenditure of funds. In Indiana, the legislators and local citizenry require more accountability of welfare funds. Therefore, we contend that since an error occurs only when monies are misspent, error rates are comparable between the liberal and conservative states since error rates in both are actually a measure of misspent monies.

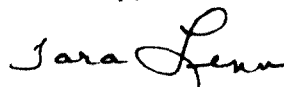
Indiana's primary concern with the Quality Control system as it exists today is with the lack of effective communication and the worsening working relationship between State and Federal staff. In the last two years, this State has witnessed an obvious deterioration of that relationship. Federal reviewers are citing errors where no errors exist. They are using entirely different subsample review techniques than were used prior to 1978 with no explanation. Current Federal review staff do not understand Indiana's State Plan, policy, rules, regulations, and laws. Errors are cited with no foundation. The State has provided a wealth of documentation to Federal staff substantiating the correctness of State review findings; however, Federal staff disregard our position and refuse to deal with the real issues involved. They simply cling omnipotently to the error citations and consequently, Indiana's error rate is inflated, review period after review period.

A critical need exists for fair and impartial appeal proceedings for states so that objections to unfair error citations can be heard and evaluated by an impartial third party. Federal regulations guarantee this kind of protection for the welfare recipient and states should, of course, be provided the same protection.

We would, therefore, disagree with GAO's recommendations that the Federal government become more involved in the system, having greater control demonstrated by tightened review requirements and required assessment procedures. It has been our experience to observe the traditional pattern of the Federal government to be uncooperative and unjust. Federal decisions are often arbitrary with officials ignoring the facts and attributing a superior power to themselves. As states provide nearly half the funds for the program, they have a right to participate more fully in establishing the rules and improving the system.

In conclusion, we would like to say that we were disappointed in the report submitted by GAO in that this State's concerns were not considered and we do not believe the concerns discussed in the report are significant. If GAO's recommendations are implemented, there will be no improvement in the system. In fact, the affect will be quite the opposite. Hopefully, Indiana's comments contained in this letter will be given more attention than occurred during the interviews conducted by GAO reviewers while in this State. These comments represent not only Indiana but the majority of the states. These same objections have been voiced for several years and by several state welfare representatives at various conferences and Federal meetings with both Regional and Central staff. Should the draft of the proposed report be amended to include any of these comments, Indiana would appreciate receiving a revised copy of that report.

Sincerely,



Miss Tara Lenn  
Assistant Director  
Public Assistance Division  
Quality Control Section



MICHAEL R. PETIT  
COMMISSIONER

STATE OF MAINE  
DEPARTMENT OF HUMAN SERVICES  
AUGUSTA, MAINE 04333

April 14, 1980

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

Dear Mr. Ahart:

In response to your letter dated March 21, 1980 and the draft report "Opportunities for Getting Better Management Information from Quality Control in the Aid to Families with Dependent Children Program" enclosed are the comments of the State of Maine.

As stated in the report, with some minor exceptions and variations, the State of Maine is in agreement with the findings in the draft report.

Thank you for your interest and for the opportunity to review and comment on this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael R. Petit".

Michael R. Petit  
Commissioner

MRP/rm  
Enc.

## REVIEW COMMENTS TO GAO REPORT

"OPPORTUNITIES FOR GETTING BETTER MANAGEMENT INFORMATION  
FROM QUALITY CONTROL IN THE AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAM"

The draft report relating to the above was reviewed by key administrative staff in the Bureau of Social Welfare who are responsible for overall administration of the Aid to Families with Dependent Children program.

With some minor exceptions and variations the State of Maine is in agreement with the draft report of the General Accounting Office. The agency is in total agreement that Quality Control findings should not be used as a basis of sanctions imposed upon a State.

The agency disagrees that quality control findings are not as effective as they could be in identifying how well recipients needs are being met. Quality Control is one of the ways to identify this factor. Administrative and selective special reviews are another. In addition basic data relating to the cost of living and the actual payment level is continually being compared. When a state meets only 67% of needs in accord with the 1973 cost of living index it becomes obvious that there are gaps in the program's ability to meet a reasonable standard of need on a current basis.

