HJR

59

Senate Health, Education and Social Services Committee

Legislation Checklist

Bill number: HJR 59

Sponsor: HESS(H)

Date referred to committee: 1/29/86

Synopsis completed:

Fiscal note:

Further referrals:

CONTACTS:

JOHN TABOR - 3347

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May, 1986

Copies of minutes listed below were originally incltded in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

Senate Health Education and Social Services Committee 2/6/86, 1:42pm.

COMMITTEE REPORT

SENATE

FURTHER:

1/29/86

Date 2-6-86

Mr. President

The Committee on HESS considered CSHJR 59 HESS

urging the United States Congress to pass an amended form of H.R. 1279 (99th Congress), the AFDC Error Reduction and Quality Control Act, or substantially similar legislation.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

[X] do pass

[ ] do pass with attached amendment(s)

[ ] replace with/or adopt CS for ______
[ ] new title
[ ] same title and recommends ______

[ ] and attached a "LETTER OF INTENT" [ ] NEW FISCAL NOTE

[ ] reports it back without recommendation

[ ] recommends referral to ______ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS
	Edn De Vries No Rec
Joe Josephson	Carl Frick No Rec
Cullen Stungland	

Bettye Fahrenkamp Do Pass
Chairman

Chairman recommendation

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

MAR 1 '85

~~FEB 1 '85~~

October 10, 1984

The Honorable Harold Ford
Chairman
Subcommittee on Public Assistance
and Unemployment Compensation
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Representative Ford:

I am writing to express Alaska's support for H.R. 6295, which was introduced by Representative Matsui on September 24, 1984. The bill would make multiple improvements in the present Aid to Families with Dependent Children (AFDC) quality control standards and procedures, and would correct many of the features that Alaska finds objectionable in the current and proposed AFDC quality control regulations.

We fully support requiring a state's error rate to be calculated at the lower bound of the standard interval, disregarding technical errors in the error rate calculations, and reducing fiscal sanctions by the amount of overpayment recoupments.

We do not agree with Section 403(i)(6)(B)(iii) which includes "underpayments to eligible families receiving assistance" in the definition of "erroneous payments." It is Alaska's experience that the majority of underpayments are caused by a recipient household's failure to report changes in its circumstances, even when it is to the household's advantage to do so. We do not believe states should be held financially liable for benefits that were not issued, and thus do not represent program loss, waste, or abuse.

We also believe that special treatment should be given to calculations of error rates for households living in isolated, rural regions that are not accessible by regularly scheduled commercial air service, automobile, train, or other surface transportations.

It is proposed, therefore, to add paragraph (iv) to Section 403 (i)(2)(B) as follows:

> "(iv) 0.1 percentage points for each full 20 percent increment (up to a maximum of five such increments) by which the majority of recipient households in administrative regions of the state are not reachable by regularly scheduled commercial air service, automobile, train, or other surface transportation".

We believe that this proposal is in keeping with the consideration given to high density populations as proposed in the legislation. Our proposal is strengthened by the additional fact that most recipients served in the isolated rural areas of Alaska are Native Alaskans, with a subsistence life style and culture.

It is refreshing to see proposed legislation which would grant states some relief from the ever more punitive actions and requirements being promulgated by federal agencies.

Sincerely,

Bill Sheffield
Governor

FY 85 FOOD STAMP FISCAL SANCTIONS

Based on the FY 85 Food Stamp expenditures of $20, 685,305 the fiscal sanction is equal to the payment error rate in excess of 5 percent times the total expenditures.

Payment Error Rate	Fiscal Sanction
6 %	$ 206.853
7 %	413,706
8 %	620,559
9 %	827,412
10 %	1,034,265
11 %	1,241,118
12 %	1,447,971
13 %	1,654,824
14 %	1,861,677
15 %	2,068,531

Based upon the State determined P.E.R. of 11.774 percent, the FY 85 fiscal sanction will be $1,395,017.

The Welfare System: A Briar Patch for Anna Burns

IT ISN'T EXACTLY A BED OF ROSES
FOR THE WORKERS, EITHER.

BY TOM JOE AND LORNA POTTER

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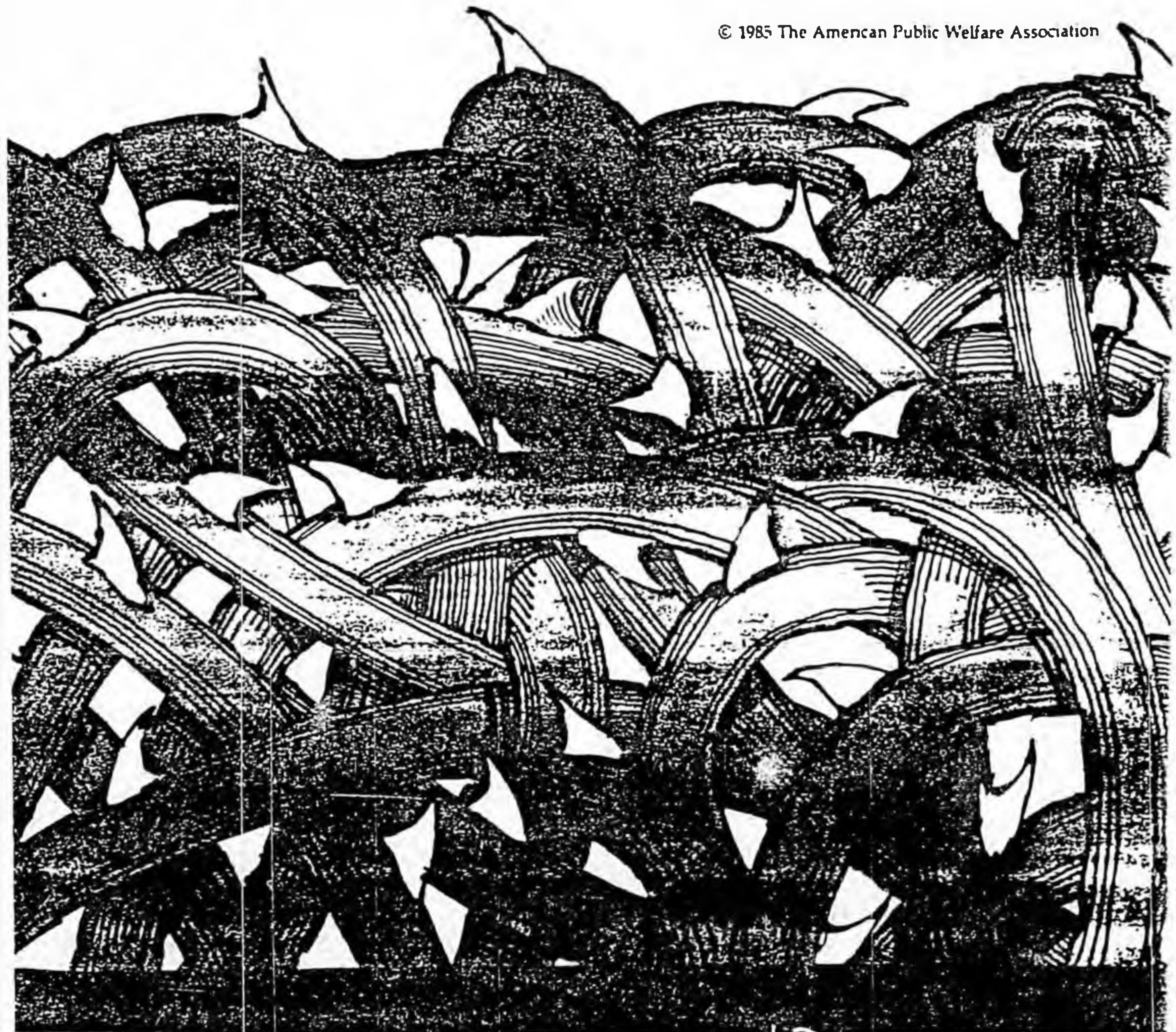
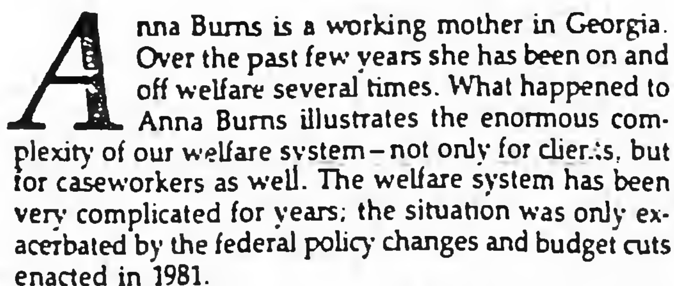




Anna Burns is a working mother in Georgia. Over the past few years she has been on and off welfare several times. What happened to Anna Burns illustrates the enormous complexity of our welfare system – not only for clients, but for caseworkers as well. The welfare system has been very complicated for years; the situation was only exacerbated by the federal policy changes and budget cuts enacted in 1981.

In order to measure the effects of the cuts, the Center for the Study of Social Policy in 1982 began a study of what was happening to clients and, in particular, what was happening to Anna Burns. Certainly some of the effects were unintended by those making the changes in Washington.

The study took us to ten state welfare offices to review implementation patterns and caseload impact. It took us into the homes of 266 working mothers in Georgia whose welfare grants had been terminated by the federal policy changes enacted in 1981. It also took us into twenty-three county welfare offices to review the case files of 207 families over a three-year period.

Examining these case files – often six inches thick with forms, correspondence, affidavits, and worksheets – provided a rare opportunity to observe firsthand the process by which the new welfare policies, as well as already existing rules, actually were implemented. We discovered several instances where the new law affected a family's grant in a way we had not anticipated. Although we were familiar with the new provisions of the federal law, we were surprised on several occasions to learn of a particular provision's impact when it was applied to a real family.

