PERFORMANCE AUDIT

DEPARTMENT OF ECONOMIC SECURITY

Division of Benefits and Medical Eligibility

Report to the Arizona Legislature
By the Auditor General
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October 19, 1993

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Dr. Linda J. Blessing, Director
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Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Economic Security (DES), Division of Benefits and Medical Eligibility. This report is in response to a December 13, 1991 resolution of the Joint Legislative Oversight Committee.

DES is taking a number of important steps to improve efficiency and reduce errors in its Public Assistance programs. Although DES can further improve on these efforts by greater use of automation, it is making progress in these areas. However, DES' current programs to address fraud and misrepresentation appear destined for limited success at best. To more effectively address fraud, DES needs to change its focus from attempting to detect fraud after it has occurred and place more emphasis on prevention.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on October 20, 1993.

Sincerely,

Douglas R. Norton

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Auditor General

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SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (DES), Division of Benefits and Medical Eligibility, pursuant to a December 13, 1991, resolution of the Joint Legislative Oversight Committee. This performance audit, the third in a series of audits of DES, was conducted as part of the Sunset Review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

The Division of Benefits and Medical Eligibility (DBME) is responsible for determining eligibility for Federal and State public assistance programs. The most notable of the programs administered by DBME include Aid to Families with Dependent Children (AFDC), and Food Stamps, for which over $650 million in benefits was issued in fiscal year 1992-1993. DBME also spends considerable resources determining eligibility for medical assistance services through the Arizona Health Care Cost Containment System (AHCCCS).

Arizona's public assistance programs have experienced tremendous growth over the past five years. In fiscal year 1988-1989, 800 eligibility interviewers handled approximately 166,930 cases (209 cases per worker). By the end of fiscal year 1992-1993, 1,415 eligibility interviewers handled over 377,000 cases (266 cases per worker). As its programs have grown, DBME has had an increasingly difficult time providing timely and accurate service. Program error rates (resulting from both agency mistakes and intentional or unintentional misrepresentation by clients) have steadily increased, resulting in millions of dollars in welfare benefits issued erroneously and Federal financial sanctions. In the last 3 Federal fiscal years, over $113 million in benefits were erroneously issued.

DBME Is Taking Steps To Reduce Error Rates (see pages 11 through 16)

During the course of our audit, DBME began a series of internal studies and quality initiatives to reduce agency-caused errors. Several of these initiatives focus on important problems that our audit work also identified. For example, the Division is attempting to improve the effectiveness of its quality assurance and quality control systems by reviewing cases for errors prior to issuance of benefits. It is also strengthening its ability to hold employees accountable for work quality and job performance.

As DBME continues its quality improvement efforts, it should also consider other steps that would further assist workers in the eligibility determination process. For instance, DBME should consider pursuing an "expert" automated system that would reduce the need for workers to make judgments and interpret policy. By consistently applying appropriate program policies automatically, expert systems make the workers' jobs easier and reduce errors. DBME should also consider enhancing its training program for line workers and supervisors.

DES Needs To Strengthen Efforts To Prevent And Detect Fraud (see pages 17 through 27)

DES needs to strengthen its programs and activities for fraud prevention and detection. Although no hard data exists on fraud in Arizona, official estimates of fraud range from 2 to 5 percent of total cases. However, studies in other states and a survey of Arizona eligibility workers suggest that fraud is much more prevalent. For example, eligibility workers estimate 28 percent of their cases contain fraud. Regardless of which estimate is used, the cost of fraud is significant. A conservative estimate of a 5 percent fraud rate has an annual cost of $19 million. On the other hand, if eligibility workers' estimates of a 28 percent fraud rate are correct, fraud could cost as much as $107 million per year. Further, once these dollars are spent, they probably cannot be recovered.

DES's current approach to combating fraud, however, provides little deterrence to those intent on committing fraud and does not place sufficient emphasis on prevention. The Office of Special Investigations (OSI), a unit within DES specifically charged with investigating fraud, is not an effective deterrent to fraud because few of its investigations result in any kind of penalty or sanction. In fiscal year 1991-1992, OSI opened over 17,000 cases for investigation, yet only 318 cases were referred for prosecution and only 111 individuals were ultimately convicted and sentenced in that year.

DES needs to strengthen its fraud prevention and detection activities to minimize the amount of benefits paid out in error. Workers on the front-line need to improve their investigative interviewing techniques. Workers can also conduct more thorough verification to "double-check" the information provided by the client. For instance, one worker regularly uses such techniques as checking job service records, calling landlords, and checking addresses and telephone numbers.

In addition, OSI should take a more proactive role in fraud detection. Rather than relying primarily on referrals from eligibility interviewers, OSI should also consider utilizing additional methods of fraud detection, such as computer matching, error-prone profiles, and random case checking.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (DES), Division of Benefits and Medical Eligibility, pursuant to a December 13, 1991, resolution of the Joint Legislative Oversight Committee. This performance audit, the third in a series on the Department of Economic Security, was conducted as part of the Sunset Review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

The Division of Benefits and Medical Eligibility (DBME) is responsible for determining eligibility for Federal and State public assistance programs aimed at assisting individuals and families in meeting their immediate basic needs and promoting self-sufficiency. The major public assistance programs for which DBME determines eligibility include:

- **AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)** - The U.S. Department of Health and Human Services (HHS) regulates this program that provides cash benefits to single-parent families with children under the age of 19. Cash assistance, as a temporary means of support, continues until the family can become independent.[1]

- **TWO-PARENT EMPLOYMENT PROGRAM (TPEP)** - Part of the AFDC program, TPEP provides cash benefits to two-parent families that need assistance in meeting their needs until the parents' transition back into the labor force. Cash benefits are limited to 6 months of payments in a 12-month period and are issued on a semimonthly basis after work assignments are completed.

- **FOOD STAMPS (FS)** - The U.S. Department of Agriculture, Food and Nutrition Services (FNS) establishes requirements for the food stamp program. Eligibility for benefits is based on resources, income, and other requirements such as residence, citizenship or legal resident status, and cooperation with the DES Employment and Training program.

- **MEDICAL ASSISTANCE (MA)** - Individuals approved for AFDC or TPEP are automatically eligible for medical assistance and enrolled for a variety of medical services through the Arizona Health Care Cost Containment System (AHCCCS). AFDC-ineligible households may also qualify for medical assistance upon a review and eligibility determination for Medical Assistance Only (MAO).

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1. As a condition of receiving benefits, recipients must participate in educational or work-related programs that help them find and retain employment. However, some recipients are exempt from participation for such reasons as: caring for a child under the age of 2, attending school full-time, or being under the age of 16 or over the age of 59.

- **GENERAL ASSISTANCE (GA)** - State-funded General Assistance provides financial assistance to individuals who are physically, mentally, and/or socially incapacitated to the degree they are unemployable. Individuals required to live in the same home and provide custodial care to a disabled person may also qualify for General Assistance.

- **DISABILITY** - Federal financial assistance is also available to the disabled. The Social Security Administration (SSA) forwards claims for Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) to the State for eligibility determination. Once eligibility is determined, the claim is returned to SSA for determination of benefit amount.

Organization And Staffing

Headed by an assistant director, the Division has an authorized full-time staffing level of 2,709. The Division operates three sections:

- **FAMILY ASSISTANCE ADMINISTRATION (FAA)** - maintains responsibility for all program eligibility determinations, except for potential SSI and SSDI recipients. Its 2,492 staff operate in approximately 70 field offices across the State and a central office located in Phoenix.[1] The majority of these employees (1,451) are eligibility interviewers (EI's), who are responsible for interviewing clients, processing cases, and determining program eligibility and benefit amounts.

- **DISABILITY DETERMINATION SERVICE ADMINISTRATION (DDSA)** - determines eligibility, based on disabilities, for SSI and SSDI recipients. The administration maintains a staffing level of 156 employees allocated between Phoenix and Tucson.

- **OFFICE OF PROGRAM EVALUATION (OPE)** - conducts the quality control function for FAA client cases to identify the causes of repetitive errors and to eliminate those causes through appropriate corrective action plans. Results are transmitted to the Federal agencies responsible for determining program error rates and are subsequently used to determine sanctions or incentive payments to the State. OPE maintains a staffing level of 61 employees located among Phoenix, Tucson, and Flagstaff.

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1. Itinerant visits are also made to 100 rural sites across the State on a regular basis.