The State of Maine disagrees that all payment differentials, including those under \$5 per month should be considered errors. It would agree that an agency should tabulate and analyze these figures. Maine's own tabulation indicates that these differences are due to the complexities inherent in projecting on a month to month basis the actual income from wages and work related expenses. A leeway of \$5 per month amounts to a variation of slightly over one dollar per week. To predict income closer than this is impossible when it comes to fluctuating wages and expenses. Maine would support a policy of no allowance for fluctuation of fixed income such as Social Security and Veterans Benefits.

The report's constant reminder of problems in comparing state programs in 50 states and imposing sanctions based on varied state methods of administering a program is a significant factor that should be considered by the Congress. The example of not calling a payment error when a state miscalculates income but it doesn't effect the grant because the state meets only a proportion of need after income is deducted from the standard is a case in point. Although no payment error is recorded, there is still an error of significance. At one time the State of Maine used this method of budget calculations. Although the agency was making errors in calculations and projections these errors were not recorded. They did not effect payment. Hence, the agency was lulled into a false sense of security. The agency felt it was in fact doing much better in projecting income than it was actually doing. A state with a higher error rate may be doing a better job than those states claiming a lower error rate.

The State of Maine disagrees that it is currently possible for the Federal Government to develop a standard format for Quality Control reviews in all 50 states. In addition it has problems with the Social Security Administration's Quality Control staff who want standardization to make it easier for completion of their particular work. No consideration is given to the fact that the State agency, though not following supposed Quality Control guidelines in its policy, is in fact in conformity to program regulations. One of the major problems found since the Social Security Administration took over the monitoring of Quality Control from the Office of Family Assistance is that there is

no communication between Quality Control staff and Program Operation staff. Quality Control should be independent of influence and manipulation whether on the State or Federal level. However, it should not be so independent that there is in actuality no communication with people who develop and interpret overall policy. The inexperience and the rigidity of Federal Quality Control monitors combined with their unwillingness to look at state policy and actual program regulations creates continual problems.

The State of Maine has had a Quality Control system since 1955. The State is aware of the possibility that an agency could manipulate the findings of its system to give a more favorable report to Washington. The fact that this possibility may be a reality in some states indicates that the original purpose of Quality Control as a meaningful management tool has been ignored by some states and by the Federal Government.





## DEPARTMENT OF HUMAN RESOURCES

STATE OF MARYLAND

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INCOME MAINTENANCE ADMINISTRATION

TELEPHONE: (301) 383-6442

April 11, 1980

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

Re: Draft Report  
 Opportunities for Getting Better  
 Management Information from Quality  
 Control in the Aid to Families with  
 Dependent Children Program

Dear Mr. Ahart:

At the outset it should be recognized that virtually all of the issues and recommendations as specified in the draft report are the very same arguments which have been continuously advanced by the states since 1973. Thus, without equivocation, I can assure you that the report soundly reflects this Department's position on the quality control system and fiscal sanctions.

Furthermore, I was extremely encouraged to note that the "theme" of the report both recognizes and reinforces the basic fact that effectiveness of the AFDC program is a joint responsibility of both state and federal governments. To operate in other than a climate of cooperation simply further breeches a state-federal partnership and detracts from our commitment to meet the needs of dependent children.

With respects to the specific contents of the report, there are several points which requires correction and others which merit consideration. On page four (4), top paragraph, the word "often" is inappropriate. Reviewers not only verify eligibility factors with the recipient but they always verify them with collateral sources. In chapter 2 (see page 8, paragraph 3, point 2), the reader may well misinterpret the statement that quality control systems "...do not allow for program and practice difference among states." It should be made clear that while the system does acknowledge permissible state practice, federal error rate calculation process (i.e., regression analysis formula) does not.

KALMAN R. HETTLEMAN  
 Secretary

HARRY HUGHES  
 Governor

BILL B. BENTON  
 Deputy Secretary

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

On the matter of social security numbers (SSN) (see pages 26-27), the narrative is incorrect which, in turn, leads to an unclear explanation. That is, Quality Control Reviewers in Maryland do verify, during the home visit, that the recipient has, or has applied for, an SSN. In the event neither can be verified, then the case is in error. Since Maryland and Maine utilize the same procedures, one is left without an explanation for the difference in the SSN related errors found in each state during the January - June, 1978 review period.

Two other technical points are (1) the absence of Maryland's data in the table on page 41 and (2) the meaning of the sentence ("Finding and reporting unrelated secondary errors...") on page 45.