Thus, we decided to examine in detail one family's grant over a three-year period. By documenting the family's grant changes, we could clearly show how the new rules – no longer theoretical propositions – were translated into dollar losses or gains for a typical family. We also found it useful to document the sheer complexity of the welfare system even before the 1981 policy changes were made. We learned that the administrative burdens on caseworkers and clients are enormous and that the time required to make routine grant changes is considerable.

This analysis of one family's ride through the welfare system between 1980 and 1983 looks closely at actual program decisions from the perspective of worker-client interaction. The study incorporates what political scientist Richard Elmore has called "backward mapping" by beginning not at the top of the implementation process (the federal level) but at the client level. It is not enough to scrutinize federal rules and regulations. If we are to reveal their true effects, we must look beyond these words to see how the rules actually are carried out.

Documentation of how the 1981 welfare policy changes were applied to one family is used here to illustrate the consequences of policymakers' and policy analysts' failure to adequately consider the operational aspects of prospective policies. Aid to families with dependent children (AFDC), the main welfare program, always has been a complex program, spanning three layers of government – federal, state, local – and providing assistance for nonworking as well as working-poor families who meet its eligibility requirements. In essence, it must act as a "safety-net" for the truly needy as well as a helping hand for those on their way out of poverty.

In 1981, the Reagan administration proposed and Congress enacted a set of policy changes in AFDC designed to pare down the welfare rolls and save money. The Reagan administration argued that the 1981 welfare changes would make the system more "efficient." Yet, as the following pages demonstrate, the changes neither simplified procedures nor reduced paperwork burdens. Regardless of the reasons behind the changes, the effects were to further complicate the program's administration, making life even more difficult for caseworkers and clients alike. And new changes enacted by Congress in 1984 – although intended to reinstate some benefits previously lost – promise to add an even greater administrative burden to the system.

Anna Burns' story portrays the wide gulf between ideological debates on "welfare reform" and their effect on individual clients.

Here you will learn about a typical family from the study sample of 207 Georgia families whose welfare grants were terminated when the federal cuts were enacted. Although real names are not used, all figures and events were taken directly from a particular family's AFDC and food stamp records in a county welfare office. The facts – what happened, when, why, and with what effects – follow. Although this case study has important implications for welfare policy reforms, that task is far beyond the limited scope of this paper. Our goal is simply to present a clearer picture of the complexity of the current welfare system.

What Happened To Anna Burns

September 1980: Anna Burns is twenty-eight years old and the mother of three children. Married at age fifteen and divorced at twenty, she and her three daughters now live in a two-bedroom trailer in a small town in Georgia. Burns' eldest daughter is entering the sixth grade, and the younger twins are beginning fifth grade. Burns supports her family through a combination of wages, occasional support from her ex-husband, and public assistance. She keeps her family's expenses down by growing vegetables in a garden beside the trailer and making many of her own clothes. Nevertheless, she occasionally runs out of money before the end of the month and must borrow from her mother.

At this time in 1980, Burns is unemployed but actively seeking a job. She has only a tenth-grade education because, as she explains, she became pregnant and had to leave school at an early age. Anna Burns and her three children receive $193 monthly in AFDC, $201 in food stamps, and health insurance through the Medicaid program. She must check in with her caseworker at the county welfare office every six months, unless she begins working in which case she must notify her caseworker within ten days.

Monthly family income from AFDC and food stamps: $394.00

November 1980: Burns is offered a job as a nurse's assistant in a nursing home not far from where she lives She accepts the position, begins working, and, as required, reports this change to her caseworker. The caseworker requests documentation of her earnings, taxes, travel, and child-care costs, and the cost of the uniform she must wear at work. Burns files three written statements: one indicating how many miles she drives to and from work, another declaring her meal expenses while at work, and a third from the neighbor who looks after her children declaring how much the neighbor receives for caring for the three girls. Burns sends these documents to her caseworker for a redetermination of her eligibility for AFDC and food stamps.

In addition to the above information required by AFDC, the food stamp program requires documentation of rent, telephone, and utility expenses. Altogether, Burns must provide eight documents to her caseworker this month.

The caseworker receives Burns' information and calculates that Burns' monthly earnings total $546. The caseworker then must determine whether Burns is eligible for a grant at her earnings level and, if so, how much her monthly grant will be. To determine eligibility, the caseworker compares Anna Burns' income to the state "need standard." To determine her payment amount, the caseworker compares Burns' income with the "payment standard." Each state determines its own "need standard," which is considered to be the minimum income a family of a given size needs to meet basic monthly living expenses. The "need standard" and "payment standard" should not be confused. The need standard determines eligibility; the payment standard determines the amount of benefits and in many states is well below the need standard. The payment standard is the grant to a family with no countable income. In Georgia, the payment standard is half of the need standard. In other words, the state says a family of four requires $432 monthly to cover minimum needs, but it provides a family (with no income) only $216 in AFDC. A family with some income receives the difference between the payment standard and its countable income—unless its countable income is greater than the payment standard, in which case the family cannot receive AFDC.

In determining eligibility for Anna Burns' family, the caseworker uses the following formula:

- Work expenses of $50 and child-care expenses of $87 (total $137) are subtracted from Burns' gross wages: $546 – $137 = $409.
- The $409 then is compared to the need standard for a family of four, which was $227 in November 1980. Because the $409 exceeds the need standard, Burns is *not* eligible for AFDC.

Because Burns' family is not eligible for a grant, the caseworker, of course, does not have to calculate how much her grant would be.

The caseworker sends Burns a notice that she will no longer receive AFDC as of December 1, 1980, because her new earnings place her above the eligibility ceiling. Her eligibility for Medicaid, however, will continue for four months, as mandated by federal law.

Because Burns now is working, her caseworker must reassess her food stamp allotment as well. Many counties have separate AFDC and food stamp units, assigning a single family two caseworkers. Burns, however, lives in a small county that does not have separate program staffs; and the same caseworker monitors both AFDC and food stamps for her. Applying the food stamp program formula to Burns' new income, the caseworker calculates that she is eligible for a reduced allotment of food stamps: $127, compared to $201 the previous month. This new allotment is based on the following formula.

- Earned income of $546, less a 20 percent work disregard (or $109);
- Less a standard earnings deduction of $75;
- Less child-care costs of $87; and
- Less a shelter deduction of $3 ($3 is the maximum Burns is entitled to, regardless of her actual shelter expenses, due to a $90 ceiling on combined dependent care and shelter deductions).

The result is then multiplied by .3 and subtracted from the thrifty food plan ($209 for a four-person family in 1980).

$209–[($546–$109–$75–$87–$3).3] = $127

Thus, Burns now will receive $127 in food stamps. The caseworker must send Burns a second notice indicating this change in her food stamp allotment. Unlike the AFDC program, where the state sets its own eligibility and payment standards within broad federal guidelines, the food stamp program is entirely federal.

Monthly family income of gross wages and food stamps: $673.00

December 1980: The federal government mandates several changes in the food stamp program, which take effect January 1, 1981: the standard deduction is increased from $75 to $85, the ceiling on the shelter and dependent-care deduction is increased from $90 to $115, and the federal coupon allotment ceilings are increased from $209 to $233. This means that every food stamp case must be reviewed as outlined above and a notice

sent to each client. In Burns' case, her food stamp allotment increases from $127 in December to $162 in January.

Monthly family income of wages and food stamps: $708

February 1981: Although her case record does not reveal why, Burns must reduce her hours at work. She immediately contacts her caseworker to report the change in her earnings and expenses. Burns must mail in her pay stubs. The caseworker calculates her earnings to be $350, her work expenses to be $88, and her child-care expenses to be $38. She then proceeds to determine whether Burns is eligible for AFDC and, if so, how much her payment will be.

The caseworker finds that Burns is eligible for aid because her gross income minus work and child-care expenses ($350 – $88 – $38 = $224) is less than the need standard of $227. In order to determine the amount of her payment, the caseworker applies a new formula:

- First, the caseworker subtracts $30 from the total earnings ($350 – $30 = $320).
- Second, the remaining income is reduced by one-third, leaving $213. The effect of this "$30 and one-third earnings disregard," mandated by federal law, is to reduce the amount of earned income that the welfare agency considers when calculating the family's AFDC grant. The intent is to provide welfare recipients an incentive to work.
- Third, the caseworker subtracts $88 to account for income taxes, uniforms, travel expenses, meal expenses, and other customary work expenses. (If Burns could not document these expenses, she would be given a standard deduction of $50.)
- The caseworker next subtracts Burns' child-care expenses, which total $38 monthly.

($350-$30)-[⅓ ($350-$30)]-$88-$38 = $87

The remaining income, $87, is considered to be Burns' "countable income" and is subtracted from the payment standard – $193 for a family of four – to reach the AFDC grant amount.

$193-$87 = $106

Because of the significant decrease in her earnings, Burns is again eligible for AFDC, effective the following month. The caseworker sends a notice indicating that Burns will begin receiving an AFDC grant of $106 in March.

The caseworker also must redetermine Burns' eligibility for food stamps, due to the change in Burns' earnings, expenses, and AFDC status. Accounting for these changes, the caseworker determines that Burns' food stamp allotment should increase from $162 to $171 in March.

Monthly family income of gross wages, AFDC, and food stamps: $627

June 1981: The state of Georgia increases its AFDC payment standard. Consequently, all AFDC cases must be reviewed and all grants increased according to the new schedule. The caseworker calculates that Burns' grant should increase from $106 to $140 effective in July. This in turn requires an adjustment of Burns' food stamp allotment. Accounting for the increase in her AFDC grant, Burns' food stamp allotment decreases from $171 to $160.