Funding

The Division receives both State and Federal funding. The Federal government provides approximately 50 percent of the necessary funding for AFDC and Food Stamp program administrative costs; however, funding for actual recipient benefits varies by program. For AFDC, the U.S. Department of Health and Human Services provides approximately 66 percent of the funding for benefits, while the Department of Agriculture, Food and Nutrition Services fully funds food stamps. As shown in Table 1, the cost of administering and funding public assistance programs in Arizona is projected to total nearly $754 million in fiscal year 1992-1993. Of this, nearly $674 million actually goes to welfare recipients.

TABLE 1

Department Of Economic Security
Division Of Benefits And Medical Eligibility
Estimated Budget For Fiscal Year 1992-1993
(unaudited)

FAA	State	Federal	Total
-Food Stamps	$ 11,377,438	$405,033,019	$416,410,457
-AFDC	99,467,953	185,729,743	285,197,696
-Medical	9,739,250	9,739,250	19,478,500
-GA	17,422,887	0	17,422,887
-Other (a)	648,174	53	648,227
Subtotal	$138,655,702	$600,502,065	$739,157,767
OPE	932,100	1,381,000	2,313,100
DDSA	185,576	12,189,556	12,375,132
Total	$139,773,378	$614,072,621	$753,845,999

(a) "Other" public assistance programs provide benefits to individuals needing emergency assistance for circumstances such as eviction or utility shut-off. In addition, individuals certified as having tuberculosis may also receive cash assistance.

Source: Division of Benefits and Medical Eligibility, Operations Support Budget Report for fiscal year 1992-1993, Office of Program Evaluation, and the Disability Determination Services Administration.

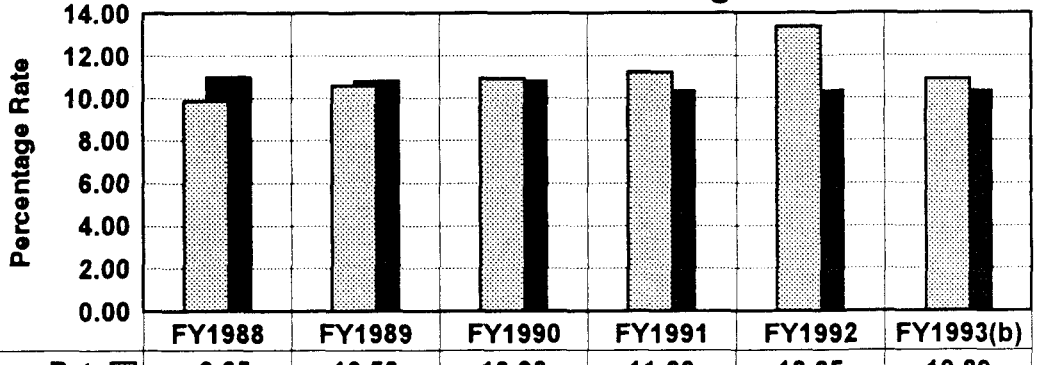
Poor Performance Has Costly Impact

Historically, Arizona has experienced problems in providing accurate and timely welfare benefits. Errors in the issuance of welfare benefits are attributed to either the agency or the client. Agency errors are often due to misapplication of policies, failure to act on information provided by the clients, and failure to gather all the necessary information when determining eligibility. Client errors result when the client intentionally or unintentionally fails to report or misrepresents information at the time of application and/or when changes in status occur. Based on quality control reviews from October 1991 through March 1993, 70 percent of case errors were agency caused and 30 percent were client caused.

As shown in Figure 1, Food Stamp program error rates for Federal fiscal years 1988 through 1993 have increased, while national tolerance levels (i.e., error rate standards) have decreased and/or remained constant. Figure 2 (see page 5) illustrates AFDC program error rates for the same time period. While AFDC error rates have generally decreased, they still remain well above tolerance levels.

Figure 1

Food Stamp Error Rates
Federal Fiscal Years 1988 Through 1993



	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993(b)
Arizona Error Rate	9.85	10.58	10.93	11.23	13.35	10.89
Nat'l Tolerance Level(a)	10.97	10.80	10.80	10.31	10.31	10.31

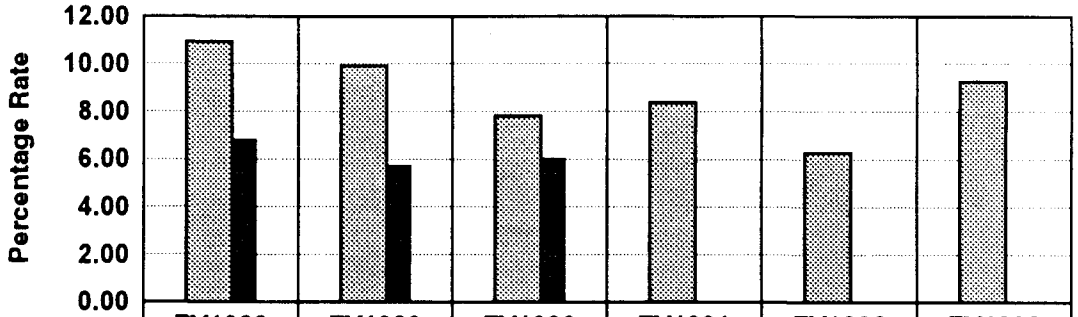
(a) The National Tolerance Level is the national error rate (as determined by FNS) + 1 percent; however, the tolerance level cannot increase past a previously established national error rate.

(b) The error rate for fiscal year 1993 is an estimate as of June 21, 1993.

Source: Division of Benefits & Medical Eligibility and the U.S. Department of Agriculture, Food and Nutrition Services.

Figure 2

AFDC Error Rates
Federal Fiscal Years 1988 Through 1993



	FY1988	FY1989	FY1990	FY1991	FY1992	FY1993
Arizona Error Rate	10.93	9.89	7.81	8.34(b)	6.26(b)	9.25(b)
Nat'l Tolerance Level(c)	6.79	5.70	5.98	N/A	N/A	N/A

(a) Health and Human Services(HHS) projects fiscal year 1991 Tolerance Level results by the Summer of 1993.
(b) The fiscal year 1991 and fiscal year 1992 results are not yet final pending official release from HHS. The error rate for fiscal year 1993 is an estimate as of June 21, 1993.
(c) National average (Total Dollars in Error/Total Dollars Issued) or 4 percent, whichever is higher.

Source: Division of Benefits and Medical Eligibility and U. S. Department of Health and Human Services.

These high error rates produce a significant amount of misspent dollars annually. Some eligible clients received too much in benefits, while others received benefits for which they were not eligible. As shown in Table 2 (see page 6), over $113 million was misspent in both the Food Stamp and AFDC programs during Federal fiscal years 1990-92.

Federal monetary sanctions add further to the cost of Arizona's high error rates. The Division was sanctioned $311,295 in Federal fiscal year 1989-1990 and $2,848,469 in Federal fiscal year 1990-1991 for high error rates in its food stamp program.[1] Additionally, the Division recently received notice of a nearly $11.5 million sanction for its continually high food stamp error rate for Federal fiscal year 1991-1992. Additional dollar sanctions could be forthcoming for Federal fiscal year 1992-1993 based on the error rate to date.

1. The State and FNS reached a negotiated settlement of $473,965 to be paid by the State over the next 5 years. These monies will pay for enhancement to the current automated system and quality assurance staff to identify how and why errors occur. The Division has avoided sanctions associated with its high AFDC error rates due to waivers from the Federal government for fiscal years 1988, 1989, and 1990.

Table 2

Department Of Economic Security
Division Of Benefits And Medical Eligibility
Dollars Issued In Error
Federal Fiscal Years 1990 Through 1992

Federal Fiscal Year	AFDC	Food Stamps	Total
1990	$10,570,391	$ 17,389,793	$ 27,960,184
1991	13,183,662	23,747,675	36,931,337
1992	14,901,542	33,384,075	48,285,617
Total	$38,655,595	$74,521,543	$113,177,138

Source: Ad Hoc report on error dollars paid during Federal fiscal years 1990-1992, prepared by Division of Benefits and Medical Eligibility, Operation Support

Factors Impacting Error Rates

Tremendous caseload growth, the Division's focus on timeliness, lagging staff levels, and program complexity combine to dramatically impact program error rates and the Division's ability to efficiently and effectively serve clients.

