REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

THE DEPARTMENT OF SOCIAL SERVICES COULD MORE EFFECTIVELY USE THE DATA FROM THE AFDC QUALITY CONTROL REVIEWS

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OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

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THE DEPARTMENT OF SOCIAL SERVICES COULD MORE EFFECTIVELY USE THE DATA FROM THE AFDC QUALITY CONTROL REVIEWS

SEPTEMBER 1982

California Legislature

Joint Legislative Audit Committee

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September 2, 1982

The Honorable President pro Tempore of the Senate 107
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Transmitted herewith is the Auditor General's report on the Department of Social Services' administration of quality control in the Aid to Families with Dependent Children (AFDC) Program.

The AFDC Program provides cash assistance to needy children and their parents or guardians whose income is insufficient to meet their basic needs.

Eligibility is determined by a variety of factors such as age, citizenship, school attendance, income, property, and the status of the parents or guardians (deceased, incapacitated, not fully employed, or continually absent).

The cost of the AFDC Program in 1980-81 totalled $2.71 billion. The state's share of this amount was $1.24 billion.

The State Department of Social Services is responsible for the supervision of the AFDC Program in California. Federal regulations allow the states a great deal of leniency in their oversight of this program.

The Auditor General's report discloses several deficiencies in the department's supervising and directing of the AFDC Program. These problems basically deal with meeting federal requirements for state conducted quality control reviews. The latest quality control review disclosed that California's erroneous AFDC payment level was over $162 million.

The Department of Social Services, however, has been of little or no assistance in directing counties on how to reduce their error rates. The counties have expressed their need for more analysis on the causes of errors and for suggested corrective action.

Although various analytical processes are available, the DSS has not used these to provide assistance to the counties. The Department of Social Services has not conducted adequate surveys to locate or pinpoint types of problem cases. They have not developed error prone profiles that might "red flag" the probable error cases.

Because of its inadequate procedures DSS has not been able to establish a reliable error rate as a means for evaluating the performance of counties and as a basis for imposing fiscal sanctions against counties.

The auditors conclude that the Legislature has required the Department of Social Services either to impose fiscal sanctions on counties that do not meet the performance standard, or to report why the county was not sanctioned. However, the DSS has not developed a satisfactory system for imposing fiscal sanctions on counties whose AFDC error rates exceed the set standard. Quality control error rates have been so statistically imprecise that the data are inconclusive, and the DSS can not accurately assess the performance of counties.

Respectfully submitted,

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee

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TABLE OF CONTENTS

SUMMARY

In comparison to other states with large AFDC caseloads, California has had a relatively low rate of erroneous AFDC payments. However, the Department of Social Services (DSS) could more effectively use the data it acquires from its AFDC quality control reviews. The DSS requires counties to conduct quality control reviews for two reasons: (1) to provide the State and the counties information that will assist them in reducing their error rates; and (2) to establish a reliable error rate as a means for evaluating the performance of counties and as a basis for imposing fiscal sanctions against counties. The DSS falls short of fully achieving both of these goals.

The DSS has provided to the counties only limited analysis of available management information on AFDC payment errors. The counties, meanwhile, have expressed a need for more analysis of what causes errors and for ways of correcting these errors. More sophisticated analysis could lead to corrective action, which could reduce the statewide error rate.

Considering that in the most recent 12-month quality control review period California's level of erroneous AFDC payment was over $162 million, even a fractional reduction of

the error rate could result in substantial savings. Also, management information resulting from further analysis could possibly be used to streamline administrative procedures, thereby increasing the cost-effective use of resources. If the DSS were to provide more analysis of AFDC data, it could save the counties the duplicative cost and effort of developing and implementing their own analytical programs. The DSS could also make its analysis available to those counties that may not have the resources to develop their own programs.

Additionally, the DSS has not developed a satisfactory system to impose fiscal sanctions on counties. If a county's AFDC payment error rate is above a set standard, the DSS may withhold a portion of future funding. The system for imposing such sanctions, however, is based on estimated error rates that have been too imprecise to be used as a basis for imposing fiscal sanctions. Consequently, no sanctions have yet been imposed on counties. Moreover, the error rates are even less precise than the DSS' figures indicate.

The primary cause of imprecise error rates is the small number of cases included in the DSS' quality control reviews. In fact, the number of cases in the reviews has been so small that the error rates produced are inconclusive. Consequently, considerable resources are being spent, at both

the state and county levels, to develop error rates that are too imprecise to be used for imposing sanctions.

The DSS should provide more assistance and guidance to the counties in the areas of detailed data analysis and corrective action. The DSS should also take appropriate steps to improve the precision of the error rates used as a basis for these sanctions. If, after testing alternative methods for improving the precision of the error rate, the DSS is still unable to achieve error rates acceptable for sanctioning, the DSS should consider the overall benefits of sanctions and, at that time, propose legislation that will either adequately fund the sanctioning process or discontinue sanctions.

INTRODUCTION

In response to a request by the Joint Legislative Audit Committee, we have reviewed the Department of Social Services' administration of quality control in the Aid to Families with Dependent Children (AFDC) program. We conducted this review under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code. Further, we conducted this audit in accordance with generally accepted governmental auditing standards, except that our work was limited to that requested by the Legislature.

BACKGROUND

The Aid to Families with Dependent Children (AFDC) program provides cash assistance to needy children and their parents or guardians whose income is insufficient to meet their basic needs. Eligibility is limited to needy children whose parent or parents are deceased, incapacitated, not fully employed, or continually absent, or to children who require out-of-home care in a foster home or institution. Eligibility is further determined by requirements pertaining to age, citizenship, school attendance, registration for employment or training programs, income, and property. The amount of the cash grant depends upon the needs of the family. Factors

considered in determining the amount of the grant include family size, income, and resources. In fiscal year 1980-81, the AFDC program provided $2.6 billion in assistance to 1.5 million recipients in California.

Federal regulations allow the states a significant amount of latitude in administering the AFDC program. States may develop their own operating procedures, and they may expand the categories of benefits to recipients. In California, the State Department of Social Services (DSS) supervises the AFDC program, and county welfare departments directly administer the program at the local level. Workers in county welfare departments meet with applicants and recipients, determine initial and continuing eligibility, and print and mail the AFDC checks. The DSS develops and interprets regulations, interprets laws and court decisions, monitors the performance of counties through its quality control reviews, conducts hearings for recipients who appeal counties' actions, and assists counties in developing procedures to lower their AFDC error rates. The DSS' AFDC Program Management Branch is responsible for state activities in the AFDC program; the DSS' Quality Control Bureau, meanwhile, is responsible for monitoring the AFDC quality control reviews. In fiscal year

1980-81, the AFDC Program Management Branch of the DSS had approximately 42.4 staff positions, and its expenditures totalled $1.6 million.*

The costs of the AFDC program are shared by the federal government, the State, and the counties. For fiscal year 1980-81, cash grant and state administrative costs totalled $2.7 billion. These costs were shared as shown in the table below.

TABLE 1

COSTS OF THE AFDC PROGRAM
FISCAL YEAR 1980-81

	Grants to Recipients	State Administrative Costs
Federal	$1.33 billion	$ 8.89 million
State	1.24 billion	8.09 million
Counties	0.14 billion	0
Total	$2.71 billion	$16.98 million

In addition to these costs, county administrative costs for the AFDC program in fiscal year 1980-81 totalled over $234 million. County AFDC administrative costs are eligible for 50 percent federal reimbursement; the State and the counties each pay for 50 percent of the share that the federal government does not reimburse. The total estimated program cost for fiscal year 1981-82, including grants to recipients and county and state administration, is $3 billion.

* This figure does not include staff or costs for the Foster Care Bureau.

Quality Control

The federal government requires the states to conduct quality control reviews of AFDC cases. These reviews identify and measure incorrect payments, providing management with the information necessary to develop corrective action and thereby reduce the rate of erroneous payments. The Federal Department of Health and Human Services estimated in 1980 that the federal government and the states spend about $22 million annually to administer the quality control program.

To conduct the quality control reviews, each state examines a sample of AFDC cases for each six-month period. The sample sizes vary among states according to the state's AFDC caseload. (In California, the DSS reviews approximately 1,200 cases every six months.) A state reviewer verifies the recipients' eligibility for each sample case and determines the accuracy of the payment. For each case, the reviewer also verifies such criteria as family income, resources, and other basic program requirements that affect both eligibility and the grant amount. The reviewer verifies these factors by contacting the recipient and other individuals or institutions, such as landlords, employers, and banks.

After conducting quality control reviews, the states compile the results and calculate case and payment error rates for the following categories: payments to ineligible recipients, overpayments to eligible recipients, and underpayments to eligible recipients.* The Federal Department of Health and Human Services then reviews a subsample of each state's sample cases to validate the state error rate. The results of the federal and state reviews are then combined through a statistical formula to develop one final error rate for each state.

In California, an arrangement similar to the one between the federal government and the states exists between the State and the counties. California's 35 largest counties account for 98 percent of the State's AFDC expenditures. In 34 of these counties, county personnel review a sample of AFDC cases selected by the State for every six-month period. The size of the county sample depends upon the county's caseload. The DSS reviewers then examine a subsample of each county's cases. In Los Angeles County, the one exception, the error

* The case error rate estimates the proportion of cases in the total caseload that are paid in error. The payment error rate estimates the proportion of total dollars that are paid in error. The error rates include those errors caused by both the agencies and the clients. While this rate may include some cases of fraud, it does not represent the rate of fraud in the AFDC program.

rate is determined by the review of Los Angeles County's cases that the State must conduct for the federally required statewide sample.

One important difference between the federal government's quality control system and California's, is that for sanction purposes, California excludes technical errors from the calculation of the county error rates. The DSS defines "technical errors" as those errors resulting from a client's or an agency's failure to follow a required procedure and for which correction would not change either a recipient's eligibility or the amount of payment. The federal quality control system does not make exceptions for such technical errors.

In fiscal year 1980-81, the DSS' Quality Control Bureau had approximately 43 staff positions for AFDC quality control, and the expenditures for quality control in the AFDC program totalled approximately $2.9 million. The cost for the DSS to conduct the AFDC case reviews required by the federal government was $2.5 million; the cost of conducting the county monitoring reviews was $324,400. Additionally, in fiscal year 1980-81, the counties spent $10.5 million on quality control reviews in the AFDC program.

Accuracy of AFDC Payments

Historically, California has performed relatively well in comparison to other states in keeping its level of erroneous payments low. Table 6 on page 67 of this report is a listing of the AFDC payment error rates for all states as computed by the Federal Department of Health and Human Services. This table shows that until the latest review period, California's error rate was consistently below the national average. DSS officials attribute a major portion of California's success in this area to expanded quality control reviews conducted in individual counties since 1975 and to a commitment by top county management to the resolution of error problems.

SCOPE AND METHODOLOGY

This report presents findings in two major areas of AFDC quality control. The report evaluates the use of quality control data for management information purposes and the statistical techniques used to develop AFDC payment error rates for counties. We did not assess the overall adequacy of the AFDC quality control program.

We reviewed laws and regulations governing both the AFDC and the quality control programs. We also reviewed DSS objectives stated in reports to the Legislature, the federal

government, and the counties, and we evaluated the performance of the DSS in relation to these objectives. Finally, we reviewed state and county procedures for conducting quality control reviews.

To evaluate the effectiveness of the DSS' use of quality control data for management information purposes, we visited six counties and contacted five others to identify their management information needs and to determine how they use the information that the DSS presently provides to them. To find out how other states acquire and use management information, we also contacted officials in the Federal Department of Health and Human Services, AFDC quality control staff in other states, and representatives from private consulting firms.

To evaluate the effectiveness of using quality control data as a basis for imposing fiscal sanctions, we reviewed and tested the methodology that the DSS uses for selecting samples and for determining county error rates. We also examined relevant statistical studies and consulted with statisticians from the federal AFDC program as well as a private statistician. Finally, we reviewed the appeals filed by each of the 13 counties threatened with sanctions for the period from October 1979 through March 1980.

AUDIT RESULTS

I

THE DEPARTMENT OF SOCIAL SERVICES COULD MORE EFFECTIVELY USE QUALITY CONTROL DATA TO HELP COUNTIES REDUCE AFDC ERROR RATES

Although the payment error rate in California's Aid to Families with Dependent Children (AFDC) program has been better than that in other states with large AFDC caseloads, the Department of Social Services (DSS) could provide to the counties additional analysis of available management information about AFDC payment errors. The counties need such information because between April 1980 and March 1981, for example, the Federal Department of Health and Human Services estimated that over $162 million was misspent on AFDC payments in California. The counties have expressed their need for more analysis of the causes of errors and for suggested corrective action. Various analytical processes are available which the DSS could use to provide the necessary information to the counties. Further analysis of the causes of errors or error trends could lead to corrective action that may reduce the error rate; even a small reduction in the error rate would result in substantial savings. In addition to reducing erroneous payments, further analysis by the DSS could also increase the cost-effective use of resources by establishing a more efficient approach to case processing.

The DSS Is Not Effectively Using Its Quality Control Information

State funds accounted for approximately one-half of the more than $162 million erroneously paid to AFDC recipients in fiscal year 1980-81. As the state agency that oversees the counties' administration of the AFDC program, the DSS is responsible for assisting counties in identifying and correcting the causes of erroneous payments. The DSS has acknowledged its responsibility in this area. For example, the Comprehensive Quality Control/Corrective Action Plan of the DSS declares that "the State is responsible for assisting counties in error analysis and corrective action and for undertaking corrective action where state level action is appropriate." In response to public testimony about regulations established in 1981, the DSS states, "While it need not be detailed in regulations, the state's role in corrective action ranges from the development of statewide information and verification systems to working with the individual counties on problem areas and to developing and implementing corrective action efforts."

