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BY THE COMPTROLLER GENERAL

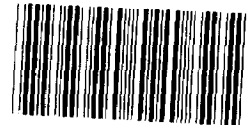
# Report To The Congress

OF THE UNITED STATES

## Millions Can Be Saved By Improving The Productivity Of State And Local Governments Administering Federal Income Maintenance Assistance Programs

In this report, GAO identifies millions of dollars associated with the use of inefficient procedures in administering three Federal income maintenance assistance programs--Unemployment Insurance, Aid to Families with Dependent Children, and Food Stamps. The millions identified appear to represent only a small percentage of the potential for savings that could be realized if systematic approaches and incentives to increase productivity were employed in these programs.

Currently, the Federal assistance system lacks mechanisms to hold managers accountable for productivity improvement or to reward those who meet or exceed productivity goals. Yet, such mechanisms are essential if the potential improvements GAO identifies are to be attained.



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AFMD-81-51  
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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-202884

To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses changes needed in the Federal assistance system to encourage productivity improvement in State and local governments administering Federal assistance programs. In particular, this report addresses the need for controlling administrative costs and eliminating inefficient practices in three Federal income maintenance assistance programs--Unemployment Insurance, Aid to Families with Dependent Children, and Food Stamps. We found great potential for saving Federal assistance dollars if State and local governments employed more efficient operating procedures in these programs.

We are sending copies of this report to the Secretaries of Labor, Health and Human Services, and Agriculture and to the Directors of the Office of Management and Budget and the Office of Personnel Management.

A handwritten signature in black ink that reads "Milton J. Fowler".

Acting Comptroller General  
of the United States



COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

MILLIONS CAN BE SAVED BY  
IMPROVING THE PRODUCTIVITY OF  
STATE AND LOCAL GOVERNMENTS  
ADMINISTERING FEDERAL INCOME  
MAINTENANCE ASSISTANCE PROGRAMS

D I G E S T

Productivity is a measure of individual or organizational performance. It means obtaining more and better output from a given level of resources or using fewer resources to obtain the same or additional output, while maintaining a certain quality level. (See p. 24.)

In this report, GAO identifies potential savings of millions associated with the use of inefficient procedures by State and local governments administering the Unemployment Insurance, Aid to Families with Dependent Children, and Food Stamp programs. (See ch. 3.) GAO believes these three programs demonstrate the potential for productivity improvement and cost savings in the administration of these and other Federal maintenance assistance programs.

The Federal Government has a stake in State and local government productivity for two reasons--the national economy is strengthened by productivity improvement and the efficiency of State and local governments directly affects the costs of the Federal assistance programs they administer. (See p. 1.)

FEDERAL METHODS FOR DISTRIBUTING  
FUNDS DO NOT ENCOURAGE  
PRODUCTIVITY IMPROVEMENTS

Federal methods for allocating and distributing funds in the income maintenance assistance programs GAO reviewed neither reward nor encourage productivity improvements. Instead, these systems serve primarily as mechanisms for justifying how limited resources are allocated to the States, with little, if any, regard as to how efficiently these resources are used. In addition, most Federal evaluations and oversight activities address only the allowability of costs and compliance with regulations and do not consider productivity or efficiency.

Neither the Department of Health and Human Services nor the Department of Agriculture has implemented approaches to help States determine staff needs or control administrative spending in the Aid to Families with Dependent Children and Food Stamp programs. Further, neither agency has provided adequate technical assistance to develop programs and systems to improve productivity. (See p. 4.)

The Department of Labor, on the other hand, has established the Cost Model Management System in an effort to make Unemployment Insurance program administration more efficient, control administrative costs, and provide technical assistance to the States. Although conceptually sound, poor management, weak budget controls, and lack of incentives undermine the system, causing it to fall far short of its goal. (See pp. 4 and 7.)

OPPORTUNITIES EXIST  
TO IMPROVE PRODUCTIVITY

The millions of dollars associated with inefficient procedures identified by GAO demonstrate a considerable potential for productivity improvement in Federal maintenance assistance programs. Specifically, these procedures include:

- Issuing unemployment insurance benefit checks biweekly instead of weekly, which can reduce costs by about \$15 million. (See p. 14.)
- Reducing the number of home visits to welfare clients, which can save a substantial portion of the \$34 million it now costs 20 States to conduct these visits. (See p. 16.)
- Maximizing the use of available computer capability which can save over \$4 million in one State alone. (See p. 15.)

GAO believes that these and other improvements identified in this report illustrate the potential for savings that could be realized if these Federal assistance programs were administered more efficiently. Eliminating these inefficiencies would increase productivity because fewer resources would be needed to provide the same or a similar level of client services without adversely affecting the quality of these services.

THE NEED TO DEVELOP MEASUREMENT SYSTEMS  
AND TO PROVIDE INCENTIVES FOR IMPROVING  
PRODUCTIVITY

Work measurement systems provide mechanisms for developing goals and evaluating progress. Without these tools, holding managers accountable is difficult. (See p. 24.) Yet few Federal assistance programs have systems to measure and improve productivity.

The Federal assistance system, moreover, generally provides no incentive to States and their employees to improve productivity. Instead, the system tends to serve as a disincentive because Federal agencies do not consider productivity in distributing funds. GAO believes that incentives are needed at two levels--organizational and individual. First, States should be rewarded for meeting and exceeding productivity goals. Second, any rewards to States should be shared with individuals--both managers and workers, for few people will be motivated to improve if they cannot share in the rewards. (See p. 27.)

FEDERAL GOVERNMENT'S INCREASING EMPHASIS  
ON COORDINATING FEDERAL ASSISTANCE AND  
PUBLIC SECTOR PRODUCTIVITY

The Office of Management and Budget (OMB), and the Office of Personnel Management (OPM), are taking the lead in efforts to better coordinate Federal assistance policies and to improve public sector productivity. (See pp. 31 and 32.)

OMB is assuming a stronger leadership role in an attempt to establish a comprehensive system of governmentwide guidance for Federal assistance programs. GAO believes that in this expanding role, OMB should directly encourage the development and use of productivity improvement systems where appropriate in the Federal assistance system. (See p. 34.)

OPM is developing programs to promote Federal, State, and local government productivity. The programs focus on such areas as developing and using productivity measures, increasing the management capabilities of States, and providing information on methods to help identify productivity improvements. Although it is early to evaluate the program, GAO believes it is a step in the right direction. GAO also believes,

however, that OPM should expand its focus to include productivity improvement in the Federal assistance system. (See p. 34.)

### CONCLUSIONS

The Federal Government can have a significant impact on State and local government productivity by establishing accountability mechanisms for productivity improvement in Federal assistance programs. Realizing productivity improvements can help both the Federal Government and the States meet the growing fiscal pressures in providing services through the Federal assistance system. Moreover, States may be encouraged to extend productivity improvement systems to State funded programs to more fully participate in the benefits of reduced costs and increased productivity.

### RECOMMENDATIONS

The Director, Office of Management and Budget should:

- Require, where appropriate through the budget process, that Federal agencies develop systematic approaches to assist State and local governments improve their productivity in administering Federal assistance programs and that agencies use the data generated by these systems to justify future budget requests.
- Develop, with the assistance and support of OPM, an interagency program to explore the potential for establishing incentive systems in Federal assistance programs for State and local governments.

The Director, Office of Personnel Management should: 1/

- Place priority on efforts to assist State and local governments develop measurement and

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1/Just prior to releasing this report, GAO learned that the current administration is planning some actions that will reduce OPM's involvement in State and local productivity efforts. GAO believes that this report's recommendations are still valid, however, given OPM's charge as Federal lead agency for public sector productivity.



incentive programs to improve their administration of Federal assistance programs.

- Work with Federal agencies overseeing assistance programs administered by State and local governments in order to improve and to monitor those agencies' technical assistance efforts in productivity improvement.

The Secretaries of Labor, Health and Human Services, and Agriculture should:

- Work with States to identify opportunities for eliminating inefficient procedures and improving their productivity in administering the Unemployment Insurance, Aid to Families with Dependent Children, and Food Stamp programs.

- Seek authority from the Congress to develop and fund demonstration projects testing approaches for providing States with incentives for making productivity improvements in these programs.

- Report to OMB on successful incentive systems so that they can be shared and transferred to other Federal assistance programs.

The Secretaries of Health and Human Services and Agriculture should:

- Develop and implement systematic approaches to measure, analyze, and improve the productivity of State and local governments administering their programs.

- Use the data generated by those systems to allocate administrative funds to States.

In addition, the Secretary of Labor should take actions necessary to correct deficiencies in the Cost Model Management System and to refine the system as a productivity improvement program.

#### AGENCY COMMENTS

OMB agreed that productivity improvement should be a high priority at all levels of Government but asserted that the productivity efforts GAO describes are the primary responsibility of State and local governments. While agreeing that basic assistance management responsibility rests with

State and local governments, GAO believes that the Federal Government has both a vital interest in and responsibility for encouraging State and local productivity improvement. (See p. 36.) OMB stated that the report overgeneralized from a limited sample of income maintenance programs and pointed out that GAO's recommendations should reflect the intergovernmental partnership of assistance programs. Some changes have been made in the report to reflect this view. OMB also referred to a recent GAO report on matching and maintenance requirements and suggested that the incentive value of matching be considered in this report. GAO has added a brief section to the report to address this issue. (See pp. 38 and 39.) Finally, OMB questioned whether GAO was recommending a shift in technical assistance emphasis away from programmatic areas. No such shift is proposed. Rather, this report illustrates the great potential for productivity improvement and administrative cost savings in Federal assistance programs that should be pursued by Federal agencies. (See p. 39.)

OPM and the Department of Labor generally agreed with GAO's recommendations and noted their plans in assisting State and local productivity improvement. (See pp. 39 and 42.)

The Department of Health and Human Services disagreed with GAO's recommendation that data generated by productivity measurement systems be used in the budget process but agreed in general with all other recommendations. GAO believes that the use of productivity data in the budget process is necessary for achieving accountability in Federal assistance programs. (See pp. 40 and 41.)

The Department of Agriculture provided comments too late for inclusion in this report.

A detailed analysis of agency comments appears in chapter 5.

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## ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
CMMS	Cost Model Management System
HHS	Health and Human Services
GAO	General Accounting Office
IPA	Intergovernmental Personnel Act
MPU	minutes per unit
OICE	Operational Improvement and Cost Equalization
OMB	Office of Management and Budget
OPM	Office of Personnel Management
UI	Unemployment Insurance



## CHAPTER I

### INTRODUCTION

Increasing productivity--a measure of individual or organizational performance--has long been recognized as vital to a strong national economy. As State and local governments have assumed positions of enormous economic importance, their productivity has become a matter of growing national concern. In 1979, State and local budgets accounted for 13 percent of the gross national product. Today one of every six persons in the work force is employed by government, with State and local governments accounting for 80 percent of all public employment.

Improving State and local government productivity can help fight inflation and strengthen the economy. It can also help to control government spending in a time of increasing pressure against raising taxes and expanding government services.

The Federal Government has an important stake in the performance of State and local governments because the efficiency and effectiveness of these governments directly affect the costs of Federal assistance programs. These program costs exceeded \$82 billion in fiscal 1979 and are estimated at \$91 billion for fiscal 1981.

In our report entitled "State and Local Government Productivity Improvement: What Is The Federal Role?" (GGD-78-104, Dec. 6, 1978), we concluded that one way the Federal Government can help State and local governments improve their productivity is by making fundamental changes in the Federal assistance system to remove negative barriers and promote positive incentives for productivity improvements.

This report focuses on changes needed in certain Federal assistance programs to improve productivity. We selected for review three State-administered programs whose administrative costs are fully paid or shared by the Federal Government--Unemployment Insurance (UI), Aid to Families with Dependent Children (AFDC), and Food Stamps. We did not review each program in depth but rather attempted to identify common functions and tasks where productivity improvements could be achieved. The programs were selected because they are repetitive in nature, similar in operation, and national in scope. We believe these particular programs offer significant potential for productivity improvement and cost savings. Although criteria may differ, the programs have two principal functions in common--determining eligibility and making payments. We also believe that these programs may demonstrate the potential for productivity improvement and cost savings in other assistance programs as well.

GENERAL INFORMATION ON PROGRAMS  
SELECTED FOR REVIEW

AFDC, Food Stamps, and UI are three major Federal assistance programs, classified as income maintenance programs. In fiscal 1979, Federal outlays for income maintenance programs totaled \$160 billion. About \$133 billion was for federally administered programs such as Social Security. The remaining \$27 billion went to State-administered programs, of which AFDC, UI, and Food Stamps accounted for 88 percent or \$24 billion. Administrative costs of these three programs--the focus of our review--totaled about \$3 billion in fiscal 1979.

Unemployment Insurance

Unemployment Insurance, a Federal-State program under the purview of the Department of Labor, provides temporary income to unemployed workers. The program essentially strives to maintain the purchasing power of laid off workers and thus help stabilize the economy. For fiscal 1979, unemployment compensation payments were about \$8.6 billion, while program administrative costs, which are paid in full by the Federal Government, were roughly \$1 billion.

Aid to Families with Dependent Children

AFDC is one of the largest federally aided public assistance programs. Administered by the States in cooperation with the Department of Health and Human Services (HHS), the program provides financial assistance to needy dependent children and families without sufficient income to maintain themselves. In fiscal 1979, Federal and State payments for AFDC were about \$10.8 billion, of which the Federal share was roughly 54 percent or \$5.8 billion. Administrative costs, which are shared about equally by the States and the Federal Government, were about \$1.3 billion for the same period.

Food Stamps

The Food Stamp program helps low income individuals and families obtain food. The States, in cooperation with the Department of Agriculture, administer the program. The Federal Government pays all of the program costs and shares the administrative costs with the States. In fiscal 1979, program costs totaled \$6.5 billion and administrative costs roughly \$670 million, of which the Federal Government absorbed about 50 percent or \$335 million.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was twofold: first, to demonstrate that many opportunities exist for improving productivity in State and local management of Federal income maintenance assistance programs and that these improvements can reduce costs, improve



efficiency, and enhance program effectiveness; and secondly, to identify the changes necessary in these Federal assistance programs to promote productivity improvements. As noted earlier, we did not attempt to identify and address in detail the full range of extant administrative inefficiencies in the UI, AFDC, and Food Stamp programs.

Our review was performed at the headquarters of the Departments of Labor, HHS, and Agriculture, as well as at State and local offices. Work was also conducted at the offices of these Federal agencies in Regions I, V, VI, IX, and X. We examined the methods by which those agencies allocate administrative funds to States to determine what impact, if any, the methods have on efficiency. Similar work was conducted in eight States which were selected to represent geographic and demographic dispersion. These States were Massachusetts, Rhode Island, Louisiana, Texas, Michigan, Washington, Oregon, and Hawaii.

We visited 14 local UI offices in seven of the eight States, and 14 local offices administering either AFDC or Food Stamps in five of the States. To identify potential productivity improvements, we flow charted local office operations, reviewed operating manuals and procedures for processing claims and benefits, and interviewed key officials at the Federal, State, and local levels. We also interviewed caseworkers, clerks, first-line supervisors, and office managers in local offices. The costs of using procedures we identified as inefficient are based on work measurement and operational analysis techniques discussed in chapter 4. Because of the time and costs required for statistical sampling in each program, we generally based our projections on professional estimates and judgments. Our projections are not absolute since our objective was to demonstrate the vast potential for improvement, and not to develop detailed cost estimates.