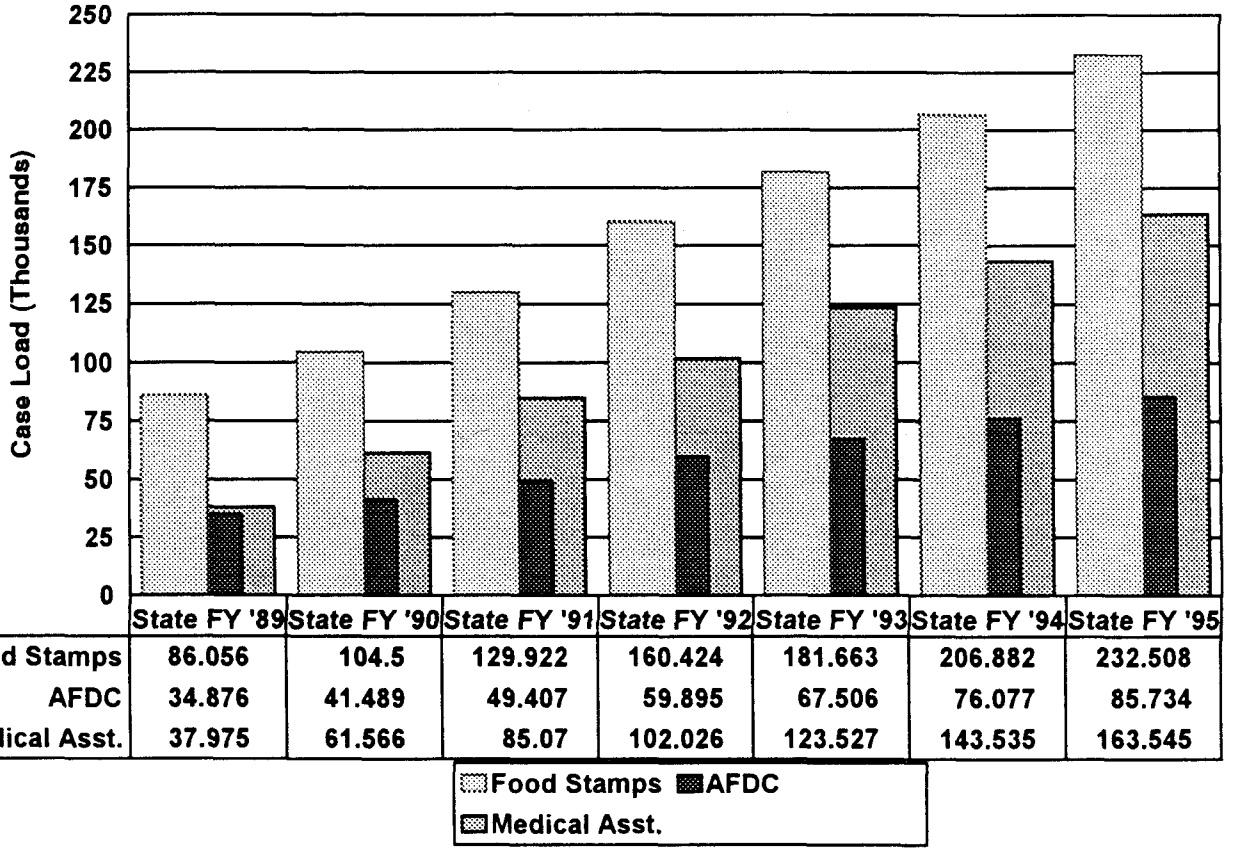
- CASELOAD GROWTH - As portrayed in Figure 3 (see page 7), Food Stamp and AFDC caseloads have doubled, while Medical Assistance caseloads have more than tripled from fiscal years 1989 through 1993. This level of growth, which is expected to continue during fiscal years 1994 and 1995, places greater strain on limited staff resources and impacts the Division's ability to give clients high-quality, timely service.

- TIMELINESS - Further compounding Division efforts to improve quality is the Division's focus on timeliness. This focus evolved from court actions brought

against the State in 1981 and 1982 mandating compliance with Federal timeliness requirements.[1] As a result, the Division's emphasis has been on case timeliness, often to the detriment of quality case preparation.

Figure 3

Caseload Growth In AFDC, Food Stamps And Medical Assistance Programs Actuals For Fiscal Years 1989 Through 1993 And Projected For Fiscal Years 1994 Through 1995



	State FY '89	State FY '90	State FY '91	State FY '92	State FY '93	State FY '94	State FY '95
Food Stamps	86.056	104.5	129.922	160.424	181.663	206.882	232.508
AFDC	34.876	41.489	49.407	59.895	67.506	76.077	85.734
Medical Asst.	37.975	61.566	85.07	102.026	123.527	143.535	163.545

Source: Division of Benefits and Medical Eligibility, Operation Support.

Note: Fiscal years 1994 and 1995 are estimates.

1. Food stamp applications must be processed within 30 days, although in cases deemed to be emergencies, applications must be processed and benefits received within 5 days. AFDC applications must be processed within 45 days.

- STAFFING - While the Division has experienced dramatic caseload growth and requirements to remain timely, staffing levels have failed to keep pace, thus placing greater demands on the eligibility interviewer (EI). In fiscal years 1991-1992 and 1992-1993, growth in EI positions averaged 9.4 percent, well below the caseload growth experienced in each of the programs. This trend is expected to continue. No additional funding was appropriated for staff by the Legislature for fiscal year 1993-1994 to handle future increases in caseload growth.

- PROGRAM COMPLEXITY - Finally, the complexity associated with the programs further contributes to high program error rates. Although many individuals apply and are eligible for both AFDC and food stamp benefits, over 50 differences in policy between the 2 programs complicate and lengthen the eligibility determination process. Constant changes in policy further add to the problem by requiring workers to read, understand, and apply all policy revisions. In 1992 alone, EI's received over 100 documents outlining either new or revised policies.

Audit Scope

Prior to initiation of this audit, a new DES Director and Assistant Director for the Division were appointed. Both have aggressively pursued changes to better serve clients and reduce program error rates. For example, several quality improvement committees were established and actively working during our audit. This report acknowledges the efforts made to effect change within DBME, and proposes additional actions that might positively impact Division performance.

Our report, focusing on the sources of program error rates (the agency and the client) presents findings and recommendations in two areas:

- Additional steps DBME should consider taking to reduce agency-caused errors, and

- The need to develop more effective methods to prevent and detect client fraud.

To help us determine how well DBME has assisted persons needing welfare benefits, we contacted other offices within DES, as well as the Attorney General's office. The offices contacted were: the Office of Accounts Receivable and Collections (OARC), which maintains responsibility for collecting overpayments made to welfare recipients; the Office of Special Investigations (OSI), which maintains responsibility for investigating alleged perpetrators of welfare fraud; and the Office of Appeals, which hears appeals on behalf of welfare recipients.

The audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director of the Arizona Department of Economic Security and the Assistant Director and staff of the Division of Benefits and Medical Eligibility, as well as the numerous staff in other DES Divisions and offices for their cooperation and assistance during the audit.

FINDING I

DBME IS TAKING STEPS TO REDUCE ERRORS

Recently, DBME has initiated significant steps to reduce the number of agency errors. The Division is redesigning its quality control/case review system, strengthening accountability for individual worker performance, and streamlining the client application process. To supplement these efforts, the Division should also consider pursuing an "expert" automated system that will simplify and expedite the eligibility interviewer's job, and strengthening its employee training program.

Early in our audit, we spent considerable time reviewing operations at the Division, district, and local office levels. We visited numerous local offices, interviewing various staff and observing EI's performing their jobs. Based on this work, we identified and began detailed audit work in a number of areas, including the effectiveness of quality assurance and quality control systems, internal efforts to address program error rates, and the impact of employee discipline and accountability on job performance. However, at the same time, DBME established internal review committees to study, develop, and implement recommendations for improvement in many of these same areas. Therefore, to avoid duplication of effort, we reduced the scope of our work and focused on areas that would provide additional opportunities for improved performance and error reduction.

Division Proposals Should Impact Performance

Facing high program error rates, past and pending Federal monetary sanctions, millions in misspent dollars, and dissatisfied clients, DBME has developed several initiatives to address its historically poor performance. These initiatives seek to reduce error rates by refocusing quality review and assurance, strengthening employee accountability, and improving client service.

Quality review and assurance - The Division has refocused its efforts in the quality control/case review process on error prevention. This process consists of daily supervisory reviews of randomly selected client case files worked by EI's for completeness and accuracy. In the past, these quality reviews were performed after benefits had already been issued. Under the new process, the focus of quality review and assurance will be on EI's and the expectation that they will prepare a quality product prior to benefit issuance. The following activities should assist EI's in this objective:

- SUPERVISORS WILL REVIEW CASES PRIOR TO BENEFIT ISSUANCE - In addition to preventing benefits from being issued erroneously, the immediate feedback from these reviews is intended to help the EI understand the error and the reason it was made.

