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MANAGING WELFARE

Issues and Alternatives for Reforming Quality Control Systems

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The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

In response to your request of February 26, 1985, we reviewed quality control systems used by the Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamp programs. During our work, legislative proposals were introduced to change the three programs' quality control systems. The Congress did not act on these proposals but did enact provisions requiring comprehensive system studies--which are about to commence--by the Departments of Health and Human Services and Agriculture and the National Academy of Sciences. It was agreed with your office that we would analyze the controversies about the quality control systems that led to proposals for change and discuss issues and alternatives that should be considered in future efforts to modify the systems. Thus, this briefing report should be useful to (1) those doing the required studies and (2) the Congress in reviewing the studies. Our objectives, scope, and methodology are discussed on pages 20 and 21.

Comprehensive quality control systems were established for AFDC in 1973 and Medicaid and Food Stamps in 1978. By 1984, error rates for all three programs had dropped to nearly half the original rates. Erroneous payments in the AFDC and Food Stamp programs, however, still amounted to almost $2 billion annually. Beginning in 1981, states became subject to withholding of federal funds, called fiscal disallowances, if their excess payments exceeded legislated error rate thresholds. For fiscal years 1981-88, the administration estimates that such disallowances cumulatively may total about $2.5 billion for the three programs. How much the federal government will recover of these amounts is uncertain, due to such factors as the granting of disallowance waivers by federal agencies and the settlement of pending court actions over state-contested disallowances.

Although there are many issues that can affect both the design and effectiveness of welfare quality control systems, we have identified and addressed eight that have generated a significant degree of controversy. These issues, as well as possible alternatives to current approaches, are synopsized below:

I. How appropriate are the current two-purpose quality control systems?

The present systems are designed to: (a) develop information to help states identify and correct causes of errors and (b) estimate how much has been misspent and support disallowances if states fail to meet standards. Although both purposes involve reduction of erroneous payments, they are quite different. Can the purposes be as well achieved by remaining linked as by being pursued separately? Possible alternatives include establishing a single-purpose system for either identification and correction of errors or disallowances. (See pp. 23-27.)

II. How many sample cases should be selected and on what basis?

Because of current sample sizes, their statewide nature, and the many variables affecting program operations, there is concern about how adequately the samples (a) pinpoint causes of error for corrective action at local operating levels and (b) otherwise represent state error rate performance. Possible alternatives include increasing sample sizes or stratifying samples by benefit amount. (See pp. 28-30.)

III. Who should select and review the samples?

States select and review samples, which are then subsampled and rereviewed by the appropriate federal agency. Is this the best assignment of responsibilities for quality control? Differences between state and federal findings lead to disputes whose resolutions have elongated the periods required to develop official error rates. Possible alternatives include assigning sole responsibility for selecting and reviewing sample cases to the federal agencies or some independent third party. (See pp. 31-33.)

IV. Should "technical" errors be counted for disallowance purposes?

"Technical" errors, generally defined as omissions from client files of evidence that certain eligibility requirements have been met, are subject to disallowance in AFDC, but not in Medicaid or Food Stamps. States say such errors should not be subject to disallowance in AFDC because they do not directly affect benefit amounts. The factors involved are legislatively established AFDC eligibility requirements, however, and such errors mean affected clients are ineligible for benefits. Possible alternatives include not counting "technical" errors for disallowance purposes in AFDC or counting them for disallowance purposes in Medicaid and Food Stamps as well. (See pp. 34-37.)

V. At what statistical value and level of precision should a state's payment error rate be set?

The three programs use the same approach to determine a statistical range within which a state's true error rate likely falls. The official error rate used is the statistical midpoint of the range of probable rates developed for each state from its sample review results. Each state's range likely includes its true error rate, but these ranges vary widely in size because standard levels of precision are not required. Some states believe that because their true error rates may be lower than the midpoint a lower value, such as the lower end of the range, should be used. In this way, they would avoid being subject to disallowances for errors they did not make. Conversely, some states' true error rates may be higher than the midpoint. Possible alternatives include continuing use of the midpoint with specified precision levels or using the lower limit if error ranges are within specified precision levels. (See pp. 38-42.)

VI. What should the disallowance threshold be?

States maintain they may not be able to control some conditions that affect their caseloads and lead to errors, such as economic factors that influence the number of wage earners in a caseload. Also, some program options are seen by some states as more prone to error than others. States say the uniform national error rate thresholds do not reflect the effects of these factors on state error rates. However, such effects may not be clearly distinguishable from the effects of poor program management. Possible alternatives include allowing adjustments for various factors to the three national thresholds or developing individual state thresholds to replace the national thresholds. (See pp. 43-45.)

VII. How should disallowances be calculated and levied?

The three programs use different disallowance processes. Concerns have been expressed about long delays in determining and levying disallowances and about Medicaid's prospective disallowance approach. Also, states are concerned that collected disallowances reduce the funds available to assist program operations identified as needing improvement and that no program permits offsets to disallowances for extra state money spent to reduce error rates. Possible alternatives include establishing a time frame for the disallowance processes, allowing offsets to disallowances for various factors, or making disallowance approaches consistent for all three programs. (See pp. 46-50.)

VIII. What financial incentives might the federal government provide to better curtail underpayments and improper denials and terminations?

Of the three welfare programs, only Food Stamps acknowledges superior performance with a bonus. Financial rewards for the other two programs would bring extra costs. Would the motivational value of a system that offers rewards produce significant improvements in reducing underpayments and incorrect benefit denials and terminations? Possible alternatives include applying the Food Stamp incentive system to AFDC and Medicaid or developing a new incentive system for all three programs. (See pp. 51-53.)

These issues are discussed in more detail in the report along with possible advantages and disadvantages to each alternative. We recognize that decisions about such complex matters will be difficult. Fifty-one jurisdictions are involved (50 states and the District of Columbia), each singular in history and current circumstances, along with three federal programs and quality control systems, each bound by federal laws and regulations. To arrive at workable decisions and agreement will require understanding and appreciation for these conditions as well as the varied differences of opinion and fact.

We did not obtain official agency comments. We did, however, review a draft of this report with officials of the Department of Health and Human Services' Office of Family Assistance and Health Care Financing Administration, the Department of Agriculture's Food and Nutrition Service, the American Public Welfare Association, and the National Governors' Association. We considered their comments in finalizing the report.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days from its issue date. At that time, we will send copies to other interested congressional committees, the Secretaries of Health and Human Services and Agriculture, and the National Academy of Sciences and make copies available to others on request. For additional information, please contact me at 275-6193.

Sincerely yours,

Joseph F. Delfico
Senior Associate Director

Contents

ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
FNS	Food and Nutrition Service
FY	fiscal year
GAO	General Accounting Office
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
OFA	Office of Family Assistance
QC	quality control
SSN	social security number
WIN	Work Incentive Program

MANAGING WELFARE: ISSUES AND ALTERNATIVES

FOR REFORMING QUALITY CONTROL SYSTEMS

INTRODUCTION

This briefing report examines several concerns about quality control (QC) in three of the largest state-administered, federally aided welfare programs--Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamps.

Program Background and Costs

Nationally, AFDC and Medicaid are managed by the Department of Health and Human Services (HHS) and Food Stamps by the Department of Agriculture. States are responsible for local administration and day-to-day operation of the three programs. Often, the same state agency operates both the AFDC and Food Stamp programs. Medicaid usually is administered by a separate state agency. Sixteen states allow local agencies, such as counties, to administer the programs under state supervision.

The federal government finances over half of AFDC and Medicaid benefit costs and about half of their administrative costs, as well as about half the administrative and all the benefit costs for Food Stamps. The federal costs of these programs for fiscal year 1985 are shown in table 1.

Table 1:

Federal Costs for Three Welfare Programs
(Fiscal Year 1985)

Program	Federal costs (millions)		
	Benefits	Administration	Total
AFDC	$ 7,529	$ 914	$ 8,443
Medicaid	21,414	1,263	22,677
Food Stamps	10,776	912	11,688
Total	$39,719	$3,089	$42,808

Source: U.S. Government Budget for Fiscal Year 1987. Figures for fiscal year 1985 are reported as actual amounts.

With so much money involved, even a 1-percent payment error rate[1] produces significant excess costs. To minimize errors, QC systems of all three programs provide, through sampling, statistical data to satisfy two purposes:

--to identify kinds and causes of payment errors, and

--to measure the extent and dollar value of these errors.

Both functions encourage payment accuracy. The first provides information that helps local agencies recognize where and why errors are occurring so they can correct them. The second, by identifying how much money is being misspent, measures payment error rates against minimum error rate thresholds that, if exceeded, could result in some federal matching funds being withheld (called disallowances).

There is substantial agreement about the need for the information gathered and the uses to which it can be put, but substantial disagreement over the usefulness of much of the data currently supplied and the ways error rate thresholds and disallowances are conceived and applied. Disputes over QC systems have led to court suits and generated state petitions for legislative relief and finally a 1985 request from the Senate Committee on Governmental Affairs for this report. We were asked to analyze the controversies and to frame the issues and possible alternatives that should be considered in any proposed changes to the systems.

Operation of QC Systems

Because AFDC, Medicaid, and Food Stamps are needs-based programs, clients' needs must be compared with their current resources when their eligibility for benefits is determined. Thus, income, household size, and such liquid assets as bank accounts comprise the principal factors that QC systems must check when decisions about client eligibility and benefit amounts are reviewed.

Federal regulations for each program require that each month a state select statistically reliable samples of specified sizes from its universes of accepted (active) and rejected (negative action) cases. Standard monthly sample sizes range from 25 to 200 cases.

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[1]This and other specialized terms in this report are defined in the glossary at the end.

State QC workers review each month's sample for recipient eligibility, accuracy of payments, and, in the case of Medicaid, potential third-party (medical insurance) liability for benefits paid. Besides contacting recipients and their income sources, reviewers verify the existence and value of assets and, for each case, identify and evaluate errors in eligibility and payment amount. Monthly samples must be completed in 95 days for Food Stamps and 120 days for AFDC. Each 6-month Medicaid sample is to be completed and reported within 210 days after the end of each period.

Both "case" and "payment" error rates are calculated--the former an estimate of the percentage of all cases with errors, the latter the percentage of dollars misspent as overpayments to eligibles and payments to ineligibles. The payment error rates are used to determine possible disallowances. Although not used for disallowance purposes, case error rates are also calculated for underpayments on active cases and for improper denials and terminations on negative action cases. States send review results monthly to the federal government.

Federal QC officials in each program approve the state's sampling plans and monitor its QC activities, and their reviewers select about one-third to one-sixth of its completed sample cases for rereview. Also, federal reviewers evaluate all cases the state dropped from its sample for various reasons, e.g., the subject could not be located or refused to cooperate. The purpose of this review is to ensure that no case that has a payment error or that could have been completed by the state is dropped. Because reopening dropped cases and comparing paid Medicaid claims with eligibility findings may occur months after the sample is taken, final state error rates may not be computed until a year or more after the close of the reviewed period.