We reviewed literature on productivity as well as textbooks on techniques for measuring and improving efficiency. We also discussed current and planned Federal assistance and productivity efforts with officials from the Office of Personnel Management (OPM) and the Office of Management and Budget (OMB).

In chapter 2, we discuss Labor's, HHS's, and Agriculture's efforts to measure and improve administrative efficiency through fund allocation procedures and technical assistance. We concentrated on Labor's Cost Model Management System because it is a comprehensive system with both the potential for improving productivity and the possible transferability to other assistance programs. In chapter 3 we demonstrate the potential for productivity improvements in Federal income maintenance assistance programs, and in chapter 4 we explain the essential elements of a program to promote accountability for improving productivity.

## CHAPTER 2

### FEDERAL MECHANISMS FOR CONTROLLING AND MANAGING

#### ADMINISTRATIVE FUNDS DO NOT EFFECTIVELY

#### ENCOURAGE STATES TO IMPROVE PRODUCTIVITY

Systems for allocating UI, AFDC, and Food Stamp administrative funds do not encourage improved productivity and, in fact, serve as disincentives to productivity improvement. Federal agencies responsible for overseeing these programs have not adequately focused on productivity, nor have they provided sufficient technical assistance in measuring and improving productivity. Rather, these agencies have been primarily interested in developing mechanisms to justify the allocation of limited resources, without regard to whether the limited resources are being used efficiently.

Neither HHS nor Agriculture has in place any systematic approach for helping States determine staff needs or for controlling or allocating administrative spending. Further, neither Department has provided States adequate technical assistance to measure and improve productivity, though some efforts are now underway in HHS to develop productivity measures. Labor, on the other hand, has established a measurement system in an effort to make UI administration more efficient and to control administrative costs. Through this system, Labor, in effect, provides technical assistance to States. Although conceptually sound, poor management, weak budget controls, and lack of incentives undermine the system, causing it to fall far short of its goals.

#### WEAKNESSES IN AFDC AND FOOD STAMP FUNDING METHODS AND TECHNICAL ASSISTANCE

Although the Federal Government absorbed about 50 percent of the \$1.3 billion in AFDC and \$670 million in Food Stamp administrative costs in fiscal 1979, neither HHS nor Agriculture has systems in place to effectively control administrative costs. These agencies, while allowing States to determine personnel needs, have not established criteria to evaluate staffing levels--the major portion of administrative costs. Furthermore, HHS and Agriculture have not provided adequate technical assistance to the States to help them improve their productivity. To the extent that technical assistance is provided, it usually concentrates solely on programmatic issues, such as payment timeliness, error rate reduction, fraud control, and client service, and does not consider administrative issues, such as efficiency and cost control.

#### Funding disincentives to productivity improvement

Federal oversight generally entails budget reviews and post-audits to assure that costs are charged in accordance with program

requirements. Because Federal funding formulas do not take productivity levels into account, States receive no Federal recognition or reward for achieving cost savings with Federal funds. Moreover, no limits are placed on reimbursable costs, nor is the efficiency of operations addressed in postaudit reviews. For example, if a State has 2,000 workers servicing the AFDC program, the Federal Government will reimburse 50 percent of the costs regardless of whether the agency could function as well with fewer employees. If this State then reduces staff by 100, Federal funding is reduced proportionately. A draft study of the Food Stamp program by a contractor demonstrates the effect of such a policy. The 1980 study estimated that, even though the program is administered nationwide under uniform policies and regulations, the costs per case in fiscal 1978 ranged from roughly \$40 in one State to \$337 in another--an 843-percent variance. While some portion can be attributed to differences in reporting, allocation methods, and salary levels, the variation remains largely unexplained.

#### Limited technical assistance efforts

Despite wide variations in AFDC and Food Stamp administrative costs, HHS and Agriculture have not established technical assistance programs designed specifically to improve the productivity of these programs. In recent years, however, the agencies have initiated some limited efforts to develop systems for controlling administrative funds.

In 1976, Agriculture provided funding to help Texas design and test a standard method for processing Food Stamp cases in local offices. The project included a review of procedures, form design, organization of files, and local office layouts for efficiently handling Food Stamp cases. Although implemented in four pilot offices, no local offices in Texas adhere strictly to the standard methods. Texas officials explained that the State agency administering Food Stamps has little power to enforce standard operating procedures in local offices because of decentralized management. They also stated that changes in the Food Stamp program, along with implementation of a new computer system, postponed adoption of the standard methods. For the present, Agriculture's support in this effort is limited to providing information to other States and offering the standard method as an option for administering the Food Stamp program.

Under Section 17 of the Food Stamp Act of 1977, Agriculture is authorized to fund demonstration and pilot projects to help improve the administration and effectiveness of the Food Stamp program. For the most part, however, these efforts have been directed toward programmatic, quality control issues and not administrative efficiency or cost control. Agriculture officials in both Washington and the regions stated that agency attempts to improve administrative efficiency and productivity are generally

stymied by frequent changes in the Food Stamp statute. As a result, Federal officials spend the majority of their time developing policy guidance and training State staff on policy implementation. Thus, productivity has not been a primary concern in the management of the Food Stamp program.

On the whole, HHS's efforts to provide technical assistance to control AFDC administrative costs have been greater in number and more expansive than Agriculture's efforts in the Food Stamp program. In fact, Agriculture has joined in one particular HHS project because of the potential benefits transferable to the Food Stamp program. The project, which is in progress, was implemented in fiscal 1979 when HHS hired a consulting firm to simulate the effects of policy and procedural changes on carrying out AFDC administrative tasks. When fully developed, the model should project how decisions on administrative policies and procedures affect eligibility determination, service promptness, administrative costs, local office productivity, and eligible household participation rates. The model should also help analyze the impact of Federal regulatory changes on administrative performance. According to an HHS official, the model, which will take several years to perfect, will be offered to States as a tool for controlling costs and improving program effectiveness and efficiency.

As in the case of Agriculture, HHS has authority under Sections 1110 and 1115 of the Social Security Act to fund research and demonstration projects related to improving the administration of AFDC and other welfare programs. Current funding efforts include (1) an experimental design to measure the impact of administrative practices on the AFDC program and (2) a pilot test and evaluation of selected administrative innovations, such as new training techniques and prompt action control procedures. In addition, HHS has a project underway to identify nationwide measures of AFDC administrative performance covering cost efficiency, quality of client service, and program accuracy. The results will be used to develop preliminary standards or goals of performance for each State administering the AFDC program.

With the December 1978 creation of a Welfare Management Institute, HHS is presently attempting to expand its technical assistance to States. Staffing for this Institute was completed in November 1979. The Institute's principal functions include (1) operating a clearinghouse to identify and disseminate exemplary management practices by State and local governments and (2) encouraging technology transfer to assist these governments in three areas--human resource management, work process design, and workload control. The Institute has held several conferences for States on work measurement and workload simplification. Currently, the Institute is focusing on quality control issues and, in particular, error rate reduction. According to an HHS official, however, the Institute does hope at some later date to concentrate on other management issues.

It is too early to assess the impact or success of HHS's recent research and demonstration projects and its new Welfare Management Institute on State and local administration of the AFDC program. Although these efforts are still primarily geared toward quality control concerns, such as the accuracy of eligibility determinations, and place less emphasis on administrative efficiency or productivity, they are a first step in expanding technical assistance to States to improve the administration of the AFDC program.

#### PROBLEMS IN MANAGING AND APPLYING LABOR'S COST MODEL MANAGEMENT SYSTEM

Labor developed the Cost Model Management System (CMMS) in response to OMB pressure in the late 1960s to explain variations in costs among States for processing UI claims. Because Labor was unable to provide sufficient factual data to support UI budget requests, Labor experienced OMB-imposed budget cuts during this period and through the early 1970s. To redress this situation, Labor sought, with OMB's encouragement, a new approach to the budgeting and resource allocation process.

Originally designed as a means for managing UI resources, budgeting, and allocating funds among the States, CMMS has evolved as an ongoing information system to promote more efficient resource utilization within State UI operations. The system consists of three distinct, but related, components to monitor and control administrative costs and improve performance.

The first component is a work measurement or cost model study which measures the time required to accomplish various UI tasks. This time, referred to as minutes per unit (MPU), is used in conjunction with projected workloads to determine staffing levels and funds needed to administer the UI program. The second component involves comparative analyses of States' procedures through Operational Improvement and Cost Equalization (OICE) projects, to identify procedures that are most economical and efficient and to encourage their application in other States. The third component of CMMS is the continuous monitoring of program administration through reports comparing staff allocations based on MPUs and actual staff used. These reports establish the basis for actual funding of administrative costs. Operational deficiencies in each of these components, however, impair CMMS's usefulness as an effective management tool.

#### Deficiencies in developing and using cost model study results

The major objectives of the UI cost model studies are to help determine accurate staffing requirements and estimate the funds needed to administer the program. Each State records actual time expenditures and production counts in selected offices during an established study period to develop the MPUs required to process

a claim and pay benefits. The data developed during some studies, however, is questionable and largely ignored or manipulated in the budget process.

#### Unreliable cost model study MPUs

Although the studies are conceptually sound, measured times to perform tasks are sometimes invalid because of inadequate monitoring during data collection. We found instances where:

- The number of MPUs reported to complete the same tasks at different offices but within the same State varied by as much as 200 percent.
- Offices were actually overstaffed because they performed special projects and added procedures not normally required and, therefore, were not representative of other offices in the State.
- Daily time records were either missing or not posted, and summary sheets were tabulated incorrectly.
- Staff time reported for study tabulations exceeded time reported for payroll records by as much as 2 hours per individual per day.
- Study workload counts varied from 12 percent less to 46 percent more than official counts submitted to Labor for funding purposes.

Despite the fact that these problems tend to distort study MPUs, State UI officials generally were unaware of the variances until we pointed them out, and the officials could not explain their causes. These problems indicate inadequate control and monitoring of cost model studies, not only at the State level but also at the Federal level. Labor officials generally acknowledged that their monitoring has not been as close as it should be. According to State and Federal officials, some Labor regional offices do not have a sufficient number of monitors. Further, with some exceptions, these monitors are not sufficiently knowledgeable of CMMS to assure that the MPUs are reliable. Inaccurate MPUs can lead to inequitable or inaccurate funding of administrative costs.

#### Limited use of MPUs in the budget process

The total Federal appropriation for UI administration has not been sufficient to fund each State at its cost model MPU. As a result, Labor assigns each State an MPU based on its cost model MPU and adjusted for available resources. Accordingly, each State generally receives less Federal funding under the Labor-assigned MPU than its cost model MPU indicates. These assigned MPUs are then used by each State to determine staff requirements at the State's estimated workload level.

In practice, the relationship between staff requirements based on MPUs and actual operations is negated because resources can be reallocated between overhead and payroll accounts and between the Employment Service and Unemployment Insurance Service. The relationship is further obscured because underruns in one or more of the four major UI claims activities can cover overruns in the others. For example, one State was able to offset a \$1.5 million deficit due to overstaffing in fiscal 1978 by delaying equipment purchases and local office remodeling, transferring funds from the Employment Service program to the UI program, and obtaining supplemental funds from Labor. In fiscal 1979, this State was able to reallocate about 16 staff-years among various activities, adding over \$250,000 to its resources. Another State offset an \$800,000 fiscal 1978 deficit by using interest on employer UI taxes, together with penalties and damages collected under the State's employment security act.

Deficiencies in applying operational  
and cost improvement projects for  
comparative analyses

Labor instituted the Operational Improvement and Cost Equalization projects to identify economical and efficient procedures used by various States and in turn to recommend the application of these efficient practices in other States. Once States adopted more efficient and economical procedures, administrative cost savings should have occurred, making Labor's job of allocating limited funds easier. However, the OICE projects have not been successful because of management weaknesses in the control of the projects. Consequently, they have had a minimal effect on improving efficiency and no effect on productivity as measured by staffing levels funded by Labor.

OICE projects bring UI program and cost model representatives from the States together to analyze the procedures used in each State. In groups of about seven, the representatives discuss each State's procedures and vote on whether a procedure is justified on the basis of need, effectiveness, and economy. States failing to satisfactorily defend procedures deemed "unjustified" are not supposed to be reimbursed for those procedures.

Labor has conducted OICE projects in two major UI activities-- weeks claimed and initial claims. The weeks claimed activity, which refers to the processing and paying of benefits, was analyzed and the results reported to the States during 1978. The initial claims function, which involves the filing and processing of claims, was analyzed and the results reported to the States in 1979. In spite of the findings reported in these projects, States continue to use "unjustified" procedures. Further, actual State allocations have not been reduced as a result of the projects because the MPUs after OICE reductions are still higher than the MPUs Labor must assign for budget purposes to remain within its

appropriation. In fact, the results of trying to implement the initial claims project were so poor, Labor did not even bother to summarize them.

Both Labor and State officials agree that the OICE projects served as a valuable learning experience for State officials by exposing them to a variety of procedures used in other States. However, officials cite a number of problems with the projects that contributed to their downfall:

- OICE took the naive approach that States would admit they could administer UI programs for less than their current cost. States, unwilling to believe their procedures were inefficient, were often more concerned with defending their procedures than with accepting new and/or different administrative approaches.
- Participants were not sufficiently knowledgeable to make valid judgments on another State's or, in some cases, even their own State's procedures. Participants had only about 20 minutes to discuss each procedure and thus did not have detailed knowledge of a State's entire system necessary to make informed judgments.
- Working group moderators laid out different ground rules for voting, engendering inconsistent results from group to group. The groups also failed to consider the degree of automation in each State. As a result, numerous recommendations that could have been adopted in States using computers were not feasible for States with manual systems.
- Some procedures were based on outdated studies, which included procedures no longer in use. To help remedy this problem, Labor required all States to conduct new studies.
- States interpreted tasks differently, rendering analysis and comparison difficult. For example, the time estimated for one task ranged from .01 to 6.035 minutes--apparently representatives were comparing "apples and oranges." To solve this problem, Labor is refining the definitions of tasks.

Another principal shortcoming with OICE was that while a State's funds and MPUs were supposed to be reduced if inefficient procedures were not changed, Labor did not provide any additional funding for a State to make the necessary procedural changes. Thus, as OICE projects evolved, the operational improvement and cost equalization elements were negated by the program's poor design and weak management controls.



## Deficiencies in developing data to monitor and control local office staffing

The Cost Model Management System is also designed to generate information for monitoring and controlling local office staffing levels. However, the information in the management reports comparing staff allocations based on MPUs and actual staff used is sometimes unreliable. For example, in three States, some managers reported employee time based on budgeted amounts rather than on the way the time was actually used. In other instances, employees charged their time to activities that were below budget when working on activities that were over budget. In two States, these time reporting practices extended beyond the UI program into Employment Service programs, even though the two programs are funded separately. State program managers, therefore, may not be aware of problems in local offices because charges for UI activities are not accurately reflected and because one program is being used to support the other. Thus, the CMMS goal of helping control and allocate staffing is negated.

## CONCLUSIONS

Although HHS and, to a lesser extent, Agriculture have provided some technical assistance to States to improve the administration and control the costs of the AFDC and Food Stamp programs, neither agency has yet to afford States the assistance necessary to develop systematic integrated approaches to increase productivity. Rather, the efforts have taken shape principally as individual research and demonstration projects and have concentrated more on quality control issues than on administrative efficiency. Recent activities by HHS and its Welfare Management Institute could, as a first step, however, lead to the development of a productivity improvement program.

