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REPORT TO THE CONGRESS

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Problems In Attaining Integrity In  
Welfare Programs B-164031 (3)

Social and Rehabilitation Service  
Department of Health, Education,  
and Welfare

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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MARCH 16, 1972



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

B-164031(3)

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on problems in attaining integrity in welfare programs. The federally assisted public assistance programs are administered by the Social and Rehabilitation Service of the Department of Health, Education, and Welfare.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Health, Education, and Welfare.

A handwritten signature in cursive script that reads "James B. Axtell".

Comptroller General  
of the United States

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- II Principal officials of the Department of Health, Education, and Welfare responsible for the administration of activities discussed in this report

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ABBREVIATIONS

- AFDC Aid to Families With Dependent Children
- GAO General Accounting Office
- HEW Department of Health, Education, and Welfare

D I G E S T

WHY THE REVIEW WAS MADE

Whether welfare assistance payments are being provided to eligible persons only is a source of increasing national concern aroused by the following facts.

--From fiscal year 1960 to fiscal year 1971, Federal and State welfare costs more than tripled--from \$2.8 billion to \$8.7 billion.

--The number of recipients increased from 5.8 million to 14.3 million.

The General Accounting Office (GAO) examined the effectiveness of the quality control system used by the States, to ensure that public assistance funds were being provided to eligible persons only and that public assistance programs were being managed fairly and efficiently. This system was developed by the Department of Health, Education, and Welfare (HEW).

GAO's review was made in California, Colorado, Louisiana, Maryland, Michigan, New York, Ohio, and Texas. These eight States spent about 50 percent of all Federal welfare funds in fiscal year 1971.

Background

The quality control system was adopted by HEW in 1964 for evaluating eligibility under the welfare programs. It is an adaptation of a technique which is used widely in industry for evaluating the quality of products and services. In October 1970 HEW required the States to implement a revised quality control system. The new system was based on experience under the prior system and on the States' increasing use of a simplified method of determining applicants' eligibility.

Under the new system cases are selected on a statistical-sampling basis and are investigated to see whether the eligibility of recipients and the amounts of payments are within established levels of accuracy. If they are not, the States must identify the inaccuracies and take necessary corrective actions.

FINDINGS AND CONCLUSIONS

Benefits from the implementation of a well-conceived quality control system can be achieved only through effective Federal and State administration. Adequate staffing and timely resolution of problems are essential to effective administration.

The Federal quality control system had not been implemented fully in the eight States at the time that GAO completed its fieldwork (July 1971). Consequently quality control has not accomplished its purpose of maintaining integrity over the public assistance programs.

HEW does not know whether rates of ineligibility and incorrect payments are within established levels of accuracy.

The problems encountered in implementing and operating the quality control system are complex, as shown below.

#### HEW's problems

HEW decided that the Federal quality control system should be implemented as soon as possible after its design was completed. HEW's organization, however, was not ready to deal with many of the complexities of implementing a system that required close cooperation between the Federal Government and the States.

HEW recognized, 5 months prior to the system's implementation, that 55 additional staff members were needed--45 for the regional offices and 10 for headquarters. As of September 1971--almost a year later--only 19 of these positions had been filled. (See p. 40.)

HEW was only marginally successful in obtaining State recognition of the importance of quality control and of the need to commit the resources necessary to ensure its success. (See p. 45.)

Once the quality control system was in operation, HEW was able to recognize the problems that the States were having with it. HEW's regional offices, because of insufficient staff and limited knowledge of the system, usually were able only to react to State problems as they occurred rather than to anticipate them and assist States in avoiding the problems.

#### States' problems

All States visited by GAO had encountered problems in carrying out quality control activities. These problems varied in intensity from State to State. (See p. 12.) Two States--California and New York--had not implemented the Federal system statewide as of July 1971 but had attempted to use other methods to control public assistance expenditures. The methods used were not designed to meet Federal objectives. (See p. 28.)

The remaining six States--which implemented the system statewide--encountered one or more of the following problems.

Staffing--As of April 30, 1971--7 months after the Federal system was to be implemented--only Colorado and Michigan had met their staffing needs. Insufficient staffing continues to be a major problem limiting quality control's effectiveness. (See p. 12.)

Investigations--HEW specified the number of cases to be reviewed in each State so that reliable statistical projections could be made concerning the total number of cases. None of the six States, however, completed the required number

of quality control reviews for the quarter October to December 1970, although Colorado and Ohio came close. (See p. 16.)

For those cases that were reviewed, ineligibility rates or incorrect payment rates generally were high. Although these sample results could not be used for statistical-projection purposes for the total number of welfare cases, GAO believes that some error rates were sufficiently high--in view of the number of cases reviewed--for the States to have taken corrective action. (See p. 18.)

Verification--HEW requires that independent verification and documentation of all aspects of eligibility and payment be pursued to the point at which decisions on eligibility and the amounts of payment are conclusive. About 90 percent of the completed quality control reviews analyzed by GAO had not done this.

HEW guidelines did not specify the extent and types of verification to be obtained. For example, if recipients stated at the time of initial application that they had no savings or earnings, this information was reaffirmed in an interview and was accepted by reviewers without further attempts at verification. Use of additional sources--such as employment offices and local credit bureaus--to verify eligibility information could enable States to make more accurate decisions as to eligibility and amounts of payment. (See p. 19.)

GAO analyzed 150 quality control reviews in Colorado and Maryland and in Cuyahoga County, Ohio (50 cases selected at random from each). Had reviewers used additional sources, they could have had more assurance that their eligibility and payment decisions were accurate. (See p. 22.)

#### Pending legislation

Under pending welfare reform legislation (H.R. 1), HEW would take over administration of all federally assisted welfare programs and would have sole responsibility for quality control. GAO believes that HEW's plans for carrying out this proposed change, if effectively implemented, could restore public confidence in the integrity of the welfare programs.

Because the present Federal quality control system is to be the basis for such a system in the welfare reform program being considered by the Congress, HEW should make a concentrated effort to solve the problems in the present system not only to help accomplish the objectives of the present system but also to provide an adequate basis for the development of the quality control system to be used in the welfare reform program. (See p. 43.)

#### RECOMMENDATIONS OR SUGGESTIONS

HEW should:

- Ensure, through appropriate efforts, that top State officials are aware of the benefits to be derived from an effective quality control system.

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- Increase headquarters and regional office quality control staffs to a level at which they can effectively assist and monitor State quality control operations.
- Define, for the guidance of State and local quality control reviewers, necessary steps to be considered as requirements in determining recipients' resources, incomes, and other eligibility factors so that quality control investigations can provide conclusive findings. (See p. 46.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

HEW has stated that:

- Its regional commissioners are taking vigorous action to ensure that States which do not have fully operational quality control systems comply with Federal regulations.
- Training seminars are being conducted for its regional staff so that they can provide assistance to States for realizing fuller use of quality control as a management tool.
- As of March 1972 all but one of the 55 authorized quality control staff members had been hired, and a request has been submitted to the Congress for additional staff members.
- It is developing additional guidelines for issuance to State agencies so that quality control investigations can provide conclusive findings.

The actions taken or planned by HEW should strengthen the quality control system and should make it more effective. (See p. 47.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report provides the Congress with timely information for its consideration of welfare legislation and also provides the appropriations committees with information for their consideration of HEW's request for additional quality control staff members. It contains no recommendations requiring legislative action.

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## CHAPTER 1

### INTRODUCTION

A source of increasing national concern has been the portion of the national resources that is being used in meeting welfare costs. Federal and State costs for welfare more than tripled--from \$2.8 billion in fiscal year 1960 to \$8.7 billion in fiscal year 1971.

In 1962 the U.S. Senate expressed concern about the eligibility of recipients under the aid to families with dependent children (AFDC) program and called for a nationwide investigation of eligibility.<sup>1</sup> The Department of Health, Education, and Welfare investigation of that program during 1963 showed that, in some States, high rates of ineligibility existed. HEW and State welfare officials agreed that vigorous action was needed to prevent the continuation of high rates of ineligibility.

In response to this need, in 1964 HEW developed a quality control system and required all States to implement the system as a means of discharging their and HEW's responsibilities for ensuring that

--public assistance funds were provided only to eligible persons and were the proper amounts and

--the public assistance programs were fairly and efficiently administered.

### WHAT IS QUALITY CONTROL?

HEW's quality control system is an adaptation of a technique used widely in industry for evaluating, at a reasonable cost, the quality of products or services. By analyzing sampled units, inferences are drawn as to whether established standards are being met.

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<sup>1</sup>The public assistance programs authorized by the Social Security Act usually are grouped into two categories--AFDC and the adult programs for the aged, blind, and disabled.

HEW's quality control system was designed to enable it and the States to identify problems in administering the public assistance programs and to take prompt corrective action. The system provides for (1) measuring periodically, through the use of statistically reliable samples, the extent of recipient ineligibility and incorrect payments and (2) furnishing management with information to help keep rates of ineligibility and incorrect payments within tolerable limits.