Disputed cases are arbitrated with the state, which also may take considerable time. Federal program management makes the final decisions. Once federal subsample results are evaluated, federal program managers, using a standard formula, combine state and federal review findings to compute the official payment error rate for each program for each state. That rate is compared with the legislated threshold and, where appropriate, potential disallowances are calculated.

All three programs provide ways for states to seek relief from disallowances. Upon receiving notice of a potential disallowance, a state can ask the cognizant federal agency to waive it on the basis that the state took action to reduce payment errors but was unsuccessful. This could happen either due to factors beyond its control (sudden substantial caseload increase, strike of welfare agency workers, etc.) or in spite of having developed and implemented a timely corrective action plan reasonably designed to meet its error rate goal. If this waiver

request is denied in whole or part, the state can appeal the disallowance to the agency's grant appeals board and/or ask for reconsideration by the agency head. If it gets no administrative relief, the state may petition the federal courts.

How QC Systems and Error Thresholds Evolved

AFDC

In 1973, HHS regulations establishing the current AFDC QC system provided for administratively disallowing some federal funds to states whose error rates exceeded thresholds of 3 percent for errors caused by ineligibility and 5 percent for overpayments. Erroneous payments exceeding these levels would be disallowed, and the federal government could request a refund of federal monies misspent. The state of Maryland challenged the thresholds as arbitrary and capricious. In 1976, it won a court ruling that rejected these specific thresholds but affirmed federal authority to establish reasonable thresholds.

In 1979, new HHS regulations established AFDC error thresholds based on the national average of states' error rates. The regulations also provided that the HHS secretary could waive disallowances if states submitted approved plans to correct identified error causes.

In its report on a fiscal year 1979 supplemental appropriations bill, House-Senate conferees directed that HHS issue regulations requiring states to reduce the AFDC payment error rate to 4 percent by September 1982 or lose federal matching funds associated with erroneous payments in excess of the target. In 1980, HHS issued rules implementing the directive. These provided that states' error reduction progress would be evaluated at the end of the year following the measured year. To avoid disallowances under the rules, states exceeding thresholds had to reduce overpayments and payments to ineligibles by one-third in fiscal year 1981 and by two-thirds in fiscal year 1982 and attain the 4-percent goal by the end of fiscal year 1983.

Medicaid

In 1978, HHS issued regulations establishing the current Medicaid QC system that measures eligibility and benefit payment errors and requires states to act to reduce these errors. Regulations of 1979 required states to begin reducing their base period (July-December 1978) error rates toward a national average error rate to avoid disallowances and provided for disallowance waivers based on factors beyond a state's control. The 1979 conference committee directive, discussed above for the AFDC program, also required that HHS issue rules specifying that, to avoid disallowances, states exceeding the threshold had

to reach a 4-percent Medicaid payment error rate by September 30, 1982. As with the AFDC disallowance rules, Medicaid error reduction progress was to be evaluated at the close of the year following the measured year. Progress was to be made in one-third annual increments starting in fiscal year 1981 to avoid disallowances.

Food Stamps

In 1971, Agriculture regulations established the Food Stamp QC system as a management tool for states to use in pinpointing eligibility errors requiring corrective action. Regulatory action during 1971-76 included requiring states to develop corrective action plans and establishing federal rereview of state case samples.

The Food Stamp Act of 1977 mandated corrective action plans that required states to identify types of benefit issuance errors made and quantify losses due to each type. Also, the act provided federal authority to withhold administrative funding, but established no error rate threshold above which funds would be withheld.

The Food Stamp Act Amendments of 1980 established a disallowance system that would hold states liable for their overpayments, underpayments, and payments to ineligibles as determined by QC review. To avoid disallowances for fiscal years 1981 and 1982, a state's error rate for the first half of the previous fiscal year (base period) could not exceed the national average error rate; if it did, the state had to achieve a 10-percent reduction each year in the difference between its base period rate and 5 percent. Also, an incentive system was established for states that maintained low error rates or made significant reductions in their rates.

Recent error threshold changes for all three programs

The Tax Equity and Fiscal Responsibility Act of 1982 reduced the AFDC error threshold to 3 percent for fiscal year 1984 and thereafter and authorized Medicaid disallowances for states exceeding a 3-percent payment error threshold after the first half of fiscal year 1983. In addition, beginning April 1983, Medicaid disallowances were made "prospective;" i.e., funds are withheld in advance for each calendar quarter a state's error rate is expected to continue above the error threshold. The Congress made this change because it was concerned with the (1) long delays in settling provider claims, which reduced timely recovery of misspent federal funds, and (2) extent of dollars paid in error.

The Food Stamp Act Amendments of 1982 required that, to avoid disallowances, states reduce their payment error rates (covering only overpayments and payments to ineligibles) to 9 percent or by one-third in fiscal year 1983, and to 7 percent or by two-thirds in fiscal year 1984. Also, states must maintain a rate of 5 percent or less from fiscal year 1985 onward. Because the Congress was concerned that disallowances might impose part of the benefit costs on the states, the disallowance basis was changed from the full amount of excess payments to a 5-percent reduction of the federal share of a state's administrative costs for each 1 percent a state's Food Stamp payment error rate exceeds the threshold.

The Food Security Act of 1985 required, beginning with fiscal year 1986, that states be notified of potential Food Stamp disallowances within 9 months after the close of the measured year and action initiated to collect them within the next 3 months.

Disallowances: Estimated and Recovered Amounts

As of February 1986, the administration estimated the disallowances shown in table 2 for the period beginning with fiscal year 1981--the first year for which legislatively based disallowances were calculated--through fiscal year 1988.

Table 2:

Estimated Disallowances
(Fiscal Years 1981-88)

	Estimated disallowance (in millions)								
Program	1981	1982	1983	1984	1985	1986	1987	1988	Total
AFDC	$69.0	$96.0	$184.0	$228.0	$200.0	$178.0	$160.0	$142.0	$1,257.0
Medicaid	12.3	40.0	16.9[a]	38.0	53.3	52.0	65.0	72.0	349.5
Food Stamps	29.0	15.0	13.0	77.0	182.0	180.0	175.0	162.0	833.0

[a]April-September 1983. No disallowances were calculated for the October 1982-March 1983 period.

These amounts are based on the actual and estimated nationwide average annual payment error rates shown in table 3. HCFA estimates that about 15 states will have error rates above the Medicaid disallowance threshold from 1985 through 1988.

Table 3:

Payment Error Rates
(Fiscal Years 1981-88)

Program	Payment error rate (percent)							
	1981	1982	1983	1984	1985	1986	1987	1988
AFDC	7.7	6.9	6.5	6.0	5.7[a]	5.3[a]	5.0[a]	4.7[a]
Medicaid	3.8	3.8	2.8	2.7	2.7[a]	2.7[a]	2.7[a]	2.7[a]
Food Stamps	9.9	9.5	8.4	8.0[a]	7.8[a]	7.6[a]	7.4[a]	7.3[a]

[a]Estimated as of February 1986.

Whether the federal government will recover most of the estimated disallowances is uncertain. Factors affecting recovery include (1) disallowance waivers granted by the federal agencies; (2) agency grant appeals board actions on disallowances; and (3) pending court settlements of already-levied, state-contested disallowances.

Disallowances levied on the states, amounts recovered, and the number of states affected since legislated error rate thresholds were first applied are shown in table 4 by program.

Table 4:

Disallowances Levied and Recovered

Program	Measured period	Disallowances levied (millions)	No. of states affected	Amounts recovered (millions)	No. of states affected
AFDC	FY 1981	$69.2	22	$ -	-
Medicaid	FY 1981	$12.5	9	-	-
	FY 1982	40.6	15	-	-
	Apr.-Sept. 1983	25.0[a]	17	$2.9	2
	FYs 1984-85	11.2[b]	13	-	-
		$89.3		$2.9	
Food Stamps	Apr.-Sept. 1981	$ 3.7	3	-	-
	Oct. 1981-Mar. 1982	6.1	5	$1.0[c]	1
	Apr.-Sept. 1982	2.1	2	-	-
	FY 1983	12.0	12	-	-
		$23.9		$1.0	

[a]Of this amount, $8.2 million was prospectively withheld.

[b]Prospectively withheld.

[c]Represents one state's settlement of all its disallowances levied for the periods shown.

Source: American Public Welfare Association.

Because of the error threshold levels, not all overpayments are subject to disallowance action. Using fiscal year 1985 federal benefit costs and current error thresholds, table 5 illustrates by program on a nationwide basis the federal share of overpayments not subject to disallowances.

Table 5:

Federal Share of Benefit Costs Not Subject to Disallowances
(Fiscal Year 1985)

Program	Federal share of 1985 benefit costs (millions)	Error tolerance threshold (percent)	Federal share of overpayments not subject to disallowance (millions)
AFDC	$ 7,529	3	$ 226
Medicaid	21,414	3	642
Food Stamps	10,776	5	539
	$39,719		$1,407

QC Legislative Proposals and Related Matters

During 1985, several legislative proposals, some including provisions to study the QC systems, were introduced. Representative Robert T. Matsui proposed, in H.R. 1279, modifications to AFDC QC that in combination would raise the error tolerance threshold, change the basis for setting payment error rates, allow disallowance offsets, and have HHS study the AFDC QC system. Similar proposals were made by Representative James M. Jeffords in H.R. 2621 for Food Stamp QC. Senator Jesse Helms proposed in S. 616 approaches to make more stringent the Food Stamp disallowance procedure. In S. 835 and in proposed amendments to the Agriculture, Food, Trade, and Conservation Act of 1985, Senator James McClure made similarly stringent proposals. None of these proposals was enacted during the 99th Congress.

As part of S. 1362, Senator Daniel J. Evans proposed that a disallowance moratorium be placed in effect for the AFDC program during which concurrent independent studies of the system would be done by HHS and by the National Academy of Sciences. Senator Evans' moratorium and QC system study principles were enacted for Food Stamp QC as part of the Food Security Act of 1985 and for AFDC and Medicaid (except for a Medicaid disallowance moratorium) in the Consolidated Omnibus Budget Reconciliation Act of 1985. Appendix I describes the original proposals in detail along with pertinent committee actions.

There was earlier legislation that could improve payment accuracy. The Deficit Reduction Act of 1984 requires states to establish income and eligibility verification systems for assistance programs including AFDC, Medicaid, and Food Stamps.

States' systems will match applicant and recipient information with earned and unearned income information available from the Social Security Administration and the Internal Revenue Service in an effort to discover potential undisclosed income. The act also directs states to ensure that all affected program clients and applicants obtain and provide to program managers social security numbers (SSNs) so that required data matching can be carried out. AFDC, Medicaid, and Food Stamps had already required that client SSNs be made available to program management.

