

28468
124423

BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman, Subcommittee
On Oversight Of Government Management
Committee On Governmental Affairs
United States Senate**

**GAO Observations On The Use Of Tax
Return Information For Verification In
Entitlement Programs**

The lack of data to verify income and assets reported by applicants and recipients in entitlement programs has contributed to significant overpayments--an estimated \$1 billion for five programs in fiscal year 1982. Tax return information on earned and unearned income would help fill this need for data. The Congressional Budget Office estimates that \$1.5 billion could be saved over a 5-year period in only three programs if unearned income information alone were made available.

The benefits which could accrue from using these data in entitlement programs and the lack of comparable alternative data sources argue strongly for disclosing the tax return information, if proper safeguards are in place to protect it. Because of privacy concerns and the potential impact on voluntary tax compliance, tax return information should only be disclosed for non-tax purposes when there is a compelling need. During disclosure and use of the information, agencies must ensure that it is adequately safeguarded to protect its confidentiality and that individuals' due process rights are observed.



RESTRICTED COPY
Approved for release
by the General Accounting Office

RELEASED

529075

GAO/HRD-84-72
JUNE 5, 1984

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

**HUMAN RESOURCES
DIVISION**

B-214780

**The Honorable William S. Cohen
Chairman, Subcommittee on Oversight
of Government Management
Committee on Governmental Affairs
United States Senate**

Dear Mr. Chairman:

Your May 1, 1984, letter requested our views on the transfer of tax return data from the Internal Revenue Service (IRS) and the Social Security Administration (SSA) to federal and state agencies for their use in entitlement programs. More specifically, in preparation for Subcommittee hearings scheduled for June 6, 1984, you requested that we address the following issues:

1. The advantages and disadvantages of the transfer of IRS and SSA data to other government agencies for use in computer matching projects to verify eligibility for entitlement programs.
2. The adequacy of the unearned income information maintained by IRS and the SSA data now used by federal and state agencies for verifying recipient eligibility for entitlement programs.
3. Privacy and due process considerations, including SSA and other federal requirements and procedures for safeguarding such data and maintaining computer security.
4. Guidance that agencies might use in conducting computer matches and in following up on "hits" resulting from the matches.

Out of concern for personal privacy, the Congress has restricted the disclosure of certain tax return information that would be useful for verifying earnings and assets in entitlement programs. States have access to SSA's earnings data for employees and self-employed persons for use in the Aid to Families with Dependent Children (AFDC) and Food Stamp programs and access to SSA's pension data for the Food Stamp program. The Congress has not authorized the disclosure of unearned income information from IRS for verification in entitlement programs.

Currently, the Congress is considering legislation to authorize the disclosure of additional tax return information related to unearned income and require that it and earned income information be used for verification in entitlement programs in addition to AFDC and Food Stamp. The information being considered for disclosure includes data that could be useful for verifying reported assets as well as income. In considering the use of additional tax data for verification purposes, it is necessary to consider the tax compliance and privacy implications.

In past reports and in testimony before your Subcommittee, we have supported the restricted use of the IRS and SSA data for verification in entitlement programs. Because of concerns about undermining the voluntary nature of the tax system, our recommendations generally were limited to the use of information reported to IRS or SSA by third parties, such as employers reporting wages or banks reporting interest, rather than using information reported directly by the taxpayers. However, there is one exception. We have recommended that self-employment earnings data, which are only reported by the taxpayer, be used to verify income in more entitlement programs than just AFDC and Food Stamp. Without this information, it would be difficult to adequately verify eligibility for self-employed individuals. Because of privacy concerns, our recommendations recognized the need for restricting the disclosure of tax return information to specific uses and requiring that the data disclosed are adequately safeguarded.

The appendix discusses (1) the tax return information currently authorized for disclosure for verification in entitlement programs, (2) the information being considered for disclosure, and (3) the information currently being disclosed. It provides details on the need for information for verification in entitlement programs; advantages and disadvantages of using the IRS and SSA data, including the adequacy of such data; privacy and due process considerations; and guidelines for conducting computer matching and following up on the results of the matches.

In preparing this report, we reviewed and analyzed relevant legislation and our past reports and testimony. Several ongoing studies also provided information related to the issues raised by the use of tax return information for verification in entitlement programs. In addition, we drew on our experience with computer matching. We have developed our own computer matching software and over the past several years have done extensive matching involving a variety of entitlement programs and agencies.

- - - -

As agreed with your office, we did not obtain comments from IRS and SSA on this report. Also, as agreed, we will release the report for public distribution after the hearings. At that time copies will be sent to other congressional committees, appropriate federal departments and agencies, and other interested parties.