Turning to more substantive issues, there are several points which were not addressed and one (i.e., current months circumstances -- see Chapter 4) which potentially invites real confusion. The report recommends that the "current months circumstance" become a basis for additional error determination. If adopted, this would require that quality control define an erroneous payment in a manner inconsistent with existing federal policy (see CFR 233.20). I am of the position that this recommendation is unnecessary given the pending revisions (i.e., payment adjustment lag) to the AFDC quality control system.

Subjects that were not addressed in the report are elaborated as follows.

First, it should be recognized, and stated, that the current quality control system more adequately serves the management needs of the federal government than it does state governments. Specifically,

- (1) statistically valid statewide samples cannot adequately assess program performance at the sub-state level;
- (2) requirements for semi-annual reviews effectively discourages active participation by quality control personnel in the corrective action planning process; and,
- (3) state calculated error rates, and reviews, are relatively meaningless because the federal re-reviews are the basis for "official" error rate calculations.

In light of these circumstances, I would suggest that the recommendations in Chapter 5 of the report be re-stated in a manner that encourages and supports greater flexibility on the part of the federal and state agencies in the area of statistical sampling design and methodology.

Second, little acknowledgement is given to the fact that the support functions of quality control (e.g., data analysis, special studies, corrective action implementation, etc.) must also compete for the same pool of resources that are utilized for program administration. Given the realities of limited administrative funding and shifting priorities, more emphasis should be placed upon an allocation strategy that would assure these quality control support functions can be both realized and operationalized.

Finally, the report, but briefly, mentions the requirement for federal agencies to provide technical assistance to individual states (see page 3). This point should be strengthened in the report. With their national perspective on state operations, the Social Security Administration should be systematically working with states to implement "best practices" which have proven effective in other locales. Thus, I would recommend that the report identify this requirement and encourage the Social Security Administration to institute procedures whereby technical assistance is routinely and continuously made available to the operational components of state welfare agencies.

Without summarizing the foregoing, I would also like to reinforce your recognition of quality control as a management tool. Realizing that state welfare administrations are, too, concerned with program performance and operational efficiency, we are also mindful of the need for systems and technologies that do not constrain legitimate efforts in attaining these goals. As such, I am a strong advocate for a quality control system that addresses a mixed balance of flexibility and standardization. I firmly believe that with this report and a more realistic appraisal of the state-federal relationship, a balanced approach can be achieved.

If you wish further information or clarification on the points I have raised, please do not hesitate to contact me.

Sincerely,



Richard G. Lacombe, Director  
Income Maintenance Administration

RGL/blj

ccs: Kalman R. Hettleman, Secretary  
Bill B. Benton, Deputy Secretary

NEW YORK STATE  
DEPARTMENT OF SOCIAL SERVICES  
40 NORTH PEARL STREET, ALBANY, NEW YORK 12243  
BARBARA B. BLUM  
*Commissioner*



April 15, 1980

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

Dear Mr. Ahart:

I am responding to your request for comments on the draft report entitled "Opportunities for Getting Better Management Information from Quality Control."

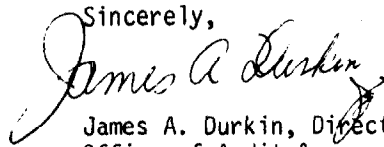
The report accurately expresses the sentiments of the New York State Department of Social Services and hopefully it will provide some impetus returning the Quality Control program to the status of an effective management tool rather than the guideline for fiscal sanctions.

Our only negative comment involves the suggestion to eliminate the administrative period and require the reporting of errors under five dollars. In the process of reporting misspent funds, the administrative period is one of the few rational principles in the program. The requirement to report and record changes in circumstance takes time over and above the necessity to provide a ten day notice in the event of a closing or reduction in grant. Thirty days does not seem to be an inordinate amount of time when you consider that it takes six months to release an audit report.

Secondly, errors under five dollars produce inconsequential results but impact the case error rate disproportionately. We realize that the payment error rate is the prime measure of efficiency. However, case error rates are public information and when these are taken out of context, they only tend to produce bad publicity.

Thank you for the opportunity to review and comment on this report and we hope your recommendations receive proper consideration by Congress and consequently, the Department of Health, Education and Welfare.

Sincerely,

  
James A. Durkin, Director  
Office of Audit &  
Quality Control

(105069)

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