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In 1964, the Department of Health, Education, and Welfare (HEW) developed a quality control program to control erroneous payments to recipients of Aid to Families with Dependent Children. In April 1973 HEW introduced a fiscal disallowance provision establishing allowable error rates and said it would not reimburse States for payments exceeding those levels. When the provision was ruled invalid by the courts because of arbitrary tolerance levels, it was revoked. While action on fiscal allowances was in effect, it encouraged States to implement programs to reduce errors. Some financial incentive is probably needed and, if disallowances based on State error rates are used, they should be based on payment errors rather than case errors. Legislation has been introduced providing for this basis for disallowances and excluding procedural type errors. The accomplishments of the quality control program were overstated because of: invalid statistical projections; assumptions made by HEW that reduction in case errors and savings are directly related; and failure to consider administrative costs of corrective actions. HEW should revise its basis for determining accomplishments and focus on assisting States with the greatest difficulty in reducing errors. (HTW)

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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
AND HUMAN RESOURCES
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

ON

MANAGEMENT OF THE AFDC PROGRAM

Mr. Chairman and Members of the Subcommittee, I am pleased to appear here today to comment on the management of the Aid to Families with Dependent Children (AFDC) program. I will discuss the results of our recent review of the AFDC quality control program and comment on other work we have in process relating to management of the AFDC program. The results of our review of the quality control program were contained in our report to the Congress entitled "Legislation Needed to Improve Program for Reducing Erroneous Welfare Payments" (HRD 76-164) dated August 1, 1977.

AFDC QUALITY CONTROL PROGRAM

For several years, the Congress has expressed concern about the high incidence of erroneous payments to AFDC recipients. In 1964 HEW developed a quality control program to monitor and control AFDC errors. Since then the program has been modified several times to improve its administration and effectiveness. In early 1973, 9 years after the program had been developed, 19 States still did not have operational quality control programs. Consequently, in April 1973 HEW made an abrupt change in its quality control program by introducing a fiscal disallowance provision in its regulations as a means of controlling errors. HEW established allowable error rates or tolerance levels of 3 percent for ineligibility and 5 percent for overpayments and said it would not reimburse States for payments that exceeded those levels as of July 1975. Later, states were given until December 1975 to reduce errors to those levels to avoid having funds withheld.

The fiscal disallowance provision became the center of controversy between HEW and the States. As of May 1976, 17 jurisdictions had filed suit in three separate court actions against HEW challenging the legality of the fiscal disallowance regulation. The courts ruled that HEW had the authority to establish a regulation for disallowance of Federal funds based on a tolerance level. However, in two of the three decisions, the courts went beyond the question of authority and addressed the reasonableness of the tolerance levels that HEW had established. The courts ruled that because the tolerance levels were arbitrarily established at 3 percent and 5 percent without benefit of an empirical study, the regulation was framed in an arbitrary manner, and therefore was invalid.

As a result of these decisions, on March 10, 1977, HEW revoked the fiscal disallowance provision of its quality control regulations. At that time, HEW said it was considering alternative fiscal disallowance provisions but no decision has yet been reached regarding any specific action. Thus, HEW presently lacks any means for withholding funds from States that continue to experience high error rates.

We believe the decision to establish fiscal disallowances represented a positive move by HEW in attempting to provide for better management control over the AFDC program. HEW's action effectively encouraged States to implement programs to identify error rates and reduce errors. The 19 States which in early 1973 did not have operational quality control programs accounted for more than half of the AFDC program payments. After HEW announced its intention to impose disallowances, every State, for the first time, completed the required review of sample cases and developed corrective action plans.

Since 1973 ineligibility and overpayment error rates have shown a continual decline. Nationally, these error rates declined from about 33 percent as of September 1973 to about 20 percent as of June 1976. However, error rates recently have been declining at a slower rate. Despite the error rate reduction, about \$500 million a year in Federal funds is being misspent in the AFDC program. Therefore, some financial incentive is probably needed to assure that States continue to seek appropriate corrective action.