We hope that this information will be useful for the Subcommittee's hearings and in its continuing work related to computer matching.

Sincerely yours,



Richard L. Fogel
Director

GAO OBSERVATIONS ON THE USE OF
TAX RETURN INFORMATION FOR VERIFICATION
IN ENTITLEMENT PROGRAMS

INTRODUCTION

The lack of data to verify income and assets reported by applicants and recipients in entitlement programs has contributed to significant overpayments--an estimated \$1 billion for five programs in fiscal year 1982. Tax return information on earned and unearned income would help fill this need for data. The Congressional Budget Office estimated that \$1.5 billion could be saved over a 5-year period in only three programs if unearned income information alone were made available.

The benefits which could accrue from using these data in entitlement programs and the lack of comparable alternative data sources argue strongly for disclosing the tax return information, if proper safeguards are in place to protect it. Because of privacy concerns and the potential impact on voluntary tax compliance, tax return information should only be disclosed for non-tax purposes when there is a compelling need. During disclosure and use of the information, agencies must ensure that it is adequately safeguarded to protect its confidentiality and that individuals' due process rights are observed.

The disclosure of tax return information to entitlement programs raises many technical questions about the nature of the data, what is involved in transferring the data, and how the data can be adequately protected. In addition, the process of computer matching itself creates concerns about guidelines to ensure that matches are performed properly and consistently.

The following discussion includes (1) the need for tax information for verification in entitlement programs, (2) descriptions of the tax return information being transferred or being considered for transfer to entitlement programs and the advantages and disadvantages of using the data, (3) privacy and due process concerns which should be considered in transferring and using the data, and (4) our observations on existing guidelines for conducting computer matches and follow-up.

NEED FOR IMPROVED VERIFICATION

Entitlement programs, both needs and insurance-based, comprise a substantial portion of the federal budget. In fiscal

year 1985, more than \$400 billion will be spent on over 100 such programs. Needs-based programs, which provide cash and non-cash aid primarily to persons with limited income, will account for about 20 percent of that amount.

Income and asset information reported by applicants and recipients is a key factor in determining eligibility and benefit amounts for most needs-based programs. Income is also a key factor in certain insurance-based programs. Incorrectly reported income and assets are major causes of overpayments in needs-based entitlement programs, largely because adequate data to verify them are not available, primarily due to legal restrictions. In a 1982 report, we estimated that in only five programs the federal share of overpayments based on such incorrect information would exceed \$1 billion in fiscal year 1982.¹ Tax return information would help identify under-reported income and assets.

Current and proposed disclosure of tax data

The Congress has restricted the disclosure of certain tax return information that would be useful for verifying income and asset information in entitlement programs. The Tax Reform Act of 1976, as amended, and the Social Security Act authorize states to have access to SSA earnings data for employees and self-employed persons for use in the Aid to Families with Dependent Children (AFDC) and Food Stamp programs. The Tax Reform Act also allows states access to SSA's pension data for use in the Food Stamp program. What is not currently authorized for disclosure is IRS' unearned income information from sources such as interest and dividends.²

Both the House and the Senate recently passed legislation amending the Tax Reform Act to permit additional disclosure of tax information to entitlement programs. In a move to strengthen eligibility verification, the House on April 12, 1984, passed H.R. 5394, which authorizes the disclosure of IRS unearned income information, such as interest and dividends, to

¹Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions, HRD-82-9, Jan. 14, 1982. The five programs discussed in this report are AFDC, Food Stamp, SSI, Medicaid, and Section 8 Housing.

²Tax data are used for other purposes, such as locating parents to collect child support, debt collection, and law enforcement.

federal, state, and local agencies for use in selected programs. The use of the data would be restricted to verifying data used in determining eligibility and correct benefit amounts in the programs, and safeguards against unauthorized disclosure would be required. The bill does not discuss earned income data.

The Senate recently passed its deficit reduction bill, which would require the disclosure of IRS unearned income data. Unlike the House bill, it also expands the disclosure of SSA earned and unearned income data. The Senate version would require that the data be disclosed at the request of federal, state, or local agencies administering selected entitlement programs. This bill would also restrict the use of the data to verifying data used in determining eligibility and correct benefit amounts and require safeguards to protect against unauthorized disclosure.