The federal government has also stressed the importance of studying the patterns and causes of errors and of taking corrective action in the AFDC program. The Federal Department of Health and Human Services specifically calls for

statewide data analysis beyond the simple tabulation of error percentages. In their last two annual evaluations of the AFDC program, Federal Department of Health and Human Services officials have criticized the DSS for not providing either sufficient analysis of quality control data or suggestions for corrective action.

Most importantly, however, the counties themselves have expressed a need for more assistance from the DSS. In a common legal brief for the appeals of the DSS' sanctions issued for the review period from October 1979 through March 1980, the 13 counties threatened with sanctions charged that the DSS had failed to provide them with guidance and assistance. Further, each of the 11 counties we contacted, which included 5 of the 13 above, indicated dissatisfaction with the assistance they presently receive from the DSS.

The only analysis of errors that the counties regularly receive from the DSS is the semi-annual AFDC Quality Control/Corrective Action report, which is required by federal regulations. This report presents the results of the quality control reviews and consists primarily of tables that rank different types of errors as percentages of the total number of errors found. These percentages are based on the statewide sample that the federal government requires the State to

review. They do not contain any information about specific counties. Except for noting changes in these percentages between review periods, this report contains no analysis of statewide quality control data. Most of the counties we visited considered the AFDC Quality Control/Corrective Action report useless for identifying the causes of errors or for planning corrective action. In fact, most of these counties reported that they do not use the report at all.

In some instances, when a county's error rate has been historically high or when it suddenly rises, the DSS will also conduct an Error Cause Determination Study. The purpose of this study is to identify causes of errors and determine corrective action. In completing such a study, DSS staff review the cases involving payment errors identified in the quality control sample review of a six-month period. However, county officials reported that the studies are not useful to them in planning corrective action.

The infrequency of the Error Cause Determination Study contributes to its limited usefulness. Since 1978, the DSS has conducted only eight of these studies, six of which were conducted in 1981. Another reason that the Error Cause

Determination Studies are not of much use to the counties is that, like the AFDC Quality Control/Corrective Action report, they basically only tabulate categories of errors and contain general statements of possible error causes. Further, the studies do not attempt to compare findings among counties to clarify problems or suggest corrective action. Finally, county officials told us that the studies provided little new information.

Further Analysis Could Help Reduce the Number of Erroneous Payments

Officials in each county told us that they need either more analysis of the causes of errors or more suggestions for correcting problems. Models of analysis that attempt to determine the causes of error and/or help determine corrective action are available. The federal government and other states are using or attempting to use such models. By conducting some of these more sophisticated types of analysis, which would provide information for corrective action, the DSS may be able to help counties reduce their error rates. Below, we present some of the available models of analysis.

Error-Prone Profiles

The error-prone profile identifies cases that have an element or combination of elements that may lead to the likelihood of erroneous payments. Such a profile could compare case characteristics to case errors and to actual dollars misspent.* The counties could then use this information to develop specific plans for remedying the problems. For instance, an error-prone profile could identify cases that have a high probability of error so that these cases may undergo an intensive review that could reduce the error rate. The profile could also identify cases with a low probability of error; such cases would require only minimal review, resulting in more cost-effective use of resources.

The federal government has successfully used error-prone profiles in its Supplemental Security Income program to identify high risk cases for more extensive review of eligibility. Federal officials conclude that the profile system is effective in identifying not only a case's potential for being in error but also the specific errors that are likely to occur. For the region that includes California, the payment

* "Characteristics" include number of children in the household, work status of parent(s) or guardian(s), ages of children, reason why the child is deprived, and other pertinent details.

error rate for cases that the error-prone profile identified as being high risk dropped from 11.9 percent in one review period to 4.5 percent in the next, indicating that the profile was effective in identifying cases that should be reviewed.

Several counties are trying to develop their own error-prone profiles. One county that we visited has successfully implemented a basic system that identifies high-risk AFDC cases so that they can be assigned to a special unit for review. This unit is composed of more experienced caseworkers who are assigned caseloads that are slightly smaller than those of workers in other units, allowing them more time to attend to troublesome cases. In its first year of operation, the project resulted in the county's discontinuing aid in about 30 percent of the cases identified as being high risk because these cases were found to be in error.

A similar approach could also be used to identify low-risk cases that would not require much attention. These low-risk cases could be assigned either to less experienced workers or to workers with higher caseloads. This approach could result in more cost-effective use of resources.

To illustrate the type of data that an error-prone profile could provide, we developed a method to compare case characteristics with types of case errors. We used information that the DSS provides in its AFDC Quality Control/Corrective Action report, but we took the analysis of the data several steps further than the report did. We found that it was possible to identify trends over time, and that these trends were often contrary to the ones that a less detailed review of the data, which the DSS currently provides the counties, would be likely to identify.

Table 2 on the following page illustrates the need for more detailed analysis. The table appears in the DSS' Quality Control/Corrective Action report unaccompanied by comment or analysis. Columns 5 and 6 present the number of cases in error and the percent of total cases in error for each case characteristic.

TABLE 2

SAMPLE AFDC QUALITY CONTROL PROFILE

Table 4. AFDC QUALITY CONTROL – Profile of Total Non-Error and Error Cases by Specified Characteristics Included in the Case Record

STATE: California REPORTING PERIOD--FROM: Oct. 1980 TO: March 1981

CASE RECORD CHARACTERISTICS	Total Sample Cases		Total Non-Error Cases		Error Cases				
					Total		With Error In Related Element Of Eligibility Or Payment Determination		
	Number	Percent	Number	Percent	Number	Percent	Element Code	Number	Percent Of Col. (1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
TOTAL CASES	1200.0	100.0	1020.7	100.0	179.3	100.0			
I. DEPRIVATION FACTOR *(item I)*									
A. Death *code 1*	39.6	3.3	34.5	3.4	5.1	2.8	141	0.0	0.0
B. Incapacity *code 2*	45.0	3.8	39.1	3.8	5.9	3.3	142	0.0	0.0
C. Unemployed father *code 3*	107.6	8.9	84.8	8.3	22.8	12.7	144	3.1	2.9
D. Continued absence:									
1. Unmarried *code 4*	472.2	39.4	407.6	39.9	64.6	36.0	143	1.1	0.2
2. Divorced or legally separated *code 6*	276.4	23.0	226.4	22.2	50.0	27.9	143	0.0	0.0
3. Other *codes 5, 7, 8*	259.2	21.6	228.3	22.4	30.9	17.2	143	0.0	0.0
II. TYPE OF MOST RECENT ACTION *(item F)*									
A. Approved application *code 1*	391.2	32.6	329.1	32.2	62.1	34.6			
B. Redetermination *code 2*	808.8	67.4	691.6	67.8	117.3	65.4			

Source: California Quality Control/Corrective Action Report for the Aid to Families with Dependent Children Program, October 1980 through March 1981. State of California, Department of Social Services, page 82.

In category 1, Deprivation Factor, a first review would indicate that the majority of errors occur in cases of continued absence in which the parents are either unmarried (36 percent) or legally separated or divorced (27.9 percent). Therefore, a program manager initially may be encouraged to concentrate corrective actions on these types of cases. However, in each type of case, the ratio of the error cases to the total sample cases is just as important as the percentage of errors. We therefore calculated that ratio by dividing the

percent of error cases in each category (column 6) by the percent of the total sample that the category represents (column 2). Table 3 below shows our results.

TABLE 3

RATIO OF ERROR CASES TO SAMPLE CASES FOR SELECTED CASE CHARACTERISTICS OF THE AFDC QUALITY CONTROL PROFILE

Categories of Case Record Characteristics	Percent of Error Cases	Percent of Total Sample Represented by Category	Ratio of Error Cases to Sample Cases
Death	2.8%	3.3%	.85
Incapacity	3.3%	3.8%	.87
Unemployed Father	12.7%	8.9%	1.43
Continued Absence			
- Unmarried	36.0%	39.4%	.91
- Divorced or separated	27.9%	23.0%	1.21
- Other	17.2%	21.6%	.80

As the table shows, the characteristic of "unmarried parent" represents a smaller percentage of the error cases than it does of the total sample. Actually, the characteristic of divorced or separated parents has a higher ratio of error cases to sample cases than does the characteristic of unmarried, contrary to the expectations produced by an initial review of the DSS chart. However, even more importantly, the characteristic of unemployed father has the highest ratio of

error cases to sample cases of any of the characteristics--a ratio of 1.43, almost one and one-half times the rate of occurrence that it has in the total sample. Therefore, a manager planning corrective action may actually want to focus efforts on the unemployed father characteristic rather than on the factors that, based on the simple percentage figures, seemed most critical at first. The manager could possibly make more effective use of resources by intensively reviewing this small proportion of total cases, since they represent a greater percentage of error cases.

Using the same methodology, we reviewed the second category in the DSS chart on page 17, "Type of Most Recent Action." The chart makes it appear that most errors occur in cases in which the most recent action was a redetermination of eligibility (65.4 percent versus 34.6 percent for approved applications). However, by developing ratios of error cases to cases in the sample, we found that the redeterminations of eligibility are proportionately in error less often than are the approved applications. Specifically, the case error ratio for redeterminations is 0.97 compared to 1.06 for approved applications. In this case, the manager may decide to direct more attention to cases of approved applications rather than redeterminations, although the difference is probably too

narrow to support that choice without further information. Nonetheless, the use of ratios could help to prevent a possible misapplication of effort caused by reliance on the simple percentage figures.

We reviewed the categories just described as well as other case characteristics for consecutive periods dating back to 1978, with a spot check of 1976. Applying our methodology, we found that the "unemployed father" characteristic described above was consistently a high-risk category over time. Additional characteristics with high-risk potential included the following: Work Incentive Program (WIN) registrant included in case; caretaker employed, full-time or part-time; and all forms of income, not just "earned." Table 4 on the following page presents the results of our review.

TABLE 4

RATIO OF ERROR CASES TO SAMPLE CASES FOR SELECTED HIGH-RISK CASE CHARACTERISTICS IN THE AFDC QUALITY CONTROL PROFILE[a]

Case Record Characteristics (Selected)	Case Ratios by Review Period					
	7/76-12/76 Error Cases/ Sample Cases	10/78-3/79 Error Cases/ Sample Cases	4/79-9/79 Error Cases/ Sample Cases	10/79-3/80 Error Cases/ Sample/Cases	4/80-9/80 Error Cases/ Sample Cases	10/80-3/81 Error Cases/ Sample Cases
Deprivation Factor						
Unemployed father	2.45	1.56	1.85	1.44	1.52	1.43
Absence: unmarried	.83	.82	.87	.88	1.02	.91
Absence: divorced/ separated	1.13	1.26	1.21	1.25	.98	1.21
Type of Most Recent Action						
Approved application	.92	1.06	.92	.90	1.08	1.06
Redetermination	1.03	.98	1.03	1.02	.97	.97
Mandatory WIN Registrants						
Included in case	1.42	1.44	1.27	1.56	1.27	1.42
Caretaker Employment Status						
Employed full-time	2.84	2.77	2.55	2.52	2.82	2.58
Employed part-time	2.09	1.95	2.26	2.73	2.74	2.27
Income						
Earned income	2.54	2.50	2.47	2.64	2.69	2.65
Other pensions/benefits	2.45	2.14	2.30	2.58	1.87	2.63
Contributions	.91	1.73	2.37	2.80	2.82	2.36
Other income	1.03	2.20	1.76	2.95	2.47	1.73

[a] It would also be possible and perhaps more cost-effective to apply this same analysis to payment error data as well as case error data. We could not do this because the DSS does not currently compile payment error data for each case characteristic.

If the DSS had conducted this type of in-depth analysis in past years, it could have perhaps developed corrective action to reduce the occurrence of subsequent errors.

The preceding discussion shows how an error-prone profile could be used. Because the profile determines which case characteristics are most common in error cases, a program manager can develop specific corrective actions that would reduce the likelihood of such errors continuing to occur in these cases. For example, counties could review cases with these characteristics more frequently or more intensively, or they could design special review procedures based on the information produced by the profile. An error-prone profile could also be designed to measure other types of case characteristics that a manager thought could indicate likelihood of error. For instance, the profile could measure the ratio of error in cases involving frequent address changes, multiple households at the same address, or other characteristics.

The above analysis constitutes only a preliminary step toward more sophisticated and more consequential use of error-prone profiles. Although this first step clearly offers some information that is not currently provided by the DSS' Quality Control/Corrective Action report, much more information

than is presented in the above analysis is required to determine cost-effective corrective action. Specifically, we believe the following additional information would be needed:

- Further cross-tabulation of characteristics to determine which characteristics constitute a group "profile."

- The amount of overpayments caused by the various types of errors to provide adequate perspective for choosing the appropriate corrective action.

- A summary of the types of errors occurring within each error-prone group. Such a summary may suggest possible causes of the errors.

- Distinction between agency-caused and client-caused errors in determining error-prone groups.

- Distinction between overpayment and eligibility errors versus underpayment errors.

This and similar information generated by the error-prone profile is useful not only because it may help the DSS to reduce errors but also because it may enable the DSS to apply corrective action more selectively and thus improve cost-effectiveness.

Other Analytical Models

Other types of sophisticated statistical analysis to help reduce AFDC errors are also available and are being tested in other states, such as West Virginia, Pennsylvania, Arizona, and Florida. One type of analysis tests the relative strength of association between error rates and other variables that are possible causes of increases or decreases in errors. Suggested causes of error have ranged from the characteristics of AFDC workers (attitudes toward clients, levels of experience) to administrative practices (caseload per worker, casework review levels) to socioeconomic factors (personal income, unemployment levels).