If fiscal disallowances based on State error rates are used as the incentive, then we believe the basis for the disallowance should be payment error rates rather than case error rates. In our view, the use of

case error rates overstates the degree of error in the AFDC program. The case error rate was the primary indicator previously used by HEW for determining the extent of error and was to be the basis for determining any disallowances against States. Therefore, we recommended in our report that HEW base the reporting of State errors on dollar amounts rather than on case error rates. HEW concurred with this recommendation and said that they will focus on payment errors rather than case errors in future reporting.

We believe that HEW will continue to encounter problems in attempting to establish any new fiscal disallowances. We therefore recommended in our report that the Congress determine the control that would best provide the desirable financial incentive to States for reducing errors and enact appropriate legislation. In May 1977 a bill was introduced in the House of Representatives (H.R. 7153) to amend the Social Security Act to provide legislation for taking fiscal disallowances. The proposed legislation addresses two issues discussed in our report. First, the legislation provides for use of a payment error rate rather than a case error rate and second it provides for the exclusion of procedural type errors which do not necessarily affect welfare payments. Currently, the bill is with the Public Assistance and Unemployment Compensation Subcommittee of the House Ways and Means Committee for further action.

In recent years, the Congress has specifically established within the Social Security Act various penalties and incentives for improved administration and cost control for several aspects of the AFDC and Medicaid programs. Three of the more significant incentive provisions pertain

to utilization control of costly institutional care under the Medicaid program, health screening for children under Medicaid and child support enforcement under the AFDC program.

As a result of congressional concern with continued reports of substantial overutilization of costly institutional care under Medicaid, a financial incentive provision was added to the program's legislation in 1972. The provision provided that payments would be reduced to States that did not satisfactorily demonstrate to HEW that they had effective programs to control utilization of institutional services.

Also in 1972, the Senate Finance Committee found that many States were not complying with legislative requirements for providing health screening and treatment services to all children eligible for Medicaid. The committee believed that establishing a penalty for failing to provide such services would underline the committee's intent that States fully implement such services.

In January 1975 legislation was enacted to authorize greater Federal participation in child support enforcement activities. Again, the Senate Finance Committee expressed its concern that States had not meaningfully implemented the provisions of existing law and thus established in the new legislation various incentives for compliance and penalties for non-compliance.

We believe that such legislative provisions demonstrate the Congress' concern for cost control and efficient administration in Federal programs and that it has used various financial incentives as means of assuring such control. To assure that States take appropriate action to keep AFDC payment errors within controllable levels may require some similar form of fiscal incentive.

Our report also addressed the reliability of HEW statements about the accomplishments of the quality control program. Since 1973, when the revised program took effect, HEW has continually reported declines in error rates. These reports have also included estimates of savings resulting from the error rate reductions.

HEW has continually overstated the accomplishments that can reasonably be attributed to error rate reductions thus detracting from the credibility of those bona fide program accomplishments. For example, in December 1976 HEW reported that between January 1974 and June 1976 the quality control program had saved about \$1 billion in Federal and State funds. The savings estimates were not based on valid statistical projections and included actions which did not necessarily produce direct savings in welfare payments. Also, HEW did not consider in its estimates the administrative costs that would be associated with implementing corrective actions for reducing errors. In addition, States generally were not conducting cost-effectiveness studies before starting corrective actions, although required to do so by HEW.

HEW savings are based on comparisons, by State, of case error rates in one period with those of prior periods. These percentages are estimated from samples of welfare cases in each State and are thus subject to random variation. As a result, any difference in error rates between two periods may be statistically significant or caused solely by the random selection of sample cases for that State. For example, as discussed in our report, HEW reported that the program had generated savings of \$71 million during the first 6 months of 1974 and \$62 million during the second 6 months. HEW computed savings for each State that had shown reductions in case error

rates. HEW did not, however, consider whether the error rate changes were statistically significant nor did it offset its estimated savings for any States which had error rate increases.