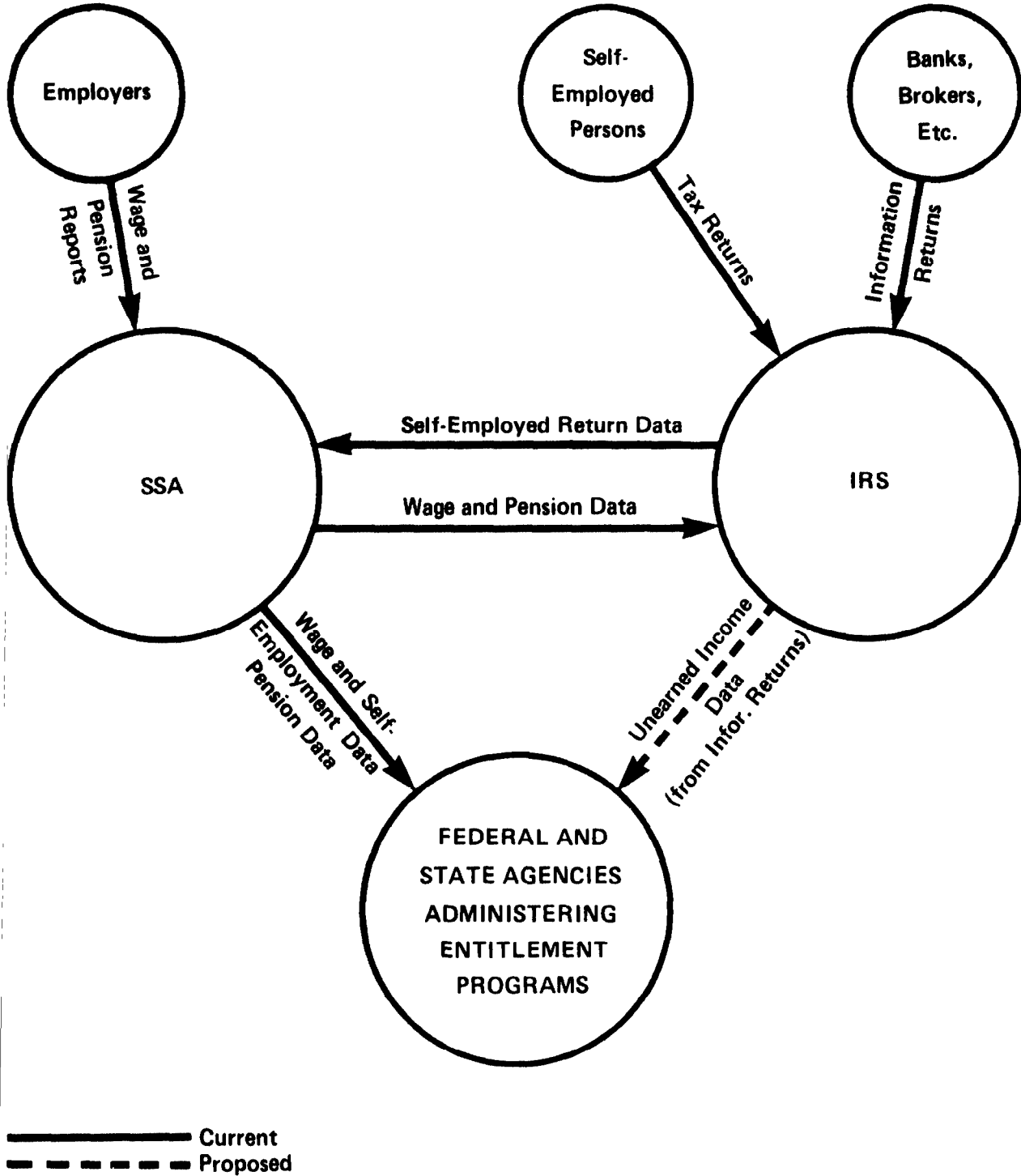
Procedures for maintaining and disclosing data

Both IRS and SSA collect earned and unearned income data that are considered tax return information. Some of the data are collected by one agency and shared with the other. Both agencies maintain the following data:

- Wages and other compensation reported by employers, collected by SSA, and shared with IRS.
- Pension payments reported by payers, collected by SSA, and shared with IRS.
- Earnings reported by the self-employed, collected by IRS, and shared with SSA.

In addition, IRS collects unearned income data, such as interest and dividends, to which SSA does not have access. Figure 1 shows the current and proposed authorized flow of tax return information through IRS and SSA to federal and state agencies administering entitlement programs.