Monthly family income: $650

August 1981: The U.S. Congress passes the Omnibus Budget Reconciliation Act (OBRA), mandating a number of significant AFDC and food stamp policy changes. Because the changes are both numerous and complex, caseworkers in each county are summoned for special training sessions. These federal policy changes require that the caseworkers review each case assigned to them, make the necessary changes, and notify their clients of these changes. The effective date of the policy changes is October 1, 1981. Because of the complexity of the OBRA policy changes and because some provisions conflict with state AFDC laws, many states are unable to implement all the AFDC policy changes in October. Georgia, however, manages to do so.

September 1981: Burns' caseworker reviews each of the 85 AFDC and 200 food stamp cases assigned to her and adjusts their grants based on the new policies. During this time Burns receives a pay increase, and she is able to increase her hours at the nursing home. She reports these changes to her caseworker by sending in her most recent pay stubs. The caseworker calculates that Burns' monthly earnings have increased from $350 to $438. Many of the steps in calculating Burns' grant have changed as a result of OBRA.

- First, the caseworker now must determine whether a family's total income, before deductions, is within a new set of limits created by federal law.

This new federal rule, called the "150 percent cap," requires that a family's gross income – before taxes, child care, and any other deductions are taken – must be no greater than 150 percent of the state's need standard in order to be eligible. If a family's total income is greater than 150 percent of the state's need standard, the family is automatically ineligible for AFDC – and in many states, Medicaid – regardless of the family's work or living expenses.

While this new step in the eligibility determination process served to close approximately 500 cases in October 1981 in Georgia, Burns' income is within the new limits, so she remains eligible. The limit in Georgia for a family of four after the state raised its eligibility ceiling is $648, and Burns' total income is only $438. So the calculations proceed:

- The caseworker next subtracts from Burns' earnings the new standard work-expense deduction of $75 and her child-care expenses of $36.

- Finally the caseworker applies the $30 and one-third earnings deduction to the remaining income. Prior to OBRA this deduction had been applied to the total earnings; now it is applied to earnings less work expenses. The result is a smaller grant for all working AFDC recipients under the new policy. The caseworker calculates Burns' countable income to be $198.

$438–$75–$36–$30 –[⅓ ($438–$75–$36–$30)] = $198

This countable income is compared to the state "payment standard" of $216; Burns qualified for an $18 payment. Thus Burns' grant is reduced from $140 to $18 effective October 1, and the caseworker sends out a notice indicating the reason for the change and the new grant amount. As a result of the change in Burns' AFDC grant and her increased wages, her caseworker must also recalculate her food stamp benefits. Because of the reduced AFDC grant, Burns' food stamp allotment increases from $160 to $183 effective October 1. Burns receives a second notice from her caseworker showing the new food stamp allotment.

Monthly family income from wages, AFDC, and food stamps: $639

November 1981: Caseworkers are instructed that OBRA mandated a change in the earned income deduction in the food stamp program: it is to be reduced from 20 percent of earned income to 18 percent. The caseworker must recalculate the food stamp budget for each case in which the household has earned income. The effect on Burns' food stamp allotment is small, as in most cases: a reduction from $183 to $180 worth of coupons.

Monthly family income: $636

January 1982: OBRA mandated that the "$30 and one-third earnings disregard" be limited to four months in any twelve-month period. Consequently, Burns' caseworker determines that Burns will no longer be entitled to this earnings disregard as of February. Because this new policy took effect in October, Burns was entitled to the disregard for the four months beginning in October. The caseworker recalculates Burns' February grant as follows:

$ 438	earnings
– 75	standard deduction
$ 363	
– 36	child-care expenses
$ 327	

Expiration of the $30 and one-third disregard increases Burns' "countable income" from $198 to $327, well above the payment standard of $216, thereby makes her ineligible for AFDC and Medicaid.

The caseworker sends Burns a letter indicating that her AFDC grant will terminate effective February 1 due to the new federal policy limiting the $30 and one-third earnings disregard to four months. Burns also will lose her Medicaid coverage as a direct result of becoming ineligible for AFDC.

Because Burns' AFDC case must be closed, her food stamp case must be reevaluated and the AFDC benefits removed from the food stamp budget. In January 1982, as the caseworker is calculating a new food stamp allotment, Burns sends her caseworker her most recent series of pay stubs indicating a small increase in her wages. The caseworker determines that Burns' earnings have increased from $438 to $454. This increase in earnings, despite the loss of AFDC benefits, results in a decrease in food stamp benefits from $180 to $167.

Monthly family income of earnings plus food stamps: $621

February 1982: Because Burns fails to document her rent, utilities, and child-care expenses, the caseworker may not give Burns credit for having any such expense in calculating the family's food stamp allotment. The end result is a reduced food stamp allotment. As Burns' caseworker is calculating the reduction, Burns once again notifies her that her earnings have increased to $511. As a result of Burns' increased earnings and her failure to document her household expenses, the family's food stamp allotment decreases from $167 to $133 in March.

The number of times Anna Burns must see her caseworker and have her AFDC or Medicaid grant opened, closed, or adjusted will only increase under the new 1984 law.

Monthly family income: $644

June 1982: Burns' eldest daughter gives birth. Because the new mother is under sixteen years old, Burns applies for an AFDC grant on behalf of her granddaughter. The Burns family receives no support from the father of the new baby; and the baby's mother, who just completed the seventh grade, is unable to support the child. Thus, the child is eligible for an AFDC grant amounting to $107, payable to Burns. Only the child is eligible for AFDC and Medicaid. Burns' earnings are not considered in calculating her grandchild's grant, as she is not considered financially responsible for this child under the AFDC program.

During this same month, Burns' earnings decrease from $511 to $470. The caseworker recalculates Burns' food stamp allotment on the basis of her new level of earnings and the additional household member; however, the AFDC grant is not calculated into the

budget until the following month. The result is an increase in the family's food stamp allotment from $133 to $188 in July.

Monthly family income: $765 for a family of five

August 1982: The food stamp allotment decreases to $155, accounting for the additional AFDC income of $107. Each change requires written notification from the caseworker to Burns.

Monthly family income: $732

September 1982: Federal law mandates an increase in the food stamp allotment ceilings and the telephone and utilities deductions. Burns' caseworker must review each of the 200 food stamp cases assigned to her and recalculate their food stamp allotments using the new dollar figures mandated by the federal government. Burns' allotment increases from $155 to $177, effective October.

Also effec[illegible] October 1982, Georgia implements a final OBRA policy change in the AFDC program. Were Burns still eligible for an AFDC grant for herself and her daughters, she would now be required to report her wages and income each and every month. Failure to comply with this new requirement results in the termination of benefits.

The monthly reporting requirement consumes an enormous amount of time for caseworkers. The client must fill out and mail in a form reporting all earnings. The form must be postmarked between the first and fifth days of the month. If it is mailed before the first day of the month, it cannot be accepted and the caseworker must mail it back to the client and have her resubmit it. If it is not received by the sixth day of the month, the caseworker must mail the client a reminder to send it in. If it is not received by the fifteenth of the month, benefits are terminated. In the relatively small office where Anna Burns' case is staffed, one social worker spends two weeks every month doing nothing but making sure all the monthly reports are received according to the requirement of the law. Each caseworker then must review the forms on her caseload and make any necessary adjustments.

Monthly family income: $754

December 1982: Burns' pay stubs indicate yet another small change in her level of earnings, requiring her caseworker to recalculate her family's food stamp allotment and send Burns the appropriate notification. The earnings change is an increase of $17 monthly, from $470 to $487. The corresponding change in the family's food stamp allotment is a $4 decrease, from $177 to $173 in January 1983.

Monthly family income: $767

March 1983: Burns sends her caseworker copies of her rent and utility bills which are considerably higher than in previous months, together with pay stubs indicating a small decrease in earnings. The family now lives on Burns' before-tax earnings of $474, the granddaughter's AFDC grant of $107, food stamps amounting to $192, and a very occasional $15 child-support payment from Burns' ex-husband.

Monthly family income: $773

The Burns Family Monthly Budget

Income	Expenses
$454 earnings (after taxes)	$65 child care
107 AFDC	55 rent
192 food stamps	106 utilities
$753	30 telephone
	50 gas for car*
	50 clothing*
	292 food*
	50 car maintenance/repairs*
	35 insurance
	20 medical bills and nonprescription medicines*
	$753

*These amounts represent approximations

As of June 1983, Burns pays $65 for child care, $55 for rent on a two-bedroom trailer, and $106 in utilities plus $30 in telephone bills. Burns estimates that, on average, she pays $50 per month for gas for her car (there is no public transportation in her town), another $50 for clothing for her own growing children and grandchild, $100 for food above her food stamp allotment, and a little under $50 for car maintenance and repairs. Burns also pays $35 each month in life, car, and home insurance combined, and an average of $20 monthly for uncovered doctors' bills and nonprescription medicines. The Burns family income is barely sufficient to meet the family's basic living expenses, despite the very low rent of $55 monthly. This budget, made up of basic necessities, does not enable Burns to save, nor does it allow recreational activities. Because of her tight budget, Burns was forced to borrow $400 from her bank last winter when her car needed substantial repairs. The loan still is outstanding. (See box.)

Update: 1984

Since June 1983, new laws were enacted by Congress that will require additional adjustments to Anna Burns' welfare grant as well as those of other families across the nation. Included in the Omnibus Deficit Reduction Act of 1984, the new AFDC rules took effect October 1, 1984. These latest changes, while positive attempts to reinstate benefits for some working mothers and ease the transition from welfare to work for others, promise to produce additional administrative headaches for Anna Burns and her caseworker. Consider the following examples:

- The eligibility ceiling is changed from 150 per-

ment to 185 percent of the state need standard. This will require a new set of computations for all new applicants and recomputations for many working recipients previously terminated.