Our analysis showed that after including States with increases in error rates and considering only those States with statistically significant changes, the estimated savings computation for the two sampling periods in 1974 using HEW's method would be \$26 million and \$42 million compared with HEW estimates of \$71 million and \$62 million, respectively. These examples are used to illustrate the potential effect of not using appropriate statistical tests. The extent of overstatement would depend on the degree of error changes in each State. The greater the change, the greater the likelihood that the change could be statistically significant.

A second and perhaps more fundamental issue in the overstatement of accomplishments concerns the assumption made by HEW that there is a direct relationship between reduction in case errors and savings to the program. This assumption is incorrect because certain types of errors can be reduced or eliminated without necessarily producing any direct savings or reductions in welfare payments.

For example, Federal regulations require, as a condition of eligibility, that all AFDC recipients register for work incentive training unless specifically exempted. Welfare payments to persons not registered was a major source of error in five of the seven States we reviewed. The corrective action taken by the States to reduce this type of error was designed to get the persons properly registered to avoid removing them from the welfare rolls. While this action would result in reduced errors, many cases would

continue to receive welfare payments and no cost reduction would result from it. We recognize that from a management viewpoint this type of error should receive the States' attention, but no direct savings should necessarily be attributed by HEW to their reduction.

Also, several States have revised agency policies as a means of reducing errors. Many errors were occurring in computing basic budgetary allowances, particularly in determining the amount of shelter and utility costs to be included in the recipients' grants. Several States have taken action to reduce these errors by basing the amount to be included in the grant for shelter and utilities on a standard allowance rather than an individual recipient's need. The use of such a standard greatly reduces the likelihood of making computation errors. However, while such action can reduce the incidence of error, it does not necessarily reduce program cost.

As stated previously, in computing the savings estimates, HEW did not consider the administrative costs associated with corrective actions. We believe consideration of these costs is particularly important in view of the increasing administrative costs of the AFDC program. In fiscal year 1974, total costs of State and local program administration were about \$700 million. In fiscal years 1975 and 1976 such costs had risen to over \$1 billion, an increase of about 48 percent.

Also, the States we visited generally were implementing corrective actions without determining their cost effectiveness. HEW has recognized the need for cost effectiveness studies by requiring that States perform such analyses in conjunction with their corrective action program. HEW's

quality control manual states that a thorough cost-benefit study of corrective actions is necessary for management to determine whether to commit agency resources for detailed development and implementation of any particular action.

We recommended that HEW revise its basis for determining program accomplishments by (1) determining savings on the basis of valid statistical projections, (2) considering only those error reductions that directly result in reduced program costs and (3) accounting for the increased administrative costs of implementing corrective actions. We also recommended that HEW assist the States in identifying cost-effective corrective actions.

HEW generally agreed with our recommendation on the reporting of accomplishments and stated that it would seek ways of obtaining the necessary data to better refine its reporting.

Regarding our recommendation for giving assistance to States, HEW said it is constantly striving to make its work in this key area more effective. HEW cited several ways it had provided assistance. In particular HEW said it issued several documents to States describing techniques for reducing errors and it encouraged States to adopt these techniques. Although such publications have value in providing a forum for ideas among States, many aspects of the AFDC program differ widely among States. Thus, techniques adopted by one State are not necessarily readily adaptable to other States.

We believe that HEW should focus on directly assisting those States having the greatest difficulty in reducing errors. HEW should (1) concentrate on identifying State corrective actions that have been effective and (2) determine whether the same actions would be appropriate for States

that have been unsuccessful in reducing errors and, if so, assist them in implementing such actions.

OTHER WORK IN PROCESS

We currently have in process three other reviews which relate to AFDC management.

One review involves a review of the optional provision of the AFDC program which allows States to provide emergency assistance to needy families with children. The fieldwork on this review has been completed. Our objectives were: (1) to determine why only about half the States elected to participate in the program and (2) to evaluate Federal and State program administration.

We reviewed the operation and administration of the program in the District of Columbia, Maryland, New York, and Ohio. In addition, we obtained and analyzed information about the program and its problems nationally.