In 1968 HEW began a comprehensive reassessment of its quality control system because of its planned changes to simplify the method of determining eligibility for public assistance. HEW officials advised us that, between 1964 and 1968, the States did not take effective corrective actions to reduce the high rates of payment error, even though such errors had been reported by the States to HEW.

In February 1970 officials of HEW and the States met and discussed the basic design of a revised quality control system. In deciding when to implement the revised system, HEW was confronted with two alternatives.

- Nationwide implementation on a specific date, regardless of whether all States had the capabilities to effectively operate the revised system.
- Piecemeal implementation; that is, the States would implement the revised system as their capabilities developed to the point of readiness.

Because of the pressing need to achieve control over welfare expenditures, HEW elected to require nationwide implementation of the system on October 1, 1970. In July 1970 HEW sent guidelines to the States explaining how to operate the revised Federal quality control system.

#### HOW IS THE PRESENT QUALITY CONTROL SYSTEM SUPPOSED TO OPERATE?

Under the Federal quality control system, samples of cases are to be selected randomly by the States from the total number of cases receiving assistance (caseload) under each of their public assistance programs. The size of each

sample is predetermined by HEW so that it will be statistically representative of the total caseload from which it has been selected. Therefore findings on the sample cases can be projected to the entire caseload with statistical reliability.

Each selected case is to be investigated by State or local quality control staff to verify eligibility and payment factors--such as number of children, ages of recipients, and earnings and resources of the recipients. This investigation is to include an analysis of the case records and a full field investigation.<sup>1</sup> On the basis of this investigation, a determination of eligibility and correctness of payment is to be made.

HEW has established maximum acceptable error levels--commonly called tolerance levels--of 3 percent for ineligibility and 5 percent for overpayments or underpayments (excluding the first \$5). If error rates found through the quality control reviews of sample cases exceed these tolerance levels, the States are required to take appropriate corrective actions to reduce the caseload error rates to acceptable levels. For example, if a State's investigations show that 7 percent of its AFDC caseload is ineligible, corrective actions must be instituted for the total caseload. If the ineligibility rate is found to be only 2 percent, corrective actions are required only on the specific cases determined to be ineligible.

#### INCREASED IMPORTANCE OF QUALITY CONTROL

An effective quality control system is especially critical because of changes in the methods of determining initial eligibility of applicants for public assistance and because of the increasing public assistance caseloads and expenditures.

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<sup>1</sup> Full field investigations entail independent verification and documentation of all elements affecting eligibility and payment through interviews with applicants and collateral sources, home visits, and examinations of pertinent documents.

## Eligibility determination methods

Two methods of determining eligibility--generally called the traditional method and the simplified method--are used. The primary difference between the methods is the means used to establish eligibility. Under the traditional method emphasis is placed on the verification of an applicant's statements regarding the eligibility and payment factors through home visits and checks with collateral sources before granting assistance. Under the simplified method, however, assistance is granted on the basis of an applicant's statement regarding eligibility and payment factors and verification of the statement is made only when there appears to be reason for doubting its correctness.

HEW required all States to begin using the simplified method for the adult public assistance programs on July 1, 1970, and to complete its implementation by July 1, 1971. States were permitted to use either method for the AFDC program. As of January 1972, 27 States were using the simplified method statewide for the AFDC program.

When the simplified method is used, quality control investigations into recipients' eligibility for assistance are particularly important because of the absence of such investigations at the time of granting assistance. Under the traditional method such investigations are made at the time of application. HEW required quarterly quality control samples of cases determined to be eligible under the simplified method and annual samples of cases determined to be eligible under the traditional method.

## Increasing caseloads and expenditures

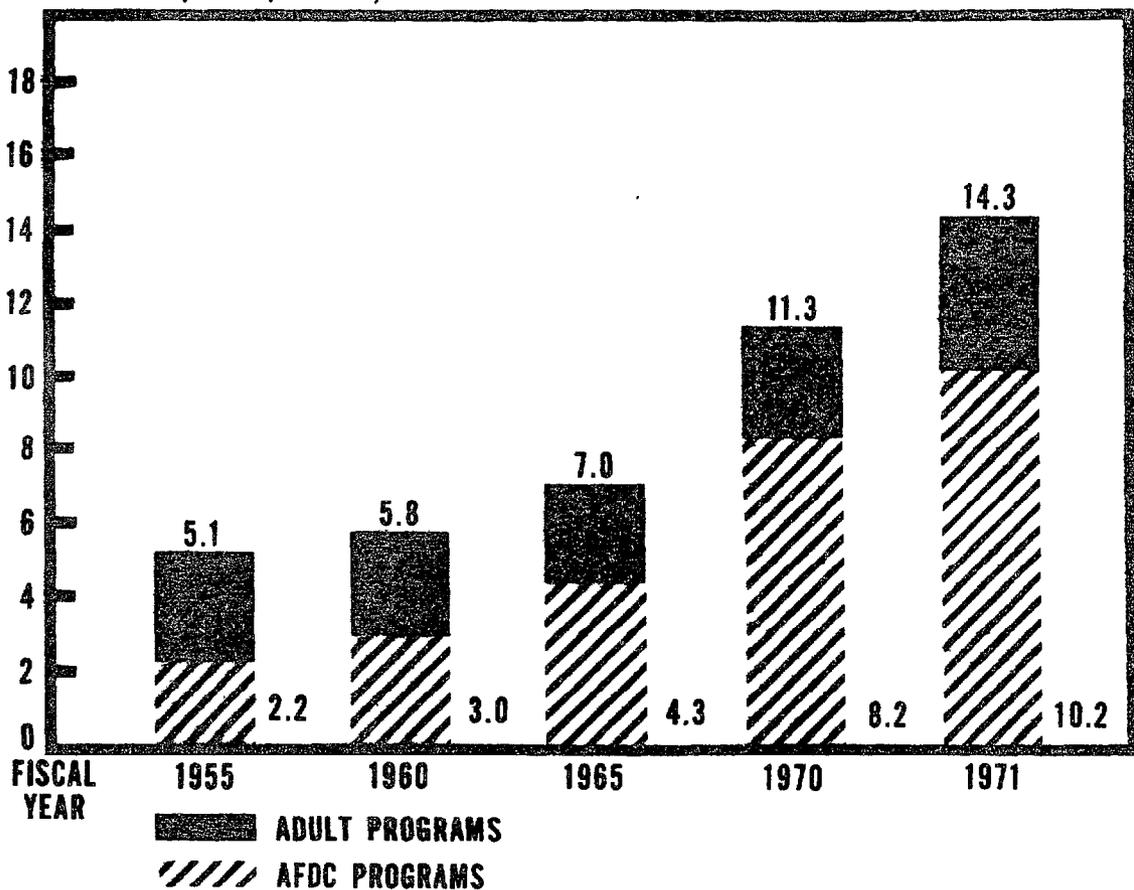
Quality control also takes on added significance as public assistance caseloads and expenditures increase.

The United States today has more people receiving public assistance than it did during the Great Depression of the 1930's. The most rapid increase in the number of recipients occurred during the latter half of the 1960's.

During the 1960's the rate of increase in the number of public assistance recipients was far greater than the

rate of increase in population. According to the Census Bureau, the U.S. population increased about 12 percent during this period. During the same 10 years, public assistance rolls increased about 95 percent. The following chart shows the increase in recipients under the federally supported public assistance programs from fiscal years 1955 through 1971.