On the other hand, Labor's ongoing technical assistance efforts--through CMMS--to make UI more efficient and to control administrative costs have not been effective because of management weaknesses in the system. Still, CMMS is conceptually sound; with proper incentives and better management, the system would provide the framework for a UI productivity improvement program. As discussed in chapter 4, CMMS already comprises basic elements of a productivity improvement program, namely a measurement system. Furthermore, the concepts of CMMS could be useful and transferable to the development of productivity improvement systems in other Federal assistance programs.

## RECOMMENDATIONS TO THE SECRETARIES OF HEALTH AND HUMAN SERVICES AND AGRICULTURE

We recommend that the Secretaries:

--Develop and implement systematic approaches to measure, analyze, and improve the productivity of State and local governments administering the AFDC and Food Stamp programs.

--Use the data generated by those systems to allocate administrative funds to States.

RECOMMENDATION TO THE SECRETARY OF LABOR

We recommend that the Secretary take actions necessary to correct deficiencies in the Cost Model Management System and to refine the system as a productivity improvement program. Corrective actions needed include

--improving control over both the cost model studies and operational and cost improvement projects and

--using the system in the budget process.

### CHAPTER 3

#### MANY OPPORTUNITIES EXIST

##### FOR REDUCING COSTS AND IMPROVING PRODUCTIVITY

Millions of Federal and State dollars can be saved by increasing the productivity of State and local governments administering Federal income maintenance assistance programs. We have specifically identified over \$25 million, including about 1,400 staff positions, that could be saved if more efficient procedures were followed in the UI, AFDC, and Food Stamp programs. In addition, we have identified another \$34 million spent by 20 States to conduct home visits which we believe should be done on a limited basis only. The savings associated with eliminating inefficient procedures are based on technical estimates and judgments. Our intent here is not to single out particular States for inadequate management controls and inefficient procedures, but rather to

--demonstrate the potential for productivity improvement that exists in State and local governments and

--illustrate how certain corrective actions can remedy inefficient procedures and reduce costs, alleviating the fiscal burden on all three levels of government.

Opportunities to reduce costs and improve productivity exist in the following areas.

	<u>UI</u>	<u>AFDC</u>	<u>Food Stamps</u>
Check processing	X		
Computer utilization		X	X
Scheduling and location of client interviews		X	X
Claims processing	X	X	X
Coordination among State agencies	X	X	

The following examples illustrate how better system design, more efficient staff use, and higher worker efficiency can reduce costs and improve productivity while maintaining and even enhancing client services.

##### PAYING UI BENEFITS BIWEEKLY REDUCES COSTS AND INCREASES PRODUCTIVITY

About 1,000 staff-years, or \$16 million, could be saved and worker productivity improved if UI benefits were not paid as often

and if payments were consolidated in a single check. UI benefits are now paid weekly by 32 States, and biweekly by 18 States. Because procedures for processing weekly or biweekly payments are essentially the same, over time paying weekly requires twice the effort as paying biweekly. Yet some States paying biweekly issue two checks--one for each week of unemployment--rather than consolidating the payments in a single check.

The Department of Labor is projecting a 58-percent increase in the "weeks claimed" workload for fiscal 1981 over 1979 levels due to recessionary trends in the economy and rising unemployment rates. Such a substantial increase in the claims workload would augment the potential savings available to States through check consolidation and biweekly payments and could help offset the added administrative strain placed on States by this expanded workload.

#### Paying clients on a biweekly basis

About 15.3 million fewer checks could have been processed nationwide in fiscal 1979--a savings of about 939 staff-years or \$14.8 million--if the States paying benefits weekly converted to biweekly payments. Moreover, Rhode Island, which generally pays biweekly, incurs additional administrative costs because of its lenient policy for paying benefits weekly to any client requesting them. As a result, about 13 percent of that State's checks are issued to clients weekly, which increases administrative costs by approximately \$200,000, or 12 staff-years.

Not only does weekly benefit processing require twice as much effort as paying biweekly, it can also adversely affect productivity and client service. In Hawaii, for example, clients continually call to determine why their checks have not arrived on time. The checks are delayed because the weekly payment schedule does not allow sufficient time for mail delays. A weekly payment schedule also does not allow time to notify clients of problems in check processing or changes in benefit status. As a result, workers are required to leave their desks to talk with clients, check records, and respond to questions concerning late benefit payments, and thus further delay their payment work.

Some State officials expressed concern that biweekly payments do not allow clients to receive benefits promptly and that some clients would incur undue hardship under a biweekly system. While weekly payments may sometimes be appropriate, the great majority of payments could be processed biweekly. Welfare programs, such as AFDC whose clients are generally more needy, pay benefits on a semimonthly or even monthly basis. Furthermore, the 18 States that now process biweekly payments have experienced few problems in this regard. Therefore, although the level of client service would, in fact, be reduced, the quality of that service would not be adversely affected because (1) a weekly payment schedule is generally unnecessary and (2) the overall amount of the benefit payment to the client does not change.

### Consolidating biweekly payments in one check

Four States plus the District of Columbia pay biweekly benefits but prepare and issue two checks rather than one. At least one of these States even mails each check separately. Two States--Massachusetts and Oregon, which were in our review--could save about \$800,000, or 45 staff positions, if they paid their biweekly benefits in a single check. Consolidating payments saves

- computer time to print checks,
- staff time to prepare checks,
- material expenses for checks and envelopes, and
- postage expenses for mailing checks.

Based on our recommendation, Oregon agreed to issue single biweekly payment checks.

### FULLY UTILIZING AVAILABLE COMPUTER CAPABILITY CAN REDUCE COSTS AND ELIMINATE INEFFICIENT PROCEDURES

About \$5.7 million in administrative costs, including 225 staff positions, could be saved annually by computerizing tasks and consolidating computer input documents in Oregon and by revising computer reports in Michigan. The following examples illustrate the potential for productivity improvement and savings that can be realized by fully utilizing available computer capability to eliminate inefficient, inappropriate, and manual procedures.

#### Computerizing manual tasks and consolidating computer input documents

Increased use of the computer to process tasks for initial and continuing AFDC claims could result in potential savings of about \$2 million, or 140 positions annually, for the 20 largest local offices in Oregon. An additional \$2 million in statewide processing costs could be saved annually by combining the AFDC and Food Stamp computer input documents. This \$4 million annual savings could be realized after investing an estimated \$1 million to reprogram the computer. According to Oregon officials, another State reduced paperwork by 40 percent and AFDC administrative costs by 22 percent by correcting similar inefficiencies.

#### Computerize manual tasks

One inappropriate use of staff resources involves sending notices to clients due for eligibility redetermination. The computer generates notices for these clients and forwards the notices to the worker assigned to the case, who in turn forwards them to a clerk. The clerk sends the redetermination forms to the clients. Agency officials agree that manually sending out forms is both unnecessary and unproductive because the computer can handle such tasks much more efficiently.

A second inefficiency involves those clients who have other income and must submit earnings reports to the local office. Each month a caseworker manually sends out blank reports and computes the change in the monthly grant amount after the client returns them. Officials agree that this process is time consuming and could be incorporated in the existing computer system with reprogramming.

In addition, staff time and paperwork could be reduced if the Welfare Department used its computer to notify other agencies, such as the State Employment Security Agency, when clients change their employment or address. Currently, workers prepare handwritten notices. The computer could periodically print the new information and transmit a consolidated list to the appropriate office or agency needing this information.

#### Consolidate computer input documents

Staff and computer processing time can be reduced by combining the AFDC and Food Stamp computer input documents. Currently, once eligibility is determined workers fill out two separate forms containing similar data to establish, update, and close AFDC and Food Stamp cases on the computer. This duplication of effort could be eliminated if the AFDC and Food Stamp computer input forms were consolidated. Consolidated forms are used successfully in several States, including Massachusetts and Rhode Island.

#### Revising computer reports

Revising computer-generated reports would eliminate the need for manual reports and save an estimated 85 staff-years, or \$1.7 million, in Michigan's AFDC program. While the computer generates management reports and summaries to evaluate office performance and identify problem areas, local office personnel find the reports inadequate. For example, staff time is spent manually rearranging the printouts and compiling monthly statistics because the data is not arranged chronologically. Agency officials agree that the computer could be used more effectively in preparing the reports. At the time of our review, agency officials were working toward this goal.

#### CONDUCTING HOME VISITS IS COSTLY AND GENERALLY AN UNPRODUCTIVE USE OF STAFF

Although some State officials believe that interviewing prospective welfare clients at home to determine their eligibility is generally unnecessary, 20 States spend nearly \$34 million to conduct home visits for at least 90 percent of their new and continuing cases. Another 10 States conduct home visits at least 25 percent of the time. Massachusetts alone uses about 371 staff-years, or about 28 percent of its eligibility staff to interview welfare clients at home. A substantial portion of these costs could be reduced if home visits were conducted on a limited basis instead.

Home visits, a traditional activity in public welfare programs, are viewed as a means of detecting and deterring fraud, as well as verifying a client's residence. In that home visits involve local travel, they are also a time-consuming and expensive staff activity. Moreover, home visits are generally an inefficient use of resources. Studies conducted in three States and the District of Columbia, for example, show that home visits do not provide information leading to a significant number of fraud cases, ineligible clients, or grant reductions. Rather, the studies unanimously conclude that home visits are not cost effective. Further, one State's study of the Medicaid program shows that conducting a home visit doubles the cost of reviewing a case. The study therefore recommends limiting home visits to cases with a high probability of error.

The most cost effective method for providing error free services, according to the same study, is an accurate record review, combined with comprehensive collateral contacts such as schools and employers. This combination uncovers 94 percent of all errors that would be found if home visits were performed. Several States have successfully substituted these more cost effective alternatives for routine home visits in determining client eligibility. We believe that conducting home visits on a limited basis, such as for statistical samples or error prone cases, preserves the watchdog effect and helps to deter fraud while reducing administrative costs and improving productivity.

INEFFICIENT SYSTEMS FOR INTERVIEWING CLIENTS  
DECREASE WORKER PRODUCTIVITY AND ADVERSELY  
AFFECT CLIENT SERVICE

Correcting inefficient scheduling systems for Food Stamp clients could, in some cases, improve worker productivity by up to 300 percent and enhance client service. Systematic scheduling systems offer the potential for significant savings nationwide because eligibility workers' salaries represent a major cost in administering the Food Stamp program. In addition, one State could save about \$800,000, or 57 staff positions, and improve client services by prescreening welfare clients before conducting a thorough eligibility determination interview.

Scheduling client appointments  
can improve staff productivity

In the six offices we visited in Rhode Island, Massachusetts, and Hawaii, workers could easily have conducted more Food Stamp eligibility interviews than the 3.7 to 7 they were averaging. Offices either scheduled clients without compensating for no-shows, relied on walk-in clients to replace no-show clients, or interviewed clients on a first come, first served basis with no scheduled interviews. As a result, times set aside for appointments were not always filled, decreasing worker productivity and creating unnecessary backlogs.

A scheduling system that systematically overschedules to allow for no-show clients could solve these problems and increase productivity. For example, in one office where workers averaged 3.7 interviews daily, worker productivity could be nearly tripled to 11 clients daily by adopting such a system. In another office a backlog of 580 interviews could have been eliminated in less than 8 days.

Scheduling a full day of appointments with deliberate overscheduling to replace no-show clients improves client service in a number of ways. First, clients who arrive at an office without an appointment are generally unprepared and must return at least once to furnish the documentation necessary for determining eligibility. Under a scheduling system, clients would be told when they contact the office for an appointment what basic documentation they must furnish. Thus, clients would arrive for their interview prepared, minimizing the number of visits to the office. Secondly, clients seen on a first come, first served basis generally arrive as early as possible to avoid long waits. In one office we visited, 60 percent of the clients arrived during the first hour in the morning and the first hour after lunch. Scheduling would smooth out this uneven flow, thereby reducing client waiting time and minimizing overcrowded waiting rooms. Thirdly, in offices we visited the number of clients fluctuated by more than 1,400 percent on a daily basis. Scheduling would regulate this daily variation and assure that sufficient workers are available to handle the volume of daily clients.

Finally, in systems where no appointments are scheduled or where scheduled appointments are combined with unscheduled no-show replacements, we observed that no distinction is made between regular and emergency Food Stamp clients. Consequently, emergency clients must wait to see a worker who also interviews regular Food Stamp clients. Under a scheduling system, one or two workers would be designated to handle emergency cases while the remaining workers would have fully booked schedules. In this way, emergency clients would be provided priority treatment commensurate with their need.

#### Prescreening clients improves efficiency and client service

Prescreening welfare clients could improve the quality of client service and save at least 57 staff positions, or almost \$800,000, in Massachusetts alone by reducing paperwork and unnecessary processing. Although State officials point out that this savings does not take into account the offsetting staff requirements necessary to handle prescreening, they do agree that prescreening improves efficiency and client service.

Paperwork and processing can be reduced because only potentially eligible, complete applications would proceed through the entire eligibility determination process. During prescreening,



a worker would familiarize clients with the documentation they must furnish before their eligibility can be established and would dismiss those clients who are either obviously ineligible or missing the necessary verification. About 20 percent of the applicants in Massachusetts could be dismissed during a formal prescreening process. Additional benefits can be gained because prescreening streamlines processing of complete applications by assembling the preliminary data, preparing the client for the interview, and handling some tasks previously completed during the interview.

In addition, client service is improved because prescreening:

- Minimizes visits and prepares clients for their eligibility interview by telling them what documentation they must provide.
- Reduces client processing and interview time by dismissing those clients who obviously do not qualify for benefits.
- Refers clients to other programs for which they may be eligible, such as medical assistance, veterans benefits, or unemployment insurance.
- Identifies those clients in need of emergency assistance for immediate processing.

At the time of our review, Massachusetts was experimenting with prescreening in selected offices. State officials are waiting for the final results of the experiment before proceeding with statewide implementation.

STREAMLINING CLAIMS PROCESSING PROCEDURES  
CAN DECREASE ADMINISTRATIVE COSTS AND INCREASE  
WORKER PRODUCTIVITY

About \$2.5 million, including 107 staff-years, could be saved in two States by (1) eliminating duplicate UI claims filing procedures and combining the mailing of welfare benefits in one State and (2) eliminating duplicate UI payment procedures and reducing the copying of client-furnished documentation in another. These inefficiencies, plus many others identified, demonstrate the need and potential for productivity improvements within the framework of individual State and local government operations.

Duplicate claims filing can be eliminated

About \$1.4 million, or 69 staff-years, could be saved in Michigan if clients filed only one claim to establish the 1-year period during which they can collect UI benefits. Although clients generally file one claim to establish their benefit year, clients who are disqualified because, for example, they quit their jobs without good cause, must file a second claim after waiting a required period. Yet, the first claim could serve to establish

the start of the benefit year after the required waiting period is served. Although State officials contend that the second claim is necessary to establish the benefit year, all other States in its Federal region process only one claim under similar circumstances. Labor officials agree that the second claim is unnecessary and should be eliminated.

