

LEGISLATIVE OPTIONS FOR DEVELOPING WELFARE
COMPUTER SYSTEMS IN CALIFORNIA

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EXECUTIVE SUMMARY

This report reviews the revised feasibility report on the Statewide Public Assistance Network (SPAN) prepared by Arthur Andersen and Company. In addition, the report presents five options available to the Legislature for continuing the development of statewide computer systems that could improve the administration of public assistance programs in California.

As a starting point, we discuss the problems with the current system of welfare administration in California--problems that the SPAN project intended to solve. Next, we analyze five alternative approaches that the Legislature could take in attempting to address these problems. Based on this analysis, we then recommend that the Legislature adopt a limited, step-by-step approach to future computer systems development.

Problems with the Existing Welfare System

There are three major problems with welfare administration in California:

- Lack of uniform welfare policy application throughout the state;
- High error rates; and
- Missed opportunities for improved efficiency through automation.

To some extent, these problems can be solved by the application of computer technology.

Options Considered

We have identified five options, listed below, which the Legislature has available to it in attempting to develop state computer systems that can help solve the problems associated with the current welfare system:

- Require state administration of welfare programs with a state-developed, state-run, and state-maintained computer system;
- Require development of the central delivery system concept using one of the SPAN designs;
- Develop and maintain two systems, one based on the Case Data design and the other based on Los Angeles County's welfare computer system, and expand MEDS to function as a statewide welfare index (this approach was recommended in the Arthur Andersen report);
- Require the Department of Social Services (DSS) to prepare and implement a long-range plan for computer systems development capable of achieving the Legislature's goals for welfare administration; and
- Repeal the provision of existing law requiring the development of a central delivery system mandate and continue computer system development under existing departmental policies.

Recommended Action

We recommend that the Legislature direct the DSS to prepare a long-range plan for the development of computer systems that can achieve the Legislature's goals for welfare administration. The plan should identify the specific steps that must be taken in order to:

- Meet those information needs of the state that are currently unmet;
- Develop cost-effective computer systems that can improve program efficiency and reduce error rates; and

- Increase the uniformity with which welfare policies are applied throughout the state.

In addition, the plan should include specific milestones by which the Legislature can gauge the DSS' success in completing the steps specified in the plan.

Justification for the Recommendation

Clearly, the objectives of this option are modest compared to the objectives of the central delivery system. Given the state's experience in attempting to develop large systems of this type, however, modest objectives would seem to be appropriate. Too many times in the past, the Legislature has allowed the DSS to take on large projects with ambitious goals only to find that after significant funds have been committed to the prospects, the department had little to show for the effort. The virtue of a planned effort involving a series of steps toward welfare automation is that it would minimize the chances and consequences of failure, while still working toward the same goals that the central delivery system was supposed to achieve. Such an approach would not preclude the development of a single statewide system, operated either by the state or by counties. Rather, it sets a deliberate pace for computer systems development that could ultimately result in a statewide computer system.

We recommend this approach to computer systems development for the following additional reasons:

- It requires that computer development efforts be directed toward identified problems. This option concentrates the state's efforts to develop data systems in those areas where the current

system fails to provide adequate information. This option recognizes that there is much in the existing welfare administration system that functions well. In doing so, it would enable the state to take advantage of the existing system's strengths and concentrate its efforts to make improvements where they are most needed.

- It requires that resources for computer systems development be targeted at those activities that offer the greatest amount of program savings and tests the viability of these activities through pilot testing before statewide implementation. Welfare operations are labor intensive, and automation offers considerable potential for saving staff in the processing of welfare applications and in the monthly review of benefits and eligibility. Implementation of this option would focus the department's efforts on those computer projects with the greatest potential for increasing program efficiency, such as (1) on-line entry of case data by eligibility workers, (2) automated eligibility determination based on the input data, and (3) electronic transfer of funds.
- It minimizes the risk of failure. This option requires a limited commitment of resources to achieve its objectives. If the DSS fails to accomplish successfully any one of the steps specified in the plan, the amount of money spent will not have been great. Moreover, failure at any point along the way would not sacrifice earlier accomplishments.

Other Options Have Serious Drawbacks

In Chapter III of this report, we detail the advantages and disadvantages associated with each of the five options that we have identified. The major disadvantages associated with those options that we do not recommend include the following:

- State administration of welfare programs would impose substantial conversion costs without providing sufficient assurances of offsetting savings.
- The central delivery system concept (SPAN) would separate the responsibility for welfare administration between the county and the state, removing county control over its data processing activities.
- Centralization of computer activities would increase the costs of other data processing activities conducted by the counties.
- Given the DSS' lack of success to date in developing large new computer systems, any new large-scale efforts, either those using the SPAN design, those envisioning central state administration, or those recommended by Arthur Andersen, would be a high-risk proposition.

INTRODUCTION

This report is submitted in response to a legislative directive contained in the Supplemental Report to the 1983 Budget Act. Specifically, the report requires the Legislative Analyst to review the Revised Feasibility Report on the Statewide Public Assistance Network (SPAN) prepared by Arthur Anderson and Company. In addition, the report directs the Analyst to present the Legislature with options for the continued development of statewide computer systems that can support the administration of public assistance programs in California. The Department of Social Services (DSS) also is required to submit a report that reviews the revised FSR and analyzes legislative options for the development of welfare computer systems.

The SPAN project resulted from a provision of Ch 282/79 (AB 8) which required the development of a "centralized delivery system" for the administration of welfare programs. Although the DSS had begun to develop such a system, the Legislature terminated funding for the project in 1982 and commissioned an independent study of the various alternatives for complying with the mandate contained in Chapter 282. Arthur Andersen and Company was selected to conduct the study.

Arthur Andersen and Company presented the results of its study to the Legislature in April 1983, and recommended a specific approach toward statewide welfare automation. The Legislature, however, did not adopt the recommendation. Instead, it directed the Legislative Analyst and the DSS

to review the revised feasibility study report and present options for continued statewide computer systems development.

Chapter I of this report briefly reviews the history of California's attempts to develop statewide computer systems for the administration of welfare programs. Chapter II describes the existing welfare system, suggests five goals that can be used to judge the performance of the system, and evaluates the system's performance in light of these goals. In Chapter III, we evaluate five options for developing statewide computer systems in support of welfare administration. These options are (1) state administration of welfare programs, (2) a central delivery system, (3) the Arthur Andersen recommendation, (4) requiring the DSS to develop a long-term plan for computer systems development, and (5) taking no action. We review the advantages, disadvantages, and the uncertainties of each option.

We recommend that the Legislature require the DSS to prepare a long-term plan for developing state computer systems that can improve the administration of welfare programs. This option admittedly seeks to accomplish modest objectives and envisions a moderate pace for welfare computer systems development. We recommend this option precisely because of its modest scope. At various times in the past, the DSS has attempted to develop large computer systems--each time with the same results; a large amount of money was spent with little to show for it. We believe that the approach we recommend offers the Legislature the best chance for successfully achieving its long-term goal of improving the administration of welfare programs through the greater use of automated information

systems. On the one hand, it places the responsibility for developing the system squarely with the administration. In doing so, it makes the administration accountable for the success or failure of the project. On the other hand, this approach retains legislative control over the pace of system development, allowing the Legislature to accelerate the project if the initial stages are completed successfully, or to slow down the project if the initial results do not justify the level of investment contemplated by the administration.

This report is based on (1) interviews with state, county, and federal officials responsible for the administration of welfare programs, (2) discussions with staff of Arthur Andersen and Company, and (3) a review of various documents on computerization of welfare administration. The report was prepared by David Maxwell-Jolly under the supervision of Hadley Johnson.

CHAPTER I

CALIFORNIA'S ATTEMPTS TO DEVELOP STATEWIDE WELFARE COMPUTER SYSTEMS

This chapter reviews California's attempts to develop statewide computer systems for the administration of welfare programs. First, it briefly describes the state's initial attempts to develop computerized systems. It then focuses on the development efforts undertaken in response to Ch 282/79 (AB 8).

Chapter 282 requires the Department of Social Services (DSS) to develop a "centralized delivery system" for welfare programs in California. In July 1979, the DSS began development of the Statewide Public Assistance Network (SPAN) in order to comply with this mandate. Three years later, in July 1982, the Legislature terminated funding for the SPAN project because the department had failed to make sufficient progress toward the objectives of Chapter 282 despite the expenditure of \$19 million.

Efforts to Develop a Statewide Computer System

The SPAN project was only the most recent in a series of projects aimed at developing statewide computer systems for welfare administration. As early as 1966, the DSS began development of the Uniform Welfare Information System (UWIS). As described in Computers in Welfare¹, the UWIS

1. David Dery, Computers in Welfare, Sage Publications (Beverly Hills), 1981.

included "a review of all state and county welfare processes." The review was intended to identify common needs among small, medium, and large counties, and to develop uniform data systems for similar-sized counties. Little progress was made under UWIS, however, by the time the effort was superseded by the National Demonstration Project.

As part of the National Demonstration Project, California sought to develop a new information system called the Data Reporting System (DRS). The DRS was designed to draw program data from existing county systems in order to satisfy state and federal reporting requirements. Because of its narrow scope, the DRS was supplanted in 1971 by the Expanded Data Reporting System (EDRS).