Another model called "time-series analysis," analyzes quality control data and related variables over periods of time. The goal of this analysis may be an improved projection of important estimates such as increases or decreases in the county caseload. Or the goal may be an evaluation of the possible effect on the error rate of a policy change or a new corrective action--a "before and after" analysis. Among the procedures that can be used in this analytical model are a simple difference-of-means test (before and after the new factor is introduced), time-lagged correlations (to determine before and after strength of association), and other more complex possibilities. Computer programs that can handle not

only various forms of time-series analysis but also regression or discriminant analysis are already available at the same computer center through which the DSS currently processes the quality control data.

According to federal and state quality control officials, the cost of implementing some of the above types of analyses would be minimal. Much of the required data are now collected during the quality control reviews and are already stored in the DSS' computers. Additional information, if required, could also be collected at the time of the quality control reviews. At least one computer program for an error-prone profile that was developed with federal funding by a private consulting firm is available to the DSS for free.

In addition, the federal government has offered to provide the DSS with a computer terminal that a DSS study shows could be used for the AFDC program, even though it is primarily intended for use in the Food Stamp Program. Furthermore, according to DSS staff, the federal government is planning to provide free computer programs sometime this summer. The DSS is currently evaluating the offer of the terminal in comparison to other alternatives, one of which is to purchase its own terminal.

By not analyzing data more fully, the DSS is missing opportunities to develop better management information that could be used to reduce error rates. Considering the current level of erroneous payments, over $162 million annually, even a fractional reduction of the payment error rate could result in substantial savings. Furthermore, management information resulting from further analysis could be used to streamline administrative procedures, thereby increasing cost-effectiveness. Finally, the State's conducting more extensive analysis of AFDC data would save the counties the duplicative cost and effort of developing and implementing their own programs. Assistance from the State would also make such analyses available to counties that may not have the resources to develop their own programs.

Every county we contacted expressed interest in additional data analysis, particularly that provided by error-prone profiles. Although some counties are trying to develop their own error-prone profile systems, most counties told us that they would prefer that the DSS either conduct the analysis or provide more assistance to them in their own efforts. County staff said that the DSS would be best able to conduct a more sophisticated analysis because the DSS has more resources than most of the counties, especially the smaller

ones, because a statewide data base would supplement the small county samples, and because the DSS could make comparisons among counties.

The DSS could process analytical models on statewide data and also on county-specific data for counties with a high error rate. In fact, the DSS at one time did process county-specific data for certain counties. For counties that prefer to conduct their own analysis and have the capabilities to do so, the DSS could provide the appropriate analytical model, guidance, and cross-county comparisons.

DSS officials indicated that they have not pursued more detailed analysis primarily because California's state error rate has been relatively low in the past. However, while other states with large AFDC expenditures are continuing to reduce their payment error rates, California's payment error rate increased from 3.7 percent in the April to September 1978 period to 8.6 percent in the October 1980 to March 1981 period. It should be noted that California's error rate was lower than many states' to begin with, and, according to DSS staff, it is generally more difficult to maintain a low error rate than to reduce a high error rate. (For a comparison of AFDC error rates for all states, see Table 6 on page 67.)

DSS officials also said that error analysis and corrective action should take place at the county level. Although we believe corrective action should be implemented at the county level, our discussions with county personnel showed that state-level assistance in more sophisticated data analysis is also needed. As we noted earlier, the DSS itself has recognized its responsibility to the counties in this area.

During our audit, DSS officials stated that they were reevaluating their approach to data analysis and corrective action in light of California's increasing AFDC error rate. They are preparing a request for federal assistance and guidance in conducting more detailed data analysis, and they are researching and reevaluating the potential of error analyses such as error-prone profiles.

Furthermore, AFDC program staff within the DSS are also conducting studies of two types of errors, those occurring in cases where a recipient is required to register in the Work Incentive Program and those occurring in the "earned income" case characteristic. These studies are intended to present more details on the causes of errors and to contain more specific recommendations to counties than the DSS has provided in the past. These are the first studies of this type that the DSS has undertaken.

And finally, during our audit the DSS designed a series of reports intended to provide the counties more detailed information on AFDC errors than they are currently receiving. These reports will present information on error cases in the statewide sample, summary information on error cases from the 35 monitored counties, and information drawn from samples in individual counties. According to AFDC Program Management staff, draft copies of the proposed reports have recently been sent to the counties for their review and comment. Program staff estimate that these reports could become effective with the review period October 1982 through March 1983.

CONCLUSION

The Department of Social Services has not provided the counties sufficient assistance in reducing the level of AFDC errors. Specifically, the DSS has conducted only limited analysis of the available data on AFDC errors. More detailed analysis could provide better management information, which could reduce the statewide error rate. Also, management information resulting from further analysis could be used to streamline administrative procedures, thereby increasing the cost-effective use of resources.

RECOMMENDATION

The Department of Social Services should immediately begin to provide more assistance and guidance to the counties by conducting more detailed data analyses and by presenting more specific recommendations for corrective action. First, the DSS should evaluate the federal government's offer of a terminal and computer programs in comparison to other options. The DSS should then select the appropriate method of conducting more sophisticated data analysis and begin conducting the analysis as soon as possible.

II

THE DEPARTMENT OF SOCIAL SERVICES HAS NOT DEVELOPED A RELIABLE SYSTEM TO IMPOSE FISCAL SANCTIONS ON COUNTIES

If a county's AFDC payment error rate is above a set standard, the Department of Social Services may withhold future funding equal to a percentage of the amount of the county's overpayment. The system that the DSS uses to impose such sanctions is based, however, on quality control error rates, which to date have been too imprecise to serve as a basis for fiscal sanctions. No county has yet been sanctioned based on its AFDC payment error rate.

Since the DSS first attempted to impose sanctions in the review period from October 1979 through March 1980, it has used four different methods. With each attempt, the DSS encountered problems caused by imprecise error rates. Moreover, error rates have probably been even more imprecise than the DSS' figures indicate. One of the primary causes of imprecise error rates is the small number of cases included in the DSS' quality control reviews. In fact, the number of cases in the reviews has been so small that the error rates calculated from these reviews are inconclusive. Consequently,

considerable resources are being spent, at both the state and the county levels, to develop error rates that are too imprecise to be used for sanction purposes.

Given this situation, the DSS should take the steps necessary to improve the precision of the error rates. If the precision of the error rates cannot be improved with existing resources, the DSS should propose legislation that will either adequately fund the sanctioning process or discontinue the sanction policy. Whether sanctions actually do encourage counties to reduce the error rate is questionable. The U.S. General Accounting Office recommended to the Congress that the federal sanction policy be retracted because basing sanctions on quality control data discourages the primary purposes of quality control, which are to identify errors and suggest corrective action.

The Development of Sanctions

The California Legislature first authorized state sanctions in the AFDC program in 1978. Before July 1978, counties paid for approximately 16 percent of costs of AFDC grants. With the passage of Article XIIIA of the California Constitution (Proposition 13) in 1978, the State assumed the counties' share of costs for one year. Consequently, there was some concern that because the counties would not be paying for

the costs of the program, the counties' incentive to control error rates would be lessened. To offset any such reduction, the Legislature enacted Chapter 292 of the Statutes of 1978 (SB 154), authorizing the Director of the Department of Social Services to impose fiscal sanctions on those counties whose rate of erroneous payments exceeded an established error rate standard. SB 154 was to be in effect for one year.

To implement SB 154, the DSS called for quality control reviews to provide error rates for the 35 counties having caseloads above 1,300 (representing about 98 percent of the statewide expenditures).* The DSS required counties to conduct reviews and provided guidelines for review procedures. The State monitored county reviews by examining subsamples of cases. In addition, the Director of the DSS established a payment error rate standard of 4 percent. The director set the standard at 4 percent because at that time the statewide error rate had been 4 percent or less in three of the four most recent review periods.

With the expiration of SB 154, Chapter 282, Statutes of 1979 (AB 8), established the county share of AFDC grant costs at 5.4 percent and provided the Director of the DSS with

* The caseload level has since been raised. Under current regulation, payment error rates are to be developed for counties with AFDC caseloads of 1,400 or more.

the authority to impose sanctions on counties that failed to meet the error rate standard. The bill also required the director to submit to the Joint Legislative Budget Committee the AFDC payment error rate standard to be in effect during the two quality control review periods from October 1979 through March 1980 and from April through September 1980. The director set the error rate standard at 4 percent. In accordance with AB 8, the error rate standard for subsequent years is set annually in the Budget Act.

Through the Budget Act of 1980, the Legislature established the error rate standard for October 1980 through March 1981 at 4.0 percent and for April through September 1981 at 3.75 percent. Although the Director of the DSS is not required to impose sanctions on counties, the Budget Act requires the DSS to report to the Legislature the reasons for not imposing sanctions on any county exceeding the error rate standard in each of the review periods beginning with the period from April through September 1979.

Additionally, DSS regulations require that the performance of counties be measured by reviewing a statistically valid sample of cases. In public testimony on the regulations, the DSS stated that the size of the county samples would be appropriate to the size of the county caseload in accordance with generally accepted statistical principles.

Further, the DSS' Quality Control/Corrective Action Plan specifies that the method for determining county error rates must be administratively reasonable and cost-effective. Finally, the DSS has stated that if sanctions are to be applied, the statistical reliability of the error rates should be uniform among the counties and have a reasonably small precision interval.

The sanctions imposed by the State on the counties are independent of any federal sanction of the State. According to federal regulations, the federal government may sanction states for excessive erroneous payments in a manner similar to the way the DSS would sanction counties. If such a sanction were to be imposed, however, DSS regulations provide that a portion of any fiscal sanction imposed by the federal government may be passed on to the 35 counties that the DSS monitors. If a county becomes subject to both a state sanction and a portion of the federal sanction for the same period, the county will be sanctioned for its full share of the federal amount, and the state sanction may be waived or reduced by the amount of the federal sanction. To date, the federal government has not imposed sanctions on any state. If the federal government were to do so, however, California could be sanctioned on the basis of its current error rate.

For fiscal year 1980-81, the total cost of AFDC quality control for the counties was $10.8 million: $10.5 million in staff and support costs for the counties to conduct their quality control reviews; and $324,400 for DSS' monitoring costs.

Unsuccessful Attempts to Develop Reliable Error Rates

Since the Legislature first authorized sanctions in 1978, the DSS has unsuccessfully attempted a series of methods to impose sanctions on counties for erroneous AFDC payments. The error rates developed under each method, however, have been too imprecise to be used as a basis for imposing fiscal sanctions primarily because of the small number of cases included in the quality control reviews from which the error rates are determined. However, rather than increase the size of its review samples, the DSS has continually adjusted its method to arrive at what it considered more reliable error rates. Below are descriptions of each of the methods that the DSS has tried. (Appendix A provides definitions of statistical terms, many of which are used in the discussions that follow.)

Method 1 - State Regressed Error Rate

When the DSS originally planned to sanction counties in 1978, it decided to base the sanctions on the point estimate of a regressed error rate. The regressed error rate is a statistical combination of the results of the county's review of the quality control sample and the results of the DSS' subsample of the county review. The DSS intended to use the subsample review as a way of monitoring and validating the review conducted by the county. However, the error rates produced by the regression methodology were so imprecise that the DSS could not use them for any specific purpose. A further consequence of not using the regressed error rate is that there is no longer any valid monitoring of the counties' quality control reviews.

The DSS originally expected that the precision level of the error rates at 95 percent confidence would be ±1.5 percent, but the anticipated precision level was soon expanded to ±2.5 percent. However, the DSS was unable to achieve that level of precision consistently in its regressed error rates. In the first review period for which sanctions were to be imposed, October 1979 through March 1980, the DSS' estimates of the precision levels of error rates ranged from ±0.44 percent in one county to ±24.67 percent in another county. The DSS' figures indicate that the precision interval

achieved met the target of ±2.5 percent in only 9 of the 35 monitored counties in that first review period. In none of the review periods to date have the DSS' estimates of precision achieved the ±2.5 percent precision level for even two-thirds of the 35 counties.

Because the range of precision levels was so wide, the DSS could not accurately assess the performance of counties. For example, during the first period, the DSS estimated that the error rate in one county was 12.43 percent ±13.04. According to that estimate, then, the error rate, at 95 percent confidence, was somewhere between 0.00 and 25.47 percent. For another county, the DSS estimated the error rate was 3.72 percent ±3.64, meaning that the error rate was therefore between 0.08 and 7.36 percent. With such wide precision intervals, the DSS could not reliably estimate the error rate for a given county or provide reasonable assurance that the error rate was above the sanction level of 4 percent.

Further, it would have been potentially inequitable to sanction counties on the basis of error rates that had such wide precision intervals. In the examples above, for instance, the DSS error rate for sanction purposes in the first county would have been 12.43 percent, well above the sanction limit of 4 percent. In the second county, the estimated error rate was

3.72 percent, which was below the sanction limit. Therefore, the first county would have been sanctioned and the second one would not have been. But, as just indicated, with such wide precision intervals, the DSS could not reliably determine whether one county was performing better than the other.

Officials of both the DSS' Quality Control Bureau and the AFDC Program Bureau have acknowledged both the poor precision of the regressed error rates and some of the resulting problems. In numerous department memoranda, DSS officials have addressed the problems of the regressed error rate. A 1980 memorandum notes that "the revised subsample methodology will not produce regressed county error rates with a uniform reliability of $\pm$2.5 percent. It is also likely that there will be instances where the regression formula cannot be applied." A later memorandum states that "(1) the quality of current data may not be suitable for the imposition of fiscal sanctions; (2) the data may, in fact, be indefensible in court."