FIGURE 1
TAX INFORMATION COLLECTION AND DISCLOSURE
TO ENTITLEMENT PROGRAMS FOR VERIFICATION
(Current and Proposed Authorization)



IRS and SSA maintain the tax return information in centralized computerized files which would facilitate matching with computerized entitlement program files. Comparable information is not available from any other centralized source. We believe that computer matching using tax return information can be an effective method of verifying information reported by entitlement program applicants and recipients. However, such matches must be performed within the framework of the Privacy Act of 1974 and the Tax Reform Act of 1976.

We have not made comprehensive assessments of the accuracy or reliability of the IRS and SSA data being disclosed or being considered for disclosure. However, it should be recognized that these data are being used to determine eligibility and benefit amounts in Social Security programs and for tax administration. Currently and as proposed, the data disclosed would not be used as the primary data to determine eligibility or benefit amounts in entitlement programs, but to verify income or asset information reported by applicants and recipients used to determine eligibility and benefit amounts.

We recognize the need to strike a proper balance between the government's legitimate need for information to ensure program integrity and taxpayers' basic right to privacy with respect to tax information reported to IRS or SSA. Our position on the disclosure of tax return information has been guided by two basic principles. First, IRS' primary mission is to collect taxes and encourage and achieve the highest possible degree of voluntary compliance with the tax laws. Second, taxpayers who supply information to IRS or SSA have a basic right to privacy with respect to that information. Such information should be subject to disclosure for non-tax purposes only when society has a compelling interest which outweighs individual privacy concerns.

ADVANTAGES, DISADVANTAGES, AND ADEQUACY OF IRS AND SSA DATA

The primary disadvantages of using tax return information for verification in entitlement programs are the potential harmful effects on tax reporting compliance and personal privacy. The data also have some technical limitations or disadvantages. There are, however, advantages and benefits to using the data for this purpose which we believe outweigh the disadvantages.

Using tax return information for eligibility verification in entitlement programs could result in improvement in program integrity and the efficiency of the verification process. It

would enhance the potential for reducing erroneous payments and provide sources of comprehensive, centralized data.

The IRS and SSA tax return information, however, does have some limitations. Neither the unearned income data at IRS nor the earned and unearned income data at SSA are current. In many entitlement programs, eligibility is based primarily on an applicant's current financial situation. Tax return data can only provide leads to identify unreported income or assets, rather than information that determines current eligibility or ineligibility. Without this information, however, eligibility workers might have no indication of past income or asset ownership.

Other disadvantages of the IRS data relate to the physical characteristics of the agency's computer files. The files do not contain some data elements, such as date of birth and sex, needed for sophisticated computer matching. In addition, the volume of data in the unearned income file is very large and is likely to grow.

IRS data

IRS maintains computerized files of information on unearned income paid to taxpayers. Payers of this income (e.g., banks, brokers) are required to report the payments by filing annual information returns. IRS uses this information primarily to identify unreported income and nonfilers of tax returns. IRS forms 1099 and 5498 are used to report interest, dividends, and other non-wage income paid to individuals. IRS maintains the unearned income data in a master file at its National Computer Center.

The information return master file is a very large, complex magnetic tape file. For example, the unearned income master file for tax year 1982 consists of about 540 reels of magnetic tape containing about 360 million records. These records are highly compressed in a complex variable length format. Further, the enactment of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) significantly broadened the information reporting requirements beginning with tax year 1983. For example, securities broker transactions, state and local income tax refunds, tip income, certain payments to independent contractors, and bartering transactions are new reporting requirements. TEFRA will significantly increase the number of return documents to be filed and thus the size of the master file.

Usefulness and limitations

The unearned income master file contains some data elements which could be useful for computer matching involving entitlement programs. For example, data elements in the master file include: (1) social security number, (2) payer identification number, (3) document type, (4) tax year, (5) dollar amounts, (6) ZIP code, and (7) name and address information. We believe that IRS' unearned income master file provides potentially useful, centrally located, and relatively accessible information about individuals' financial assets and income. For example, the unearned income data provide an indication of an individual's financial holdings, such as savings, checking, and other liquid asset accounts. These types of information could be useful in verifying an individual's eligibility for the entitlement programs. The Congressional Budget Office estimates that use of IRS' unearned income data in the Medicaid, Supplemental Security Income, and Food Stamp programs alone would save \$350 million in fiscal year 1986, with a cumulative 5-year savings of \$1.5 billion.³

The IRS information, however, has at least three limitations or disadvantages, one related to data quality and two related to the physical characteristics of the computer file. Data quality has essentially three dimensions: timeliness, accuracy, and reliability. The lack of timeliness is the key limitation of IRS' data. For example, IRS generally does not receive unearned income reports for a tax year before the end of February of the following year. Thus, this information may be anywhere from 2 to 14 months old when reported. Moreover, IRS processing does not result in a relatively complete master file until near the end of the year following the tax year for which the information returns are applicable. In other words, by the time the master file is complete, the unearned income information is an additional 10 months older. It should be recognized that IRS' system for collecting and processing unearned income was not designed to meet the timeliness requirements of the entitlement programs.