Error Rates Have Declined

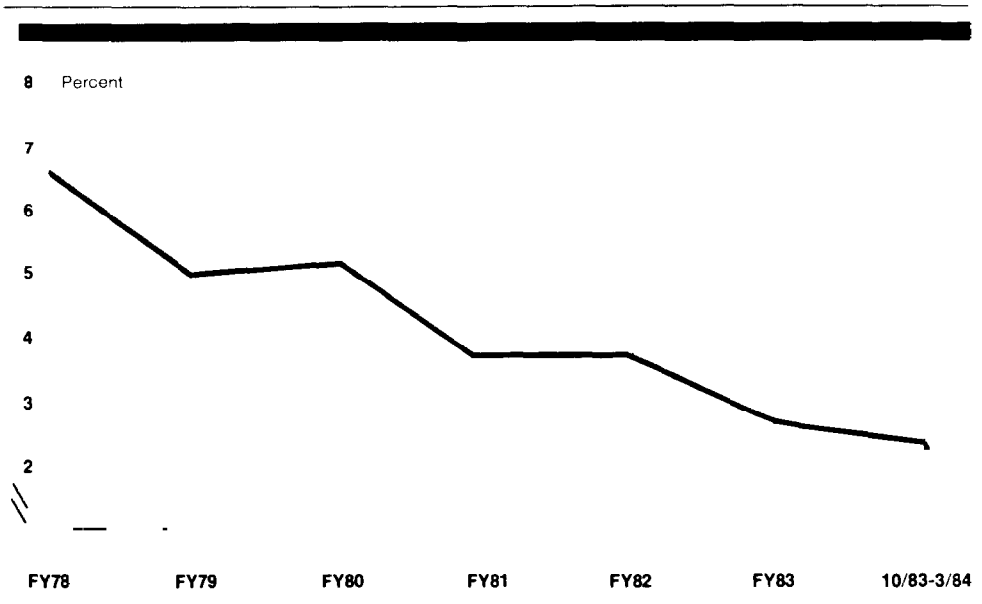
It is unclear what effects the state-federal partnership aimed at reducing errors as well as the threat of disallowances have had on the three programs' error rates. As figures 1, 2, and 3 show, however, error rates have dropped significantly--AFDC from 16.5 percent in 1973 to 6.5 percent in 1983, Medicaid from 6.6 percent in 1978 to 2.8 percent in 1983, and Food Stamps from 16 percent in 1975 to 8.4 percent in 1983. Part of the decrease can be ascribed to reductions in excess payments, changes in the definitions of what constitutes errors, and policy changes that sought to simplify decisions on eligibility and payment amount over the years.

Figure 1: AFDC Error Rates

Source American Public Welfare Association

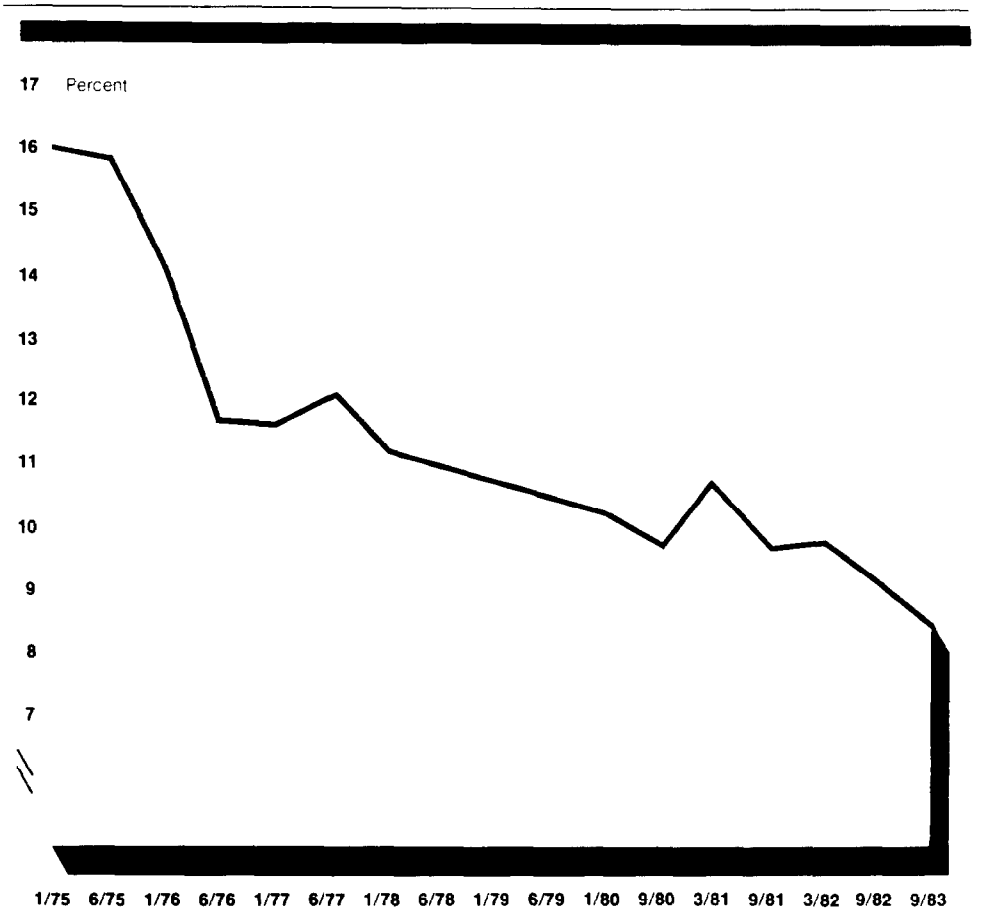
[a]Weighted average rate for fiscal year 1983 was 6 5 percent

Figure 2: Medicaid Error Rates



Source: American Public Welfare Association

Figure 3: Food Stamp Error Rates



Source American Public Welfare Association

Note Data does not include underissurance
Data unavailable for 6/78-3/80

Objectives, Scope, and Methodology

On February 26, 1985, Senator William V. Roth, Jr., Chairman of the Senate Committee on Governmental Affairs, expressed concern about the effectiveness of the AFDC, Medicaid, and Food Stamp programs, particularly the QC systems used to ensure that appropriate assistance is given to deserving recipients. The chairman asked us to provide the committee with two reports. One, assessing the accuracy of Food Stamp error rates and the technical adequacy of the Food Stamp QC system is to be issued shortly as GAO/RCED-86-195.

For the other review, it was agreed that we would analyze the controversies that led to proposals for QC system change during 1985 and discuss the issues and possible alternatives that any future efforts to modify these systems likely would

consider. Our work on these matters is presented in this report. To accomplish our objectives, we did the following:

--Reviewed and analyzed federal legislation, regulations, and policies governing QC.

--Obtained error rate data for the three programs from HHS's Office of Family Assistance (OFA) in Washington, D.C., and its Health Care Financing Administration (HCFA) in Baltimore, Maryland, and the Department of Agriculture's Food and Nutrition Service (FNS) in Alexandria, Virginia. We did not independently verify the accuracy of these data.

--Obtained information on and discussed current operations of the three QC systems with senior agency officials and technicians at OFA, HCFA, and FNS headquarters and regional offices in San Francisco and Seattle.

--Obtained information from and interviewed senior state officials and technicians operating the QC systems in California, Washington, Nevada, and Maryland to obtain states' perspectives on the QC issues.

--Obtained nationwide perspectives on the QC issues from the American Public Welfare Association, National Governors' Association, National Council of State Human Service Administrators, and the National Association of State Budget Officers.

We developed the issues and possible alternatives to the current QC systems for addressing them, along with possible advantages and disadvantages to the alternatives after analyzing the elements of each system, studying legislation introduced to modify the systems, and considering suggestions made by our consultant experts. Certain of the alternatives, if adopted, clearly would have cost or savings effects, and we discuss such effects as increases or decreases to current systems' costs. Although current information from which to estimate the magnitude of such effects was not readily available, such information might best be developed through cost/benefit analyses focused on system changes generally considered to be candidates for adoption.

EIGHT QC ISSUES AND RELATED ALTERNATIVE APPROACHES

Following are discussions of the eight issues we found to represent the focus of most controversy over the QC systems of the three welfare programs. As the issues are interrelated, actions taken to resolve one usually affect others. Under issue 1, we examine the purposes of the current QC systems. Issues 2 through 7 consider a largely chronological series of processes that make up the current two-purpose QC systems. Under issue 8, we examine an approach that should be considered for use in all systems. In short, after system purposes have been determined, decisions can be made on issues that bear on design and operation of the systems. Such decisions will determine whether these purposes can be achieved in the most equitable, efficient, effective, and economical ways.

We framed and analyzed the eight issues in terms of why they are important, how they result from current policies and operations, and concerns about the current effects of such policies. In discussing possible advantages and disadvantages of alternative approaches to the issues, we attempted to the extent possible to present the existing diverse views on them.

In discussing these complex issues, we recognize that decisions about them will be difficult. There are involved 51 jurisdictions,[2] each singular in history and current circumstances, and three federal programs and QC systems, each bound by federal laws and regulations. To arrive at workable decisions and agreement will require understanding and appreciation for these conditions as well as the varied differences of opinion and fact.

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[2]The 50 states and the District of Columbia. Guam, Puerto Rico, and the Virgin Islands are subject to special provisions for each of the programs and are not covered in this report.

Issue I: How Appropriate Are the Current Two-Purpose QC Systems?

The purpose to be served by a QC system dictates how it is designed and operated. For a statistically based system, design includes constructing the universe of cases from which samples will be drawn, determining sample sizes, and selecting cases in such a way as to produce statistically reliable results. Operation includes reviewing cases sampled, categorizing review results by cause and type of error, and calculating error rates in a statistically appropriate way.

Aiming to improve payment accuracy, current QC systems have two purposes: (1) development of information that state and local officials can use to identify and correct causes of erroneous payments and (2) calculation of state payment error rates that federal agencies can compare with legislated thresholds to determine whether disallowances should be levied. Sample sizes are based on universe sizes, and causes of errors are developed from case reviews. Dollar effects for each type of error and for payment error rates that cover overpayments to eligibles and payments to ineligibles are calculated and used for disallowance purposes.

Do the current QC systems adequately serve both purposes? In general, the federal agencies consider that they do. However, we found that states had three general concerns:

1. Cause-of-error information is not locality-specific enough to enable certain states to take effective corrective action. These three programs are operated at the county/city level, where most errors affecting payments arise. Information on error causes obtained from sample reviews needs to be localized enough that ways to correct such errors can be developed and implemented locally. Current sample sizes may not assure such representativeness, and in some states certain localities may not be represented at all so that errors and their causes may continue unidentified and uncorrected.

2. Federal agency feedback on the official payment error rate is not timely. Official error rates upon which disallowances are based when thresholds are exceeded have not been issued for up to 2 years after the measured period ends. Such delays hinder states' development of complete and timely corrective actions because official rates may identify certain errors not already recognized by the states and thus not targeted for corrective action.

3. Federal emphasis on disallowances overrides the management information purpose of the QC systems. Imposition of disallowances with consequent time and effort required to carry out

the related administrative processes diverts attention from correcting error causes effectively and cooperatively.

Following are two possible alternatives to the current approach.

