

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Subject

The Department of Economic Security (Department) oversees four major welfare programs: Temporary Assistance for Needy Families (TANF), which provides cash assistance; Food Stamps; Jobs Program, which provides training, transportation, and other assistance to help recipients obtain employment; and Child Care Assistance, for those in the Jobs Program and other eligible families.

Our Conclusions

The Department is not prepared to oversee the Jobs Program once it is privatized as required by law. Food stamp eligibility determination error rates are expected to increase, partly because of reduced budgets. The Department is not referring potential benefit overpayments to the Collections Office on a timely basis.



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Department Administers Four Major Welfare Programs

In 1996, welfare in the United States changed substantially when TANF replaced the old welfare system, Aid to Families with Dependent Children (AFDC). The new system emphasizes jobs over welfare, providing financial assistance while a participant prepares for employment and finds a job.

The Department of Economic Security (Department) uses a federal block grant in combination with state monies to pay for three of its four largest welfare programs:

- **TANF**—Temporary cash assistance provided to eligible children and their families.
- **Jobs Program**—Training, and other assistance such as transportation and clothes, intended to help families transition to employment.
- **Child Care Assistance**—Payment of all or part of day care costs for Jobs participants and other eligible families.

The Department also determines eligibility for and issues food stamp benefits to low-income families and other eligible households. The Food Stamps Program receives nearly all of its funding from the U.S. Department of Agriculture (USDA).

Facts about Arizona TANF households:

- Most are two- or three-person families.
- Two-person families receive up to \$275 cash assistance and \$256 in food stamps per month.
- Three-person families receive up to \$347 in cash assistance and \$366 in food stamps per month.
- One-quarter of all families and half of two-parent families participate in the Jobs Program.
- 22 percent use child care assistance.

Department Should Ensure Proper Oversight of Privatized Jobs Program

To receive TANF benefits an applicant must participate in the Jobs Program. The Program's success in helping applicants find and keep jobs affects the State's TANF funding level. For good performance, the State may receive bonuses, but may be penalized for poor performance.

The Department currently operates the Jobs Program in most areas of the State. However, since 1999, the function has been privatized in a few areas of the State as the Arizona Works program. In May 2002, statute directed the Department to privatize the entire Program. A Request for Proposals (RFP) was issued, but later withdrawn. As of February 2004, the Department had not

reissued the RFP despite a July 1, 2004, statutory deadline for privatizing the Program. A bill is pending in the 2004 legislative session to extend the deadline.

Past oversight weak—To successfully privatize the entire Jobs Program, the Department will need to exercise stronger oversight than it has over the Arizona Works program. Before March 2003, it did little to monitor the Arizona Works program. As a result, the Department found that the contractor had trouble implementing procedures and documenting its work, was not following court-ordered requirements, and had a high rate of errors.

Department should prepare to monitor contractors—For the Jobs Program to operate successfully under privatization, the Department will need to ensure that it:

- Develops sound contract terms. The initial RFP did not specify the performance goals the contractors needed to meet, or penalties for failure to meet the goals.

- Provides training to the 13 employees who will monitor the contractors.
- Develops training for the contractors regarding department policies and procedures they will be required to follow.
- Develops a plan or guidelines to monitor the contractors.

Jobs Program data needs protection—Although contractors will have access to department data, the Department remains responsible for the data's security and accuracy. This data includes information to be reported to the federal government, as well as clients' personal information such as names and social security numbers. Therefore, the Department will need to:

- Specify and monitor security requirements.
- Require contractors to conduct security assessments.
- Require contractors to have policies on security issues, like limiting access and reporting security breaches.
- Monitor access logs and incident reports.
- Require that contractors' employees receive annual security training.

Recommendations

The Department should:

- Train staff to manage contracts and monitor contractor performance.
- Train contractors and their employees.
- Develop plans to secure information, monitor the contractor, and ensure data accuracy and maintenance.

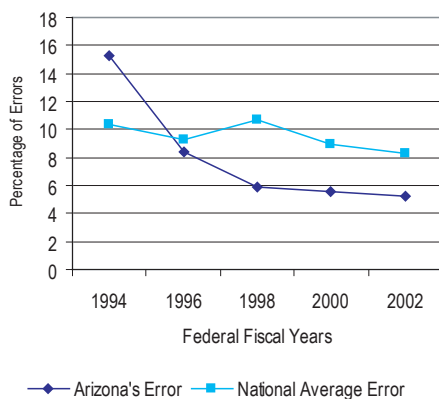
Department Can Take Additional Steps to Better Manage Food Stamp Eligibility Process

The accuracy of determining applicant eligibility is critical to the Food Stamps Program's success. The federal government gives bonuses and imposes penalties depending on the eligibility determination error rates.