At this time, we cannot comment on the accuracy and reliability of IRS' information returns data. We have underway an audit to evaluate IRS' information returns processing systems.

³Analysis of the Grace Commission's Major Proposals for Cost Control, Joint Study by the Congressional Budget Office and the General Accounting Office, February 1984.

One of its objectives is to determine whether these systems contain sufficient internal controls to ensure accurate and reliable data processing. It is important to note, however, that these data are used for administering the tax laws and would not be used as the primary data for determining eligibility or benefits in entitlement programs, but to verify data reported by applicants and recipients.

Another limitation of IRS' information returns data is that they do not contain some elements conducive to sophisticated and effective computer matching techniques. Data elements not found in the unearned income master file, which we have found useful in computer matching projects, are: (1) date of birth, (2) telephone number, (3) sex, and (4) electronic funds transfer number.

The third disadvantage of IRS' unearned income data relates to the size of the master file. As stated earlier, the volume of data in the file is very large and is likely to grow significantly as a result of TEFRA. Use of the master file for computer matching with entitlement program files may require IRS to change its file to a standard format to facilitate the matching. We believe that altering such a large file could require considerable computer processing time. The cost of this conversion could be significant.

SSA data

SSA maintains centralized files of wage, self-employment earnings, and pension payment data. Employers annually report wages and pension payments directly to SSA, while self-employed individuals report their earnings to IRS, which provides the data to SSA. SSA's files contain data elements useful for computer matching. For example, the files contain social security numbers, names, employers' identification numbers, tax years, and the amounts of earnings.

Current laws authorize SSA to provide, upon request, these three types of tax return information to states (and the Department of Agriculture for the Food Stamp program) for use in administering selected entitlement programs. Proposed legislation would make these data available to additional programs for verification of income. To date SSA has provided wage and self-employment earnings data to 18 states, but has not provided pension payment data to any state because none have requested the data.

Current uses

Currently, SSA discloses wage and self-employment data for verification purposes to the AFDC and Food Stamp programs. Nine states that do not have quarterly wage information available from their employment security agencies are required to obtain and use the data in these two programs. Current federal laws do not allow the use of the SSA data in other entitlement programs administered by the states. As recognized in the recently passed Senate deficit reduction bill, other programs could also benefit from the use of these data.

The 41 states that have quarterly wage information available from their employment security agencies may, but are not required to, use SSA's data. They are required only to use the state wage data. Some of these states have elected to use SSA's data to complement their state data. The Senate bill discussed earlier includes provisions that would require all states to collect quarterly wage data and to use both the state and SSA data in AFDC, Food Stamp, Medicaid, and Unemployment Insurance programs. Also, the territories would be required to use the SSA data to administer programs under titles I, X, XIV, and XVI of the Social Security Act. We believe that using both the SSA and state earnings data for verification in entitlement programs would be beneficial, because the SSA data would help compensate for the limitations of state data and vice versa.

Usefulness and limitations

SSA's earnings data are comprehensive in that they include virtually all employees, the military, and the self-employed. From this standpoint they are more useful than the states' earnings data, which cover only nonfederal employees.

The SSA information is less useful than it might be, however, because of its age. Employers and self-employed individuals are required to report earnings information only annually. This limits the usefulness of SSA's data for verification purposes, because earnings information available to verify applicants' and recipients' income may be over a year old. Therefore, from a timeliness standpoint SSA wage data are less useful than state wage data which are collected quarterly. We believe, however, that the SSA data are useful for determining employment in the prior year to provide leads for further verification of income and to help identify people receiving benefits in one state and working in another.

Although SSA has not provided its pension payment data to agencies for verification in entitlement programs, it maintains a centralized file of such data. It also maintains the only centralized self-employment earnings information outside IRS. Without access to this centralized information, it is difficult, if not impossible, for entitlement program managers to verify reported or identify unreported pension payments or self-employment earnings.

Again, we believe that entitlement programs would benefit from using all three types of SSA data and state wage data. Even if all states begin collecting quarterly wage data, SSA's data should be used periodically because SSA collects more comprehensive wage data and maintains centralized data on self-employment earnings and pension payments. Programs in addition to those included in the Senate bill could also benefit from use of the data. For example, programs with erroneous payments because of underreported income or assets, such as the Veterans Administration pension program, could also be considered as candidates for using the data.