Alternative A: Establish single-purpose system (disallowance only)

Disallowance-only QC systems would be designed and operated to generate rates of erroneous payments to determine disallowances. Such systems would base universe construction, sample sizes, and selection methodology on benefit dollars spent, so that payment error rates cover overpayments to eligibles and payments to ineligibles.

Possible advantages include:

1. Saves time and resources by eliminating the regulatory and administrative requirements of current corrective action processes, which include

--state preparation of the annual corrective action plan for each program,

--federal review and discussion with the state of each plan,

--state implementation and federal monitoring of the actions discussed,

--state preparation of reports on implementation and results status, and

--state modification to the plan when the corrective action does not significantly reduce causes of error.

(Because states still will want to make improvements, not all costs associated with these processes would be eliminated.)

2. Increases states' flexibility to tailor corrective action processes to fit particular state circumstances. Such localized processes, now in use in some states, include

--preparing profiles of case characteristics usually found in cases with errors,

--reviewing cases that meet such profiles, and

--selecting cases from localities to discover locally unique causes of erroneous payments.

States could then take action to correct the causes of such errors in the time and manner deemed appropriate.

3. Encourages use of other management information for corrective action. For example, as required by the Deficit Reduction Act of 1984, locality-specific causes of data error will be generated by each state's income and eligibility verification system because much of the active caseload will be reviewed routinely through its data-matching process. State follow up on the data matches would constitute corrective action on client-caused income-related errors and for a significant part of the caseload could obviate the need for other error-finding techniques. Appropriate action on the information should result in fewer erroneous payments and thus fewer disallowances.

Adopting disallowances as the sole purpose may produce payment error rates that are more statistically precise. Under the current systems, two rates are computed--case error rates used primarily for corrective action, and payment error rates derived from attaching dollar values to case errors, used primarily for disallowances. Under this alternative, it no longer would be necessary to calculate case error rates, and more emphasis could be placed on calculating payment error rates that are as statistically precise as possible and less subject to controversy. (See discussion on pp. 38-42 concerning error rate precision.)

4. More explicitly defines the federal and state roles in managing and financing the AFDC and Medicaid programs, as provided for in the Social Security Act. Essentially, these programs are state managed and controlled with the federal government sharing program costs if various legislative and regulatory requirements are met. Thus, a disallowance-only system would serve to highlight the federal program role as ensuring the proper expenditure of contributed federal dollars and the timely recovery of dollars misspent.

Possible disadvantages of a disallowance-only QC system include:

1. Dissolves, by removing the federal government, a corrective action partnership partly credited with the general reduction in error rates over the years. For example, the national AFDC payment error rate dropped from 16.5 percent in 1973 to 6 percent in 1984. At risk, therefore, would be a possible deemphasis nationally on error-reduction technology transfers and other elements of the correction action process that might adversely affect error rates.

2. Exacerbates, through exclusive focus on disallowances, current federal and state conflicts about how cases should be sampled and reviewed, error rates computed, and disallowances levied. (These points of contention are discussed under later issues.)

3. Eliminates one basis states now have to request (and federal agencies to grant) disallowance waivers--that of having developed and implemented a corrective action plan designed to meet error-rate goals.

Alternative B: Establish single-purpose system (management information only)

Management information-only QC systems would be designed and operated to generate data on types and causes of errors, thus enabling states to take necessary corrective action. Under this alternative, there would be no federal disallowance process.

Possible advantages include:

1. Eliminates the central source of federal and state disagreements about the QC systems and the disallowance process and saves time and resources spent carrying out the related legislative, regulatory, and administrative requirements, including

--state and federal collection and processing of data on (and resolving differences of opinion about) the type and value of payment errors,

--federal calculation and publishing of official payment error rates and determining potential disallowances,

--federal preparation, processing, review, and deciding of issues on state requests for waiving potential disallowances,

--federal processing of state appeals of waiver denials, and

--federal levying and collection of disallowances.

2. Revitalizes the federal-state corrective action partnership, which has been credited in the past with helping to reduce error rates, thus generally increasing attention to discovering why cases are in error.

3. Improves opportunities, particularly needed in large states, to develop information specific enough to take corrective action at local levels. Some states, including California, in an attempt to improve and localize their case error information, review more cases than the federal systems require. Under a management information-only system, such efforts might be made more uniform among states and technically assisted more often and effectively by the federal government.

Possible disadvantages of a management information-only QC system include:

1. Eliminates what is perhaps an important federal enforcement tool. The threat of disallowances and related factors (see p. 17) have been credited with encouraging state actions to reduce error rates.

2. Diminishes the federal opportunity to ensure that funds contributed toward program costs are spent correctly by the states and to recover misspent funds.

Issue II: How Many Sample Cases Should Be Selected and on What Basis?

The statistical precision of sampling results and the characteristics that can be ascribed to a client universe depend on the appropriateness of sample size and selection methodology. A system with an excellent review process and a poor sampling process (or vice versa) will produce questionable results.

Acceptance of QC results by those being reviewed (in this case the states) and by those who use the results (the federal agencies for disallowance purposes and the states for corrective action) can be affected by a lack of confidence in the sampling process--the heart of quality control.

In all three programs, states must sample active cases, terminated cases, and denied applications according to universe sizes. Terminated cases and denied applications, often grouped as "negative action" cases, require different sampling procedures from active cases. Because negative action cases are not considered in determining a state's payment error rate and because current concerns center on sample sizes for active cases, the following discussion is limited to active case matters. Negative action cases are discussed in issue VIII.

The three welfare programs have similar standard annual sample sizes. They range from about 300 for states with 10,000 or fewer cases, to 2,400 for states with 60,000 or more cases. States are encouraged to draw larger samples in all three programs; the additional costs are shared by the appropriate federal agency. As an option in AFDC and Food Stamps, states can choose to draw samples of "minimum" size, which in most states amount to one-half of the standard sample size. In so doing, however, states must formally agree not to challenge later the reliability of error rates based on the minimum sample size.

States have questioned whether

--standard sample sizes for some states are too small to yield locality-specific cause of error information for effective corrective action, and

--some sample sizes, particularly those in states with smaller caseloads, produce error rates that may be increased by one or a few large errors and thus generate larger disallowances. According to an American Public Welfare Association study, in 1982 one payment error in a single sample case had the effect of raising New Mexico's Medicaid payment error rate from 1.8 to 10.8 percent. HCFA corroborated this information.

The Congress' concerns about the appropriateness of current QC systems, evidenced by legislated moratoriums on disallowances for two of the three systems and extensive studies of the systems for all three programs (discussed on p. 16), stems in part from states' concerns about sampling procedures and related statistical processes.

Following are two possible alternatives to the current approach.

Alternative A: Increase standard statewide sample sizes

Standard sample sizes for all states would be increased (perhaps doubled), and, as is currently done, states would be encouraged to draw even larger samples. Federal subsamples would increase proportionately.

Possible advantages include:

1. Increases information about causes of errors. Increasing the number of each local unit's cases included in the sample would improve the opportunity to develop data more useful for corrective action at the local level. Data quality as well as quantity would improve because the more cases sampled from a locality, the better the indexes of extent and type of errors in that locality.

2. Increases reliability of data used to determine disallowances. In states with small sample sizes, the influence of a few errors with dollar value extremes on the state's overall payment error rate can be offset somewhat when more cases are sampled because more dollar values between the extremes would be included in the error rate calculation.

Possible disadvantages of increasing sample sizes include:

1. Increases demand on federal and state resources to review and correlate information obtained from additional cases.

2. Fails to increase validity and precision of sample results to an extent needed to allay state concerns about disallowances. (See further discussion of these concerns on pp. 38-42.)

Alternative B: Stratify caseload by benefit amount

A state's caseload would be stratified based on amounts paid to recipients. That is, the caseload would be divided into ranges or strata of benefit amounts and a proportionate or other statistically based sample would be drawn from each stratum.

The number of cases sampled generally would depend on the number of strata created and the proportion of total payments each stratum represented.

Possible advantages of this approach include:

1. Responds more directly to states' concerns about validity of payment error rates by sampling cases based on payment amount rather than (as is done currently) the numbers of cases, thus providing a more precise indication of payment errors in the universe.

2. Eliminates effect of oversampling cases having large or small payments that may lead to questionable disallowances.

3. Identifies high dollar-error cases (due to better information) for targeting of corrective action. Such cases most directly affect state payment error rates.

Possible disadvantages of stratifying caseloads by benefit amounts include:

1. Results in a one-time increase in time and money needed by certain states to restructure program files so cases can be selected by benefit strata.

2. Increases number of cases that must be selected and reviewed, particularly the first time stratified sampling is carried out, to obtain a valid statewide payment error rate and develop cause-of-error information useful for corrective action. Thus, certain states' costs would increase.

3. Fails to provide information certain localities may need to carry out corrective action. Using state-wide case stratification may result in certain counties' cases not being selected so that causes of error go undiscovered. This is similar to the effect currently experienced when cases are selected based on universe sizes.

Issue III: Who Should Select and Review the Samples?

The number of QC review levels, the required activities, the perceived independence of reviewers, and the roles played by the organizations affected by the results--all have an effect on the timeliness, utility, and credibility of sample results.

Under the current systems, state employees--usually from the agencies whose work is being reviewed--select and review sample cases and develop error findings. Employees of the federal agencies responsible for the welfare programs subsample cases reviewed by the states and develop separate error findings. Then, using both sets of error findings, the federal agencies develop the official state error rates.

Is this the best assignment of responsibilities for QC? Under the current arrangements, the federal error findings usually are somewhat higher than those developed by the states. This generates disagreements over definitions of errors, which delay issuance of official error rates. Issuance of official rates has occurred up to 2 years after the period to which they apply.

Following are two possible alternatives to the current approach.

Alternative A: Assign full responsibility to the federal agencies

Federal agencies would select and review sample cases and develop the official error rates, with no state involvement.

Possible advantages include:

1. Reduces conflict of interest potential by removing selection and review functions from those whose work will be evaluated through these functions. All reviewers would be employees of the federal agencies responsible for the programs and independent of the states.

2. Reduces time spent to develop error rates. Eliminating the subsampling and rereview process could eliminate the need to negotiate many federal-state disagreements and thus reduce the time between completing case reviews and developing error rates.

3. Increases state focus on eliminating and correcting causes of errors. State resources now allotted to serve QC review could be directed to improving administrative practices that permit erroneous payments.

Possible disadvantages of federalizing responsibilities for sampling and error rates include:

1. Increases need for federal resources during a time of restraints on and cutbacks of federal resources.

2. Exacerbates already strained federal-state relations, particularly for states with error rates exceeding the tolerance thresholds. Such states might insist on verifying the federal findings to assure that only mutually agreed-to errors were used to determine their error rates, which could extend the time period for determining possible disallowances.

3. Replaces a longstanding active partnership with one where states are significantly less powerful. For example, in the AFDC program states have had a direct role in determining error rates for 13 years. This alternative would result in their assuming the role of passive partner, which they might not like.

Alternative B: Assign full responsibility to third parties

The entire QC process would be assigned to private contractors or independent federal or state audit agencies mutually acceptable to federal agencies and states. Funding would come from monies used to administer current systems. Review results, including error rates, would be reported to federal and state agencies to support corrective actions and disallowances.