#### Mailing welfare benefit payments can be combined

About \$610,000 in postage expenses alone could be saved in Michigan if AFDC, Food Stamp, and Medicaid benefits were mailed together. Clients now receive two AFDC checks, a Food Stamp card, and a Medicaid card in separate mailings each month. Coordinating these mailings requires reprogramming computers, adding sorting machines, and resolving conflicts in program eligibility periods. According to one State official, however, these changes are not major and can be overcome. Although we did not examine the issue in depth, we did note that other States also handle these transactions separately. Thus, the potential savings are far greater than \$610,000.

#### Copying can be reduced

About \$340,000, or 26 staff-years, could be saved in Massachusetts' AFDC and Food Stamp programs by limiting the copying of client-furnished documentation to selected documents and documents with questionable and error prone data. This savings represents only the workers' time to copy documents and not the operating or paper costs of the copying machines. According to officials, copying documents such as clients' birth certificates, licenses, marriage certificates, and social security cards could be reduced by as much as 75 percent in AFDC and 90 percent in the Food Stamp program.

Other States have adopted alternatives to copying, such as a checklist or designated space for recording the method of verification. Excessive copying results from the State's attempt to control error rates and the lack of a suitable alternative. Generally, State officials believe that copying all client documentation helps control the error rate, although they have no firm evidence to support this contention. By copying selected documents, however, a State would retain basic control over program errors, while saving considerable administrative costs.

#### Duplicate UI payment procedures can be eliminated

About \$185,000, or 12 staff-years, could be saved in Massachusetts' UI program if workers and clients each signed the claim record once to release biweekly payments. Currently, workers authorize and clients receive biweekly payments by signing twice--once for each week. Signing twice is a duplication of effort since signing once is sufficient to authorize payment and indicate client receipt.

### Other procedures can be streamlined

Other inefficiencies identified have a lesser financial impact but are of no less importance in illustrating the need for systems which identify and promote improved efficiency. For example, in one local welfare office, workers spent the equivalent of nearly 2 months per year climbing up and down stairs because the clerk who issues Food Stamp cards was located on the second floor rather than on the first floor. When we brought this matter to their attention, officials agreed to move the clerk to the first floor.

Other procedures that contribute to unnecessary administrative costs include

- preparing unnecessary transmittal documents and logs,
- typing handwritten documents used only as input data for the computer, and
- scheduling complete half-hour interviews to verify minor case changes that could be handled by phone.

### POOR COORDINATION AMONG STATE AGENCIES INCREASES COSTS AND IS INCONVENIENT TO THE CLIENT

Improved coordination among State agencies could save at least \$465,000. In three States in our review, poor coordination between UI and other State agencies not only inconveniences the client but increases agencies' paperwork.

### Eliminating unnecessary tasks

About \$370,000 could be saved annually and client service improved in Rhode Island by removing the State Treasurer's agents from local UI offices. To receive their benefit check, clients must first report to a UI worker and then must report to a separate counter so that a Treasurer's agent can stamp the check with the Treasurer's facsimile signature.

The procedure creates two problems. First, clients occasionally forget to have their checks stamped and, therefore, must return to the office before cashing their checks. Secondly, in addition to reconciling the totals of both the volume and value of checks issued with total claims paid, UI workers must also reconcile their balances with those of the Treasurer's agents unit. This second reconciliation and associated paperwork is particularly involved and time consuming when clients forget to have their checks stamped. Eliminating the requirement that Treasurer's agents stamp the checks would resolve both problems.

Agency officials told us that the agents are no longer required to stamp the Treasurer's signature and are scheduled to be phased out from local offices over a 2-year period beginning in fiscal 1980.

### Prescreening welfare clients more carefully

About \$55,000, or 3 staff-years, could be saved and unnecessary trips for welfare clients to the UI office avoided in Michigan if clients were screened more carefully at welfare offices. As part of the qualifying procedures for welfare assistance, many clients are sent to a UI office to obtain official denials of UI benefits. Even when workers know that clients do not qualify for UI benefits because, for example, the individual has not worked the required 14 weeks in the past 12 months, welfare will still send the client to a UI office for an official denial. UI workers must process the claim because they have no basis for officially denying a claim until it is filed. Basic prescreening questions asked at welfare, such as whether the client was employed during the past 12 months and, if so, for how long, would identify clients obviously ineligible for UI benefits and reduce the frequency of welfare clients sent to file UI claims.

### Requiring the State to report wages

About \$41,000, or 3 staff-years, could be saved in Washington if State agencies reported employee wages to the UI office. The State, as an employer, does not report employee wages although it requires all other employers to do so. As a result, a three-worker unit in the central office is responsible for requesting wages and handling paperwork for claims against State agencies. This unit could be eliminated if the State reported wages in the same manner as other employers. Changes in the current system to accommodate wage reporting would cost about \$22,000 the first year and \$11,000 per year after that. By eliminating the three positions, the net savings would be over \$30,000 the first year and over \$41,000 each subsequent year.

### CONCLUSIONS

Eliminating the administrative inefficiencies cited in this chapter would increase productivity because fewer resources would be needed to provide the same or similar level of client services without adversely affecting the quality of these services. These inefficiencies are not exhaustive of the weaknesses in State and local management of Federal income maintenance assistance programs. As we noted in chapter 1, we made no effort to identify all administrative inefficiencies in the UI, AFDC, and Food Stamp programs. Rather, our interest was to demonstrate a real potential for productivity improvement in State and local governments administering these programs.

Although States may differ in terms of organizational structures and administrative processes, improvements in certain administrative procedures can be shared and transferred among the States. The Federal Government should assist States in identifying and eliminating these administrative inefficiencies.

## RECOMMENDATION

To improve the administration of UI, AFDC, and Food Stamp programs, we recommend that the Secretaries of Labor, HHS, and Agriculture work with States, through technical assistance programs, to eliminate inefficient procedures and identify other opportunities for improving the productivity in administering these programs.

## CHAPTER 4

### MEASURES AND INCENTIVES ARE NEEDED

#### TO ACHIEVE ACCOUNTABILITY FOR PRODUCTIVITY

Accountability for productivity is the clear responsibility for producing, at the lowest cost, the goods and services necessary to accomplish an organization's mission. The Federal income maintenance assistance programs we studied--UI, AFDC, and Food Stamps--lack mechanisms to hold managers accountable for productivity improvement or to reward those who meet or exceed productivity goals. Rather, the structure of these assistance programs tends to discourage productivity improvement. Without mechanisms to provide and achieve accountability, the potential for improvement demonstrated in chapter 3 may go untapped and cost millions of dollars in lost productivity.

To achieve accountability, measurement and evaluation systems and top-to-bottom incentives are needed. Work measurement systems provide the mechanisms for developing goals and evaluating progress toward meeting them. Without these tools, it is difficult to hold managers accountable. Any effort to achieve accountability should incorporate incentives that directly benefit the States and their managers and employees. Without incentives, the elements of accountability--establishing goals and measuring their fulfillment--may not be attainable.

Recently, the Office of Management and Budget, as the Federal lead agency for Federal assistance policies, has begun to develop initiatives to establish a comprehensive system of governmentwide guidance for Federal assistance programs, while the Office of Personnel Management, as the Federal lead agency for public sector productivity improvement, has begun to develop programs to help Federal agencies and State and local governments improve their productivity. These efforts are a step in the right direction. We believe, however, that OMB and OPM should expand their present focus to work with Federal agencies and State and local governments to help establish accountability mechanisms in Federal assistance programs administered by State and local governments.

#### MEASURING PRODUCTIVITY--A FIRST STEP TOWARD ACCOUNTABILITY

Improving productivity means either (1) obtaining more and better program output from a given level of resources or (2) using fewer resources to obtain the same or more output while maintaining a certain quality level. Productivity can be expressed as a cost per unit or a number of units of input for each unit of output. For example, it might be expressed as \$1,000 per case or 10 minutes per interview conducted. Because government agencies are, for the most part, service organizations, managers tend to believe that their workers and their functions cannot be adequately

identified and measured. However, techniques once used only in manufacturing industries are now being applied in the public sector.

Measuring productivity should include identifying the current level of productivity, establishing standards for a desired level, and analyzing methods for improving productivity. Integrating work measurement techniques, standards development, and operational analyses is an important element in developing reliable productivity measures.

#### Work measurement and standards development

The primary approach for measuring productivity and developing standards is called work measurement. It measures the rate of output as well as the time consumed for each activity. Data is collected on units of work processed and staff-hours used, or costs to calculate a relationship between output and input. Typically, data is collected using technical or historical estimates, work sampling, or time studies. Each method has advantages and disadvantages which must be considered before selecting an approach. Appendix I is a detailed discussion of work measurement techniques including their applicability, advantages, and disadvantages.

Work measurement is also used to determine standards for how long an activity should take. A standard expresses the time required to accomplish a defined amount of work under normal conditions. It can be the basis for scheduling work, evaluating actual performance, establishing incentives, and negotiating work levels with unions.

#### Operational analysis

Operational analysis studies the purpose of each procedure used in an operation. By applying operational analysis, the most efficient and economical ways to perform given tasks can be determined. The process involves a

- preliminary analysis of existing conditions,
- detailed description of operations or procedures, and
- determination of procedures to be eliminated or improved.

Because operational analysis asks why procedures are needed as well as how they are implemented, operational analysis often leads to questions on policy decisions. Such policies as routine home visits in welfare programs, which we feel limit productivity, would be readily identified by using operational analysis. The productivity improvements discussed in chapter 3 were identified applying a simplified version of operational analysis.

Measurement as a tool to improve  
productivity--some examples

Combining work measurement, standards development, and operational analysis into a systematic program to measure and improve productivity can lead to significant savings. Conversely, the lack of such systems can cost millions of dollars in lost productivity. For example, it costs one State about \$4 million annually because monthly caseload standards contained in the union contract were not based on any work measurement studies. The caseload standards were so low that some workers achieved their standard before the end of the month and were restricted by the union contract from accepting any new cases. To rectify the problem, a work measurement study was conducted to develop more realistic standards for use in negotiating a new contract. State officials are hopeful that these new standards will provide flexibility in how staff can be used.

In a 1978 <sup>1/</sup> review of the AFDC program in one California county, we demonstrated the benefits, in terms of both monetary savings and service quality improvement, that could be derived by State and local governments by applying productivity improvement techniques. The report described inefficiencies costing over \$1 million and delineated potential improvements, such as prescreening applicants, which could increase productivity by as much as 61 percent.

Another California county actually applied measurement techniques in reviewing three of its public assistance programs--AFDC, Food Stamps, and General Relief. According to one county official, the nearly 100-percent productivity increase in the Food Stamp program allowed a nearly 50-percent reduction in staff and annual savings of \$500,000. The General Relief study brought about staff reductions of about 75 percent, improvements in client services, and annual savings of approximately \$2.4 million. The AFDC evaluation reduced annual costs by \$2.1 million and increased productivity by as much as 180 percent in one activity. Further, by instituting more effective screening procedures and decreasing by one-third the number of days to process an application, county officials believe client services will also be improved.

We believe measuring productivity assists agencies in four important ways. First, it provides a formal systematic approach for defining resources used and their relationship to products or services produced. Secondly, it provides the data needed for charting the progress made toward achieving productivity goals. The rate of improvement is based on a comparison of two sets of data measured at different times. Thirdly, measurement helps in establishing employee performance goals and aids in the evaluation

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<sup>1/</sup>"Need to Improve the Administrative Efficiency of the AFDC Program," HRD-78-159, Sept. 5, 1978.



of performance. Most importantly, measurement can form the basis for holding agencies and managers accountable for improving productivity. It can also help in developing incentive programs to reward both organizations and individuals.

#### NEED FOR PROVIDING INCENTIVES TO IMPROVE PRODUCTIVITY

To achieve accountability, administrators, managers, and employees must view productivity improvement as a part of their daily activities. However, the Federal assistance system does not provide incentives to States or their employees for improving efficiency. Instead, the system tends to act as a disincentive to productivity improvement. Nor, as discussed in chapter 2, is productivity a factor in distributing grant funds.

We believe incentives to improve productivity are needed at two levels--organizational and individual. First, States should be rewarded for meeting and exceeding productivity goals. Currently, States have few financial incentives to increase efficiency. Programs funded largely or entirely by Federal funds are rarely included in cost reduction plans because savings generally must be returned to the Federal Government. Secondly, any reward to the States should be shared with individuals--both managers and workers--for few individuals will be motivated to improve performance without some form of recognition or reward.

#### Need to incorporate productivity incentives in Federal assistance programs administered by States

The Federal assistance system provides few incentives to States for improving the productivity of Federal assistance programs. In fact, the system may even discourage improvement because Federal assistance funding is generally based on such factors as caseloads or target population size and not productivity. As a result, State and local governments generally have no financial incentive to improve efficiency. In addition, in programs such as AFDC where administrative costs are shared, States know that their total expenditures, not their efficiency, predicate the amount of Federal funds available to cover administrative costs.

Assistance programs funded largely or entirely by Federal funds are rarely included in programs to cut costs because State and local governments must generally return Federal funds if costs are reduced. Further, as officials in one State told us, State managers have little incentive to improve productivity because a 10-percent savings in the program this year may result in a 10-percent cut in the next year's funding.

In a survey of State officials administered several years ago by the Advisory Commission on Intergovernmental Relations, 1/ roughly half of the State administrators responding indicated that their agencies were not subject to the same supervision by the Governor and legislature as activities financed solely by the State. In one State we visited, officials stated that the amount of oversight exercised by their State legislature was directly proportional to the State funds involved. Although federally funded programs generally move through the same appropriation process as those funded by a State, programs fully funded by the Federal Government are not as closely scrutinized as those with a substantial State share. Officials in another State explained that, as a practice, the State does not audit programs that are 100-percent federally funded because Federal auditors and evaluators perform this function. On the other hand, in the case of programs such as AFDC where the State shares the cost, the State will conduct a financial audit. It will not conduct a management review, however, because Federal auditors perform such reviews. Thus, in federally funded programs, States do not have the same accountability for program management and fiscal control as they do in programs financed entirely from their own revenues.

Incorporating incentives such as sharing cost savings or providing additional funds for productivity improvements could encourage States to develop mechanisms for providing and achieving accountability. In sharing cost savings, States retain some percentage of the savings from improving productivity. The State may be allowed unrestricted use of the savings or may be required to use the savings within the program. Providing special funds over and above approved program allocations to underwrite productivity improvements could also be an incentive.

The effectiveness of fiscal sanctions as an "incentive" to States for improving their administration of Federal assistance programs is questionable. In a recent review of AFDC's quality control system for reducing errors in eligibility and benefit determinations, 2/ we concluded that fiscal sanctions create an adversary relationship between the Federal Government and States at a time when cooperative effort is needed to reduce errors. Moreover, we demonstrated that in practice sanctions serve not as an incentive, but as a disincentive to States for reducing error rates. States with high error rates simply identify fewer errors rather than taking all the necessary corrective actions that will result in reduced Federal reimbursements.

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1/Advisory Commission on Intergovernmental Relations, "The Intergovernmental Grant System as Seen by Local, State and Federal Officials" (Report A-54), Washington, D.C., March 1977.

2/"Better Management Information Can Be Obtained from the Quality Control System Used in the Aid to Families with Dependent Children Program," HRD-80-80, July 18, 1980.

Similarly, in another recent report, <sup>1/</sup> we found that Federal matching and maintenance requirements are not often effective for promoting State and local government oversight of Federal assistance programs. Although the report noted that a strong matching requirement may engender a higher level of State and local management attention to fiscal and program operations, it concluded that a high match can adversely affect the interests of all three levels of government, by distorting State and local priorities and forcing jurisdictions to cut resources in nonmatched programs to meet matching requirements in others. Because of such negative consequences, therefore, the effectiveness of high matching requirements as an incentive is also doubtful. Rather, a true incentive program should be designed to reward, not penalize, States for meeting established goals.