The Department has significantly reduced its error rate from 15.42 percent in 1994 to 5.27 percent in 2002. As a result, for federal fiscal year 2002, Arizona earned a more than \$3.8 million bonus from the USDA.

Quality assurance has limited errors—The Department has reduced its error rate through its quality control program. Under this program, supervisors review selected case files—preferably before benefits are issued. A special unit also regularly analyzes and reports to supervisors the reasons errors are occurring. And, local offices with consistently high error rates receive additional quality reviews. In 2002, the USDA identified the Department's

Food Stamp Error Rates



quality assurance program as a “best practice model.”

Errors expected to increase—Despite the Department’s past success in reducing

errors, the error rate is expected to increase because of increased caseloads and reduced budgets. The Department can respond by:

- Increasing supervisor case file reviews. Although supervisors have a quota of 35 cases per month, most supervisors do not meet the quota. Supervisor case file reviews are one of the most effective ways to reduce error rates. Local offices that meet the quotas should share their practices with other offices.
- Highlighting important policy changes. In 2003, there were 93 policy changes, but the notifications did not indicate whether the changes affected eligibility criteria or were minor internal clarifications.
- Creating training programs for local office managers.

Recommendations

The Department should:

- Ensure that supervisors meet case file review quotas.
- Improve the quality of policy-change communications.
- Continue developing training for local office managers.

Department Should Improve Benefit Overpayment Referral Process

Overpayments of TANF or Food Stamps can result from client error, interviewer error, or fraud. Once verified, clients are responsible for paying overpayments back. The State is allowed to retain all or part of the overpayments the Department collects. It retains all TANF monies and a percentage of the food stamp collections, depending on the nature of the overpayments.

Backlog of overpayment referrals—The Department’s data indicates that as of December 2003, there were more than 7,700 potential overpayments that had not been verified and referred for collection. The dollar value of the claims could be close to \$2 million. This backlog had risen to 13,000 in July 2003, but the

Fiscal year 2003 overpayment collections:

- \$2.7 million in food stamp collections.
- \$420,000 retained by State.
- \$1.7 million in TANF collections.
- All retained by the State.

Department reduced it by assigning more staff to work on the backlog. After the audit work was completed, the Department reported further backlog reductions to 1,800 claims, or about \$500,000.

However, even though the backlog has been reduced, as many as 50 percent of the potential overpayments are not even

being processed. In many cases this is because the case files cannot be located. Local office managers report that a lack of clerical staff coupled with increasing case-loads has caused the problem. One manager reported there were at least 500 files stacked in boxes because there were no clerical staff to file them.

The Department has developed a proposal to implement an electronic document-scanning system to track and manage its case files. The Department has proposed using some of the \$3.8 million it received in federal bonus monies for its low 2002 food stamp error rate to fund this project.

Recommendations

The Department should:

- Continue assessing its staffing resources available to reduce the overpayment backlog.
- Continue efforts to implement an electronic document-scanning system.

TO OBTAIN MORE INFORMATION

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Information on Caseload Reduction

Since TANF began in 1996, welfare case-loads nationally and in Arizona have declined significantly.

March 2003, Arizona's caseloads increased 20.1 percent due to population growth and a weak economy.

National data also shows that welfare reform has increased family incomes:

- Average monthly earnings for employed welfare recipients increased from \$466 in 1996 to \$686 in 2001.
- Child poverty fell 20 percent from 1996 to 2001.
- Average earned income for single mothers in the lowest fifth income bracket increased 70 percent, from \$1,740 in 1996 to \$2,960 in 2000.

While many people leave the welfare rolls, other governmental supports, such as Medicaid, food stamps, earned income tax credit and subsidized school meals, housing, and childcare, remain an important source of income.

Caseload Reductions After Welfare Reform

National caseloads

- 1996—4.5 million
- 2002—2.1 million

Arizona caseloads

- 1996—63,400
- 2002—38,600

39.2%—Arizona's caseload reduction

26—number of states with over 50
percent reduction

42nd—Arizona's rank nationally in case-
load reduction.

However, while caseloads declined 2 per-
cent nationally between March 2002 and