Possible advantages include:

1. Increases credibility of results because the third party is independent of both federal and state program managers.

2. Improves federal-state relations, because disputes over results are with a party more evenly beholden to both federal and state interests, particularly in the case of private contractors.

3. Improves timeliness and effectiveness of information. Because only one case sample would be taken and one review made, information needed particularly for disallowance purposes would be more current and thus more useful.

Possible disadvantages of assigning responsibility to third parties include:

1. Is costly and disruptive to federal and state agencies due to loss of expertise and institutionalized knowledge developed by federal and state reviewers over 1-1/2 decades. New reviewers would have to learn basic QC processes, the three

programs' complex eligibility requirements, and state-by-state variations on those requirements. Numerous third-party reviewers would be needed to replace current federal and state reviewers and likely would heavily tax existing federal or state audit groups or private contractors to perform all tasks. A single private contractor might have difficulty meeting staffing demands. Yet, subdividing tasks among a number of audit groups or contractors to assemble staff might lead to inconsistencies in case reviews and thus to inconsistent application of systems' policies and procedures.

2. Generates legal impediments to eligibility decision-making and case review. For example, title IV-A of the Social Security Act provides that a single state agency be established to administer the state AFDC plan. Related regulations provide that when such services as case review are performed for the agency by others, such others are not authorized to review, change, or disapprove agency decisions or substitute their judgment for the agency's in applying policies or regulations that the agency issued. Thus, without legislative approval, private contractors might be precluded from making decisions on client eligibility when reviewing cases. Additionally, the Tax Reform Act of 1976 restricts access to income tax-related data which, in many instances, is needed to properly review the cases. Authorization for private contractor access to tax information would be controversial and require congressional approval.

Issue IV: Should "Technical" Errors Be Counted for Disallowance Purposes?

Types of errors counted affect the size of the payment error rate and thus may determine whether a state exceeds the disallowance threshold. Substantive errors, such as failure to account for other income, directly affect a client's payment amount. "Technical" errors, such as failure to include a social security number in the case file, by general definition do not. However, this view does not take into consideration that the information these errors comprise could reduce benefit payments, if available and used in program administration.

For calculating the payment error rate upon which disallowances are based, the AFDC program (but not Food Stamps and Medicaid) counts "technical" errors the same as substantive errors because they represent statutory eligibility requirements not met.

AFDC "technical" errors, as described in proposed legislation, include lack of case file evidence that: social security numbers were obtained for all family members; child support rights were officially assigned to the welfare agency; clients formally agreed with efforts to collect child support; and employable recipients registered with the Work Incentive (WIN) program. "Technical" errors can have a significant effect on payment error rates. For fiscal year 1981, the national AFDC payment error rate of 7.6 percent would have been 6.5 percent had "technical" errors been excluded and fewer states would have been subject to disallowances.

There is controversy about the inconsistency in how the programs count "technical" errors. "Technical" errors defined in accordance with existing regulations for Medicaid and Food Stamps appear in table 6, as well as "technical" errors used by AFDC. The latter are not defined in regulations but were contained in proposed legislation that provided that such errors not be counted (they now are) as part of a state's payment error rate. "Technical" errors listed for Medicaid are not counted now as a result of a legislative change in 1982. Those listed for Food Stamps are not counted because, according to regulations, these "technical" errors represent nonfinancial factors that may not be primary causes of payment errors.

Table 6:
"Technical" Errors in the Three Welfare Programs

"Technical" error: lack of file evidence concerning		
AFDC[a]	Medicaid[b]	Food Stamp[b]
SSN	SSN	SSN
Assignment of child support rights	Assignment of third-party benefits (medical insurance)	
Agreement to cooperate in child support activity	Monthly reporting	Monthly reporting
WIN registration	Work registration	Work registration
	Separate Medicaid application for SSI clients	

[a]"Technical" errors counted as part of a state's payment error rate.

[b]"Technical" errors not counted as part of a state's payment error rate.

Although most "technical" errors as defined for the three programs differ, the SSN and work registration are common to all. In 1985, legislation was introduced to disregard for disallowance purposes the four "technical" errors listed under the AFDC program.

Following are two possible alternatives to the current approach.

Alternative A: Do not count "technical" errors for disallowance purposes

"Technical" errors would not be included in calculating the AFDC payment error rate.

Possible advantages include:

1. Increases state support for the AFDC QC system generally due to recognition of state views that the present approach is unfair. Enhances state and federal cooperative efforts toward reducing erroneous payments.

2. Reduces disallowance-related disputes because fewer states are subject to disallowances. Had "technical" errors been excluded in computing fiscal year 1981 AFDC error rates (the only year for which the effects of not counting "technical" errors have been calculated), 19 rather than 28 states would have been subject to disallowances. Imposition of disallowances has led to lengthy and costly appeals and court actions with an accompanying erosion of federal-state relations.

3. Conforms the AFDC process to processes used by the Food Stamp and Medicaid programs. Thus, the disallowance-related error rate concept would have uniform application across the three programs, and state performance under the three programs would be measured on a more equal basis.

Possible disadvantages of not counting "technical" errors for disallowance purposes include:

1. Deemphasizes state monitoring and correction of "technical" errors. These omissions, which relate to statutory AFDC eligibility requirements, bear directly on the entitlement (or ability to verify entitlement) to benefits. A client's SSN, for example, is needed by the state to verify that resources and income are within program eligibility limits and, as appropriate, counted to determine the benefit amounts. Also, the Deficit Reduction Act of 1984 requires states to establish an income and eligibility verification system for AFDC, Food Stamps, and Medicaid, among other programs. In establishing these systems, the states are required to obtain an accurate SSN for each client.

2. Reduces state incentive to properly administer programs, including case file maintenance, and ultimately may affect such activities as child support collections.

3. Allows states to avoid penalties for errors under their control. HHS's most recently published AFDC quality control data, covering April-September 1982, indicated that states rather than clients were primarily responsible for these "technical" errors, as table 7 indicates:

Table 7:
Responsibility for AFDC "Technical" Errors

Factor in error	Error responsibility (percent)	
	State	Client
SSN	95.6	4.4
Assignment of support rights	99.1	0.9
Cooperation in support activity	70.4	29.6
WIN requirement	88.8	11.2

Alternative B: Count "technical" errors for disallowance purposes in all three programs

"Technical" errors would be counted in deriving Food Stamp and Medicaid error rates as is done in the AFDC program.

Possible advantages include:

1. Increases emphasis on monitoring and correcting "technical" errors in the Food Stamp and Medicaid programs.

2. Provides more assurance that data needed to verify client circumstances are obtained for all three programs and available to meet requirements of the Deficit Reduction Act of 1984.

3. Provides more assurance that data needed for other programs, e.g., child support enforcement, are available.

4. Reduces possibility of errors being ignored by the agency that can control them.

5. Conforms (as with exclusion of "technical" errors) the three program processes used to compute payment error rates.

Possible disadvantages of counting such errors in all three programs include:

1. Heightens state perceptions of the systems as unfair, which further erodes federal-state relations.

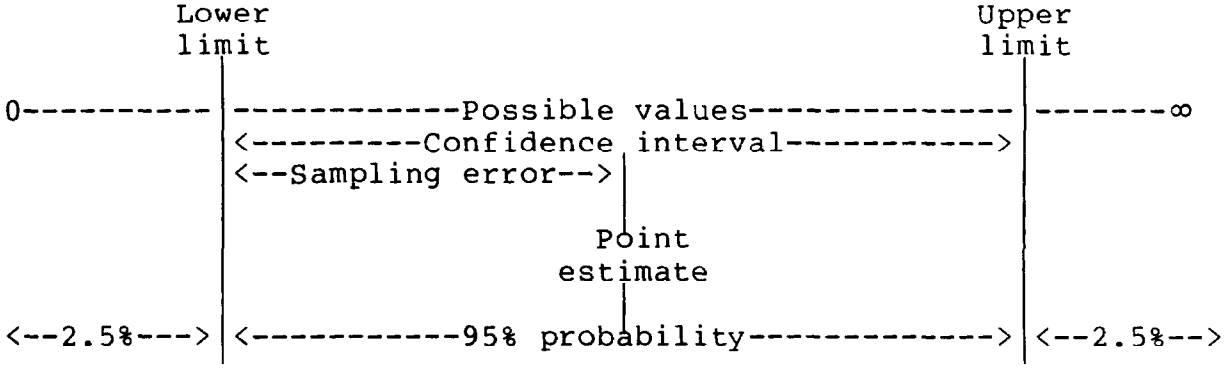
2. Increases Food Stamp and Medicaid program error rates, with more states subject to disallowances and an increase in disallowance-related disputes.

Issue V: At What Statistical Value and Level of Precision Should a State's Payment Error Rate Be Set?

All three welfare programs use the same approach to determine a statistical range within which a state's true error rate likely falls. The official error rate used is the statistical midpoint of the estimated range of probable rates. It is called the "point estimate" (see fig. 4). Because the true rate is as likely to be on one side of the midpoint as on the other, the risk that it is higher or lower is shared equally between the states and the federal government.

Figure 4:

A Statistical Confidence Interval



For each program in each state is drawn a statistical sample of cases large enough to create a high probability that it reflects the characteristics of the universe of cases from which it was selected. Samples are designed to produce for each state a 95-percent confidence interval for the range of probable error rates. In other words, there is a 95-percent probability that the state's true payment error rate lies between the upper and lower limits of the range.

None of the programs prescribes the level of precision with which point estimates are to be computed. Precision refers to the size of the "sampling error" associated with the point estimate. The error rate range, obtained by adding the sampling error to and subtracting it from the point estimate, is called the "confidence interval."

Sampling error depends on the level of confidence desired, sample size, population size, and variability in the data sampled. In computing payment error rates, setting sample sizes (as is currently done) and setting desired precision are mutually exclusive approaches. Prescribed precision controls

the number of cases to be sampled, because the sample size depends on case-to-case variations in the data.

Currently, the sizes of the confidence intervals differ among programs and among states. In the Food Stamp program for fiscal year 1983, 95-percent confidence intervals around payment error rate point estimates ranged from a spread of almost 7 percentage points in Vermont (12.8 to 19.6 percent) to less than 2 points in Maryland (6.3 to 7.9 percent).[3] For the AFDC program for fiscal year 1983, confidence intervals ranged from a spread of over 8 points in Alaska (19.7 to 11.3 percent) to less than 2 points in Florida (5.2 to 3.8 percent).

States say that using the midpoint as the point estimate for the official error rate is inappropriate because it can cause them to be subject to disallowances for errors they did not commit. For instance, when a state's true error rate is below the midpoint, the state is subject to disallowances. Consequently, states argue for using the lower limit for disallowance purposes.

From the federal perspective, using the lower limit would be problematic because some states could inappropriately avoid disallowances solely due to their large sampling errors, which are allowed under current procedures. Thus, some have suggested setting program limitations on the size of the confidence interval. This in turn would require increases in sample sizes in some states.