Our preliminary findings, which are subject to revision, are that operation and administration of the program have been hindered by conflicting interpretations of the enabling legislation by HEW, the States, and the courts. The conflicts pertain to recipients' eligibility and the type and extent of emergencies covered.

HEW has allowed the States wide latitude in developing State plan provisions for emergency assistance. Consequently, HEW has approved State plans containing restrictive eligibility and coverage provisions.

One effect of this policy has been about 40 court cases challenging the legality of State plans containing restrictions on eligibility and

coverage. In some cases, the courts upheld restrictions on eligibility and coverage and in other cases, they did not. As a result of adverse court decisions, States have found they cannot rely on instructions and interpretations from HEW in determining what type emergency assistance plan is permissible. Further, States have found it difficult to operate the program based on conflicting court opinions. Faced with this situation, some States have dropped out of the program.

As of September 1977, 26 States were not participating in the program--11 because of problems they perceive in the enabling legislation, 9 because they provide emergency assistance through some other program, and 6 because they lack State matching funds.

Conflicting interpretations of the enabling legislation led to a November 1976 U.S. Court of Appeals ruling requiring HEW to draft new program regulations based on the court's interpretation of the enabling legislation and the intent of the Congress. HEW does not agree with the court's interpretation and, in April 1977, filed a petition with the U.S. Supreme Court seeking a reversal of the decision.

HEW's administration of the program has also been adversely affected by the lack of a definitive HEW policy and conflicting court decisions. Adverse effects include lengthy delays in approving State plans necessitating retroactive approval, disputes over the allowability of State expenditures, and questionable uses of funds.

We believe HEW is responsible for taking timely and appropriate actions, including seeking clarifying legislation, when it cannot effectively administer a program because of problems in the enabling legislation.

HEW has not done this. Ten years after the Emergency Assistance Program was enacted into law, HEW and the courts are still contesting the provisions of the law and the intent of the Congress. Due to its inaction, HEW is now faced with a court-imposed solution which it opposes.

Another review we just recently started involves administrative costs of the AFDC program. The Social Security Act authorizes the expenditure of Federal funds to assist States in administering public assistance programs, including the AFDC program. There is no ceiling on the total administrative costs which can be claimed for reimbursement. State expenditures for administering the AFDC program have increased from \$322 million in 1970 to over \$1 billion in 1976 and are estimated to be \$1.4 billion in 1977.

San Diego County, California, recently completed a detailed analysis of its own welfare administrative procedures. The County concluded that, through better use of its staff and computers, less staff would be needed and the county's AFDC administrative expenditures for fiscal year 1977 could be reduced by about 26 percent or \$2.4 million, about half of which is Federal funds. County officials told us that so far minimal interest has been shown by Federal and State officials in the techniques used and the feasibility of applying the study approach to other States or counties.

Since the potential for nationwide administrative cost savings is substantial by applying the San Diego study methodology, we are testing and refining this methodology in another California county to determine the feasibility of applying it in reviews in a number of States.

The third review involves determining, through computer comparisons, to what extent individuals are receiving duplicate public assistance payments from one or more jurisdictions under the same or different

assistance program. Our overall objectives are to assess the quality of Federal and State public assistance files and recommend improvements to facilitate inter-program and inter-jurisdictional matching as a management tool for reducing erroneous welfare payments on a continuing basis.

To date, we have made intra- and inter-jurisdictional matches of the AFDC rolls of New York City and its adjoining counties of Nassau, Suffolk, and Westchester. We have also matched Puerto Rico's food stamp roll with New York City's AFDC roll. This work has revealed a substantial number of matching social security numbers. We also found that in all these jurisdictions many recipients did not have social security numbers, although numbers are required by the Social Security Act.

We plan to expand our work to make similar comparisons in other States as well as to match AFDC tapes of the selected States to the Social Security Administration's SSI eligibility tapes to identify individuals receiving benefits from both programs.

Mr. Chairman, this concludes our statement. We will be happy to answer any questions that you or other Members of the Subcommittee might have.