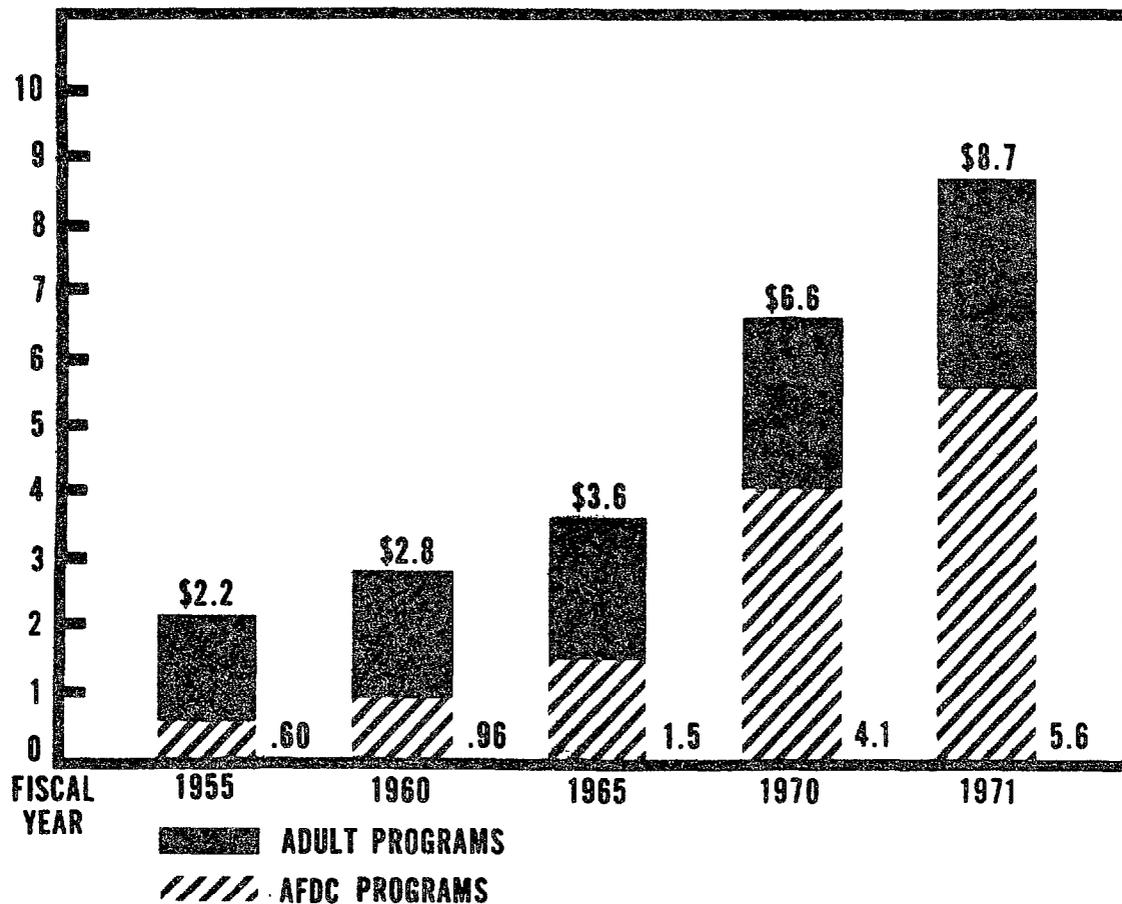
Number of recipients (millions)



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Between fiscal years 1960 and 1965, Federal and State payments under public assistance programs increased at an average annual rate of 5.1 percent; between fiscal years 1966 and 1971 these payments increased at an average annual rate of 18 percent. The following chart shows the increase in total expenditures from fiscal years 1955 through 1971.

(Billions of dollars)



SCOPE OF REVIEW

GAO's review was made in eight States--California, Colorado, Louisiana, Maryland, Michigan, New York, Ohio, and Texas--which spent about 50 percent of Federal welfare funds in fiscal year 1971. Because of quality control's importance to the integrity of the welfare programs, GAO assessed its effectiveness in its early stages of operation

to permit quick administrative reaction when warranted and to assist the Congress in considering legislative proposals relating to changes in the welfare program.

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## CHAPTER 2

### STATE IMPLEMENTATION OF QUALITY CONTROL

HEW required the States to have the present Federal quality control system fully operational by October 1, 1970. The eight States included in our review had basic problems in meeting this requirement and therefore had not fully implemented the quality control system as of July 1971, the completion date of our fieldwork. As a result, the quality control system was not operating as intended and the desired control over the \$2.4 billion of Federal funds spent in the eight States for public assistance payments in fiscal year 1971 was not achieved. The \$2.4 billion represents almost 50 percent of all Federal expenditures for public assistance in fiscal year 1971.

Of the eight States included in our review, six had implemented the Federal system statewide in varying degrees. Three general problems--a lack of staff, an inability to complete investigations of the required number of sample cases, and inadequate verifications of eligibility and payment factors of those cases reviewed--prevented the States from fully discharging their responsibilities for controlling eligibility and payments.

California and New York had not implemented the Federal quality control system statewide as of July 1971 but had used their own systems which did not accomplish the objectives of the Federal system. In July 1971 California began to select samples and to review cases in accordance with HEW requirements. The Federal system was operating to some degree in New York City after October 1970 but was not implemented statewide in New York until a year later.

#### STAFFING PROBLEMS

In recognition of the importance of staffing for quality control, HEW specified that the States' quality control staffs must be sufficient in number to keep the case review process current and must be of such quality to ensure valid case review findings. Furthermore HEW guidelines for use by the States in determining the quantity and quality of

staff mainly provided that the staff have prior experience in welfare eligibility work.

The six States in which the Federal system had been implemented in varying degrees encountered difficulties in obtaining the needed quantity and quality of staff. At the time of our review, these States generally did not have sufficient numbers of staff to fully implement the quality control system. Most of the six States since have made progress in obtaining additional staff members. Staffing situations in three States--which indicate the varying scope of the problem--are discussed below.

### Colorado

Colorado experienced only minor staffing problems. Prior to October 1, 1970--the required date for implementation of the Federal quality control system--Colorado had five quality control staff members. Using HEW's staffing guidelines Colorado projected that 20 additional quality control reviewers would be needed to meet the case review requirements for the quarter October to December 1970. Colorado hired the first group of reviewers on October 19 and had hired the required 20 additional staff members by November 1. Colorado encountered only about a month's delay in obtaining the required number of reviewers.

Colorado estimated that, on the basis of the volume of the cases to be investigated after July 1, 1971, no additional staff members would be needed.

### Louisiana

Because of severe staffing problems, Louisiana was unable to implement the Federal quality control system until January 1971. On October 1, 1970, Louisiana's quality control unit comprised 10 staff members (nine reviewers and one supervisor). Louisiana quality control officials had estimated that, under the revised system, about 90 additional positions would be needed to meet the required work load during the quarter October to December 1970. At April 30, 1971, Louisiana had authorized 12 quality control reviewer positions. Only nine quality control reviewer positions were filled, however, because the State legislature had

limited the manpower level for such personnel to 80 percent of the authorized positions.

The Department of Public Welfare requested 73 additional quality control reviewers in its fiscal year 1972 budget. The State legislature, however, did not approve an increase in the size of the quality control staff. Therefore the lack of staff will be a continuing problem in quality control operations in Louisiana.

Maryland

The staffing problems noted in Maryland were typical of those experienced in the other States visited by us. Using the HEW guidelines Maryland estimated its quality control staffing needs at October 1, 1970, to be 71 reviewers and 14 supervisors. Maryland officials informed us that these estimates were lower than the State's actual needs, because an unexpected caseload increase had developed. On October 1, 1970, Maryland had only 25 quality control reviewers and supervisors instead of the 85 estimated to be needed. Commenting on this staff inadequacy, a Maryland welfare official advised us that, by the time staffing requirements became known, it was too late to petition the State legislature for an appropriation for the additional staff members. At April 30, 1971, the State had 53 reviewers and supervisors.

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The following table summarizes required and actual staffing in the six States. As of April 30, 1971--7 months after the Federal system was to be implemented--only Colorado and Michigan had met their staffing needs.

<u>State</u>	<u>Staffing requirements</u>	<u>Positions filled at</u>		
		<u>Oct. 1, 1970</u>	<u>Jan. 31, 1971</u>	<u>Apr. 30, 1971</u>
Colorado	25	5	25	25
Louisiana	99	10	10	10
Maryland	85	25	55	53
Michigan	38	9	37	39
Ohio	112	53	68	70
Texas	62	10	28	28

Effective July 1, 1971, HEW changed the quality control sampling requirements from quarterly sampling of cases determined to be eligible under the simplified method and annual sampling of cases determined to be eligible under the traditional method to semiannual sampling of cases under both methods. The primary reason for this change, according to HEW, was that HEW needed more frequent reports on eligibility of AFDC cases determined to be eligible under the traditional method. This change, however, provided for less frequent reporting on cases determined to be eligible under the simplified method. The effect of this change on State quality control work loads and their staffing requirements will vary depending on the eligibility method being used.

In Colorado and Maryland, for example, the work loads will be reduced because the States use the simplified eligibility method for both the AFDC and the adult programs. In such States as Texas, however, the work load will be increased because the simplified eligibility method is used for a relatively small percentage of applicants for public assistance.

The States' inadequate staffing contributed to their inability to complete investigations of the required number of sample cases and to report their findings to HEW on a timely basis, as discussed in later sections of this chapter.

## REQUIRED NUMBER OF REVIEWS NOT MADE

To help ensure that quality control review findings are statistically reliable and to ensure that comparable statistical results are obtained from the States, HEW specified the number of cases to be reviewed in each State because of the varying caseload sizes. None of the States, however, completed the required number of reviews for the quarter October to December 1970 although Colorado and Ohio did come close. (See table on p. 17.)

Therefore the results of reviews which were completed, except reviews in those two States, could not be used to make reliable statistical projections. With regard to their total caseloads--these States (1) could not estimate the number of cases in which the recipients were ineligible for assistance or the number in which payments were incorrect and (2) did not have a sound basis for determining whether any action was needed to strengthen their eligibility determinations.