Following are two possible alternatives to the current approach.

Alternative A: Use the midpoint with prescribed minimum precision

A state's estimated payment error rate would be the midpoint--as is currently done--but with a prescribed minimum level of precision for the size of the sampling error. This approach would limit states' ranges of probable error rates (confidence intervals) to a given size. For example, using the maximum sampling error for AFDC proposed in legislation, the states' 95-percent confidence intervals around midpoint error rate estimates could not exceed a spread of 5 percentage points (plus/minus 2.5-percent sampling error).

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[3]Quality Control Error Rates for the Food Stamp Program (GAO/RCED-85-98, Apr. 12, 1985).

Possible advantages include:

1. Increases equity and is less arbitrary than the current approach in developing error rates because all states would be subject to the same minimum sampling error precision. Thus, states that have avoided--or, for that matter, been subjected to--disallowances because they had large sampling errors would be uniformly constrained by prescribed minimum precision.

2. Increases the probability that the midpoint is closer to the state's true error rate, because required minimum precision would shrink the range within which the state's actual error rate would likely fall.

3. Decreases federal and state costs for sampling and case review for states with sampling error percentages smaller than the prescribed minimum precision. Based on AFDC sampling error information for fiscal year 1983, for example, 43 states had sampling error percentages significantly smaller than the proposed 2.5-percent limit. Thus, they could reduce their sample sizes to achieve that precision level and save related sampling and case review costs. The federal government correspondingly could reduce its subsample sizes and related costs.

Possible disadvantages of using the midpoint with a prescribed minimum precision include:

1. Perpetuates current "lower limit" disputes because this alternative ignores states' contention that the lower limit--rather than the midpoint--should be used to represent the estimated payment error rate, thus avoiding disallowances for errors they may not have committed.

2. Increases federal and state costs because systems would be more complex to administer and some states would have to increase their sample sizes to achieve the prescribed limits. Also, precision would have to be periodically monitored and, as appropriate, additional cases selected and reviewed so that sample results achieved fall within required limits. Based on AFDC sampling error information for fiscal year 1983, five states had sampling error percentages significantly larger than the proposed 2.5-percent limit. Thus, they would need to increase their sample sizes to achieve that precision level, and federal subsamples and related costs would also increase for these states.

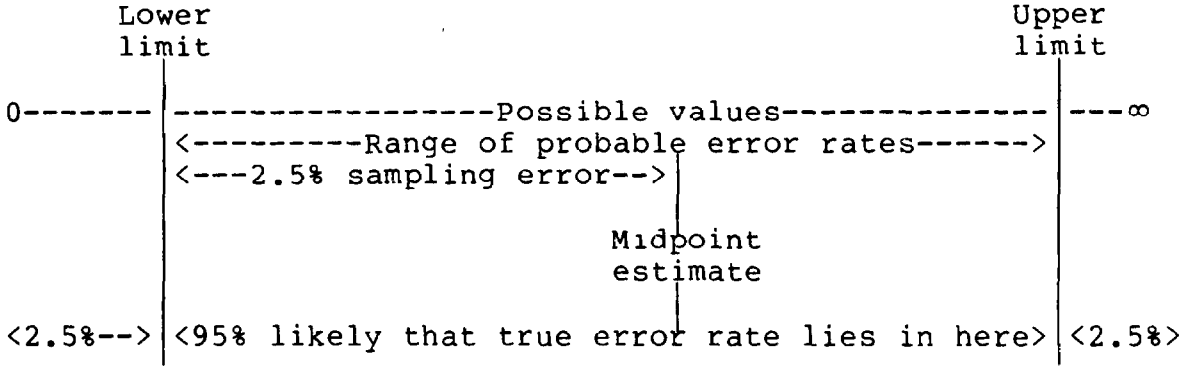
3. Causes a decrease in sample size in those states (whose sampling error is now more precise than the proposed value), thus reducing their sampling error precision. Equitable treatment would not result if such states were held to higher standards than others. Also, reduced sample sizes could reduce data on causes of errors at local levels.

Alternative B: Use the lower limit with prescribed minimum precision and rules

As proposed in 1985 legislation, a state's error rate would be set at the lower limit of the range of the state's probable error rates, but only if the lower limit were no more than 2.5 percentage points below the midpoint. States whose sampling error exceeded 2.5 percentage points would be required to use the midpoint as their error rate. (Fig. 4 is repeated here as fig. 5 and tailored to illustrate the discussion.)

Figure 5:

A Confidence Interval With Minimum Precision



Possible advantages include:

1. Assures qualifying states a 97.5-percent certainty that the rate used for disallowances is not above their true error rate (see fig. 5). Thus, using the lower limit enhances states' support by responding to their criticisms of use of the midpoint.

2. Reduces the number of states subject to disallowances, as well as disallowance amounts. Based on fiscal year 1983 AFDC QC information, by using the midpoint (without prescribed precision) of the confidence interval as the payment error rate, 36 states exceeded the legislated 4-percent error rate threshold. Using the lower limit of the interval where it was not more than 2.5 percentage points below the midpoint would have resulted in 16 fewer states exceeding the threshold. Using the midpoint without precision for fiscal year 1983 in the Food Stamp program would have made 9 of 38 states subject to disallowances.[4] Had

[4]Quality Control Error Rates for the Food Stamp Program (GAO/RCED-85-98, Apr. 12, 1985).

the lower limit of each interval (that did not exceed the above level of precision) been used when it was not above the state's target error rate, 5 fewer states would have been subject to disallowances. For Medicaid in fiscal year 1984, use of the midpoint without precision results in potential disallowances of $45 million for 14 states, according to HCFA, while use of the lower limit when the above level of precision was met would have resulted in potential disallowances of $2.5 million for 2 states.

Possible disadvantages of using the lower limit with prescribed minimum precision and rules include:

1. Makes the federal government assume the risk that 97.5 percent of the time a qualifying state's true error rate is higher than the lower limit (see fig. 5). Because these three programs dispense nearly $40 billion in benefits per year, a 1-percent payment error rate is valued at nearly $400 million. Thus, the federal government would be accepting a substantial financial risk.

2. Increases federal and state administrative costs because systems would be more difficult to administer. Some states would have to select and review many additional cases to have sample results achieved fall within required limits. The federal subsample would increase proportionately.

3. Results in certain states decreasing sample size and thus their sampling error precision (for states whose sampling error is now more precise than the proposed value). Equitable treatment would not result if such states were held to higher standards than others. Also, reduced sample sizes could reduce data on causes of errors at local levels.

4. Increases federal costs because less excess payments would be subject to disallowances, and disallowances would be reduced.

Issue VI: What Should the Disallowance Threshold Be?

Established by law, national disallowance thresholds for payment error rates are 3 percent for AFDC and Medicaid and 5 percent for Food Stamps. Some states say that these thresholds are unfair because they allow no upward adjustments for differing caseload characteristics, adopted program options, and population densities, which are believed to make error avoidance difficult and thus thresholds harder to attain. In 1985, legislation was introduced to provide upward adjustments to the AFDC and Food Stamp thresholds.

Following are two possible alternatives to the current approach.

Alternative A: Allow adjustments to current national thresholds

As proposed in recent AFDC and Food Stamp legislation, national disallowance thresholds would be adjusted upward by various percentage points (for examples, see pp. 54 and 56) for such factors as

--the proportion of wage earners in a state caseload compared to the national average and

--a state's election of such program options as the AFDC unemployed parent provision.

Possible advantages of this approach include:

1. Disallowance process recognizes error-causing conditions over which states maintain they have little or no control. Although earned income accounts for a significant number of payment errors uncovered by the QC process, the number of wage earners in a caseload depends largely on such uncontrollable factors as economic conditions in a state. Thus, the approach addresses a key concern of the states.

2. Encourages some states to elect available program options not previously elected because some states say they are considered error-prone. For example, to date only 25 states have elected the AFDC unemployed parent option, which extends aid to two-parent families. Encouraging states to elect this option could lead to more needy families being served.

Possible disadvantages of allowing adjustments to current national thresholds include:

1. Assumes distinctions can be made between two kinds of payment errors: those caused by factors outside a state's control and those caused by poor program management. This may not be possible. It is unclear which fraction of earned income errors is due to the number of wage earners in a caseload, and which to agencies' failure to properly verify wage income. Also, not holding states fully accountable for these payment errors may tend to reduce their efforts to correct them.

2. Increases federal and state costs if some states elect the AFDC unemployed parent option. (The Congressional Budget Office estimated that, if the remaining states elected this option, federal and state program costs in fiscal year 1987 would increase by about $200 million.) Furthermore, costs to the federal government would increase because more excess payments would be forgiven and disallowances reduced. The extent of increased federal costs (loss of disallowance funds) would depend upon the extent of threshold adjustments.

3. Requires very difficult agreements to be reached on the extent to which some errors are controllable by the states as well as on disallowance adjustment percentages to be allowed for each state.

Alternative B: Replace national thresholds with individual state thresholds

Each state's threshold would be based on historical records of overpayments to eligibles and payments to ineligibles. This would require selecting past periods over which a state's error rates are averaged to derive a trend of rate increase or decrease. The trend would be used to set a state's current year target. Results of studies of corrective action efforts the state made over the past periods could be factored into threshold base decisions.

Possible advantages include:

1. Considers how factors unique to each state affect payment error rates, a key concern of the states. For example, a state's past performance may reflect its ability to deal with the socioeconomic factors in the state, which might make error avoidance difficult. Such factors include the proportion of wage earners in the caseload that result from uncontrollable economic factors. If a state's threshold were derived from such information, the state's uniqueness would be recognized.

2. Increases some states' support of the QC systems because thresholds could be designed to provide states with goals that change as their circumstances change and used to encourage incremental performance improvements. Thresholds could be adjusted for (a) program rule and regulation changes that predictably increase error during their implementation and affect states differently or (b) grace periods during which newly elected error-prone program options are being implemented by the state. Thus, the rigidity of national thresholds would be replaced by a more flexible approach.

Possible disadvantages of replacing national thresholds with individual state thresholds include:

1. Decreases incentive to improve performance that national thresholds now provide for states with historically high error rates and limited progress in reducing them, because thresholds would be based on past performance.

2. Increases overall administrative costs for the systems. Because of the importance of the standards to each state's measured performance, establishing the thresholds could require as much federal and state agency attention as is now paid to the other QC functions.

3. Creates, on a state-by-state basis, disputes about the design and implementation of this approach. Design decisions would be difficult and complex, involving such matters as selecting suitable past error-rate periods, resolving state-federal disagreements over which error rates to use (state-derived or official rate) in setting the threshold, and determining what threshold level would provide a goal seen as attainable. Equitable treatment for each state would be difficult to ensure. To the extent the approach would exacerbate federal and state disputes, its perceived benefits might be nullified.

Issue VII: How Should Disallowances Be Calculated and Levied?

How disallowances are calculated and how soon after the review period they are levied help determine whether people think they are fair and how well they serve as an incentive to improve performance.