- FOCUS ON MOST COMMON ERRORS - case reviews will focus on the four most common errors in determining client eligibility, such as improper calculation of wages and salaries and inaccurate accounting of all eligible members.[1] This will allow supervisors to focus their attention on problem areas.

- AN ERROR PREVENTION TEAM - will be created for the purpose of determining and addressing the root causes of errors.

- AN ERROR PREVENTION STEERING COMMITTEE - was formed to monitor error reduction initiatives, review error root cause information and analysis, and review recommendations for further improvement of procedures and processes.

Employee accountability - The Division has also developed and implemented several initiatives designed to increase employee accountability for Division performance and program error rates:

- A progressive disciplinary action plan was developed that empowers supervisors and management to more effectively deal with problem employees. DBME previously had difficulty dealing with employees who were not performing adequately (i.e., were not processing cases timely, creating errors, etc.). Additionally, DOA Personnel and the Attorney General's office were heavily involved with disciplinary actions, which created an extremely bureaucratic and lengthy process. DBME has now streamlined the process, reducing the time required to implement discipline from 120 to 75 days.

- The Division will now require strict adherence to its operating manual for field offices. The Local Office Procedures (LOP) manual provides standardized practices for processing cases. The Division has found that strict LOP compliance contributes to improved performance, while deviations from LOP negatively impact performance and impair employee accountability.

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1. Previously, supervisory review of cases encompassed 33 case characteristics. However, DBME found that by focusing on only a few case characteristics that yield the most errors, the same benefits of a full review can be realized.

Client service - Finally, the Division has developed a plan to streamline the client application process in an effort to improve performance and simplify the EI's job. The objective of this plan is to reduce client visits from 4 days to 1 day and average processing time from 26 days to 1 day.[1] In order to meet this goal, the following adjustments to the current process will be made:

- Appointment scheduling will be eliminated, allowing clients to be seen the same day they complete an application.
- More experienced staff will be available in office lobbies to assist clients in the application process.
- The EI's job will be simplified and accelerated by reducing paperwork, reorganizing its flow, and allowing immediate input of client information on the computer during the interview. Clients will be informed after the interview as to their program eligibility and amount of benefits, subject to verification of information provided by the client.
- The Division will undertake an intensive client education campaign, with the assistance of community leaders and organizations. The campaign will stress the importance of providing the necessary documentation at the time of the interview to facilitate the application and eligibility determination process.

These initiatives are in various stages of implementation. While some will be piloted in a local office prior to implementation, others have already been implemented Statewide. According to DBME management, these initiatives are expected to impact error rate performance indicators beginning in late 1993.

Initiatives should be properly implemented and fully supported - While these initiatives are promising, the Division will need to manage and monitor their implementation to ensure success. According to both DES and Federal officials, previous efforts to improve performance and impact program error rates have been unsuccessful or abandoned due to lack of commitment at all levels of the organization, lack of organizational support, and lack of staff and management accountability. To avoid these pitfalls, management needs to secure organizational commitment, support, and accountability by continually soliciting staff input. In addition, DBME needs to monitor, evaluate, and revise its initiatives based on interim results.

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1. We anticipate some additional processing time would be required to implement the recommendations in Finding II (see pages 17 through 27).

Enhanced Automation And Training Should Be Considered

We identified other efforts DBME should also consider to help reduce agency errors. For example, automation and training present additional opportunities to further enhance the EI's ability to handle their growing and complex caseloads more effectively.

Automation - Upgrading current automation capabilities may give EI's the ability to better handle increasing caseloads and produce quality work. Although DBME has several automated systems to assist the EI in the eligibility determination process, they are somewhat duplicative, difficult to use, and do not necessarily simplify the EI's work. Even with these various systems, the Division remains dependent on EI's to know and correctly apply all of the rules and regulations for each program. This often results in the inconsistent and/or incorrect application of policy, ultimately leading to errors.

Recent technology advancements in automated systems present a unique option to expand the skills of EI's and provide them with a tool to further impact program error rates. Currently, there are "expert" systems in various stages of use and development that are designed to simplify the EI's job, reduce the propensity for EI errors, and accelerate the eligibility determination process. These systems all but eliminate the need for EI's to remember, interpret, and appropriately apply overwhelming and complex program policy. For instance, Texas utilizes an "expert" system that prompts the eligibility worker through the interview process, applies appropriate program policy, determines client program eligibility, and computes budget and benefit levels. Texas has found that its system increased staff productivity by 20 percent despite dramatic increases in size and complexity of caseloads. The system has also reduced administrative costs, and enhanced fraud detection.

Similarly, both Merced and Tulare counties in California have implemented "expert" systems. Merced County implemented its "expert" system in response to an increasing caseload, high staff turnover, and dependence on eligibility workers to manage more than 6,000 eligibility rules. Based on applicant responses, the system will apply eligibility rules, determine follow-up questions, and ensure that all necessary information is obtained to make an accurate and appropriate eligibility decision. While Merced County has experienced some difficulties with the system in performing all of the functions for which it was designed, the concept remains viable and appears promising.

Although different from the Merced system, Tulare County also uses an "expert" system to facilitate the eligibility determination process. The Tulare system allows potential clients to do much of the up-front work without relying on state eligibility workers. Clients are provided access to computer "touch" screens on which they answer questions that will determine if they are eligible for public assistance. This

allows eligibility workers to spend more time verifying information provided by applicants.

Tulare County estimates an annual cost savings of nearly $2 million as a result of implementing this system. Savings have resulted from both reductions in program errors and staffing and administrative costs. Other benefits that have been realized include significant enhancement in the timeliness and efficiency of case processing, uniform application of program policies and regulations, and better fraud prevention and detection.

Cost estimates for implementing "expert" systems range from $3.2 to $6 million. However, the cost to the State could be effectively reduced to $1.6 million to $3 million, based on a Federal participation rate of 50 percent in the project.

Training - DBME should consider enhancing its training for new eligibility interviewers. Currently, training consists of classroom lectures during the course of the EI's first year on the job. The training program focuses on the major public assistance programs, automated systems, interviewing, and client application processing. However, many EI's have expressed concern that this training curriculum fails to address the realities of the job, such as high caseloads, complex programs, and constant time pressures. They want something that more closely resembles actual working conditions.

Other states' training programs combine classroom lectures with "real life experience" to better prepare workers for the casework they will be expected to perform. San Diego County, California, incorporates on-the-job training with classroom-type learning. New workers actually process cases, interview clients, and input information on computers while being supervised. According to a San Diego County official, the advantage of this type of training is the preparation provided to new workers for what to expect on the job. They are not so overwhelmed, and function better when they first start handling cases in the "real world." Texas also utilizes a combined classroom/on-the-job training approach. According to a Texas official, staff training has been a very effective tool in reducing errors. Training evaluations indicate that the most effective training occurs when a trainer or facilitator is involved and a protected environment is provided.

Some districts and offices in Arizona have taken similar approaches by providing additional training for new EI's to better prepare them for the responsibilities, expectations, and pressures of the job. For instance, one district has established a transitional training program consisting of on-the-job training and further enhancement of topics covered during initial training. Under close supervision, training participants interview clients, process cases, and determine client program eligibility. Several other local offices employ "baby units," which provide new EI's the opportunity to work with smaller caseloads under closer supervision.

Supervisory training could also be improved. Current supervisory training, offered two to three months after a supervisor has been on the job, misses some important content areas and skills important to the supervisor's job. Both supervisors and management would like supervisory training to become more timely (offered to EI's before or upon promotion). In addition, they recommended that topics relevant to the job, such as problem solving, motivation of employees, interpersonal and organizational skills, and time management be added to the core curriculum.

RECOMMENDATIONS

1. DBME should continue its efforts to address and impact program error rates. In doing so, Division management should secure organizational commitment and support for initiatives and should continuously monitor, evaluate, and analyze the impact these initiatives are having on division performance.

2. DBME should consider pursuing upgraded automation capabilities such as an "expert" system to simplify the job of the eligibility interviewer and allow workers to handle their increasing caseloads more effectively.

3. DBME should revise training for both EI's and supervisors to incorporate on-the-job training, make classroom training timely, and expand training content areas.