- Whereas OBRA counted an earned-income tax credit (EITC) as income when determining AFDC benefits whether the recipient received the tax credit or not, the new law counts the EITC as income only when it actually is received. This will entail another set of new calculations for all working recipients such as Anna Burns.
- The new law allows all working mothers to deduct $75 as a standard work expense, whereas previous law allowed $75 only for full-time workers and $50 for part-time workers. Benefits will have to be adjusted for all part-time workers.
- The new law provides for a twelve-month continuation of the $30 disregard; under OBRA, the disregard expired after four months. This change requires three separate calculations for families such as Anna Burns': (1) using the $30 plus one-third disregard for months one through four; (2) using only the $30 disregard for months five through twelve; and (3) using no disregard after twelve months.

Congress also in 1984 took steps to ease the transition from welfare to work for some of the families terminated under the 1981 rules. Under the work-transition allowance, some families who lost their AFDC grants from 1981 to 1983 because of the expiration of the $30 and one-third disregard now may become eligible for Medicaid. While the intentions behind this new rule are worthy, several administrative difficulties are likely to occur in carrying it out.

- The only families eligible for this benefit are ones who were terminated due to the expiration of the $30 and one-third disregard. Caseworkers therefore had to find the clients' files from as early as January 1982 and determine that the family would have been eligible if the disregard were applied. In many counties, it is difficult to locate records from two years back, let alone expect the records to be detailed enough to yield the necessary information.
- The caseworker also had to determine that the family was "continuously eligible for AFDC if the $30 and one-third disregard were applied." This would require earnings and expense information and documentation for every month since termination. This might be as many as thirty-two months for some families. For each month, caseworkers must perform eligibility standards and disregards in effect at the time. This will either be administratively unmanageable or prove a serious hindrance to the reenrollment of families in Medicaid.
- Only families who reapply within six months from October 1, 1984, will be considered. That puts an information burden on the caseworker who must try to inform potential reapplicants of the new law. Obviously, many families will not hear about it and thus will not be able to benefit from the Medicaid coverage.

The idea of providing Medicaid coverage for families who leave AFDC is a good one; it eliminates a work disincentive and adds to the financial security of many single-parent families. But the actual implementation of the reconciliation provisions is likely to be far more difficult than the words suggest. The number of times Anna Burns must see her caseworker and have her AFDC or Medicaid grant opened, closed, or adjusted will only increase under the new 1984 law.

Another new provision, which promises to raise benefits slightly for some familes while creating more work for staff, allows $50 of each monthly child-support payment to be disregarded in determining the AFDC grant. Currently, if a mother receives $80 in child support each month, her AFDC grant is reduced by $30 because $50 out of the $80 would be disregarded. Thus, the new change offers the mother a slightly higher grant, but the caseworker now has to make another calculation in order to disregard the $50.

In other ways, the new law reduces benefits to AFDC families. For example, the new law reduces grants to families such as Anna Burns' when a grandchild is included in the grant. In June 1982, Burns' newly-born granddaughter was considered a separate "filing unit" and received a full grant of $107. Under the new rules, grandchildren no longer are considered separate units; rather they are an additional person in a single-filing unit. The Burns' family would not have received any AFDC if the new rule had been in effect when Anna Burns' granddaughter was born.

The three-year history of the Burns family's participation in the AFDC and food stamp programs documents the administrative complexity of these programs. In attempting to make the level of benefits reflect the family's ever-changing circumstances, the programs require extensive and continual documentation of income, expenses, and family composition by the client. This in turn requires close and continual monitoring by the caseworker, together with the considerable amount of paperwork required to adjust grants month by month as the family's circumstances change.

In the thirty-two months from September 1980 to June 1983, Anna Burns' AFDC eligibility and grant amount had to be recalculated fourteen times. Medicaid eligibility changed four times. (See Table 1.)

Each application for AFDC or change in earnings requires that a great deal of time, energy, and money be expended. The initial AFDC application form consists of nearly ten pages of detailed questions. Burns must

go to the welfare office at the time of the application, sixty days later for a review, and every six months thereafter for review as long as she remains on welfare. To make those visits, she must take time off from work, thereby reducing her earnings and risking the displeasure of her superiors. In between these periods, she may report her earnings and expenses by mail.

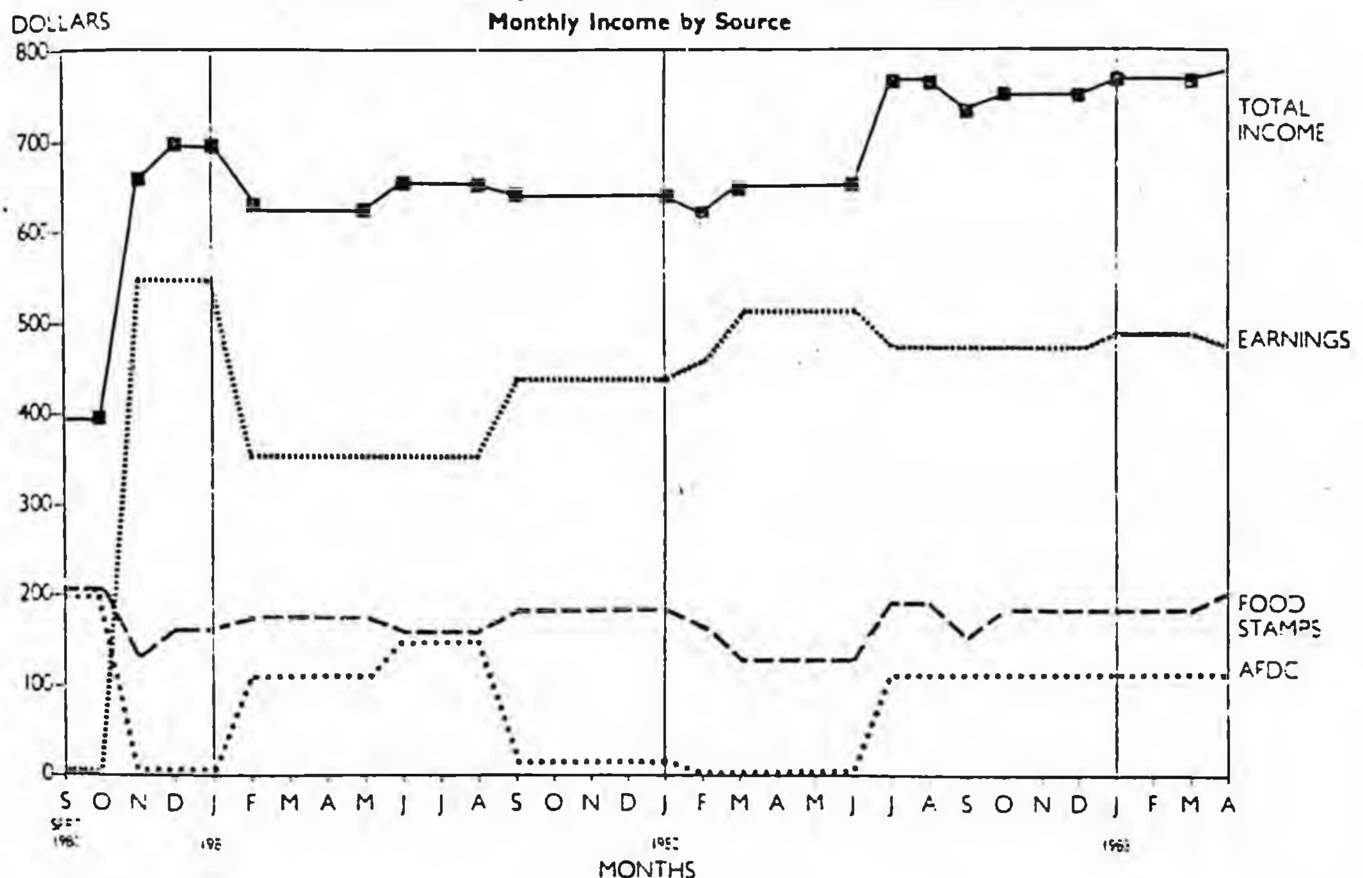
From the caseworker's point of view, every change in earnings requires forty-five minutes to an hour to fill out the proper form. This form is submitted to a computer operator who spends fifteen to twenty minutes entering the information, which is sent to the state office and returned two days later in printed form. The caseworker then must spend another fifteen to twenty minutes double-checking the form for mistakes. Burns' caseworker had another eighty-four clients requiring the same calculations.

Anna Burns' family is only one family in one county in one state. There are 3.8 million other families receiving AFDC throughout the country, 500,000 of whom are working families like Anna Burns' whose grants are continually being adjusted. The difficulties faced by Anna Burns and her caseworker are typical of many more families who find that their benefits constantly fluctuate in response to unexplained and often little-understood policy changes.

The 1981 changes complicated an already complex system. Instead of helping to simplify administration, the changes only meant more benefit changes and paperwork for caseworkers and clients. Because of the new "reforms" enacted in 1981, Anna Burns saw her family's AFDC grant decline in October 1981 and then vanish completely in February 1982. These changes in turn required recalculation of her food stamp grants for those months.

Not only did the 1981 changes add administrative complexity to the system, but the federal government imposed penalties on states whose error rates exceeded a specified level. Given the number of calculations that are typically performed, it is amazing that error rates are not higher than they are. But it is a perverse twist for the federal government to simultaneously complicate the eligibility and benefit calculation process and impose sanctions on states that make mistakes in calculating benefits.

What does Anna Burns tell us about the implementation of the 1981 changes in particular and, more generally, about welfare policy? Most important, her story portrays



the wide gulf that exists between ideological debates on "welfare reform" and their effect on individual clients. On a conceptual level, it is difficult to oppose objectives of "targeting," "efficiency," and "accountability." The difficulty arises in translating those objectives into sensible and sensitive actions that can meet agreed-upon objectives without unintended negative consequences. It is this leap from concept to practice that rarely is given adequate forethought and that was ignored when the AFDC changes were legislated in 1981.