AFDC and Medicaid disallowances mean a dollar-for-dollar recovery of the federal share of erroneous payments made in excess of error rate thresholds. (The federal share of erroneous payments below the threshold is not subject to disallowance.) In the Food Stamp program, where the federal government pays all benefits, disallowances now mean recovery of 5 percent of the federal share of state administrative costs for each 1 percent of erroneous payments in excess of thresholds.

AFDC and Food Stamp disallowances are determined after the year ends and are levied during a following year. Medicaid withholds estimated disallowance amounts in advance of each quarter in which the error rate is projected to exceed the threshold. According to Medicaid regulations, differences between amounts withheld and amounts due may be reconciled no earlier than 18 months after the close of the quarter.

States are concerned that collected disallowances reduce the funds available to assist program operations identified as needing improvement, and that disallowance offsets are not allowed for special efforts states make to reduce erroneous payments. None of the programs allow adjustments to disallowance amounts for extra money spent to reduce error rates. Medicaid allows disallowance adjustments for ineligibility overpayment recoveries, but only for the quarter in which the federal government was credited with its share of the recovered amounts.

Also, states are concerned about the long delays in determining and levying AFDC and Food Stamp disallowances, and the prospective disallowance approach used in Medicaid. AFDC disallowances for fiscal year 1981 were determined in 1983 and levied in 1985. Under Food Stamps, the lag was about 1-1/2 years for the same period and about 2-1/2 years for the first half of fiscal year 1982. Under Medicaid, because states are required to fund part of the federal share of benefits pending resolution of their disallowance amount, prospective disallowances tend to represent a form of interest-free borrowing for the federal government at state expense.

In 1985, legislation was introduced (but not enacted) to change the timing and allow various offsets to disallowance amounts for the AFDC and Food Stamp programs.

Following are three possible alternatives to the current approach.

Alternative A: Allow offsets to disallowances

As proposed in 1985 legislation, dollar-for-dollar offsets to disallowances would be allowed for the federal share of state recoveries of overpayments made during a period to which disallowances were applicable, and for extra state funds spent during that period for error reduction activities (e.g., special computer matching). The offsets would reduce or eliminate the disallowances. For example, assume a state's disallowance for a given year was $50,000. The federal share of overpayments the state collected during that year was $5,000. The state spent $45,000 over and above normal administrative costs for special error reduction activities during that year. Through offsets, the state's disallowance for the given year would be reduced to zero.

Possible advantages include:

1. Reduces conflicts by responding to state concerns about disallowance calculation methods, because it allows states to use rather than lose disallowance funds to make administrative improvements.

2. Encourages greater commitment of state funds and attention to reduce errors, as well as to recovering overpayments.

3. Permits more program savings for the state, as well as more returns to the federal government, because of increased overpayment collections.

Possible disadvantages of allowing offsets to disallowances include:

1. Permits additional expense by allowing states credit against disallowances for routinely carrying out an already legislated activity. Collection of AFDC overpayments, for example, is specifically required by the Omnibus Budget Reconciliation Act of 1981.[1] In addition, because the federal share of collected overpayments would be offset only against disallowances (rather than allocated between disallowances and the federal share of excess payments below the threshold that are not subject to disallowance), the federal government would receive no financial benefit from collection activity.

2. Discriminates against states not facing disallowances because the credit for overpayment collections as well as for extra funds spent for error reduction activities would be extended only to states facing disallowances. Some states would

thus obtain offsets against disallowances for expenditures other states made under normal cost sharing.

3. Increases federal time and effort needed to monitor offsets claimed. For example, before allowing disallowance offsets, states' extra expenditures for error reduction as well as the reduction achieved would have to be validated--a process that would require additional federal monitoring and negotiating.

4. Reduces incentive to control errors. States may direct their attention to obtaining disallowance offsets and be less vigilant about reducing erroneous payments.

Alternative B: Establish a time frame for the disallowance processes

For all three programs, a time frame (say 24 months) would be used as an absolute limit for the AFDC, Food Stamp, and Medicaid disallowance processes. This would begin with the close of the measured period and end with state appeals of disallowances after waivers were denied. The time frame would cover development of official payment error rates, issuance of letters of intent to impose disallowances, requests for federal waivers of disallowances, issuance of demand letters, and appeals of disallowances.

Possible advantages include:

1. Levies disallowances closer to the measured periods, thus becoming more meaningful and useful as an incentive to improve performance. A 24-month time frame was met by Food Stamps in its first-year disallowance process, as earlier discussed.

2. Makes federal agencies more responsible for carrying out disallowance processes in a timely fashion. Under current methods, states have fixed time frames within which to respond to federal disallowance actions, such as 30 days following notice of AFDC disallowances to file requests for waivers. Federal agencies have no time frames within which to act on state requests and no overall time frames within which to complete disallowance actions.

Possible disadvantages of establishment of a time frame include:

1. Deprives states of an open-ended period for a full and complete hearing of their grievances and thus of due process. The new time constraints could give the appearance (warranted or not) that all facts and circumstances bearing on requests for disallowance waivers were not adequately considered.

2. Increases federal resources needed to meet time frames, particularly when many states are subject to the process and their requests are voluminous and complex. For fiscal year 1981, for example, 28 states were subject to AFDC disallowances. In its waiver request of the fiscal year 1981 AFDC disallowance ($35 million), California submitted the most material (some 59,000 pages), which HHS had to review and consider before reaching a decision. An estimated 28 and 39 states, respectively, will be subject to AFDC disallowances for fiscal years 1982 and 1983. Fifteen states were subject to Food Stamp disallowances for fiscal year 1981. An estimated 14 and 13 states, respectively, will be subject to Food Stamp disallowances for fiscal years 1982 and 1983.

3. Medicaid may have difficulty meeting a fixed time frame. Conflicting factors include (a) the need to retroactively determine certain clients' eligibility after medical care already has been provided and (b) the payment of estimated claims that require adjustment after final claims (which can involve lengthy delays) are received from providers.

Alternative C: Make disallowance approaches consistent among the three programs

The bases for disallowances and methods of determining them would become the same for all three programs. As in the AFDC and Medicaid programs, Food Stamp disallowances would amount to a dollar-for-dollar recovery of payments made in excess of error rate thresholds (similar to the Food Stamp disallowance procedure before 1983--see p. 12). As in the AFDC and Food Stamp programs, Medicaid disallowances would be levied after the measured period ended rather than in advance. Other disallowance process elements would remain as they are now.

Possible advantages include:

1. Encourages some states to emphasize error reduction more equally in all three programs. Currently, AFDC and Medicaid threshold violations have a higher disallowance effect on the states than do threshold violations in Food Stamps. Thus, the possible incentive for states to put less emphasis on correcting Food Stamp errors might be eliminated.

2. Provides states with their full federal share of estimated Medicaid benefit payments before each measured period begins. States subject to disallowances now must fund part of the federal share, represented by the potential disallowances withheld in advance of measured periods. For the period April-September 1983, about $8 million was prospectively withheld from states. After reconciliation, about $5 million had to be returned because projected error rates overstated the actual

errors. Converting Medicaid to retrospective disallowances would correct that situation.

Possible disadvantages of making the disallowance approaches consistent include:

1. Makes states reconsider managing the Food Stamp program because of the risk of being made liable for costs in excess of the federal share. Currently, states do not share the cost of Food Stamp benefits. Their contribution to the program is limited to about 50 percent of the administrative costs. Were a Food Stamp disallowance to reduce the federal share of administrative costs to zero leaving a disallowance amount remaining, the state would have to defray the remainder with non-Food Stamp funds. Moreover, disallowance amounts directly relate to levels of benefits paid, which states can control for the AFDC and Medicaid programs, but not for Food Stamps where benefits are based on uniform nationwide criteria.

2. Eliminates Medicaid's prospective disallowance process, which is in effect an integral part of the program's administration, and converts it to a function that tends to lag behind and be viewed apart from program administration. Projecting Medicaid error rates and withholding possible disallowances in advance might give states stronger incentives than would a retrospective approach to improve performance during measured periods. It can be argued, for example, that the $5 million returned to states upon reconciling projected and actual error rates for the 1983 period resulted from prospective disallowances prompting the states to give increased attention to performance.

3. Subjects Medicaid's disallowance process to the same criticisms now made of the retrospective AFDC and Food Stamp processes--that they take too long and are too late.

Issue VIII: What Financial Incentives Might the Federal Government Provide to Better Curtail Underpayments and Improper Denials and Terminations?

A basic objective of the three welfare programs is to provide the correct amount of benefits to all eligible persons. Therefore, QC should measure how well states are doing in insuring that recipients are not paid more or less than they are entitled to and that eligibles are not improperly denied benefits.

Currently, all three QC systems measure overpayments, underpayments, and improper denials and terminations in most states. Overpayments and underpayments are measured for the sample of all active cases receiving benefits, and both case and payment error rates are determined. A separate sample called a negative case sample is taken from a universe of cases where individuals (1) have applied for but were denied benefits or (2) were terminated from receiving benefits. Based on a review of this universe of "negative action" cases, a case error rate is developed for each category of improper denials and terminations.

The Food Stamp program considers improper denials and terminations in providing incentives to states. It allows states a 10-percentage-point increase in the federal share of administrative costs if (1) their combined overpayment and underpayment error rates do not exceed the 5-percent legislated threshold and (2) case error rates for improper denials and terminations are below the prior year's national average.

Currently, neither AFDC nor Medicaid has any mechanism to encourage most states to control underpayments and improper denials and terminations. AFDC had an incentive provision that was modified to exclude most states beginning in April 1983 when the Tax Equity and Fiscal Responsibility Act of 1982 reduced the disallowance threshold. (In 1985, legislation was introduced to provide incentive payments to most states under the AFDC program. This provision subsequently was dropped from the bill.)

Following are two possible alternatives to the current approach.

Alternative A: Apply Food Stamp incentive system to AFDC and Medicaid

AFDC and Medicaid would adopt the current Food Stamp program incentive system, which compares the combined over- and underpayment error rate against the national error rate threshold and measures case error rates for denials and terminations against the prior year's national average for these rates.

States with combined payment error rates below the thresholds and case error rates for denials and terminations below the prior year's national average would qualify for incentive funding in the form of increased federal sharing in their administrative costs. Each state would qualify separately for each program's incentive system. Under this approach, states would record for all three programs improper denials and terminations--which some states do not do for Medicaid.

Possible advantages include:

1. Makes consistent a policy that provides administrative rewards in one program but not in two. Under the Food Stamp incentive system, 17 states qualified for Food Stamp incentive payments totaling $10.5 million for fiscal year 1981 and the first half of 1982, suggesting a level of success in achieving incentive system goals.

2. Reduces Medicaid errors through increased attention to improper denials and terminations.

3. Better serves some eligibles by encouraging management attention to underpayments and improper denials and terminations.

4. Rewards states that continually perform below sanction thresholds, thus encouraging sustained superior performance.

Possible disadvantages of applying the Food Stamp incentive system to AFDC and Medicaid include:

1. Increases costs. Federal costs would go up because of incentive payments. Federal and state costs for both benefits and administration could rise because fewer improper denials and terminations would result in larger caseloads.