FINDING II

DES NEEDS TO STRENGTHEN EFFORTS TO PREVENT AND DETECT FRAUD

While DES has begun major efforts to address its errors, it needs to strengthen programs designed to combat client fraud. Studies conducted in other states and a survey of Arizona eligibility workers suggest that fraud is much more prevalent than official estimates indicate. DES's current approach to fraud provides little deterrence, and does not place sufficient emphasis on prevention by line workers. Workers can do much more to prevent and detect fraud before benefits are paid in error.

Arizona criminal statutes define benefits fraud as "*knowingly obtaining benefits by means of false or fraudulent pretenses, representations, promises or material omissions.*" Common types of fraud or misrepresentation include not fully reporting all income and assets available to the client, or not accurately disclosing the number of household members eligible to receive benefits. Federal regulations require states to pursue action against individuals intentionally committing such fraudulent acts by either administrative disqualification from the program, or criminal prosecution. States are also expected to recover the dollars paid out in error.

Fraud Rate May Be Much Higher Than Official Estimates

Although no studies have been done specifically to establish the prevalence of fraud in Arizona or nationwide, fraud may be much more widespread than has been previously indicated by social service authorities. Both Federal and State official estimates suggest that fraud occurs in only 2 to 5 percent of welfare cases. However, studies in other states and a survey of Arizona eligibility workers indicate that the occurrence of welfare fraud may be considerably higher.

Official estimates - Federal and State officials estimate low rates of fraud. Federal officials we contacted estimated that, nationwide, about 2 to 5 percent of welfare cases contain some form of fraud or misrepresentation. These estimates are based on the Federally mandated annual Quality Control (QC) reviews designed to determine program error rates and identify their causes. Likewise, Arizona QC data reveal a relatively low fraud rate. Based on QC reviews from February 1991 to January 1993, less than 2 percent of the client-caused errors identified were attributed to clients' willful misrepresentation (i.e., fraud).

However, there are serious limitations to relying on QC data to determine the extent of fraud. First, the intent of a QC review is to ensure that the work done by

the eligibility workers is accurate; the purpose of the review is not to detect fraud. Moreover, many Arizona QC reviewers were initially trained not to use the error codes identifying fraud. One reviewer indicated that she has been doing QC reviews for eight years and has never coded a client error as willful misrepresentation. Finally, according to some QC reviewers, they rarely document fraud, unless it is blatant. According to a QC administrator, errors identified (both agency and client) are passed on to the local office, and it is then the local office's responsibility to refer the case for fraud investigation.

Other state studies and EI estimates - Information obtained from several states that have studied fraud and a survey of Arizona eligibility workers suggest that the prevalence of fraud may be much higher than official estimates. For example:

- Nevada randomly selected 100 cases to investigate in a large, metropolitan office to get an idea of the amount of fraud present. As a result of these investigations, 57 cases were ultimately closed or denied due to client fraud, misrepresentation, or failure to report changes.

- The Florida Auditor General's Office, charged with the responsibility to investigate welfare fraud, periodically reviews cases within the food stamp program to determine a probable fraud rate. In its most recent statistical analysis, a probable fraud rate of 11.3 percent for food stamp cases was projected.

- A 1992 San Diego County, California grand jury report conservatively estimated fraud at 10 percent, at a cost of $70 million per year to San Diego County. The report also found that the county social services agency failed to determine accurately the level of welfare fraud and consistently reported rates of fraud proven to be erroneously low.

In Arizona, many EI's believe fraud is prevalent. Because DES has not attempted to quantify the amount of fraud in Arizona, we surveyed EI's and their supervisors who interact with clients virtually on a daily basis to obtain the front-line workers' perception of fraud from within the welfare system.[1] As shown in Table 3 (see page 19), over 50 percent believe more than 1 out of every 4 cases involve some form of fraud or misrepresentation. Moreover, as shown in Table 4 (see page 20), an overwhelming majority of the workers (68 percent) perceive the amount of fraud to be increasing.

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1. We conducted a survey of all EI's and EI supervisors located in field offices across the State (approximately 1,517 full-time positions). Three hundred forty-nine responses were received. We then contacted 70 of the nonrespondents to check for nonresponse bias and found their responses to be slightly lower -- a median fraud estimate of 23 percent.

Regardless of which estimate is used, the cost of fraud is significant. A conservative 5 percent fraud rate would mean that approximately 12,500 cases are fraudulent, costing $19 million annually. On the other hand, if EI estimates of a 28 percent fraud rate are correct, we estimated that 70,346 cases, costing as much as $107 million, may contain some form of fraud or misrepresentation. (See Technical Appendix).

Table 3

Eligibility Interviewers' Estimates Of Percentage Of Cases Containing Fraud/Misrepresentation

Percent of Cases	Number of EI Responses	Percent of EI's Responding
0 - 10%	51	15%
11 - 25%	112	32%
26 - 50% (a)	107	31%
51 - 75%	55	16%
76 -100%	20	6%
Total	345	100%

(a) The median estimate is 28 percent.

Source: Auditor General's March 1993 survey of Eligibility Interviewers and Eligibility Supervisors.

Table 4

Eligibility Interviewers' Perception Of Fraud Status In Arizona

Status of Fraud	Number of EI Responses	Percentage of Respondents
Increasing	232	68%
Unchanged	97	29%
Decreasing	11	3%
Total	340	100%

Source: Auditor General's March 1993 Survey of Eligibility Interviewers and Eligibility Interviewer Supervisors.

Current Approach To Fraud Is Not Effective

DES's current approach to combating fraud provides little deterrence to those intent on committing fraud and does not place sufficient emphasis on prevention. Fraud deterrence is limited because only a small proportion of cases investigated result in any kind of penalty or sanction. Further, DBME does not place sufficient responsibility on line workers for preventing fraud.

The Office of Special Investigations (OSI), a separate unit within DES, has primary responsibility for investigating welfare fraud. OSI has 35 investigators who pursue cases after they are referred by EI's in the local offices.[1] If an EI encounters conflicting or suspicious information in the course of processing a case, the EI may prepare a referral to OSI for an "early fraud" investigation. OSI investigators attempt to either confirm or deny the presence of fraud or misrepresentation, and then return the case to the EI for further action. OSI also investigates on-going cases for potential criminal prosecution.

While many cases investigated by OSI are found to contain inconsistent or inaccurate information, the number of cases in which fraud can eventually be substantiated is significantly less. This is due to several factors. First, once the investigator identifies

1. OSI has a total of 86 full-time equivalent (FTE) positions. The 35 fraud detection investigators are located in local offices, primarily in Maricopa and Pima Counties. The remaining 51 FTEs are located in Phoenix and include administrative and support staff, as well as investigative staff who handle forgery cases and further investigation of cases being prepared for prosecution.

a problem, the client must be notified and given an opportunity to clarify the conflicting information. If the client disputes what the investigator found, or provides information different from that which led to the investigation, the case remains open. Second, if a client cannot be contacted after three attempts, the investigation is closed. Finally, an investigator may have valid reasons to suspect a case is fraudulent, but is unable to obtain sufficient documentation to confirm his or her suspicions. Therefore, further action on the case is unlikely.

Ineffective deterrence - Despite the commitment of significant resources, few investigations result in any kind of penalty or sanction. There are two avenues for pursuing welfare fraud: criminal and administrative. The Arizona Attorney General's Office is responsible for criminal prosecution. Currently, it limits its cases to those where client error has resulted in $1,500 or more in overpaid benefits.[1] As shown in Figure 4 (see page 22) this produces a funnel like-effect on welfare fraud cases. For instance, while in 4,327 fraudulent cases an action against the client was pursued in fiscal year 1991-92, only 318 cases were referred to the Attorney General's Office for prosecution. Additionally, only 111 individuals were convicted of welfare fraud and sentenced in that year. Each of these cases averaged about $3,500 in client-caused overpayments. Typically, criminal sanctions imposed on these individuals included three years' probation, restitution, and community service hours.

Fraud cases handled administratively also result in few significant consequences. DES pursues administrative disqualification from future program participation after a client has received benefits and an overpayment has been identified.[2] While DES took steps to administratively disqualify 1,669 clients in fiscal year 1991-1992, only 449 were eventually disqualified from future program participation. Because administrative cases are often so poorly prepared, about half are decided on appeal in favor of the client. The relatively few clients who are eventually disqualified are required to repay the amount of benefits received in error; however, there are no additional financial penalties or fees assessed.