Anna Burns' story suggests that we need to balance the costs and benefits of increased targeting. We need to think in terms of dollar costs as well as the more intangible costs of time, energy, and worry. When Anna Burns had a change in earnings—which is frequent for women who are paid by the hour as most working welfare mothers in Georgia are—she often had to take time off from her job to keep an appointment at the welfare office. And she never knew when her AFDC grant, and therefore her Medicaid, might be cut off. The time burdens for the caseworker, who had 85 AFDC cases and 200 food stamp cases to monitor, are considerable.

These latest changes, while positive attempts to reinstate benefits for some working mothers and ease the transition from welfare to work for others, promise to produce additional administrative headaches for Anna Burns and her caseworker.

Documentation of the changes in one family's grant suggests that we may be spending too much time and money keeping benefits in step with marginal changes in recipients' financial circumstances. As can easily be seen from Anna Burns' case, the "normal" level of complexity in the welfare system is staggering. Requiring documentation of Anna Burns' income is perfectly sensible. But requiring her to report her income every month—as done in the 1981 federal changes which took effect in September 1982—simply is unnecessary. In Georgia, it now costs $31 in administrative costs to process and deliver an average monthly AFDC check of $176, according to data published by the House Committee on Ways and Means. And this does not count the administrative costs of recalculating and delivering food stamps.

Government policy should be concerned with targeting benefits on the basis of need. We do not want to squander limited resources on those who do not need assistance. At some point, however, the administrative costs of recalculating benefits outweigh the utility of doing so. There is an obvious trade-off between maximum targeting of benefits and creating a program that is so unmanageable that it is organizationally ineffective as well as insensitive to individual circumstances. The example of Anna Burns suggests that this is a far more serious problem than most reformers have realized.

Regardless of the intent of the 1981 changes, one effect is clear: the policy changes reduced benefits to the poor while vastly increasing the complexity of the system and doing nothing to ease administrative burdens. If anything, the blame for this failure must go to the policymakers who enacted the changes without an adequate understanding of how they would be implemented and to policy analysts who similarly failed to demonstrate an understanding of how the many technical changes would be applied to individual families. Because neither policymakers nor policy analysts attended to the detailed operational aspects of the new changes, neither was able to detect ahead of time the inequitable effects of the changes. In hindsight, we now can see that the 1981 policy changes both reduced benefits *and* further complicated an already complex system. If administrative issues had been a priority *before* any changes were implemented, we may have been able to better predict the effects of the new law.

It is no wonder past attempts at welfare reform have failed. When we see how terribly complex it is to deliver AFDC and food stamps to Anna Burns and know that this is mirrored in thousands of counties across fifty states, we readily can understand the difficulty policymakers face when they set out to "reform" the welfare system. If such changes in policy are to make the system more effective and efficient, they must be grounded in a detailed understanding of how the system "works" for clients and for caseworkers. The question that must be addressed is: How can large-scale organizations like federal, state, and county welfare offices make changes in an intergovernmental program like AFDC?

The answer to this question is not simple. But an understanding of Anna Burns' situation and others like hers must be incorporated into the policy-making process as baseline knowledge. Only then can incremental or structural changes make the welfare system more responsive instead of more complex. And only then can we expect to strike a proper balance between the demands placed on a large bureaucracy for administrative efficiency and the most personal of goals: meeting the basic income-support needs of low-income families. PW

Tom Joe is director, Center for the Study of Welfare Policy, Washington, D.C.

Lorna Potter is a research associate, Center for the Study of Welfare Policy, Washington, D.C.

FY 85 AFDC FISCAL SANCTIONS

Based upon FY 85 AFDC expenditures of $43,090,678, the fiscal sanction is equal to one half of the payment error rate in excess of three percent times the total expenditures.

Payment Error Rate	Fiscal Sanction
4 %	$ 215,453
5 %	430,907
6 %	646,360
7 %	861,814
8 %	1,077,267
9 %	1,299,720
10 %	1,508,174
11 %	1,723,627
12 %	1,939,080
13 %	2,154,535
14 %	2,369,987
15 %	2,585,441

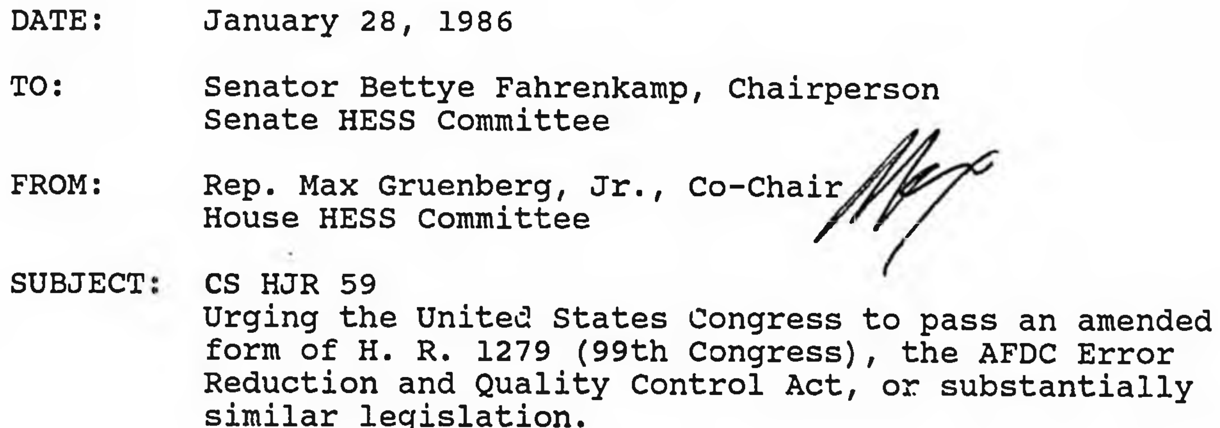
Based upon the state determined P.E.R. of 9.973 percent, the fiscal sanction for FY 85 will be $1,502,356.

Alaska State Legislature

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM



DATE: January 28, 1986

TO: Senator Bettye Fahrenkamp, Chairperson
Senate HESS Committee

FROM: Rep. Max Gruenberg, Jr., Co-Chair
House HESS Committee

SUBJECT: CS HJR 59
Urging the United States Congress to pass an amended form of H. R. 1279 (99th Congress), the AFDC Error Reduction and Quality Control Act, or substantially similar legislation.

This Resolution is substantially the same as the one introduced at the Western Legislative Conference.

In CS HJR 59, the Committee deleted the first two subsections under "further resolved" at the request of John Tabor, Director, Division of Public Assistance, and adopted a different error rate for the food stamp program.

I would greatly appreciate an early scheduling of this resolution in your committee.

Thank you very much.

ROBERT T. MATSUI
3D DISTRICT, CALIFORNIA

COMMITTEE ON
WAYS AND MEANS

WASHINGTON OFFICE
231 CANNON HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
(202) 225-7163

DISTRICT OFFICE
3058 FEDERAL BUILDING
650 CAPITOL MALL
SACRAMENTO, CALIFORNIA 95
(916) 440-3543

Congress of the United States
House of Representatives
Washington, D.C. 20515

January 21, 1985

Dear Colleague:

Soon I will be introducing legislation to reform the quality control system used in the Aid to Families with Dependent Children (AFDC) program. I invite you to become an original cosponsor of this measure.

Over the years, the federal government has devised quality control guidelines to ensure that states reduce AFDC program errors and pay the right amount of benefits to eligible recipients. Our efforts have paid off. From FY 1973 through the first half of FY 1982, nationally states have nearly halved the average error rate from 16.5% to 7.3%. Also, many states have error rates well below the national average.

Notwithstanding the tremendous progress that has been made to reduce errors, many states are threatened by sizeable fiscal penalties for exceeding federally set error tolerance levels. I am concerned that the magnitude of these penalties, over $1.3 billion for fiscal years 1981 through 1989, may jeopardize the steady performance of error reduction that states have turned in over the past decade. In many cases, states which have lower than average error rates will be penalized. Moreover, states may be forced to absorb such cutbacks through reducing administrative costs resulting in even higher rates of error or passing it on to AFDC recipients through reduced or restricted benefits.

As I have stated above, the purpose of the quality control program is to help states improve AFDC administration and reduce AFDC errors. Its purpose is not, or should not be, to force states to cut AFDC benefits or develop more restrictive eligibility requirements. Its purpose is not to shift AFDC costs from the federal to state budgets. Its purpose is certainly not to force states to cutback on AFDC administrative staff or otherwise reduce administrative resources which will undoubtedly result in an increase in AFDC errors in the future. This is counterproductive and the reverse of what the quality control system seeks to achieve.

Without question, states must adhere to some form of quality control standards. To be effective, such a system must be timely, applied fairly and be cost-effective. Our present system does not accomplish these goals.

For example, under the current system, states do not receive information on errors they commit in time to be of great use to them in making corrections or recoveries. States have only received information from HHS relating to their FY 1981 error rate.

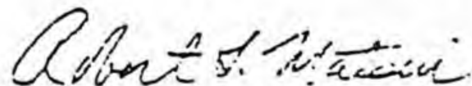
The current system also appears to overstate the actual AFDC error rate. Questionable statistical procedures are used to develop the error rates, and states are penalized for client errors over which they have limited control or for paperwork errors which do not involve misspent AFDC funds.

In addition, the present system fails to take into account economic conditions, as well as significant geographic and program differences among the states. These factors often contribute to errors in ways largely beyond the control of states. An unpublished HHS study shows that such outside factors as greater population density, higher crime rates, size of the local population and size of the welfare agencies' caseloads contribute significantly to higher error rates. Despite these findings, HHS makes no effort to consider these factors when determining a state's error liability.

In other words, the current quality control system will take federal AFDC funds away from states because of an increase in errors largely caused by conditions beyond the control of the states. Furthermore, this reduction in federal funds will come at a time of rising poverty and just when many of these states are beginning to recover from the recession.