The EDRS was designed to be an elaborate, on-line data system for welfare programs. Like its predecessors, however, this effort was not successful. According to the author of Computers in Welfare, the EDRS suffered from poor planning, county opposition, conflict among vendors, and legislative criticism. Development of the system ended when funds needed to continue the project were deleted from the 1972 Budget Act.

In 1974, the Model Modular County EDP Task Force began studying county data systems. This effort, aimed at building on the best existing systems operated by counties, resulted in a feasibility study recommendation, but no action.

Origins of SPAN

Chapter 1241, Statutes of 1978, required the DSS to prepare a report on the administration of welfare programs in California. Specifically, Chapter 1241 required the department to determine whether state

administration "is in the best interest of recipients, taxpayers, and efficient administration."

The DSS report, submitted in March 1979, recommended the development of a "central delivery system," operated jointly by the state and counties. Counties would continue to administer the welfare programs, while the state would provide expanded management and delivery support through a centralized computer system. This recommendation was a compromise between the current county-administered system and a system in which the state would directly administer welfare programs. The recommendation was incorporated into AB 8 (Ch 282/79).

The SPAN Experience

We reviewed the state's experience with the SPAN project in connection with the preparation of a report on data processing entitled "The Utilization and Management of Information Processing Technology in California State Government" (Report Number 83-7). The relevant portions of that report, which was submitted to the Legislature in April 1983, are reproduced below.

"Chapter 282, Statutes of 1979, requires the DSS to implement a centralized welfare delivery system in all counties by July 1, 1984. According to Chapter 282, the purpose of the system is to improve the delivery of benefits to eligible recipients for specified welfare programs, such as Aid to Families with Dependent Children (AFDC) and Food Stamps. In addition, the centralized system was expected to save millions of dollars annually through equipment and personnel reductions in the counties.

"At present, each county is responsible for its own welfare delivery system, although several counties containing approximately 35 percent of the state's welfare caseload have cooperated in the development of a case data system. Los Angeles County, with approximately 36 percent of the state's caseload, has developed its own system, the Welfare Case Management Information System (WCMIS).

"In response to Chapter 282, the department established a separate division to define, design, develop, and implement the centralized system. It also established administratively 89 positions to begin work on the project in 1979-80. The department's original schedule anticipated that an additional 43 positions would be added in 1980-81.

"The SPAN project was the largest and certainly one of the most complex information system projects ever undertaken by the State of California. Consequently, the department's efforts at carrying out the project were followed closely by the Legislature, private vendors, and state control agencies. The private firms were interested because of the millions of dollars worth of computing equipment that would be necessary to link hundreds of field offices in 58 counties with one or more new large computing complexes managed by the state...

"By the end of 1980, the department had expended \$1.5 million on the SPAN project. The department estimated that expenditure would approximate \$4.1 million in 1980-81, and \$6.3 million in 1981-82. During 1980-81, project staffing reached 136.

1981: A Year of Disappointment

"In January 1981, the department issued its feasibility study report on the SPAN project. The report recommended that SPAN be patterned after the automated welfare information system that was then being developed in Los Angeles County. Four months later, in May 1981, the department informed the Legislature that, because of difficulties involving the development of the Los Angeles system, the SPAN design was being modified to implement a different alternative, one involving aspects of both the Los Angeles system--WCMIS--and the Case Data System employed by 14 counties. Seven months after this revision, in December 1981, yet another alternative was selected for the SPAN project--one based on the Case Data System only.

"Each of these modifications represented significant changes in direction for the project. In each case, however, the proposed change was not backed up by adequate supporting information, and the supporting information that was provided appeared to have been developed after the fact. Consequently, we concluded that critical decisions were being made on the SPAN project in the absence of a careful analysis of all relevant factors.

"The department's acquisition of a computer from the Department of Justice (DOJ) illustrated the problems that plagued the project as a result of inadequate management. When the decision was made to abandon the WCMIS-based SPAN and implement an alternative using the WCMIS central index capability with Case Data System application programs, the department contracted with the DOJ to acquire a computer system that had been installed at the DOJ, but was not being used at the time. Once agreement

had been reached, SPAN efforts were redirected to preparing computer programs, including the WCMIS central index, for the DOJ computer.

"At about the time the system was ready for operation, SPAN management elected to abandon that approach and implement SPAN based on the Case Data System only, using computing equipment from a different manufacturer. This decision cost the state approximately \$700,000, (for the DOJ computer) and delayed the project. The department defended its decision on the basis that the new approach would save money by using a surplus computer available from the Teale Data Center for SPAN-related processing. In fact, however, there was no surplus computer at the Teale Center.

Credibility Declines as Project Cost Increases

"By early 1982, the department's management of the SPAN project was recognized as inadequate, and the department had little credibility with the Legislature when it came to SPAN. Expenditures in 1981-82, originally proposed at \$6.3 million, were estimated at \$8.3 million. Project staffing had ballooned to 215 positions, significantly more than the 140 projected in the 1981-82 budget. The budget for 1982-83 proposed expenditures of \$21.3 million for the SPAN project, and requested a nearly 25 percent increase in staffing (to 266.5 positions).

"In our analysis of this request, we noted that there had been (1) three different approaches to SPAN proposed by the department during a 12-month period, each supposedly the most cost-effective alternative, (2) no meaningful progress on the project in 1981, (3) a 14-month delay in starting up the pilot project, (4) increased expenditures, (5) growing

uncertainty over the prospective savings, (6) erratic equipment acquisitions, and (7) inadequate responses by the department to specific requests of the Legislature for information pertaining to the SPAN project. An independent consulting firm hired by the DSS through the Health and Welfare Agency Data Center to review the SPAN project confirmed that the original feasibility study report and the department's management of the project were seriously deficient.

"The problems associated with the project had by this time become so apparent that the legislative fiscal committees held several lengthy hearings on the department's budget request for SPAN in 1982-83, including a special joint session of the subcommittees of the Senate Finance Committee and the Assembly Committee on Ways and Means. Moreover, private sector computing interests, which had consistently maintained a "low profile" with respect to the development of the project, assumed a more aggressive role, attempting to demonstrate what was wrong with those SPAN alternatives that did not favor their approach or computing equipment.

"The Legislature, having already authorized the investment of some \$14 million² and having been assured by the department that the system would be operational at the time called for by the original schedule, was placed in a very difficult position. After extensive deliberations, the Legislature decided to defer further implementation of the project, pending revisions to the original feasibility study report by a private consulting

2. SPAN expenditures ultimately reached \$19 million. The added \$5 million was due to three factors: (a) added costs in 1981-82, (b) 1982-83 costs to phase out SPAN personnel, and (c) costs included in the 1982 Budget Act to fund the revised FSR, establish a welfare case index in Orange county, and to continue the Placer-Nevada Case Data system.

firm to be retained by the Auditor General (rather than the DSS). As a result, the SPAN project was not funded in 1982-83, and project staff has been released to other state activities."

Events Since 1982

Arthur Andersen and Company was awarded the contract for revising the SPAN feasibility study report and submitted its results to the Legislature during deliberations on the 1983-84 budget. The report included specific recommendations for the development of statewide computer systems and a new administrative structure for directing the development.

The Legislature did not accept the recommendation of the revised FSR, and instead directed the DSS and the Legislative Analyst to review the Arthur Andersen report and to present options for the further development of statewide welfare computer systems. (Appendix A contains a detailed chronology of the SPAN project.)

CHAPTER II

HOW EFFECTIVE IS THE EXISTING SYSTEM OF WELFARE ADMINISTRATION IN CALIFORNIA?

The purpose of this chapter is to identify improvements that are needed in the existing system of welfare administration. These improvements are identified first by presenting five goals that welfare administration should seek to achieve and then measuring the existing system's performance against these goals.

We conclude that there is room for improvement in welfare administration and that state computer systems could contribute to these improvements. In Chapter III, we present five options available to the Legislature for improving the administration of welfare programs in California through the development of computer-based systems.

The Existing Welfare System

California administers a wide range of welfare programs that provide either cash or in-kind benefits to a variety of eligible recipients. Table 1 lists the state's major welfare programs and shows the extent to which each level of government shares in program costs.

Table 1
Major Welfare Programs in California
1982-83

Program	Eligible Recipients	Monthly Recipients	1982-83 Benefit Cost (in thousands) ^a	Share of Costs ^b		
				Federal	State	County
AFDC-FG ^c	Needy families with absent parent	1,194,820	\$2,205,228	50.9%	43.8%	5.3%
AFDC-U ^c	Needy family with unemployed parent	362,570	549,012	60.1	35.6	4.3
AFDC-FC ^c	Needy children in foster care	28,145	208,300	24.3	71.9	3.8
Food Stamps	Needy households	1,709,700	687,067	100.0	--	--
Medi-Cal	SSI/SSP recipients, AFDC families, and other needy individuals	2,875,700	4,723,226	44.0	56.0	--
Special Adult Programs	SSP recipients and guide dog owners	842	1,591	3.3	96.7	--
SSI/SSP ^d	Aged, blind, and disabled individuals or couples	832,818	2,084,680	45.3	54.7	--
General Assistance	Needy individuals or households	73,943 ^e	145,103 ^f	--	--	100.0

a. 1983 May estimate.

b. Based on actual share of expenditures, not sharing ratios.

c. Aid to Families with Dependent Children-Family Group (FG), Unemployed (U), and Foster Care (FC).

d. Supplemental Security Income/State Supplementary Payment.

e. March 1983 caseload.

f. March 1983 costs x 12; excludes reimbursements from the federal government through the Interim Assistance program for SSI/SSP recipients.