While some individuals experience the consequences of committing fraud, many workers believe it happens too infrequently to be much of a deterrent. In responding to our survey, several EI's frustrated with the current system discussed client attitudes and the lack of an effective system to deter fraud. They offered the following comments:

- "*Clients are not deterred from fraud because they do not perceive the penalties to be harsh.*"

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1. Using this dollar amount allows the Attorney General's Office to prosecute welfare fraud as a Class 3 felony which can result in five years' imprisonment.

2. Food Stamp regulations allow for clients to be disqualified from participating in the Food Stamp program if they have committed an intentional program violation. A client can be disqualified for 6 months upon a first offense, 12 months for a second offense, and permanently on a third offense. Additionally, HHS recently established regulations allowing similar administrative disqualifications for AFDC clients who have committed intentional program violations.

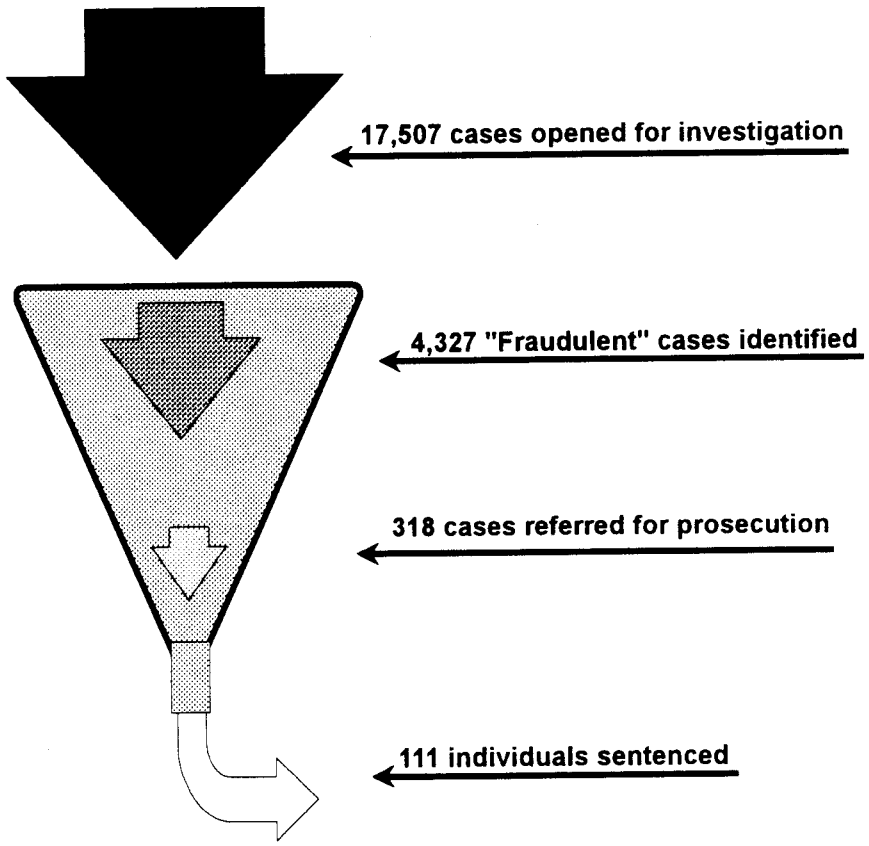
- *"Fraud is on the rise but we won't do anything but slap their hands when they commit fraud."*

- *"I feel that the penalties for fraud are too removed in time from the act of fraud and too lenient to act as a deterrent. There is no deterrent effect with the current system."*

Prevention is limited - The current approach to fraud also limits prevention efforts. Relying on OSI to investigate fraud shifts responsibility for preventing fraud away

FIGURE 4

The "Funnel Effect" Of Fraud Investigations And Prosecutions During Fiscal Year 1992



Source: OSI and Attorney General Fiscal Year 1992 statistics.

from line workers, since EI's are not required to detect or investigate fraud. OSI, on the other hand, has only limited ability to prevent fraud. OSI conservatively estimates its early fraud investigations saved over $1.1 million in fiscal year 1991-1992. However, many if not most fraudulent cases are never referred to OSI. Because EI's are constantly faced with time pressures to process cases quickly, an EI may decide to disregard the conflicting information and forgo referring the case for further investigation, thus avoiding additional paperwork. One EI indicated that she is aware of many EI's who simply do not refer cases because of the time it takes to prepare a referral and because, even if the effort is made, nothing happens to the clients who get caught. As a result, there could potentially be thousands of unreferred cases containing some element of fraud or misrepresentation.

Arizona Should Refocus Its Fraud Prevention And Detection Efforts

As an alternative to its current approach, DES should refocus its efforts on more effective up-front prevention and enhanced detection activities. First, more emphasis should be placed on the initial interview and more thorough verification of information prior to making an eligibility determination. Second, OSI should take a more proactive role in identifying and pursuing fraudulent cases. Finally, DES should strengthen its use of administrative sanctions to make it more difficult for clients to commit fraud.

In our opinion, simply increasing resources allocated to the criminal investigation and prosecution of welfare fraud cases would not be cost-effective. Typically, welfare fraud cases involve low dollar amounts and are not likely to be prosecuted. Therefore, we attempted to identify ways that EI's, who have front-line contact with clients and make the initial eligibility determination decisions, could better detect and prevent fraud. We also attempted to identify ways to enhance the effectiveness of OSI's investigative resources, and the role of administrative sanctions.

More effective interviewing and verification - By employing more effective investigative interviewing and verification techniques, EI's can do more up front to prevent fraud. Currently, because of the pressure to process cases quickly, there is often insufficient time devoted to interviewing clients and obtaining all the necessary documentation. Interviews may vary in length depending on the complexity of the case, but in every case, the EI must review the 11-page application with the client, asking over 100 questions. Common weaknesses revealed by EI's in the interviewing process include confusion on what information to obtain from the client, use of closed-ended or leading questions, and failure to use inquisitive or follow-up questions. For example, some EI's do not inquire further into the existence of bank accounts when there is evidence to suggest that accurate bank account information has not been disclosed.

However, some EI's we contacted apply interviewing techniques that they claim reduce their error rates and prevent fraud:

- Some EI's repeat questions, or ask the same question in a different way to ensure that they get consistent and complete answers.
- One has found that by conveying a nonthreatening, "help us help you" approach, many clients have changed the information they had originally written on the application to the correct information.
- One EI asks clients to draw maps showing where they live. If they cannot, or have trouble, it is an indication that they may not be living where reported.
- Other EI's check for wedding rings, quality of clothing, and cars as an indication of income level.

EI's should also ensure that clients understand their rights and responsibilities and the consequences of providing incorrect or misleading information. In its handbook for eligibility workers, the California State Fraud Bureau states that such understanding is basic to fraud prevention. Despite the importance of this task, only half of the EI's responding to our survey indicated that they always explain the consequences of fraud and misrepresentation to clients.

Finally, EI's can do much more to verify information provided by clients. While time pressures often prohibit the EI's from conducting comprehensive verification checks, some EI's responding to our survey stated that the EI can and should do more verification. For instance, one EI said that she checks job service records to verify employment for clients and noncustodial parents, calls landlords, uses an automated system to check addresses and telephone numbers through the city library, and calls the jail and probation offices, if necessary. Another EI stated that she typically uses several innovative techniques to locate people and to identify or verify employment. Those EI's indicated that, at times, they will work extra hours in order to conduct comprehensive verification.

OSI could take a more proactive role - In addition, OSI could more effectively use its resources to detect and pursue fraudulent cases on its own. As previously mentioned, OSI uses much of its resources to investigate fraud referrals from the EI's. However, Federal regulations for AFDC specifically identify certain other periodic support activities states should consider taking to detect fraudulent applications for AFDC prior to establishing eligibility for such aid. Examples of such activities include automated data matches, use of error-prone profiles, home visits or collateral contacts, credit bureau inquiries, and training on investigative interviewing techniques.

We contacted several states and found that many use the same techniques to identify fraud:[1]

- COMPUTER MATCHING - Five of the six states we contacted use computer matching as a method of identifying potential fraudulent cases. For instance, Florida has used computer matching involving multiple states in an attempt to identify clients who are receiving benefits from more than one state, or who owed money to one state and were receiving benefits from another state. Other states conduct computer matches of post office boxes, other states' welfare rolls, and social security number checks. Matching has proven so successful in Michigan that 95 percent of its investigations come from this method of case identification.

