STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

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

February 22, 1980

ALL-COUNTY INFORMATION NOTICE I-22-80

TO: ALL COUNTY WELFARE DIRECTORS

SUBJECT: AFDC PROGRAM PERFORMANCE STANDARD AND SANCTIONS

REFERENCE:

This letter is to provide updated information on the issue of performance standards/fiscal sanctions in the administration of the AFDC program. There have been a number of important developments in this area during the past year at both the state and federal levels.

To assure adequate county performance in the administration of the AFDC program, SB 154 authorized me to hold counties financially liable for error rates in excess of a standard. AB 339 continues that authority.

The statewide error rate for the first SB 154 quality control review period (October 1978-March 1979) was 5.5% based on state findings only. The figure will probably increase when the final federal results are received. For that period the error rates for several counties were in excess of the 4.0 percent standard. As you know, I called a special meeting with county welfare directors on September 6 to share my serious concern about the increase in error rate. I also informed you that I would not be imposing fiscal sanctions for the two SB 154 QC review periods of October-March 1978/79 and April-September 1979. These two periods would be considered a "shake-down" period to allow counties to get used to QC procedures and to identify their performance in relationship to the four percent standard.

I want to assure you that future decisions about sanctions will take into consideration all of the comments and suggestions you have presented to me, as well as the error rate data for the April 79 through September 1979 period and legislative direction. I will inform you of my decision.

Four percent will remain as the AFDC payment error rate standard. This standard will include client errors. I have carefully considered the viewpoint expressed by several counties that client errors should not be included in the standard. I have decided to maintain current policy because client errors have been reduced and they are controllable. As required by AB 339, I have reported the standard to the Legislature and I am attaching a copy of that report for your information.

Recently filed federal regulations (Michel Amendment) set a national error rate standard of four percent to be achieved by all states by federal fiscal year 1982. Because California's error rate was below the four percent standard during the base period, we must achieve a four percent error rate for the October 80-September 81 period. Failure to achieve this standard will result in a reduction in federal financial participation in California.

When the error rate figures for April-September 1979 are available, I will be forwarding to each of you a comparison of effectiveness, efficiency and equity performance in the AFDC program for your county and counties of a similar size. This information will allow you to assess the performance of your county as compared to counties of like size.

I continue to have serious concerns about error rate levels and there is a need for both the state and the counties to maximize their efforts in this area.

Sincerely,

Marion J. Woods

MARION J. WOODS
Director

cc: CWDA

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# REPORT TO THE LEGISLATURE

## Aid to Families with Dependent Children (AFDC) Dollar Error Rate Standard Assembly Bill 339

### Introduction

Assembly Bill 339, Section 13, requires the Director of the Department of Social Services (DSS) to submit to the Joint Legislative Budget Committee the AFDC dollar error rate standard to be in effect during the two quality control review periods commencing with the 1979-80 fiscal year.

### Background

The Social Security Administration of the U.S. Department of Health, Education, and Welfare (HEW) requires each state to conduct quality control reviews on a statewide random sample of AFDC cases. HEW specifies the review procedures, sample size and the time period. California is required to complete 1200 active case reviews in each six-month period of October-March and April-September. Additional cases are sampled and reviewed in California to allow for assessment of the performance of the larger counties. HEW staff review a subsample of the 1200 cases in each six-month period and apply the results in a regression formula which yields the final federally established statewide error rates.

In each six-month review period case error rates and dollar error rates are determined for ineligibles (families receiving a grant who are not eligible), overpayments (families who are eligible but overpaid) and underpayments (families who are eligible but underpaid). Error rates are established initially for the state and those individual counties whose performance is being assessed. Subsequently revised state error rates are established based on results of the federal subsample reviews. Final federal figures are usually one or two tenths of a percent higher than the original state findings.

### National Performance Standard

In the early 1970s, HEW issued regulations requiring states to make error reduction progress toward case error rate standards of 3.0 percent for ineligible cases and 5.0 percent for overpaid cases. States that did not achieve the standards would be subject to a reduction in federal financial participation. Subsequently, the court in Maryland v. Mathews ruled that the 3.0 percent and 5.0 percent standards were arbitrary and could not be used. The court did not preclude fiscal sanctions based on reasonable standards of performance. As a result of the court's ruling HEW withdrew the regulations and began development of a different approach. The result was new regulations effective March 1979 that set the national standard as the weighted mean of the states' payment error rates. The payment error rate is defined as the percent of total dollars mis-spent due to payments to ineligibles and overpayments to eligibles. These regulations will be superseded effective October 1, 1980 by new regulations implementing the Michel Amendment to HR 4289. These new regulations require states to achieve a payment error rate of 4.0 percent by September 30, 1982. States must progress toward 4.0 percent by one-third decrements in fiscal years 1980, 1981 and 1982. Failure by a state to achieve the interim targets or the ultimate 4.0 percent will result in a reduction in federal financial participation.