States were required to complete reviews for the quarter October to December 1970 by February 1971. Because of problems experienced by the States in meeting this deadline, HEW, on January 27, 1971, allowed the States to eliminate from their samples those cases on which no review work had been started. This action invalidated the statistical reliability of the samples because the complete randomness of the sample selection was not ensured.

Even with this cutback, the States included in our review did not complete the required number of reviews, even though some of the States continued to review cases beyond the reporting deadline of March 1, 1971. For example, Maryland's reviews of AFDC cases for the quarter October to December 1970 continued into April 1971. In July 1971 the State reported the results of its reviews of 496 of the required 1,200 cases. Continuing these reviews necessarily delayed the reviews of cases for subsequent quarters. (See p. 27.)

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The extent to which the required number of reviews of AFDC and adult cases were completed for the first quarter (October to December 1970) is shown in the following table.

State (note a)	Reviews		Percent completed
	Required by HEW	Completed	
Colorado:			
Adult	550	510	93
AFDC	550	466	85
Maryland:			
Adult	300	141	47
AFDC	1,200	496	41
Michigan:			
Adult	850	160	19
AFDC	1,200	294	25
Ohio:			
Adult	300	289	96
AFDC	1,200	958	80
Texas:			
Adult	300	62	21
AFDC	300	38	13

<sup>a</sup>California, New York, and Louisiana did not select samples or complete reviews in accordance with HEW requirements for this quarter.

Data was not available on the final number of reviews completed by each State for the second quarter (January to March 1971) because most States were still reviewing those cases when we completed our fieldwork in July 1971. Even though the States had hired more staff members, only Michigan came close to meeting the reporting deadline of June 1, 1971, for the second quarter (January to March 1971).

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Ineligibility and incorrect payment rates

Because most States had not made the required number of reviews for the quarter October to December 1970, the results obtained could not be used by HEW and these States to determine whether HEW tolerance levels had been exceeded for the entire caseload.

Nevertheless the generally high rates of ineligibility and incorrect payments for the cases which were reviewed, as shown below, point up the importance of completing reviews of all sample cases so that reliable projections can be made, problem areas can be identified, and corrective actions can be taken, if needed. In some instances the error rates were sufficiently high--in view of the number of cases reviewed--for some States to have initiated corrective actions.

State (note a)	Ineligibility		Incorrect payments				
	Number	Percent of cases reviewed (note b)	Number		Percent of cases reviewed (note b)		
			Over	Under	Over	Under	
Colorado:							
Adult	19	4	31	11	6	2	
AFDC	9	2	89	40	19	8	
Maryland:							
Adult	12	9	23	37	16	26	
AFDC	51	10	110	53	22	11	
Michigan:							
Adult	5	3	11	-	7	-	
AFDC	4	1	18	3	6	1	
Ohio:							
Adult	18	6	61	40	21	14	
AFDC	90	9	367	116	38	12	
Texas:							
Adult	3	5	7	5	11	8	
AFDC	8	21	5	1	13	3	

<sup>a</sup> California, New York, and Louisiana did not select samples or complete reviews in accordance with HEW requirements for this quarter.

<sup>b</sup> Number of reviews completed is shown in table on page 17.

As discussed below, ineligibility and incorrect payment rates shown in the preceding table might have been higher if the quality control reviewers had adequately verified key eligibility and payment factors.

#### INADEQUATE VERIFICATION OF ELIGIBILITY DATA

HEW's guidelines for quality control reviews of sample cases require that a full field investigation be made of each sample case. This investigation--which entails independent verification and documentation of all eligibility and payment factors--is to be pursued to the point at which decisions on eligibility and the amount of payment are conclusive, that is, the point at which they are supported by collateral sources. If the verification is not complete, decisions made are tenuous.

Because the results of the quality control reviews of sample cases are used as the basis for statistical projections and because many of the recipients have been found to be eligible under the simplified method (that is, no prior investigation has been made), it is most important that the verification of eligibility and payment rates for the sample cases be reliable. If these decisions are not reliable, valid statistical projections cannot be made.

To test the adequacy of verifications made during quality control reviews, we selected a random sample of cases in each State from those for which reviews had been completed for the quarter October to December 1970. We examined into the cases to determine the extent to which factors affecting eligibility and the amount of payments had been verified. We placed particular emphasis on verifying recipients' savings and earnings.

We considered the quality control reviews to be inadequate when the case records did not contain evidence that the verifications supported definite conclusions that the amounts of savings and earnings reported by the recipients were accurate. On the basis of this criteria, we considered that the reviews were inadequate in about 90 percent of the cases in our sample. We found that, for the most part, when recipients made statements that they had no savings or

earnings--called negative responses--their reaffirmation of this in interviews was accepted by the reviewers without verification. These responses constituted merely reaffirmations of the recipients' original statements at the time they had applied for assistance. If the quality control reviewers had independently verified the eligibility factors, they could have had better assurance that the information that they had used to make the decisions regarding eligibility and amounts of payment was valid. This does not mean that the recipients were ineligible but only that an independent verification of factors affecting eligibility and amounts of payment was not accomplished.

A summary of our findings is shown in the following table.

State	Size of universe (note a)	GAO sample		
		Number	Verification inadequate	
			Number	Percent
Colorado:				
Adult	549	30	25	83
AFDC	548	30	28	93
Louisiana:				
Adult	33	19	19	100
AFDC	55	50	47	94
Maryland:				
Adult	125	31	31	100
AFDC	326	31	29	94
Michigan:				
Adult	159	159	158	99
AFDC	81	79	56	71
Ohio:				
Adult	304	63	53	84
AFDC	1,080	60	55	92
Texas:				
Adult	69	62	56	90
AFDC	42	38	33	87

<sup>a</sup>The universe is the number of quality control reviews for the quarter October to December 1970 that were completed by each State (except Louisiana) at the time our sample was selected. For Louisiana the universe is the number of reviews completed for the January 1971 sample because the system had not been implemented for the quarter October to December 1970.

State quality control officials generally agreed with our opinion that the quality control verifications were not adequate.

Inadequate verification is indicated further by the results of our detailed analysis of quality control reviews completed in Michigan for the quarter ended December 31, 1970, for all adult and AFDC cases administered by counties which were using the simplified method of determining eligibility. For these cases we evaluated the adequacy of verifications for eight eligibility factors (of which two were savings and earnings) under resources and income. In the quality control reviews of each of these cases, a negative response for at least one factor was accepted by the reviewer without verification. In some cases negative responses were accepted for all factors. The results of our analysis are shown in the following table.

<u>Eligibility factor</u>	<u>AFDC cases</u>		<u>Adult cases</u>	
	<u>Number of negative responses accepted</u>	<u>Percent of reviews</u>	<u>Number of negative responses accepted</u>	<u>Percent of reviews</u>
<b>Resources:</b>				
Real estate	46	58	123	77
Life insurance	49	62	127	80
Medical insurance	45	57	98	62
Savings, etc.	42	53	109	69
Disposal of property	74	94	155	97
<b>Income:</b>				
Earnings	38	48	152	96
Pensions and benefits	56	71	64	40
Other income	63	80	152	96

As shown by the above table, the acceptance of negative responses was not limited only to savings and earnings but was applied to all resource and income eligibility factors.

We discussed the acceptance of negative responses with HEW headquarters officials in January 1971. They stated that a reaffirmation by a recipient that he had no income or resources did not constitute adequate verification and was not acceptable. In February 1971 HEW provided, in a letter to its regional offices, additional guidance concerning the types of verification required of negative responses. Subsequent to the issuance of this letter, several State quality control officials informed us that they either were unaware of the HEW letter or had not changed their review procedures because the letter did not specifically define what additional work should be done.

The problem of inadequate verifications is not limited to negative responses. When recipients declare savings or earnings, verifications usually are obtained only for the amounts of savings or earnings that recipients declare. In most cases quality control reviewers do not attempt to independently determine whether additional resources or incomes exist.

Because of the inadequate verifications of eligibility and payment factors, the results obtained from the quality control reviews, which were considered by the States to be complete, are questionable. State quality control officials agreed that additional investigations to determine whether recipients had resources and/or incomes in addition to what they reported would be helpful in making decisions regarding eligibility and correctness of payments.

#### Use of additional sources for verification

We discussed with State quality control officials the feasibility of using sources of information other than those usually contacted by quality control reviewers to obtain independent verifications of eligibility and payment factors. In addition, we contacted some other sources to determine what types of information could be supplied. In most of the States included in our review, the State departments of motor vehicles and employment security would be willing to provide information to quality control reviewers that could be useful in verifying eligibility and payment factors. In addition, local credit bureaus could provide some information on earnings and employers that would be useful.

The type of information that most State income tax officials would provide to quality control reviewers usually was limited because of their interpretation of State laws. In California a newly enacted law allows welfare officials access to income tax records. In other States executive department or legislative actions would be necessary to provide State welfare departments with State income tax information.