PRIVACY AND DUE PROCESS CONSIDERATIONS

We believe that agencies receiving tax return information from IRS and/or SSA should be required to adequately safeguard the confidentiality of the data and to recognize individuals' due process rights in using the data. Laws and regulations governing the tax return data currently used in entitlement programs for verification (SSA wage and self-employment earnings data) require such safeguarding and recognize individuals' due process rights. Both the recently passed House and Senate bills, discussed earlier, include safeguarding provisions similar to existing law and to varying degrees include more explicit due process provisions. We have not assessed the implementation of current safeguarding requirements, but believe federal monitoring is necessary to ensure adequate protection of privacy.

The Tax Reform Act's provisions for safeguarding data, supplemented by the Social Security Act, apply directly or indirectly to data currently disclosed to entitlement programs. The Tax Reform Act requires all agencies receiving tax data to, among other things, maintain a system to account for disclosures, maintain a secure storage area for the data, restrict access to the data, and either return the information to IRS or properly dispose of it upon completion of its use. These provisions apply directly to SSA data provided to states for the Food Stamp program because the authority for release of the data

is included in the Tax Code. The Social Security Act, however, provides the authority for the release of SSA data for use in the AFDC program. This act includes a general provision for safeguarding the data. IRS, however, considers the Tax Code provisions to also apply to the data released under the Social Security Act, because they apply to SSA as a federal agency described in the Tax Code.

Regulations covering the transfer of SSA data for use in the AFDC and Food Stamp programs require the states to negotiate written agreements with SSA governing the use of the data. These agreements must provide for safeguards, including computer security, limiting release or redisclosure of the information. However, because the authority to release the data comes from a different source for each program (the Tax Code for Food Stamp and the Social Security Act for AFDC), the regulations require each state to negotiate two agreements to obtain the SSA data. The agreements for the Food Stamp program must refer to the IRS guidelines implementing the Tax Code provisions for safeguards. The agreements for the AFDC program must include safeguards contained in separate SSA regulations on protecting wage data.

The Senate bill under consideration would place all disclosure authority for tax data under the Tax Code and thus would encourage uniform procedures for state agencies to follow in obtaining and safeguarding tax return information. We believe one agreement would be preferable, especially since the same state agency usually administers these two programs.

We inquired about SSA's monitoring of the states' adherence to their agreements and were told by SSA officials that the agency is developing guidelines for monitoring, but to date has not reviewed any state's procedures to comply with the agreements. We believe that monitoring the use and safeguarding of disclosed tax data is an important part of privacy protection, particularly as more information may soon be provided to federal and state agencies. We plan to review SSA's development and implementation of its guidelines.

SSA uses its Beneficiary and Earnings Data Exchange (BENDEX) system to disclose earnings data to states with which it has written agreements. The primary purpose of BENDEX is to provide states with Social Security benefit information on a monthly basis; however, states with wage disclosure agreements may request the addition of wage data.

To receive these data, states send their AFDC or Food Stamp recipient files to SSA, which matches them against its earnings

files. Whenever matches occur, the earnings are annotated on the BENDEX file for transfer to the state. This exchange procedure, whereby the requesting agency sends its file to the source agency, is important to ensure that no unnecessary personal data are disclosed.

Use of data once obtained by agencies for income and asset verification raises privacy and due process questions beyond those related to safeguarding the data. These issues relate to involving individuals in the verification process and to helping ensure that benefits are not terminated improperly. For example, provisions that we believe are important include

- individuals applying for benefits should be informed that tax return information will be obtained to verify their eligibility;
- individuals should have access to any information about them that the agency obtains for the purpose of verification;
- no benefits should be terminated solely on the results of a manual or computer match; rather, the results should be confirmed by the agency administering the program; and
- the recipient should have the opportunity to refute any information before it is used to affect his or her benefits.

The security aspects of any agreements or procedures to transfer data are particularly important. Providing a reasonable level of information security in today's technological environment is a formidable challenge because the range of vulnerabilities is increasing. In addition, expanded opportunities for access to return information increase the risks of unauthorized disclosure. We believe this problem is technically solvable, but any solution requires management awareness and commitment to ensuring that proper controls are in place and procedures are followed.