Some assistance programs do provide incentives for quality

To the extent they do exist, most incentive programs are concerned with improving program quality, not productivity, and reward States for meeting program effectiveness, timeliness, and quality objectives. For example, recent amendments to the Food Stamp Act (Public Law 96-249, May 26, 1980) provide incentives for States to reduce error rates in eligibility and benefit determinations. While the current Federal funding is at 50 percent, the incentives that went into effect in fiscal 1981 include:

- Funding at 65 percent for States with quality control error rates below 5 percent.
- Funding at 60 percent for States with quality control error rates greater than 5 percent but less than 8 percent or the national standard payment error rate, whichever is lower.
- Funding at 55 percent for States with annual error rate reductions equal to or greater than 25 percent.

Although it is too early to assess how successful these incentives will be, some State officials believe the error rate goal is too low, and that they cannot reach a cumulative error rate of around 5 percent without incurring large administrative expenses. Only when a State reaches the 5-percent level without exceeding a 25-percent increase in administrative costs, will the State realize the benefits of increased Federal funding.

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<sup>1/</sup> "Proposed Changes in Federal Matching and Maintenance of Effort Requirements for State and Local Governments," GGD-81-7, Dec. 23, 1980.

Need to develop and implement  
incentives for managers and employees

Incentive programs make it possible to recognize and reward managers and employees who make significant contributions toward improving productivity. Incentives can be tangible, such as bonus pay, salary increases, or additional time off; or intangible, such as job enrichment, increased responsibilities and meaningfulness of work. Regardless of the types of incentives used, however, they must be based on credible measures of performance, and accomplishments must be compared against these measures. In addition, incentive programs should contain certain essential components:

- Direct links to specific organizational goals and objectives.
- Systems for setting and communicating employee work expectations and measuring performance contributions.
- Rewards that are timely and relevant to employees' needs.
- Periodic evaluations of the program's results.

Numerous case studies document the effectiveness of employee incentive plans for improving productivity. Private sector case studies on incentive programs, for example, have demonstrated productivity increases of as much as 20 percent in manufacturing operations and 5 to 10 percent in professional and managerial activities. To achieve lasting productivity improvement in an organization, employees must know that a productivity program will benefit them as well as the organization and that financial or other benefits, such as recognition, will be shared throughout the organization.

State and local government personnel administering Federal assistance programs primarily serve under their own personnel systems. Not unlike problems experienced in the Federal personnel system, State and local personnel systems generally lack incentive programs for improving productivity and may, in fact, discourage such improvements. For example, in some States vacancies are filled through written examinations which severely limit promotions based on job performance. Other systems tie a manager's rank and pay to the number of people supervised, thus discouraging efficiency improvements that could reduce staff.

A recent study by the Urban Institute <sup>1/</sup> points to the fact that the use of incentives, and in particular monetary incentives,

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<sup>1/</sup>The Urban Institute, "Monetary Incentives for State and Local Government Employees: An Examination of Current Usage, Impacts and Implementation Factors" (PB-300-198), Washington, D.C., April 1978 (prepared for the Department of Housing and Urban Development).

is rare. The study delineates a host of barriers, some unique to State and local governments, that impede the introduction of or experimentation with incentive programs. Principal among these barriers are:

- State and local laws constraining or prohibiting the use of funds for bonuses or monetary rewards and Federal laws requiring the return of unspent funds.
- Civil Service or personnel system requirements rigidly specifying review periods, pay levels, job classes, and the like and deemphasizing the use of objective performance criteria based on work quality and quantity.
- Union contracts setting work hours, workload, and wage rates and placing greater emphasis on seniority over merit.

The lack of incentive programs in some States has, in effect, generated disincentive systems. For example, in one State we visited, officials cited that productive employees are often "rewarded" with the work of their less productive coworkers. For one particular manager, the reward for reducing the caseload in one office was a larger geographic area, together with a reduction in staff.

Officials from several States in our review also explained that their States had no standards or measures of performance on which to base employee evaluations. As a result, State employees were generally not evaluated. These officials pointed out, however, that employee evaluations would be of little value without concomitant incentives for performance.

#### INCREASING FEDERAL EMPHASIS ON COORDINATING FEDERAL ASSISTANCE AND PUBLIC SECTOR PRODUCTIVITY

Within the past few years, the Federal Government has taken steps to provide for greater coordination of Federal assistance policies and to place greater emphasis on public sector productivity improvement. While these efforts have not taken place in concert, they may, nevertheless, be viewed as complementary in that their overall goal is to achieve better management and more accountability at the Federal, State, and local levels. The agencies principally involved in these efforts have been the Office of Management and Budget and the Office of Personnel Management.

OMB is the lead Federal agency for coordinating Federal assistance policies. Recently, OMB committed itself to a stronger, more active role in assistance policy and management analysis. In March 1980, as the end product of a 2-year study required by the Federal Grant and Cooperative Agreement Act (Public Law 95-224), OMB issued a report entitled "Managing Federal Assistance in the 1980's." In the report, OMB concluded that a more structured process for

managing Federal assistance policies and greater central policy leadership were needed. OMB is now in the process of developing initiatives to meet those needs.

OPM, on the other hand, is the Federal lead agency for Federal, State, and local productivity improvement programs. OPM was assigned responsibility for Federal workforce productivity by Executive Order 12089, issued October 23, 1978, and for State and local productivity by the National Productivity Council in December 1979. Since then, OPM has been developing productivity improvement programs and technical assistance efforts for the three levels of government.

#### OMB's expanding efforts in Federal assistance policy

OMB's central role in the Federal assistance process has evolved over the years as a result of certain congressional actions and the close relationship of Federal assistance policy to the budget, regulatory reform, procurement practices, financial management, and other management activities falling within OMB's purview. OMB has been involved in developing major reform strategies to improve the Federal assistance system, including the consolidation of assistance programs and the simplification of administrative requirements in the Federal aid system. Now OMB is undertaking a host of new initiatives to establish a comprehensive system of government-wide guidance for Federal assistance programs. Through these initiatives, Federal oversight of assistance should be improved, accountability in the assistance system strengthened, and the efficiency and effectiveness of Federal assistance programs enhanced.

Essentially, OMB is attempting to better coordinate Federal assistance guidance among the Federal agencies. To carry out this role, OMB has redesignated the grants management branch as the assistance policy branch, an action that illustrates OMB's commitment to an expanding role in the Federal assistance process. Primary responsibilities for administering Federal assistance programs, however, remain vested in the Federal agencies.

#### OPM's initiatives in public sector productivity improvement

Within OPM, responsibility for productivity efforts directed to Federal agencies and State and local governments are organizationally separated. The Workforce Effectiveness and Development Group offers assistance to Federal agencies, while the Office of Intergovernmental Personnel Programs helps State and local governments. These two offices, however, also work together in planning and implementing cooperative activities, for the problems confronting the three levels of government are similar and at times inter-related. Examples of cooperative assistance either in place or planned include

- reviews of operating procedures and organizational structures;
- enhancement of employee skills, incentives, and motivation;
- studies of capital investment and technological improvements;
- development and use of productivity measures; and
- dissemination of new knowledge.

In addition, the two offices operate a productivity resource center to collect, evaluate, and disseminate information on productivity improvement and to serve as a referral service for other sources of information. OPM hopes that by providing credible information on productivity improvement, it can help Federal agencies and State and local governments replicate improvement efforts.

Although OPM was just recently given the charge for State and local productivity improvement, its Office of Intergovernmental Personnel Programs has an established working relationship with State and local governments through its administration of the Intergovernmental Personnel Act (IPA). Over the past 10 years, the IPA program has helped many States and localities improve their personnel administration and general management practices. While under the act funding for productivity improvement is primarily limited to personnel and training projects, several bills were introduced in the last Congress to strengthen and expand the program to include productivity improvement and general management capacity building. At that time OPM strongly supported the expansion of the IPA program and believed the program would give OPM added flexibility in providing technical assistance to State and local governments.

OPM's program to educate Federal agencies and State and local governments on the importance of and mechanisms for productivity improvement is ambitious. Assistance either available or planned by OPM includes direct financial support (through grants and contracts), on-site technical assistance, research and testing, development and refinement of measures, and information sharing. While it is too early to evaluate the effectiveness of these programs, we believe the efforts constitute a sound approach to improving public sector productivity.

#### CONCLUSIONS

The recent actions by both OMB and OPM are clearly a step in the right direction. OMB is actively striving to coordinate and improve Federal assistance policy governmentwide, while OPM is now working in some capacity with Federal agencies and State and local governments to develop and/or refine productivity measurement systems, enhance employee management skills, and improve

operational procedures and structures. We believe, however, that OMB and OPM should expand their focus to include productivity improvement in Federal assistance programs. Because OMB is responsible both for approving budget requests of executive agencies and for coordinating Federal assistance policies, we believe that OMB should use this unique position to encourage the development and use of productivity improvement systems in Federal assistance programs. Specifically, OMB should require Federal agencies to develop measurement systems, where appropriate, to control administrative costs and improve the administrative efficiency of Federal assistance programs. On the other hand, as the lead agency for public sector productivity, OPM should expand its focus from individual Federal agencies and State and local governments to specifically include productivity improvement efforts in Federal assistance programs administered by State and local governments.

The Federal income maintenance assistance programs we studied--UI, AFDC, and Food Stamps--do not encourage productivity improvement or reward States, their managers, and employees for making productivity improvements. To achieve accountability for productivity, measurement and incentive systems need to be incorporated in these Federal assistance programs. OMB and OPM should work with Federal agencies and State and local governments to establish, where appropriate, accountability mechanisms--measurement and incentive systems--in these and other Federal assistance programs.

Achieving accountability through measurement and incentive systems should improve the productivity of Federal assistance programs administered by State and local governments. In addition, if these systems are successful in Federal assistance programs, States may be encouraged to develop similar systems for State-funded programs.

RECOMMENDATIONS TO THE DIRECTOR,  
OFFICE OF MANAGEMENT AND BUDGET

To begin developing mechanisms within the Federal assistance system for controlling administrative funds and improving productivity, we recommend that the Director of OMB:

- Require, where appropriate through the budget process, that Federal agencies develop systematic approaches to help State and local governments improve their productivity in administering Federal assistance programs and that agencies use the data generated by these systems to justify future budget requests.
- Develop, with the assistance and support of OPM, an inter-agency program to explore the potential for establishing incentive systems in Federal assistance programs for State and local governments. Participants in this effort should include representatives from State and local governments and appropriate public interest groups.



RECOMMENDATIONS TO THE DIRECTOR,  
OFFICE OF PERSONNEL MANAGEMENT 1/

We recommend that the Director:

- Place priority on efforts to assist State and local governments develop measurement and incentive programs for individuals and managers to improve their administration of Federal assistance programs.
- Work with Federal agencies, overseeing assistance programs that are administered by State and local governments, to improve and monitor those agencies' technical assistance efforts in productivity improvement.

RECOMMENDATIONS TO THE DEPARTMENTS  
OF LABOR, HEALTH AND HUMAN SERVICES,  
AND AGRICULTURE

We recommend that the Secretaries of Labor, Health and Human Services, and Agriculture:

- Seek authority from the Congress to develop and fund demonstration projects testing approaches for providing States incentives for making productivity improvements in the UI, AFDC, and Food Stamp programs.
- Report to OMB on successful incentive systems for State and local governments so that effective incentives can be shared and transferred to other assistance programs.

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1/Just prior to releasing this report, we learned that the present administration plans to dismantle the Office of Intergovernmental Personnel Programs and is sending to the Congress proposed legislation rescinding the IPA program.

Because of OPM's charge as the Federal lead agency for public sector productivity and pending these actions, we believe our recommendations to the agency are valid. Even if the Office of Intergovernmental Personnel Programs were abolished, another office in OPM, such as the Workforce Effectiveness and Development Group, could carry out the recommendations. Rescinding the IPA program, on the other hand, requires Congressional action, which at this time appears unclear.

## CHAPTER 5

### AGENCY COMMENTS AND OUR EVALUATION

Written comments on a draft of this report were requested and received from the Office of Management and Budget, the Office of Personnel Management, and the Departments of Labor and Health and Human Services. Comments were requested from the Department of Agriculture but were received too late for inclusion in this report.

While all agencies responding agreed that productivity improvement should be a priority, HHS and OMB raised several general issues related to the Federal Government's role in State and local productivity improvement.

As discussed below, we analyzed the agencies' comments and made changes to the report as a result of those comments. Copies of the agencies' comments appear in appendixes II through V.

#### OFFICE OF MANAGEMENT AND BUDGET

OMB agreed that productivity improvement should be a high priority at every level of government but asserted that the type of productivity efforts we describe are the primary responsibility of State and local governments. OMB suggested that we advise and work with State and local public interest groups to gain acceptance of our recommendations. OMB also stated that although it would consider opportunities for reducing program costs and improving efficiency in Federal aid programs, it did not believe that State and local governments should receive money for productivity improvement initiatives over and above what they now receive to manage programs. (See app. II.)

While we agree that basic management responsibility rests with State and local governments, we also believe that the Federal Government has both a vital interest in and responsibility for encouraging State and local productivity improvement. As we point out in this and an earlier report, 1/ Federal funding methods tend to promote inefficiency by rewarding State and local expenditure increases and penalizing efforts to reduce costs. Further, State and local governments generally do not exercise the amount of oversight on federally funded programs that they do on State-funded programs. As a result, Federal funding mechanisms tend to dilute State and local accountability for program management and fiscal control, creating a productivity problem of Federal origin and responsibility.

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1/"State and Local Government Productivity Improvement: What is the Federal Role?" GGD-78-104, Dec. 6, 1978.

A report prepared by a study team appointed by the National Productivity Council 1/ stated clearly,

"It is incumbent on the Federal government to see that these [grant-in-aid] dollars are spent wisely and that future requirements reflect the effective and efficient use of Federal tax dollars by State and local governments."

The Council, which is chaired by OMB, endorsed this report. Accordingly, we feel there is no question that the Federal Government should take actions to fulfill its responsibilities to help State and local governments improve their productivity. As OMB suggested, however, we do plan to share our report with the appropriate public interest groups.

Although in our discussion on incentives we mention the use of additional or special funds for productivity improvement as an approach to incorporating incentives in assistance programs, we also mention sharing cost savings as an alternative approach. Under this latter approach, no additional funds would be necessary to underwrite productivity improvements since States would be allowed to keep a portion of the savings they achieve, while the remainder would return to the Federal Government. Moreover, in terms of our recommendations to individual agencies to test incentive systems, we do not necessarily believe that additional funds are needed for these programs. Rather, we feel that existing demonstration funds can be reprogrammed to include some demonstrations on incentive systems. Much can be done in the area of productivity improvement under existing funding. We do believe, however, that if additional funds were made available, the ultimate payoff would exceed the investment.

OMB took issue with our characterization of its role and recent initiatives, noting that its efforts will not necessarily result in greater grant management standardization and centralization. We have accordingly revised this language to reflect that OMB's activities are directed toward establishing a comprehensive system of governmentwide guidance for Federal assistance programs.