HEW officials have expressed opposition to the Michel Amendment requirements and have taken action to remove them. An amendment to HR 4904, sponsored by HEW, would replace the Michel Amendment's 4.0 percent with an empirically derived standard. That standard, or standards as it may vary by state, will be determined by a national study that is currently underway. The expected completion date for the study is November 1980.

State and County Action to Reduce Errors

In 1972-73 the Department began a major commitment to the reduction in misspent dollars due to errors. Organizational changes were made so that resources could be dedicated to error reduction. A corrective action committee was formed with Deputy Director involvement to identify appropriate state level corrective actions and to ensure sufficient priority to carry them out. Regulations were issued requiring county welfare departments to establish quality control-corrective action functions. In addition, the size of the quality control sample was increased to provide error rates for each of the 15 largest caseload counties. Counties responded by placing high priority on the error reduction effort and by implementing a variety of effective quality control-corrective action functions.

Error Reduction Progress

The results of the state and county efforts to reduce errors were substantial. The statewide payment error rate declined from 9.8 percent in the January-June 1974 period to 3.7 percent in the April-September 1978 period (see attachment A). This represents a 62 percent reduction and a cumulative savings of over $360 million.

The state's error rate performance has consistently been substantially better than the other large caseload states (see attachment B). In the most recent period for which federal figures are available only five very small caseload states have error rates lower than California.

Proposition 13

Prior to July 1978, counties contributed about 16 percent of the AFDC grant costs. This meant that $.16 of every dollar misspent through error was county money. With the passage of Proposition 13, Senate Bill 154 "bought out" the counties' share for one year effective July 1, 1978. While there is little doubt that for counties error reduction is a top priority as a matter of commitment to sound management, there was some concern that with county money no longer at stake, error reduction efforts might be reduced. To offset any such reduction in effort SB 154 authorized the Director of DSS to impose fiscal sanctions on those counties that did not achieve an error rate standard. To implement SB 154, quality control samples were expanded to provide error rates for the 35 largest caseload counties (approximately 98.0 percent of the total caseload) and these counties began doing their own quality control reviews according to federal procedures. The State would monitor county reviews by use of subsample reviews and would apply the results in a regression formula to arrive at county error rates. In addition, a payment error rate standard of 4.0 percent was established in regulation. Four percent was chosen as a standard that was reasonable because at that time 4.0 percent had been achieved in three out of the four most recent review periods.

Error Increase for October '78-March '79

The statewide error rate for the first complete post Proposition 13 quality control review period was 5.5 percent (state findings only). The sharp increase in the error rate from the previous review period caused immediate concern in the Department. An analysis of the error rate was begun with an objective of identifying the cause or causes of the increase. In addition, the Director called a special meeting of county welfare directors to share his serious concern about the increase, to hear county views on error rate reduction and to pledge the Department's continuing commitment to work with the counties to maintain low error rates. While county welfare directors were unanimous in their commitment to error rate reduction, several expressed concern about their ability to maintain the expected level of performance. One of their major concerns was that of being held accountable for client-caused errors.

Several factors were considered in the analysis of the error rate, including the impact on county staff morale and the threat to job security caused by Proposition 13, the introduction of county staff in the quality control review process, the statistical error of measurement, the impact on AFDC case management of the implementation of a substantial revision to the Food Stamp Program, an increase in client misreporting and a reduction in county effort. While one might speculate that any one or all of the factors could have contributed to the increase, we were not able to conclusively identify the cause or causes. The results of the April-September 1979 period, which are not yet available, may further help us determine the reason for the increase.

Even with the error rate in excess of 5.0 percent, California would continue to compare favorably with the national average and the other large caseload states (see Attachment B).

Error Rate Standard for Fiscal Year 1979-80

As you have seen above and on Attachment A, California and its counties have lowered the error rate substantially over the past five years, including three recent review periods of below 4.0 percent. The error rates achieved include client-caused errors, both willful and non-willful, which have been reduced proportionately through the use of monthly recipient reporting, income verification systems and various other county actions. In short, client-caused errors have shown to be controllable. Even in the current tight fiscal environment we believe conscientious welfare administrators and the taxpayer expect government to continue to achieve the lowest possible error rate. For these reasons we see no basis for increasing the error rate standard at this time.

Therefore, for the quality control review periods of October-March 1979-80 and April-September 1980 the Department will continue the 4.0 percent standard as expressed in current regulations. The standard will continue to include client-caused errors, both willful and non-willful.