My legislation attempts to address these problem areas while retaining the quality control system and mandating a basic error tolerance of 4 percent. The attached fact sheet further describes the provisions of the proposal. Should you desire to cosponsor this measure or seek further information, please contact Elizabeth Vandivier or Cynthia Kettmann of my staff at x5-7163.

Very truly yours,



ROBERT T. MATSUI, M.C.

E-312 R4103

I

98TH CONGRESS
2D SESSION

H. R. 6295

To amend part A of title IV of the Social Security Act to improve quality control standards and procedures under the AFDC program, and to provide for studies to assist in the further improvement of such standards and procedures.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 24, 1984

Mr. MATSUI introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend part A of title IV of the Social Security Act to improve quality control standards and procedures under the AFDC program, and to provide for studies to assist in the further improvement of such standards and procedures.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 IMPROVEMENTS IN AFDC QUALITY CONTROL STANDARDS
4 AND PROCEDURES
5 SECTION 1. (a) Section 403(i) of the Social Security Act
6 is amended to read as follows:

"(i)(1) In order to establish and maintain improved quality control standards and procedures in the operation and administration of State plans approved under this part—

"(A) each State shall collect and submit to the Secretary, in accordance with a timetable which shall be established by the Secretary in regulations, a statistically reliable sample of the cases under its plan approved under this part during each fiscal year or (at the option of the State) during each of the two 6-month periods in such year, for purposes of quality control review under this subsection;

"(B) the Secretary shall review and analyze the sample so submitted and shall notify the State of its error rate for the period involved within 6 months after the close of the fiscal year or within 6 months after the date on which the sample is submitted, whichever is later; and

"(C) the State shall develop and submit to the Secretary a corrective action plan for eliminating or reducing all errors identified as a result of the Secretary's review and analysis under subparagraph (B) (whether or not such errors are subject to inclusion for purposes of sanctions under this subsection) and, after such plan has been reviewed and approved by the Secretary, shall implement the corrective actions provided

for in such plan in accordance with a timetable established by the Secretary in regulations; and the Secretary shall continuously monitor the State's corrective action process under such plan.

The sample collected and submitted under subparagraph (A) by a State which has elected to collect an annual sample rather than two 6-month samples for any fiscal year shall in no case include a smaller number of cases than the number that the Secretary determines would be required for a statistically reliable sample if the State had elected instead to collect and submit two 6-month samples for that fiscal year.

"(2)(A) Notwithstanding subsection (a)(1) (but subject to subparagraph (C) and paragraph (3)), if a State's error rate for any fiscal year (as defined in paragraph (6)) exceeds the error rate tolerance level determined for the State (for that year) under subparagraph (B), then the Secretary shall make no payment for such fiscal year with respect to the State's erroneous payments (as so defined) to the extent that the inclusion of such payments in determining the State's error rate caused such rate to exceed the tolerance level so determined.

"(B) A State's error rate tolerance level for any fiscal year shall be 4 percent, increased by—

"(i) 0.5 percentage points if the plan of such State approved under this part provides (throughout such

1 fiscal year) for the payment of aid with respect to de-
2 pendent children of unemployed parents as provided in
3 section 407,
4 "(ii) 0.1 percentage points for each full 20-percent
5 increment (up to a maximum of 5 such increments) by
6 which (I) the ratio of the number of families with
7 earned income who are receiving aid under such
8 State's approved plan to the total number of families
9 receiving such aid exceeds (II) the average ratio, per
10 State, of the number of families with earned income
11 who are receiving aid under all of the State plans ap-
12 proved under this part to the total number of families
13 receiving such aid, and
14 "(iii) 0.1 percentage points for each full 20-per-
15 cent increment (up to a maximum of 5 such incre-
16 ments) by which (I) the population per square mile of
17 land area in such State exceeds (II) the average popu-
18 lation per square mile of land area, per State, in all of
19 the States having plans approved under this part.
20 "(C) In determining the error rate in any State for pur-
21 poses of this paragraph—
22 "(i) such rate shall be fixed at the lower bound of
23 the standard interval for errors within which the
24 State's true error rate falls (as determined without
25 regard to this clause on the basis of the sample or

how about a provision waiving the others for rural areas?

1 samples collected and submitted by the State under
2 paragraph (1)); and
3 "(ii) errors which are technical in nature or have
4 no fiscal impact, such as omissions (from the State's
5 files) of social security account numbers, assignments of
6 support rights, declarations of cooperation in obtaining
7 support, and WIN or other work program registra-
8 tions, shall be disregarded.
9 "(D) The total amount of the sanctions that would oth-
10 erwise be imposed upon a State under subparagraph (A) on
11 account of an error rate in excess of the applicable error rate
12 tolerance level for any fiscal year shall be reduced by the
13 Federal share of any overpayments collected by such State
14 (on account of erroneous payments) during that fiscal year.
15 "(3)(A) The Secretary, in accordance with this para-
16 graph, may waive all or any part of any sanction that would
17 otherwise be imposed upon a State under paragraph (2)(A) if
18 such State is unable to reach the applicable error rate toler-
19 ance level for the fiscal year involved despite a good faith
20 effort by such State.
21 "(B) Any State may request a waiver of all or part of
22 any sanction that would otherwise be imposed for any fiscal
23 year under paragraph (2)(A), basing such request upon a
24 showing that it made (and is continuing to make) a good faith
25 effort to reduce or eliminate the erroneous payments involved

but was unable to reach the applicable error rate tolerance level for such fiscal year despite that effort. The Secretary shall consider and review such request, and either approve it or disapprove it in whole or in part, in accordance with a timetable which shall be specified in regulations. If the Secretary disapproves the request, the State may appeal the Secretary's decision to the Grant Appeals Board in the Department of Health and Human Services for such further action as may be provided for by law or regulations (including judicial review of the Secretary's decision or the Board's determination, without regard to any other changes in such regulations which may hereafter become effective).

"(C) In considering and reviewing any request for a waiver submitted by a State under this paragraph, the Secretary shall take into account—

"(i) factors beyond the State's control (including disasters, strikes by State or other staff personnel engaged in determining eligibility or processing cases, sudden workload changes resulting from changes in Federal or State laws or regulations or from rapid c[illegible]oad growth, and State actions resulting from incorrect policy interpretations by Federal officials);

"(ii) factors relating to agency commitment, including demonstrated commitment by upper level State officials to the error reduction program under this sub-

section, the sufficiency and quality of operational systems designed to reduce errors, the use of effective systems and procedures for the statistical and program analysis of quality control and related data, and effective management and execution of the corrective action process; and

"(iii) such other factors as the Secretary may determine to be appropriate, as specified in regulations or as detailed by the State in its waiver request.

The Secretary's regulations shall specify the factors to be considered and the criteria to be used in assessing waiver requests under this paragraph, and shall indicate the relative weight or importance of each of such factors and criteria in order to assist States in determining the appropriateness of proposed requests.

"(D) Notwithstanding the preceding provisions of this paragraph, the Secretary shall in any case grant a waiver requested by a State under subparagraph (B) for any fiscal year if the State's corrective action plan submitted under paragraph (1)(C), or a separate plan for the reduction of errors submitted by the State along with its waiver request, provides in detail for the expenditure of additional State and local funds for the reduction of errors in such fiscal year in a total amount (over and above the amount of State and local funds that would otherwise be expended in such fiscal year

for the administration of the State plan approved under this part) equal to or exceeding one-half of the net amount of the sanctions that would otherwise be imposed upon the State under paragraph (2)(A) for such fiscal year. Expenditures of additional State and local funds for the reduction of errors as provided for in the corrective action plan or separate plan described in the preceding sentence shall be considered (for purposes of subsection (a)) to be expenditures for the proper and efficient administration of the State plan approved under this part.

"(4) If a State's error rate for any fiscal year is less than 4 percent, the Secretary shall pay to the State as an incentive payment an amount equal to one-half of the net amount by which Federal payments to the State under subsection (a)(1) for such fiscal year are reduced because such error rate is below 4 percent.

"(5)(A) Each State agency administering a plan approved under this part shall, at such times and in such form as the Secretary may specify, provide information on the rates of erroneous payments made in connection with its administration of such plan, together with any other data which the Secretary may request that are reasonably necessary for the Secretary to carry out the provisions of this subsection.

"(B) If a State fails to cooperate with the Secretary in providing information necessary to carry out this subsection,

the Secretary, directly or through such contractual or other arrangements as the Secretary may find appropriate, shall establish the error rates for that State on the basis of the best data reasonably available and in accordance with such techniques for sampling and estimating as the Secretary may find appropriate.

"(C) In any case in which it is necessary for the Secretary to exercise the authority under subparagraph (B) to determine a State's error rate for a fiscal year, the amount that would otherwise be payable to such State under this part for quarters in such year shall be reduced by the costs incurred by the Secretary in making (directly or indirectly) such determination.

"(6) For purposes of this subsection—

"(A) the term 'error rate', with respect to any State for any fiscal year, means the ratio of such State's erroneous payments for such year (as defined in subparagraph (B)) to its total payments under the State plan approved under this part for such year, determined subject to the adjustments provided for in paragraph (2)(C); and

"(B) the term 'erroneous payments' means—

"(i) payments to ineligible families receiving assistance,

"(ii) overpayments to eligible families receiving assistance, and

"(iii) underpayments to eligible families receiving assistance.

"(7) This subsection shall not apply with respect to Puerto Rico, Guam, or the Virgin Islands.".

(b) The amendment made by subsection (a) shall be effective only with respect to quarters in the fiscal year 1983 and subsequent fiscal years; except that such amendment may also be effective in the case of any State, at the election of the State made in such manner and within such time as the Secretary of Health and Human Services shall by regulation prescribe, with respect to quarters in the fiscal year 1982 or with respect to quarters in the fiscal years 1981 and 1982.