In addition to determining the feasibility of using these sources, we made some limited tests to determine whether data could be obtained from additional sources that would be useful in determining applicants' incomes and resources. We randomly selected 50 AFDC cases each in Colorado, Maryland, and Cuyahoga County from cases in which recipients had been determined to be eligible by quality control reviewers and submitted requests for information relating to those factors affecting eligibility and amounts of payment to the States' departments of motor vehicles and employment security and to credit bureaus.

Information received in response to these requests indicated that, if quality control reviewers had contacted such sources to obtain information relative to applicants' eligibility for assistance, the reviewers could have had more assurance that their eligibility and payment decisions were accurate. Details on our tests follow.

--In Maryland additional data obtained from local credit bureaus and the State employment security office indicated that eight of the 50 AFDC recipients had incomes and resources that indicated that they might have been ineligible for public assistance or that their payments might have been excessive. Quality control reviewers had accepted the eight recipients' negative responses for most resources and income factors without independent verifications. After reviewing these cases Maryland quality control officials stated that, from the information we presented, the recipients might have been ineligible or might have received overpayments.

--In Ohio additional data obtained from local credit bureaus and the State Bureau of Employment Services

showed that nine of the 50 recipients had incomes and resources which, if known to quality control reviewers, might have resulted in determinations of ineligibility or in reductions in benefits. Although the information obtained was not conclusive, the director of the Ohio quality control system agreed that such data could be used as leads for further inquiries by reviewers to determine whether, in fact, ineligibility or incorrect payments existed.

--In Colorado the data obtained from additional sources provided no indications of ineligibility or incorrect payments for the cases sampled. Rather, the additional information substantiated information recorded in the case records by quality control reviewers.

In our opinion, it was equally important that inquiries of these additional sources of information--even when no new information was developed--provided more assurance that the decisions about eligibility and correctness of payments made by quality control reviewers were valid.

Quality control officials from all three States agreed that information from additional sources would provide leads for use by the reviewers in their investigations and would provide a good basis for verifying recipients' statements regarding their eligibility for assistance.

We believe that, in those cases where quality control reviewers believe that there is not sufficient evidence to support conclusive findings, use of such collateral sources provides an opportunity to obtain needed evidence. We believe that use of collateral sources, such as credit bureaus, is not necessary in all cases.

Further HEW actions to  
strengthen verification

To strengthen earnings verifications, HEW, in April 1971, required all States having employment security offices to begin cross-checking the reported earnings in AFDC quality control sample cases with earnings records in these offices.

In November 1971 HEW officials advised us that this checking process was providing useful information. They noted that

- more than half the States had the cross-checking system in operation and
- the cross-checks had produced information not previously known to welfare agencies in many of those States.

HEW clarified the types of verification to be obtained during field investigations by issuing additional guidelines to the States in June 1971 that supplemented the initial guidelines issued a year earlier.

The guidelines--which became effective for sample cases selected after July 1, 1971--provided that a recipient's negative response regarding his resources or income not relieve a quality control reviewer of the responsibility for further investigation. For example, regarding earnings, the guidelines provided that:

"A denial of earnings by the client who is obviously employable will, as a rule, require further investigation. Exploration of past employment history, including types of work and former employees, current attempts to find work, and registration with the Employment Security Office may provide leads. Asking the client for a method of verifying his not working status may produce further leads.

"Additional situations which the reviewer would investigate are: indication that the client is not at home during regular working hours and leaves the same time every day; difficulty in finding the client at home; seasonal employment in the area where the client lives is at its peak; client's shelter cost is higher than his assistance payment; client has a high standard of living."

## EXTENT OF CORRECTIVE ACTIONS

Quality control can contribute to keeping rates of ineligibility and incorrect payments within HEW's tolerance levels. To accomplish this the States must assemble and analyze the results obtained from their reviews of statistically reliable sample cases and, when tolerance levels are exceeded, must take corrective actions to bring the error rate within the acceptable limits. Therefore the key to the success of the quality control system is the effectiveness of the corrective actions taken when tolerance levels are exceeded.

Generally those States which made reviews for the first quarter--Colorado, Maryland, Michigan, Ohio, and Texas--had high rates of ineligibility or incorrect payments for those cases reviewed (see p. 18). The five States, however, had not analyzed the cases to determine the types of errors causing the high rates and the actions necessary to prevent future recurrence of such errors. Officials in these States stated that required analyses had not been made because the completed reviews did not constitute a valid statistical sample and that, therefore, there was no assurance that the tolerance levels had been exceeded. We believe, however, that in some cases there was a statistically sound basis for determining whether corrective actions were needed.

Subsequent to the completion of our fieldwork several of these States began taking corrective actions on the basis of quality control results. Although the results of the corrective actions are not yet available, the fact that such actions have begun is encouraging.

Colorado has determined that many instances of ineligibility or incorrect payment have been caused by eligibility workers' misinterpreting welfare rules or regulations because they were ambiguous. The State is taking steps to clarify the rules.

Maryland determined that a significant number of recipients were not reporting their total income, which resulted in overpayments. To correct the problem, the State now requires all recipients to have social security numbers which are cross-checked against wage files of the State Employment Security Agency.

Michigan determined that most errors had occurred in the local welfare agencies and increased its State quality control monitoring staff to detect the causes of the errors and to identify those who are making the errors. The State is also going to select those cases from the quality control sample which appear to have the greatest probability of misrepresentation and conduct intensive investigations of those cases.

Untimely reports

The quality control system calls for HEW to analyze States' reports on the results of their reviews to ensure that timely corrective actions are being taken when necessary. None of the States included in our review, however, completed their reviews of the required number of cases for the first quarter or submitted their reports as required. Reports for subsequent quarters also have been delayed, as shown in the following table.

Quarter ended	Date reports received (note a)		
	12-31-70	3-31-71	6-30-71
Report due	3- 1-71	6- 1-71	9- 1-71
Colorado	9-24-71	-	-
Louisiana	-	8-19-71	-
Maryland	7- 6-71	9-24-71	-
Michigan	3- 3-71	6-10-71	9- 5-71
Ohio	5-20-71	8- 6-71	-
Texas	-	-	-

<sup>a</sup>Source: HEW headquarters records as of October 21, 1971.

Because most of the reports have not been submitted on a timely basis, HEW has been hampered in its efforts to effectively assist States in the early resolution of problems associated with ineligibility and incorrect payments.

The change in the quality control sampling (see p. 15) from annual to semiannual sampling of cases for which eligibility determinations have been made under the traditional method will require that more cases be reviewed but should result in more timely information concerning the adequacy of eligibility determinations. The change from quarterly

sampling to semiannual sampling of cases for which eligibility determinations have been made under the simplified method will permit fewer cases to be reviewed and will result in less timely information regarding the adequacy of determinations.

At the time of our review, data was not available to assess the impact of the change in sampling requirements on States' staffing problems, work-load requirements, and submission of timely and complete reports.

#### STATES WHICH CONTINUED TO USE THEIR OWN QUALITY CONTROL SYSTEMS

Of the eight States included in our review, California and New York had not implemented the Federal quality control system statewide as of July 1971. Rather, they used their own quality control systems which were not designed to meet the objective of the Federal system. Because these States spent almost \$3 billion on welfare in fiscal year 1971--or one third of the total Federal and State expenditures for welfare during that year--their operations had a significant impact on the overall effectiveness of the quality control system. The circumstances surrounding the problems encountered by the two States in complying with Federal quality control requirements are discussed below.

#### New York

In New York the Federal quality control system was implemented only in New York City--one of the State's 64 districts--at the time of our fieldwork. The city's share of the State's welfare cost is about 75 percent. The State's position was that Federal quality control should not be implemented statewide until eligibility and service functions were separated in all district offices. The quality control system was being implemented, under this approach, on a district-by-district basis, which was contrary to the HEW requirement that quality control be implemented on a statewide basis.

HEW officials advised us that, in their opinion, the State took this approach because of its intention to revise its administration of all aspects of its welfare programs

and that the State did not want to change the quality control system until the other changes--separation of eligibility and service functions and introduction of the simplified method of determining eligibility--were made. The officials informed us that, other than holding the State out of compliance with Federal quality control regulations--which involved formal hearings and a possible cutoff of Federal funds--they were powerless to compel State adherence to such regulations.

#### State's initial concept of quality control

New York viewed its quality control system as a means of verifying decisions by caseworkers at the time of applications, not as a management tool that could be used to identify problems and to provide a basis for corrective actions applicable to the entire caseload. Under the State's concept samples for the quarter October to December 1970 were not selected randomly from the entire caseload of persons receiving assistance--contrary to HEW requirements--but were selected only from cases for which eligibility decisions had been made during the quarter. This concept allowed the State to determine ineligibility and incorrect payment rates for only those persons who came on the rolls at a specific time but did not provide a basis for determining statewide ineligibility and incorrect payment rates for all public assistance recipients, contrary to the requirements of the Federal quality control system. Thus the State could not obtain sufficient statewide data to determine what general problems might be resulting in ineligibility and incorrect payments or what changes were needed in its policies or procedures.