Because the precision of the regressed error rates was so poor, the DSS decided to base the sanctions on the results of each counties' original quality control review rather than on the estimated regressed error rate. However, the DSS continues to conduct its subsample reviews and to

develop a regressed error rate although sanctions are now based on a different methodology. Continued development of regressed error rates constitutes an unproductive use of resources for two reasons: the regressed error rate is not used for anything, and there is no longer any valid monitoring of county sample reviews.

Although the DSS has assigned five staff members to examining subsamples of the counties' reviews and to developing the regressed error rate, the DSS makes no use of the regressed error rate. In a recent memorandum, a DSS official acknowledged that "the regressed error rate...really is a meaningless figure because it is not used for any specific purpose." In addition to the staff time required to conduct the reviews, it can take months for the DSS and the counties to reconcile their findings in cases on which they disagree. This process delays the development of the error rate and also delays the provision of important management information to the counties.

A further consequence of not using the regressed error rate is that there is no longer any valid state monitoring of the counties' quality control reviews. By using the counties' findings instead of the regressed error rate, the State defers to the county whenever the State's review

disagrees with a county's original review. In effect, the State invalidates its own monitoring function. Additionally, in 1980 the DSS changed its review procedures. The state reviewer now validates the results of a county's review by checking information in the county's case files. Only when the state reviewer has reason to suspect an error in the county review is any additional fieldwork done. Coincidentally, recent review periods have shown a steady trend toward a stronger correlation between the results of county reviews and those of state reviews.

In light of these conditions, the DSS should discontinue its efforts to develop a regressed error rate and devise another method to verify the accuracy of county error rates. During our audit, staff of the DSS Quality Control Bureau recommended that DSS management discontinue the present form of county monitoring and use the existing resources to validate county error rates under alternate procedures. Another alternative, which the DSS once considered, is for the State to take over the county quality control reviews. The State already performs the county reviews for Los Angeles County, which comprises about 37 percent of the AFDC caseload. The State also contributes major funding to all counties for AFDC administrative costs, which includes the costs of conducting quality control reviews.

Method 2 - Point Estimate of County Error Rate

In its attempt to develop a more reliable error rate, the DSS switched the basis of sanctions from a regression estimate to a point estimate calculated from the results of the original county reviews. The DSS believed that the error rate based on the county reviews would be more defensible than the error rate calculated by the regression method, and it expected to achieve a precision level of ±2.5.

Although the DSS' figures indicated that the precision levels derived from the county results were better than the precision levels for the regressed error rates, the precision levels were still unacceptable. For example, in the first sanction period, October 1979 to March 1980, the precision of the point estimates based on county results ranged from ±0.88 to ±5.66. The DSS, therefore, still could not reliably assess the performance of all counties. In no period from October 1979 to September 1981 have the DSS' estimates of precision levels achieved ±2.5 percent for even two-thirds of the 35 monitored counties.

Again, DSS officials were aware of the poor precision of the error rates based on county reviews. In a memorandum, a DSS official stated, "The statistical precision of the current original county error rate varies from approximately

±0.6 percent to ±6.0 percent, which for sanction purposes is not very precise; however, it is the most reliable and legally defensible data SDSS possesses."

The DSS sent sanction notices to 13 counties on the basis of the point estimate of the original county error rate for the period from October 1979 through March 1980. Each of the 13 counties filed an administrative appeal against the sanctions. In an internal memorandum, the DSS prepared a list of consequences that could result from sanctioning counties under the current regulations. It stated, in part, as follows: "There are serious problems with the QC data if it's to be used for sanction purposes. The reliability of county error rates is so poor that it is likely that some counties actually performing at an acceptable level could get sanctioned."

Method 3 - Lower Limit of County Error Rate

Because of the problems with Method 2, the DSS developed new regulations to sanction counties in future periods, and for the period under appeal, October 1979 through March 1980, it changed the basis for imposing sanctions from the point estimate error rate to the lower limit of the county error rates. However, since the precision intervals were generally so wide, no county had a lower limit error rate above the 4 percent sanction level. Therefore, no county was

sanctioned for the period October 1979 through March 1980. Both state and county officials told us that considerable time and expense were spent in filing and reviewing the counties' administrative appeals. The entire appeal process subsequently became fruitless because the DSS retroactively changed the basis for the sanctions.

The second sanction period, April through September 1980, occurred before the current regulations (discussed below) became effective. Therefore, the DSS based sanctions for that period on the lower limit of the county error rates. The DSS sent sanction notices to two counties, both of which filed appeals with the DSS protesting these sanctions. The DSS has dismissed the sanction for one of the two counties because of an error in the quality control review process.

Method 4 - Current Methodology

The DSS recognized the poor precision and the unreliability of the error rates and in December 1981 developed new regulations for sanctions. The DSS intended the new regulations to be as fair as possible, giving the counties the benefit of the doubt. According to DSS management in both the Quality Control Bureau and the AFDC Program Bureau, sanctions were to be applied only to those counties that had consistently high error rates.

The new regulations base sanctions on a combination of several factors, including the lower limit of a county's error rate, a county's current and past annual error rates, and the requirement that a county's error rates for two consecutive six-month periods be above the performance standard. Under the new regulations, the lower limit of a county's error rate must be above the performance standard for two consecutive six-month review periods before that county is subject to sanction.

If the lower limit of a county's error rate is above the performance standard for two consecutive six-month periods, the DSS calculates an annual error rate for the county by weighting the sample results of each six-month period by its share of the combined annual caseload. If the lower limit of this annual error rate is above the performance standard, the DSS calculates the point estimate of the county's annual error rate for the previous year. The amount of the lower limit of the current annual error rate that is above the performance standard is offset by the amount of the previous year's point estimate that is below that year's performance standard. To determine the amount of the sanction, the DSS multiplies this final figure by the amount of state funds that the county expended in the current year.

The effect of the new regulations is two-fold. First, the DSS makes it extremely unlikely that a county would be subject to sanction. Second, even if in a rare case a county were subject to sanction, there still exists the possibility that counties will be treated inequitably.

By using the concept of two consecutive review periods and the lower limit of the county error rate, the DSS makes it unlikely that any county would ever be sanctioned. Applying the new regulations to past error rates and precision levels developed by the DSS, we determined that no county would have been threatened with sanctions from October 1978, when sanctions were first authorized, through the latest completed review period, which ended September 1981. No sanctions would have been imposed because the fundamental basis of the methodology is still the county error rate for a six-month period even though the precision of this error rate has not been improved. The combination of an imprecise error rate and the lower limit has resulted in no county's having a lower limit error rate above the present performance standard of 4 percent for two consecutive six-month review periods.

To demonstrate that the lower limit error rate results from faulty methodology and not from efficiency at the county level, we calculated error rates for five counties using an alternative error rate estimation procedure and increasing

the sample size to produce a more reliable error rate than the DSS develops.* According to our calculations, over the latest 24-month period, two of the five counties would have had lower limit error rates above 4 percent.

Even if situations occurred in which counties were subject to sanction under the new regulations, there is still the potential for counties to be treated inequitably because the precision intervals vary so widely among counties. For example, assume that the following error rates occurred in two counties:

	1st Period Error Rate	2nd Period Error Rate
County A	5.0% ± 0.7 = 4.3 (lower limit)	6.5% ± 2.0 = 4.5 (lower limit)
County B	8.0% ± 4.0 = 4.0 (lower limit)	10.0% ± 2.0 = 8.0 (lower limit)

For purposes of illustration, we calculated the lower limit of these counties' annual error rates by averaging the lower limits of their error rates for two consecutive six-month periods. Thus, the lower limit of County A's annual error rate would be 4.4 percent, and County B's would be 6 percent. But under the present DSS regulations, County A would be sanctioned

* We calculated these error rates using a 24-month expanded sample and a statistical procedure called a one-tail test, which improves the precision of the lower limit of the error rate. See pages 56 and 57 for a more detailed explanation of these procedures.

and County B would not, even though in all likelihood County B's error rate was consistently higher. County B would not be sanctioned because its lower limit error rate was not above 4 percent for two consecutive periods. Under these conditions, the DSS would not even have calculated an annual error rate for County B.

Officials in the DSS' AFDC Program Bureau stated that they base sanctions on the two consecutive review periods and the lower limit for two reasons. First, using two consecutive six-month periods helps to minimize the effect of statistical fluctuations of error rates and helps prevent the possibility of sanctioning an efficient county that has had a high error rate for only one review period. The second reason is that the lower limit is the most defensible estimate of error.

The DSS may consider the current methodology more defensible, but, as shown above, it is unlikely that a county would be sanctioned under the current methodology. Consequently, the DSS is spending considerable time and money to develop county error rates when the methodology for determining if sanctions should be imposed makes it unlikely that these error rates would ever be used for imposing sanctions. Even if these error rates were used for imposing sanctions, potential inequities still exist.

Causes of Imprecise
Error Rates

The DSS has been unable in each instance to develop a reliable error rate upon which to base sanctions because the quality control review samples are too small. Developing a reliable error rate depends on a number of factors. For the counties' quality control reviews, the sample size should be large enough to offset any large variances in the erroneous payments in the sample, any large variances in the total payments in the sample, and the covariance of the two types of payments. Furthermore, the statistical precision of the regressed error rate is affected by the variance of error payments in the subsample plus the degree of correlation between results of the state and county reviews among other factors.

The samples drawn by the DSS have been too small to offset the variances in the factors mentioned above. In the case of the regressed error rate, the subsamples are so small that it is doubtful whether regression is the most appropriate statistical method to use, and the precision intervals are even less precise than the DSS' figures indicate. Moreover, in the case of the error rates based on the counties' original quality control reviews, the samples are still not large enough to

validate either the error rates or the precision intervals that have been estimated. Again, the precision of the error rates is probably even worse than the DSS' figures indicate.

The methods used by the DSS to calculate error rates assume that the variability of total payments and of erroneous payments is not too great. In fact, this is not the case. Our review of case records showed that the amounts of total payments and of erroneous payments vary considerably among cases. In one county, for example, the total payment amounts varied from $60 to $1,071; the erroneous payment amounts ranged from $0 to $621. In a situation like this, the sample must be large enough to offset the effect on precision of these variations. Otherwise, the reliability of the estimate will decrease.

A test to validate the estimated precision intervals can be applied to the method that the DSS uses to determine payment error rates. The test measures the relative variability of both the total payments and the erroneous payments. According to standard statistical references and a consultant who advised us on this audit, when using a ratio method to estimate the error rate, the measured value derived for each variable should be less than 10 percent.* We tested

* This measurement is technically referred to as the "coefficient of variation."

the error rate for 28 of the 35 monitored counties in one six-month period and found that although the measurement of total payments was within acceptable range, the measurement of erroneous payments was always above 10 percent; in 17 of the 35 counties, the measurement was as high as 40 percent.*

This high measurement means that the DSS cannot even be confident of its already wide precision intervals. According to our statistical consultant, the limits of the precision interval are in doubt and are probably actually worse than the DSS has estimated. Insofar as the uncertainty of the precision interval applies to the latest methodology for determining sanctions, the DSS cannot even be confident that the error rate is at least as high as the lower limit of the estimate.

Memoranda and statements from DSS officials indicate that they clearly understand that the unreliable error rates are attributable to the small samples. They told us, however, that they have not increased samples because such an increase would be too costly, especially considering the limited

* We did not include seven of the monitored counties in this analysis because for the period tested, the DSS had stratified the sample into periods smaller than six months. In each of these seven instances, however, the data did not meet the requirements of the coefficient of variation test for erroneous payments.

resources available. Although DSS staff did not prepare actual estimates of necessary sample sizes or of costs, they assumed that improving the reliability of the error rates sufficiently would require a significant increase in the size of the samples.

To determine how much of an increase in sample size would be necessary, we used a method provided by our consultant. This method determines the sample size needed to reduce the coefficient of variation to an acceptable level, and it assumes that the mean and the standard deviation of the erroneous payments in the increased sample would stay exactly the same as in the smaller sample. We found that the data produced by the present DSS samples are so unreliable that in theory the samples would have to be increased from 4 to 64 times their present size.

In practice it is unlikely that such substantial increases in the samples would be required because it is unlikely that the mean and the standard deviation of the erroneous payments would remain constant in the increased sample. Therefore, we tested the effect of increasing the sample using actual quality control data by combining groupings of 6-month quality control data into expanded periods to effectively increase the size of the sample. For instance, we

first combined data from two 6-month periods into a 12-month period, thus doubling the sample size. We then expanded the time frame to an 18-month period and finally to a 24-month period. We tested five counties and found that even for the 24-month period, which produced a sample four times the size of the present 6-month ones that the DSS uses, the data still did not meet the criteria of the coefficient of variation test. The average 6-month sample size in the five counties we tested was 140 cases. To correspond to our 24-month period the samples would need to be increased to an average of 560 cases, and they still would not be sufficiently large to meet the coefficient of variation test.

To further illustrate the impact of such large increases in sample size, we also estimated the cost of increasing the samples. Since the additional reviews would probably be done by county staff, it would be appropriate to use county cost figures to develop the estimate. However, because we were unable to develop a uniform cost figure for the counties, we used the cost-per-case figure that the DSS' Quality Control Bureau uses in making its estimates. The DSS estimates that it costs $304 to review an AFDC case. Using that figure, we calculated that, for the example above, increasing the average sample four times, from 140 to 560 cases, would cost an additional $128,000 in each of the five counties.