GUIDELINES FOR COMPUTER MATCHING

The process of disclosing and comparing large files of automated information, such as tax data and entitlement program recipient rolls, and following up on the results of the comparison generally falls under the heading of computer matching. As stated in testimony in December 1982, we believe that computer matching can be a very cost-effective tool for detecting error

and fraud in entitlement programs and for identifying actions needed to strengthen program controls.⁴ As a form of internal control, it can be a very effective deterrent to fraud and waste if it is common knowledge that it is being used. We continue to endorse its use with the understanding that the privacy and due process rights of individuals will be protected. In particular, we believe it is essential that the results of computer matching ("hits" from matching two or more data sets) be confirmed before any action is taken regarding an individual's eligibility.

The increasingly widespread use of computer matching by federal and state agencies has raised concerns about guidelines for conducting the matches. Many of these concerns center around the cost effectiveness of the matches and the adequacy of procedures to protect individual privacy and due process rights when following up on matching "hits." The Office of Management and Budget (OMB) has published several documents that provide guidance for federal agencies' matching efforts. Only limited federal guidance is available to states administering federal programs. We have not assessed any of these guidelines in detail but have some limited observations about them. We also have several observations that may be useful to others based on our experience with computer matching.

OMB's matching guidelines are intended to help agencies relate the procedural requirements of the Privacy Act of 1974 to the operational requirements of computer matching. Federal agencies are required to follow these guidelines. We believe that the OMB guidelines are important because compliance with them would help assure uniform adherence to key provisions of the Privacy Act. The guidelines can be improved in several ways, however, including

- extending their coverage to computer matches that are aimed at verifying eligibility of persons before payments are made (so-called up-front matching),
- placing more emphasis on the follow-up of hits, and
- placing more emphasis on determining the appropriateness of doing matches to help avoid unproductive matches.

⁴Statement before the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, on Computer Matching to Detect Error, Waste, and Fraud in Government Programs, December 16, 1982.

The second document OMB has issued is an "Agency Computer Match Checklist," which federal agencies are required to complete for each computer match. The checklist is intended to help agencies comply with OMB's computer matching guidelines and must be kept on file for review by OMB, GAO, and others.

OMB has also issued a "Model Control System and Resource Document" for computer matching. This document is intended to help federal agencies develop and maintain adequate internal controls over the approval and conduct of computer matching activities. Although OMB does not require that agencies use the model system, agencies must justify not using it. We have not analyzed this system, but did note that the procedures for following up on hits resulting from computer matching do not appear to involve the individuals suspected of receiving erroneous payments. We believe this is an important aspect of computer matching.

The only federal computer matching guidelines for the states of which we are aware were published in November 1983 by the Inspector General of the Department of Health and Human Services (HHS). The purpose of these guidelines is to provide state managers of federal programs with some practical guidance on how to approach cost-effective computer matching. As stated in the introduction to the document:

"It focuses on the three major benefit programs administered by state government - AFDC, Food Stamps and Medicaid. It reflects a strong conviction that computer matching can contribute to the efficiency and effectiveness of these programs. At the same time, however, it recognizes the dangers associated with the indiscriminate use of computer matching."

Contrasted with the OMB model control system, the HHS guidelines are more conceptual than technical because, as HHS stated, they are intended to serve as a decisionmaking framework, rather than a how-to manual.

We believe that the HHS guidelines are a significant step toward assuring that computer matches are done consistently across states. Consistency is important because recent inventories by HHS and the Department of Labor showed that during the 1982-83 time frame, states conducted about 1,300 computer matches (each match generally involves many individuals). Sixty-five percent of these matches involved the AFDC and Food Stamp programs.

We have not developed official computer matching guidelines of our own. Over the past several years, however, we developed our own matching software and have gained extensive computer matching experience involving a variety of agencies and programs. Based on this experience, several observations are offered for consideration by others in achieving their computer matching objectives while giving consideration to the due process and privacy rights of individuals.