HEW headquarters officials advised us that the type of sample New York wanted to take could be a useful augmentation to, but not a substitute for, the statewide sample required by the Federal system. The first requisite, according to these officials, was the need to determine statewide rates of ineligibility and incorrect payments.

Partial implementation of HEW's  
quality control system

Although New York City had implemented the Federal quality control system, the city had problems in its quality control review of selected cases for the quarter October to December 1970. These problems related to inadequate staff and inadequate reviews and were similar to those experienced by the States and discussed earlier. The city had an insufficient number of reviewers, completed only 634 of the 2,400 required reviews, and was late in reporting the results of these reviews to HEW. In addition, our tests of the completed reviews showed that, for the majority of the reviews, verification of eligibility and payment factors had not been adequate.

HEW's attempts to obtain compliance  
with the Federal system

In a November 1970 meeting, HEW requested an explanation of the State's position on implementation of the Federal quality control system. In response a State official said that the Federal system would be implemented in each district only after the eligibility and service functions had been separated. He also advised HEW that the State's limited staff was working in the districts to prepare for separation of the eligibility and service functions.

HEW subsequently advised New York that the State's plan to implement the Federal system on a district-by-district basis would inhibit the State's ability to meet Federal requirements, because all districts would not be included under quality control until separation was completed. In December 1970 and in March 1971, HEW advised the State that, unless the problems were resolved, HEW might institute compliance proceedings. Compliance proceedings involve a formal hearing regarding the State's reason for not complying with Federal requirements and a possible cut-off of Federal funds.

In April 1971 the State advised HEW that the State's sampling procedures had been revised to include two separate samples of cases--a statewide sample to meet HEW requirements and a local sample under the State's concept of quality

control. HEW questioned whether the State would be able to commit sufficient staff to complete the large number of reviews required by two samples and to meet reporting deadlines under the Federal system.

As of October 1971 the State had separated eligibility and service functions in almost all districts and was implementing the Federal quality control system in its various districts. HEW officials advised us that, although there still were problems with New York's system, they believed that the State was making an effort to solve the problems to meet the objectives of the Federal quality control system. They noted, however, that, as of February 1972, the State still had not submitted an approvable State plan for full operation of quality control.

### California

California did not begin to implement the Federal quality control system until July 1971. Previously the State had used its own quality control system which differed in many respects from the Federal system and which did not meet the Federal objectives of providing statewide information on ineligibility and correctness of payments.

#### Actions concerning implementation of the Federal system

A State quality control official informed us that, prior to October 1, 1970, the State had not taken the necessary action to provide the staffing and support to implement the Federal quality control system. We were told that the reason for the lack of State action was that the State had other funding and compliance problems with the public assistance programs and therefore did not devote sufficient attention to the matter of compliance with the Federal quality control requirements. HEW--after being informed by State officials in July, August, and September 1970 that the State was not moving toward implementation of the quality control system--met with State officials in September.

As a result of that meeting, the Director of the State Department of Social Welfare committed California to compliance as of October 1, 1970, with the requirements for

the adult programs but stated that the State did not have enough staff to comply with the requirements for the AFDC program. The commitment concerning the adult programs was not met.

In addition, a January 1971 report by the California State Department of Finance criticized the State's quality control system for not providing program managers with an effective means of developing and implementing corrective actions necessary to reduce high error rates.<sup>1</sup> The report (1) stated that overpayments of \$51 million a year were being made due to ineffective quality control operations and (2) made recommendations for improvement. State quality control officials acknowledged the existence of the problem but stated that it was primarily a result of insufficient staff.

Not until after the Department of Finance's report was issued was definite action taken to implement the Federal system. A task force was appointed to devise a system which would be responsive to the recommendations contained in the report and which would meet the Federal quality control requirements.

By letter dated March 24, 1971, HEW requested that the State report on its plans for implementing the Federal quality control system. The State's response in April 1971, however, did not contain specific data concerning the implementation date, sampling plan, staffing plans, or plans for analysis of and action on quality control results.

HEW officials informed us that California had submitted a plan in June 1971 that contained details concerning implementation of the system and had advised HEW that the State would begin selecting a sample to determine statewide ineligibility and incorrect payment rates as of July 1971. State officials subsequently advised us that they began complying with Federal quality control regulations in July 1971. As of February 1972, however, HEW had not approved the State

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<sup>1</sup>This review was requested by the new director of the Department of Social Welfare.

plan for implementing the Federal system because of certain technical problems. Nevertheless HEW officials advised us that California was moving toward complete implementation of the Federal system.

## CHAPTER 3

### PROBLEMS IN HEW'S ADMINISTRATION OF QUALITY CONTROL

Although the States have operational responsibility for the Federal quality control system, HEW is responsible for ensuring effective nationwide implementation and operation of the system. HEW, in efforts to fulfill its responsibilities, recognized that States were having problems in implementing quality control. Because HEW had major problems which could not be readily overcome, however, the system was not implemented effectively at the time and in the manner planned.

HEW's problems involved limited staff assisting the States in implementing the system and monitoring the States' operation and limited training of HEW regional and State employees. Consequently, without effective nationwide implementation, the major objective of the system--ensuring the integrity of public assistance programs--was not attained.

### HEW'S RESPONSIBILITIES UNDER QUALITY CONTROL

After HEW completed the initial design of the revised quality control system and furnished the States with material necessary for the system's implementation, HEW's responsibilities were to (1) assist States in achieving timely implementation, (2) monitor States' operations, and (3) take corrective actions, if necessary, to ensure effective implementation and operation of the system.

HEW headquarters staff was responsible for providing guidance and training to regional staff on the quality control operation. Regional staff, in turn, was responsible for

--training key State agency employees in the essentials of quality control and

--assisting the States in implementing the system.

After the States have implemented quality control, HEW is responsible for monitoring the States' operations to ensure adherence to HEW guidelines. Monitoring involves assessment of all phases of quality control, including

- sample design and related statistical techniques and controls,
- eligibility determinations in quality control sample cases,
- remedial actions by States when tolerance levels are exceeded,
- the reporting system, and
- staffing and supervision of quality control processes.

Monitoring is to be accomplished by a combination of observations, reviews of documents, and reviews of specifically selected subsamples of cases for which quality control reviews have been completed.

HEW regional offices have the primary responsibility for monitoring the State quality control systems, keeping abreast of their day-to-day operations, resolving problems which arise, and making assessments of whether the systems are operating effectively. The regional offices also are responsible for investigating completed quality control reviews to determine whether State employees are making adequate reviews and for providing HEW with information necessary to determine whether States are complying with Federal quality control regulations.

Additional monitoring is done by HEW headquarters staff. States are required to select a subsample of completed quality control cases and to forward them to HEW headquarters for analysis. By evaluating the results of these cases, headquarters employees can compute nationwide ineligibility and incorrect payment rates.

When HEW notes deficiencies in States' operations, it is required under its regulations to assist the States in devising and implementing corrective actions to bring the operations into compliance with HEW requirements.

## HEW'S EFFORTS IN MONITORING STATE OPERATIONS

HEW's actions, once the Federal quality control system was in operation, were sufficient to enable it to recognize problems that the States were having with quality control. The HEW regional offices usually were able to react to State problems but--because of insufficient staff and limited knowledge of the system--were unable to closely monitor actions or to assist States in avoiding or solving problems.

HEW recognized that it was essential to keep currently informed of the States' progress in implementing the Federal quality control system. In mid-October 1970--2 weeks after the States were to implement the system--HEW headquarters advised its regional offices of the need to identify States having problems in implementing the system and to report the information to headquarters so that assistance could be provided in overcoming the problems. HEW headquarters emphasized to the regional offices that monitoring was doubly important in the initial operational periods of the new system.

On the basis of the regional offices' reports of the States' problems, HEW developed status reports in November 1970 and in January and March 1971 on the progress of the States in implementing the quality control system. The reports, however, were based on information provided by the States at the request of HEW regional offices, rather than on frequent onsite visits by HEW regional staffs.

For example, HEW Chicago regional staff informed us that they had not made field investigations of the quality control system in the six States in their region but had become aware of the States' problems by analyzing completed questionnaires submitted by the States. HEW's San Francisco regional staff said that they were not fully aware of California's problems in implementing the quality control system and that the staff's monitoring consisted mainly of inquiring about the State's progress in implementing the system, rather than reviewing the State's operations to make first-hand assessments of the problems.

The regional staffs in the other four regions included in our review also advised us that they had made only

limited, if any, onsite visits to assess the States' quality control operations. Therefore monitoring during this period essentially consisted of requesting the States to furnish information on the status of their operations. Consequently HEW had general information about problems, such as insufficient staffing, encountered by the States but had only a limited perspective regarding less apparent problems, such as the adequacy of investigations being made by quality control reviewers. HEW did not have sufficient information to assess all aspects of quality control operations.