OMB brought to our attention the fact that our use of the word "grant" was inconsistent with its definition under the Federal Grant and Cooperative Agreement Act of 1977 (Public Law 95-224). According to that law, grants are used when no substantial involvement between the Federal agency and recipient is anticipated; whereas cooperative agreements are used when such involvement and oversight is expected. OMB asked that we consider whether this report's recommendations shifted the three programs from grants to

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1/"Report to the National Productivity Council: Federal Actions to Support State and Local Government Productivity Improvement," Nov. 1979.

cooperative agreements or procurement contracts. OMB also asserted that the draft over-generalized from a very limited sample of income maintenance programs.

We agree that our use of the term "grant" is inappropriate; we have substituted the broader word "assistance" in its place. We also agree that the draft appeared to overgeneralize. We have accordingly made changes to reflect the fact that our findings address income maintenance assistance programs specifically and that our findings in these particular programs may demonstrate the potential for savings and productivity improvement in other Federal assistance programs. We do not believe we are in a position, however, to define whether these programs are grants, cooperative agreements, or procurement contracts. Rather, it is the executive agencies under the guidance and oversight of OMB that are charged with this responsibility through the Federal Grant and Cooperative Agreement Act. Further, such an effort on our part lies well beyond the scope of this study. We would like to point out that although our recommendations may seem to indicate that more Federal oversight is needed, our principal intent is to urge Federal agencies to work with and encourage States to improve their productivity. Thus, we see the greater Federal involvement inherent in our recommendations as steps aimed at increasing collaboration between Federal and State agencies rather than extending absolute Federal control. Further, we have eliminated a proposal which appeared in chapter 3 of our draft report which would have directed Federal agencies to require that States eliminate the inefficient procedures and practices we identified. Upon further consideration, we felt that this proposal could be easily misinterpreted as a call for tighter Federal controls, rather than for greater collaborative efforts by Federal and State agencies to improve productivity and control administrative costs.

OMB suggested that our recommendation to it and to OPM reflect the intergovernmental partnership in assistance programs. We agree and have revised our recommendation concerning the development of an interagency program to include representatives from State and local governments and the appropriate interest groups.

OMB also noted that in this report we make the point that State and local governments have no financial incentive to improve productivity, while in a December 1980 report 1/ we assert that a higher level of State and local management attention to program operations may be promoted when a strong matching requirement exists. OMB asked that in this report, we consider the incentive value of a 50 percent matching versus no matching.

Although our December report notes that a higher match may promote closer management attention, the report concludes that

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1/"Proposed Changes in Federal Matching and Maintenance of Effort Requirements for State and Local Governments," GGD-81-7, Dec. 23, 1980.

higher non-Federal matching requirements would work to jeopardize the broader efforts of all three levels of government by screening out needy grantees from participating in a program and by distorting the priorities of States and local governments. Accordingly, we do not view the use of matching requirements as a particularly workable incentive because of its largely negative consequences. We have, however, added a paragraph in chapter 4 to address this issue. In general, we believe that incentives are a largely untested, but potentially significant tool for encouraging productivity improvements without the negative connotations of a match or sanctions.

OMB also asserted that we inconsistently applied the definition of productivity where we discuss in chapter 3 the practice of issuing biweekly UI benefit payments. OMB stated that our discussion related more to reducing the level of service than reducing the costs of providing a given level of service. We agree that client service is involved and that processing checks biweekly instead of weekly reduces the level of service. However, we believe that the reduction of service will not adversely affect the quality of this service because the weekly level of service is generally unnecessary and the overall amount of the benefit payment a client receives will not change. As we noted in chapter 3, 18 States already pay biweekly, and we believe the savings are significant enough to justify issuance of biweekly UI benefit payments by the remaining States as well. We have added a statement in chapter 3 to specifically address this issue of client service.

Finally, OMB pointed out that we cite several times that Federal technical assistance efforts have concentrated on programmatic areas rather than emphasizing efficiency and cost control. OMB questioned whether we are recommending a shift in emphasis away from program areas. The purpose of this report was to illustrate that the potential for improving State and local productivity and for reducing the administrative costs in Federal assistance programs is great. We made no attempt to weigh the opportunities for savings through productivity improvement against those in programmatic areas, nor did we intend to imply that agencies should solely emphasize administrative concerns over those programmatic. Rather, we make the case that because opportunities for administrative savings are real, administrative efficiency as well as programmatic issues should be considered and pursued in Federal technical assistance efforts. We hope that OMB is not suggesting that agencies continue to largely ignore administrative efficiency and cost control matters. To avoid a misinterpretation of our position, however, we have revised the statement OMB referred to.

#### OFFICE OF PERSONNEL MANAGEMENT

OPM agreed with our recommendations, noting its programs to enhance State and local productivity. OPM pointed out that although the National Productivity Council had recommended additional resources for OPM in its new role as the Federal focal point for State and local productivity, it was doubtful the funding would be

approved. Accordingly, OPM's efforts will be limited and contingent upon a reprogramming of current agency resources. (See app. III.)

OPM also made several observations concerning our proposal that it develop an interagency program on the potential use of incentives in Federal assistance programs. OPM felt that the role of the interagency task force was not specific enough and that the responsibilities of participating agencies were either not specific enough or potentially duplicative in view of our recommendations to individual agencies.

We do not believe that the role of the interagency program requires further definition beyond its overall objective to explore the potential of incentive systems. We feel that the mechanics of how the program is established and organized should be left to the discretion of OMB, with the assistance of OPM and participating agencies. We also do not believe that the responsibilities of participating agencies overlap. Development of an interagency program addresses the need to examine the potential for organizational incentives throughout the Federal assistance system. On the other hand, our recommendations to individual agencies relate specifically to the income maintenance programs we studied, while our recommendations to OPM relate to incentives for managers and individuals. Further, membership on the task force should extend well beyond those agencies cited in this report.

#### DEPARTMENT OF HEALTH AND HUMAN SERVICES

HHS agreed "conditionally" with our recommendation on developing systematic approaches for measuring and improving productivity. HHS acknowledged that approaches were needed to improve States and localities' administrative efficiency but expressed concern that because States vary in size, organization, and funding, any systematic approach would have to be adaptable to each State. Therefore, HHS doubted the usefulness of detailed State-by-State comparisons in all aspects of administrative efficiency. Still, HHS agreed that it needs to do more in measuring and improving administrative productivity and that its current efforts need to be more fully integrated. (See app. IV.)

We recognize that differences in organizational structures and procedures exist among the States. We also believe, however, that there are many commonalities among States' administrative processes where State-by-State comparisons would be useful and could be pursued by HHS. As we cite in chapter 2, we feel that HHS' recent efforts to improve the administration of the AFDC program are good first steps. What is needed, however, is an overall, goal-directed approach--a productivity measurement system(s)--for improving the administrative efficiency of the program.

HHS did not agree with our recommendation that data generated from productivity measurement systems be used in the budget process and, in fact, suggested that this recommendation was really a

new approach to sanctions. We feel that the Department misinterpreted our recommendation. As we note in chapter 4, we have taken a position opposing the use of fiscal sanctions. We see the use of productivity data in the budget process not as a means for penalizing States but as a mechanism for achieving accountability in Federal assistance programs. Tying productivity data to the budget process provides for projections of actual resources needed to administer the program and serves as a mechanism for controlling administrative costs. Of course, efforts to use such data must be made in tandem with the implementation of a tested and validated measurement system. However, we believe that in developing productivity measurement systems, it is essential that agencies view the data generated by the system not as an end product, but rather as an integral input to the budget process.

HHS also noted that although we conclude that Labor's Cost Model Management System has numerous deficiencies, we see the program as a prototype for other systems. HHS asserts that because of the high costs of CMMS, agencies should explore less costly alternatives. As we state throughout this report, we believe that CMMS is conceptually sound as an approach for controlling administrative costs and improving administrative efficiency. We point out that elements of CMMS--such as the work measurement system--may be useful and transferable to other programs and agencies. We agree that agencies should explore alternatives.

HHS generally agreed with our recommendations concerning technical assistance and shared its current and planned efforts in productivity improvement. HHS asserted, however, that we did not adequately acknowledge State and local interest in curbing administrative costs. In addition, HHS pointed out that program, not administrative, costs were the bottom line, as recipient payments account for more than four-fifths of the total costs.

We recognize that State and local governments have a considerable monetary stake in AFDC administrative costs. The focus of this report, however, is on changes needed in the Federal assistance system to improve productivity and contain administrative costs. As we mention repeatedly, we believe that the Federal assistance system neither encourages nor rewards States for productivity improvements. We have found that States do not exercise the same oversight of programs with Federal funding as they do with State-funded programs. Further, in AFDC and similar programs where administrative costs are shared, States know that they will be reimbursed for the total administrative expenditures, regardless of how efficiently they manage the programs. Thus, States have little incentive to improve the administrative efficiency of federally funded programs.

We also recognize that program costs are substantially higher than administrative costs. Still, the \$1.3 billion expended for AFDC administrative costs in fiscal 1979 cannot be considered a

minor sum. Furthermore, we believe that the potential for improving efficiency and controlling administrative costs is great and that agencies should seize upon these opportunities by gearing technical assistance efforts to administrative issues and practices, as well as quality control and other programmatic issues.

Finally, HHS agreed with our recommendations to test approaches for providing States incentives for productivity improvement. HHS noted that before seeking special funding authority from the Congress to test incentives, it would explore the possibility of using demonstration funds under Section 1115 of the Social Security Act. We agree with the Department's approach.

#### DEPARTMENT OF LABOR

The Department of Labor agreed in general with our recommendations and delineated some of the Department's efforts to improve CMMS. Labor stated that it would place priority on activities related to improving the measurement design and practice, developing informative analysis, and incorporating productivity value outputs throughout the budget cycle. Labor also said that it would work with States to encourage the elimination of inefficient procedures currently in use. (See app. V.)

While Labor agreed that incentives are useful for stimulating and achieving productivity improvements and cost reductions, it also asserted that incentive systems are difficult to design. We basically agree with Labor's assessment. Because incentives are a novel and largely untested approach, we have recommended that demonstrations be undertaken and that OMB develop an interagency program to explore the potential use of incentives in Federal assistance programs.

Labor also noted that it would consider demonstration projects but argued that such projects are difficult to justify for funding, particularly in view of growing pressures to reduce Federal spending. We feel strongly that demonstrations are needed and have recommended that agencies seek authority from the Congress to fund such projects. Since we believe that incentives hold considerable potential for cost savings and productivity improvement, we feel that such demonstrations can be justified. Further, once agencies have the authority to experiment with incentive systems, they may not necessarily need to seek additional funds but rather could reprogram existing research and demonstration funds to include incentive projects.



WORK MEASUREMENT TECHNIQUES AND THEIR APPLICATION

<u>Techniques</u>			<u>Advantages</u>
Technical estimates	a. Highly technical or irregular work	Maintenance, rebuild, repair of complex items	1. May be only techniques available to establish time limits on certain types of jobs (technical projects, research projects, etc.).
	b. Scheduling and controlling projects for priority, status, evaluation, and costing	Technical, engineering, and research projects	2. Relatively cheap (in relationship to time).
			<u>Disadvantages</u>
			1. Time to do the job is an estimate; thus, worker's actual time may show wide variance (poor control device).
			2. No way of knowing what methods are used to do the job.
Historical estimates (statistical)	a. Irregular work where a work unit may be determined	Administrative, non-direct labor, warehousing	<u>Advantages</u>
			1. This is sometimes the only technique available for extensive coverage in a hurry.
			<u>Disadvantages</u>
			1. Accepts past performance as satisfactory (poor control device).
			2. No way of knowing if past and present methods are the same.
Work sampling	a. Irregular work where a work unit is highly correlated to work input	Clerical, rebuild, repair, warehousing, facility maintenance, non-direct labor	<u>Advantages</u>
	b. Development of management information. (NOTE: Not used to establish work measurement standards)	Determination of delays, utilization of people and equipment, work distribution, feasibility studies, performance checks.	1. Can be used to measure activities which are impractical or costly to measure by other means.
			2. Requires less time (can study several operators or machines at once).
			3. Generally less costly than time study.

Work sampling  
(con't)

Disadvantages

1. Not generally economical for studying a single operator.
2. Methods control may not be as precise as time study.
3. Operator may change work pattern without being observed.

Direct time  
study

- |    |  |  |
|----|--|--|
| a. | Repetitive, short cycle work performed at essentially one work station                           | Parts assembly, machining, packaging, typing, filing, editing, packing |
| b. | Irregular, medium to long cycle work, frequently performed by moving about several work stations | Janitorial, clerical, rebuild, repair, warehousing                     |

Advantages

1. Detailed methods description (good for control purposes).
2. Relatively accurate work measurement technique.
3. Obtain actual time values for jobs being observed.

Disadvantages

1. Each job must be observed and the performance pace rated.
2. Not economically applicable to all jobs.

Predetermined  
time standards  
or basic standard  
data

- |    |  |   |
|----|--|---|
| a. | Repetitive short cycle work where volume is high       | Assembly, machining, packaging, packing, shipping, stock picking, editing |
| b. | Check as to consistency of direct time study standards | Assembly, machining, machine operations                                   |

Advantages

1. More consistency between time values.
2. Eliminates performance rating by analyst.
3. Can be used to compare methods (provided there is no machine time).
4. Can set standard time for job prior to performing the job.
5. Provides a sound basis for engineered standard data.

Predetermined  
time standards or  
basic standard  
data (con't)

Disadvantages

1. Judgment is required to identify basic motions.
2. Not (always) applicable to process controlled, machine controlled, and long or irregular cycle jobs.
3. Detailed type of analysis--costly.

Standard data

- a. Repetitive short and medium cycle work where volume is high

Assembly, machining, packaging, rebuild, repair, maintenance, clerical, warehousing

Advantages

1. More consistency between time values.
2. Can be used to compare methods.
3. Can set standard time for job prior to performing the job.
4. Inexpensive method to establish standard, once standard data has been developed.

Disadvantages

1. Requires time to build up standard data.
2. Costly to build up standard data.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

FEB 13 1981

Mr. D. L. Scantlebury  
Director, Division of Financial and  
General Management Studies and  
Chief Accountant  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Scantlebury:

This is in reply to your draft report, "Millions Can be Saved by Improving the Productivity of Federal Grant Programs Administered by State and Local Governments."

We agree that productivity improvement should be a high priority at every level of government. We hope to be able to streamline Federal aid in such a way as to allow State and local governments more flexibility in managing their own affairs. This should leave them free to pursue productivity improvement and other management reforms, unimpeded by Federal red tape.

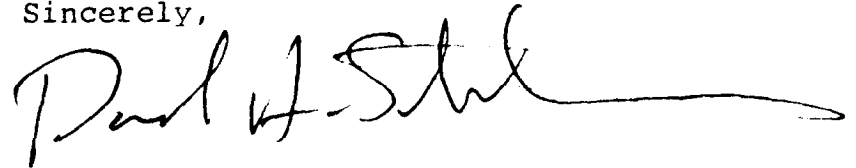
The report recommends that OMB require Federal agencies to take actions to improve the productivity of State and local governments carrying out grant programs. While we believe Federal agencies can encourage and support improved efficiency at other levels of government, we believe that productivity-enhancing efforts like those described in the draft report are primarily the responsibility of State and local governments. In this regard, we believe the Advisory Commission on Intergovernmental Relations and the public interest groups representing State and local governments could be effective vehicles for communicating opportunities for enhanced productivity among these governments. We urge you to advise these groups of your findings, and work with them to gain acceptance of your recommendations by State and local governments.