- PROFILES - Some states use error-prone profiles to identify potential fraudulent cases. From past experience, Orange County, California, has found that clients tend to follow the same patterns when committing fraud. Therefore, it has developed profiles that indicate situations most susceptible to fraud. Iowa's Food Stamp Investigations Unit has also developed a list of indicators that the eligibility worker must identify prior to referring a case for investigation. Finally, Texas investigators use profiles as a means of picking cases most likely to result in fraud detection.

- RANDOM CHECKING OR TARGETING - A few states have randomly selected cases or targeted certain offices in an effort to determine if adequate referrals are being made. For example, Tennessee conducts random sampling in smaller counties where there is limited investigative presence. It also targets counties that have not sent many referrals. In addition, San Diego County, California, has proposed random checking to enhance its efforts to detect fraud. Finally, as mentioned previously, Nevada has conducted random checks as a means of determining the extent of fraud.

- ENHANCED TRAINING FOR ELIGIBILITY WORKERS - California has developed a Fraud Prevention Training Program stressing such worker techniques as ensuring client understanding, building a good client-worker relationship, and projecting the proper agency image.

  The eligibility workers are required to receive eight hours of investigative interviewing training each year.

- INTAKE FRAUD WORKERS - Orange County, California identified the use of intake fraud investigators in every local office as its most effective method for deterring fraud or misrepresentation. These investigators are able to go immediately to the applicant's home and verify the accuracy of information provided on the

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1. Based on discussions with Federal and State officials and a national fraud association, we identified the following states to contact for further information on their fraud programs: Florida, Iowa, Nevada, Michigan, Orange and San Diego Counties, California, and Tennessee.

application. By devoting staff for this activity, one Orange County official claims that 70 percent of the applications are denied. Although OSI does not have enough investigative positions to allow one investigator in each office, a similar approach to intake fraud workers has been used in the past. DBME assigned EI's as "verification specialists" responsible only for documentation verification, which assisted in preventing ineligible cases from being approved. This process was discontinued, however, due to complaints from client advocates opposed to EI's working outside of the local office.

Use of administrative penalties - More effective use of administrative penalties could also help reduce the amount of fraud. First, to increase the success rate of administrative disqualifications, DES should ensure that sufficient evidence is presented at the hearings. As mentioned previously, the success rate of administrative disqualifications is hampered by the lack of adequate evidence provided. If a client appeals the disqualification, he or she stands a good chance of prevailing, and will continue to receive benefits. On the other hand, two states we contacted maintain at least a 90 percent success rate in upholding the local offices' decision to pursue program disqualification.

In addition, DES should disqualify individuals who attempt to obtain benefits fraudulently. Currently, there is no penalty for those individuals who attempt to commit fraud during the application process. OSI officials believe the lack of penalties for fraudulent activities prior to benefit issuance diminishes the effectiveness of its early fraud detection program. They state that if a client applies for benefits in one office, but is denied for inaccurate information, there is nothing to stop the same client from applying at another office the next day.

Other states, such as Texas and Nevada, disqualify clients caught attempting to obtain benefits fraudulently even though no money was ever paid out. The same sanctions apply to these individuals as to those who actually receive benefits fraudulently.

RECOMMENDATIONS

1. As a means of refocusing on up-front fraud prevention, DBME should enhance its training for EI's to further develop and emphasize thorough and effective investigative interviewing techniques and verification methods.

2. OSI should consider devoting more of its resources to supplemental fraud detection methods, such as:

   - Computer matching
   - Profiles
   - Random checking or targeting
   - Increased involvement in training on fraud prevention and detection principles
   - Intake fraud workers

3. DES should take steps to strengthen the administrative disqualification process by:

   - Ensuring that local offices are properly trained on how to prepare a quality case for administrative disqualification; and
   - Pursuing the use of administrative sanctions for those individuals attempting to commit fraud prior to benefit issuance.

TECHNICAL APPENDIX

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TECHNICAL APPENDIX

Our estimate that as many as 70,346 cases may contain fraud or misrepresentation at a potential cost of approximately $107 million is based on the following assumptions and calculations:

STEP 1: First, we calculated the number of cases estimated to contain fraud or misrepresentation. This was done by multiplying the median estimate of fraud (28 percent) provided by EI's by the number of AFDC (70,252) and Food Stamp cases (179,814) as of March 31, 1993.

Food Stamp Cases	179,814	(72%)
AFDC Cases	70,252	(28%)
Total Cases	250,066	(100%)

Total Cases		Fraud Estimate		Estimated No. of Cases Containing Fraud
250,066	X	.281308	=	70,346

STEP 2: Next, using the proportion of Food Stamp (179,814 or 72%) and AFDC cases (70,252 or 28%) to the total number of cases as of March 31, 1993, (250,066), we determined how many of the estimated fraudulent cases were Food Stamp cases and how many were AFDC cases:

Total Estimated Fraud Cases		Percentage of Total Cases That Are Food Stamp		
70,346	X	.72	=	50,349

Total Estimated Fraud Cases		Percentage of Total Cases That Are AFDC		
70,346	X	.28	=	19,697

Summary: 28% Fraud or Misrepresentation Produces:

Fraudulent FS Cases	50,349
Fraudulent AFDC Cases	19,697
Total Estimated Fraudulent Cases	70,346

STEP 3: Next, we identified the total amount of AFDC and FS benefits issued in fiscal year 1991-92.

FS	$382,565,000
AFDC	$238,697,631
Total	$621,262,631

STEP 4: We then estimated the average annual dollars in benefits per case by case type.

Food Stamps

FS Dollars ($382,565,000) / FS Cases (179,814)	=	$2,128 Per Case

AFDC

AFDC Dollars ($238,697,631) / AFDC Cases (70,252)	=	$3,398 Per Case

STEP 5: Next, we estimated the dollars associated with the estimated fraudulent cases in each of the two programs:

	No. Fraud. Cases		Avg. Expenditure Per Case		Total Fraud Dollars
FS	50,649	X	$2,128	=	$107,781,072
AFDC	19,697	X	$3,398	=	$ 66,930,406

STEP 6: Because we cannot assume that every case is 100 percent fraudulent (for instance, a client may be eligible to receive benefits, but based on the information provided at the time of eligibility determination, the amount of benefits may not be correct), we used the OPE codes for "client willful misrepresentation" (i.e. the client willfully misrepresented the information provided at the time of eligibility determination) to calculate the average percentage of dollar error associated with a case. Based on 596 error cases examined by OPE in Federal fiscal year 1991-1992, 17 Food Stamp and 15 AFDC cases were identified as having errors associated with client willful misrepresentation.

The dollars associated with those error cases and the percentage of each type of case that could be assumed to contain fraud or misrepresentation is presented below:

	Total Avg. Dollars/Case	Total Fraud Dollars	Percentage of Fraud Dollars To Dollars Issued
FS	$3,824	$1,632	42.68%
AFDC	$3,266	$3,009	92.13%

STEP 7: Finally, using the assumed percentage of fraud/misrepresentation in each type of case, we calculated a revised estimate of the dollars associated with the estimated fraudulent AFDC and FS cases:

Total Fraud Expenditures		Percentage of Fraud Dollars to Total Dollars/Case		Revised Total Fraud Expenditures
(FS) $107,781,072[a]	X	.4268	=	$ 46,000,962
(AFDC) 66,930,406[a]	X	.9213	=	$ 61,662,983
Total Fraudulent Dollars				$107,663,945

(a) See Step 5.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
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Fife Symington
Governor

Linda J. Blessing, DPA
Director

October 15, 1993

Mr. Douglas R. Norton
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Re: Report of Performance Audit on the Arizona Department of Economic Security's Division of Benefits and Medical Eligibility.

Dear Mr. Norton:

The Department of Economic Security (DES) has reviewed the Auditor General's report of the performance audit of the DES Division of Benefits and Medical Eligibility. I know this report represents many hours of concerted effort by you, your staff, and the Division. I appreciate the audit team's efforts in analyzing this large and complex DES Division.

We are pleased that the report recognizes the intensive effort the Department has made in the last year to improve the quality of performance in this Division. As noted in the report, the Department has "aggressively pursued changes to better serve clients and reduce program error rates." "[T]he Division is attempting to improve the effectiveness of its quality assurance and quality control systems by reviewing cases for errors prior to issuance of benefits...[and] strengthening its ability to hold employees accountable for work quality and job performance."

The Department is keenly aware of the need to reduce errors and strengthen efforts to prevent and detect fraud. In furtherance of these objectives, the Department has instituted several quality improvement initiatives in this Division during the past year. The Department agrees with the report's recommendations concerning additional measures the Division can implement to improve services and performance, and reduce error rates. Our response to the audit report, which is enclosed with this letter, addresses those measures and the Department's intent to implement them.