Each level of government exerts varying degrees of administrative control over these programs. The extent of federal control ranges from direct program administration (SSI/SSP) to detailed control over program regulations (for example, AFDC, food stamps) to only broad supervision of the use of block grant funds (for example, social services programs financed through Title XX). The state supervises county administration of the AFDC, Food Stamps, Special Adult, Medi-Cal, and social services programs. For these programs, the state establishes certain eligibility rules, administrative procedure standards, and performance goals. The counties, however, administer the programs on a day-to-day basis.

The state requires counties to provide certain types of social services to needy individuals under the In-Home Supportive Services (IHSS), children's services, and other social services programs. Counties may choose to provide additional social services using either state funds (if any remain after the state-mandated services are provided) or county funds. As a result, the state's 58 counties can vary with respect to the mix of social services provided. There also is a considerable variation among the counties with respect to how child support enforcement activities are organized.

The state imposes no requirements on the counties' general assistance programs. Each county's Board of Supervisors must establish eligibility rules, benefit levels, work requirements, and administrative procedures for its own General Assistance program.

The administrative costs of these programs are shared by the various levels of governments based on either a fixed percentage of total costs or

a fixed dollar amount, as shown in Table 2. The administrative costs of the AFDC, Food Stamps, Medi-Cal, and Child Support programs are shared using a fixed percentage. For example, the state pays 25 percent of the allowable costs for administering the AFDC and Food Stamps programs. Because certain costs are not "allowable" (for example, the cost-of-living adjustments (COLA) granted by the counties to their employees in excess of what the Legislature authorizes), the state actually pays less than 25 percent of total administrative costs.

Table 2
 Administrative Costs of Welfare Programs^a
 (in thousands)

Program	1982-83 Costs	Share of Costs		
		Federal	State	County
AFDC	\$360,363	50.8%	21.5% ^b	27.7%
Food Stamps	95,050	50.6	21.5 ^b	27.9
Medi-Cal (eligibility determination) ^c	152,508	45.1	54.9	-- ^d
Special Adult programs	2,384	--	100.0	--
Aid for Adoptions	11	27.3	72.7	--
Social Services	528,009	58.5	31.5	10.0
Child Support Enforcement	114,534	71.2	--	28.8
SSI/SSP	N/A	100.0	--	--
General Assistance	36,700 ^e	--	--	100.0

- a. Does not include the costs of administering the state Departments of Social Services and Health Services.
- b. The state share of costs is less than 25 percent because during the past several years the state has limited its share of costs for COLAs granted by the counties to their employees.
- c. This includes costs for the determination of Medi-Cal eligibility.
- d. Counties actually bear an undetermined share of the Medi-Cal costs not shown here. This is because the state has limited participation in the costs of cost-of-living increases granted by counties to their employees.
- e. 1981-82 actual expenditure.

N/A = not available

State and federal participation in social service programs other than the IHSS program is capped at specific levels corresponding to the amounts allocated to each county. Under the IHSS program, the costs in

excess of a fixed amount are shared by the state (90 percent) and counties (10 percent) up to a second limit, beyond which the counties must pay 100 percent of any additional costs.

Goals of the System

The first step in determining the effectiveness of welfare administration is to specify the goals that this function should achieve. Here, we present a list of five goals for welfare administration. This list was compiled using a variety of sources, including AB 8, the DSS report on state administration, and federal Family Assistance Management Information System (FAMIS) requirements. The individual goals provide a reasonable basis against which to evaluate the administration of the current welfare system.

1. Uniform application of state policy. One goal of a welfare system is to ensure that policy is applied uniformly. In order to achieve this goal, the state should formulate and issue clear regulations that specify the eligibility requirements and benefit amounts for each program. Then counties should apply the state's policies consistently in determining eligibility and distributing benefits. From time to time, policy should be clarified through all-county letters and other communications (a) in response to county requests for clarification or (b) because of inconsistencies in policy application discovered through state or federal reviews. Federal reviews also provide information on the extent to which the counties are applying the state's regulations appropriately.

2. Speedy and accurate determination of eligibility and issuance of benefits. The state and counties are responsible for ensuring that speedy

and accurate determination of eligibility and issuance of benefits occurs. The state is responsible for monitoring counties to see that they meet a reasonable standard of performance in these areas. If a county has been identified as not meeting the state's standard, the state should be able to assist the county in (a) identifying the source of the county's poor performance and (b) suggesting steps to improve performance. The state should then monitor the county's performance to confirm that the county has taken the recommended action and that performance has, in fact, improved.

3. Detection and prevention of fraud and abuse. The state should establish administrative systems to detect persons who apply for and receive benefits to which they are not entitled. Some of these systems are operated by the state while others are operated by county welfare departments. Currently, the state operates a system intended to identify the inappropriate issuance of benefits to the same person in two counties at the same time and to verify the accuracy of social security numbers. The counties currently operate systems that check for duplicate issuance of benefits within a county or review cases where fraud is suspected. These systems not only detect cases of actual fraud, they also may deter future attempts at fraud.

4. Complete accounting of benefit expenditures. The DSS is responsible to the Legislature and to the federal government to ensure that welfare funds are spent appropriately. This requires the implementation of systems that are capable of controlling the amount of funds paid for benefits. In addition, the systems must guarantee that each level of government (state, county, and federal) is charged for its share of costs.

In order to ensure the appropriate expenditure of welfare funds, county welfare departments must reconcile each individual warrant issued with the payment of funds to cover that warrant. The counties also must track overpayment of benefits to individuals on or off aid in order to recover the overpayments. In addition, the counties must be able to identify total funds paid in each of the various eligibility categories.

5. Increased efficiency in welfare operations. Since both the state and county governments pay 25 percent of the allowable administrative costs of welfare programs, both have an interest in controlling the administrative costs of these programs. Currently, the State of California, through the cost control plan, limits the amount of state funds it provides to counties for administrative costs. The amount of state funds is based, in part, on the county's projected caseload and a productivity target for its workers. If the amount of state funds provided to a county is not sufficient to fund its current staffing level, the county must either reduce its staff (thereby increasing the productivity of the remaining staff) or make up the nonfederal share of costs with county funds.

The counties have the main responsibility for finding new ways to organize resources in order to decrease the costs of administering welfare programs. This might include reorganizing the distribution of tasks among eligibility staff and clerical staff, or developing computer applications that improve the productivity or accuracy of the eligibility and benefit determination processes.

Problems with the Existing System

The existing system of welfare administration falls short of successfully achieving several of the goals we have identified. In the discussion of these shortcomings that follows, we draw heavily on the DSS' "Report on State Administration of Welfare" prepared in 1979, as well as on the findings from our review of routine reporting systems and from our discussions with state and county personnel.

1. Application of Policy is Not Uniform. The DSS' 1979 report identified serious problems with respect to the uniform application of state policy:

"Decentralization of authority is inevitably accompanied by problems of standardization, coordination, and control. ...Application of regulations can and do vary. Lines of accountability and responsibility may conflict or be unclear... Local variations in policy interpretations, application of regulations, services priorities, and benefit availability can result in inequities."

Some of the differences in welfare policies among counties result from lack of clear direction from the state. Others result from misinterpretation of state instructions. Still others reflect conscious decisions by a county not to follow the state's directives because of different program philosophies, different priorities, or insufficient funds. As an example of the latter, one county has decided not to issue immediate need payments to families with pressing financial emergencies. Instead, the county provides for an eligibility determination on an expedited basis, so that aid payments begin within a few days of when the application is filed.

2. Speed and Accuracy of Benefit Delivery is Below Standard. One goal of welfare administration is to provide benefits to recipients quickly

and accurately. Table 3 provides a measure of California's success in achieving this goal. It shows the speed and accuracy with which benefits are delivered to AFDC and Food Stamp clients. Specifically, the table shows that:

- California's error rate (as measured by payments to ineligible recipients and overpayments) exceeds state and federal standards in both the AFDC and Food Stamp programs.
- California inappropriately denied aid or terminated benefits to 7.6 percent of the denied or terminated AFDC cases sampled and 9.4 percent of denied or terminated Food Stamp cases reviewed.
- California manages to process 97 percent of the AFDC applications within the federally required 45-day time limit. The state processes 93 percent of the food stamps applications within the 30-day time limit.

The DSS is attempting to improve county performance in terms of the speed and accuracy with which benefits are delivered. These efforts have been hampered, however, by the following problems:

- a. Quality control reviews. AFDC quality control reviews, which are conducted by county personnel under the direction of the state, are not performed on a consistent basis by the counties. Counties use different procedures to review cases, and conduct their reviews based on different interpretations of state policy. In addition, the results of the reviews are not structured or analyzed in such a way as to permit either the state or the counties to determine the causes of errors or take effective corrective action.