To supplement its monitoring capability and to help assess the concept of quality control, HEW contracted with two consulting firms to provide more detailed information on selected States. Both firms provided information which enabled HEW to monitor more closely the quality control operations in several States. In addition, one firm submitted a report to HEW on October 1, 1971, assessing the concept and design of the Federal quality control system. The report noted that the system was basically sound and suggested technical changes to improve its effectiveness.

Even with this added assistance, HEW was not able to effectively monitor all State operations to detect problems when they arose or to take timely corrective actions. For example, the critical problem of inadequate verifications of key eligibility factors--such as income and savings--was not known fully to HEW headquarters staff until we brought the matter to their attention in January 1971. Early in February 1971 HEW issued a memorandum to its regional offices that emphasized the need for adequate verifications.

An HEW headquarters official advised us that, if there had been adequate monitoring by the regional offices from the time the revised quality control system was implemented, HEW could have known earlier that eligibility factors were not being verified properly and could have advised the States sooner of the need to change their procedures. Even after issuance of the February 1971 memorandum, the States covered in our review continued to make inadequate verifications, mainly because details on what was required were not specified by HEW in that memorandum.

In addition, two States experienced sampling difficulties during the implementation of the system that we believe could have been solved had HEW regional representatives made more frequent onsite visits. For example, Maryland experienced problems in selecting sample cases on a timely basis and, because HEW regional officials were unable to provide timely assistance to solve the problems, delays in completion of quality control reviews resulted.

In efforts to persuade States to improve their quality control operations, HEW headquarters and regional officials met with officials of States having serious problems, but most of the problems persisted. For example, HEW regional and headquarters officials met and corresponded with Louisiana and New York officials to try to solve problems which were preventing the States from implementing the Federal quality control system. Despite these efforts, Louisiana continued to have limited staff resources (see pp. 13 and 14) and New York continued with its administrative changes before adopting the new quality control system (see pp. 28 to 31).

HEW's monitoring and assessment of States' quality control operations were to be accomplished through analyses of subsamples of completed quality control investigations and reviews of completed quality control cases to assess the adequacy of State reviews and to provide the basis for determining national ineligibility and incorrect payment rates. HEW was not able to develop any results from its analyses of the subsamples or reviews for about a year, primarily because of a lack of staff and insufficient data from the States.

On January 3, 1972, HEW released some preliminary findings from its national subsample of States' quality control reviews. This national subsample indicated that approximately 5 percent of the Nation's welfare families were ineligible for payments which they received in April 1971. The findings of the subsample, however, have important limitations since 11 States--containing about half of the Nation's public assistance caseload--were unable to review enough cases to provide HEW with a valid quota for the national subsample. Among the States not reporting a sufficient number of reviewed cases to HEW were California, Colorado, Maryland, New York, Ohio, and Texas.

## PROBLEMS ENCOUNTERED BY HEW

A number of circumstances tended to hinder the effective discharge of HEW's responsibility relating to the implementation of the revised Federal quality control system. The system was being revised at the same time that HEW was introducing the simplified eligibility method and encouraging the States to adopt it. During this period the welfare rolls were increasing at the greatest rate in the history of the program.

Changes in the method of determining eligibility had a direct effect on the type of quality control system adopted. The more reliance placed on an applicant's word, the more critical it became for quality control officials to ensure that a recipient was, in fact, eligible. The need to ensure the correctness of eligibility decisions was even more critical as the welfare rolls continued to increase.

To be responsive to congressional and public concern about these changes and their possible effect on the welfare rolls, the planning for both the simplified method and quality control was centralized in HEW headquarters. HEW regional staff, although aware that changes in the quality control system were being considered, apparently had only limited information as to what the changes actually would be and were not in a position to provide proper guidance to the States.

Specific problems that kept HEW from fulfilling all of its responsibilities are discussed below.

### Insufficient HEW staffing

With the limited staffing available in its regional offices, HEW was not in a position to know whether the States were adequately implementing the Federal quality control system. According to HEW headquarters officials, none of the regions included in our review had sufficient staff to effectively carry out their responsibilities.

For example, HEW Region III (Philadelphia) had only one person available on a part-time basis to assist and

monitor State quality control operations in Delaware; Maryland; Pennsylvania; Virginia; West Virginia; and Washington, D.C. Maryland officials informed us that the only assistance that they had received from HEW had consisted of answers to specific questions which arose during their work. With the limited HEW staff available, it would have been extremely difficult for HEW to have done more than answer questions. Even though consultants provided additional part-time help to three other States in Region III, most States experienced difficulty in implementing and operating the Federal quality control system.

Although the staffing problem was not as critical in the other regions included in our review when the quality control system was first implemented in October 1970, staffing was not sufficient to begin full monitoring of the system. The regional staff listed in the following table dealt with all welfare-eligibility aspects--such as implementing the simplified method, ensuring fair and prompt hearings regarding questions about recipients' eligibility, and reviewing and approving changes to State plans--and devoted only a small portion of its time to quality control.

<u>HEW region (location)</u>	<u>Number of States and territories in region</u>	<u>Number of staff members concerned with all aspects of welfare eligibility</u>
II (New York)	4	3
III (Philadelphia)	6	1
V (Chicago)	6	4
VI (Dallas)	5	3
VIII (Denver)	6	3
IX (San Francisco)	6	4

HEW officials recognized that quality control would have to compete with numerous other aspects of the welfare program for the limited regional staff resources. In May 1970--5 months before the Federal quality control system was to be implemented--these officials recognized also that "extensive and continuous Federal monitoring of the new system was a minimum essential to its success." Consequently these officials estimated that 55 additional staff

members were needed for effective monitoring and that all but 10 should be assigned to the regional offices. Because this staff would be concerned only with quality control, HEW officials believed that the problem of competition for limited regional staff time would be minimized.

In January 1971 an HEW official informed the Secretary of HEW that, without the additional staff, HEW:

"\*\*\* has been able to maintain only a general knowledge of Quality Control operations in most states \*\*\*, has no means of making basic evaluations of the State systems, \*\*\* [and] cannot speak with any certainty about the validity of Q.C. [quality control] findings."

The Secretary authorized the 55 new positions in February 1971--5 months after the system was to be implemented. The HEW regions began recruiting the new staff in April 1971 and hired the first group of reviewers in July 1971. As of September 1971 only 19 of the 55 positions had been filled. The following table shows the number of new professional staff proposed for the regions included in our review and the number hired as of September 1971.

	<u>Number proposed</u>	<u>Number hired</u>
Headquarters	10 <sup>a</sup>	1
II (New York)	4	3
III (Philadelphia)	4	1
V (Chicago)	5	1
VI (Dallas)	4	3
VIII (Denver)	3	3
IX (San Francisco)	4	1

<sup>a</sup>Eight of the headquarters' officials are assigned to tasks of directly assisting the regional offices.

Hiring additional staff has been affected by the Secretary's decision to freeze existing staff levels to comply with the President's new economic program. Nevertheless HEW officials advised us that, with the staff they had as of September 1971, the regions should be able to deal more aggressively with the major quality control problems being

encountered by the States. In commenting on a draft of this report, HEW advised us that, as of March 1972, all but one of the 55 authorized positions had been filled.

Limited training and promotion  
of quality control

Another problem hindering effective HEW assistance to the States was the limited quality control training given HEW regional and State employees before the quality control system was implemented. HEW and State officials advised us that HEW regional staff had been provided with about the same amount of training as that of the State staff.

Under such circumstances it was difficult for HEW regional staff to provide proper guidance to the States. In some cases when the States raised technical questions concerning the system, the HEW regional staff could only refer the questions to headquarters staff for answers. An HEW headquarters official advised us that, although HEW had made special training consultants available--during the period July to November 1970--to regional and State employees upon their request to further assist them in understanding quality control, the consultants had not been used extensively by State or regional officials.

An understanding of the operations of the system is a necessary ingredient if States are to be motivated toward successfully implementing the system. Decisions regarding program priorities, however, usually are made by top management officials. To make effective decisions, top management officials must be aware of the purposes of the various programs competing for limited resources.

We believe that, had HEW's efforts been concentrated more on making top State welfare officials aware of quality control's importance, more effective implementation of the system by the States would have resulted. Although HEW officials did confer with top State welfare officials during the summer of 1970, there was no concerted, planned effort to inform top State welfare officials of the objectives and operational aspects of the system. As a result some top State welfare officials did not give the system the priority that HEW thought it should have.

## CHAPTER 4

### LEGISLATIVE CHANGES BEING CONSIDERED BY THE CONGRESS

At the time of our review, legislative proposals for welfare reform were being considered by the Congress. The welfare reform bill (H.R. 1, 92d Cong.) which passed the House on June 22, 1971, and which is pending action by the Senate, provides for HEW to take over the administration of all federally assisted welfare programs.