The draft report also recommends that OMB and OPM explore the potential for establishing incentive systems in Federal grant programs. We certainly intend to consider every

opportunity for reducing costs and improving efficiency in Federal aid programs. However, we do not believe it is necessary, as the report suggests, to provide additional funds to State and local governments to underwrite productivity improvements. We believe effective management of these programs is a basic responsibility of the grant recipients, and that they need not receive still more money to manage grants they already have.

Enclosed is a discussion of six more detailed points that are part of our response. OMB staff will be happy to discuss any of our comments with you. We appreciate the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "David A. Stockman", with a long horizontal flourish extending to the right.

David A. Stockman  
Director

Enclosure

## Specific OMB Comments on Draft GAO Report

"Millions can be saved by improving the productivity of federal grant programs administered by state and local governments"

1. A section that describes OMB's role in assistance management begins on page 31. The following sentences on page 34 are of concern to us:

"Now OMB is undertaking a host of new initiatives to standardize and centralize grant management on a governmentwide basis. Through these initiatives, federal oversight of grants should be improved, accountability in the grant system strengthened and the efficiency and effectiveness of federal grant programs enhanced.

This is not entirely correct. While OMB will continue to look for opportunities to simplify grants management, this will not necessarily result in greater standardization or centralization. Indeed we believe it is important for grantmaking agencies to retain a significant measure of flexibility in carrying out their responsibilities. The greater oversight envisioned in the report raises another question. Under the provisions of the Federal Grant and Cooperative Agreement Act (P.L. 95-224), grants are to be used when no substantial involvement is anticipated between the federal agency and the recipient during performance of the assisted activity. At some point of oversight a grant can no longer be the legal instrument and a cooperative agreement must be used. The draft report is silent on this fundamental point. While it clearly recommends more federal involvement in the assisted activity, it continues to refer to the three programs as grant programs.

Shortly after P.L. 95-224 was enacted, the GAO concluded that for some labor programs which flow through intermediary service deliverers, the intermediaries are performing as federal contractors. That logic, applied to the programs examined in the draft report, might require that some or all of the three be shifted entirely from assistance to procurement.

We request the GAO to consider what it has learned from three years of monitoring federal implementation of P.L. 95-224, and discuss in the report whether the recommendations would shift the three programs from grants to cooperative agreements or even procurement contracts.

2. The draft title implies that productivity improvements could save money across the broad range of State and local government grant programs. The study only looked at three programs which provide income maintenance assistance to individuals. We believe that before general approaches like the ones recommended for OMB and OPM are adopted, state and local assistance programs should be categorized by the true Federal interest, expectation, and intended relationship. Such a categorization would probably reveal that:

For some, the true product does not lend itself to productivity analysis, and

For others, the intent is to have the recipients primarily responsible for managerial efficiency.

Productivity analysis is but one tool for program evaluation. It is not a universal tool

and, if improperly employed, can result in unintended adverse consequences. We believe that the draft over generalized from a very limited program sample.

3. The recommendations to OMB and OPM should recognize the basic intergovernmental partnership that underlies these programs, and include an active role for State and local governments in the development of productivity policies that may apply to them.

4. The draft indicates in a number of places, but particularly on page 27, that "state and local governments have no financial incentive to improve efficiency". It says that under Unemployment Insurance, the federal government pays 100% of the administrative costs. Under the other two, the states absorb 50% of these costs.

In December, GAO issued a report on matching and maintenance of effort. Page 21 of that report says, "However, when a substantial state fiscal outlay is generated by strong matching requirements, a higher level of real attention by central managers to program operations may be promoted." It would be useful if the productivity report would include the GAO observations on the incentive value of a 50% matching vs. no matching, in similar programs. If the 50% match truly has no incentive effect, as the draft indicates, this is an important observation that should be highlighted.

5. The definitions of productivity, which appear toward the back of the draft, should be applied consistently. On page 13, the option of paying biweekly rather than weekly is discussed. While this is a legitimate issue for cost/benefit analysis, we believe it is more one of reducing the level of service than reducing the costs of providing a given level of service.

6. It is important that the limited federal resources for monitoring and technical assistance be used where the potentials for service improvement and cost reduction are greatest. In a number of places, but specifically on page 4, the report indicates that federal technical assistance has largely been concentrated "on programmatic issues such as payment timeliness, error rate reduction, fraud control and client services rather than emphasizing administrative issues such as efficiency and cost control." It would be helpful if the final report would indicate what GAO believes to be the relative opportunities for savings through productivity improvement in relation to the opportunities for savings in more programmatic areas. Put another way, if more federal resources cannot be made available, is GAO recommending a shift of emphasis?

United States of America  
**Office of  
Personnel Management**      WASHINGTON, D.C. 20548

In Reply Refer To

JAN 15 1979

Mr. H. L. Krieger  
Director  
Federal Personnel and Compensation Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Krieger:

We appreciate the opportunity to comment on your draft report entitled "Millions Can Be Saved by Improving the Productivity of Federal Grant Programs Administered by State and Local Governments."

We are in general agreement with the recommendations made in your draft report relating to the Office of Personnel Management's role in assisting State and local governments to improve their productivity through better measurement and incentive programs and in working with other Federal agencies to improve their technical assistance efforts in productivity. The Office of Personnel Management (OPM), through its Intergovernmental Personnel Act program, has been designated by the National Productivity Council as the lead Federal agency for encouraging State and local governments to make those management improvements that will enhance their productivity. The Intergovernmental Personnel Act (IPA) is the Federal Government's sole program devoted exclusively to management capacity building at the State and local level. For close to a decade, OPM has worked successfully with State and local governments and their public interest organizations through grants, technical assistance, mobility assignments and the administration of merit system standards. Through a network of Governor's designees and State advisory councils, OPM has been able to assess State and local needs and develop programs responsive to them.

We share GAO's belief that there is a significant Federal interest in increasing State and local productivity. The Office of Personnel Management's approach to enhancing State and local productivity is to support those management improvements that demonstrably increase the quality of public services without increasing costs. Through direct financial support, technical assistance and training, increased research and testing, more effective information sharing, and better coordination of other Federal activities we hope to implement management improvement strategies which have been shown to increase productivity. Such strategies include not only measurement and incentive programs but also improved use of capital investments and technology and more systematic operating procedures and organizational structures.

In our recent annual report to the National Productivity Council we spell out some specific short and long range actions that we hope to take to improve State and local government productivity. I have enclosed a copy of our annual report for your information.




Success in implementing a State and local government productivity program will be heavily dependent on the amount of additional resources OPM receives for this new initiative. The National Productivity Council recommended a small additional amount of funding for OPM in FY 81. It also recommended an expansion of the IPA grant authority to strengthen our ability to support general management improvements resulting in increased productivity. At this time it does not appear that we will be getting either additional funds or an expanded grant authority in FY 81. The budget outlook for FY 82 is also not promising. Thus, we anticipate that we will only be able to implement a very limited State and local productivity improvement effort through the reprogramming of our current resources.

Finally, we also agree with the GAO recommendations relating to the Federal productivity program, with the following observations:

- . the role of the Interagency Task Force is not specific enough with regard to its authority/responsibilities vis-a-vis the individual agencies;
- . the responsibilities of the agencies in the Task Force are not specific enough, and/or there are overlapping responsibilities, e.g., three agencies - OPM , Agriculture, HHS - are each charged with, "developing productivity measurement systems";
- . to lend greater authority and funding for the program, it should be included in the proposed Congressional Productivity Reform Act of 1981.

I hope you will be able to reflect these comments in the final version of this GAO report.

Sincerely yours,



Jule M. Sugarman  
Deputy Director

Enclosure



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

14 JAN 1981

Mr. Gregory J. Ahart  
Director, Human Resources  
Division  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Millions Can Be Saved by Improving the Productivity of Federal Grant Programs Administered by State and Local Governments." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard B. Lowe III  
Acting Inspector General

Enclosure

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE  
GENERAL ACCOUNTING OFFICE'S DRAFT REPORT ENTITLED "MILLIONS CAN BE  
SAVED BY IMPROVING THE PRODUCTIVITY OF FEDERAL GRANT PROGRAMS  
ADMINISTERED BY STATE AND LOCAL GOVERNMENTS"

GENERAL

The Department concurs in the general thrust of the draft report urging improved productivity in the administration of Federal grant programs by State and local governments. Indeed, the draft recognizes some of our productivity initiatives in the Aid to Families With Dependent Children (AFDC) program--the HHS-administered grant program covered by this audit--and we describe these initiatives more fully and others, too, in response to GAO's individual recommendations, below.

Having made this affirmation, we believe several cautions should be borne in mind in assessing the auditors' findings and conclusions.

Cost and Quality

- Fiscally, the bottom line is total program cost. Payments to recipients in FY 79 (see page 2 of the report) account for more than four fifths of total costs.
- Improving the validity and accuracy of assistance payments is a National goal to which we, the States, and other Federal agencies--including GAO--have expressed a current commitment. There are many initiatives underway at all levels of government in pursuit of this goal.
- This goal concerns costs; it also concerns public confidence in the competence and fairness of government.
- While a number of assistance payment quality and productivity emphases may be complimentary, not all are.
- Caution must be exercised to insure that the desire for productivity is appropriately balanced against the quality and humanity of the service provided; the accuracy of the payments made; and the cost efficiency of the total operation.

States' Stake in Productivity

The draft report assumes little State and local interest in curbing grant program administrative costs. States (and some localities) do have a very substantial monetary stake in AFDC administrative efficiency. They pay almost half the cost. This is noted at page 2 of the draft, but seems little recognized elsewhere in the report.

Labor's Cost Model Management System (CMMS)

GAO cites the Department of Labor's Cost Model Management System--a management information system intended to monitor and control State administrative costs and performance in the Unemployment Insurance program--as a prototype for similar systems for HHS' and Agriculture's use with their grant programs. Yet the report concludes there are numerous deficiencies in CMMS operations and effectiveness and is silent on the costs of such a system. Due to the high costs of systems such as CMMS, we may need to explore less costly alternatives for gathering data.

RECOMMENDATIONS TO HHS AND AGRICULTUREGAO Recommendation

--Implement systematic approaches to measure, analyze and improve the productivity of State and local governments administering the AFDC and Food Stamp programs.

Department Comment

We concur conditionally.

Where by "systematic" approaches GAO means "comprehensive" or "overall" approaches that can contribute to improvement of all aspects of a State's/locality's AFDC administrative efficiency, we are broadening our efforts in this direction, as noted below. However, we would not agree--given the joint Federal-State nature of the AFDC program, and State diversity--that a "systematic" approach built on detailed comparisons from State to State of staffing and performance in all administrative aspects holds the greatest promise for productivity improvement.

States vary greatly, as the auditors know, in size, organizational arrangements, funds available to the program, management and computer resources, staff and clientele characteristics, etc.. State Plans also vary within parameters the Federal government may mandate. Therefore, any systematic approaches to measure, analyze and improve productivity must be adaptable to each State. Cross comparisons are helpful to problem identification but no panacea.

Some of the things we are doing, or have done:

- . Development of the Family Assistance Management Information System (FAMIS) General Systems Design has been accomplished to provide a model for State adaptation and a standard for evaluating and monitoring State management information and

control computer systems which will provide for more efficient, effective, and economical administration of the AFDC program. We will also provide technical assistance to the States to plan, design, develop, or install such systems--all pursuant to Pub. L. 96-265, enacted June 9, 1980.

The Department anticipates that--over the next 6 years--45 States will take advantage of the incentive Federal funding Pub. L. 96-265 provides to them for upgrading their computer systems capabilities.

- . Preparation and dissemination to the States of a series of technical assistance reports, such as "Task Analysis and Job Design for Public Assistance Agencies", "Managing the Intake Process", and the series of "How They Do It" publications--notably, a "How They Do It" on Michigan's Work Measurement and Workload Standards technique that has been issued to all States.
- . Ongoing analysis of administrative cost variances between States for technical assistance in problem identification.
- . Continuing advocacy of State use of Error Prone Profile systems which can lead to better State utilization of staff resources.
- . Consultant studies performed and reported under HHS auspices--notably a Booz, Allen and Hamilton "Comprehensive Study of AFDC Administration Management" and Peat, Marwick and Mitchell's "Work Measurement and Work Simplification". These have been used by the Department as the basis for various technical assistance efforts. The first of these contributed significantly to the development by California of its Cost Control Plan which has substantially slowed the growth of administrative costs in California and is being studied by other States.

We agree that more needs to be done and our present efforts more fully integrated, and we will take action in this direction; however, we believe it should be clear from the foregoing that HHS has been active in implementing approaches to measure, analyze and improve productivity of State and local governments administering the AFDC program and that these efforts address effectively the objectives stressed in GAO's report.

#### GAO Recommendation

--Use the data generated by the systems above in the allocation of administrative funds to States.

#### Department Comment

We do not concur. This could be considered a new approach to sanctions and could be expected to meet strong State resistance and present, in operation, similar flaws to those GAO has recently

noted and decried in its report "Better Management Information Can Be Obtained From the Quality Control System Used in the Aid to Families With Dependent Children Program" dated July 18, 1980. In that report GAO argued for eliminating error-rate-based State sanctions.

We believe the present climate of Federal-State relationships would make the necessary statutory and/or regulatory changes impractical to achieve, even if they were found desirable.

### Recommendations to Labor, HHS, and Agriculture

#### GAO Recommendation

--Require, where feasible, that all States eliminate inefficient procedures identified in this report. (See GAO note below.)

#### Department Comment

We concur.

We will work with the States to improve the specific procedures identified as "inefficient" in this report in the areas of computerizing manual tasks, consolidating computer input documents, and streamlining processing procedures.

#### GAO Recommendation

--Work with States, through technical assistance programs, to identify other opportunities for improving the productivity in administering these programs.

#### Department Comment

We concur.

A great deal has been done and is being planned in line with this recommendation. Many of the items noted in our first response, above, concern technical assistance to States. Other work on productivity improvement is described below.

GAO's draft mentions the Department's Welfare Management Institute (WMI) and the Profile on State Performance Report.

WMI was created within the Social Security Administration's (SSA) Office of Family Assistance (OFA) in 1978 and has taken many steps to improve productivity in State and local AFDC agencies. During its first two years of operation, the Institute has:

- sponsored five welfare management "Exchanges" (conferences)
- published five newsletters;

GAO Note: This recommendation was deleted.

- developed and disseminated 12 publications which document successful management and technological practices in AFDC (12 more publications are either in the final development stage or at the printers);
- established a national reference center which contains a collection of over 1000 documents relating to welfare administration; and
- provided technical assistance to State/local agencies in all ten HHS regions.

Although many WMI initiatives have focused on corrective action strategies, almost all of these initiatives have productivity improvement as an underlying benefit. For example:

- (1) Productivity improvement, work measurement, and establishing performance standards have been major issues discussed at each of the five WMI sponsored conferences.
- (2) The Department has produced a series of publications which WMI has distributed to over 5,000 State and local AFDC offices dealing with work measurement and productivity improvement. They are:
  - Controlling the Action: A Guide to Self-Evaluation in the AFDC Program.
  - A Work Measurement System for the AFDC Program: Pilot-Test Guidelines.
  - SSA Conference on the Utilization of Characteristic Profiles as a Workload Planning Technique.
  - Job Rotation Program: Oregon.
  - Workload Measurement in AFDC: Seminar Proceedings.
  - Work Measurement Studies for Public Assistance Functions: Louisiana, West Virginia, Minnesota, Washington, Virginia.
  - Workload Standards for Public Assistance.
  - Task Analysis and Job Design for Public Assistance Agencies.
  - Supervisory Case Review Systems.
  - Wage Record Clearance Systems.
  - Managing the Intake Process in Income Maintenance.