The Department is mindful of its role as a public servant and takes seriously the duty to handle public funds in a fiscally responsible manner. The quality initiatives already underway, and the additional measures we will implement based on the suggestions contained in the report, are all aimed at fiscal responsibility and accountability. I am strongly committed to continuing the process improvement in the Division of Benefits and Medical Eligibility, as well as in other areas throughout the Department.

Despite our agreement with much of the information contained in the report, we strongly disagree with one statement: the suggestion that the cost of fraud and misrepresentation is as high as $107 million annually. While the Department concurs with the conclusion that fraud is a problem, the Department is very disturbed that the Auditor General's office has supported that conclusion with unsubstantiated opinions. The report implies that the $107 million figure is based upon empirical data, when, in fact, it is based upon the subjective observations of less than one fourth of the Department's eligibility interviewers ("EI's").

As noted in the report, the Auditor General's office computed this $107 million estimate based on a survey of EI's. It is important to remember that the EI's are not the Department employees who investigate fraud and misrepresentation in the public assistance programs. Trained investigators in the Department's Office of Special Investigations (OSI) handle this function. As the audit report indicates, OSI is unable to document fraud in all the cases referred to it for investigation, which could suggest a lower rate of fraud than that indicated in the EI survey. By comparison, the EIs' opinions about fraud rates are anecdotal and unverified.

Another flaw is the lack of information concerning the survey respondents. The audit staff did not assess the characteristics of the responding population. The audit staff made no attempt to determine if the EI's who responded had been on the job for ten years, or just for three months; or whether they were from rural areas or from metropolitan areas. These factors and others would significantly affect the opinions as to the rate of fraud and misrepresentation.

The audit staff then took this subjective fraud rate and multiplied it by the total number of cases and benefits, to arrive at a figure of $107 million, which is presented in the report as solid empirical data. The figure lacks validity and credibility, and may distort the extent of the problem.

The report indicates that other states have determined fraud estimates by analyzing a random sample of cases. The Department believes that this is the proper methodology for arriving at a solid empirical figure. Accordingly, I have instructed the Division to do such a study. The Division's study will produce a more reliable figure, and, more importantly, illuminate the root causes of the problems. With a better understanding of the causes, we will make the most beneficial, systematic improvements.

Notwithstanding our disagreement with the Auditor General's estimate of the upper range of the annual cost of fraud and misrepresentation, we believe the report will serve as a useful tool for improvement. We again extend the Department's gratitude to you and your staff for the time and effort invested in the audit.

Sincerely,

Linda J. Blessing

Linda J. Blessing, DPA
Director

Enclosure

LJB:vtb

DIVISION OF BENEFITS AND MEDICAL ELIGIBILITY
RESPONSE TO THE AUDITOR GENERAL'S REPORT

FINDING I - Recommendations: DBME IS TAKING STEPS TO REDUCE ERRORS

1. DBME should continue its efforts to address and impact program error rates. In doing so, Division management should secure organizational commitment and support for initiatives and should continuously monitor, evaluate and analyze the impact these initiatives are having on division performance.

   We concur with this recommendation and have implemented the following:

   - In order to secure organizational support and commitment throughout the division, three employee teams have been established through the Excellent Service Through People (ESP) Initiative. These teams first met in October 1992. The teams completed their initial assessment phase and made recommendations to improve the division's processes.

     In order to implement the Quality Assurance Team's recommendations, mid-level managers are involved in developing and providing training to local office managers. These managers are, in turn, responsible for training the supervisors in their local office. This approach to training promotes commitment to the process.

   - To monitor the initiatives, we have established an Error Prevention Team (EPT) and an Error Prevention Steering Committee (formerly known as the Continuous Assessment Team).

     The EPT includes staff from the Office of Program Evaluation (OPE) and Family Assistance Administration (FAA). The membership is as follows: FAA district program manager, local office manager, public assistance local office representative, eligibility interviewer (EI), policy specialist, trainer and Office of Program Evaluation (OPE) quality control and management evaluation reviewer.

     This Team will analyze the data through review of case records which are performed by FAA Supervisors and Quality Control staff. Using the total quality management tools, such as; brainstorming, cause and effect and force field analysis, root cause of the errors will be determined and recommendations for district and statewide solutions will be elevated to the Error Prevention Steering Committee.

     The EPT Steering Committee is comprised of key FAA and DBME Management staff which will review the EPT recommendations and monitor state and district quality initiatives, so that we can maintain a focused approach. These individuals include

managers from: FAA, the Program Administrator, Field Operations, two district program managers, Systems, Operations Support, both policy units and an eligibility interviewer (EI); OPE Chief; DBME Assistant Director and Special Quality Advisor. This committee has been meeting since March 1993 to oversee all of the divisional error reduction initiatives.

2. <u>DBME should consider pursuing upgraded automation capabilities such as an "expert" system to simplify the job of the eligibility interviewer and allow workers to handle their increasing caseloads more effectively.</u>

DBME is currently evaluating the feasibility and cost-benefit of implementing an "expert" automated system. To assist in this evaluation, DBME is conducting a national survey and the Division of Data Administration is reviewing all of the automation systems currently available.

Through the ESP Initiative, the DBME will continue improving the eligibility determination processes prior to implementing any "expert" automation system.

3. <u>DBME should revise training for both EIs and supervisors to incorporate on-the-job training, make classroom training timely, and expand training content areas.</u>

We concur with the recommendation. We recognize the need for staff training at all levels and are in the process of implementing several items.

- When an EI attends Food Stamp Basic Skills training session, a passing score of 80 must be achieved prior to reporting to a local office to interview clients. Those individuals who do not pass this training session are dismissed from state employment or returned to their prior position. This change was implemented effective April 1993.

- In an effort to increase the knowledge of EIs, the Food Stamp Basic Skills training class was expanded from three weeks to four. This class was validated by a Quality Control reviewer, an FAA supervisor and Field Representative. This change was made effective November 1992.

- Development of supervisor/manager policy refresher training, so that we can give management the appropriate tools to perform their job. After this initial training, an assessment will be conducted to determine other types of training which may be needed by a supervisor.

- In August 1993, FAA and OPE staff, including the EPT and EPT Steering Committee, underwent an in depth training on root cause analysis.

- Other districts and local offices continue to assess the need to establish training units for new EIs within their offices.

- We will continue to explore training methods from other states and expand on the refresher training for all levels of staff.

FINDING II - Recommendations: DES NEEDS TO STRENGTHEN EFFORTS TO PREVENT AND DETECT FRAUD

1. <u>As a means of refocusing on up front fraud prevention, DBME should enhance its training for EIs to further develop and emphasize thorough and effective investigative interviewing techniques and verification methods.</u>

   We concur with this recommendation. As a part of their program training, EIs attend food stamp basic skills class for four weeks. During this four-week timeframe, they receive two days training on interviewing skills. The FAA Central Office recently expanded this module of the training to provide EIs with interviewing skills which are used by Quality Control staff.

   FAA overpayment staff recently underwent a training course on the preparation of overpayments which included how to effectively prepare cases for administrative disqualification hearings.

   Effective July 1993, Quality Control Reviewers have been directed to use criteria which provide them with fraud indicators. When the Quality Control findings are reported to the FAA office, the reviewer reports to the local office a potential fraud. FAA will review the case and if appropriate refer the case to OSI for an investigation. In addition, effective 10/01/93, the intentional program violation process was expanded to include AFDC client fraud.

2. <u>OSI should devote more resources to fraud detection.</u>

   We concur that more resources should be devoted to fraud detection. The Office of Special Investigations has begun discussions with California and other neighboring states regarding computer matching. In addition, training is being conducted with Eligibility Interviewers as requested by local office management. A typical subject at this training is detection and telltale signs of fraud during client interviews. OSI will continue to explore the ability to formalize fraud training. Further, OSI

investigators are outstationed in local offices with a strong focus on precertification investigations. This program will continually be evaluated and strengthened to assist in early fraud detection.

3. DES should strengthen the administrative disqualification process.

Regarding the process of disqualifying individuals who have never received a benefit from our programs, DES will be contacting other states. However, prior to implementation of such a process, a data-based decision is required, which must include a cost benefit analysis of costs associated with investigating, alleging and imposing the administrative sanction. This cost benefit analysis will include staff from the FAA, Office of Special Investigations, Office of Accounts Receivable and Collections, and Office of Appeals.