2. May not be effective in the AFDC program, judging from its experience with a similar system. Under the AFDC incentive system in effect from January 1978 to April 1983 for all states, 18 states qualified for incentive payments totaling $2.7 million for the five semiannual periods covered by fiscal years 1981 and 1982 and the first half of fiscal year 1983. Only one state qualified for incentive payments in all five semiannual periods, and only three other states qualified for incentive payments in at least three of the five periods.

Alternative B: Develop new incentive system using case error rates

For each program, each state's case error rates (underpayments, overpayments, and improper denials and terminations) resulting from QC reviews would be statistically combined and

measured against a newly established national case error rate threshold. States with combined error rates below this threshold would qualify for additional federal sharing of their administrative costs. Each state would qualify separately for each program's incentive system and would be eligible only if the state was not subject to a disallowance for excess payment errors in the same program for the same measured period.

Possible advantages include:

1. Allows an official assessment of the accuracy of states' payment determination process in each program. As the other side of the fiscal disallowance issue related to excess payments (discussed in issue VII), this alternative provides balance to an assessment based only on payment error rates.

2. Brings consistent incentive payment policies to the three programs' QC systems.

3. Discourages states from concentrating resources only on reducing overpayments and conversely encourages efforts to ensure that all eligible recipients are provided proper benefits.

4. Rewards states that continually perform below disallowance thresholds.

Possible disadvantages of using case error rates to develop a new incentive system include:

1. Increases federal and state benefit and administrative costs.

2. Makes establishing national incentive thresholds difficult insofar as providing all states with equivalently achievable goals.

3. Leads states to criticize national case error rate incentive thresholds as unfair, because of states' unique socio-economic factors. (Attempting to develop individual state thresholds based on each state's past experience may prove equally difficult. See discussion on p. 45.)

1985 LEGISLATIVE PROPOSALS

AFFECTING WELFARE QC SYSTEMS

Several proposals affecting the AFDC, Medicaid, and Food Stamp QC systems were introduced in the Congress during 1985. Synopses of these proposals and actions taken on them follow. Final congressional action on them is presented on page 16 of the report. Where applicable, in the list below we key particular provisions to the issues we present in this report.

1. H.R. 1279. On February 26, 1985, Representative Robert T. Matsui introduced H.R. 1279, a bill whose stated purpose is to improve AFDC QC standards and procedures. Essentially, the bill would

	Issue no.
--set time frames for HHS and the states to complete the annual QC process, including taking necessary corrective actions;	VII
--raise the legislated error rate threshold (above which states are subject to fiscal disallowances) from 3 to 4 percent;	VI
--allow the error rate threshold to be raised an additional 0.5 to 1.5 percentage points for states that (a) have an unemployed parent program, (b) have a large number of cases with recipient earnings, or (c) are densely populated;	VI
--change the basis for assessing state disallowances from the statistical midpoint of the range of estimated error rates to the lower limit of each state's estimated range;	V
--exclude technical errors (lack of case file evidence for such items as social security numbers and assignment of child support rights) from states' error rates for calculating disallowances;	IV
--allow states to deduct the federal share of recovered overpayments from any disallowance;	VII
--require HHS to waive a disallowance if the state submits a plan to spend at least one-half the disallowance amount in increased administrative funding for error reduction;	VII

	Issue no.
--establish a financial incentive for states with low error rates; and	VIII
--require HHS to study the AFDC QC system, including its cost effectiveness, and report to the Congress within a year.	

In July 1985, the Subcommittee on Public Assistance and Unemployment Compensation of the House Committee on Ways and Means made modifications to H.R. 1279 to:

--set the error rate threshold at 3.5 percent;	VI
--allow a state to use the lower limit of its error rate range, rather than the midpoint, as a basis for assessing disallowances if the state has a sample size sufficient to produce a range around the midpoint of plus or minus 2.5 percentage points or less;	V
--exclude technical errors that have no fiscal impact for fiscal disallowance purposes;	IV
--delete the HHS AFDC QC system study; and	
--delete the incentive payment provision.	VIII

2. S. 616. On March 7, 1985, Senator Jesse Helms introduced S. 616, a bill that included provisions to modify Food Stamp QC disallowances. Essentially, these provisions would

--reduce the legislated error rate threshold (above which states are subject to fiscal disallowances) from 5 to 3 percent;	VI
--require the amount of a state's disallowance to be the dollar value of all erroneous payments in excess of the error rate threshold;	VII
--require estimated disallowances to be calculated in advance of a measured period for states whose payment error rates exceeded the 3-percent threshold during the most recent QC period for which federally adjusted data are available and withheld from the federal share of the state's administrative costs for the measured period;	VII

	Issue no.
--require the state to pay the federal government the amount by which the estimated disallowance exceeds the federal share of the state's administrative costs;	
--adjust the estimated disallowances to actual after the close of the measured year; and	
--require that collecting estimated disallowances not be subject to a good-cause exception.	

3. H.R. 2621. On May 23, 1985, Representative James M. Jeffords introduced H.R. 2621, a bill whose stated purpose is to improve Food Stamp QC standards and procedures. Essentially, the bill would

--set time frames for Agriculture and the states to complete the annual QC process, including taking necessary corrective actions;	VII
--exclude as errors those resulting from misinformation the state food stamp agency receives from a federal agency;	
--retain the legislated error rate threshold (above which states are subject to fiscal disallowances) at 5 percent and provide for upward adjustments of 0.1 to 0.5 percentage points for each of the following conditions in a state in relation to averages for all states: (a) a large number of households with earnings, (b) densely populated, (c) rapidly increasing food stamp caseloads, and (d) a large number of households with 5 or more persons receiving food stamps;	VI
--change the basis for assessing state disallowances from the statistical midpoint of the range of estimated error rates to the lower limit of each state's estimated range;	V
--allow states to deduct recovered excess payments from any disallowance;	VII
--require Agriculture to waive a disallowance if the state spends the net disallowance amount for error reduction specified in its corrective action plan;	VII

	Issue no.
--provide a 1-year moratorium on counting for disallowance purposes errors relating to changes in the Food Stamp Act and a 90-day moratorium on counting for such purposes errors relating to changes in administrative policy; and	
--require Agriculture to complete within a year of enactment a study of the nature and controllability of client errors, broader performance measures than payment accuracy, and the cost effectiveness of error reduction, with a report to the Congress.	

4. S. 835. On April 2, 1985, Senator James McClure introduced S. 835, a bill that included provisions to modify Food Stamp QC disallowances. Essentially, these provisions would

--require the amount of a state's disallowance to be the dollar value of all erroneous payments in excess of the error rate threshold; and	VII
--reduce the legislated error rate threshold from 5 to 3 percent.	VI

5. S. 1362. On June 26, 1985, Senator Daniel J. Evans introduced S. 1362, a bill whose stated purposes are to provide for studies of AFDC QC standards and procedures and for a moratorium on fiscal disallowances. Essentially, the bill would

--require HHS to make an AFDC study to determine tolerable state error rates;	
--require HHS to contract with the National Academy of Sciences to make a concurrent study for the same purpose, with reports on both studies to the Congress 1 year after enactment;	
--set the AFDC disallowance threshold at 4 percent for fiscal year 1983 and future years pending congressional action taken after the above studies have been completed;	VI
--impose a moratorium on disallowances for fiscal year 1980 and future years pending congressional action taken after the above studies have been completed;	

	Issue no.
--establish a financial incentive for states with low error rates beginning with fiscal year 1986 but no incentive payments would be made until the Congress removes the moratorium imposed above;	VIII
--change the basis for assessing state disallowances from the statistical midpoint of the range of estimated error rates to the lower limit of each state's estimated range beginning with fiscal year 1981; and	V
--exclude technical errors from states' error rates for calculating disallowances beginning with fiscal year 1981.	IV

In September 1985, the Senate Committee on Finance modified S. 1362 by deleting all provisions except the study and moratorium provisions and made the following changes to them by

--requiring that studies be made by HHS and the National Academy of Sciences of Medicaid QC as well as AFDC QC on how best to operate the systems to obtain information needed to improve administrative quality and provide a reasonable basis for using disallowances on states, with study reports due to the Congress 1 year after enactment;

--imposing a 2-year moratorium, effective on enactment, on collecting AFDC and Medicaid disallowances while continuing to operate QC and calculating respective error rates;

--requiring, within 18 months of enactment, HHS to issue regulations restructuring the two QC systems to the extent appropriate based on the studies' results and retroactively adjust states' error rates for past periods as if the revised systems had then been in effect, making appropriate changes to past disallowances; and

--requiring HHS to implement the restructured QC systems beginning with the calendar quarter after the moratorium period ends and begin imposing disallowances then based on the restructured systems.

6. Other. On November 21, 1985, Senator McClure offered an amendment to the Agriculture, Food, Trade, and Conservation Act of 1985 that would have had the same effect on Food Stamp disallowances as the already-cited provisions in S. 835.

GLOSSARY

Active case	One that receives a payment or has a payment made on its behalf.
Case error	An error in a case that resulted in an incorrect payment or improper denial of assistance or removal of the case from the assistance rolls.
Case error rate	The estimated percent of cases in a universe that had errors.
Confidence interval	The most probable range of statistical values within which, at a given level of confidence, a state's true error rate is likely to be. It is obtained by adding the sampling error to, and subtracting it from, the point estimate.
Confidence level	The level of assurance desired that statements made about a sampled population are true.
Disallowance	Dollar reduction of federal funds to a state for some or all of the federal share of excess erroneous payments made above the disallowance threshold.
Disallowance threshold	The payment error rate level to be achieved by a state to avoid disallowances. Payment error rates above this level are used to calculate dollar disallowances.
Inactive (negative action) case	One that has been denied access to or removed from the active assistance rolls.
Measured period	Time frame for which an error rate is calculated.
Payment error	The dollar amount by which a payment was incorrect (from overpayment, underpayment, or ineligible payment) due to an error in an active case.
Payment error rate	The estimated ratio of excess payments (overpayments to eligibles and payments to ineligibles) to total payments in a universe of active cases.

Point estimate	A statistical estimate of a state's true error rate, at a given level of confidence, based on the results of reviewing a sample of cases. For these programs it is at the midpoint of the confidence interval.
Sampling error	The statistically estimated maximum difference between the results obtained from a sample and the results that would have been obtained from a census of the entire population from which the sample was selected. The size of the sampling error expresses the precision of the point estimate. Sampling error increases as sample size decreases. It differs from nonsampling error that can result from such causes as biased sample selection or error in recording results or making calculations, which cannot be measured.
"Technical" errors	Omissions from client case files of paper evidence that certain eligibility factors or requirements have been met.
Welfare case	All individuals whose needs, income, and resources are considered together in determining eligibility for and amount of a benefit payment in which federal sharing is claimed.
Welfare quality control	Systematic means of assessing, through case sampling and review, the correctness of administrative decisions made on welfare clients' eligibility for and amount of benefits.

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