STUDY OF CLIENT ERRORS AND BROADER PERFORMANCE MEASURES

SEC. 2. The Secretary of Health and Human Services shall study and analyze in detail—

(1) the nature of client errors under the AFDC program and the degree to which such errors could be controlled by States, including the development of standards by which to judge whether particular client errors could have been so controlled and an assessment of the cost effectiveness of this type of error reduction, and

(2) measures of a State's performance under the AFDC program which are broader than the current quality control system based on payment accuracy alone, and which might more accurately reflect the full range of responsibilities that States have in administering such program;

and the Secretary shall submit to the Congress within one year after the date of the enactment of this Act a full report of the results of such study and analysis together with the Secretary's suggestions and recommendations with respect thereto.

CONTINUATION OF CERTAIN REGULATIONS

SEC. 3. The regulations proposed by the Secretary of Health and Human Services and published in the Federal Register on April 23, 1984, removing section 416.2086 of title 20 of the Code of Federal Regulations (relating to Federal liability when error rate in payment of federally administered State supplementation exceeds national standard), shall be of no force or effect; and no regulations hereafter proposed shall have the effect of removing or limiting the application of such section except to the extent specifically authorized by legislation hereafter enacted.

O

BILL SHEFFIELD, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

POUCH H 01
JUNEAU, ALASKA 99811
PHONE: 465-3030

DOCUMENT #85-49

February 25, 1985

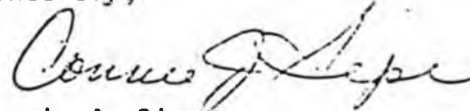
The Honorable Max Gruenberg
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Representative Gruenberg:

I know Bob Clem, Supervisor of our Quality Control Office, sent you some materials on U.S. Representative Matsui's bill to reform the AFDC quality control system. We just received the enclosed summary of the Matsui plan. I believe you'll find the summary helpful.

If we can answer any further questions on this subject, please call.

Sincerely,



Connie J. Sipe
Deputy Commissioner
for Social Services

Enclosure

cc: Rob Clem

06-F38LH

National Governors' Association
HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • (202) 624-5300

InfoLetter

GOVERNOR'S OFFICE

February 7, 1985

SUBJECT: The Quality Control System and Fiscal Sanctions for the Aid to Families With Dependent Children Program (AFDC)

In an Action Letter dated November 26, 1984 concerning the same subject, we told you that Representative Robert Matsui of the House Ways and Means Committee will re-introduce his bill in the 99th Congress addressing many of the problems in the current AFDC quality control system. While he has not yet introduced it, he has sent a letter to his House colleagues outlining the details of his bill and requesting cosponsors. That letter is attached for your information. When the bill is introduced within the next several weeks, we will distribute the details to you immediately.

If you have any questions concerning the letter, please call Barry Van Lare, Staff Director for the Committee on Human Resources at (202) 624-5342 or Roy Simon on Barry's staff at (202) 624-7819.

HJR 59

Alaska State Legislature

Senate Committee on
Health, Education and Social Services

MEMORANDUM

TO: Members, Senate Committee on Health, Education and Social Services

FROM: Committee Staff

RE: Committee Meeting, February 6, 1986

DATE: February 4, 1986

On Thursday, February 6, 1986, from 1:30-3:30 pm in the Belt R om, the Senate Committee on Health, Education, and Social Service will hear the following bills:

CS HJR 59, Urging the United States Congress to pass an amended form of H.R. 1279 (99th Congress), the AFDC Error Reduction and Quality Control Act, or substantially similar legislation.

The federal government has devised quality control guidelines to ensure that states reduce AFDC program errors and pay the right amount of benefits to eligible recipients. These efforts have resulted in a reduction in the national error rate from 16.5% in FY 73 to 7.3% in FY 82.

The current system assesses penalties to states for exceeding federally determined error tolerance levels. [The state of Alaska faces a potential fiscal sanction of over $12 million for errors largely caused by conditions beyond its control such as paperwork and client errors.] Absorbing this cutback through reducing administrative costs could result in even higher rates of error or reduced benefits to recipients.

HJR 59 urges support for legislation pending in Congress that would address problems within the present quality control system for the Food Stamp, Medicaid and AFDC programs. Specifically, HJR 59 recommends adoption of provisions that would: (1) provide that underpayments to clients or errors with no fiscal impact not be included in fiscal sanctions, (2) raise the allowable error rate, (3) provide incentives to those states with error rates below the national average, and (5) make provisions for those states who have experienced circumstances beyond their control.

MEMORANDUM

TO: MAX GRUENBERG

FROM: NANCY BENNETT

DATE: JUNE 5, 1985

RE: THE MATSUI BILL

WHY HAS THE BILL BEEN INTRODUCED?

The federal government has devised quality control guidelines to ensure that states reduce the number of Aid to Families with Dependent Children (AFDC) program errors and pay the right benefits to recipients. Since 1973, with the assistance of improved computer sustems, states have made a good faith effort and halved the national error rate.

However, there is some question about the equity of the existing system. Penalties are assessed, not only for improperly paid funds, but for paperwork errors and client errors over which states have little control. States are currently facing over $1.3 billion dollars in fiscal sanctions for exceeding federally determined error tolerance levels. In order to return this money, states may jeopardize the existing levels of error rates by reducing administrative costs, or pass the reductions on by reducing or restricting AFDC benefits to recipients.

A quality control system is highly desirable, but its purpose should not be to force program cutbacks or shift a heavier financial burden onto states in a time of rising poverty and economic hardship. Rather, the goal should be a cost-effective, timely and equitable system with incentives as well as fair penalties, which will not subvert the reduction of true errors.

The current system notifies states of errors committed after a four year time lapse, uses questionable statistical procedures to develop the rates and fails to take into account economic and geographic conditions and program differences. States are being penalized for conditions which are clearly beyond their control for a complicated system under constant change through federal regulation.

WHAT WILL THE BILL DO?

HR 6295, The AFDC Error Reduction and Quality Control Improvement Act, would ensure that error rate sanctions are fair and based only on misspent funds while encouraging correction of all administrative errors. The bill would also allow individual error rates to be adjusted from the national rate depending on certain

unique conditions within each state, and would require the system to operate in a more timely manner. The Matsui bill will also set up a waiver and appeals process as well as offer rewards to states for low error rates.

HOW CAN THE BILL BE IMPROVED?

AFDC is only one of three need based programs facing fiscal sanctions from the federal government. The Medicaid and Food Stamp programs are closely intertwined with AFDC - any change in the circumstances of any one will ultimately effect eligibility and benefits for the others. Each of these three programs have complicated and different requirements for eligibility determination, benefit calculation and quality control. The state of Alaska currently faces over a $6.3 million dollar total fiscal sanction for these three programs, has filed suits over the sanctions, and will probably be facing an extensive legal battle in defense of the state's actions.

All three separate quality control systems, serving the same clients and creating a total support network, should be included in the Matsui bill. In addition, the systems should be combined to be more efficiently administered, to better coordinate benefits and to reduce the "welfare maze".

The latest development in the Medicaid program, prospective withholding, where the federal government reduces each quarterly payment by the amount anticipated to be the error rate, comes as a blow to states already beyond the budget process, forcing them to take administrative action to compensate for lost funds which had been anticipated. This change in federal procedures threatens an already burdened system and signals the states to expect further unacceptable changes.

The attached letter from Governor Sheffield to the House Ways and Means Committee supports the Matsui bill with one exception, that underpayments to clients not be included in the fiscal sanction, since benefits not issued do not represent loss, waste or abuse. The Governor also points out the geographical necessity for special treatment in calculating error rates for persons living in isolated, rural Alaska not accessible by any commercial transportation.

WHAT CAN BE DONE TO HELP IN PASSAGE OF THE BILL?

Any state supporting the concepts of the Matsui bill must contact their Congressional delegation for support. Resolutions passed by state legislatures are another method of demonstrating state support for equitable quality control.

BILL SHEFFIELD, GOVERNOR

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

POUCH H 01
JUNEAU, ALASKA 99811
PHONE: 465-3030

Document No. 85-52

February 28, 1985

The Honorable Max Gruenberg
Co-Chairman
House Health, Education and
Social Services Committee
Pouch V
Juneau, AK 99811

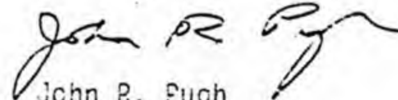
Dear Representative Gruenberg:

Enclosed is a summary of the status of potential fiscal sanctions based on quality control payment error rates for the Aid to Families With Dependent Children, Food Stamps, and Medicaid programs. You had requested this information during the overview for the Department of Health and Social Services.

Please feel free to contact me (465-3030) or Bob Clem, Quality Control/Corrective Action Coordinator (465-4952) for further information or explanation.

Thank you for your interest.

Sincerely,



John R. Pugh
Commissioner

Enclosure

06-F38LH

Summary of Proposed or Potential Fiscal Sanctions for Excessive Quality Control Payment Error Rates for the AFDC, Food Stamp and Medicaid Programs

Program	Period Covered	Proposed or Potential	Amount
Food Stamp	April-Sept. 1981	Proposed	$2,148,102
AFDC	Oct. 1982-Sept. 1983	Potential	1,024,280
AFDC	Oct. 1983-Sept. 1984	Potential	653,677
Medicaid	April-Sept. 1981	Proposed	1,954,936
Medicaid	April-Sept. 1983	Proposed	527,512
Total Fiscal Sanctions Proposed/Potential			$6,308,507

A discussion of each of the above proposed or potential sanctions follows:

Food Stamp Program

A sanction in the amount of $2,148,102 was imposed by the Food and Nutrition Service (FNS), U.S. Department of Agriculture, for excessive Quality Control (QC) payment error rates for the period April - September 1981.