Alternative Method for Improving the Precision of Error Rates

We identified several alternative methods by which the DSS could probably improve the precision of its error rates. Our statistical consultant provided further suggestions. Because the problem with each of the DSS' methods has been the extreme variance in the amounts of erroneous payments, each of the following alternatives attempts to reduce the impact of this variability on the estimates. We could not test the effectiveness of all of the alternatives for improving the precision of the error rates because the DSS' present sample design does not provide the necessary data. Consequently, the degree of improvement that these alternatives would provide is still questionable.

One way that the DSS could improve the precision of its error rates without increasing the number of cases reviewed is to stratify cases so that the extreme variability of the average erroneous payment could be brought under control. Most cases have no errors, others are judged ineligible and therefore have 100 percent errors, and a few are between these extremes. If the cases could be stratified in a way that resulted in groups of high, medium, and low amounts of erroneous payments, the efficiency of the sample could be substantially increased. For example, if the DSS could

identify those cases likely to result in large erroneous payments, perhaps by using an error-prone profile, it could isolate these cases into a separate review category. Our consultant said that stratification such as this is generally the best way to reduce variance without having to increase sample size.

Another change that would simplify matters and could result in even smaller variances in some counties is to estimate only the amount of erroneous payments instead of calculating the ratio of erroneous payments to total payments. Since the DSS knows the amount of total payments in any time period, it could focus its efforts on estimating the amount of erroneous payments from the sample. The DSS could then convert these two figures into the desired ratio by simple division. The advantage of this method is that it would not be necessary to meet the coefficient of variation test which the current ratio methodology requires and which the DSS has been unable to meet. Whether this method would be preferable to the ratio estimate that the DSS currently uses depends upon the correlation between error payments and total payments and upon the variability of these two payments. A statistical test comparing correlation and variability can determine when it is more efficient to use one method over the other. We applied this test to ten counties and found that in five of the counties the variance would have been smaller and therefore the

estimate more precise if the DSS had estimated erroneous payments only. The DSS could apply this test to the data from each county before calculating error rates to determine which method would produce better results. The DSS could then select the most efficient method overall and use that method for all the counties in the period under review. It is possible that estimating error payments only would not require samples as large as the ratio estimation procedure necessitates.

An additional alternative would be for the DSS to concentrate its efforts on the lower limit of the precision interval, so long as sanctions are based on the lower limit of the error rate. By using what is called a "one-tail test," a statistical calculation that improves the precision of the lower limit, the DSS could maintain its confidence level of 95 percent, yet improve its precision of the lower limit at the same sample size.

A final way that the DSS could improve the precision of its error rates is by lengthening its sample and review period. This process would combine cases drawn from two or more time periods into one review period. Each case would then be given a weight inversely proportional to the chances of that case being selected into its original sample. Then by treating all of the cases reviewed in the period as one group, the sample would be large enough to produce more reliable results.

We applied this procedure to error rate data collected by the DSS. Using a 24-month period, we were able to reduce the coefficient of variation of erroneous payments by approximately half of the DSS' 6-month figures. We developed 24-month error rates for five counties using data from the latest four 6-month review periods. Table 5 below presents the results of our test.

TABLE 5

ERROR RATES FOR EXPANDED REVIEW PERIOD
(Point Estimate at 95% Confidence)

	County Payment Error Rate	Coefficient of Variation of Total Payments	Coefficient of Variation of Erroneous Payments
County A	7.25% ± 1.92	.02	.14
County B	5.53% ± 1.59	.02	.15
County C	5.35% ± 1.76	.02	.17
County D	4.17% ± 1.47	.02	.18
County E	5.22% ± 1.75	.02	.17

Although the coefficient of variation for erroneous payments in our 24-month review period is still above the required 0.10, it is less than half the usual figure (0.40) that the DSS derives for the 6-month review periods. This means that even though our samples are still not large enough to produce sufficiently reliable estimates, they are more reliable than the DSS' estimates. According to our

consultant's formula for estimating required sample size, our 24-month samples would still have to be increased up to three times their current size to produce reliable estimates.

Finally, the most effective way to improve the precision of the error rates may be to use combinations of some of these methods. For illustration, we applied what is called a "one-tail test" to the 24-month error rates we developed.* The one-tail test improves the precision of the lower limit of the estimate. For the first county shown in Table 5, our 24-month error rate was 7.25 percent $\pm$ 1.92, and we can say with 95 percent confidence that the error rate is between 5.33 and 9.16 percent. Applying the one-tail test, which focuses on the lower limit, we can improve the precision of the lower limit from -1.92 to -1.60. Thus, we can now say with 95 percent confidence that the error rate is at least 7.25 percent minus 1.60, or 5.64 percent.** In the second county, the 24-month error rate is 5.53 percent $\pm$ 1.59, or between 3.94 and 7.12 percent. After applying the one-tail test, we are 95 percent confident that the error rate is at least 4.20 percent.

* Since the purpose here is to provide an illustration, we assumed that the 24-month error rates met the requirements of the coefficient of variation test.

** These figures do not total due to rounding.

Although some of the suggestions offered here may require additional adjustments of sampling design or increases in sample size, they are nevertheless worth considering as ways of improving the precision of the error rates.

Differing Perspectives on the Benefit of Sanctions

Both DSS and county officials presented arguments for and against the use of sanctions. The primary value of sanctions is that they may provide an incentive to counties to reduce error rates. However, sanctions may also have an inherently negative effect, and both DSS and county officials have noted the questionable value of sanctions. First, sanctions may not be that strong an incentive to reduce the error rate. DSS and county officials told us that counties are more strongly motivated to reduce errors by other factors, such as pressure from county boards of supervisors. Further, the DSS officials stated that sanctions put the DSS and the counties in adversary roles when, in fact, they must cooperate to reduce the statewide error rate. Although a number of factors may have contributed to the increase, the statewide error rate has increased from 3.7 percent to 8.6 percent since sanctions were introduced.

Additionally, there is a belief that sanctions conflict with the chief intent of quality control, which is to provide useful management information on AFDC errors. Both DSS and county personnel told us that when fiscal sanctions are threatened, counties are motivated not to find and report errors. Also, considering the limitations on resources, DSS and county staff felt that the time and expense devoted to developing error rates and the appeal process could be more effectively spent on analyzing data and planning corrective action.

In a 1980 report to the Committee on Finance, United States Senate, the U.S. General Accounting Office (GAO) offered a similar view of the negative effects of sanctions. The GAO report concluded that sanctions put the federal government and the states in adversary roles; that they conflict with the intent of quality control, which is to provide management information; and that the precision of quality control error rates varies among states so that the error rates are not sufficiently comparable as a basis for sanctions. Consequently, the GAO recommended that the Congress retract its directive for imposing fiscal sanctions against the states. To date, however, no such action has been taken.

Finally, the value of the current quality control system as a mechanism to pass on any federal sanction of the State is questionable. Staff of the DSS' Quality Control Bureau advised DSS management that the current system is not appropriate for passing on federal sanctions because the federal and county systems measure performance in different populations and have different review standards. Additionally, DSS staff believe that the error rates are not statistically comparable because of sample size and because the federal error rate is a regressed estimate, while the county error rate is not. In fact, the Quality Control Bureau staff recommended that, if federal sanctions are imposed, the DSS should develop an alternate means of passing the sanctions on to the counties.

CONCLUSION

The Legislature has required the Department of Social Services either to impose fiscal sanctions on counties that do not meet the performance standard or to report why the county was not sanctioned. However, the DSS has not developed a satisfactory system for imposing fiscal sanctions on counties whose AFDC error rates exceed the set standard. Quality control error rates have been so

statistically imprecise that the data are inconclusive, and the DSS cannot accurately assess the performance of counties.

To improve the reliability of the error rates using the DSS' current procedures would require significant increases in case review samples and would increase costs substantially. There are, however, alternative procedures the DSS could use to estimate the error rate. The degree of improvement that these alternatives would provide is uncertain because we did not have the data to test each alternative.

Additionally, there are opposing perspectives on the value of sanctions. Both DSS and county officials have made arguments for and against the use of fiscal sanctions as a means to control AFDC errors.

RECOMMENDATION

To sanction counties in a fair and equitable manner, the DSS needs to improve the reliability of its error rate estimates and attain uniform precision intervals among counties. We recommend that the DSS sanction counties only after two conditions are met: first, a precision interval of less than 2.5 percent (at

95 percent confidence) must be achieved for all counties; and secondly, if the ratio method is to be used, the coefficient of variation in county samples of both total payments and error payments must be equal to or less than 10 percent.

To improve the precision of error rate estimates, we recommend that the DSS test the viability of the following alternatives:

- Expanding the time frame of the sample period. To use this approach, the DSS will have to amend its regulations specifying that counties will be subject to fiscal sanctions only when they exceed the performance standard for two consecutive six-month periods.

- Using the one-tail test method when calculating the lower limit.

- Developing estimates of error rates by estimating error payments only. This should be done along with estimating the ratio of error payments to total payments, so that the DSS could use the method which produces error rates with the best precision intervals overall.

- Stratifying sample cases so that the variability of the average error payment can be isolated by certain types of case characteristics. When developed, the error-prone profile discussed in the preceding section of this report might provide the appropriate case characteristics.

If, after testing the viability of the above suggestions, the DSS is still unable to achieve acceptable error rate estimates, we recommend that the DSS estimate the cost of increasing sample sizes to obtain error rates that will be sufficiently reliable to sanction counties. We recommend the DSS then consider the overall benefits of the sanctioning process using the quality control error rates and, at that time, propose legislation that will either adequately fund the sanctioning process, create a basis for sanctions other than quality control error rates, or discontinue the sanction policy.

Additionally, the DSS should discontinue efforts to develop a regressed error rate and select another method of verifying the accuracy of county error rates. Officials in the DSS' Quality Control Bureau have already recommended to DSS management that this be done.

OTHER INFORMATION REQUESTED BY THE LEGISLATURE

The Legislature also requested specific data on the AFDC quality control program. The tables on the following pages present this additional information.

Table 6 lists the payment error rates for all the states, the District of Columbia, and U.S. territories over the past three years. The figures given are the final federal estimates of error rates, computed by the regression comparison of the results of state and federal quality control reviews.

Table 7 lists the payment error rates for California's 35 largest counties, as calculated by the DSS. The figures shown are from the first review period that sanctions were to be imposed through the latest period for which data are available. Both original county estimates and state regressed estimates are presented. For the reasons discussed in the second finding of this report, the figures presented in this table are extremely unreliable.

Table 8 presents data on AFDC quality control costs and staffing for each of California's counties in fiscal year 1980-81. The DSS derives these figures from counties' unaudited administrative expense claims.

TABLE 6

AFDC PAYMENT ERROR RATES FOR ALL STATES[a]
APRIL-SEPTEMBER 1978 TO OCTOBER 1980-MARCH 1981
FEDERAL REGRESSION ESTIMATE, INELIGIBLE AND OVERPAYMENT ERRORS
(Point Estimate at 95% Confidence)

State	April 1978-September 1978	October 1978-March 1979	April 1979-September 1979	October 1979-March 1980	April 1980-September 1980	October 1980-March 1981[b]
U.S. Average	9.4 ± 0.5	10.4 ± 0.6	9.5 ± 0.7	8.3 ± 0.5	7.3 ± 0.6	8.4
Alabama	9.5 ± 1.6	7.4 ± 1.3	6.8 ± 1.5	6.6 ± 1.7	7.6 ± 1.3	8.3
Alaska	31.2 ± 9.5	28.8 ± 7.9	16.5 ± 6.1	13.4 ± 4.6	14.4 ± 4.9	13.8
Arizona	8.0 ± 2.2	6.4 ± 2.3	6.9 ± 3.2	7.7 ± 3.0	9.5 ± 4.1	8.7
Arkansas	9.1 ± 1.8	8.8 ± 2.7	10.6 ± 3.1	9.3 ± 2.0	6.1 ± 2.1	6.6
California	3.7 ± 1.3	7.2 ± 1.7	7.8 ± 3.1	6.3 ± 1.9	5.1 ± 2.0	8.6
Colorado	4.3 ± 1.2	6.5 ± 2.1	6.3 ± 2.1	9.8 ± 4.4	13.3 ± 4.4	10.1
Connecticut	8.6 ± 1.6	9.7 ± 1.9	6.3 ± 2.2	6.3 ± 1.6	6.2 ± 2.0	8.0
Delaware	16.1 ± 5.4	9.8 ± 3.3	12.5 ± 4.7	8.1 ± 2.7	7.9 ± 3.0	12.8
Dist/Columbia	22.4 ± 3.0	23.8 ± 4.4	19.1 ± 3.0	14.3 ± 3.2	10.5 ± 2.7	15.1
Florida	5.6 ± 1.5	6.2 ± 1.6	4.1 ± 1.0	6.5 ± 1.4	5.8 ± 1.3	7.5
Georgia	7.8 ± 1.7	6.5 ± 1.1	6.6 ± 1.2	8.3 ± 2.3	7.8 ± 1.6	7.3
Hawaii	9.2 ± 5.0	8.6 ± 3.5	8.0 ± 3.6	8.9 ± 3.1	9.2 ± 3.1	10.1
Idaho	4.4 ± 1.9	7.5 ± 2.6	7.5 ± 2.6	6.0 ± 3.9	11.8 ± 4.3	12.7
Illinois	17.1 ± 2.1	13.8 ± 1.7	11.9 ± 2.1	9.4 ± 1.7	6.9 ± 1.8	8.6
Indiana	3.7 ± 2.2	4.6 ± 2.8	4.2 ± 2.2	4.5 ± 1.9	4.6 ± 2.9	5.2
Iowa	7.8 ± 2.1	10.1 ± 2.3	6.4 ± 2.0	4.5 ± 1.4	3.8 ± 1.2	4.4
Kansas	4.1 ± 1.4	8.0 ± 2.7	3.9 ± 1.5	4.0 ± 2.1	7.4 ± 3.3	7.5
Kentucky	10.2 ± 1.4	6.6 ± 1.3	6.9 ± 1.4	6.1 ± 1.8	4.7 ± 1.4	5.5
Louisiana	11.1 ± 2.6	8.5 ± 3.0	7.2 ± 1.5	6.5 ± 1.7	7.2 ± 1.5	5.8
Maine	9.2 ± 1.9	13.6 ± 4.4	10.2 ± 3.0	5.9 ± 1.9	7.3 ± 1.7	8.6
Maryland	13.6 ± 1.9	14.7 ± 2.4	13.6 ± 2.1	12.7 ± 1.7	12.7 ± 2.0	11.8
Massachusetts	15.9 ± 3.3	24.8 ± 5.4	22.4 ± 4.2	16.7 ± 3.1	8.2 ± 2.1	11.1
Michigan	9.2 ± 2.1	10.3 ± 1.9	9.6 ± 1.3	8.2 ± 1.2	7.3 ± 1.1	7.2
Minnesota	3.4 ± 1.0	2.4 ± 1.3	3.7 ± 1.6	4.5 ± 1.7	2.3 ± 1.0	3.8
Mississippi	11.6 ± 2.2	11.4 ± 2.2	9.4 ± 1.7	7.9 ± 1.5	6.9 ± 1.6	7.3
Missouri	10.1 ± 2.1	11.2 ± 2.1	8.9 ± 0.9	8.7 ± 1.3	5.9 ± 1.4	6.5

[a] The term "states" includes the District of Columbia, Puerto Rico, and the Virgin Islands.