- (3) The WMI's quarterly newsletter (also distributed to 5,000+ AFDC offices) contains numerous articles on exemplary practices in State and local agencies which contribute to increases in productivity and job performance. Examples:
- "Group Intake" - an exemplary intake process in Kent County, Michigan, which includes pre-screening for all AFDC applicants, early denial for obvious ineligible, and indepth interviews by appointment.
  - "Quality Circles" - a systematic approach used to improve agency productivity.
  - "Work Measurement" - articles on approaches used in several State and local agencies to measure job tasks and set caseload standards.
  - "Generic Caseload" - experiments in several AFDC agencies to coordinate AFDC, Medicaid, and Food Stamp program responsibilities.
  - "Teleconferencing" - efforts made in several States to save travel costs and time by conducting fair hearings, staff training, and policy dissemination by telephone.
  - "Data Matches" - efforts in several States to identify AFDC client resources by exchanging computer tapes with other State, local, and Federal agencies.
- (4) The thrust of many WMI technical assistance activities has been in the areas of productivity improvement, work measurement, and performance standards. Among them:

● Group Screening

As an outgrowth of a WMI technical assistance project and a presentation at a WMI sponsored conference, two county departments of social services (DSSs) in Minnesota recently adapted and implemented an intake screening process from Kent County DSS (Grand Rapids, Michigan). The results: both agencies have substantially reduced their intake workloads (by ten percent in one of the departments) as well as the length of time from application to actual determination of eligibility. One of the county departments, which modified the Kent County procedures to fit its needs, reduced the initial AFDC interview time by 25 minutes and its General Assistance intake staff from 17 to 14 persons.

WMI technical assistance staff subsequently provided resources and on-site assistance to two additional local agencies which are currently in the process of implementing the Kent County model. One of these agencies, Hinds County



Department of Public Welfare (DPW) in Jackson, Mississippi, plans to experiment with group screening for eligibility redeterminations. Three other transfer projects are pending and over forty other agencies, both State and local, have requested from the WMI Reference Center copies of the video tape and script used in Kent County to conduct the group screening. Hopefully, these agencies will be able to use the group screening concept to improve their present intake procedures.

- WMI technical assistance staff have provided resources and on-site consultation to three States in the area of work measurement. WMI funds were used for representatives from these three States to travel to another State to study the other State's approach to work measurement. As a result of this initiative, WMI prepared a manual (available to all States) documenting approaches to work measurement in eight States.
- As a result of WMI publications and conferences, over 25 technology transfers have taken place - many of which have served to enhance productivity in State and local AFDC agencies.

In addition to WMI initiatives, the Department has developed a Profile on State Performance report which will be issued semi-annually. Although this system presently uses 11 measures, the number of measures will be increased. The system does measure productivity, quality, accuracy of payment and administrative costs. The system is designed to be used as a basis for providing technical assistance in improving State performance.

One of the causes of high error rates and lack of productivity is the degree of training of the State staff. Therefore, the Department is assisting States in upgrading and strengthening their training activities in two ways.

First, the Department recently promulgated new training regulations which require that the State provide in-service and continuing training for AFDC staff specifically related to their job tasks. To help States upgrade and strengthen their training efforts, nine of the ten HHS regions have appointed manpower and training specialists to provide technical assistance to States. The training provided by the States includes both classroom and on-the-job training designed to instruct new AFDC workers on the most effective methods of reducing errors, improving supervision and increasing productivity.

Second, the Department itself provides a large-scale management development course through the American Public Welfare Association. Over five hundred executive level and middle level managers have been trained in three sites throughout the country.

There have also been national training efforts in the areas of productive interviewing, effective verification, case control and work management. Computer Science Inc. has also worked intensively with some 16 States to improve management systems.

The Department is presently considering the feasibility of developing standards for the entire State training program for any State.

The Department also will be developing evaluation criteria for training programs and tools to ultimately evaluate the benefits to the AFDC program.

In the area of assessment efforts, the Office of Assessment of the Social Security Administration has conducted intensive management reviews of local program operations in Franklin County (Columbus), Ohio, Philadelphia and other counties in Pennsylvania and St. Louis, Missouri. A management review is currently scheduled for Essex County (Newark), New Jersey for February-April 1981.

These reviews include a study of all program operations and a series of over 100 recommendations at each site for specific improvements in the management, administration and productivity of local welfare offices. The Department will undertake a series of these management reviews in FY 1981, 1982 and 1983. This activity represents an expansion of a recently developed highly successful approach to improving productivity at the local, county and State levels.

#### GAO Recommendation

--Seek authority from the Congress to develop and fund demonstration projects testing approaches for providing States incentives for making productivity improvements in the UI, AFDC, and Food Stamp Programs.

#### Department Comment

Some funds are available under Section 1115 of the Social Security Act, although competition is keen for them both among applicants and possible projects.

The Department is using Section 1115 of the Social Security Act to develop projects which aim to improve administrative efficiency. Vermont, Michigan and South Carolina were awarded Section 1115 grants and waivers to test administrative techniques for coordinating the operations of the AFDC and Food Stamp programs to improve administrative efficiency and reduce error rates.

We are investigating the possibility of using Section 1115 funds to test incentives for efficiency.

We believe this issue should be resolved before any special funding authority is requested from Congress.

GAO Recommendation

--Report to OMB on the demonstration of successful incentive systems for State and local governments so that effective incentives can be shared and transferred to other grant programs.

Department Comment

We concur. When successful incentive systems are developed the Department will report to OMB so that they may be shared on a government-wide basis.

**U. S. Department of Labor**

Inspector General  
Washington, D C 20210



JAN 26 1981

Mr. Gregory J. Ahart  
Director  
Human Resources Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter to Secretary Marshall requesting comments on the draft GAO report entitled, "Millions Can Be Saved By Improving The Productivity of Federal Grant Programs Administered By State and Local Governments". The Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald Goldstock", written over the word "Sincerely,".

RONALD GOLDSTOCK  
Acting Inspector General

Enclosure

U.S. Department of Labor's Response To  
The Final General Accounting Office  
Report Entitled --

Millions Can Be Saved By Improving  
The Productivity of Federal Grant  
Programs Administered By State And  
Local Governments

Recommendation:

Take actions necessary to correct deficiencies in the Cost Model Management System and to refine the system as a productivity improvement program. Corrective actions needed include: (1) improving control over both the cost model studies and operational and cost improvement projects and (2) using the system in the budget process.

Response:

The Department concurs with the recommendation in general and with many of the auditor's findings. Several important control revisions have already been made and others are being tested or planned. The Department intends to fully use the Cost Model Management System to foster continuing productivity increases and to make necessary budget changes where unjustified costs are uncovered.

The more important recent improvements include:

- new Master Product Codes (MPC's - grouped and numbered descriptions of procedural groupings) have been issued which, through experience, are numerous enough to give a sufficient level of detail, while not being so numerous as to provide useless minutia. The MPC's are also designed to extract exactly the level of detail required by improved Federal comparative analysis procedures.
- a complete end-of-measurement Federal document audit has been instituted and has been most effective in cleaning up numerical errors in final productivity calculations. The Department has rejected and returned for correction several State reports of measurement which, while properly performed, were inaccurately summarized.

- a program of workload count validation has been instituted covering all workload items pertinent to the development of UI productivity data. The verification program has made significant inroads in the areas of misinterpretation of Federal definitions and miscounting or misreporting total work items.

Additionally, the Department is moving toward further technical improvements in the required measurement system, such as:

- detailed analysis of the reasons for differences in productivity between offices in the same State.
- improved flow chart procedures and retraining.
- improved and simplified comparative analysis procedures, concentrating attention in areas of exceptionally poor performance and/or high cost.

The recommendation states that necessary corrective action includes using the system in the budget process. The body of the report recognizes that the Department indeed does use the productivity data in the State allocation process.

The problem appears to arise from the fact that productivity values are not used to build the original appropriation request. These values, therefore, are useful during the budget cycle only after the total spending limits have been approved.

The Department agrees in theory with this criticism; and, the conceptual framework of the Cost Model Management System has, in fact, always anticipated the use of its outputs throughout the budget cycle. But, in order for the Department to gain acceptance of the Cost Model "MPU's" as the starting point for the appropriation process, these MPU's must be accurate not just in terms of numerical precision. They must be accurate in terms of truly representing a State operation which is functioning at the resource level of "least cost to support satisfactory service."

Once the analytical processes of the Cost Model Management System are fully effective and all unjustifiable cost has been trimmed from the system, the Cost Model MPU's will be accepted by the Department as the basic building blocks,

along with accurate workload estimates, for putting together the original appropriation request.

Until this mutually desirable goal is achieved, the productivity factors, since they represent the operational costs as they are rather than as they should be, will be viewed much like the EPA mileage ratings: good for comparative purposes only. Even here, the value is great.

There is much to say for a system which produces outputs, when used at allocation time, that can equitably distribute resources to the States. Prior to the Cost Model concept, equity of resource distribution was based more on judgement than on fact. In addition to this positive advantage, the States now have a direct impact on allocation decisions and are better prepared to make their case in the competition for grants dollars.

Once the funds reach the State, the program managers are far more effective and knowledgeable in their internal allocations. They are much more cost-conscious now and better able to match resources to needs. Being able to deal in the common denominator of productivity factors rather than dollars increases their internal control abilities, as well.

The Department is gratified at the report's overall stance that the Cost Model Management System is conceptually sound. The Department is also pleased to be in the apparent fore front of effective productivity measurement. It will continue to make improvements to measurement design and practice, develop increasingly informative analysis, and incorporate the outputs throughout the budget cycle, giving these activities very high priority in overall planning.

Recommendation:

To improve the administration of UI, AFDC, and Food Stamp programs, we recommend that the Secretaries of Labor, HHS, and Agriculture:

- require, where feasible, that all States eliminate inefficient procedures identified in this report; and (See GAO note below.)
- work with States, through technical assistance programs, to identify other opportunities for improving the productivity in administering these programs.

GAO Note: This recommendation was deleted.

Response:

The Department concurs. There has already been considerable cost-benefit derived from previous procedural analysis and acceptance of recommended changes by the States, and we intend to continue using the data from the Cost Model Management System to pinpoint inefficiencies.

It must be remembered that the Department cannot legally "require" a State to change procedure. The only recourse is to withhold funding for a procedure which has been shown to be costlier than necessary. This course is usually successful, though, since to continue the unfunded procedure normally places an unacceptable burden on the State.

The Department's ability to improve productivity through technical assistance will depend upon staffing and travel restriction decisions yet to be made by the incoming administration. It does not appear likely that these decisions will create an increased capability. Therefore, the Department will continue to rely heavily on the comparative analyses coming from the Cost Model Management System to reveal the more cost beneficial procedures now existing in the States. These will form the basis of most of our recommendations for productivity improvement rather than large-scale on-site testing and evaluation of new procedures.

Recommendation:

We recommend that the Secretaries of Labor, Health and Human Services, and Agriculture:

- seek authority from Congress to develop and fund demonstration projects testing approaches for providing States incentives for making productivity improvements in the UI, AFDC and Food Stamp programs; and
- report to OMB on the demonstration of successful incentive systems for State and local governments so that effective incentives can be shared and transferred to other grant programs.

Response:

The Department concurs. Incentives are a proven useful technique to stimulate and achieve both program improvement and cost reductions.

But the design of effective incentives requires entering a tough arena where one person's incentive is another person's disincentive. Examples:



- a certificate of merit and/or small cash award to supervisory or middle management personnel may be highly motivational at that level, but means nothing to administrative level personnel who must manage with less because of the increased productivity of subordinates.
- a large cash bonus to top management is often viewed as a disincentive to subordinate staff who view themselves as now overburdened because "the boss" made a saving by increasing their productivity.
- the case above can also be a disincentive at the State departmental administrator's office or the governor's office for the "savings" have cost them funding and jobs to fill.
- instead of individual cognitive incentives, the motivation can be an administrative one where a portion of savings accrued through productivity increases can be retained by the State. In this case, no individual is rewarded or, conversely, perceives a burden. But, to be effective, the retained savings must be a significant percentage of the total and this "loss" becomes a potential disincentive for the original funding agency.

There are no easy answers; and probably no cheap answers. But, the Department agrees that the issue has potential merit and is worth pursuing.

The Department will consider the demonstration project approach. But this approach takes time, and funding approvals within the executive branch - PRIOR to SUCCESS - are always difficult to justify. Demonstration funding will likely become even less desirable in the immediate future as the attention of both the executive and the legislative branches turn to the broader issue of severely reduced Federal spending to combat the unacceptable level of inflation

This becomes a time, then, to also consider those incentive efforts which are low-cost or no-cost and accept the fact that they will produce less in the way of savings than the system will require. Since this is the operative reality, we must continue to influence the balance of the reduction of costs through the budget authority. Decisions of this nature, while less palatable, can accomplish the desired reduction in Federal outlays far more quickly and directly. Such decisions are also more in line with the current mood of the nation.

Comments:

The body of the report contains several statements of fact. The Departments specific concurrence and comments on each are as follows:

1- Paying UI benefits biweekly reduces costs and increases productivity. (Page 13 of the report):

The Department concurs that biweekly reporting and payment of benefits is more economical. Another significant advantage is the reduction in cost and inconvenience to claimants. The Department has long advocated biweekly reporting but does not have the legal authority to make it mandatory. The Department will take positive steps to encourage those States still on weekly in-person reporting to change to biweekly reporting.

2- Consolidating biweekly payments in one check. (Page 15 of the report):

The Department concurs that savings will result if one check is written covering benefits due when more than one week is claimed. Positive steps will be taken to insure that the affected States change their procedures.

3- Duplicate claim filing can be eliminated. (Page 19 of the report):

The report suggests that savings could result in Michigan if the new claim served to establish the benefit year in case where claimants were disqualified. It is implied that this is an administrative procedure.

The requirement for a second new claim following a period of disqualification before a benefit year can be established is a requirement of Michigan law. Several other States have similar provisions. The reasons for this feature of a State law are based on legislative policy rather than administrative cost considerations. The Department will call this to the attention of the States involved for consideration for legislative action.

4- Duplicate UI payment procedures can be eliminated. This recommendation relates to claims procedures in Massachusetts. (Page 20 of the report):

The Department concurs. The recommendation will be discussed with the agency.

5- Eliminating unnecessary tasks. (Page 21 of the report):

This recommendation relates to the practice in Rhode Island of stationing State Treasury agents in local UI offices to validate UI checks. The Department concurs that the process should be eliminated. As the report points out, the agents are being phased out over two years beginning in FY 1981. As of January 1981 all local office Treasury staff are gone. The remaining central office Treasury staff are performing necessary accounting functions.

6- Prescreening welfare clients more carefully. (Page 18 of the report):

The recommendation relates to the practice of requiring all welfare clients to obtain an official denial of UI benefits. The Department concurs that the practice is not only unnecessary and costly, but is a burden on welfare applicants. In States where this practice exists Employment Security Agencies will be asked to take the initiative to make necessary changes.





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