The State appealed this sanction and the appeal was denied. The State then requested an Administrative Hearing of the proposed sanction and the decision of that hearing was also against the State.

In May 1984, a suit was filed in U.S. District Court of Alaska by the State seeking relief from this fiscal sanction. The attorneys for the State have just completed discovery phase of the suit and will soon be filing a request for summary judgement with the court.

Though earlier fiscal sanctions were proposed by FNS, they have all been waived or dismissed and no other Food Stamp fiscal sanctions are pending.

It is very probable,however, that the State will face a potential fiscal sanction for the current federal fiscal year (October 1984 - September 1985) since the federal target error has now been decreased to 5% from 10.48% for the previous year. Currently the State's Food Stamp Program error rate is nearer 10% than 5% and it is not anticipated to decrease substantially.

AFDC Program

It was not until federal FY1983 and 1984 that the Department exceeded the target error rate of 4% and 3% respectively as mandated by Congress in the Omnibus Budget Reconciliation Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982.

For federal FY1983, the actual error rate as calculated by the State (without federal adjustment) was 12.313%. This exceeded the target error rate of 4% by 8.313% and thus exposed the State to a potential

fiscal sanction of approximately $1,024,280.

For federal FY1984, the actual error rate calculated by the State (without federal adjustment) was 6.793%. This exceeded the target error rate of 3% by 3.797% and again exposes the State to a potential fiscal sanction of approximately $653,677.

Though we have not yet received formal notice of proposed fiscal sanctions for the above error rates from the federal agency, they are anticipated shortly, and will be appealed on the basis of good faith effort. If that is not favorably considered, judicial relief may be pursued.

It is also probable that the State will be sanctioned for federal FY1985 since the current AFDC error rate is approximately 7% and is not expected to decrease substantially.

Medicaid

The Department was notified by letter dated June 27, 1983 that the State was liable for a fiscal sanction of $1,954,936 for excessive quality control payment error rates for the period October 1980 - September 1981.

The Department submitted a request for waiver of the fiscal sanction on August 24, 1983 as provided for in federal regulations. Basis for requesting the waiver was "good faith effort" on the part of the State in reducing Medicaid payment error rates.

Other than acknowledging receipt of our appeal, no further word has been received regarding the fiscal sanctions and we are advised that it is still under consideration.

The Department's Medicaid error rate was within the 3% target error rate until the period April - September 1983 when the State's actual error rate was calculated to be 6.798%. (A single nursing home ineligible case was responsible for approximately one - half or 3.35 percentage points of the error rate.) Based on the excessive error rate of 3.7981% the federal agency has, in a letter dated January 24, 1985, proposed a fiscal sanction in the amount of $527,512.

The State has 35 days from the date of the January 24 letter to file an appeal for good faith waiver of that sanction.

January 15, 1985

AFDC ERROR REDUCTION AND QUALITY CONTROL IMPROVEMENT ACT

The AFDC Error Reduction and Quality Control Improvement Act is designed to achieve four objectives:

- To ensure that error rate sanctions are fair and do not result in AFDC benefit cuts or further reductions in administrative funds.
- To hold States accountable for making accurate AFDC payments and impose fiscal sanctions for excessive errors.
- To require that States identify and attempt to correct all errors made in administering the AFDC program but base fiscal penalties only on errors which result in misspent AFDC funds.
- To establish a fair, equitable and timely AFDC quality control system by acknowledging that a State's error rate should be adjusted when socio-economic, geographic and program factors influence the error rate.

Summary of Provisions

1. Establish minimum quality control policies and procedures in law.

   A. States would be required to determine the AFDC error rate for each fiscal year. States would collect a statistically reliable sample of cases for a quality control review following a timetable established in regulations. States could, at their option, collect either 2 six-month samples or an annual sample of their AFDC caseload to develop the error rate but would be prohibited from reducing their sample size.

   B. The Federal re-review, analysis, and notice to the States of the official error rate would have to occur within six months after the close of the fiscal year for which the data are collected or six months from the date a completed State sample is submitted to the Federal regional office, whichever is later. The State's official error rate for fiscal sanction purposes would be the adjusted State error rate discussed below.

   C. After completing the State data collection process: (1) States would develop and submit to the HHS Secretary a corrective action plan for reducing the identified errors (including those not subject to fiscal penalties as discussed below); (2) the HHS secretary would review and

approve the plan; and (3) implementation of the corrective actions would begin. The HHS Secretary would be required to establish a timetable for these activities in regulations and monitor the corrective action process. States with error rates that are consistently at or below the standard tolerance level, prior to adjustment, would not be required to submit a corrective action plan for the Secretary's approval.

2. Set a new national standard for the AFDC error rate.

   A. The standard tolerance level for overpayment errors would be permanently set at 4 percent. Under current law, States must reach a 4 percent standard tolerance level by FY 83; this declines to 3 percent for FY 84 and thereafter.

3. Determine the adjusted State error rate.

   A. The procedures described above would be used to obtain the raw error rate data. Subsequently, two adjustments would be made to produce the adjusted State error rate:

      - First, the point estimate of a State's error rate would be the lower bound of the range within which a State's true error rate falls. This statistical adjustment is necessary because the sampling procedure used in the quality control system cannot precisely estimate the actual error rate. Instead, the system identifies a range within which the actual error rate is located. Under current rules, the midpoint of the range is used even though the true rate may be lower than the midpoint.

      - Next, technical errors would be excluded for fiscal sanctions purposes. These are paperwork omissions which, if corrected, would not change the AFDC payment level. They include: failure to provide evidence in the file of social security numbers, assignment of rights to support, cooperation in obtaining support, WIN registration, and other errors which have no fiscal impact.

4. Recognize that certain factors beyond a State's control influence the error rate by adjusting the standard tolerance level annually for each State. The standard tolerance level would be adjusted as follows:

   A. Add 0.5 percent to the standard level if the State has operated an AFDC unemployed parent program during the fiscal year.

B. Add 0.1 percent to the standard level, up to a maximum of 0.5 percent, for each 20 percent increment by which the State exceeds the national average in terms of percent of total State AFDC caseload with earnings.

C. Add 0.1 percent to the standard level, up to a maximum of 0.5 percent, for each 20 percent increment by which the State exceeds the national average in terms of population density (population per square mile of land area).

D. The steps described in item 3 produce the adjusted State error rate. The steps described in item 4 produce the adjusted State tolerance level.

5. <u>Impose fiscal sanctions on the basis of the adjusted State error rate and the adjusted State tolerance level.</u>

A. A State's fiscal sanction would be equal to the Federal portion of benefits paid above the adjusted State tolerance level using the adjusted State error rate.

B. A sanction amount would be reduced by the Federal share of overpayments collected by the State in the fiscal year to which the error rate applies.

C. The current authority for the HHS Secretary to waive sanctions to acknowledge certain circumstances would be retained and modified as follows:

(1) States could request a waiver based on the State's good faith effort to reduce errors. In making the waiver request, States would also be permitted to challenge the Federal error rate findings. The HHS Secretary would review and act on the request according to a timetable specified in regulations.

(2) The regulations would also specify the criteria that would be used in assessing waiver requests and the relative importance of each factor so that States may informally assess whether a waiver request is appropriate. In reviewing the waiver request, the HHS Secretary would be required to consider the following:

(a) <u>Factors beyond the State's control</u> -- such as disasters (fire, flood or civil disorders); strikes by State or other staff needed to determine eligibility or process changes in cases; sudden workload changes resulting from changes in Federal or State law and regulations or rapid caseload growth; and State actions which were the result of incorrect policy interpretations by a Federal official.

(b) Factor's related to agency commitment -- such as demonstrated commitment by top management to the error reduction program; sufficiency and quality of operational systems which are designed to reduce errors; use of effective systems and procedures for the statistical and program analysis of quality control and related data; and effective management and execution of the corrective action process.

(c) Other Factors as Appropriate -- these may be identified by the Secretary in regulations or may be detailed by States in their waiver requests but would include past State error rate performance as well as the cost effectiveness of error reduction efforts.

(3) States would be permitted to appeal the Secretary's decision on the waiver request described above to the HHS Grant Appeals Board and could also appeal to the courts.

D. In lieu of the waiver authority identified above, the Secretary would be required to permanently waive a sanction if the State submits a plan for the reduction of errors which includes the expenditure of additional State administrative funds equal to one-half of the sanction amount. These expenditures would be a Federally-matched administrative expense.

6. Reward States with low error rates.

A. A State would receive an incentive payment when its adjusted State error rate is below the standard tolerance level (prior to any adjustments) of 4 percent. The amount of the incentive payment would be equal to one-half of what the Federal government saves on AFDC payments because the State error rate is less than 4 percent.

7. Conduct selected studies related to error reduction and quality control.

A. The HHS Secretary would be directed to complete a study within one year of enactment which includes: a detailed analysis of the nature of client errors and the degree to which client errors can be controlled by States; standards by which to judge whether a client error could have been controlled; and an assessment of the cost-effectiveness of this type of error reduction.

B. The HHS Secretary would also be directed to study and suggest measures of AFDC performance which are broader than the current quality control system (which measures

only payment accuracy) and more accurately reflect the full range of responsibilities a State has in administering the AFDC program. The underpayment error rate would be one such measure. This study would also examine the cost effectiveness of error reduction and of a broader performance measurement system.

8. Effective date.

A. For FY 81 and 82, States would have the option of applying current law (the Michel amendment) or the new quality control system and standards.

B. For FY 83 and thereafter, the new quality control system and standards would apply.

* * * *

This legislation also includes a quality control provision affecting the Supplemental Security Income (SSI) program. The provision would require the Federal government to continue reimbursing States for the errors it makes in administering the State Supplemental Program (SSP) in SSI. The present agreement between the Federal government and the States promulgated in regulations on March 7, 1979 would be retained.