[b] The precision intervals for the period October 1980-March 1981 were not available at the time of this report.

Source: April 1978-September 1980 Health, Education, and Welfare Social Security Administration, Division of AFDC Quality Control Press Release Back-up Tables. October 1980-March 1981 Federal Department of Health and Human Services, Social Security Administration, Region IX Field Assessment Office, AFDC Quality Control Branch.

TABLE 6 (Continued)

State	April 1978-September 1978	October 1978-March 1979	April 1979-September 1979	October 1979-March 1980	April 1980-September 1980	October 1980-March 1981[b]
Montana	9.7 ± 3.6	10.7 ± 3.8	14.8 ± 5.8	9.0 ± 5.4	11.2 ± 3.5	6.9
Nebraska	4.6 ± 2.3	2.9 ± 1.8	2.4 ± 1.6	5.6 ± 3.0	4.3 ± 2.7	4.1
Nevada	0.6 ± 1.7	0.8 ± 1.6	2.3 ± 3.2	0.0 ± 0.0	2.3 ± 0.7	2.5
New Hampshire	11.0 ± 3.3	12.2 ± 6.1	17.2 ± 6.9	11.0 ± 5.2	11.1 ± 5.6	5.5
New Jersey	9.3 ± 2.6	10.0 ± 2.2	11.8 ± 2.4	11.6 ± 2.7	9.3 ± 2.3	8.4
New Mexico	4.8 ± 1.4	5.3 ± 2.9	7.4 ± 3.8	6.3 ± 2.9	8.2 ± 3.5	12.4
New York	8.8 ± 2.0	10.3 ± 2.0	8.8 ± 2.3	7.0 ± 1.7	9.7 ± 2.4	9.1
North Carolina	7.9 ± 1.3	7.1 ± 1.1	6.3 ± 1.2	6.5 ± 1.3	4.8 ± 1.2	6.2
North Dakota	1.6 ± 3.2	5.4 ± 2.2	6.1 ± 3.4	7.3 ± 4.2	4.7 ± 3.6	3.3
Ohio	9.5 ± 2.0	11.9 ± 2.1	9.1 ± 2.6	8.7 ± 3.0	8.7 ± 2.5	8.4
Oklahoma	3.2 ± 1.2	4.1 ± 1.6	5.5 ± 1.7	4.0 ± 1.6	4.8 ± 1.7	4.9
Oregon	12.7 ± 2.9	11.9 ± 2.5	9.4 ± 2.8	5.0 ± 0.9	4.0 ± 1.8	6.7
Pennsylvania	16.3 ± 2.0	11.9 ± 1.6	9.7 ± 1.4	11.6 ± 2.2	8.0 ± 1.0	9.8
Puerto Rico	7.8 ± 1.0	9.0 ± 2.2	7.1 ± 1.3	6.8 ± 1.7	10.3 ± 2.3	10.0
Rhode Island	12.7 ± 4.0	9.9 ± 3.4	7.6 ± 3.9	8.1 ± 4.1	9.7 ± 3.9	6.8
South Carolina	7.1 ± 1.5	7.7 ± 1.3	5.5 ± 1.3	7.7 ± 2.0	6.9 ± 1.2	7.4
South Dakota	4.8 ± 3.1	2.4 ± 1.6	3.5 ± 1.7	3.6 ± 2.5	6.8 ± 3.7	7.2
Tennessee	7.0 ± 1.5	6.3 ± 1.1	6.4 ± 1.7	7.0 ± 1.7	7.0 ± 0.9	10.2
Texas	6.9 ± 1.3	7.4 ± 1.5	7.0 ± 1.7	7.4 ± 1.8	7.8 ± 2.4	7.1
Utah	2.8 ± 0.3	4.6 ± 2.5	6.5 ± 3.1	9.1 ± 5.0	5.5 ± 3.5	6.0
Vermont	4.5 ± 4.0	12.5 ± 6.2	15.2 ± 7.1	11.3 ± 4.1	11.4 ± 4.0	3.8
Virgin Islands	11.2 ± 6.6	NA	9.9 ± 3.9	5.4 ± 1.3	4.7 ± 1.1	8.1
Virginia	11.7 ± 3.5	10.2 ± 3.5	7.3 ± 1.7	10.5 ± 4.2	5.4 ± 1.7	3.7
Washington	6.7 ± 1.8	9.6 ± 3.1	6.5 ± 2.3	8.8 ± 2.9	9.1 ± 3.6	9.8
West Virginia	11.3 ± 3.5	10.4 ± 2.8	6.3 ± 2.5	5.3 ± 1.8	6.9 ± 3.0	7.1
Wisconsin	11.1 ± 2.8	11.7 ± 3.4	13.5 ± 4.9	8.4 ± 2.0	7.6 ± 1.8	9.4
Wyoming	4.0 ± 3.5	6.0 ± 3.7	12.4 ± 5.4	11.1 ± 6.1	16.4 ± 6.8	18.9

TABLE 7

PAYMENT ERROR RATES FOR CALIFORNIA'S 35 LARGEST COUNTIES[a] ORIGINAL COUNTY ESTIMATES AND STATE REGRESSION ESTIMATES[b]

(Point Estimate at 95% Confidence)

County	October 1979-March 1980		April-September 1980		October 1980-March 1981		April-September 1981	
	County Estimate	Regressed Estimate	County Estimate	Regressed Estimate	County Estimate	Regressed Estimate	County Estimate	Regressed Estimate
Alameda	5.7 ± 3.2	6.7 ± 3.5	2.9 ± 2.6	2.9 ± 5.1	4.6 ± 3.3	1.2 ± 0.1	4.8 ± 3.2	0.0 ± 0.0
Butte	0.9 ± 1.3	0.0 ± 0.0	1.3 ± 1.0	1.3 ± 0.1	0.7 ± 0.6	0.6 ± 0.6	5.8 ± 4.6	5.8 ± 1.7
Contra Costa	3.7 ± 2.6	3.7 ± 0.6	1.8 ± 1.6	1.8 ± 1.3	4.1 ± 2.3	3.5 ± 3.2	3.2 ± 2.3	3.2 ± 0.5
Fresno	2.8 ± 2.0	2.8 ± 2.0	5.5 ± 3.4	4.8 ± 4.4	2.2 ± 1.9	2.2 ± 1.3	2.8 ± 1.9	2.8 ± 0.9
Humboldt	0.9 ± 0.9	0.0 ± 0.0	1.7 ± 1.8	0.0 ± 0.0	5.3 ± 3.7	5.3 ± 1.7	2.6 ± 2.3	2.6 ± 0.2
Imperial	4.8 ± 5.7	0.0 ± 0.0	4.6 ± 2.8	3.7 ± 5.3	4.9 ± 3.9	4.9 ± 7.3	2.9 ± 2.5	2.9 ± 1.8
Kern	0.8 ± 1.3	0.8 ± 0.4	1.4 ± 1.6	1.4 ± 1.4	0.6 ± 0.7	0.2 ± 0.1	1.7 ± 1.9	0.0 ± 0.0
Kings	2.7 ± 2.1	0.0 ± 0.0	1.4 ± 1.4	1.4 ± 0.1	3.1 ± 2.7	0.0 ± 0.0	0.5 ± 0.6	0.5 ± 0.8
Los Angeles	2.9 ± 1.2	2.9 ± 1.2	2.6 ± 1.1	2.6 ± 1.1	2.8 ± 1.2	2.8 ± 1.2	3.2 ± 1.3	3.2 ± 1.3
Madera	2.5 ± 2.0	0.0 ± 0.0	4.4 ± 2.7	1.4 ± 2.6	2.1 ± 1.6	2.1 ± 2.1	2.1 ± 1.8	2.1 ± 0.2
Marin	4.4 ± 3.3	12.6 ±24.7	6.9 ± 3.7	2.7 ± 3.2	5.1 ± 3.0	5.1 ± 0.8	0.7 ± 0.6	0.4 ± 0.8
Mendocino	1.5 ± 2.4	0.0 ± 0.0	1.5 ± 1.6	0.0 ± 0.0	0.0 ± 0.0	0.0 ± 0.0	1.9 ± 2.9	0.0 ± 0.0
Merced	6.5 ± 3.7	6.5 ± 5.1	4.7 ± 2.8	4.7 ± 4.1	0.4 ± 0.5	0.4 ± 0.1	2.8 ± 1.6	0.0 ± 0.0
Monterey	8.0 ± 4.1	8.1 ± 5.3	9.7 ± 4.6	9.7 ± 5.6	6.5 ± 3.7	6.5 ± 2.1	5.5 ± 3.1	5.5 ± 0.8
Orange	4.2 ± 2.5	4.2 ± 1.8	3.4 ± 2.4	0.6 ± 1.3	2.1 ± 1.7	0.0 ± 0.0	2.6 ± 2.6	2.6 ± 1.1
Placer	2.8 ± 1.9	0.0 ± 0.0	3.2 ± 3.6	3.2 ± 8.0	4.4 ± 3.0	3.4 ± 2.9	5.1 ± 2.7	4.7 ± 0.3
Riverside	3.5 + 2.4	2.7 ± 1.8	4.7 ± 2.7	4.7 ± 2.3	6.8 ± 3.7	2.9 ± 2.1	4.1 ± 2.4	4.1 ± 1.0
Sacramento	4.4 ± 2.6	3.9 ± 1.8	3.2 ± 1.9	3.2 ± 2.0	2.1 ± 1.3	2.1 ± 1.4	1.3 ± 1.3	1.3 ± 1.1
San Bernardino	6.9 ± 3.5	10.8 ± 4.2	3.3 ± 2.6	1.7 ± 2.2	4.6 ± 3.3	1.9 ± 0.1	4.2 ± 2.6	4.2 ± 1.1
San Diego	2.9 ± 1.5	4.6 ± 2.5	6.9 ± 4.4	6.9 ± 5.6	4.0 ± 3.0	4.0 ± 5.3	7.2 ± 4.3	7.2 ± 3.5
San Francisco	6.5 ± 3.5	12.2 ±12.2	3.7 ± 2.3	3.7 ± 3.1	6.3 ± 3.8	4.8 ± 3.1	4.5 ± 4.1	4.5 ± 3.4
San Joaquin	2.3 ± 1.9	2.3 ± 0.8	1.4 ± 1.3	1.4 ± 0.3	2.2 ± 1.9	2.2 ± 2.2	3.2 ± 2.5	3.2 ± 4.0
San Luis Obispo	1.3 ± 1.9	3.7 ± 1.9	1.6 ± 1.5	1.6 ± 0.7	2.3 ± 2.2	1.5 ± 0.1	2.2 ± 1.7	2.2 ± 1.7
San Mateo	4.1 ± 2.6	12.4 ±13.0	9.5 ± 5.1	16.2 ±14.0	3.1 ± 2.2	2.5 ± 0.9	1.7 ± 2.2	1.7 ± 5.0
Santa Barbara	3.3 ± 2.0	0.0 ± 0.0	4.6 ± 2.9	4.6 ± 3.5	5.4 ± 2.6	4.5 ± 5.8	8.1 ± 4.3	8.1 ± 7.2
Santa Clara	2.8 ± 1.9	3.6 ± 2.5	2.6 ± 1.6	2.6 ± 1.2	4.2 ± 2.8	4.2 ± 2.3	6.2 ± 3.6	7.2 ± 2.7
Santa Cruz	2.9 ± 2.0	3.7 ± 3.6	2.9 ± 2.6	2.9 ± 1.0	2.1 ± 1.8	0.0 ± 0.0	2.0 ± 1.6	0.0 ± 0.0
Shasta	4.5 ± 3.6	6.5 ± 5.9	2.0 ± 2.5	2.0 ± 4.8	1.8 ± 1.7	1.3 ± 0.5	3.5 ± 2.7	3.5 ± 4.6
Solano	4.7 ± 2.7	4.7 ± 6.5	2.7 ± 1.7	2.7 ± 1.0	3.2 ± 2.5	2.5 ± 0.8	4.2 ± 2.5	4.2 ± 0.2
Sonoma	6.9 ± 3.5	4.9 ± 5.8	5.3 ± 3.1	5.3 ± 4.3	3.5 ± 2.9	5.3 ± 6.2	3.7 ± 3.9	1.7 ± 0.8
Stanislaus	3.1 ± 2.4	0.0 ± 0.0	4.0 ± 2.7	4.0 ± 5.1	4.3 ± 3.0	4.3 ± 4.2	2.9 ± 2.0	2.9 ± 0.1
Tulare	1.1 ± 1.0	0.0 ± 0.0	3.3 ± 2.3	3.3 ± 0.8	2.2 ± 2.2	1.6 ± 2.1	2.0 ± 1.7	2.0 ± 2.8
Ventura	1.6 ± 1.5	0.0 ± 0.0	3.5 ± 2.9	3.7 ± 0.7	1.0 ± 1.5	3.2 ± 7.6	2.3 ± 1.7	2.4 ± 2.1
Yolo	8.3 ± 4.0	8.2 ± 5.9	2.4 ± 1.7	2.4 ± 0.8	4.2 ± 2.6	4.2 ± 2.6	3.2 ± 2.6	3.2 ± 2.1
Yuba	0.5 ± 0.5	0.0 ± 0.0	0.6 ± 0.8	0.0 ± 0.0	2.0 ± 2.0	0.0 ± 0.0	0.1 ± 0.3	0.0 ± 0.0

[a] For the reasons discussed in the second audit finding of this report, we have little confidence in the error rates and precision intervals presented here. These figures are probably even less precise than indicated, and, therefore, they probably do not accurately reflect counties' performance.