Under the proposed legislation the need for an effective quality control system will be even more important because of the estimated increased number of recipients that will be eligible for benefits--possibly 25 million persons receiving about \$11.7 billion in benefits. House bill 1 provides for HEW to have sole responsibility for quality control and for increased emphasis on ensuring the correctness of decisions affecting eligibility and payments.

The Secretary of HEW, in testifying on House bill 1 before the Senate Committee on Finance on July 27, 1971, stated:

"As we plan for the administration of the program, we are confident that the provisions in H. R. 1 will permit us to guarantee its integrity. There will be no simple declaration method permitted in the determination of eligibility for the family programs. Birth certificates and other suitable and convincing evidentiary materials will be required. An intensive initial interview will be required when an application for assistance is filed. \*\*\*

"We intend to guard against fraud not only in the initial application process but throughout the entire program. Specific items, such as earnings, which are capable of verification by a comparison of records, would be subject to 100-percent verification; in addition, a scientifically selected sample of eligibility applications would be reviewed in all aspects by

specially trained units located in the field  
and at headquarters. \*\*\*"

The provisions in House bill 1 and HEW's plans for  
implementing them should solve some of the problems experi-  
enced in the present quality control system.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

The benefits to be derived from implementation of a well-conceived quality control system can be achieved only through effective Federal and State administration of the system. An adequate staff and the timely resolution of problems that arise are essential to the effective administration of sound quality control system.

The Federal quality control system, as designed, has not been implemented fully in the eight States included in our review. Consequently, quality control has not accomplished its purpose of maintaining adequate control over public assistance expenditures and HEW does not know whether rates of ineligibility and incorrect payments are within the established tolerance levels.

The problems encountered in implementing and operating the quality control system are complex. Because of the overriding concern to attain integrity in the welfare programs, HEW attempted to have the States implement the Federal quality control system as soon as possible after its design was finalized. Thus advance planning to implement the system was not extensive. Part of HEW's problem was that its own organization was not prepared adequately to deal with the complexities of implementing a system that required close cooperation between the Federal Government and the States.

HEW therefore was only marginally successful in obtaining State recognition of the importance of quality control and of the attendant need to commit the resources necessary to ensure its success. Furthermore, because of insufficient staffing, HEW was unable to provide the assistance and monitoring necessary to ensure effective nationwide implementation of the system.

Consequently, although some progress was made by the States, basic problems encountered in carrying out quality control activities were not resolved on a timely basis. As of July 1971, the Federal quality control system had not

been implemented in California and the system had been implemented in New York only in New York City. Subsequently these two States began to implement the Federal system. None of the remaining six States reviewed the required number of cases, and their verifications of eligibility information in those cases reviewed were often inadequate. Thus the results of the quality control reviews did not provide the basis required for ensuring, with a sufficient degree of reliability, that public funds were provided only to eligible persons in the proper amounts.

In our opinion, HEW's plans for carrying out the legislative changes proposed in House bill 1 are designed to provide for improved control over welfare expenditures and, if effectively implemented, could restore public confidence in the welfare programs. The present Federal quality control system, however, is to be the basis for the quality control system proposed in House bill 1. Therefore we consider it important that HEW make a concerted effort to solve problems in the present system, not only to help accomplish the objectives of the system but also to provide an adequate basis for the development of the quality control system to be used in the welfare reform program being considered by the Congress.

RECOMMENDATIONS TO THE SECRETARY OF  
HEALTH, EDUCATION, AND WELFARE

To strengthen the Federal quality control system and to provide for an effective future system, we recommend that the Secretary of HEW:

- Ensure, through appropriate efforts, that top State officials are aware of the benefits to be derived from an effective quality control system.
- Increase headquarters and regional office quality control staffs to a level at which they can effectively assist and monitor State quality control operations.
- Define, for the guidance of State and local quality control reviewers, necessary steps to be considered as requirements in determining recipients' resources.

incomes, and other eligibility factors, so that quality control investigations provide conclusive findings.

#### AGENCY COMMENTS AND ACTIONS

HEW advised us by letter dated March 6, 1972, that it generally agreed with our findings and had taken action to carry out our recommendations for improving the operation of the quality control system.

HEW stated that its efforts to establish and maintain the integrity of the public assistance programs were improved on January 3, 1972, by the release of initial national information on ineligibility and overpayments under the new system of quality control. HEW stated also that all State administrators had been alerted to the importance of the quality control system in establishing and maintaining the integrity of their programs through release of this information.

HEW stated further that (1) its regional commissioners had been directed to take vigorous actions to ensure that States which did not have fully operational quality control systems complied with Federal regulations and (2) training seminars were being conducted for its regional staff members so that they could provide more meaningful assistance to States in realizing fuller use of the quality control system as a management tool.

Regarding our recommendation that HEW increase headquarters and regional office quality control staff, HEW stated that 54 of the 55 authorized quality control positions had been filled and that it had submitted a request to the Congress for additional staff.

With regard to our recommendation that HEW define more specifically the steps to be used in verifying eligibility factors, HEW stated that materials for training quality control reviewers had been furnished to all States and that special training materials had been provided to HEW regional staff to assist them in monitoring the thoroughness of quality control investigations. HEW stated also that additional guidelines were being developed for issuance to State

agencies so that quality control investigations would provide conclusive findings.

The actions taken or planned by HEW should strengthen the quality control system and should make it more effective in ensuring the integrity of the welfare programs.



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
WASHINGTON, D.C. 20201

OFFICE OF THE SECRETARY

MAR 6 1972

Mr. John D. Heller  
Assistant Director  
Civil Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Heller:

The Secretary has asked me to respond to the draft GAO report on the Problems of Ensuring the Integrity of Welfare Programs. Enclosed are the Department's comments on the findings and recommendations in the report.

We appreciate this opportunity to comment prior to issuance of the final report and also appreciate your continuing interest in the Public Assistance Program.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. B. Cardwell".

James B. Cardwell  
Assistant Secretary, Comptroller

Enclosures

## APPENDIX I

Comments of the Department of Health, Education, and Welfare on the Comptroller General's Draft Report entitled, "Problems of Ensuring the Integrity of Welfare Programs" - B-164031(3)

The GAO report, in our opinion, is a comprehensive analysis of actions taken by this Department to assure the integrity of public assistance programs. We are in general agreement with the recommendations in this report and have taken immediate action to carry them out. We are most anxious to have the Quality Control System operate smoothly and efficiently. This system, we feel, is an excellent means of ensuring that public assistance funds are provided only to eligible persons in the proper amounts, and that the public assistance programs are fairly and efficiently administered.

As requested by GAO, we asked all State agencies covered by the report to submit comments; their responses, attached, indicate in most instances that progress is being made towards making the Quality Control System fully operational.<sup>[1]</sup> Our comments on GAO's recommendations are set forth below.

GAO Recommendation: Assure, through appropriate efforts, that top State officials are aware of the benefits to be derived from an effective Quality Control System.

### Department Comment

We concur in this recommendation. State administrators were alerted to the importance of the QC system in establishing and maintaining the integrity of their public assistance programs, through the release of initial national information on ineligibility and overpayment under the revised system, on January 3, 1972.

Correlated with this we have (1) directed SRE regional commissioners to take vigorous action towards those State agencies which do not have fully operating systems to bring them into compliance with regulations; and (2) conducted training seminars for regional office personnel to enable them to provide more meaningful assistance to State agencies in realizing fuller use of the QC system as a management tool.

GAO Recommendation: Increase headquarters and regional office Quality Control staffs to a level where they can effectively assist and monitor State Quality Control operations.

### Department Comment

As indicated by the report, the Department has authorized 55 new positions to monitor the Quality Control system; 54 of these have already been filled. We have also submitted a request to the Congress for additional staff to monitor the QC system and provide a greater degree of technical assistance to the States.

<sup>1</sup>GAO note: State comments have been considered in preparation of our final report and are not included as appendixes to the report.

GAO Recommendation: Define for the guidance of State and local Quality Control reviewers necessary steps to be considered as requirements in determining recipients' resources, income, and other eligibility factors so that Quality Control investigations provide conclusive findings.

Department Comment

We concur. We have furnished all State agencies with materials for training QC reviewers; additional guidelines are also being developed for issuance to State agencies so that QC investigations provide conclusive findings. Special training and guide materials have been provided regional QC staff to assist them in monitoring the thoroughness of QC investigations and to enable them to provide technical assistance in this phase of the QC system.

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APPENDIX II

PRINCIPAL OFFICIALS OF THE  
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Elliot L. Richardson	June 1970	Present
Robert H. Finch	Jan. 1969	June 1970
ADMINISTRATOR, SOCIAL AND REHA- BILITATION SERVICE:		
John D. Twiname	Mar. 1970	Present
Mary E. Switzer	Aug. 1967	Mar. 1970

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