- b. Speed of eligibility determination and provision of benefits. The counties are required to determine AFDC eligibility and provide benefits within 45 days of the application date. If families have pressing needs for assistance, expedited food stamps and immediate need payments can be arranged. The state provides no routine statistics on how long it takes for the various counties to approve such aid or how often immediate need payments are made. Counties only report what share of cases exceed the 45-day limit.

Table 3

Administrative Performance Under California's Welfare Programs
October 1981 to March 1982

	<u>California's Performance^a</u>	<u>State Standard</u>	<u>Federal Standard</u>	
			<u>1981-82</u>	<u>1983-84</u>
<u>AFDC</u>				
Overpayments and payments to ineligibles	4.8%	4.0%	4.0%	3.0%
Underpayments	0.4	--	--	--
Negative action errors	7.6	--	--	--
Applications still pending after 45 days ^b	3.0	0.0	0.0	0.0
<u>Food Stamps</u>				
Overpayments and payments to ineligibles	7.2	--	--	7.0
Underpayments	2.7	--	--	--
Negative action errors	9.4	--	--	--
Application still pending after 30 days ^c	7.0	0.0	0.0	0.0

a. Data reflects original state findings from federal sample.

b. Data for April-June 1983; reflects applications completed after 45-day limit as a percent of all completed applications.

c. Data for June 1983; excludes Alameda, San Diego, Santa Clara, Orange, El Dorado, Placer, and Solano Counties; reflects applications approved after 30-day limit as a percent of all applications approved during the month.

3. Welfare Administration Could Be Made More Efficient Through Automation. Many observers believe that California is missing opportunities for automating welfare administration, and thereby reducing administrative costs. For example, the Arthur Andersen report identified

automatic eligibility determination and on-line food stamp issuance as ways in which program administration could be made cost-effective through automation. Based on our review, we believe that the following demonstration projects show promise for increasing the efficiency of welfare administration:

- On-Line Data Entry. Currently, most counties collect client data during eligibility interviews and later, through a separate process, enter the data from coding forms into computer terminals. Staff savings could be realized if eligibility workers were given access to computer terminals for case opening and changes. A pilot project testing such a process currently is underway in San Diego County.
- Automatic Eligibility Determination. Eligibility worker productivity could be increased by speeding up the eligibility determination process and increasing its accuracy through automation. A more automated process developed and maintained by the state could guarantee more uniform application of state policy governing eligibility.
- Electronic Funds Transfer. Direct transfer of welfare grant funds to financial institutions that would then issue payments to beneficiaries has the potential to reduce mailing and printing costs, as well as the losses due to lost or stolen welfare checks.

In addition to these projects, many counties could achieve increased efficiency by automating child support enforcement case tracking, producing notices of action, and preparing state-required reports.

4. Do Existing Systems Detect Fraud? The DSS and individual counties operate numerous systems to detect the fraudulent issuance of welfare benefits. Each is aimed at a particular form of fraud. The following systems currently are in operation within the state:

- Medical Eligibility Data System (MEDS). Fifty-three counties submit data to the MEDS system to help the state keep track of Medi-Cal eligibility. MEDS is a statewide index that provides counties with information about an individual's Medi-Cal eligibility history, prevents duplicate issuance of Medi-Cal cards, and provides the state with the data needed for issuing monthly Medi-Cal cards for eligible recipients. MEDS will not permit an individual already enrolled in one county to be enrolled for Medi-Cal in another county. Because all AFDC recipients also are eligible for Medi-Cal and included on MEDS, the system tells a county whenever an applicant for AFDC is already receiving benefits in another county.
- Integrated Earnings Clearance System. Each quarter, this system matches the amount of earnings reported by AFDC and Food Stamps recipients with the earnings information reported to the Employment Development Department (EDD). The DSS notifies counties of cases where the client's reported earnings do not match the earnings reported by the employers. The DSS also checks for cases in which the same person is enrolled for welfare in two counties.

- Beneficiary and Earnings Data Exchange (BENDEX). This system matches welfare recipients with recipients of Retirement, Survivors', and Disability Insurance (RSDI) benefits. Matches are reported to local county eligibility workers who verify the accuracy of the welfare recipient's reported social security income.
- Interstate Duplicate Aid System. This system, run by the U.S. Department of Health and Human Services, uses social security numbers to detect the duplicate issuance of aid by states to the same individual.
- County Indexes. All counties have indexes of welfare caseloads. Some are simply card files with names and addresses of those receiving some form of county assistance or services. In some counties, these indexes are automated and can automatically match clients on the basis of a variety of factors--address, telephone number, "high rent" zip codes--to identify potential cases of fraud. Most case indexes are designed both for fraud detection and for providing case workers with up-to-date histories of cases on the file. In some areas, indexes are accessible across county lines (between Los Angeles and Orange Counties, and among Marin, Nevada, Placer, and Yolo Counties).

In addition to these statewide fraud detection systems, several demonstration projects with similar objectives either have been proposed or are operational. The Asset Clearance Match System looks for welfare

recipients with more than \$30 in interest earnings. The Social Security Number Validation System will match social security account numbers by name, sex, and birth date for persons in the social security system and in the state's welfare system. Cases where there is not an exact match will be followed up by the county eligibility worker.

These automated indexes and matching systems are providing precisely the kind of information needed to detect welfare fraud. Consequently, we believe that the major share of fraud detectable through computer systems is already being detected. The existing systems, however, are limited by the completeness and accuracy of social security numbers, and by the vigor with which counties follow up on the information provided by the systems. Improvements in welfare administration could be made by attempting to prevent fraud--that is, by detecting it during the application process before the family is approved for assistance. Fraud prevention is able to yield greater savings than fraud detection for two reasons: (1) when fraudulent applications can be detected at the outset, no grant payments are made that later must be recouped and (2) if the applicant challenges the denial of an application, the applicant does not receive aid pending the resolution of the dispute, as he or she would if the application is approved initially.

Summary

Our review of the current welfare administrative system has identified three important problems:

- There is lack of uniform policy application;

- There are excessive error rates in determining eligibility and issuing benefits; and
- The state is missing opportunities for computer developments that would likely improve program efficiency.

In choosing among options for the development of welfare computer systems, the Legislature should be guided, in part, by how well each option would help to solve these problems.

CHAPTER III
THE LEGISLATURE'S OPTIONS

In this chapter, we identify five options available to the Legislature for developing computerized systems that are capable of improving the administration of welfare programs in California. Each of these alternatives would have both positive and negative effects. In addition, there are major uncertainties associated with each one.

None of the five options is dependent on a particular type of computer hardware or software. It is likely that several vendors could provide the equipment needed to implement each option. In any event, we believe that the starting point for improving the administration of welfare programs is a policy decision by the Legislature on how it wishes to proceed with the computerization of welfare administration. Once this decision is made, we believe the Legislature should rely on the executive branch to identify the specific EDP systems needed to implement the chosen policy.

In general, the options discussed in this chapter fall along a continuum ranging from more centralized systems to less centralized systems. At one end of the continuum is state administration of welfare programs with a state-run unified computer operation. This option provides for the greatest amount of centralization. At the other end of the continuum is the current system of administration under which the state supervises administration of the welfare programs by the counties.

In discussing the costs and benefits of each option, we have not identified the separate fiscal effect on the state, the counties, and the federal government, for two reasons. First, the option selected by the Legislature should provide for the greatest overall efficiency and effectiveness, not just the greatest cost-benefit ratio for the state alone. Clearly, it would not benefit the taxpayers of California in the long run if it cost counties or the federal government more than \$1 in order to save the state \$1. Second, we cannot be certain of what the actual funding ratios would be under each option. On the other hand, we do not know with certainty which options would qualify for enhanced federal funding. Options that vary from the letter of federal requirements for enhanced funding, for example, might qualify if they meet the intent of the federal policy.

On the other hand, we do not know how federal and state fiscal sanctions for high error rates would be imposed. The costs associated with these sanctions could be transferred from the state to the counties in the case of state-imposed sanctions, or from the federal government to the state and counties in the case of federally imposed sanctions. The effect of the sanctions in changing the sharing ratios, in turn, would depend on three uncertain factors: (1) the extent of the sanctions, (2) the likelihood that they actually would be applied, and (3) the likelihood that the cost of federally imposed sanctions would be transferred from the state to the counties.

OPTION A: REQUIRE STATE ADMINISTRATION OF WELFARE PROGRAMS

In order for the state to provide for the greatest amount of control over welfare programs, it could directly administer these programs. Under this alternative, welfare department employees no longer would work for counties and instead would be state employees. The state would establish salaries, benefits, and working conditions for these employees. It also would organize local welfare offices and determine what application forms to use, what procedures to follow, what quality control checks to institute, and what management information to report. The DSS would be responsible for local administration.

State administration of the welfare programs would put local welfare operations under a single authority, unlike the current system in which county welfare departments have two masters: the state and the county government. As a consequence, the state would be responsible for developing and administering statewide computer systems.

During the early stages of conversion to state administration, local welfare offices might rely on existing county data systems. Eventually, however, the state probably would operate a single, automated system for processing cases. We have not attempted to determine what the best design for this system would be (for example, a single central processing site or a set of regional processing centers that are linked to a central processor). The state welfare data processing would be done by a single set of data processing programs developed and maintained by state personnel.

The issue of state administration involves not only the question of organizational control, but broad issues of fiscal policy as well. If the state were to assume the responsibility for administering the major welfare programs--AFDC (with or without foster care), Food Stamps, Medi-Cal, and perhaps General Relief--it could result in a large transfer of both administrative and benefit costs from the counties to the state.

Advantages

1. State administration would increase accountability by clearly making the DSS responsible for the operation of the welfare system. Control over program administration would no longer be shared by the state and counties, but would be firmly in DSS' hands. Because the state would have clear authority to administer the program, DSS would be solely responsible for any errors or inefficiencies in the program.
2. The county would be relieved of welfare program costs and administrative requirements over which they now have little control because they are imposed by the state and federal governments.
3. Economies of scale might be realized by large-scale central printing of welfare warrants, central data processing, or other welfare program operations.
4. If state administration includes General Relief, the major differences among the counties in eligibility requirements and benefit levels would be removed.
5. State administration would increase the likelihood that uniform policies and procedures would be followed throughout the state, thereby facilitating equitable treatment of clients. It would not, however, guarantee that this would occur.

6. State administration would eliminate duplicate reporting, quality reviews, and budget reviews that now result from the overlapping responsibility of county and state governments. Currently, county welfare departments must have their budget requests reviewed by (a) the local county administrative officer and Board of Supervisors, (b) the state DSS, and (c) the state DHS. With state administration, local budgets would be approved by the DSS administration only, and local administrators would be required to provide budget documentation to that one agency. Quality control reviews of AFDC cases are now conducted separately by state and county staff. The state reviews establish the statewide error rates, and the county reviews establish error rates in the 34 largest counties, excluding Los Angeles. With state administration, these two reviews could be coordinated, allowing a reduction in the number of cases that are reviewed while still providing enough reviews to direct appropriate corrective action.

Disadvantages

1. It is likely that there would be substantial conversion costs if California switched to state administration. The 1979 DSS report identified \$45 million in conversion costs for such a shift, including \$17 million for a computer system, \$10 million for added DSS administrative staff, \$12 million to assist the counties during the transition, and \$6 million for other state transition costs. This estimate does not include the cost of equalizing existing salary and benefit differences among the counties.

2. Assuming that county governments are more responsive than the state government to local needs, state administration might mean that the welfare system would be less responsive to local needs. In some respects, this would be an acknowledged goal of state administration: to prevent local attitudes from influencing the welfare eligibility process in a way contrary to the public interest statewide. The potential effect on the welfare caseload, however, cannot be estimated with any reliability. In some counties, state administration might make it easier to get welfare than it is now, while in other counties it could make welfare harder to get.

3. If the state assumes only partial control of the existing welfare system, it could result in increased administrative problems. For example, if the state were to take over the AFDC-U program, but were to leave the General Assistance program with the counties, families that moved from the State-Only AFDC-U rolls to the General Assistance rolls would have to transfer back and forth between county and state welfare offices in order to maintain welfare eligibility. Similarly, if counties were to give up the AFDC-FG and U programs but retain foster care, children would have to transfer between the county and state offices as they moved in and out of foster care. Thus, the particular programs taken over by the state would influence the level of program cost and the extent to which administrative problems arose in attempting to coordinate state and county functions.

4. It is likely that the cost of administering welfare programs that remain with counties will increase, due to the loss of scale economies

that a large county social services agency can achieve. The counties could incur added costs or savings depending on the extent to which county administrative costs allocated to the AFDC, Food Stamp, and Medi-Cal programs do not reflect the true administrative costs of these programs. Currently, the state reimburses counties for state and federally funded programs based on the counties' direct personnel costs and allocated support costs. The costs allocated to each program, however, may not truly reflect the costs that would be incurred if the various programs were operated separately.

Major Uncertainties

1. State administration would not guarantee that welfare policy will be applied uniformly throughout the state. With state administration, uniform application of welfare policy would have two prerequisites. First, the state would have to make clear statements of welfare policy and check to see that the policies were being carried out correctly. Second, local officials would have to accurately interpret state policy. It is by no means certain that either would occur if the state assumed responsibility for welfare administration. Local state offices could interpret welfare policy differently, just as county offices now do, unless the state clearly specifies what those policies are and then sees to it that the offices are complying with them.

2. The Legislature would have to specify which programs would be administered by the state and which programs would be left in the hands of the counties. The choice would not be a simple one. There is no obvious split between programs that "should" be state-administered and those that "should" be county-administered.

One criterion that might be used to guide the placement of programs is "control." Under this criterion, counties would retain those programs for which they control eligibility requirements and/or payment levels. This obviously would include General Assistance. Increasingly, however, programs are governed by policies originating in Sacramento or Washington, thereby leaving less and less discretion in the hands of the counties. Another criterion that could be used would be the extent to which one program is interconnected with another. There are many links between programs. For example, all AFDC families have Medi-Cal eligibility, and most receive food stamps. Keeping administrative responsibility for these three programs with the same administrative unit would make sense because of this overlapping eligibility. Because recipients of general assistance often qualify for both food stamps and Medi-Cal, however, leaving General Assistance with the counties would require referral of General Assistance applicants and recipients to a second office--the state office--in order for them to apply for food stamps and Medi-Cal.

OPTION B: REAFFIRM THE MANDATE OF AB 8 AND CONTINUE SPAN

During 1978 and 1979, at the direction of the Legislature, the DSS studied the feasibility of the state assuming full administrative responsibility for welfare programs in California. At that time, many felt that the state-supervised/county-administered system resulted in unclear lines of authority, thereby limiting the state's ability to achieve a uniform application of welfare policy. The results of the DSS study were presented to the Legislature in 1979. The DSS stopped short of recommending a state takeover of welfare administration. Instead, it

proposed the "central delivery system," which is an option between state administration and the existing state-supervised/county-administered system. The central delivery system was intended to provide:

- Data processing for all major welfare programs: AFDC, Food Stamps, Medi-Cal, social services, child support enforcement, adoptions, and special adult programs;
- Management information to state and counties that could be used to monitor program performance;
- Increased automation of the eligibility determination and benefit calculation processes; and
- Central disbursement of welfare checks.

A requirement for a central delivery system concept was incorporated into AB 8, and the DSS attempted to develop and implement such a system through the SPAN project. As a second option, the Legislature could direct the DSS to continue its efforts to develop a centralized delivery system that would be operated within the existing system of county-run/state-supervised welfare programs.

SPAN has yielded some results that can be built upon if the Legislature chose to resume development of a central delivery system for welfare programs. The Case Data System was reprogrammed for intercounty capability. That system is now being used by the DSS to provide Case Data services to four smaller counties (Placer, Nevada, Marin, and Yolo). In addition, the food stamps on-line issuance system now being implemented on a pilot basis was developed, in part, under SPAN. If the Legislature selects this option, it may want to specify which of the three versions of

SPAN should be pursued: (1) WCMIS/IBPS statewide (the original FSR), (2) the WCMIS/Case Data Hybrid (the first amendment to the FSR), or (3) the Case Data-based System (the final FSR amendment).

The computing capabilities in counties have not stood still since the latest version of the FSR was prepared. This would necessitate changes in the design of a statewide system. Consequently, a new analysis of existing systems would have to be completed before it could be determined what is the best design for a central delivery system.

Advantages

1. The central delivery system could reduce costs due to economies of scale. Specifically, the central delivery system could reduce costs by eliminating multiple county welfare data processing systems. Instead of multiple computer systems, one system would process cases, issue notices of action, send checks, and print forms.

2. This system probably would result in more uniform welfare policy application if it were designed to determine eligibility and benefits automatically, thereby eliminating variations in policy interpretation among counties. This capability was not a feature in any of the proposed versions of SPAN.

3. The state would have ready access to data on program operations. For example, the state would have direct access to earnings information for the entire caseload, rather than just a sample of the caseload. This would allow the department to make better estimates of the effects of any changes in the grant level. In addition, the state could assemble data for matching with other state data systems (UI/DI, FTB, Workers Compensation)

directly, rather than having to request this data from each county separately.

To the extent that this data is accurate, it could provide useful program information for all branches of state government. The accuracy of the data, however, is not guaranteed. This is because the information that is most critical to day-to-day welfare operations generally is the most accurate and that information may not be the most important for management purposes. For example, the eligibility worker generally is more concerned about assuring that the case number is accurate so that the case may be located; he or she generally is less concerned about assuring that the social security number is accurate.

Disadvantages

1. There are likely to be substantial conversion costs for changing the current system to a central delivery system. At least 35 percent of the state's caseload would have to be transferred to the designated system. Approximately 35 percent of the state's caseload is on WCMIS in Los Angeles County and another 35 percent is located in counties that are on the Case Data System. Shifting either one of these caseloads would result in costs for equipment and training.

2. It is likely that the cost of supporting data processing functions that remain with the county will increase. These increases would occur primarily in two areas: (a) the costs of data processing for those welfare programs that remain with the county and (b) the costs for county data processing activities. Costs would increase for the welfare programs that remain with the counties because economies of scale would be lost.

Counties could also incur added costs or savings depending on the extent to which county administrative costs allocated to AFDC, Food Stamps, and Medi-Cal (and any other programs included in the CDS) do not reflect the true administrative costs of these programs. The costs currently allocated to these programs may not equal the savings that could be realized if data processing for these programs were transferred from the counties to the state.

3. A central delivery system may not provide county welfare departments with the control needed to administer welfare programs. When data systems are managed by people who are far removed from the operation of the programs they are intended to support, the data systems tend to respond more readily to the managers of those systems. It is likely that a state-run data system would be very responsive to the state's need for data, but considerably less responsive to county needs. Specifically, a state-run system is less likely than a locally run system to provide eligibility workers and unit clerks with the information and functions that make their work easier.

A fully state-administered welfare program would face a similar problem of communicating the needs of front-line staff to managers of the data system. The central delivery system recommendation, however, compounds the problem by putting front-line operation of the welfare system in one level of government (the county) and operation of the data systems in another (the state).

4. The benefits anticipated from economies of scale are largely due to the lower capital costs per unit that operation of a larger computer

makes possible. However, as the price of computer hardware continues to fall, the economies that can be achieved by centralization also decrease. As this occurs, regional processing or fully decentralized processing becomes relatively more attractive compared to the fully centralized system.

Uncertainties

1. If history is a guide, it may not be possible for the state to implement a statewide welfare computer system on the scale of SPAN in the foreseeable future. The state DSS has consistently failed to develop and implement successfully statewide computer systems for welfare administration. The successes that have been achieved generally have occurred at the local level with the development of county computer systems.

The department's lack of success in the past does not mean that large computer systems for welfare cannot be developed and implemented. Other states, even some with county-administered welfare programs, have managed to develop large-scale systems. Where this has happened, however, it has taken a long time and a large expenditure of funds.

2. Continuation of the SPAN project may or may not be cost-effective. Given the information now at hand, we can only guess what the bottom line might be. Even if up-to-date savings estimates were available and we could be reasonably certain of achieving the savings--a big "if"--there would still be great uncertainty about the costs of developing and implementing a SPAN system. Experience with the development of other large data systems has been characterized by schedule delays, cost

overruns, and the installation of systems that often require more staff than originally planned. With a project the size and scope of SPAN, delays and problems would be unavoidable.

3. The existence of a statewide computer system, in and of itself, would provide no guarantee of uniform welfare policy application. The judgments made by individual eligibility workers would still affect how welfare policy is carried out. A central delivery system is not a substitute for effective staff supervision or periodic state review of a local welfare department's performance.

OPTION C: IMPLEMENT THE RECOMMENDATIONS CONTAINED IN
THE ARTHUR ANDERSEN REPORT

The Arthur Andersen report made several recommendations concerning the development of a computerized system for welfare administration. Specifically, it recommended that California:

1. Develop a statewide central index by building on the existing MEDS index. This would entail adding nonassistance food stamp recipients to MEDS and once all counties are automated, adding earnings data. The index would contain data on the client's name, social security number, welfare history, and reported earnings history.

2. Retain and build upon the existing WCMIS/IBPS public assistance systems in Los Angeles County, making it available to neighboring counties.

3. Develop a standard, automated public assistance data processing system for use in the remaining counties. This system would be based on a redesign of the Case Data system. Counties (excluding Los Angeles) not now using Case Data or without automated welfare data systems would have to convert to the redesigned Case Data system. The new system would utilize

existing hardware in Case Data counties or new hardware operated by groups of counties.

4. Include the three major public assistance programs (AFDC, Food Stamps, and Medi-Cal) in the WCMIS/IBPS and the Case Data system.

5. Establish statewide policies and procedures through a small central state staff capable of assuring that new systems are developed to meet the state's standards.

Advantages

1. Implementation of the Arthur Andersen recommendations would avoid the costs of converting the state to a single data processing system (in other words, the cost of converting Los Angeles County to a Case Data-based system or converting the Case Data counties to the WCMIS/IBPS system). It retains the two major systems now in operation--Case Data (reprogrammed) and WCMIS/IBPS--and requires all other counties to convert to either one of the two systems.

2. This option would leave responsibility for operation of the data processing system with the counties, continuing the tight link between program administration and data processing support. The counties would be able to access needed information about cases in other counties through a central index. However, major production activities (check writing, master files updates, management report writing) would remain largely in the hands of the counties.

3. Some of the specific automation projects recommended in the Arthur Andersen report probably would strengthen welfare administration. Even if the report's estimates of the savings that could be realized from

these systems turn out to be too high, it is still likely that these projects would bring about cost-effective improvements in welfare administration.

4. Use of a statewide automated eligibility determination package would go a long way toward the uniform application of state policy in all counties. The computer would be programmed to automatically determine eligibility and the amount of benefits to which each applicant is entitled. Consequently, local eligibility workers no longer could make different eligibility determinations in identical cases. In addition, the computer would provide a systematic way to collect the information that an eligibility worker (EW) needs in order to determine a family's eligibility.

The system would work like this: an EW would enter data about an applicant into a computer terminal. The computer would prompt the EW to answer the appropriate questions about the applicant's circumstances. If the data showed the applicant to be ineligible, the computer would signal the EW. When the interview is completed, the computer would (1) produce a list of items that the applicant would have to provide in order to complete the application, (2) identify the places that he/she would have to go (for example, an Employment Development Department office, the District Attorney's office), and (3) provide an estimate of the benefits for which the applicant would be eligible. The data collected on the case would be transferred automatically to the county's main processing computer for entry in the welfare file and to prepare for warrants to be sent when payment is finally authorized.

This would save processing time in several areas. The data collected by EWs would not have to be separately entered into a computer by key data operators. The EW would not have to write the same data (name, social security number, address, income data) on more than one form.

Disadvantage

1. The report recommends the maintenance of two major computer systems, rather than just one. Two systems would mean double the maintenance costs associated with a single system, and would create the problem of maintaining consistency between two computer systems. The annual cost of maintaining the Case Data system currently is about \$1 million. This is a reasonable estimate of the added maintenance costs that would result from the two-system design recommended by Arthur Andersen.

2. The Arthur Andersen recommendations would result in increased costs for those counties that are not using the Case Data system. These counties either would have to convert their existing operations to the new Case Data design or join with the Los Angeles system. Consequently, these counties would incur the expense of purchasing new equipment and retraining staff.

Uncertainties

1. It is likely that the savings attributed by Arthur Andersen to the central index are already being realized or will be realized through existing case matching systems. Of the \$2.9 million in annual savings, \$1 million results from avoiding duplicate payments to AFDC families. This \$1 million estimate is based on 1980-81 data and is out of date because (a) the MEDS system now identifies applicants for AFDC who are already eligible

for AFDC and Medi-Cal and (b) the quarterly Integrated Earnings Clearance System (IECS) identifies other individuals receiving duplicate aid within a few months of the date on which aid begins.

The report attributes an additional \$1.1 million in savings to the prevention of duplicate issuance of food stamps to non-AFDC recipients. However, this is precisely the amount that the DSS already expects to save under the Food Stamps program when the IECS becomes operational. Finally, the report attributes \$0.8 million of the estimated savings to the detection of bank accounts maintained by AFDC recipients. These savings would be obtained by comparing a list of AFDC recipients with the Franchise Tax Board records of interest earned. Cases where the AFDC recipient earned substantial amounts of interest would be investigated by local fraud investigators. This system already operates as a pilot in four counties that contain about 40 percent of the state's AFDC caseload. It could be expanded statewide using existing data sources without establishing a central index.

To summarize, the savings attributed to the proposed central index by the Arthur Andersen report are not new savings. They are, for the most part, savings that are already being realized by statewide systems that do not depend on a central index.

What then are the savings that would be gained solely by establishing a statewide index?

Some savings would result because a statewide index could prevent duplicate aid issuance, rather than merely detect it after aid has already been paid to a recipient. For example, before a nonassistance food stamp

case is approved, the index would be checked to see if the applicant was already receiving assistance or food stamps in California. Currently, a similar check is done for Medi-Cal applicants in all counties that are on MEDS, which should prevent duplicate issuance of AFDC as well. This is because all AFDC recipients are eligible for Medi-Cal and therefore are listed on the MEDS index. Preventing duplicate aid issuance, rather than identifying it after the fact, is advantageous for two reasons: (a) aid payments prior to detection are avoided and (b) if there is a dispute about eligibility, those applicants ultimately found to be ineligible do not receive aid during the appeal process. The person already receiving assistance is often paid aid pending the resolution of the dispute.

2. The Arthur Andersen report assumed that an automated eligibility determination process would result in major savings as a result of (a) reductions in administrative staff and (b) decreases in benefit payment errors. The report estimates that an automated eligibility determination process would result in a 25 percent reduction in eligibility staff in all counties other than Los Angeles and a 12 percent reduction in Los Angeles.

Several factors lead us to question whether these savings can be fully realized. First, while the enhancements result in some savings in staff time, the staff savings frequently are redirected to other tasks and never get translated into budget savings. Second, enhancements often improve the quantity and quality of information or staff performance, but do not necessarily save time or prevent overpayments. Instead, the information merely provides the EW with a more complete picture of the family's circumstances.

The chances of achieving staff savings promised by complex computer systems can be improved by testing a system on a pilot basis. Pilot testing can validate preliminary estimates of the staff required to operate the new system, and the staff it saves over the previous operating levels. Pilot testing can also provide data to decide whether full implementation is justified and to estimate more accurately savings that can be budgeted when the system is fully implemented.

3. The task of programming automated eligibility determination functions may be much more complicated than Arthur Andersen anticipates. To achieve the predicted savings, the state would need computer program logic capable of handling practically all of the different types of cases that EWs encounter. In addition, it would require that the department translate clearly the complex regulations and policy directives of various programs into computer programs for accurate eligibility determination. If the programming for eligibility determination is more complex than anticipated, two outcomes could result: either development costs could exceed Arthur Andersen's estimates or the resulting system could have insufficient capability to achieve the anticipated staff savings.

4. Implementation of the recommendations would require substantial reprogramming of most of the major programs in the Case Data system. While the resulting computer system might eventually include all existing Case Data functions, it is not clear how long it would take for the new system to be completed. If completion were delayed, conversion to the new Case Data system could mean either giving up the existing functions temporarily or running two systems.

OPTION D: AMEND THE PROVISIONS OF AB 8
AND REQUIRE A LONG-TERM DEVELOPMENT PLAN

The fourth option available to the Legislature is to enact legislation that would:

1. Specify the goals for welfare administration. We would suggest the following goals identified in Chapter II:

- a. Uniform application of state policy.
- b. Speedy and accurate determination of eligibility and issuance of benefits.
- c. Detection and prevention of fraud and abuse.
- d. Complete accounting of benefit expenditures.
- e. Increased efficiency in welfare administration.

2. Require the DSS to submit to the Legislature a long-term plan for statewide welfare computer systems development. The plan would include the following:

- a. Identification of the management information that the state needs but is not now receiving. The plan would also identify how these needs can be met, and would include a specific timetable for the completion of projects designed to meet the state's needs.
- b. Identification of potentially cost-effective projects that would automate welfare procedures. The cost-effectiveness of these automation projects would be demonstrated through pilot operations before statewide implementation is authorized.

- c. Identify the steps that must be taken to establish and maintain uniform application of welfare policy throughout the state, and specify when these steps will be taken.

Schedules for the completion of all steps identified above would have to include specific milestones that the Legislature could use to assess the department's progress in meeting its goals.

Advantages

1. This option concentrates the state's efforts to develop data systems in those areas where the current system fails to provide adequate information. There are already in place within the state a large number of data systems that collect all kinds of information on the operation of the welfare system. Efforts to improve the current system should focus on the information that is now lacking and seek to provide that information rather than information that is already available.

2. Implementation of computer projects would be more likely to result in improved welfare administration if each project's cost-effectiveness is established first in a pilot operation. As we discussed in Chapter II, several automation projects appear to be worth pursuing:

- On-Line Data Entry. Currently, most counties employ eligibility workers who complete data entry documents for (a) new welfare cases and (b) changes in the status of continuing cases. These documents must be batched, logged, and sent to data entry operators who actually enter the data into the county computer system. Savings could result from providing

eligibility workers with direct access to computer terminals that they could use to enter new cases or make case changes.

- Automatic Eligibility Determination. This could improve eligibility worker productivity by speeding up the process of determining eligibility and increasing its accuracy. The computer would be programmed to lead an eligibility worker through the eligibility determination process. Widespread use of such a program would mean more uniform application of welfare policy.
- Electronic Funds Transfer. Transferring funds for welfare grants directly to recipients' accounts in financial institutions could reduce the costs associated with mail loss and reissuance, and could speed up reconciliation of payments with eligibility records.
- On-Line Food Stamp Issuance. This is a system that is now being pilot-tested in one county. Under this system, recipients are issued magnetic strip cards that the food stamp issuance agent can use to (a) identify the recipient, (b) determine the coupon amount the recipient is entitled to, and (c) determine whether any other issuances have been made that month. In theory, the system can reduce dramatically duplicate issuances and mail loss of food stamp coupons. The DSS has taken the initiative to develop this system and is committed to mandating the use of the system in counties where it promises to be cost-effective.

- Central Index Of Welfare Recipients. We pointed out above that the savings due to a central welfare index identified by Arthur Andersen are already being realized through existing matching systems. In the future when more counties have computerized data on each case, it may prove cost-effective to maintain a central welfare index. Such an index could perform two functions. First, it would provide "known to welfare" checks to counties on all new program applicants. Second, it could provide the DSS with data for centralized matching systems.

3. This option provides for a step-by-step process toward the achievement of legislative goals. As a result, it would allow the Legislature to judge the department's progress prior to taking the next step. In the event problems arise or progress is unacceptable (as it was in the case of SPAN), the project can be halted without sacrificing everything that had been completed up to that point.

4. This option requires the DSS to participate in the design, development, and implementation of statewide computer systems. This is desirable since, in the end, the Legislature must rely on the executive branch to carry out its policies, and the chances of a project being successful are increased if the executive department responsible for implementing a project is involved with its design and committed to its completion.

Disadvantages

1. This option represents yet another study of what needs to be done. The recent history of the state's efforts to improve welfare administration has been long on studies, but short on accomplishments. We believe, however, that another study is unavoidable. Even if the DSS picks up SPAN where it left off, the future development of the system will require further study and development of an implementation plan.

2. The DSS may determine not to develop a single model for welfare data processing that all counties would be required to use. This could result in the retention of multiple county data systems and the added costs for system development and maintenance that stem from such duplication. The Arthur Andersen report puts these costs at about \$1 million compared to the two-system design that they recommend.

Uncertainties

The major uncertainty associated with this option is whether the DSS is up to the task of continuing the long-term development of statewide welfare computer systems.

At this point, we have no reason to believe that any other state agency or department would be a better choice than the DSS to handle planning for statewide data processing. We note that the key leadership posts within the department have changed hands since the disappointing history of SPAN. Moreover, we believe that the central role of the DSS as the single state agency responsible for federally funded cash assistance programs argues for the department's continued leadership in the development of welfare data systems. In our judgement, only clear and

compelling reasons would justify transferring development and implementation of responsibilities for such systems to another group.

OPTION E: REPEAL THE MANDATES OF AB 8 AND PUT NOTHING IN ITS PLACE

The fifth option available to the Legislature formally removes the requirement for the development of a central delivery system, and allow the individual counties or groups of counties and the state to propose appropriate data processing system enhancements and obtain funds through the annual budget process. Since the suspension of the SPAN project, data systems development within the state has proceeded. Four counties have installed the Case Data system run by the state, and Orange County has proposed installing the Case Data. Butte County, which provides welfare data services for itself and six neighboring counties, is developing new data processing capabilities to allow automated budgeting and issuance of notices of action. San Francisco has begun a pilot test of the on-line food stamp issuance system. Los Angeles County is developing new major foster care data systems, and the Case Data consortium is piloting new programs for Medi-Cal case budgeting and for social services. If this option were selected by the Legislature, these developments undoubtedly would continue. Any coordinated statewide effort would have to be initiated by the executive branch.

Advantages

1. The main advantage of this approach is that it does not cost any money for system development or conversion of county operations beyond that already being spent by counties. There may, however, be an increase in funding requests for new development projects as those counties that have

built up a backlog of such requests while waiting to see what would become of SPAN come forward.

2. This option retains local control over data systems. In so doing, it places operational responsibility for welfare squarely in the hands of county welfare departments and increases the chances that data processing expenditures are more responsive to the needs of program managers.

Disadvantages

1. Selection of this option would imply that the Legislature will take no steps to increase the uniformity of policy application in welfare throughout the state, nor address the other problems identified in Chapter II (missed opportunities for improved efficiency and excessive error rates). Without legislative direction, the DSS may or may not choose to take steps to solve these long-standing problems.

2. This option retains the existing pattern of multiple data systems with duplicative development and maintenance costs that Arthur Andersen estimated to be about \$1 million annually.

Uncertainties

If the Legislature decided to approve this option, we cannot say what actions the counties and the state DSS would take toward the development of computer applications for welfare administration. Since the suspension of SPAN, several counties have joined the Case Data consortium and others are considering joining. This trend may continue, bringing more and more counties within the state on a few types of systems. On the other hand, counties might choose to embark on their own development efforts,

leading to even more diversity in the computer systems being used to support the administration of welfare in California. The state DSS may or may not choose to control and direct system development toward more state uniformity.

Summary of Options

Table 4 presents a summary of the five options we have analyzed. It also summarizes the advantages, disadvantages, and uncertainties we have identified for each option.

Analyst's Recommendation

We recommend that the Legislature direct the DSS to develop a long-range plan for achieving the Legislature's goals for welfare administration (Option D). In our judgment, this option can satisfy the most pressing needs in the area of welfare program administration, focuses the state's efforts where improvements are needed, commits resources step by step, and runs only a minimal risk of spending large amounts of time and money on a project that will not bear fruit.