[b] This error rate excludes technical errors, which the DSS defines as errors resulting from the failure of a client or agency to follow a required procedure and for which correction would not change eligibility or the amount of payment. Figures shown are rounded to the nearest tenth of a percent.

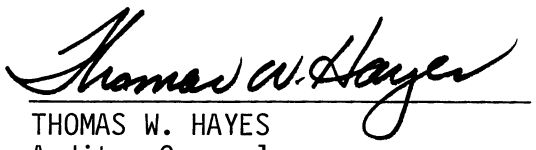
TABLE 8

COUNTY EXPENDITURES AND STAFFING FOR AFDC QUALITY CONTROL
FISCAL YEAR 1980-81

County	Staff and Support Costs for Quality Control	Number of Quality Control Staff	County	Staff and Support Costs for Quality Control	Number of Quality Control Staff
Alameda	$ 448,868	135.9	Orange	308,115	109.4
Alpine	700	.1	Placer	43,917	14.7
Amador	2,127	1.0	Plumas	0	0
Butte	115,155	41.7	Riverside	901,012	325.1
Calaveras	5,625	2.1	Sacramento	183,065	60.6
Colusa	5,352	2.0	San Benito	226	.1
Contra Costa	247,234	74.7	San Bernardino	186,840	76.6
Del Norte	955	.3	San Diego	608,282	219.7
El Dorado	10,164	3.1	San Francisco	364,580	100.1
Fresno	358,731	132.4	San Joaquin	152,364	50.3
Glenn	3,616	1.7	San Luis Obispo	78,739	25.8
Humboldt	51,800	19.9	San Mateo	340,459	90.2
Imperial	37,986	13.8	Santa Barbara	145,491	55.3
Inyo	3,327	1.2	Santa Clara	355,334	104.7
Kern	78,547	28.1	Santa Cruz	172,269	39.4
Kings	70,778	24.1	Shasta	68,938	25.7
Lake	267	.1	Sierra	0	0
Lassen	0	0	Siskiyou	15,765	5.2
Los Angeles	3,701,491	1,004.3	Solano	135,146	39.6
Madera	35,034	13.7	Sonoma	80,095	27.2
Marin	90,472	27.6	Stanislaus	187,380	72.5
Mariposa	0	0	Sutter	101,505	36.3
Mendocino	30,195	11.0	Tehama	15,566	5.2
Merced	155,230	54.1	Trinity	5,916	2.4
Modoc	0	0	Tulare	93,335	39.3
Mono	0	0	Tuolumne	10,593	4.2
Monterey	143,076	51.4	Ventura	224,947	73.0
Napa	23,907	8.0	Yolo	37,704	12.5
Nevada	28,655	10.4	Yuba	57,994	22.5
			Total	$10,524,869	3,300.3

Source: Workload and Cost Comparison Report, Cumulative Period Ending June 1981, Department of Social Services. The Department of Social Services gathers these figures from the county administrative expense claims before it audits these claims.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: August 30, 1982

Staff: Steven L. Schutte, Audit Manager
Melanie Kee
Robert Blackstone

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814
(916) 323-0263

August 23, 1982

Mr. Thomas W. Hayes
Auditor General
Office of the Auditor General
660 J Street
Sacramento, CA 95814

Dear Mr. Hayes:

This is to provide comments to you on the draft of Report Number 107 entitled "The Department of Social Services Could More Effectively Use the Data from the AFDC Quality Control Reviews."

It is to my continued amazement and concern that the technical statistical findings and recommendations contained in this report are characterized in such a simplistic and unbalanced manner. Only after my personal meeting with you, necessitated by fruitless dialogue with your staff, did your office begrudgingly agree to even remotely acknowledge California's and the Department of Social Services' (DSS) outstanding track record in AFDC error rate reduction in probably the most difficult to administer of any public program. As I pointed out to you, even the Federal General Accounting Office in a recent report found California's performance outstanding yet you chose not to reflect this in your report.

The following are important facts that help put this Department's performance into a more balanced perspective.

FACT 1

The efforts of the state and the counties in error rate reduction and corrective action in the AFDC program have saved the taxpayers over $825 million since 1973.

FACT 2

California has consistently had one of the lowest AFDC error rates of the large industrialized states in the nation. (See chart in the attachment.)

FACT 3

DSS has been and continues to be a national leader in error reduction and AFDC Program administration. In 1976, California developed an AFDC Program Management Performance Model which is just now being adopted nationally. In addition, California was the first state to use an expanded sample for producing county-specific quality control data. California has pioneered a number of innovative systems changes. For example, California was the first state to implement an Earnings Clearance System. California also pioneered a monthly reporting system, and developed a system of retrospective budgeting of recipients' income for grant computation. All three of these system improvements have been embraced by the Federal Government and are now required of all states.

FACT 4

The county-specific quality control information referred to in the report is in fact developed by the counties. The report implies that DSS is not making this information available to them.

FACT 5

California's outstanding performance has been noted in numerous publications. A September 1978 report by the California Taxpayers' Association said: "The increase in productivity and decrease in cost has not resulted in increased error rates in the AFDC Program. Since 1973, there has been a steady reduction in overpayments to persons in fact ineligible. According to Federal data, California ranks lowest in payment error rates of the nine largest caseload states."

More recently, a September 1981 report by the U.S. General Accounting Office characterized California's AFDC Program as a "Tribute to Effective Management". This report goes on to state that "our review has shown that program goals of efficiency and effectiveness are being aggressively pursued and state and local managers are effectively managing the program."

FACT 6

The report fails to acknowledge that the federal error rate used to generate the figure of $162 million in erroneous expenditures for a 12-month period did not meet the Auditor General's own recommended standards for reliability.

In addition to these facts, I would like to focus on a few other major issues:

- The Auditor General acknowledges that even a "fractional reduction of the error rate could result in substantial savings". We agree. In this context, why has the report failed to acknowledge that the error rate has been reduced from 8.6% to 5.5% in the following period (a figure much more reflective of California's performance and substantially under the national average)? This represents a reduction of 36% at an annualized savings of $77.7 million. While this information is not yet "official" from the Federal Government, this information was fully available to your staff.

- The report states that more analysis by DSS would somehow relieve the counties of the cost and effort of developing analytic programs. The Department is developing and will continue to develop better analytic techniques within the constraints of budgeted resources (such as our efforts to develop the AFDC Management Information System). However, this in no way should diminish the inherent county responsibility for detailed analysis and local corrective action. The report fails to recognize this local responsibility and the fact that it is appropriately being done at the local level. Corrective action techniques developed by one county can usually be transferred to other counties.

  As an example of such county corrective action, two major counties are experimenting with the use of EPP. While EPPs have not been conclusively proven to reduce error rates in the AFDC Program, for the same two counties we have submitted requests for Federal Section 1115 demonstration project funds to test whether EPPs are worthy of use as a tool statewide. It should be noted that some states using EPPs have substantially higher error rates than California.

- The report concludes that DSS has not developed a satisfactory system to impose fiscal sanctions on counties. We disagree. The following points must be made regarding this "conclusion":

  1. The Auditor General acknowledges that even with the adoption of their range of recommended statistical manipulations, their "standards" of a satisfactory system are not met and that significant additional state expenditures to expand the current sample would be required.

  2. The conclusions in the report seem to contradict the recommendations by the Legislative Analyst's Office which in both their FY 1981-82 and FY 1982-83 analyses strongly recommended sanctioning counties based on the current QC system.

  3. The report fails to acknowledge that the Legislature in its deliberations on the FY 1982-83 budget specifically considered the use of the lowpoint rather than the midpoint of the estimate and supported the Department's use of the lowpoint through specific Budget Act control language.

4. The report mentioned, but neglects to highlight, that there is a strong belief nationwide that the appropriate use for Quality Control information is to improve performance and not as a device for fiscal sanctions (the National Governor's Association, the National Council of State Public Welfare Administrators, and the Federal General Accounting Office (GAO), etc.). The ability of one level of Government to use this system to shift financial responsibility for erroneous payments in this program to another level must ultimately be tested in the courts. Certainly California will initiate litigation against the Federal Government if it attempts to impose sanctions against California under their QC system. The Department of Social Services has attempted to eliminate the unfair features of the Federal system while at the same time abiding by legislatively required budget restraints and the intent of the Legislature to impose sanctions on counties with clearly poor performance. To this end, DSS should be applauded.

I understand that some of your reluctance to include a more balanced perspective is based on your contention that the study was concerning just a narrow aspect of the AFDC Program (Quality Control Data and Fiscal Sanctions) and not California's overall performance in managing the AFDC Program. This approach results in confusing means with ends, activities with results. The best theoretical system ever devised means nothing unless it works and, further, works within a budget. California has a proven record of excellence in its error rates and management of the AFDC Program.

Some of your technical recommendations are worthy of follow-up. These will be included with others the Department is and has been in the process of exploring. However, the context in which your findings are placed in this report clearly does a disservice to its intended audiences.

Attached are specific responses to key elements of the report.

Sincerely,

Marion J. Woods

MARION J. WOODS
Director

Attachment

ATTACHMENT

The audit report is written in a way that suggests or implies a number of weaknesses in California's AFDC program performance, error rates, and fiscal sanction process. This impression is particularly likely to occur with a reader who may not be familiar with the AFDC program, how quality control error rates and fiscal sanctions are used, or California's fine record of performance in managing the program. Because of this, we have chosen to respond to what we believe to be the key conclusions or implications that a reader might draw from this report.

I. The audit report suggests that the DSS has not exercised a leadership role in error reduction.

California has a well deserved national reputation as a leader in AFDC error reduction. This is recently evidenced by the GAO report dated September 1981 which included a section entitled "California AFDC Program: A Tribute to Effective Management".

Our error rate was reduced from 12.3 percent in 1973 to 3.7 percent in 1978 without the use of the advanced statistical techniques suggested by the auditors. Because this is a complex subject, with a myriad of ever changing variables, it is impossible to say with certainty what caused the reduction. We believe, however, that the following were major contributors:

- The introduction of expanded QC samples in the largest 15 counties, comprising approximately 85 percent of statewide grant costs, in 1975. Individual county samples are now being completed by the 35 largest counties, comprising 98 percent of statewide grant costs. This approach, pioneered in California, directly provides counties with QC information on which to base corrective action. It also indicates to DSS which counties are major contributors to high error rates. This allows DSS to focus its efforts on counties with error problems.

- The commitment of top county management to the resolution of error problems.

- The introduction of 100 percent monthly reporting, a forerunner to current federally mandated procedures.

- The development of statewide verification systems, such as the Earnings Clearance System and the Unemployment and Disability Insurance Verification System, as tools for counties to use to verify benefits. Wage matching is now required by the federal government.

- The implementation of retrospective monthly budgeting, now federally required.

- The sharing of innovative county corrective actions through DSS' AFDC policy consultants, the County Welfare Director's Association, and other methods (e.g. the Bay Area Corrective Action Committee).

California's continued downward error rate trend was broken in late 1978. This coincided with the passage of Proposition 13 and a general state of disruption in the county welfare departments based on funding concerns. In light of the many changes occurring at that time, the clear implication in the report that the increased error rate is due to failure to proceed at a fast pace on advanced statistical techniques is totally unwarranted.

After the two periods from October 1978 to September 1979 (7.2 percent and 7.8 percent, respectively), the error rate declined, first to 6.3 percent and then to 5.1 percent. It appeared that California's error rate was on its way back down to previously achieved levels. When we were notified earlier this year that our error rate had increased to 8.6 percent, we intensified our efforts to test more advanced statistical techniques and to provide counties with more information. Additionally, we and the counties established the Statewide Corrective Action Advisory Committee, a forum for counties to provide direct input on state level corrective action. The implication in the report that our current efforts on error analysis and county assistance are due to the presence of auditors is objectionable.

II. The audit report recommends that the DSS provide more assistance and guidance to the counties in the areas of data analysis and corrective action.

