

# Arizona Works Pilot Program (Report Highlights)

January 2002

The Arizona Works pilot program was created to determine the feasibility of privatizing public assistance administration in the State of Arizona. The pilot program replaced the Department of Economic Security's (DES) public assistance program, known as EMPOWER Redesign, in the area selected as the pilot area. The pilot program is required by statute to save a minimum of 10 percent in administrative expenses when compared to the estimated cost for DES to operate its program in the same area. By statute, the Arizona Works Agency Procurement Board was charged with establishing the pilot program and continues to oversee it. A private contractor operates the pilot program.

## Our Conclusions:

The pilot program has not met its goal of reducing administrative expenses. The pilot program's costs thus far have been higher than the estimated cost of operating EMPOWER Redesign. In addition, contractor performance could be difficult to measure due to record-keeping problems that DES identified. We also gathered information concerning delays in implementing the planned second phase of the pilot program.

## Payment Formulas Designed To Provide Savings

To achieve the mandated 10 percent savings requirement, the Board worked with Joint Legislative Budget Committee (JLBC) staff and DES to estimate the cost of operating EMPOWER Redesign in the pilot area. The original baseline cost estimate was approved by the JLBC and included factors such as client caseload and estimated direct and indirect DES costs.

The private contractor was selected through the competitive bid process. The resulting contract provides:

- A guaranteed payment, which was approximately 80 percent of estimated baseline costs.
- Incentive payments based on performance measures.

### Arizona Works Pilot Program

- Began operation April 1, 1999
- Currently operates in north-eastern Maricopa County
- Serves 13 percent of the State's households that receive benefits and services under Temporary Assistance to Needy Families (TANF)
- Operated by private contractor
- Scheduled to end December 31, 2002

The contractor can also receive payments of up to 25 percent of savings that result from any reduction in the State's public assistance caseload that are attributable to the pilot program.

DES is responsible for notifying the contractor and the Board of any changes in available funding or scope of work. The contractor has 30 days to respond, and any needed contract changes are negotiated between the contractor, DES, and the Board. The Board must approve all changes.

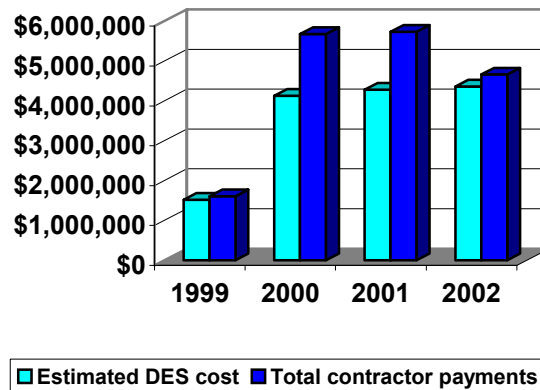
**The Program Has Not Reduced Administrative Costs**

Pilot program costs exceeded DES' estimated cost to administer the program because contract payment formulas were not changed to reflect two decisions made by the federal government. The original pilot program contract called for the contractor to conduct client eligibility assessments for the Temporary Assistance for Needy Families (TANF) Food Stamp and Arizona Health Care Cost Containment System (AHCCCS) programs. However, the federal government denied the State's request for a waiver to allow the contractor to conduct the eligibility assessments for the Food Stamp and AHCCCS programs, reducing the contractor's original scope of work. The guaranteed portion of the contractor's payment was reduced to reflect this change. Although our legal analysis found that the contract incentive payment formula should also have been revised, the Board did not change the formula. Therefore, the contractor continued to earn incentive payments based on the original scope of work.

Further, in fiscal year 2000, federal regulations no longer allowed caseworkers who were also working on Food Stamps and AHCCCS to have their salaries charged to the TANF program. This requirement reduced administrative costs that could be charged to the program. Therefore, these costs should have been removed from the contract payment formulas and the contractor payments reduced accordingly. DES attempted to resolve this problem in 2001; however, the contract was not amended until 2002.

Because the needed adjustments were not made to the contract payment formulas, the pilot program has actually cost more each year to operate than the estimated costs for DES to operate its program.

**DES vs. Contractor Costs**



**DES has additional costs**—Because the contractor cannot conduct the eligibility assessments for the Food Stamp and AHCCCS program, DES continues to administer these programs in the pilot area. DES also has costs associated with monitoring the pilot program contract. Finally, DES receives no funding to provide administrative support to the Board—a function the Board previously contracted for at a cost of approximately \$300,000.

**Additional payment formula issues also need to be addressed**—To help the program better attain its cost savings goal, the Board and DES need to take several concerns into account. First, the contract should be amended each year to reflect up-to-date baseline cost estimates. Because JLBC must approve the initial baseline estimates, the Board should consider presenting the revised baseline estimates to JLBC for approval. Second, future baseline cost estimates should account for fluctuations in caseload. Finally, the methodology used to determine the baseline cost estimates should be adequately documented.

**If the pilot program continues, the Board should:**

- ✓ Revise payment formulas to reflect the effect of federal decisions, and
- ✓ Make other appropriate adjustments to the payment formulas to reflect updated baseline cost estimates, and changes in caseloads.

**DES Reviews Identified Problems with Contractor Records**

The contractor must maintain records regarding client employment and job training activities. These records are essential to document the contractor's performance in meeting federal requirements governing the program. These records also are used to document the contractor's performance for determining whether it has earned the incentive payments provided for under the contract.

In an August 2000 review, DES identified deficiencies in these records. DES found that there was not always documentation in the

contractor's client files to support the information the contractor had recorded in the DES computer system. Although the contractor responded with actions to correct the deficiencies, DES identified many of the same issues in its May 2001 review.

Inaccurate or incomplete records can have a number of negative consequences. Specifically:

- The State could incur sanctions for failing to meet federal requirements governing the program.
- Performance incentives may not be appropriate, and
- Clients may not be receiving appropriate services or may not be sanctioned when required.

**DES should:**

- ✓ Continue to regularly monitor the contractor and inform the Board of its findings in a timely manner.
- ✓ Determine whether records are sufficient to support incentive payments for meeting performance measures.

**The Board should:**

- ✓ Review DES findings and require the contractor to develop and implement a corrective action plan.
- ✓ Amend the contract to include penalties for inadequate documentation.

**Phase II Not Yet Implemented**

Although the pilot program's enabling legislation called for a second phase of the pilot program to be in place by April 1, 2001, Phase II has not yet been implemented.

Phase II will expand the pilot program into a rural area. In June 2000, the Board selected Mohave County as the site for Phase II. While this action was taken in time to meet the April 1, 2001, requirement, conflicts over contract cost negotiations delayed implementation. Eventually, these conflicts and delays led the Board in October 2001 to change its action and vote against the Mohave County site. The Board then had to restart the selection process. In December 2001, the Board voted to select Greenlee County as the site for Phase II.

### **To Obtain More Information**

- A copy of the full report can be obtained by calling (602) 553-0333 or by visiting our Web site at:

[www.auditorgen.state.az.us](http://www.auditorgen.state.az.us)

- The contact person for this report is *Bill Shepard*.