The option we recommend requires the DSS, in addition to preparing the specifics of the long-range plan, to identify specific projects that can achieve the goals established by the Legislature. The DSS is in the best position to study the feasibility of specific projects.

We recognize that the objectives of this option are modest compared to those originally set for the central delivery system. In our judgment, however, such modesty is appropriate given the state's experience in this area. Too many times, the DSS has taken on large projects with far reaching effects, only to see these large projects terminated with little

Table 4

Summary of Legislative Options

Option	Advantages	Disadvantages	Uncertainties
A. State Administration; central computer system	<ol style="list-style-type: none"> 1. Increases accountability for errors and inefficiencies by giving the state direct control over the program 2. Relieves county of responsibility for administering a program which it does not control 3. Offers economies of scale in data processing 4. Could equalize general assistance eligibility requirements and grant levels within the state 5. Encourages uniform policy application 6. Eliminates duplicate reporting and review requirements 	<ol style="list-style-type: none"> 1. Imposes substantial conversion costs on the state 2. Makes system less responsive to local needs 3. Could create problem of coordination between state and counties, depending on which welfare programs remain with counties 4. Increases costs to counties for administering remaining programs 	<ol style="list-style-type: none"> 1. Does not guarantee uniformity in policy application 2. Is not clear what program should be assigned to the state
B. Reaffirm AB 8; continue SPAN	<ol style="list-style-type: none"> 1. Offers economies of scale in data processing 2. Encourages uniform policy application 3. Gives state direct access to program data 	<ol style="list-style-type: none"> 1. Imposes substantial conversion costs on the state 2. Increases data processing costs to the counties 3. Makes welfare data processing less responsive to county needs 	<ol style="list-style-type: none"> 1. May not be a viable option in the foreseeable future 2. May not be cost-effective 3. Does not guarantee uniformity in policy application

Option	Advantages	Disadvantages	Uncertainties
C. Implement Arthur Andersen Recommendations	<ol style="list-style-type: none"> 1. Avoids costs of converting counties to a single system 2. Increases likelihood that data systems will be responsive to program needs by leaving with the counties control of these systems 3. Continues cost-effective project development 4. Encourages uniform policy through automated eligibility determination 	<ol style="list-style-type: none"> 4. Savings from economies of scale are likely to decrease in the future 1. Requires that two systems be maintained, thus increasing costs 2. Imposes conversion costs on non-Case Data/WCMIS counties 	<ol style="list-style-type: none"> 1. Not clear that a central index is needed to achieve savings 2. Not clear that automated eligibility determination will result in savings 3. Programming eligibility determination process would be a complex undertaking and might not be successful 4. Could mean loss of function (temporarily or permanently) due to Case Data reprogramming
D. Long-Range Development Plan	<ol style="list-style-type: none"> 1. Focuses state's effort in areas where deficiencies now exist 2. Continues cost-effective project development 3. Step-by-step process involves minimal risk 4. By involving executive branch in design and implementation, assures commitment to project's successful completion 	<ol style="list-style-type: none"> 1. Means another study, more delays 2. Retains multiple county data systems and the maintenance costs that go with them 	<ol style="list-style-type: none"> 1. Not clear if DSS is up to the task

Option	Advantages	Disadvantages	Uncertainties
E. Repeal AB 8 and Put Nothing in Place	<ol style="list-style-type: none"> 1. Imposes no added cost 2. Retains county control of data systems 	<ol style="list-style-type: none"> 1. Provides no legislative direction to solve identified problems 2. Retains multiple county data systems and the maintenance costs that go with them 	<ol style="list-style-type: none"> 1. Not clear what DSS or counties will do

to show for the effort. The virtue of the option we recommend is that it minimizes both the chances and the consequences of failure, while working toward the same goals that the central delivery system was designed to achieve. The long range plan would specify a series of short-term steps, each representing worthwhile enhancements of existing computer systems. If the effort to complete one of these steps fails, failure does not jeopardize those steps that have already been taken and does not risk committing excessive amounts of resources to an effort that bears no fruit.

The slow pace of development also would allow the DSS to develop a computer systems staff which, as it gains more experience, can take on more complex and far-reaching development projects. At the same time, the DSS would have the opportunity to demonstrate to the Legislature its ability to achieve planned project objectives on-time and within budget. Future requests for expanded computer systems development budgets would be made on the basis of identifiable accomplishments by the DSS in computer development.

APPENDIX A

Discussion of Major Milestones in the History of SPAN

<u>Milestone</u>	<u>Reported Date of Completion</u>	<u>Discussion</u>
Federal Advance Planning Document	March 1980	This document was required as a condition of federal funding. On April 5, 1982, the federal Department of Health and Human Services (DHHS) notified the DSS that this document <u>plus</u> the January 31, 1981, Feasibility Study Report (FSR) <u>plus</u> additional information provided to the DHHS in January 1982 fulfilled the federal requirements for an Advance Planning Document.
Feasibility Study	January 1981	This study was required by the State Administrative Manual. This FSR selected a WCMIS/IBPS alternative for SPAN. We cited a number of inadequacies with this initial FSR in a May 12, 1982, Supplemental Analysis. Since January 1981, two major amendments have been made to the FSR. These amendments propose alternatives that were rejected and heavily criticized in the January FSR.
Hardware Requirements Report	April 1981	The report was required by AB 8. The DSS advises that the findings included in the report are no longer relevant due to subsequent project redirections.
Approval of FSR Amendment	August 1981	This amendment was developed to validate a revision in project plans announced in May 1981. The amendment supported a modification from WCMIS/IBPS to a hybrid of the Los Angeles-based WCMIS central index and the Case Data system benefit computation capabilities in existence in 13 California counties.

<u>Milestone</u>	<u>Reported Date of Completion</u>	<u>Discussion</u>
SPAN FSR Supplemental Report I (Fiscal Impact Report)	August 1981	The report was designed to provide documentation of the cost/benefit analysis in the January 1981 FSR. The DSS states in the report that only 39 of 58 counties responded (65 percent), and that the data reported were not comparable in all cases. The DSS concludes "given the variability of the survey data, it is very difficult to make valid comparisons among counties or to expand the data to a reliable statewide total."
SPAN FSR Supplemental Report II (Response to User Concerns)	August 1981	The report contained responses to questions raised in workshops regarding the January 1981 FSR.
Request for Proposals (Hardware Acquisition)	October 1981	The RFP was based on full-year equipment needs assuming implementation by 1984. The RFP was withdrawn prior to bids being formally accepted.
County Implementation Report	March 1982	The report identified the number of terminals, etc., required to install a statewide system in each of the 58 counties. Current schedules call for counties to be brought up gradually until 1986-87.
Amended FSR	March 1982	This amendment supported a SPAN system based solely on the Case Data system.
Demonstration Project	March 1982	The project consisted of installing the existing Case Data system in Nevada County and implementing a two-county (Nevada and Placer) central index, based on an existing index in Alameda County.
LAO Supplemental Budget Analysis	April 1982	The LAO recommended deletion of all SPAN funds from the budget.

Milestone	Reported Date of Completion	Discussion
1982 Budget Act	July 1982	The Legislature deleted project funds and directed the Auditor General to contract for a revision of the FSR.
Revised FSR from Arthur Andersen	April 1983	Arthur Andersen and Company presented their revised FSR to the Legislature.
1983 Budget Act	July 1983	Supplemental Report directs the LAO and the DSS to review the Arthur Andersen revised FSR.

APPENDIX B
EXISTING COUNTY WELFARE DATA SYSTEMS

The existing system of county-administered, state-supervised welfare administration has led to the development of several individual county-operated data systems. This section describes the major county-operated systems and the state-operated systems that use data from the counties.

Major County Systems

WCMIS/IBPS. The major operational system in Los Angeles County for Aid to Families with Dependent Children (AFDC), food stamps, and Medi-Cal is the Integrated Benefits Payment System (IBPS). This system keeps track of who is eligible for what kinds of benefits. This system provides lists of AFDC benefits checks and authorizations to receive Food Stamp benefits. It updates MEDS and also updates Los Angeles County's client index called Welfare Case Management Information System (WCMIS). WCMIS provides an on-line index with case information, eligibility history, and other information.

Case Data System. The other major data processing system is the Case Data System (CDS) used in 16 counties throughout the state. In most cases, the Case Data is operated by the individual county, using programs that are jointly developed and maintained at the expense of all the participating counties. Four counties rely on the state to operate the systems using Case Data programs. The system includes a master file that

keeps track of all eligible cases and provides information for benefits. Most counties have an on-line capability to view selected information in the master file.

Butte County. Butte County provides data processing services to six neighboring counties using the system that Butte has developed for its own welfare caseload. Currently under development are enhancements that will allow on-line inquiry to a master index, automatic grant computation, issuances of notices of action, and inquiry into accounting records. Not all counties will use all functions that Butte may have available.

Other Counties. Several other counties have data processing systems with different levels of sophistication. The simple systems provide only control of the check-writing operations. More elaborate systems have indexes that support on-line inquiry and other functions. A few counties operate purely manual systems for welfare programs.