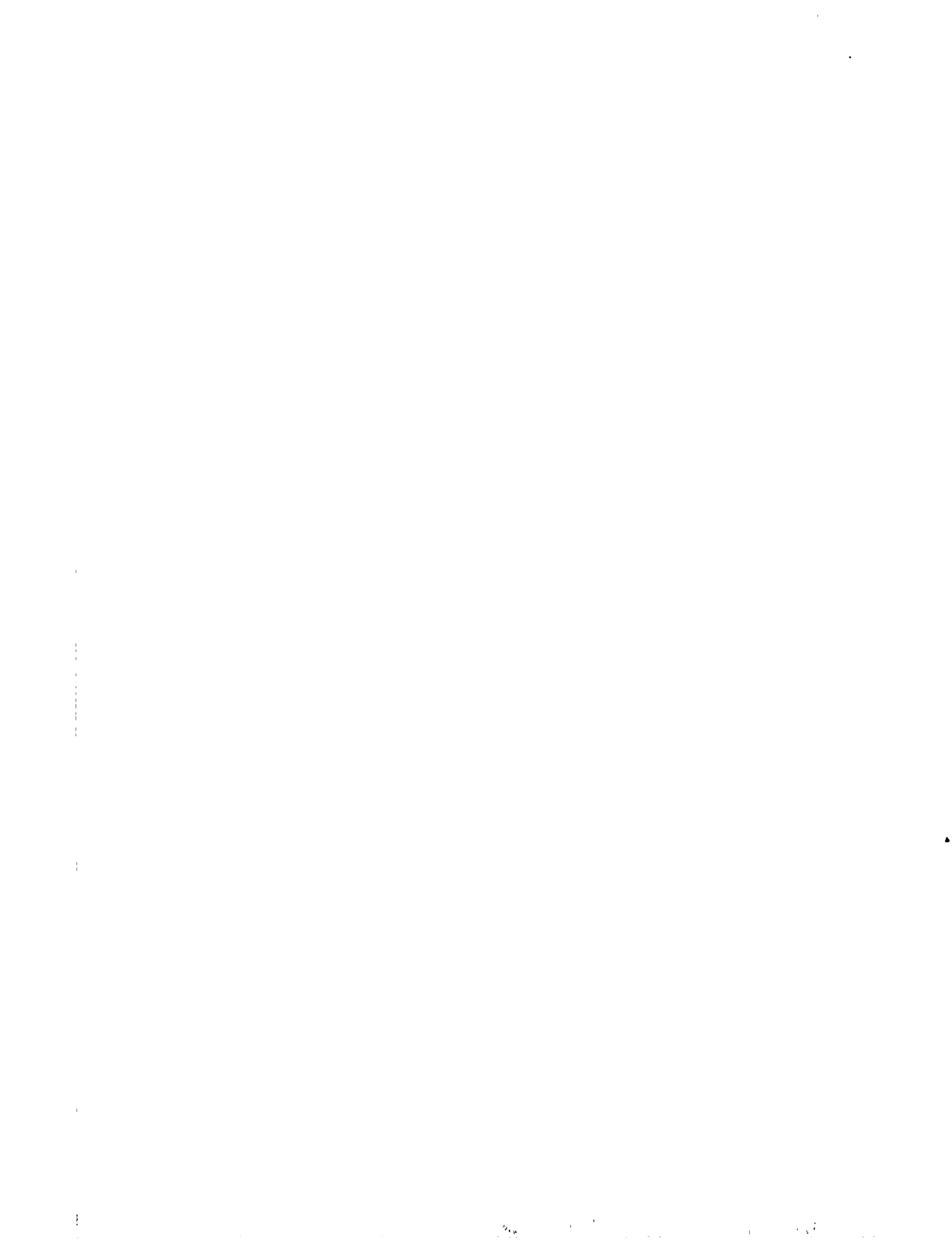
The term computer matching hits refers to those instances where the computer has determined, according to some predefined criteria, that a similarity or difference exists in selected data within a file or between two or more files. Hits may be of varying quality in that the selected data are not determined to be an exact match. Therefore, adequate procedures to refine or confirm the hits are essential.

To recognize this aspect of non-exact matches, our matching software has the capability to indicate the quality of a match or hit. One advantage of this is that the universe of matches can be divided into working subsets. This flexibility facilitates the follow-up on matching. For example, high quality hits generally require less verification effort than low quality hits. This method also helps prioritize matches for review.

We believe that it is essential to utilize all sources of data and expertise available to refine or confirm hits. The refinement process requires a combination of judgment, experience, and research built upon a detailed knowledge of the legal and regulatory requirements of the programs being matched. Such a process helps assure that only hits with high potential for erroneous payments are referred to program managers for further investigation and corrective action. We believe that referral of only refined quality hits to program managers builds credibility in the computer matching process. More importantly, it improves the chances that the investigations will identify and eliminate erroneous payments and lead to the collection of overpayments.

When planning to conduct a computer matching project, one of the most difficult questions to answer is whether or not the effort will be worthwhile. While our experience has shown that the benefits generally far outweigh the cost of a match, it is difficult to predict the likely outcome of any given computer matching project.

(105421)



20460

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300**

**POSTAGE AND FEES PAID
U S GENERAL ACCOUNTING OFFICE**



THIRD CLASS