Much of California's success in error reduction is attributable to independent and innovative county action. Because California requires that counties perform QC reviews, the necessary QC data is available onsite. It would be shortsighted to relieve counties of the basic responsibility to plan and implement corrective actions. County associations and the Statewide Corrective Action Advisory Committee are means to insure that responsible counties have access to additional information and/or assistance. AFDC county consultants also assist counties. Our recent effort to improve our Quality Control Management Information System is just one example of our continued efforts to provide counties with assistance in this area commensurate with our respective responsibilities.

III. The report concludes that error cause determination studies are not useful to counties in planning corrective action.

This statement concerns and perplexes us since it is at odds with both what our county contacts tell us and unsolicted feedback we have received from the county management staff. Had the auditors contacted either more counties or a broader range of county staff, perhaps their conclusion would have been substantially different.

IV. The report suggests that the 8.6 percent error rate is indicative of California's basic performance in administering the AFDC Program.

The reliability of the 8.6 percent error rate is $\pm$ 3.06 percent. This is worse than the 2.5 percent reliability recommended by the auditors who drafted the report. The fact that the error rates before and after were 5.1 percent and 5.5 percent, respectively, may suggest that the 8.6 percent error rate is not a reliable indicator of what the state's error rate performance actually was. This is partially supported by the fact that the findings submitted to the federal government by DSS for these periods were

4.0 percent, 3.9 percent, and 3.8 percent, respectively. The auditors were aware that the subsequent period error rate had been estimated by state staff using the federal formula at 5.5 percent and could have checked the calculations.

V. The audit report implies that advanced statistical techniques will aid in error reduction.

The auditors' writeup of advanced techniques used or being tested in other states is misleading. It leaves the impression that these states are doing things California is not and are improving as a result of their activities. A look at these states' error rates indicates otherwise:

State	Review Period					
	4/78-9/78	10/78-3/79	4/79-9/79	10/79-3/80	4/80-9/80	10/80-3/81
Arizona	8.0	6.4	6.9	7.7	9.5	8.7
Florida	5.6	6.2	4.1	6.5	5.8	7.5
Pennsylvania	16.3	11.9	9.7	11.6	8.0	9.8
West Virginia	11.3	10.4	6.3	5.3	6.9	7.1

While some of these approaches are still in the initial testing phase (as San Diego and Alameda Counties are now testing the use of an Error Prone Profile), West Virginia has been using an Error Prone Profile for some time now. It appears that the error rate, once reduced from a very high level, has remained at about the same level. It should be noted that other factors may have had as much or more impact than the introduction of the Error Prone Profile (i.e., management and the workers were made more aware of how to reduce errors).

It is also not clear that an Error Prone Profile would be cost-beneficial in a state with the kinds of verification and other systems California has in place. We have submitted requests for Federal Section 1115 demonstration project funds to test, in two major counties, whether Error Prone Profiles should be used as a statewide tool.

VI. The audit report suggests that other states with large AFDC expenditures are continuing to reduce their payment error rates.

The audit statement is either overstated or false. (See the attached table of error rates.) A glance at the last two periods shows that the error rates increased for three of the other largest seven states.

California's error rate has been among the lowest of the large urban states. Further, with the exception of the same one period, we have always been better than the national average. This is in spite of the fact that we have the largest caseload in the nation. California's error rate for the most recent period for which data is available, April-September 1981, has been estimated by state staff using the federal formula at 5.5%. This will almost certainly be better than both the national average and the error rates of the other large states (these are not currently available).

VII. The report contends that the DSS has not developed a satisfactory system of imposing sanctions on counties; error rates are too imprecise.

The audit report goes to great lengths to produce technical statistical arguments critical of DSS' sanction process and to label the resulting error rates as "unreliable". Just what reliability and statistical variation factors are necessary to support the imposition of dollar sanctions are unanswered questions.

A review process that uses sampling must, by its very nature, do something less than a 100 percent case review. The point at which the process is reliable enough to support a sanction, yet cost effective enough to be administratively feasible, is difficult to define. The audit report itself suggests that increasing funding to obtain better precision may not be cost effective. The factors and equities involved are so complex that the answer will likely be found only in a court of law.

The report criticizes the department because the reliability factor for the error rates established for the counties is sometimes less than $\pm$ 2.5 percent. The text of the report unfairly implies that the difficulty of obtaining very precise error rates is unique to this department. It should be pointed out that in the most recent period for which data is available, 21 of the 53 federally established error rates failed to meet the $\pm$ 2.5 percent reliability factor recommended by the auditors. In fact, the 8.6 percent error rate cited by the auditors as indicating some failure by the department in the quality control area had a reliability of only $\pm$ 3.06 percent.

Additionally, it must be emphasized that $\pm$ 2.5 percent is not a magic number. Such precision, while desirable, is not necessarily required to support a fiscal sanction. And, in any event, the use of the lower limit as the standard for sanctions protects counties from having fiscal sanctions imposed on them unless the data clearly supports such actions.

VIII. The report suggests that the DSS has stopped using the regressed county error rate.

This Department has not adopted a policy of not using regressed county error rates. It is true that they have not been used for fiscal sanction purposes to date. It is also true that there has been internal discussion and various viewpoints have been expressed. This does not preclude our use of regressed error rates now or in the future. This information was also available to the auditors. And, it should be noted, regressed error rates are used and are useful for management information and corrective action purposes.

AUDITOR GENERAL'S COMMENTS CONCERNING THE DEPARTMENT OF SOCIAL SERVICES' RESPONSE

We normally do not comment on the agency responses in our audit reports. However, we find it necessary in this instance to comment on the Department of Social Services' response to provide perspective and clarity.

At the outset, it is necessary to point out two important facts. First, our report presents findings in two major areas of AFDC quality control. The report evaluates the use of quality control data for management information purposes and the statistical techniques used to develop AFDC payment error rates for counties. We did not assess the overall adequacy of the State's AFDC program.

Second, the DSS' response does not dispute any of the facts presented in the report or any of its recommendations. Throughout the audit we advised department staff of the development of our findings, conclusions, and recommendations. In fact, in three separate exit briefings while we were drafting our report, department staff agreed with our evaluation. It was only after we provided department management a copy of the draft report that anyone in the department indicated disagreement with the report.

In continuing our comments on the department's response, we choose not to rebut the individual items in the response. Rather, we will deal with the few issues that seem to underly the department's overall comments. In general, we find that the DSS' response fails to address the critical points of our report. In its specific arguments we find that the department is responding to a report that we did not write. The response misstates conclusions made in our report, attributes to the report conclusions that it does not contain, and includes other inaccuracies. We present the following information to provide clarity for the reader.

The department's main concern in its response is that our report does not give the department sufficient credit for efforts over the past nine years. In this regard, it appears we must again clarify for the department the purpose of our report. Our report presents ways to improve existing procedures. In no way is it meant to minimize the importance of any improvements the counties or the DSS have made in reducing AFDC errors since 1973. However, our report is not

intended to provide an historical accounting of the AFDC program. Rather, our purpose is to illustrate that there is room for continued improvement and to provide recommendations that will assist the DSS in its efforts toward improvement.

From the department's response, however, it appears that the DSS is not receptive to our recommendations for the continued effort to reduce the State's error rate. We believe that an erroneous payment level of $162 million in a recent 12-month quality control review period clearly indicates a need for continued concern and improvement. Further, throughout the response, the department focuses on the period from 1973 to 1978 when the State's error rate dropped from 12.3 percent to 3.7 percent. While we agree that these figures indicate effectiveness in reducing the error rate during that period, it would seem more appropriate in planning current error reduction activities to focus on more recent data. Since 1978, the State's error rate has consistently been above the standard for fiscal sanctions set by the federal government.

In its response, the department states a number of times that the error rate for the most recent period has dropped from 8.6 percent to 5.5 percent. The response implies that a 5.5 percent error rate diminishes the need for continued effort toward error reduction. There are two major flaws in this argument. First, the 5.5 percent error rate cited is not comparable to the 8.6 percent. The 8.6 percent and the other historical error rates cited in the response are figures developed by the federal government to estimate California's level of erroneous payment. The 5.5 percent error rate that the DSS cites for the last period is the DSS' estimate of what the federal error rate will be; it is not the official federal figure. We tried to confirm the 5.5 percent error rate with staff from the federal Department of Health and Human Services and were told that the final federal figure has not been developed and federal staff could not confirm the 5.5 percent figure. The second problem in the argument is the implication that a 5.5 percent rate of erroneous payments diminishes the need for continued improvement in error reduction. Even if the official error rate were 5.5 percent, it still would be above the federal sanction standard of 4 percent and would indicate an annual amount of erroneous payments of approximately $136 million.

Additionally, the DSS' response cites a report by the U.S. General Accounting Office (GAO) which is complimentary toward California's AFDC program.* The GAO report does state

* The DSS response cites the GAO report as a September 1981 report. Actually, the report was published in February 1982.

that California has made progress in reducing its error rate since 1973, and it lists actions taken by the DSS and counties to improve the administration of the AFDC program. The GAO report does not, however, address the use of quality control data, either for use as management information or for fiscal sanctions. As we noted earlier and as our report indicates, these issues were the focus of our audit.

In its specific arguments, the department's response either misstates conclusions in the report or attributes to the report conclusions that it does not make. The following are a few examples:

- The DSS' response asserts that we do not recognize county responsibility for error reduction and further states that "it would be shortsighted to relieve the counties of the basic responsibility to plan and implement corrective actions." We fully agree. Our report makes no such recommendation. In fact, our report states that the DSS could assist the counties by providing additional analysis, which the counties could then use to plan and implement corrective action.

- According to the DSS' response, our report implies that "the increased error rate is due to failure to proceed at a fast pace on advanced statistical techniques." In fact, the report makes no such implication, and we would not agree with such a conclusion. Our report does not address the causes of payment errors; it states that such errors do exist and that further analysis by the DSS may identify the causes of these errors.

The DSS' response makes additional assertions that require correction. These assertions include the following:

- In a number of places, the response states that our office recommends a reliability level of ± 2.5 percent. The response goes on to argue that "± 2.5 percent is not a magic number." As our report notes, however, the criteria of ± 2.5 percent was established by the DSS. We merely recommended that the DSS meet its own established goals. (At one

* The DSS response cites the GAO report as a September 1981 report. Actually, the report was published in February 1982.

point in its response, the DSS claims that we criticize them because the reliability of error rates is sometimes less than ± 2.5 percent. Actually, our criticism is that the reliability exceeds ± 2.5 percent.)

- In discussing the error cause determination studies conducted by the DSS, the response states that had we contacted more counties or a broader range of county staff, our conclusions may have been different. We contacted every county in which an error cause determination study was conducted over the last three years. We spoke to both managers and staff of the counties' AFDC programs and quality control programs.

- The department's response states that the county regressed error rates are used, but that they are not used for fiscal sanction purposes. Our interviews with department staff and review of correspondence lead us to a different conclusion. Our report contains an excerpt from a DSS memorandum that states that the regressed error rate "is not used for any specific purpose." Given this situation and the problems with the reliability of the regressed error rate, we believe that continued development of the regressed error rate is unproductive.

- The response challenges the statement in our report that other states with large AFDC expenditures are continuing to reduce their error rates. Yet the subsequent sentence in the response shows that in four of seven other large states the error rates have decreased.

In addition to the above comments, it is necessary to point out that we repeatedly encouraged representatives from DSS management to attend our exit briefings so that they would be advised of the results of our audit. The issues discussed in our report relate to two organizational divisions within the DSS. Yet the deputy director of only one of the divisions met with us at an exit briefing; the other deputy has not met with us since our entrance conference. Further, in accordance with our normal policy, after presenting the DSS written copies of our draft report, we offered to meet with department representatives to review with them our written draft and to provide an opportunity to discuss both the perspective and tone of the report. The DSS initially declined our offer to meet with them, and later, at our encouragement, agreed to discuss the issues.

DEFINITIONS OF STATISTICAL TERMS

Coefficient of Variation

The measure of the relative variability in a frequency distribution obtained by dividing the standard deviation by the mean. It expresses the magnitude of the standard deviation relative to the mean of the population. Also called relative standard deviation.

Confidence Level

An estimate of the degree of certainty that the population average will lie within the confidence interval. Confidence levels most commonly used are 95 percent; if all possible samples of a population were taken in the same manner, under the same conditions, the same results would occur 95 out of 100 times.

Confidence or Precision Interval

The range within which the population average will lie, with the degree of certainty specified in the confidence level.

Correlation

A measure of the strength of association between two or more variables. In this study, "correlation" generally refers to the degree of similarity between the errors found by a county and those found by the State in the same cases. (Perfect agreement of findings is 1.00.)

Lower Limit

The lower confidence limit or the lower boundary of the precision statement. (E.g., 4 percent $\pm$3 percent = 1 percent lower limit.)

Payment Error Rate

The percentage of total aid that is misspent because of payments to ineligible recipients and overpayments to eligible recipients.

Performance Standard

The payment error rate established in the State's Budget Act to determine whether a county's performance is subject to fiscal sanction.

Point Estimate

The estimate of the average total value obtained from the sample. It is usually the midpoint of the confidence interval.

Regression

A procedure that incorporates sample and subsample findings to provide a single error rate. In this study the regressed error rate combines the results of the county's sample review and the results of the DSS' subsample of the county review.

Standard Deviation

A measure of a frequency distribution's variability. The greater the variability, the larger the value of the standard deviation.

Stratification

A sampling procedure that divides the population into subgroups or "strata" (usually on the basis of similar values or common characteristics), then takes random samples within each subgroup and later combines these for a single estimate.

Variance

The square of the standard deviation. In this study, the major references are to the variance of error payment amounts, the variance of total payment amounts (with or without errors), and the covariance of the two values.

Weighting

A process by which the sample values from a number of subgroups or strata are assigned numbers ("weights") according to their relative size in the total population.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps