



PROGRAM EVALUATION

**DEPARTMENT FOR SOCIAL INSURANCE
ELIGIBILITY DETERMINATION PROCESS**

Research Report No. 277

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**PROGRAM EVALUATION:
DEPARTMENT FOR SOCIAL INSURANCE
ELIGIBILITY DETERMINATION PROCESS**

**Adopted Report and Recommendations of the
Committee for Program Review and Investigations**

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Research Report No. 277

LEGISLATIVE RESEARCH COMMISSION

Frankfort, Kentucky

Committee for Program Review and Investigations

September 12, 1996

This report has been prepared by the Legislative Research Commission and printed with state funds.

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FOREWORD

In April 1995, the Committee for Program Review and Investigations directed staff to review the eligibility criteria and processes for the Department for Social Insurance. This report was adopted by the Committee on September 12, 1996, and submitted to the Legislative Research Commission.

This report is the result of dedicated time and effort by the Program Review staff and secretaries Jo Ann Paulin and Mary Scott Lee. Our appreciation is also expressed to the Commissioner and central office staff of the Department for Social Insurance, DSI caseworkers, the Cabinet for Health Services' Office of the Inspector General, the Office of the Attorney General, and to all other persons interviewed for this study.

Don Cetrulo
Director

Frankfort, KY
September, 1996

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MEMORANDUM

TO: The Honorable Paul E. Patton, Governor
The Legislative Research Commission, and
Affected Agency Heads and Interested Individuals

FROM: Senator Joey Pendleton, Co-Chairman
Representative Jack Coleman, Co-Chairman
Program Review and Investigations Committee

DATE: September 26, 1996

RE: Staff Report -- DSI ELIGIBILITY DETERMINATION PROCESS

Attached are the final report and recommendations of a study of the eligibility criteria and processes of the Department for Social Insurance (DSI) directed by the Program Review and Investigations Committee. DSI determines client eligibility for both the Food Stamp and AFDC programs, which it also administers. Also, by contract with the Department for Medicaid Services, DSI determines and certifies eligibility for Kentucky's Medicaid program. Because of their size and central role, the report focuses on these three programs.

DSI has three fundamental responsibilities: 1) Providing timely and accurate benefit payments to clients; 2) Identifying and collecting overpayments (claims); and 3) Referring potential cases of fraud to the Office of the Inspector General and the Office of the Attorney General, which are responsible for investigating cases and pursuing legal action. The report assesses DSI performance in each of these three areas and OIG and OAG performance in fraud investigation. The report also offers recommendation regarding the effective and efficient administration of these functions.

Performance evaluations conducted by Kentucky and the federal government rank Kentucky among the best states in the nation for accurate AFDC and Food Stamp certification and benefit payments. Few applicants are denied benefits improperly, and the vast majority of recipients are indeed eligible for the benefits they receive. While Kentucky's error rates are low,

the size of the AFDC and FS programs (which total about \$600 million per year in benefits) creates a potential for as much as \$20 million in overpayments in these programs. Additionally, several problems in carrying out the eligibility determination function are discussed in the report. The report makes recommendations that the use of collateral contacts (third party testimonials which are used to verify clients' information) be examined and the statements be strengthened. The report also recommends that DSI increase caseworker resources to investigate and verify client information.

A high percentage of pending claims are not established in a timely manner. In September 1995, 81% of all AFDC claims and 59% of all FS claims were past due. The estimated value of these claims was over \$3.2 million. The major problem with establishing claims may lie in the heavy workloads and implicit priorities. DSI performance is judged on payment error, not claims established. Since specialized caseworkers for claims have been phased out in many counties, claims responsibility has fallen increasingly on caseworkers, whose first priority remains certification and verification. DSI has taken steps to reduce the backlog of claims through contracts with retired caseworkers. However, to avoid continuing future backlogs, DSI will need to be more aggressive in establishing claims on a consistent basis. The report recommends that DSI take steps to increase timely claims establishment and to report to the committee on the success of the claims work contracts.

The welfare fraud referral and investigation process is very complex. In addition to DSI and the local caseworkers, the process also involves the Office of the Inspector General (OIG) and the Office of the Attorney General (OAG). The present system is expensive, time consuming and duplicative. As a visible deterrent to fraud and abuse, the system suffers from a low prosecution rate and a lack of public exposure. These problems have been exacerbated by ongoing contractual and organizational disputes between the OIG and the OAG. Several methods for streamlining the process have been proposed by state and federal agencies since the early 1980's, but not enacted. The report recommends that DSI should take specified steps to streamline the fraud investigation and prosecution process.

If you have questions or wish to request additional copies of this report, please contact Joseph Fiala, Ph.D., LRC Assistant Director, Office for Program Review and Investigations.

Program Evaluation: Department for Social Insurance Eligibility Determination Process

Research Staff: John Snyder and Henry Marks

Purpose and Scope

In February of 1995, the Program Review and Investigations Committee directed its staff to review DSI entitlement program eligibility criteria, and the procedures by which eligibility is determined. Because of the size and central role of the AFDC, Food Stamp and Medicaid Program, this review focuses on the criteria and procedures DSI uses to determine recipient eligibility. Additionally, the review is limited to an analysis of DSI efforts to determine eligibility accurately and efficiently, and in those cases where error or fraud have occurred, to recoup overpayments or restore benefits. The review does not make statements about the appropriateness of benefit levels or eligibility criteria, nor does it address recipient fraud not directly related to recipient eligibility, such as Medicaid client usage or provider abuse or Food Stamp trafficking.

Background

The Department for Social Insurance (DSI), located in the Cabinet for Families and Children, administers the application and certification process for three major public assistance entitlement programs in Kentucky: Aid to Families with Dependent Children (AFDC), Food Stamps (FS), and Medical Assistance (MA), also known as Medicaid. DSI's fundamental responsibility is to provide timely and accurate benefit payments to recipients. In the event of payment error or fraud, DSI is responsible for identification and collection of overpayments and referring suspected fraud to the Office of Inspector General (OIG) and Office of Attorney General (OAG), which are

responsible for identifying potential fraud and abuse and pursuing legal action. The eligibility process is conducted at the county office level by caseworkers and caseworker supervisors. Their work is supervised by DSI through regional and area offices, and by the central office, located in Frankfort.

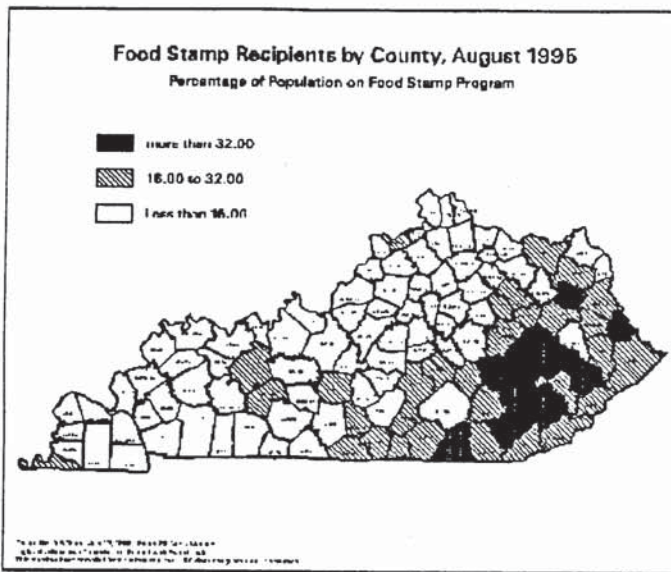
Overview of Major DSI Programs

The Department for Social Insurance (DSI) provides eligibility services for two public assistance programs that it administers: the **Aid to Families with Dependent Children (AFDC)** Program, which includes the Job Opportunities and Basic Skills Program (JOBS), and the **Food Stamp (FS)** Program. DSI determines and certifies eligibility for Kentucky's Medicaid program through a contract with the Department for Medicaid Services (DMS). The broad objectives for all of these programs are to provide basic support, health and nutritional care for those who are unable to support themselves, and to provide additional assistance to able-bodied adults and families making a transition to self-sufficiency.

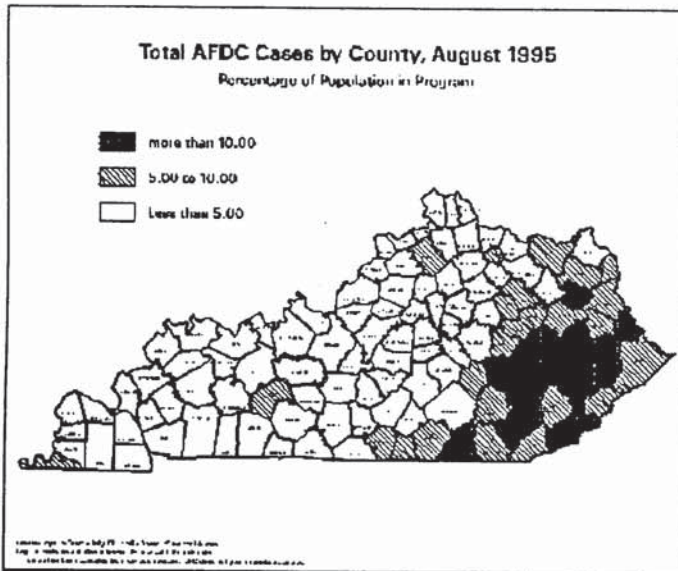
Generally, participation in the AFDC and FS programs increased in the late 1980's and early 1990's, began leveling off from 1991 to 1993, and is expected to decline in the future. Participation rates in specific geographic areas of the state vary widely. Medicaid participation has generally increased over time.

Eligibility criteria and benefit levels are determined separately for each major program. These are based on federal funding formulas, regulations, statutes, and agency policies, combined with Kentucky program choices, regulations, statutes, and funding. Differences in eligibility criteria between programs makes a unified eligibility determination process more complex and difficult to administer.

MAP 2.1



MAP 2.2



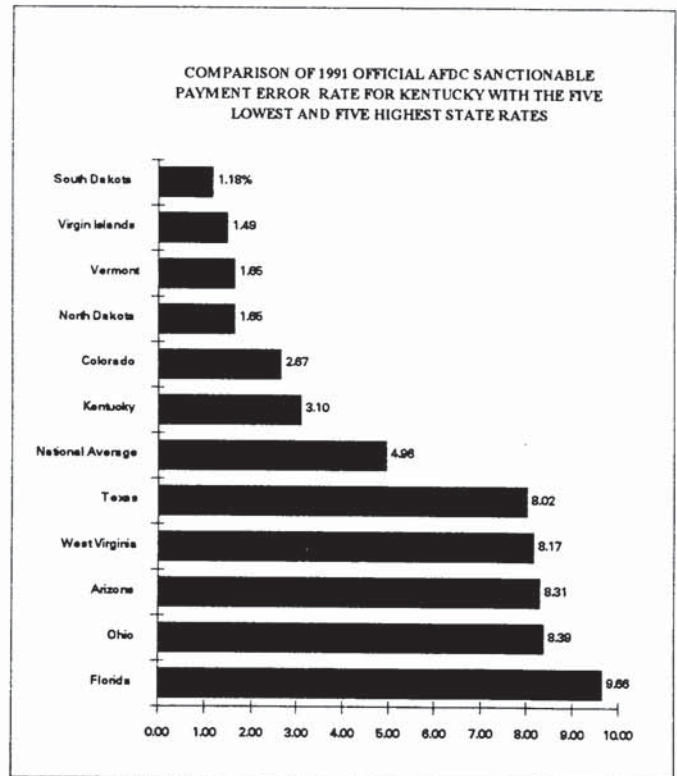
FINDINGS:

- AFDC and FS recipient populations have declined
- Program participation rates differ significantly by county
- DSI expenditures have decreased
- DSI administrative costs are in line with those of other states
- Differing eligibility criteria create complexity
- Interactions among programs lead to potential problems

Accuracy of Eligibility Determination

Performance evaluations conducted by Kentucky and by federal agencies rank Kentucky among the best states in the nation in the accuracy of its AFDC and Food Stamp certification and benefit payments. In the most recent comparison years, Kentucky had the 5th lowest FS error rate and the 9th lowest AFDC error

Figure 3.1



SOURCE: Compiled from information provided by Department of Health and Human Services, Region IV.
 NOTE: Kentucky ranks 9th, after Connecticut, Minnesota, Alaska.

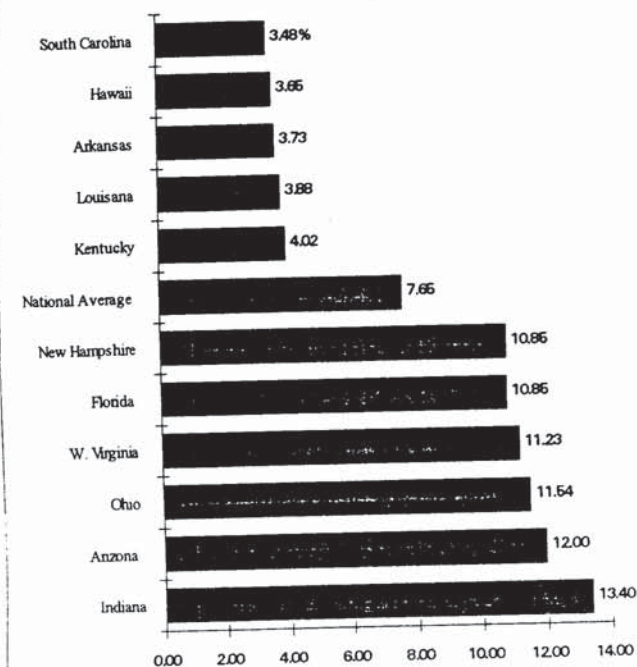
rate. Recent federal and DSI reports find that few applicants are denied benefits improperly, and that the vast majority of active recipients are indeed eligible for the benefits they receive.

In the mid-1980's, in response to high error rates, Kentucky established several programs to reduce and control error. These programs, known collectively as Quality Initiatives (QI), are cited by DSI and federal agencies as the reason Kentucky's error rates are comparatively low.

Although Kentucky's error rates are low, given the magnitude of the programs (approximately \$600 million

Figure 3.2

COMPARISON OF KENTUCKY OFFICIAL FOOD STAMP OVERPAYMENT ERROR RATE WITH THE FIVE LOWEST AND THE FIVE HIGHEST STATES, 1994



SOURCE: USDA FNS Food Stamp Quality Control Annual Report, 1994.

for AFDC and FS), there is potentially \$20 million in estimated overpayments each year and several problems persist. The eligibility process relies heavily on collateral contact statements (third party attestations obtained by client) to verify client income and other information. Caseworkers state that collateral statements are often unreliable, and that they do not have time to verify these statements. Caseworkers and Central Office personnel are concerned about high caseloads and long delays in getting trained replacements for vacancies. Additionally, new programs and program changes make certification increasingly complex, especially since most workers now handle cases in all three programs. Finally, a new computer system has caused problems for some workers.

FINDINGS:

- Very few applicants are denied benefits inappropriately
- 2-3% of AFDC clients and 1-2% of FS clients are ineligible to receive benefits
- Kentucky's AFDC and FS payment error rates are now among the lowest in the nation
- Payment error rates, particularly for AFDC, have increased slightly in recent years
- Current low error rates are a result of DSI's quality initiatives
- As much as \$20 million annually is paid in error in FS and AFDC
- Reliance on client and collateral statements is a weakness of the certification process
- Workers are concerned that they do not have time and resources to investigate clients
- Caseworkers' jobs are made more difficult by high caseloads and turnover rates
- Program changes and inconsistencies have increased the complexity of certification
- The KAMES system has had a major impact on caseworkers and eligibility procedures

RECOMMENDATIONS

#1 - STRENGTHEN COLLATERAL STATEMENTS

DSI should examine ways to strengthen the veracity and verifiability of collateral contacts. These measures could include: strengthening warnings on collateral contact forms, limiting who can sign these forms, requiring notarized statements and prosecuting people who knowingly sign false statements.

#2 - INCREASE VERIFICATION RESOURCES

DSI should work with the OIG to expand investigative and verification resources, such as the CORE program. DSI also should attempt to identify and develop additional data matches with other agencies and entities that could provide independent verification of client statements.

Establishing and Collecting Overpayment Claims

DSI uses the term "claim" in reference to the discovery of an overpayment and the establishment of the amount of that overpayment. Claims include benefits paid to ineligible clients and overpayments to eligible clients. Once identified through tips, computer matches, QC report data, case reviews, and management evaluation reports, claims are placed on a claims pending log. Caseworkers have six to seven months to establish a pending claim. This involves investigating a pending

claim, verifying its validity, and establishing an amount of overpayment. In most counties, caseworkers are responsible for establishing claims on their own cases. However, some counties have specialized claims workers who process and establish the potential claims

Table 4.2

September 1995	AFDC	FS
Total Pending Claims	9,926	5,515
Past Due Pending Claims	8,060	3,273
Percent Past Due	81%	59%
Estimated Dollar Value of Past Due Claims	\$2,600,000	\$692,000

identified by all workers in that county. Claims are collected through benefit reduction and cash collection.

A high percentage of pending claims are not established in a timely manner. Even on claims identified by the QC process, fully 1/3 are not followed up and established. Collections are achieved on only about 1/3 of established claims. The major problem with establishing claims may lie in the heavy workloads and implicit priorities. DSI performance is judged on payment error, not claims established. Since specialized caseworkers for claims have been phased out in many counties, claims responsibility has fallen increasingly on caseworkers, whose first priority remains certification and verification. DSI has taken steps to attack the backlog of claims, but to avoid future backlogs DSI will need to be more aggressive in establishing claims on a consistent basis.

FINDINGS:

- There are currently almost 20,000 established AFDC and FS claims
- More than 11,000 pending claims are past due
- Counties vary widely in the number of past due claims
- Counties with specialized claims workers have fewer past due claims
- Approximately 25-30% of established claims are collected
- Claims establishment is not a priority of the quality control process
- DSI is attempting to reduce the claims backlog through contracting

RECOMMENDATION

#3 INCREASE TIMELY CLAIMS ESTABLISHMENT AND REPORT ON CLAIMS CONTRACTING

DSI should develop and establish procedures to increase the timely establishment of claims and prevent recurring backlogs. DSI should report to the Program Review and Investigations Committee by December 31, 1996, on the procedures which have been established. DSI should also report to the Program Review and Investigations Committee by December 31, 1996, on the success of the claims work contracts. The report should include:

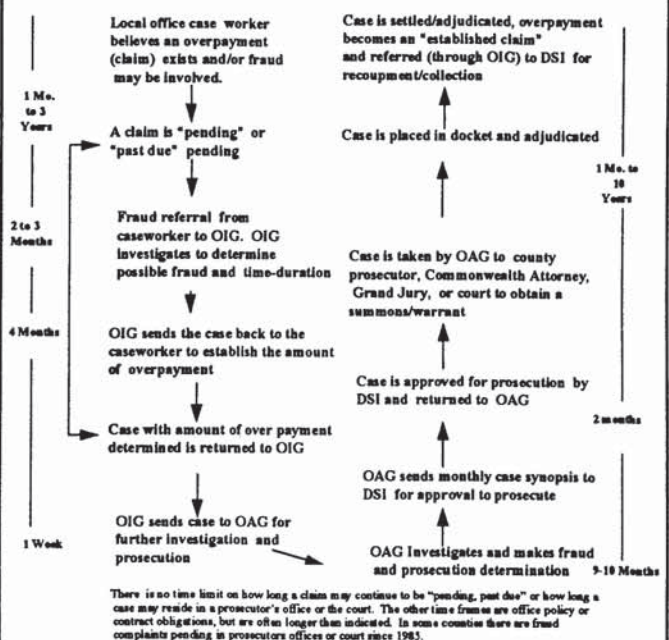
1. Number of cases reviewed.
2. Number of established claims (and cost) by claim type
3. Number of "no claims" established (and cost)
4. Costs of training and expenses
5. Plans for future contracting

Fraud Investigation and Prosecution

The welfare fraud referral and investigation process is very complex. In addition to DSI and the local caseworkers, the process also involves the Office of the Inspector General (OIG) and the Office of the Attorney General (OAG).

FIGURE 5.1

INVESTIGATING AND PROSECUTING A FRAUD CASE



The present system is expensive, time consuming and duplicative. As a visible deterrent to fraud and abuse the system suffers from a low prosecution rate and a lack of public exposure. These problems have been exacerbated by ongoing contractual and organizational disputes between the OIG and the OAG. Several means of streamlining the process have been proposed by state and federal agencies since the early 1980s, but not enacted.

FINDINGS:

- Fraud investigation costs are far greater than amounts collected
- The slow process has resulted in a large backlog of fraud cases
- The fraud process is duplicative and cumbersome
- The fraud prosecution process lacks visible results
- The OIG/OAG contract relationship has been in constant dispute

RECOMMENDATION

4 STREAMLINE FRAUD PROCESS

DSI should make the fraud investigation process more efficient and streamlined. DSI should present to the Program Review and Investigations Committee, by December 31, 1996, a comprehensive plan and budget for fraud prevention, investigation, prosecution and collection. This plan should clearly define roles and responsibilities and should describe the ways in which the process will:

1. Reduce costs and increase efficiency
2. Reduce the time of and delays in investigation and prosecution
3. Reduce duplication and fragmentation of roles and responsibilities
4. Increase the number of cases investigated
5. Increase visibility of the fraud process, arrests, and convictions
6. Establish a uniform set of data elements and definitions to ensure uniform reporting of performance
7. Establish benchmarks by which to compare any plans and their implementation to current performance

This report has been prepared by the Legislative Research Commission and printed with state funds.

CHAPTER I

INTRODUCTION

The Department for Social Insurance (DSI), located in the Cabinet for Families and Children, administers the application and certification process for the three major public assistance entitlement programs in Kentucky: Aid to Families with Dependent Children (AFDC), Food Stamps (FS), and Medical Assistance (MA), also known as Medicaid. These three programs are called "entitlement" programs because anyone may apply and, if eligible, must be provided with benefits. For AFDC and FS, DSI also calculates and distributes benefits in the form of checks and Food Stamp coupons, respectively. Caseworkers and caseworker supervisors in the county office administer the eligibility process. DSI supervises their work through regional and area offices, and the central office, located in Frankfort.

DSI's fundamental responsibility is to provide timely and accurate benefit payments to recipients. In the event of payment error or fraud, DSI also is responsible for establishing the extent, nature and amount of the overpayments, and for collecting them. In its administration of these responsibilities, the efforts of DSI fall into three broad functional categories:

- Determining the eligibility status and benefit payments of clients according to the eligibility criteria of the programs.

- Discovering payment errors made as a consequence of agency error or misinformation provided by a client, establishing the precise amount of mispayments made to clients and collecting overpayments.
- Referring cases of suspected fraud to the Office of Inspector General (OIG) for investigation. After the OIG investigates a case, if prosecution is warranted, the OIG refers the case to the Office of the Attorney General for prosecution and adjudication.

This report assesses the performance of DSI in each of the three functional areas described above, and the performance of the OIG and the OAG in fraud investigation. The report also offers recommendations regarding the effective and efficient administration of these functions.

Scope of Study

In February of 1995, the Program Review and Investigations Committee directed its staff to review DSI entitlement program eligibility criteria, and the procedures by which eligibility is determined. Because of the size and central role of the AFDC and Food Stamp programs, this review focuses on the criteria and procedures DSI uses to determine recipient eligibility for these programs. Additionally, the review is confined to an analysis of DSI efforts to determine eligibility accurately and efficiently, and in those cases where error or fraud have occurred, to recoup overpayments or restore benefits. The review does not make statements about the appropriateness of benefit levels or eligibility criteria, per se, nor does it address recipient fraud that is not directly related to recipient eligibility, such as Medicaid client usage or provider abuse or Food Stamp trafficking.

Methodology

Program Review staff interviewed officials and employees of the DSI central offices in Frankfort, including the Commissioner of DSI, the Director of the Division of Field Services and the Director of the Division of Management and Development. Staff also interviewed officials of the Office of Inspector General in the Cabinet for Human Resources and officials within the Office of the Attorney General. Staff conducted field interviews with DSI caseworkers and supervisors, including eight caseworker focus group interviews, involving over 75 caseworkers at regional sites throughout the state. Staff surveyed 15 states by telephone to obtain comparative data regarding performance evaluation, eligibility determination errors, overpayment identification and collection procedures, data collection systems and fraud control. Document analysis by Program Review staff included applicable statutes, regulations and policies, DSI data bases, and other reports and DSI internal documents, including contracts, policy manuals, memoranda and federal audits. In addition, Program Review staff reviewed all recent AFDC, FS, and MA Quality Control reports submitted by DSI to federal agencies and did a follow-up analysis of claims and collection action for payment error cases detected by the FY 1993 AFDC Quality Control Report.

Overview

Chapter II offers an overview of the program populations, budgets, and eligibility criteria of the major DSI programs. Chapters II, IV, and V deal with the performance of DSI and problems faced by the department in various phases of the eligibility process. Chapter III covers the certification and verification of eligibility. Chapter IV concerns identification and collection of overpayment claims. Chapter V deals with the investigation and prosecution of recipient fraud.

CHAPTER II

OVERVIEW OF MAJOR DSI PROGRAMS

The Department for Social Insurance (DSI) provides public assistance chiefly through two programs: the **Aid to Families with Dependent Children (AFDC)** program, which includes the Job Opportunities and Basic Skills Program (JOBS), and the **Food Stamp (FS)** program. Additionally, by contract with the Department for Medicaid Services, DSI determines and certifies eligibility for Kentucky's Medicaid program. The broad objectives for all these programs are to provide basic support, health and nutritional care for those who are unable to support themselves, and to provide additional assistance to able-bodied adults and families making a transition to self-sufficiency.

Participation rates and benefit expenditures for the AFDC and FS programs have declined in recent years, after increasing in the late 1980's and early 1990's and then leveling off from 1991 to 1993. Future budget projections estimate a continuing decline in program participation. This decline in participation has resulted in a reduction in total benefits paid and in the program budgets for AFDC and FS. Participation rates also vary greatly among different geographic areas of the state.

Eligibility criteria and benefit levels are determined separately for each major program. They are the result of federal funding formulas, regulations, statutes, and agency policies, in combination with Kentucky program choices, regulations, statutes, and funding.

Program Populations

There has been a recent decline in FS and AFDC recipient populations, especially in the AFDC program. The current participation rates for FS vary widely among counties, from a high of nearly 50% to a low of less than 3%. Similarly, AFDC participation rates range from over 18% to less than 1% of the county population.

AFDC and FS Recipient Populations Have Declined

Food Stamp and AFDC recipient numbers are declining after a period of increase in the late 1980's and early 1990's. Table 2.1 shows a 10% reduction in the number of AFDC families and a 16.8% reduction in the number of individual AFDC recipients between August 1993 and August 1995. Similarly, total AFDC payments for the month of August declined over 14% between 1993 and 1995. The percentage of the state's population receiving AFDC declined from 5.73% to 4.73% over this time period.

TABLE 2.1

Kentucky's AFDC Recipients, August 1993 vs. August 1995

	1993	1995	% CHANGE
Total Cases (Families)	81,138	72,956	-10.1%
Total Recipients	217,448	180,921	-16.8%
Total Adults	76,657	57,827	-24.6%
Total Children	140,791	123,094	-12.6%
Total Payments	\$17,204,804	\$14,747,178	-14.3%
Avg. \$ Per Case	\$212.04	\$202.14	-4.7%
Avg. Recipient per Case	2.68	2.48	-7.5%
% of Population in Program	5.73%	4.73%	

SOURCE: DSI program statistics, August 1993 and August 1995

Table 2.2 shows a smaller reduction in Food Stamp participation and benefits. Food Stamp families declined by 3.5% and individual recipients declined by .3% between 1993 and 1995. The average family size increased from 2.64 to 2.73 and the average grant increased slightly. Over these two years, the total Food Stamp payment for the month fell by 2.4% and the percentage of Kentucky's population receiving Food Stamps declined slightly, from 14.03% to 13.87%.

TABLE 2.2

Kentucky Certified Food Stamp Recipients
August 1993 vs. August 1995

	1993	1995	% Change
Families Certified	201,486	194,432	-3.5%
Persons Certified	532,318	530,749	-.3%
Amount Certified	\$34,999,288	\$34,151,648	-2.4%
Average Family	2.64	2.73	+3.4%
Average Grant	\$174	\$176	+1.1%
% Population in Program	14.03%	13.87%	

SOURCE: DSI program statistics, August 1993 and August 1995

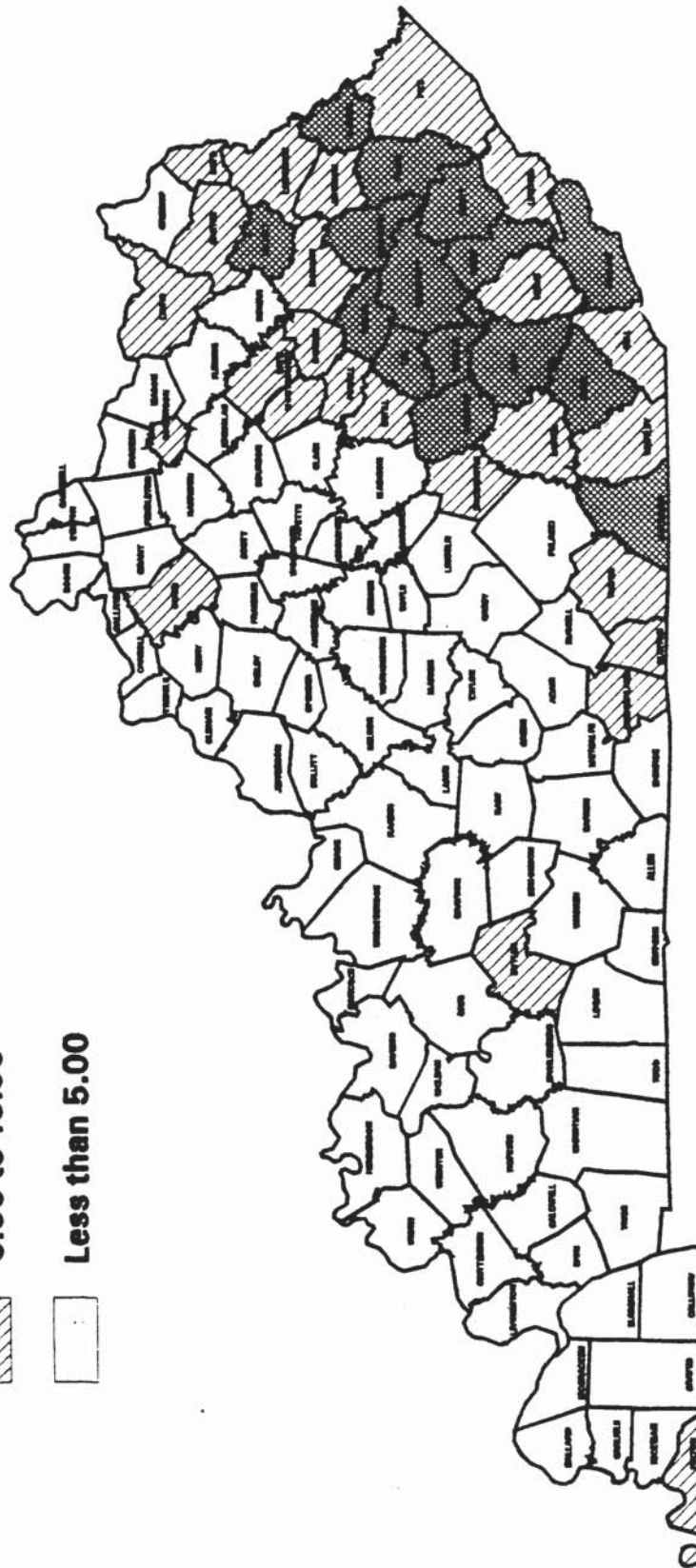
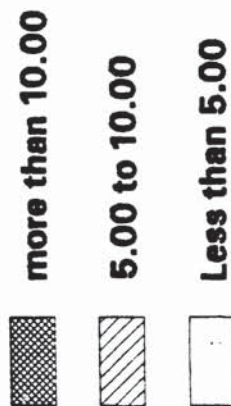
The 1996-98 DSI budget narrative reflects a fiscal year decrease in AFDC participants from 211,333 in FY 1994 to 193,848 in FY 1995, an 8.3% decrease in average monthly participation. Similarly, this budget narrative reflects a decline in average monthly food stamp recipients from 524,133 in FY 1994 to 519,958 in FY 1995. This represents less than a 1% decline in participation. The current services request of the 1996-98 biennial budget projects a continuing decline in participation in both programs.

Program Participation Rates Vary Significantly Between Counties

Reporting Food Stamp and AFDC participation as a percentage of the overall state population obscures the significant differences between counties. Maps 2.1 and 2.2 show Kentucky counties by the percentage of population participating in AFDC and FS. Both maps show that the highest participation rates are in southern and eastern Kentucky. The maps also indicate that counties with the highest levels of participation in one program generally have high levels in the other program. Appendices A and B show a county-by-county listing of participation rates in the AFDC and FS for August 1995. The Food Stamp analysis shows a range of county participation from almost 50% (Owsley County's at 49.34%) to only 2.95% (Oldham County). Similarly, the AFDC analysis shows a range in participation rates from 18.66% to 0.90%.

MAP 2.1

Total AFDC Cases by County, August 1995 **Percentage of Population in Program**

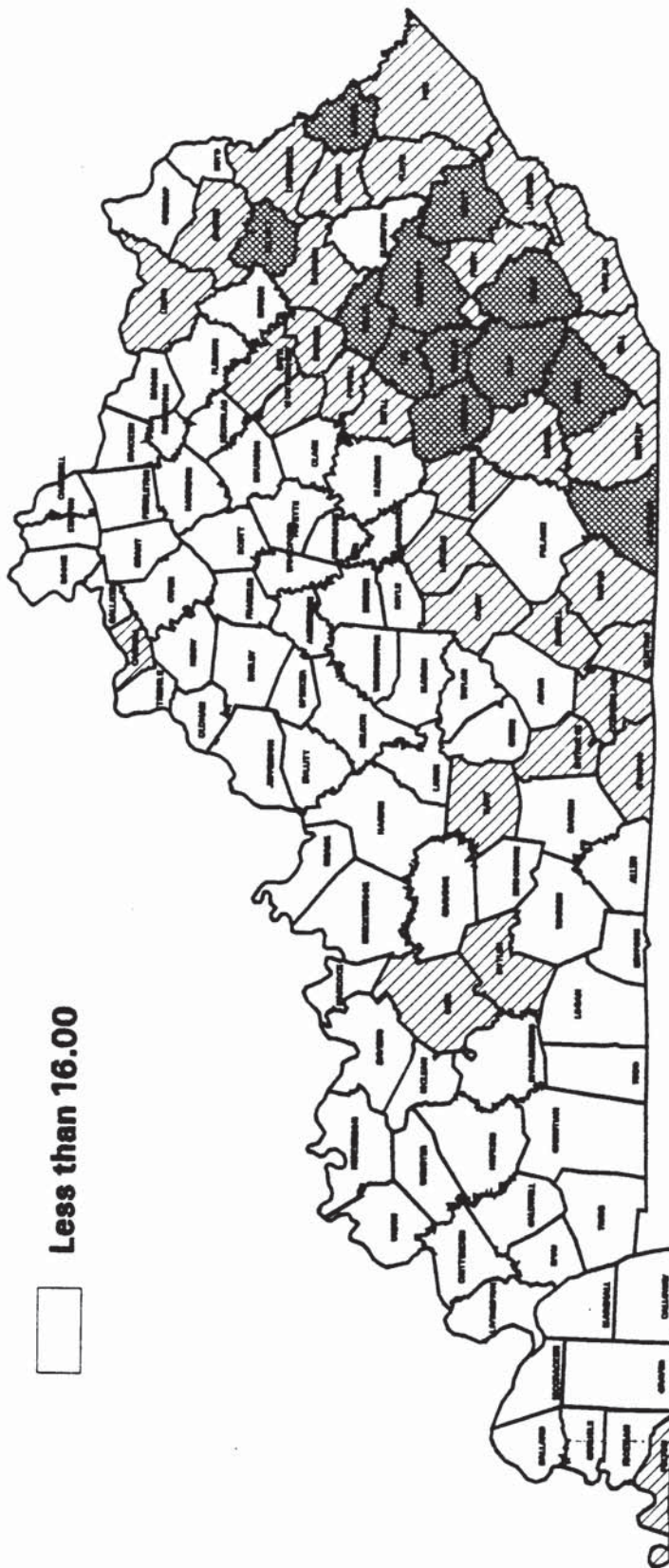
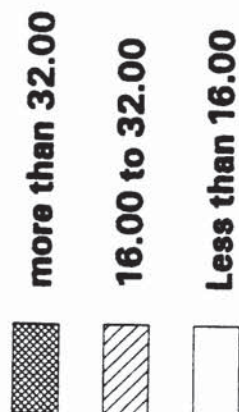


Created by GIS Team - July 17, 1995 - Room 25 Capitol Annex
 Legislative Research Commission - Printed with State Funds
 This map has been compiled from various sources. LRC does not guarantee its accuracy.

MAP 2.2

Food Stamp Recipients by County, August 1995

Percentage of Population on Food Stamp Program



Created by GIS Team - July 17, 1995 - Room 25 Capitol Annex
 Legislative Research Commission - Printed with State Funds
 This map has been compiled from various sources. LRC does not guarantee its accuracy.

Budgets

Among the three major programs, AFDC and JOBS benefits are the only program benefits included as a part of the DSI budget. Food Stamp benefits (\$417 million in FY 93-94, and \$407 million in FY 94-95) are not included in the budget, because they are paid for in full by the U.S. Department of Agriculture. These benefits are expected to total \$403 million in fiscal year 1995-96. Similarly, because Kentucky's Department for Medicaid Services pays the medical expenses of Medicaid recipients who are certified as eligible by DSI, these benefits are not reflected in the DSI budget.

DSI Expenditures Have Decreased

DSI expenditures for FY 1994-95 were approximately \$400 million, as shown in Table 2.3. Total department spending in FY 1994-95 decreased 5.7% from the previous fiscal year. This reduction in spending is linked primarily to the recent trend of fewer AFDC and FS recipients. The estimated expenditures for FY 1995-96 are overstated, because they were based on previous projected increases in the program populations. Since these increases have not occurred, expenditures for the AFDC program in FY 95-96 should be more in line with spending in FY 94-95. It should also be noted that of the \$400 million spent by DSI in FY 94-95, over \$315 million (78%) was spent for AFDC, JOBS, FS, and Medicaid.

TABLE 2.3

DSI PROGRAM EXPENDITURES, FY 1994 - FY 1996

PROGRAM	ACTUAL 1993-94	ACTUAL 1994-95	BUDGETED 1995-96
AFDC			
ADMINISTRATIVE	32,752,500	29,536,300	34,039,200
BENEFITS	207,349,200	187,754,900	235,371,000
SUB-TOTAL	239,109,700	217,291,200	269,410,000
JOBS			
ADMINISTRATIVE	9,982,700	11,644,000	16,457,800
BENEFITS	24,488,500	20,772,700	25,300,000
SUB-TOTAL	34,471,200	32,416,700	41,757,800
FOOD STAMPS AND E&T			
ADMINISTRATIVE	43,458,700	46,347,500	50,771,900
BENEFITS	1,427,700	691,700	1,886,400
SUB-TOTAL	44,886,400	47,039,200	52,658,300
MEDICAID ELIGIBILITY			
ADMINISTRATIVE	21,538,600	19,138,700	23,593,000
BENEFITS	- 0 -	- 0 -	- 0 -
SUB-TOTAL	21,538,600	19,138,700	23,593,000
DEPARTMENT TOTALS:*			
ADMINISTRATIVE	142,545,900	148,620,600	174,433,200
BENEFITS	280,814,400	250,320,600	306,734,900
GRAND TOTAL	423,360,300	398,941,200	481,167,100

SOURCE: Commonwealth of Kentucky 1994-1996 Biennial Budget

* Includes expenditures and budgets for other smaller programs

DSI Administrative Costs are in Line With Those of Other States

Most of the administrative expenses of DSI are personnel-related. DSI reported spending just over \$88 million on its personnel complement of just over 3,000 employees in FY 94-95, compared to \$37.5 million on operating expenses. In comparison to other states, Kentucky's administrative expenditures rank at the middle to bottom. Data from the U.S. Department of Health and Human Services regarding AFDC caseloads and expenditures for FY 93-94 shows Kentucky tied for 20th of 51 jurisdictions in the percentage of expenditures used for administrative costs (14.26%), which is derived by dividing total expenditures by total

administrative costs. New Jersey ranked highest, at 22.54%, while West Virginia ranked lowest, at 4.93%. Nationwide, 12.4% of AFDC budgets are spent on administrative costs. When states are ranked by administrative cost per case, Kentucky's costs are lower than those of most other states. Kentucky ranked 41st in the amount of administrative cost per case, which was derived by dividing the total administrative cost by the average monthly number of cases. Kentucky's administrative cost per case was \$41, compared with a high of \$128 (New York), a low of \$16 (West Virginia) and the national average of \$65.

Eligibility Criteria

As entitlement programs, AFDC, Food Stamp and Medicaid guarantee assistance to clients as long as they meet the income and eligibility criteria. Essentially, these eligibility criteria drive the entire eligibility process. Each program has different eligibility criteria, such as income and resource limits. These differences in criteria among the three programs can pose significant problems for caseworkers. Additionally, eligibility in one program affects eligibility for other programs.

The eligibility processes for AFDC, FS and Medicaid are derived from the eligibility criteria set out in federal and state statutes and regulations. The federal statutes and regulations set forth most of the criteria for eligibility, such as resource limits and exemptions, how particular income is counted and what deductions are allowed, and what general procedures and time frames should be followed. Kentucky's discretion in regulating the programs is limited and varies from program to program. For example, in AFDC, each state establishes a "standard of need," which determines the level at which a family becomes eligible for benefits. For Food Stamps, the

standard is determined by the federal government. The eligibility procedures for each of the three programs are outlined in detail in Appendix C.

Differing Eligibility Criteria Create Complexity

Although the differences in AFDC, Food Stamps and Medicaid criteria play a large role in determining an individual client's eligibility, the general eligibility process itself is consistent for the client, regardless of the program: the client goes to a local DSI office, is interviewed by a caseworker, responds to questions, and provides information. It is at the DSI caseworker level that differing criteria result in the difficulties and complexities associated with the administration of these programs.

This complexity has been documented in the 1993 report of Congress's Welfare Simplification and Coordination Advisory Committee. This report, entitled "Time for a Change: Remaking the Nation's Welfare System," cites 57 differences between AFDC program requirements and eligibility criteria and those of the Food Stamp program. Examples include resource limits (\$1,000 for AFDC, \$2,000 for FS), vehicle limits (\$1,500 of equity for AFDC, \$4,500 market value for FS), and the income limits (maximum of \$974 for a family of three for AFDC, maximum of \$1,364 for a family of three for FS). Table 2.4 shows the maximum incomes for various household sizes for AFDC, FS and Medicaid.

TABLE 2.4

Monthly Income Limits for DSI Public Assistance Programs

Family Size	AFDC**	FS	Medical Assistance (after deductions)		
			Family	Women w/children under 6*	Women w/children Under 1*
1	\$729	\$810	\$217	\$828	\$1,152
2	851	1,087	267	1,112	1,547
3	974	1,364	308	1,396	1,941
4	1,096	1,642	383	1,680	2,336
5	1,218	1,919	450	1,963	2,731
6	1,340	2,196	508	2,247	3,125
7	1,462	2,474	567	2,531	3,520

Source: Compiled by Program Review Staff

*For these two categories, there are no resource limits

**AFDC recipients are categorically eligible for FS and MA

Interactions Among Programs Lead to Potential Problems

Many low-income families are eligible for, and receive assistance from, multiple programs. Given the differences in the determination of need and allowable resource limits, interactions among the AFDC, Food Stamp and Medicaid programs can send mixed signals to recipients and undermine efforts to move recipients from AFDC to work. For example, AFDC recipients whose benefits are reduced for failure to attend employment training activities will qualify for increased Food Stamps because of the reduced AFDC benefit. This can result in no net loss to the recipient, even though he did not comply with program requirements. However, under a new federal regulation, effective November 1996, an increase in FS benefits is prohibited when any means-tested public assistance benefit is reduced for an intentional act of noncompliance.

"Categorical eligibility" can result in eligibility errors having a multiplier effect. Categorical eligibility refers to clients who qualify for one program being automatically eligible for

other programs. For example, clients in households where all members are AFDC recipients, SSI recipients, or a combination of both, are also eligible for both FS and Medicaid. Additionally, eligibility for AFDC affects eligibility for other programs such as Women, Infants, and Children (WIC) and HUD Section 8 housing assistance. Thus, errors made in determining eligibility for one program can result in errors in other eligibility programs.

CHAPTER III

ACCURACY OF ELIGIBILITY DETERMINATION

Performance evaluations conducted by Kentucky and federal agencies rank Kentucky among the best states in the nation regarding the accuracy of its AFDC and Food Stamp certification and benefit payments. In the most recent comparison years, Kentucky had the 5th lowest FS error rate and the 9th lowest AFDC error rate. Recent federal and DSI reports find that few Kentucky applicants are denied benefits improperly, and that the vast majority of active recipients are indeed eligible for the benefits they receive.

In response to past high error rates, Kentucky established several programs in the mid-1980's to reduce and control error. These programs, known as Quality Initiatives (QI), are cited by DSI and federal agencies as the reason for Kentucky's comparatively low error rates..

Despite these low error rates, there are still millions of dollars in estimated overpayments each year, and several problems persist. The eligibility process relies heavily on collateral contact statements to verify client income and other information. Caseworkers state that collateral statements are often unreliable, and that they do not have time to fully investigate these statements in particular, nor the clients in general. Caseworkers and Central Office personnel are concerned about high caseloads and long delays in getting trained replacements for vacancies. Additionally,

new programs and program changes make certification increasingly complex, especially because most workers now handle cases in all three programs. Finally, a new computer system has caused problems for some workers.

DSI Quality Control Error Rates

The principal tool by which the federal government and Kentucky determine DSI performance is called Quality Control (QC), which is undertaken separately for AFDC and FS. The QC process yields both a "case error rate" (percentage of sampled cases that contain error) and a "payment error rate" (percentage of benefits paid in error). For FS, the sanctionable payment error rate is a cumulative total of the amounts overpaid, underpaid and paid to ineligible clients. For AFDC, the sanctionable error rate includes only overpayments and ineligible payments. QC identifies the causes and types of eligibility and payment errors, error rates, overpayments, payments to ineligible clients, underpayments, client errors, agency errors and program violations. Additionally, the extent to which eligible clients are denied benefits is examined through QC reviews of "negative case actions," i.e., denials or discontinuance's.

Quality Control statistics, other DSI statistics, and federal reports indicate that relatively few errors are made when determining applicant eligibility. Very few eligible clients are inappropriately denied benefits. Likewise, an equally small percentage of ineligible applicants are incorrectly provided benefits. In short, Kentucky's AFDC and Food Stamp error rates are among the lowest in the nation. However, there has been a recent increase in error rates, especially for the AFDC program, and, in spite of the low error rates, about \$20 million in AFDC and FS benefits are paid in error annually.

Very Few Applicants Are Denied Benefits Inappropriately

Of the 135 negative AFDC cases sampled in the April-September, 1994 period only three (2.2%) contained an incorrect reason for discontinuance or denial. From 1991 to 1993, Kentucky's negative case action error rates (for eligibility requirements) fluctuated between zero and 3.2% for any six-month reporting period, in contrast to the national averages for these periods, which decreased slightly from 2.22% to 2.13%.

For the October, 1994 to March, 1995 reporting period the AFDC "Incorrect Reason" error rate increased to 15.29% (32 of 210). Two technical changes in how cases are reviewed have affected the negative case error rate. First, DSI is now required to review all denials and discontinuances, whereas before October 1994, clients who eventually received benefits were excluded from review. Second, automatic denials from the computerized eligibility system can occur when data is received in time but not input in a timely manner. Again, while these are technically errors, previously, in the majority of situations these errors would have been detected (and benefits issued) without the case being included in the negative case review sample.

Similar trend analysis in the FS program from 1990 to 1994 shows that Kentucky's negative case error rate ranged between 1.02% and 2.24%, while the nationwide average has declined from a high of 6.67% in 1990 to 3.8% in 1994. Kentucky's highest negative error rate was still more than a full percentage point lower than the lowest national average.

Negative Case Review data do not establish the number of eligible clients who are denied benefits. These reviews are designed only to determine whether clients were given notice of discontinuance and whether the stated reasons for discontinuance or denial are correct. DSI

states that "an error does not therefore indicate that the client was indeed eligible since other reasons for ineligibility could exist." In short, the true number of applicants who are incorrectly denied benefits is most likely lower than the negative case error rate.

2-3% of AFDC Clients and 1-2% of FS Clients Are Ineligible to Receive Benefits

From April 1981, through March 1993, the AFDC ineligible case error rate generally ranged between 2% and 3%; that is, 2 to 3% of cases sampled were ineligible to receive benefits. However, for the April to September 1993 testing period (the most recent report data available) the ineligible case error rate rose to 4.4%, almost two percentage points higher than in the previous period. The official FS ineligible case error rate for the most current period (1992) was 1.5%. This was in line with the previous six years, during which time the rate was between 1.0% and 1.7%. Kentucky's FS and AFDC rank in this category cannot be compared with ranks of other states because the federal government combines ineligible payments with overpayments for comparative purposes and does not issue separate state comparative data on ineligible case error rates.

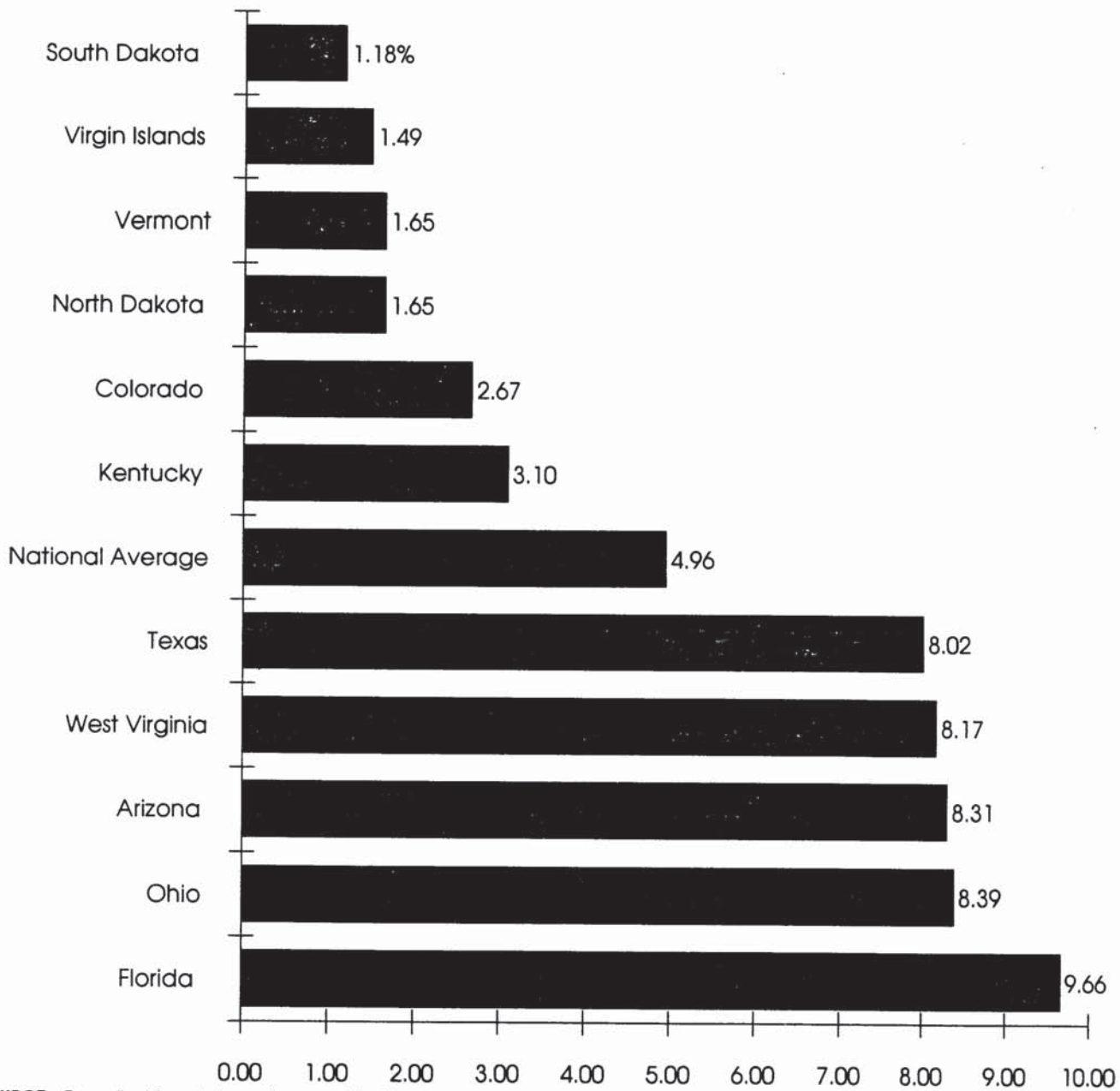
Kentucky's AFDC and FS Payment Error Rates Are Now Among Lowest in Nation

From the mid-1980's forward, Kentucky's payment error rates have been among the best in the nation. For the most current national comparison (1991) of AFDC sanctionable payment error rates, Kentucky ranks 9th among all states, at 3.10% (see Figure 3.1). In FFY 1994, Kentucky's AFDC sanctionable payment error rate (overpayment and payments to ineligible clients) was 4.5%. In the most current comparison (1994) of FS **overpayment** errors, Kentucky

ranks 5th among all states, at 4.02% (see Figure 3.2). In FFY 1994, Kentucky's **total** FS error rate (overpayments, underpayments and payments to ineligible) was 5.54%.

FIGURE 3.1

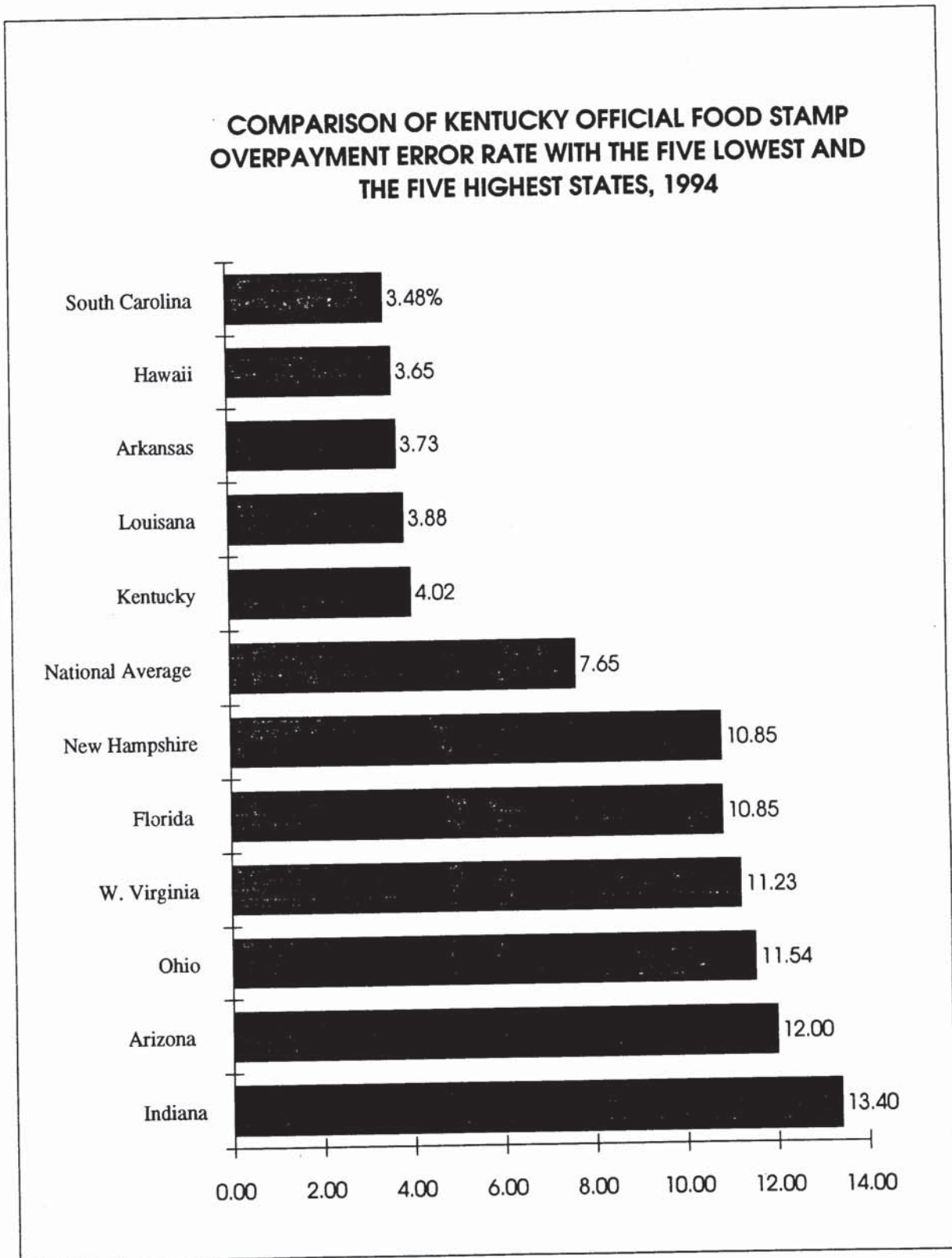
vii
**COMPARISON OF 1991 OFDC SANCTIONABLE PAYMENT
ERROR RATE FOR KENTUCKY, THE FIVE LOWEST AND FIVE
HIGHEST STATES**



SOURCE: Compiled from information provided by Department of Health and Human Services, Region IV.

NOTE: Kentucky ranks 9th; after Connecticut, Minnesota, Alaska.

FIGURE 3.2



SOURCE: USDA FNS Food Stamp Quality Control Annual Report, 1994.

Kentucky's AFDC error rate is consistently and significantly less than the national average, and preliminary 1994 data show Kentucky with the lowest error rate among Southeastern states. Kentucky's relatively low AFDC benefits and low payment error rates run counter to the general national pattern. In interviews with Program Review staff, AFDC officials in other states observed that low benefit payments may put pressure on recipients to misrepresent assets, resources and family circumstances. Comparison of states' 1991 AFDC error rates with 1994 benefit rates shows support for this observation (Table 3.1). In the eight states compared, high payment error rates do correlate with low benefit payments, with the exception of Kentucky and to a lesser extent, Arkansas.

TABLE 3.1
COMPARISON OF AFDC BENEFIT LEVELS WITH ERROR RATES

LOWEST BENEFIT STATES	1991 BENEFIT PAYMENT	RANK (# OUT OF 50)	1994 SANCTIONABLE PAYMENT ERROR RATE	RANK** (# OUT OF 54)
MISSISSIPPI	\$120	50	7.47%	48
ALABAMA	\$164	49	6.29%	40
TENNESSEE	\$185	48	6.71%	43
TEXAS	\$188	47	8.02%	50
LOUISIANA	\$190	46	7.14%	47
SOUTH CAROLINA	\$200	45	6.56%	41
ARKANSAS	\$204	44	3.76%	20
KENTUCKY	\$228	43	3.10%	9

SOURCE: Compiled by Program Review staff from data from the HHS Administration for Families & Children
 * Benefit payment based on maximum for family of three.

** These error rate rankings include DC and territories. Florida ranks 54; Ohio, 53; Arizona, 52; and WV, 51. All of these states have benefit payments below the 1991 national median.

Figure 3.3 demonstrates the success of Kentucky's Food Stamp eligibility procedures during the 1990's. Kentucky's food stamp payment error rate over the past five years is consistently about half the national average, and well below the federal tolerance (sanction) level. In recent years, the federal Food Stamp program has created a system of rewards, called enhanced administrative funding, in addition to sanctions. From 1989 to 1994 more than \$21 million in additional funding has been received by Kentucky for Food Stamp program administration. In August, 1996, the USDA announced that Kentucky will receive \$5.08 million in enhanced funding for FY 1995 because of its low error rate of 4.7%. Since the enhanced funding program has been in effect, Kentucky has received almost 40% of all federal enhanced funding awarded in the nation.

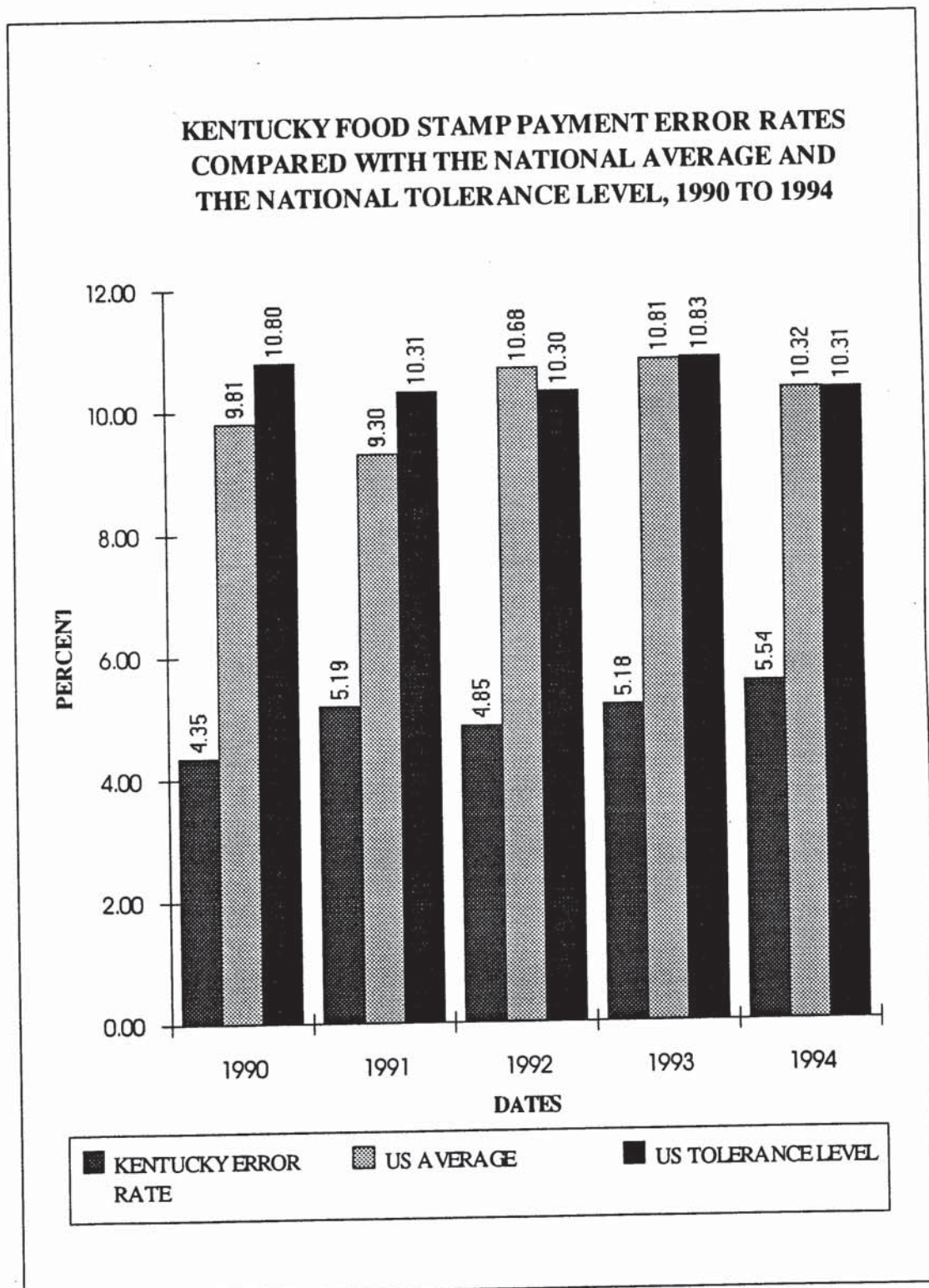
Payment Error Rates, Particularly for AFDC, Have Increased Slightly in Recent Years

Although Kentucky improved its AFDC and Food Stamp payment error rates significantly during the late 1980's, there has been a recent increase, especially in AFDC payment errors, beginning in 1990. DSI reported in the June 28, 1995 AFDC QC report that, ". . .an unofficial estimated regressed rate for the entire FY 1993 is an alarmingly high 4.2151%." At the time this DSI report was written, the national average error rate of 6.08% had not been published. Figure 3.4 demonstrates the trend of Kentucky's error rate compared with national AFDC error rate averages. The chart shows that the Kentucky AFDC error rate increases in recent years are almost a mirror image of increases in the U.S. average.

Increases in FS payment error rates between 1990 and 1994 have resulted in a reduction of Kentucky's enhanced funding award from a high of \$4.27 million in 1990 to \$1.8 million in

1994. However, the dramatic decrease in FS errors for 1995 has resulted in an enhanced funding award of over \$5 million.

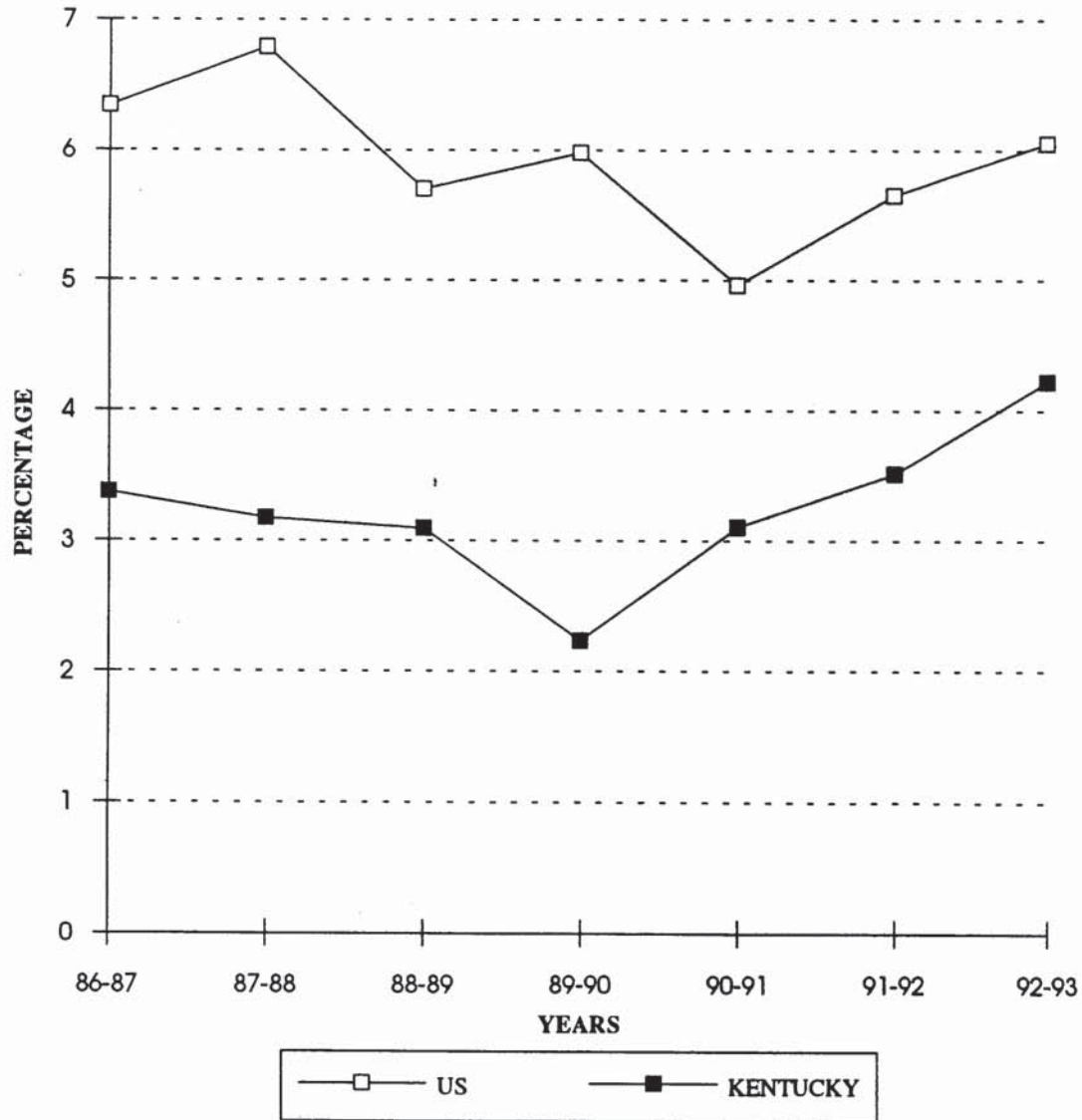
FIGURE 3.3



SOURCE: Compiled from information provided to Office of Program Review & Investigations from DSI Food Stamp QC Report May 20, 1993.

FIGURE 3.4

**A Comparison of the US AFDC Sanctionable Payment
Error Rate with Kentucky's Sanctionable Payment Error Rate,
FY 1987 to FY 1993**



SOURCE: DSI AFDC QC Reports.

NOTE: FY 92 and 93 data for Kentucky and the US are unofficial.

Current Low Error Rates Are a Result of DSI's Quality Initiatives

Kentucky has not always had low AFDC and FS error rates. Rates were quite high during the late 1970's and early 1980's. During the 1980's, Kentucky faced several federal sanctions because of payment error rates that exceeded federal tolerance levels in both AFDC and FS. The AFDC program incurred sanctions totaling \$1.9 million for five of the years between 1984 and 1990. These sanctions were largely the result of lowering the federal tolerance level from 4.0% to 3.8% in 1982. In 1989, when the federal tolerance level was raised to the higher of 4.0% or the national average, Kentucky's accumulated AFDC sanctions were removed, and the state paid no sanctions. The Food Stamp program had projected sanctions for FFY 1984 and 1985 of \$2.2 million, which were eliminated by the Farm Bill of 1990.

In response to high error rates, DSI established several efforts to reduce and control error. Collectively, these are known as "Quality Initiatives" (QI) and include Management Evaluations, Targeted Training, Supervisor Case Reviews, QC Reviews, and the employment of a Quality Control Liaison. A description and explanation of each of these program components is contained in Appendix D. DSI cites QI and case review efforts, taken as a whole, as the reason error rates are comparatively low for Kentucky. Collectively, these programs appear to work but the individual impact of each is unknown.

In addition to the Quality Initiative, Management Evaluation and Case Review programs, in December 1994 DSI's Division of Field Services set seven division goals. These goals were based on federal program requirements, the evident need to increase productivity in claims establishment and collection, and the training requirements presented by staff turnover. The seven

goals established for calendar year 1995 included: maintaining promptness and accuracy standards for applications/recertifications, achieving higher participation rates in JOBS programs, improving claims processing and reducing claims backlog, increasing claims collections, and providing timely and effective training for staff. These goals and associated benchmarks were modest and, according to DSI, were met, with the exception of AFDC error rate reduction and AFDC claims collections standards.

As Much as \$20 Million Annually Is Paid in Error in FS and AFDC

In spite of Kentucky's low error rates in comparison with other states' rates, recent error rate increases and related overpayments still pose a significant concern. The QC report of April-September 1993 estimates monthly overpayment errors that would amount to \$10.4 million in annual AFDC overpayments. The previous period's overpayment estimate for AFDC was \$6.9 million annually, and the following six-month period estimate was \$8.2 million annually. For Food Stamps, a federal 1994 QC report estimated annual overpayments of \$10.2 million. While these losses are offset by collections and, as a percentage of the overall public assistance program, could be regarded as negligible, they still represent a substantial sum of money.

Given Kentucky's low error rates, moving toward the lowest rates in the nation would not significantly decrease total overpayment dollars and the effort might not be cost-effective. While error rates may have reached the lowest practical point, improvements in the recovery of these funds could reduce the loss of benefit dollars. A Division of Field Services December, 1995 memorandum notes that "The number of Food Stamp claims established represents only 10% of

QC over-issuance error.” The effectiveness of the claims establishment and collection process is discussed in Chapter IV.

Problems With Eligibility Determination

Caseworkers identify increasing workloads and the complexity of managing the certification data for multiple programs as the major problems affecting eligibility determination. Specifically, caseworker focus groups indicated difficulties with the verification of client information, insufficient time and resources to investigate clients, increased workloads, high turnover rates, numerous program changes, and finally, the requirements imposed by a new, integrated automated data system (KAMES).

Reliance on Client and Collateral Statements Is a Weakness of Certification Process

Caseworkers interviewed in focus groups around the state were concerned about heavy reliance on collateral contacts and statements to verify client information. Collateral contacts and statements are attestations from acquaintances, employers, or relatives claiming to know the client’s financial and household status. Caseworkers are concerned that these statements are often unreliable, and that there is not sufficient time to verify their accuracy.

Although DSI policy requires caseworkers to “use documentary evidence as the primary source of verification,” this is often impossible. In those instances where documentary evidence is unattainable, collateral statements are the primary source for verification of income, household status and composition, and other client information. In cases in which a client has documented employment and income, income information is readily verifiable through sources other than a

collateral statement. When clients report "no income" or have undocumented cash income, collateral statements are the substance of verification. Collateral statements also are used to verify household composition; to confirm, for example, that the "absent parent" in an AFDC case is not living in the home. Caseworkers state that applicants sign collateral forms for one another, get relatives to sign, and can generally "get someone to say what they want them to say."

Program Review staff asked DSI to determine what percentage of cases report "no income" and therefore use collateral statements as verification. Statewide, over two-thirds (68%) of all AFDC cases and 13% of all Food Stamp cases report having "no income." Program Review staff asked officials in other states for the percentages of AFDC and FS cases that reported no income. Most could not readily answer the question, and the state that could, Illinois, had an AFDC "no income" rate of 82%, higher than Kentucky.

This concern regarding collateral and client statements is not limited to Kentucky. Most other states use such statements to verify income and other client information. In fact, Kentucky goes further than some states in requiring both client and collateral statements. Still, no state has come up with a replacement for dependence on such statements. Mississippi is attempting to work out an agreement to share data with the US Department of Housing and Urban Development to check household composition on recipients who receive federal housing assistance. Kentucky's DSI is undertaking a similar pilot project. Suggestions from caseworkers for improving this system include taking action against those who sign a collateral statement containing false information, and limiting the people eligible to sign a form; in other words, no family members or program recipients could sign collateral statements.

RECOMMENDATION 1: STRENGTHEN COLLATERAL STATEMENTS

DSI should examine ways to strengthen the veracity and verifiability of collateral contacts. These measures could include: strengthening warnings on collateral contact forms, limiting who can sign these forms, requiring notarized statements and prosecuting people who knowingly sign false statements.

Workers Concerned They Do Not Have Time and Resources to Investigate Clients

Information given by clients must be verified by caseworkers. However, with high caseloads, caseworkers feel that they do not have the necessary time to investigate and verify client statements. Caseworkers feel that high caseloads confine them to the office, where they are unable to gather or verify information other than by telephone or mail. In accordance with federal regulations, Kentucky has an Income and Eligibility Verification System (IEVS), which matches recipients against state wage records, social security, etc. The system does routine batch matches, which caseworkers feel are often not timely. However, they state that the ability of the system to do matches on individuals at the caseworker's request is very beneficial.

Because of high caseloads, caseworkers focus their priorities on timely application processing and cannot go to great lengths to verify the accuracy of information received. Caseworkers feel that a specialized, focused investigative service to do field work would be able to reduce payments errors resulting from inadequate caseworker investigation time.

Several caseworkers praise the Office of the Inspector General's Cooperative Review of Eligibility (CORE) program for its investigative role. This program is designed to intervene and prevent people from fraudulently obtaining benefits in the AFDC, Food Stamp and Medicaid

programs before their cases are approved or recertified. From its inception in the mid-1980's, CORE has grown from employing one part-time investigator and operating in only one county to employing three investigators in ten counties (Fayette, Scott, Shelby, Franklin, Jefferson, Woodford, Clark, Boone, Kenton, and Campbell). This increase in staff has allowed CORE to review more cases. In the six months from October 1994 to March 1995, CORE investigated only 85 cases. In the next six-month period, investigators examined 258 cases.

CORE investigators reviewed 1,378 cases in FY 96. Of these, 741 underwent some type of change to client status. OIG/CORE performed a cost/benefit analysis by projecting AFDC/FS/Medicaid benefit costs which would have been paid during an upcoming certification period had not CORE intervened and stopped the payment. According to CORE's estimates, reduced or eliminated benefits resulted in FY 96 savings of \$189,804 in AFDC, \$242,668 in Food Stamps, \$342,715 in Medical Assistance and \$8,597 for other DSI programs, a total gross savings of \$783,784. The OIG calculated that direct CORE investigation costs for FY 96 (not including administration and support) were \$56,301, resulting in a net savings of \$727,483. Focus group participants who had referred cases to CORE express general satisfaction with case investigation results. The focus group participants in areas where CORE did not operate feel that such a program could be useful to them.

RECOMMENDATION 2: INCREASE VERIFICATION RESOURCES

DSI should work with the OIG to expand investigative and verification resources, such as the CORE program. DSI also should attempt to identify and develop additional data matches with other agencies and entities that could provide independent verification of client statements.

Caseworkers' Jobs Made More Difficult by High Caseloads and Turnover Rates

DSI caseworker workloads have increased over the past several years. DSI tracks caseworker workload through a "case weight" system, with points assigned based on the number of programs involved and the complexity of a single case. A 500-case weight is the current standard; DSI Field Service officials stated in interviews that 475 would be ideal. An analysis of the current case weights shows that the statewide average case weight is 579.8. A majority of counties (76 of 120, or 63%) have an average case weight of over 500. Another ten have an average case weight over 475. With present caseloads, more than 200 additional caseworkers would be required to reduce the statewide case weight average to 500.

Caseload problems are exacerbated by employment turnover, long training times and increased worker responsibility. FY 94 and FY 95 employment figures for the five classifications of caseworkers show an especially high turnover rate among entry level casework specialists. This position had a turnover rate of 19.4% in FY 94 and 35.2% in FY 95. DSI managers cited low salary levels as a major cause of turnover. The entry level salary for a casework specialist is around \$14,000 annually, the lowest figure in the Southeast region and among the lowest in the nation. It will generally take anywhere from one to two years to hire and train workers to the point at which they have full case decision authority in all programs. While new workers are in training their caseloads are covered by other workers and supervisory personnel in local offices.

Program Changes and Inconsistencies Have Increased Complexity of Certification

Managing constant program changes, new programs and additional job duties were major concerns expressed by focus group caseworkers. These changes, most of which are a result of program changes at the federal level, keep the system in a constant state of flux. Examples of new programs and program changes include:

- Transitional Medicaid and transitional child care is now required for AFDC clients who obtain employment;
- The JOBS program is required of AFDC clients and participation is a condition of continuing eligibility;
- Since 1990, AFDC has been budgeted "prospectively," meaning that if a client obtains significant employment/income during a given month, his or her benefit payment (calculated as of the 1st of the month) is in error;
- Some caseworkers are assigned specific case responsibilities for homeless recipients;
- The AFDC Unemployed Parent Program (AFDC-UP), implemented in 1990, has caused an increase of .2 to .8 percentage points in the AFDC QC sanctionable error rate. AFDC-UP cases have an error rate twice that of AFDC basic cases; and
- Caseworkers now have responsibilities to register voters under the federal "Motor - Voter" Act.

KAMES System Has Had Major Impact on Caseworkers and Eligibility Procedures

A major change for caseworkers was the implementation of the Kentucky Automated Management and Eligibility System (KAMES). KAMES is an integrated statewide system that supports casework and reporting functions for both Food Stamps and income maintenance programs. The implementation of KAMES (which keeps all client data and program information in one database), combined with a federal requirement for joint FS and AFDC interviews,

underlies DSI's decision to use generic caseworkers. Focus group participants affected by this change were nearly unanimous in the opinion that working cases in more than one program has had a negative effect on worker knowledge and expertise. As discussed in Chapter II, each of the three programs has its own criteria, rules and procedures. According to caseworkers, specialization allowed them to better understand the intricacies of the individual programs, and to keep abreast of constant changes. DSI managers observed that the integrated KAMES system is a significant change from previous systems (KAMES-FS for Food Stamps and PA-62 for AFDC and Medicaid) which kept complete and separate records for cases in each program. Further, although workers are still required to have expertise in each program area, the KAMES system relieves the worker of the need to remember different budget formulas and do manual calculations.

The KAMES system is menu driven and provides for on-line collection, update and inquiry of information for all programs. Initially developed in the mid-1980's, KAMES was introduced statewide in mid-1993, with all DSI programs to be fully converted by the end of 1996. Advantages of KAMES cited by caseworkers included faster processing, the ability to work more than one program at a time, and the ability to match individual clients with income and other databases.

Despite its advantages, caseworkers note several problems with KAMES. Workers feel that the client interview takes longer under the KAMES system. Additionally, although KAMES performs all calculations necessary to determine eligibility and benefit level, workers say they are required to fill out manual calculation sheets, which increases processing time. Caseworkers also cite the difficulty clients experience with understanding and responding to the automated

correspondence produced by KAMES. Regarding the day-to-day operations of a local office, the frequent inaccessibility of KAMES (the system is down for parts of as many as four or five days per month, and on nights and weekends) can make client interviews difficult and lengthy, because they must first be administered in paper form and then input later. However, down times generally occur at regular intervals, and caseworkers are instructed to avoid scheduling clients at those particular times.

CHAPTER IV

ESTABLISHING AND COLLECTING OVERPAYMENT CLAIMS

DSI uses the term "claim" in reference to the discovery of an overpayment and the establishment of the amount of that overpayment. Claims include benefits paid to ineligible clients and overpayments to eligible clients. Once identified or discovered through tips, computer matches, QC report data, case reviews or management evaluation reports, claims are placed on a claims pending log. Caseworkers have a maximum six to seven months to establish a pending claim. Establishing a claim involves investigating a pending claim, verifying its validity and establishing an amount of overpayment. In most counties, caseworkers are responsible for establishing claims on their own cases. However, some counties have specialized claims workers who process and establish all the potential claims identified by all workers in that county. Claims are collected through benefit reduction or cash collection.

A high percentage of pending claims are not established in a timely manner. Even for claims that are identified by the Department's QC process, fully one-third are not followed up and established. Similarly, only about one-third of established claims are collected. The major problems with establishing claims are workload and implicit priorities. DSI performance is judged on payment error, not claims established. Because specialized caseworkers for claims have been phased out in many counties, claims responsibility has fallen increasingly on caseworkers, whose

first priority remains certification and verification. Although DSI has taken steps to attack the backlog of past due claims, establishing claims on a more consistent basis is important, to avoid future backlogs.

There Are Currently Almost 20,000 Established AFDC and FS Claims

As of September 1995, 19,411 established claims were being actively collected by DSI, as shown in Table 4.1. There were 11,054 active established AFDC claims, with an outstanding balance of \$3.934 million. Slightly less than one-half of these claims (5,279, worth \$1.597 million) were being collected through benefit reduction by DSI field services caseworkers at the local level. The remainder (5,775 claims, with a balance of \$2.336 million) were actively being pursued by the DSI Collections Branch.

There were 8,357 active established claims, with an outstanding balance of \$3.1 million, in the FS program in September 1995. Just over 40% of these claims (3,598, worth \$1.226 million) were being collected through benefit reduction by DSI field services caseworkers at the local level. The remainder (4,759 claims, with a balance of \$1.874 million) were actively being pursued by the DSI Collections Branch.

TABLE 4.1
ESTABLISHED CLAIMS FOR ACTIVE AFDC & FS CASES
SEPTEMBER 1995

	AFDC		FS	
	Number	Amount (Millions)	Number	Amount (Millions)
Established Claims Being Collected by DSI Through Benefit Reduction	5,279	\$1.597	3,598	\$1.226
Established Claims Being Actively Collected by DSI Collections Branch	5,775	\$2.336	4,759	\$1.874
Total Active Established Claims	11,054	\$3.934	8,357	\$3.100

SOURCE: Compiled by Program Review staff from DSI Claims Reports, September 1995.

More than 11,000 Pending Claims Are Past Due

As of September 1995, there were 9,926 pending AFDC claims and 5,515 pending FS claims in local DSI offices. These are potential claims that have been identified and recorded on the DSI claims pending log. The general standard for timeliness in establishing claims varies, depending on when they are discovered. The maximum time before a claim is considered "past due" is six months for AFDC claims and seven months for FS claims. The minimum time is three months for AFDC, and six months for Food Stamps.

Table 4.2 shows the pending and past due status of DSI claims. Of the 9,926 pending AFDC claims as of September 1995, 81% were past due. Of the 5,515 pending FS claims, 59% were past due. By using the average value of an established claim, combined with the rate at which pending claims are established as verified claims, the dollar value of these past due claims is \$3.3 million (\$2.6 million for AFDC, \$692,000 for FS).

TABLE 4.2

**PENDING AND PAST DUE CLAIMS FOR ACTIVE AFDC & FS CASES
SEPTEMBER 1995**

SEPTEMBER 1995	AFDC	FS
Total Pending Claims	9,926	5,515
Past due Pending Claims	8,060	3,273
Percent Past Due	81%	59%
Estimated Dollar Value of Past Due claims	\$2,600,000	\$692,000

Source: Compiled by Program Review staff from claims reports, September 1995.

As a test of the claims process, Program Review staff asked DSI for an update on the errors identified in the 1993 AFDC QC Report. Although both DSI and the caseworker are made aware of these errors, Table 4.3 shows that as of November 1995, two years after these cases were identified, fully one-third (49 of 149) either could not be found, were not reported by DSI, or were on the claims pending log. Additionally, six of the cases on the claims pending log were placed there after Program Review's request for an update on the cases' status. Table 4.3 also shows that claims were established in 63 of the 149 cases (43%).

TABLE 4.3

**STATUS OF CLIENT ERRORS IDENTIFIED IN THE FFY 1993 AFDC QC REPORT
SAMPLE**

STATUS	ALL CASES	CLIENT ERROR	CLIENT MISREPRESENTATION	AGENCY ERROR
# of Cases Where Error Was Identified	149	51	19	79
# of Cases Lost, Not Found, Not Reported to Program Review	19	8	2	9
# of Cases Where Claim is Pending	30	10	5	15
# of Cases Where No claim or Underpay Was Determined	6	4	0	2
# of Cases Where Client Denied Benefits	5	1	1	3
# of Cases Where Underpayment Was Result of Client Error--No Repayment Made	6	5	0	1
# of Cases Where Underpayment Was Established	20	6	0	14
# of Cases Where Claim Was Established	63	17	11	35

Source: FFY 1993 AFDC QC Report and information compiled from data provided by DSI

Counties Vary Widely in the Number of Past Due Claims

Individual counties vary widely in the number of pending AFDC and FS claims that are past due. For AFDC, 29 counties have over 90% of claims past due, while 45 counties have no claims past due. The median percentage of past due AFDC claims is 17%. For FS, only four counties have over 90% of their claims past due, while 57 counties have no claim past due. The median percentage of past due claims is 3.5%. Appendices E and F contain tables displaying the number of AFDC and FS claims pending and past due for each Kentucky county.

The relatively low median past due rates (17% for AFDC, 3.5% for FS) in comparison to the overall statewide past due rate (81% for AFDC, 59% for FS) means that most of the past due claims are concentrated in a few counties with larger client populations (Kenton, Campbell, Fayette, etc.). The exception to this trend is Jefferson County, which has a specialized claims unit and relatively low past due rates.

Counties with Specialized Claims Workers Have Fewer Past Due Claims

Using specialized workers for claims seems to result in fewer past due claims. DSI has specialized claims workers in 32 counties. Analysis of the AFDC past due claims in these 32 counties reveals that 22 have past due claims percentages below the state median (17%) and 26 below the state average of 81%. The counties with both specialized claims workers and high past due rates are predominately urban. DSI observes that some of these counties have only recently been assigned specialized claims workers to reduce the large backlogs of pending claims.

Comparing Fayette and Jefferson counties helps underscore the difference made by having specialized claims workers. Jefferson County has specialized, dedicated claims workers and a past due percentage of 17%. Fayette has three claims workers available but not being used for the purpose (i.e., they are caseworkers) and a past due percentage of 97%. Similarly, Jefferson County has 1,482 currently established AFDC claims in the process of being collected through benefit reduction, while Fayette has only 116 such claims.

Approximately 25-30% of Established Claims Are Collected

DSI reported that for active FS benefit reduction, it collected \$394,000 in FY 1994 and \$436,000 in FY 1995. AFDC benefit reductions totaled \$585,000 in FY 1994 and \$693,000 in

FY 1995. It is difficult to determine exactly the percentage of claims that are collected through benefit reduction. Benefit reduction is continuous for active cases and the possibility exists for underpayments to offset overpayments, or for clients to receive another overpayment while a previous overpayment is still being collected.

Over the past four fiscal years (FY 91-92 through FY 94-95) the Collections Branch has collected almost \$6.3 million in FS and AFDC overpayments. Based on the total amount of established debt in collections over this time period, this is a collection rate of nearly 30%. Of the remaining debt, 20% is still outstanding, and collection efforts have been suspended on 50%. Most of the cases that have had collection suspended are years old and hold no real hope of further collection.

Program Review staff analysis of the DSI follow-up on the 1993 AFDC QC report errors also revealed that of the 63 cases on which claims had been established, 30% (19) were collected in full and another 30% had been collected in part. No amount had been collected on the remaining 40% (25 cases). Overall, of the \$43,383 total value of these established claims, \$10,284 (24%) had been collected.

Claims Establishment is Not a Priority of the Quality Control Process

The present federal and state method of evaluating of DSI certification accuracy (QC process) does not consider claims establishment and collection as a performance measure. The QC system is designed to measure the occurrence of payment errors and not how they are identified and collected. Additionally, the reduction in federal funds for claims work has resulted in a decrease in dedicated claims workers and an increase in claim establishment responsibility for

caseworkers. There is a disincentive to identify claims, as this results in an increased workload. Claims are very time consuming because they have to be computed manually and companion cases have differing criteria and recoupment schedules. Caseworkers place higher priorities on new client applications, recertifications and case changes. In addition, caseworkers often do not have the investigative skills or the "negative mindset toward the client" helpful to claims recovery work.

Finally, many claims are very small and the effort to manually establish a small claim with a companion case can often be cost inefficient. Prospective budgeting in AFDC (i.e., budgeting benefits for the coming month based on that month's projected budget) creates many small claims for clients who report income during that month. These claims are neither the client's nor the agency's fault and in the FS program would not be considered an overpayment. DSI has determined that the establishment of claims above \$87 is cost effective. DSI has received a waiver from the USDA to establish an \$87 threshold before a Food Stamp claim is worked. A similar waiver request to HHS to establish an \$87 threshold for AFDC claims was denied.

DSI Is Attempting to Reduce Claims Backlog Through Contracting

In a major initiative to reduce the claims backlog, DSI has contracted with retired caseworkers to help establish past due pending claims. DSI first attempted to contract in early 1995, but ran into problems getting approval from the Department of Personnel. However, in March and April 1996, contracts with eight former caseworkers were approved by the Department of Personnel and the Legislative Research Commission's Personal Services Contract Review Subcommittee.

The contracts call for the workers to be trained, travel to local offices, and establish past due pending claims for both the AFDC and FS programs. Contractors will be paid for claims worked on a sliding scale, based on the type of claim and the outcome of the pending claim (i.e. "claim established" or "no claim"). These eight contracts ran until the end of fiscal year 1995-96. In the last four months of FY 95-96, just over \$58,000 was set aside for payment of the claims processing fees, training, and travel. These claims processing fees range from \$10-\$40 per claim. Just under \$12,000 was eventually expended in the last few months of FY 95-96 on training, travel, and processing fees. DSI has set aside \$139,000 in the last few months of FY 96-97 for 16 pending contracts and anticipates spending the full amount.

DSI has also developed the Kentucky Claims Automation System (KCA), which it believes will be an effective tool in processing claims and increasing collection. KCA, which will be fully implemented in October 1996, will automate many of the claims processing duties (notification, claims calculations, keeping track of claims balances) that were previously done manually.

In addition to dealing with backlogged past due claims, establishing claims in a more consistent and timely manner is important. Otherwise, the backlogged past due claims will continue to be a problem. Suggestions for increasing the timely establishment of claims include setting a quota for caseworkers to establish two claims per month (the present average is one per month) and increased use of specialized claims workers. The newly implemented KCA system should help to increase timely claims establishment.

**RECOMMENDATION 3: INCREASE TIMELY CLAIMS AND REPORT ON
CLAIMS CONTRACTING**

DSI should develop and establish procedures to increase the timely establishment of claims and prevent recurring backlogs. DSI should report to the Program Review and Investigations Committee by December 31, 1996, on the procedures which have been established. DSI should also report to the Program Review and Investigations Committee, by December 31, 1996, on the success of the claims work contracts. The report should include:

- 1. Number of cases reviewed**
- 2. Number of established claims (and cost) by claim type**
- 3. Number of "no claims" established (and cost)**
- 4. Costs of training and expenses**
- 5. Plans for future contracting.**

CHAPTER V

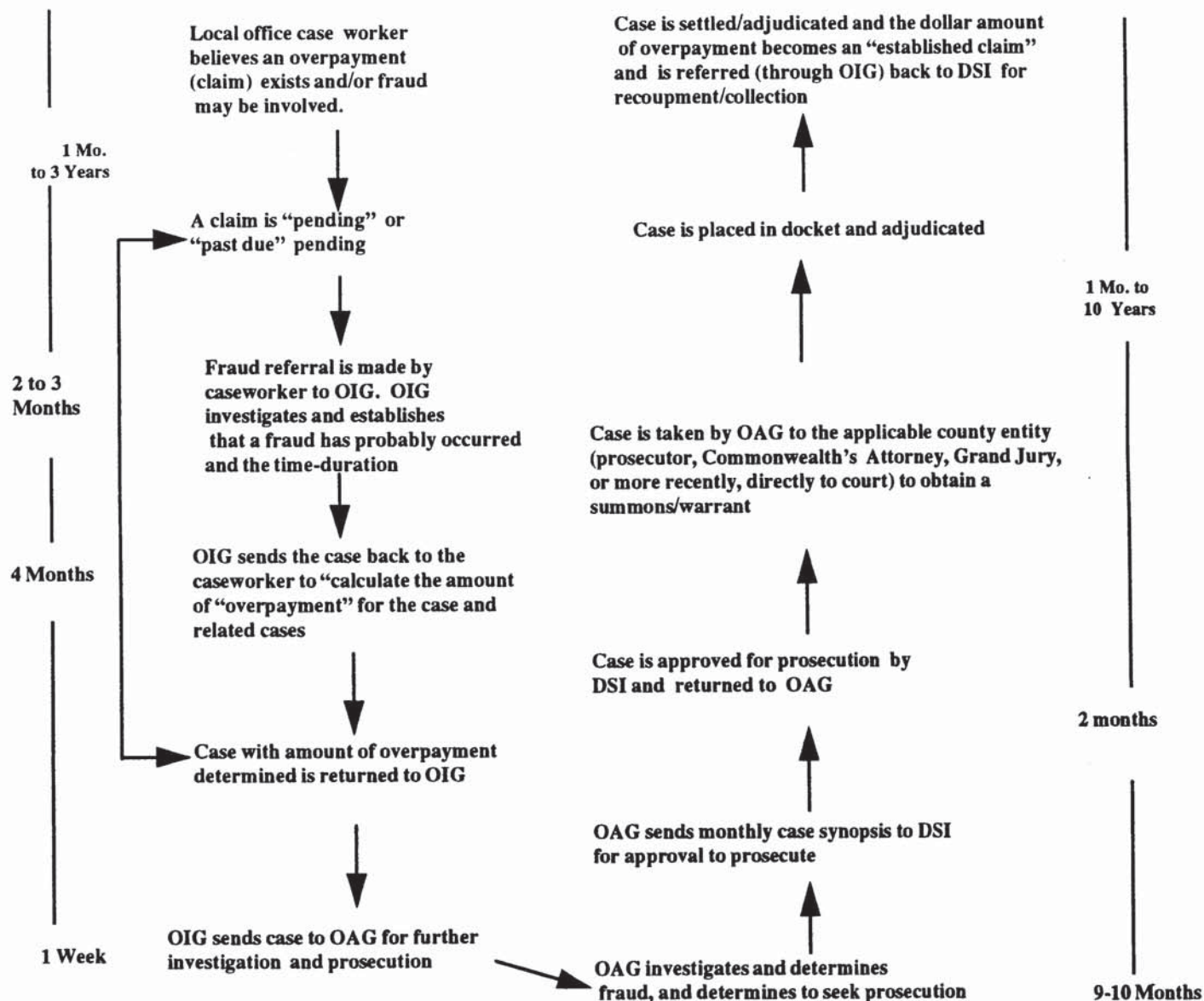
FRAUD INVESTIGATION AND PROSECUTION

The welfare fraud referral and investigation process is very complex. The exhibit on the following page is a graphic representation of all that is involved in a fraud investigation. Figure 5.1 demonstrates the steps involved for a fraud case to make its way to court. In addition to DSI and the local caseworkers, the process also involves the Office of the Inspector General (OIG) and the Office of the Attorney General (OAG).

The present system is expensive, time consuming, duplicative and not a visible deterrent to fraud and abuse. There is an unnecessary expense of time and funds resulting from the duplication of investigative and other functions between agencies. These problems have been exacerbated by ongoing contractual and organizational disputes between the OIG and the OAG. Several means of streamlining the process have been proposed since the 1980's, but not enacted.

FIGURE 5.1

INVESTIGATING AND PROSECUTING A FRAUD CASE



There is no time limit on how long a claim may continue to be "pending, past due", or how long a case may reside in a prosecutor's office or the court. The other time frames are office policy or contract obligations, but are often longer than indicated. Some counties have fraud complaints which have been pending in prosecutors offices or court since 1985.

Fraud Investigation Costs Are Far Greater Than Amounts Collected

Kentucky's method of investigating, prosecuting and adjudicating welfare recipient fraud is very costly. A 1991 study done by the DSI Division of Management and Development determined the per case cost to be \$1,111 after the case left the OIG. This study found that states using a fee-based contract with a prosecutors association had a per case cost of \$400; thus the Kentucky OIG/OAG method was 2.7 times as costly. Recent OAG records indicate that the annual amounts of total dollars adjudicated are only slightly in excess of the cost of the OIG/OAG contract. For example, the FY 1994 and 1995 OIG/OAG contracts were each for \$910,700, while the adjudicated dollars for collection for these years were only \$1,155,416 and \$1,076,689, respectively (Table 5.1). As Chapter IV points out, less than half of this amount may be expected to be collected.

TABLE 5.1
OIG AND OAG CASE DISPOSITIONS, 1993-1995

1993		
Total cases opened by OIG	1,595	
Cases referred to OAG	1,116	(\$884,544)
Cases adjudicated by OAG	735	(\$1,000,340)
1994		
Total cases opened by OIG	1,607	
Cases referred to OAG	1,152	\$1,722,750)
Cases adjudicated by OAG	909	\$1,155,416)**
1995		
Total cases opened by OIG	1,538	
Cases referred to OAG	970	(\$1,445,925)
Cases adjudicated by OAG	884	(\$1,076,689)**

Source: From OIG Reports, unless noted with **, which indicates OAG reports.

Note: OIG and OAG reports differ on the number of OIG referrals to OAG. The discrepancy is small. This table uses OIG numbers.

Additionally, not all costs were considered in the 1991 DSI study. The calculations did not factor in all of the costs incurred by DSI/OIG prior to referral to the OAG for its own case investigation and claims establishment for these cases. The calculations also did not include DSI/OIG costs for cases opened by the OIG which do not result in referrals to the OAG; such cases are nearly equal in number to those which are eventually adjudicated, as shown in Table 5.2. Finally, court and prosecution costs, and the cost of DSI collection activity were not included. Including these costs would make it apparent that the actual costs of fraud investigations and prosecutions are in excess of the amounts adjudicated, and far greater than the amounts finally collected.

TABLE 5.2

**Total OIG Cases (Program Violations) Opened by OIG
Compared With Cases Referred to OAG and Cases
Adjudicated 1993-1995**

Total cases opened by OIG	4,740	
Total OIG case referrals to OAG	3,238	(\$4,053,220)
Total OAG adjudications	2,528	(\$3,232,445)
% of referred cases adjudicated		78%
% of OIG opened cases adjudicated		53%

Source: OIG and OAG Reports

Slow Process Has Resulted in Large Backlog of Fraud Cases

While there has been some reduction in the amount of time necessary to get a fraud case to prosecution over past years, the process still takes a great deal of time. A July 13, 1995, memorandum from the Commissioner of DSI to the CHR Inspector General observed that "The accepted guidelines still allow almost 12 months before a case is actually presented to the local prosecutor. In some counties action by the prosecutor may be delayed for a year or more." Analysis by Program Review staff determines the actual "allowance" time to be as much as 15 to 19 months before a case would have to be delivered to a prosecutor. Significant time delays can occur at the following points in the fraud process:

- **Claims pending (Indeterminate)** A case may be pending for months or years before it is decided that it should be referred to the OIG for fraud.
- **OIG investigation (2 to 3 months)** No field work is permitted during this stage; the OAG will not take a case that has had field work done by the OIG.

- **Overpayment calculation (up to 4 months)** After the OIG investigation the case goes from the OIG back to the caseworker to have an overpayment amount calculated.
- **OAG investigation (up to 10 months)** When the case comes back to the OIG from the local office the OIG sends it to the OAG for further investigation.
- **DSI approval (1 to 2 months)** The OAG must send a "synopsis" of each case investigation to DSI for approval to prosecute.
- **Adjudication (one month to several years)** Case goes from the OAG to local prosecutor and to court; increasingly the OAG is taking cases directly to court.

USDA audit reports for 1985 and 1990 both cited unacceptable fraud investigation and procedures delays in court actions on fraud claims referrals. Many claims four or more years old are currently pending in either the OAG or the court system. This situation has improved slightly in recent years. During the two-year period from December 1993 to September 1995, AFDC past due claims in the OAG were reduced from 1,685 to 1,331, and Food Stamp past due claims in the OAG were reduced from 1,738 to 1,591. An October 13, 1994, DSI memorandum offers several possible explanations for the older OAG past due claims:

- the court disposition was not received by the local DSI office,
- the claim has been lost by the prosecutor,
- no action is planned by the prosecutor, or
- an outstanding warrant has not been or cannot be served.

Fraud Process is Duplicative and Cumbersome

Much of the expense and slowness of fraud investigations is the result of duplication of investigative functions and the division of certain functions between agencies, rather than having them consolidated within one responsible agency. For example, the overpayment calculation done by DSI caseworkers (four months) could be done by the OIG during the course of its 60-day investigation. Similarly, if the OIG were the sole investigating authority, then the OAG case synopsis and DSI approval to prosecute function (taking two months) could be eliminated. Finally, a restriction against OIG investigators doing field work/interviews ensures that there will be a need for two investigations and that there will be differences between the two. The OIG maintains that 90% of its cases have been investigated and the overpayment amount calculated. The OAG maintains that much of this work must be done by an OAG investigator if the OAG is to have confidence in its case.

Table 5.3 lists each functional activity in the fraud process and the respective responsible agency. The bold entries denote functions which are either duplicated by two agencies, or which are divided within or between agencies when they could be consolidated within one agency. The double checks (√√) indicate the agency which is primarily responsible for the function, and single checks (√) indicate an agency which is also involved in the function.

TABLE 5.3

FRAUD INVESTIGATION AND PROSECUTION FUNCTIONS

	DSI	OIG	OAG	CA	COURT
Discovery (pending or past due claim)	✓✓				
Referral to OIG as suspected fraud	✓✓				
OIG Investigation (no field work)		✓✓			
Return case to DSI caseworker for calculation of overpayment		✓✓			
Calculation of overpayment (for most cases)	✓✓				
Return to OIG with overpayment calculation	✓✓				
Referral to OAG		✓✓			
OAG investigation (including field work)	✓		✓✓		
Calculation of overpayment by OAG and DSI (for some cases)	✓✓		✓✓		
OAG request to DSI for approval to prosecute (case synopsis report)			✓✓		
DSI approval to prosecute	✓✓				
Delivery of criminal complaint to CA, CP or court			✓✓		
Prosecution	✓		✓	✓✓	✓
Adjudication	✓		✓	✓	✓✓
Claim is returned to DSI (through OIG) for collection by DSI	✓✓	✓✓			✓✓
Collection	✓✓				✓

Notes: CA means either Commonwealth Attorney or County Attorney

Bold = A function which is duplicated, or partially duplicated, or divided between agencies when it could be consolidated within one responsible agency.

✓✓= indicates agency primarily responsible

✓= indicates an agency which is also involved.

Fraud Prosecution Process Lacks Visible Results

Law enforcement and the prosecution of felonies are not usually regarded as activities undertaken to generate income, nor are they held strictly to a standard of cost/benefit calculation. A major purpose of prosecution is deterrence and punishment. The deterrent effect of fraud adjudication is significantly reduced as a consequence of separating the crime from the punishment by two to three years. Additionally, there is an overall lack of visibility to the process, with most complaints being quietly settled through probation and restitution.

OAG personnel report that two frequent questions which fraud suspects ask are: "Will I have to go to court?" and "Will my name be in the paper?" An article in the Mountain Citizen, "A Welfare Fraud Conviction in Martin County?", claimed that a recent fraud conviction (October 1995 represented ". . . the first welfare fraud conviction in Martin County in nearly three decades." However, OIG records indicate that dozens of suspected fraud investigations have been opened for Martin County over the past few years. However, most cases are "settled out of court"; that is, they are amended to a misdemeanor and probated, and restitution is ordered. While this may be an expedient way to collect, it can reduce the visibility of fraud and the deterrent effect of conviction, especially if there is little or no press reporting of court actions.

According to the Administrative Office of the Courts, of a total of 134 cases of felony recipient "welfare fraud, over \$100" adjudicated by the courts in 1994 (see Table 5.4), only four went to trial. Of these cases, three were amended down to misdemeanors, and the other resulted in an acquittal. Of those cases which did not go to trial, 38 were convictions, 34 were dismissed,

41 were amended down to a misdemeanor, two were acquittals, eight went to trial or pre-trial diversion, and four suspects became fugitives.

TABLE 5.4
1994 ADJUDICATIONS FOR "WELFARE FRAUD OVER \$100"
(134 CASES)

ADJUDICATION	NO TRIAL	COURT TRIAL	JURY TRIAL	DISPOSITION MANNER NOT REPORTED	TOTAL
Convicted	38	0	0	0	38
Amended Down	36	3	0	7	46
Dismissed	33	0	0	1	34
Acquitted	2	0	1	0	3
Fugitive	2	0	0	2	4
Diversion	8	0	0	1	9
Total	119	3	1	11	134

SOURCE: Administrative Office of the Courts.

Similarly, of the 119 cases of "welfare fraud, failure to report changes over \$100" adjudicated by the courts in 1994, 19 were convictions, 72 were amended down, 18 were dismissed, seven went to trial or pre-trial diversion and three suspects became fugitives (see Table 5.5).

TABLE 5.5

**1994 ADJUDICATIONS FOR "WELFARE FRAUD, FAILURE TO REPORT CHANGES
OVER \$100"
(119 CASES)**

ADJUDICATION	NO TRIAL	COURT TRIAL	JURY TRIAL	DISPOSITION MANNER NOT REPORTED	TOTAL
Convicted	19	0	0	0	19
Amended Down	63	2	0	7	72
Dismissed	17	0	0	1	18
Acquitted	0	0	0	0	0
Fugitive	3	0	0	0	3
Diversion	7	0	0	0	7
Total	109	2	0	8	119

SOURCE: Administrative Office of the Courts.

Of all the above 253 cases, only six actually went to trial; of these, five were amended down to a misdemeanor and one was acquitted. Further, of these 253 cases adjudicated by the courts in 1994 for these two categories of welfare fraud felony offenses, only 57 (22.5%) were convicted of the felony charge (none by a court trial or jury trial). Of the remaining balance, almost one-half were amended down to a misdemeanor and the rest went to diversion, or were dismissed, acquitted or the suspect was a fugitive.

Increasing the visibility of fraud investigation can yield benefits. Caseworkers report that subsequent to press reports of court adjudications, there is an increase in calls from recipients voluntarily reporting changes in income, household and resource status. Other states, such as Indiana, have heavily publicized "sweeps", or large coordinated arrests of clients suspected of welfare fraud. After the latest such sweep, Vanderburgh County (which includes the Evansville

area) had over 100 recipients voluntarily take their names off the Food Stamp and AFDC rolls, or refuse benefits.

OIG/OAG Contract Relationship In Constant Dispute

The relationship between the OIG and the OAG and related contracts for services have been matters of contention since 1980. For most of FY 1996, the OIG and the OAG were without a contract for welfare fraud, and operated on the basis of the FY 1995 contract. The total amount spent on the contract for FY 1996 was \$924,981. Areas of contention included performance measures and reports, and the contractual relationships between the OIG, the OAG, and DSI. In a June 20, 1995 letter to the Secretary of CHR, the Attorney General stated that "we have reviewed the contract which your office recently sent and find it unworkable." This contract was identical to those the Attorney General had signed with the OIG for three previous years. The Attorney General said he was enclosing copies of a ". . . contract we have drafted, setting forth changes we believe are essential if our office is to continue handling welfare fraud investigations." Finally, the letter stated that if the contract the OAG's office had drafted was not satisfactory to the CHR Secretary then he should "have the appropriate person in your office contact our office so that we may begin the process of relocating welfare fraud investigations back to the Cabinet for Human Resources." The Attorney General's contract removed several performance and reporting requirements and was a contract between the OAG and DSI (eliminating the OIG altogether). Currently, the contract between the OIG and the OAG for FY 96-97 is still being negotiated.

The first phase of difficulties between these two agencies began with the executive order of 1980 and continued through 1984. Since then, a contractual relationship began determining shared responsibilities between the two agencies in the absence of either an enforceable executive order or clear statutory authority assigning these functions exclusively to either agency, or to both of them.

The second phase of contention began in 1985 with a U.S. Department of Agriculture Food and Nutrition Service audit which was sharply critical of the entire fraud investigation, prosecution and collection system. This phase came to a head with a similar audit for 1990. The 1990 audit occasioned a series of report summaries, rebuttals, internal memoranda, studies, alternative process proposals, legal analyses, and contract redrafting. Both audits cited the following:

1. Duplication of effort and responsibilities of the OIG and the OAG.
2. Lack of cost effectiveness in the current process and the delays in recovering program losses.
3. Unacceptable delays in the courts taking action on referrals.

Interviews with OIG, OAG, and DSI officials and an analysis of organizational charts reveal that among all agencies involved, between 40 and 45 investigators and staff are assigned responsibilities for welfare fraud investigation in Kentucky. These numbers compare favorably with those of other states surveyed. However, both the OIG and the OAG expressed perceptions that fraud investigation is understaffed. This may reflect the cumbersome and duplicative nature

of investigative tasks, and the fact that personnel often have other (special investigations) assignments in addition to recipient fraud investigations. Both OIG and OAG officials maintain that the current way in which fraud is investigated and prosecuted in Kentucky is unique. A survey of 15 states supports this position.

Over the years (especially since the 1990 USDA Management Evaluation of Kentucky's Food Stamp Program) there have been many proposals to improve the claims, fraud investigation, prosecution, and collection system, which include:

- Several recommendations in federal audits (1985 and 1990) regarding coordination between DSI, the OIG, the OAG, and the courts; eliminating OIG/OAG duplication, and monitoring OAG performance;
- Increasing the "threshold" for fraud prosecutions from \$1,000 to \$3,000 (or \$5,000);
- Several proposals by the OIG to eliminate the OAG contract and have the OIG do all fraud investigation work and using savings to expand CORE statewide;
- Alternative DSI proposals for streamlining the current fraud investigation process;
- Proposal by the OIG to have suspected fraud overpayment calculations performed by the OIG, not the DSI caseworker;
- Recommendations for fee-based contracting with the OAG and prosecutors for fraud prosecution;
- Proposals for fee-based claims establishment (using retired caseworkers on a per case fee basis);
- Proposals for fee-based collections.

For the most part, these recommendations and proposals have not been enacted. The inaction is likely due to the number of agencies and sub-units involved in the process, combined with changes in management every four years. Finally, there is a difficult personnel issue to be accommodated. With two funded agencies required to do recipient fraud investigations, eliminating duplication can have profound organizational and personnel consequences.

DSI is currently in negotiations with the OAG and the OIG to develop a more efficient and effective fraud investigation process. DSI anticipates that the process and related contracts will be in place by October 1, 1996. The two most significant changes in this new arrangement are:

- A direct contract between DSI and the OAG to handle all fraud investigation and prosecution of cases where suspected fraud is greater than \$3,000; and
- A direct contract between DSI and the OIG to handle investigation of cases where suspected fraud is less than \$3,000. These cases will be returned to DSI for administrative collection.

RECOMMENDATION 4: STREAMLINE FRAUD PROCESS

DSI should make the fraud investigation process more efficient and streamlined. DSI should present to the Program Review and Investigations Committee, by December 31, 1996, a comprehensive plan and budget for fraud prevention, investigation, prosecution and collection. This plan should clearly define roles and responsibilities and should describe the ways in which the process will:

- 1. Reduce costs and increase efficiency**
- 2. Reduce time of and delays in investigation and prosecution**
- 3. Reduce duplication and fragmentation of roles and responsibilities**
- 4. Increase the number of cases investigated**
- 5. Increase visibility of the fraud process, arrests, and convictions**
- 6. Establish a uniform set of data elements and definitions to ensure uniform reporting of performance**
- 7. Establish benchmarks by which to compare any plans and their implementation to current performance**

CHAPTER VI

COMMITTEE ACTION

The staff report on the DSI Eligibility Determination Process was presented to the Program Review and Investigations Committee on September 12, 1996. DSI, the OIG, and the OAG presented their responses to the study and recommendations at the same meeting.

After discussion, the Committee adopted all four study recommendations without amendment. The staff report was then adopted by the Committee for submission to the Legislative Research Commission.

APPENDIX A
Total AFDC Cases By County August 1995

	Total Cases	Total Recipients		Total Money Payments	Avg. Recipients	Avg. Grant	% OF POPULATION
<u>County</u>	<u>Families</u>	<u>Adults</u>	<u>Children</u>		Per Case	Per case	IN PROGRAM
Adair	260	166	464	\$51,598	2.42	\$198	3.93%
Allen	174	126	295	\$34,841	2.42	\$200	2.74%
Anderson	94	70	147	\$18,623	2.31	\$198	1.30%
Ballard	98	75	153	\$18,440	2.33	\$188	2.82%
Barren	459	315	794	\$90,954	2.42	\$198	3.16%
Bath	298	229	527	\$61,153	2.54	\$205	7.51%
Bell	1,239	911	2,014	\$246,350	2.36	\$199	9.51%
Boone	431	331	659	\$86,061	2.30	\$200	1.47%
Bourbon	239	188	408	\$49,169	2.49	\$206	3.10%
Boyd	1,069	881	1,708	\$211,766	2.42	\$198	5.12%
Boyle	313	227	539	\$62,181	2.45	\$199	2.89%
Bracken	127	117	214	\$26,113	2.61	\$206	4.06%
Breathitt	896	767	1,415	\$180,550	2.44	\$202	14.17%
Breckinridge	297	264	501	\$61,851	2.58	\$208	4.63%
Bullitt	578	453	955	\$117,568	2.44	\$203	2.57%
Butler	226	196	416	\$48,830	2.71	\$216	5.30%
Caldwell	217	186	374	\$43,805	2.58	\$202	4.26%
Calloway	291	252	458	\$56,950	2.44	\$196	2.21%
Campbell	1,273	949	2,200	\$259,541	2.47	\$204	3.65%
Carlisle	53	39	94	\$10,873	2.51	\$205	2.52%
Carroll	185	141	300	\$36,507	2.38	\$197	4.62%
Carter	598	514	1,075	\$126,260	2.66	\$211	6.19%
Casey	219	159	376	\$44,338	2.44	\$202	3.71%
Christian	1,067	825	1,958	\$216,697	2.61	\$203	4.16%
Clark	502	364	814	\$98,620	2.35	\$196	3.86%
Clay	1,288	882	2,141	\$258,407	2.35	\$201	13.27%
Clinton	245	193	386	\$47,247	2.36	\$193	6.26%
Crittenden	153	146	248	\$31,577	2.58	\$206	4.19%
Cumberland	194	156	320	\$37,787	2.45	\$195	6.98%
Daviess	1,507	1,193	2,497	\$299,520	2.45	\$199	4.09%
Edmonson	172	116	273	\$33,533	2.26	\$195	3.71%
Elliott	285	256	501	\$59,744	2.66	\$210	11.54%
Estill	472	369	757	\$95,546	2.39	\$202	7.28%
Fayette	2,889	2,133	4,944	\$582,382	2.45	\$202	2.98%
Fleming	205	172	363	\$42,370	2.61	\$207	4.16%
Floyd	1,731	1,565	2,977	\$363,857	2.62	\$210	10.30%
Franklin	607	476	944	\$120,591	2.34	\$199	3.11%
Fulton	282	204	468	\$56,359	2.38	\$200	9.10%
Gallatin	106	92	172	\$21,386	2.49	\$202	4.37%
Garrard	181	146	280	\$35,876	2.35	\$198	3.36%

	Total Cases	Total Recipients		Total Money Payments	Avg. Recipients	Avg. Grant	% OF POPULATION
County	Families	Adults	Children		Per Case	Per case	IN PROGRAM
Grant	248	206	465	\$52,520	2.71	\$212	3.72%
Graves	409	293	644	\$79,132	2.29	\$193	2.69%
Grayson	375	312	615	\$76,181	2.47	\$203	4.11%
Green	130	123	221	\$27,356	2.65	\$210	3.32%
Greenup	605	507	1,013	\$122,301	2.51	\$202	4.10%
Hancock	100	104	171	\$21,103	2.75	\$211	3.39%
Hardin	1,121	941	1,889	\$227,849	2.52	\$203	3.13%
Harlan	1,501	1,349	2,515	\$313,441	2.57	\$209	10.65%
Harrison	238	196	396	\$47,405	2.49	\$199	3.52%
Hart	346	247	537	\$63,628	2.27	\$184	4.89%
Henderson	628	496	997	\$121,707	2.38	\$194	3.38%
Henry	238	175	352	\$45,522	2.21	\$191	3.80%
Hickman	92	68	142	\$17,998	2.28	\$196	3.90%
Hopkins	888	793	1,446	\$179,273	2.52	\$202	4.84%
Jackson	514	406	853	\$104,849	2.45	\$204	10.06%
Jefferson	12,396	9,349	22,232	\$2,532,023	2.55	\$204	4.70%
Jessamine	373	312	621	\$75,659	2.50	\$203	2.78%
Johnson	813	724	1,289	\$164,588	2.48	\$202	8.44%
Kenton	1,994	1,537	3,464	\$408,905	2.51	\$205	3.45%
Knott	917	844	1,510	\$190,233	2.57	\$207	12.84%
Knox	1,536	1,265	2,600	\$310,624	2.52	\$202	12.41%
Larue	198	183	326	\$40,634	2.57	\$205	4.10%
Laurel	1,172	878	1,939	\$235,920	2.40	\$201	5.96%
Lawrence	490	455	878	\$106,480	2.72	\$217	8.84%
Lee	362	301	592	\$72,214	2.47	\$199	11.52%
Leslie	554	414	899	\$110,381	2.37	\$199	9.51%
Letcher	1,015	879	1,678	\$209,219	2.52	\$206	9.47%
Lewis	319	253	581	\$68,136	2.61	\$214	6.29%
Lincoln	384	301	674	\$78,624	2.54	\$205	4.59%
Livingston	109	103	168	\$20,104	2.49	\$184	2.93%
Logan	318	216	546	\$63,961	2.40	\$201	3.00%
Lyon	76	66	113	\$15,325	2.36	\$202	2.36%
Madison	1,060	839	1,658	\$208,556	2.36	\$197	4.03%
Magoffin	660	606	1,155	\$140,331	2.67	\$213	12.90%
Marion	302	207	492	\$57,738	2.31	\$191	4.21%
Marshall	225	179	336	\$42,013	2.29	\$187	1.79%
Martin	760	724	1,252	\$157,466	2.60	\$207	15.28%
Mason	302	262	554	\$62,434	2.70	\$207	4.74%
McCracken	1,176	846	1,956	\$226,393	2.38	\$193	4.34%
McCreary	756	583	1,312	\$154,942	2.51	\$205	11.67%

	Total Cases	Total Recipients		Total Money Payments	Avg. Recipients	Avg. Grant	% OF POPULATION
County	Families	Adults	Children		Per Case	Per case	IN PROGRAM
McLean	135	138	218	\$28,192	2.64	\$209	3.68%
Meade	228	192	369	\$45,973	2.46	\$202	2.12%
Menifee	150	109	238	\$29,110	2.31	\$194	6.59%
Mercer	240	205	374	\$47,669	2.41	\$199	2.92%
Metcalfe	193	148	302	\$37,745	2.33	\$196	4.88%
Monroe	227	136	370	\$45,002	2.23	\$198	4.34%
Montgomery	448	353	719	\$87,024	2.39	\$194	5.28%
Morgan	415	380	721	\$86,571	2.65	\$209	8.27%
Muhlenberg	504	354	789	\$96,359	2.27	\$191	3.68%
Nelson	446	374	737	\$90,841	2.49	\$204	3.40%
Nicholas	114	116	199	\$23,713	2.76	\$208	4.56%
Ohio	434	337	692	\$85,686	2.37	\$197	4.79%
Oldham	145	112	247	\$29,343	2.48	\$202	0.90%
Owen	206	193	345	\$42,864	2.61	\$208	5.62%
Owsley	379	364	646	\$79,396	2.66	\$209	18.66%
Pendleton	195	159	348	\$41,283	2.60	\$212	3.84%
Perry	1,376	1,187	2,218	\$279,802	2.47	\$203	10.93%
Pike	1,909	1,633	2,966	\$378,685	2.41	\$198	6.26%
Powell	339	226	576	\$68,051	2.37	\$201	6.60%
Pulaski	896	635	1,420	\$171,717	2.29	\$192	3.85%
Robertson	48	40	73	\$9,523	2.35	\$198	5.14%
Rockcastle	336	224	561	\$65,598	2.34	\$195	5.13%
Rowan	340	276	555	\$69,989	2.44	\$206	3.87%
Russell	306	213	522	\$60,198	2.40	\$197	4.66%
Scott	404	302	636	\$80,042	2.32	\$198	3.50%
Shelby	252	158	408	\$47,088	2.25	\$187	2.09%
Simpson	188	150	308	\$39,474	2.44	\$210	2.89%
Spencer	106	99	186	\$21,932	2.69	\$207	3.73%
Taylor	387	245	666	\$75,345	2.35	\$195	4.06%
Todd	184	153	312	\$36,815	2.53	\$200	4.13%
Trigg	108	92	180	\$22,245	2.52	\$206	2.43%
Trimble	98	99	167	\$20,583	2.71	\$210	3.96%
Union	202	149	329	\$39,396	2.37	\$195	2.90%
Warren	1,292	932	2,236	\$258,349	2.45	\$200	3.81%
Washington	115	95	181	\$22,600	2.40	\$197	2.61%
Wayne	546	365	906	\$107,746	2.33	\$197	6.98%
Webster	189	146	313	\$37,237	2.43	\$197	3.39%
Whitley	1,150	991	2,004	\$236,846	2.60	\$206	8.58%
Wolfe	359	262	601	\$73,309	2.40	\$204	12.16%

	Total Cases	Total Recipients		Total Money Payments	Avg. Recipients	Avg. Grant	% OF POPULATION
<u>County</u>	<u>Families</u>	<u>Adults</u>	<u>Children</u>		Per Case	Per case	IN PROGRAM
Woodford	145	98	244	\$28,490	2.36	\$196	1.61%
Guardianship Cases: C.O.	2	1	2	\$358	1.50	\$179	
TOTAL	72,956	57,827	123,094	\$14,747,178	2.48	\$202	4.73%

Source: Compiled by Program Review Staff from DSI PAFS-430 Report, September 1995.

APPENDIX B

Food Stamp Recipients By County, August 1995

<u>COUNTY</u>	<u>CERT. FAMILIES</u>	<u>CERT. PERSONS</u>	<u>AMOUNT CERTIFIED</u>	<u>AVG. FAMILY SIZE</u>	<u>AVG. ALLOT. PER FAMILY</u>	<u>% OF POP. ON PROGRAM</u>
ADAIR	811	2,147	\$127,616	2.65	\$157	13.39%
ALLEN	552	1,551	\$86,305	2.81	\$156	10.09%
ANDERSON	317	841	\$58,011	2.65	\$183	5.04%
BALLARD	339	838	\$49,292	2.47	\$145	10.37%
BARREN	1,305	3,440	\$196,186	2.64	\$150	9.79%
BATH	865	2,349	\$143,233	2.72	\$166	23.33%
BELL	2,873	8,179	\$516,766	2.85	\$180	26.58%
BOONE	1,255	3,315	\$227,286	2.64	\$181	4.91%
BOURBON	634	1,719	\$112,765	2.71	\$178	8.96%
BOYD	2,670	7,096	\$487,078	2.66	\$182	14.03%
BOYLE	907	2,429	\$154,181	2.68	\$170	9.17%
BRACKEN	308	914	\$59,901	2.97	\$194	11.22%
BREATHITT	2,315	6,158	\$369,936	2.66	\$160	40.00%
BRECKINRIDGE	964	2,612	\$161,349	2.71	\$167	15.81%
BULLITT	1,516	4,353	\$302,141	2.87	\$199	7.95%
BUTLER	704	1,935	\$117,039	2.75	\$166	16.74%
CALDWELL	611	1,690	\$100,629	2.77	\$165	12.86%
CALLOWAY	947	2,438	\$154,238	2.57	\$163	7.57%
CAMPBELL	2,778	7,754	\$521,925	2.79	\$188	8.99%
CARLISLE	195	495	\$25,545	2.54	\$131	9.37%
CARROLL	576	1,562	\$96,745	2.71	\$168	16.37%
CARTER	1,872	5,572	\$363,953	2.98	\$194	21.72%
CASEY	892	2,343	\$131,942	2.63	\$148	16.25%
CHRISTIAN	2,876	8,476	\$512,240	2.95	\$178	12.68%
CLARK	1,334	3,696	\$220,115	2.77	\$165	12.12%
CLAY	3,166	8,989	\$536,894	2.84	\$170	39.47%
CLINTON	937	2,350	\$138,090	2.51	\$147	25.39%
CRITTENDEN	442	1,148	\$70,469	2.60	\$159	12.20%
CUMBERLAND	628	1,548	\$80,498	2.46	\$128	22.68%
DAVIESS	4,142	11,022	\$717,286	2.66	\$173	12.23%
EDMONSON	650	1,619	\$99,356	2.49	\$153	15.46%
ELLIOTT	735	2,127	\$130,660	2.89	\$178	32.42%
ESTILL	1,367	3,696	\$232,952	2.70	\$170	23.91%
FAYETTE	6,909	18,596	\$1,246,179	2.69	\$180	7.83%
FLEMING	654	1,801	\$109,271	2.75	\$167	14.00%
FLOYD	4,126	11,908	\$792,436	2.89	\$192	27.01%
FRANKLIN	1,414	3,557	\$254,755	2.52	\$180	7.80%
FULTON	782	2,032	\$112,557	2.60	\$144	27.50%
GALLATIN	325	873	\$59,133	2.69	\$182	14.44%
GARRARD	560	1,534	\$96,574	2.74	\$172	12.10%
GRANT	749	2,194	\$143,874	2.93	\$192	12.18%
GRAVES	1,232	2,962	\$179,192	2.40	\$145	8.52%

<u>COUNTY</u>	<u>CERT. FAMILIES</u>	<u>CERT. PERSONS</u>	<u>AMOUNT CERTIFIED</u>	<u>AVG. FAMILY SIZE</u>	<u>AVG. ALLOT. PER FAMILY</u>	<u>% OF POP. ON PROGRAM</u>
GRAYSON	1,329	3,563	\$221,887	2.68	\$167	15.81%
GREEN	465	1,156	\$68,232	2.49	\$147	11.16%
GREENUP	1,593	4,876	\$311,072	3.06	\$195	13.14%
HANCOCK	280	790	\$50,134	2.82	\$179	9.73%
HARDIN	2,646	8,308	\$510,273	3.14	\$193	9.19%
HARLAN	3,915	11,048	\$718,103	2.82	\$183	30.44%
HARRISON	622	1,669	\$108,629	2.68	\$175	9.92%
HART	1,025	2,688	\$170,065	2.62	\$166	16.75%
HENDERSON	1,888	5,024	\$308,951	2.66	\$164	11.36%
HENRY	687	1,946	\$124,920	2.83	\$182	14.03%
HICKMAN	260	603	\$34,703	2.32	\$133	11.21%
HOPKINS	2,416	6,646	\$433,651	2.75	\$179	14.35%
JACKSON	1,451	4,034	\$248,645	2.78	\$171	32.22%
JEFFERSON	28,218	74,232	\$5,085,632	2.63	\$180	11.04%
JESSAMINE	1,155	3,460	\$214,735	3.00	\$186	10.31%
JOHNSON	2,243	6,280	\$412,454	2.80	\$184	26.32%
KENTON	4,852	13,201	\$868,767	2.72	\$179	9.11%
KNOTT	2,181	6,081	\$399,974	2.79	\$183	33.16%
KNOX	3,994	11,027	\$715,660	2.76	\$179	35.41%
LARUE	570	1,563	\$100,579	2.74	\$176	12.58%
LAUREL	3,055	8,821	\$570,240	2.89	\$187	18.65%
LAWRENCE	1,645	4,712	\$295,465	2.86	\$180	31.27%
LEE	1,106	2,849	\$179,084	2.58	\$162	36.77%
LESLIE	1,790	4,524	\$301,030	2.53	\$168	32.77%
LETCHER	2,857	7,859	\$534,784	2.75	\$187	29.12%
LEWIS	886	2,761	\$178,552	3.12	\$202	20.83%
LINCOLN	1,240	3,568	\$214,935	2.88	\$173	16.79%
LIVINGSTON	366	1,021	\$59,814	2.79	\$163	11.03%
LOGAN	1,069	2,763	\$168,479	2.58	\$158	10.86%
LYON	226	584	\$34,832	2.58	\$154	7.71%
MADISON	2,678	6,985	\$482,875	2.61	\$180	11.27%
MAGOFFIN	1,761	4,987	\$320,672	2.83	\$182	36.54%
MARION	937	2,588	\$156,228	2.76	\$167	15.59%
MARSHALL	866	2,143	\$132,605	2.47	\$153	7.46%
MARTIN	1,724	4,950	\$309,066	2.87	\$179	38.28%
MASON	946	2,580	\$161,211	2.73	\$170	14.99%
MCCRACKEN	3,173	7,679	\$523,296	2.42	\$165	11.88%
MCCREARY	2,194	6,270	\$384,412	2.86	\$175	38.61%
MCLEAN	408	1,107	\$67,630	2.71	\$166	11.44%
MEADE	563	1,794	\$106,270	3.19	\$189	6.78%
MENIFEE	509	1,443	\$80,752	2.83	\$159	27.40%
MERCER	693	1,990	\$126,713	2.87	\$183	10.05%

<u>COUNTY</u>	<u>CERT.</u> <u>FAMILIES</u>	<u>CERT.</u> <u>PERSONS</u>	<u>AMOUNT</u> <u>CERTIFIED</u>	<u>AVG. FAMILY</u> <u>SIZE</u>	<u>AVG. ALLOT.</u> <u>PER FAMILY</u>	<u>% OF POP.</u> <u>ON</u> <u>PROGRAM</u>
METCALFE	553	1,483	\$90,275	2.68	\$163	16.09%
MONROE	748	1,877	\$106,681	2.51	\$143	16.09%
MONTGOMERY	1,242	3,367	\$207,741	2.71	\$167	16.58%
MORGAN	1,314	3,651	\$219,428	2.78	\$167	27.42%
MUHLENBERG	1,491	4,359	\$262,942	2.92	\$176	14.03%
NELSON	1,244	3,574	\$213,738	2.87	\$172	10.95%
NICHOLAS	394	1,080	\$63,821	2.74	\$162	15.65%
OHIO	1,389	3,924	\$248,521	2.83	\$179	18.26%
OLDHAM	421	1,174	\$73,026	2.79	\$173	2.95%
OWEN	450	1,330	\$82,553	2.96	\$183	13.89%
OWSLEY	993	2,671	\$156,427	2.69	\$158	49.34%
PENDLETON	595	1,771	\$112,556	2.98	\$189	13.43%
PERRY	3,562	9,814	\$651,635	2.76	\$183	31.52%
PIKE	5,423	14,286	\$966,627	2.63	\$178	19.44%
POWELL	1,018	2,953	\$175,429	2.90	\$172	24.30%
PULASKI	2,839	7,626	\$455,390	2.69	\$160	14.28%
ROBERTSON	119	333	\$18,400	2.80	\$155	15.14%
ROCKCASTLE	1,151	3,206	\$200,409	2.79	\$174	20.94%
ROWAN	1,173	2,925	\$191,179	2.49	\$163	13.63%
RUSSELL	1,015	2,622	\$155,473	2.58	\$153	16.61%
SCOTT	1,043	2,885	\$191,601	2.77	\$184	10.77%
SHELBY	643	1,686	\$99,091	2.62	\$154	6.23%
SIMPSON	516	1,287	\$87,430	2.49	\$169	8.12%
SPENCER	288	934	\$55,463	3.24	\$193	12.23%
TAYLOR	1,015	2,666	\$161,034	2.63	\$159	11.89%
TODD	524	1,384	\$81,969	2.64	\$156	12.29%
TRIGG	359	962	\$59,390	2.68	\$165	8.59%
TRIMBLE	274	784	\$50,246	2.86	\$183	11.67%
UNION	561	1,640	\$97,320	2.92	\$173	9.96%
WARREN	3,137	8,476	\$582,431	2.70	\$186	10.21%
WASHINGTON	350	946	\$57,046	2.70	\$163	8.95%
WAYNE	1,798	4,990	\$288,360	2.78	\$160	27.39%
WEBSTER	533	1,475	\$93,278	2.77	\$175	10.89%
WHITLEY	2,994	8,533	\$559,978	2.85	\$187	24.43%
WOLFE	1,047	2,665	\$154,589	2.55	\$148	37.54%
WOODFORD	499	1,377	\$87,355	2.76	\$175	6.48%
CENTRAL OFF	1	2	\$212	2.00	\$212	
TOTAL	194,432	530,749	\$34,151,648	2.73	\$176	13.87%

APPENDIX C

DSI Quality Initiatives and Case Review Programs

DSI QUALITY INITIATIVES AND CASE REVIEW PROGRAMS

DSI has developed several programs to reduce errors when certifying eligibility. These efforts involve several coordinated programs called Quality Initiatives and case review. The major programs are described below.

A Quality Initiatives (QI) program began in the mid-1980's. This program is a comprehensive response to the high food stamp program error rates of the early 1980's. There are numerous state and regional "Quality Initiatives". These initiatives focus on training that is targeted toward frequent case error categories, policy alerts, specialized regional QI's, targeting casework supervision and review toward frequently occurring case errors, and focusing on the urban areas (e.g., the \$6 Million Club - the 18 counties that issue \$6 million per year in food stamps).

QC Review Requires That Errors Found By QC Be Shared With Staff. According to a Quality Initiative program description (revised 7/93) Quality Control Review works as follows:

Each regional office has a quality initiative specialist who reviews each error and provides explicit information to central office. The supervisor is asked to give a detailed summary to the regional office of how the case was worked, if correct procedures and policies were followed and how the error might have been avoided. The supervisor may also be required to mail the case to the regional office for review. The Quality Initiatives Branch in Central Office issues a monthly synopsis to the field of all errors cited during the prior 30 days. This information is used to establish potential trends and keep local supervisors informed of what is happening through the state.

A Quality Control Liaison System Supports Quality Control Reviews. DSI's August 23, 1995 MA Corrective Action Plan, submitted to the U. S. Department of Health and Human Services, describes the Quality Control Liaison for MA, FS, and AFDC as follows:

A member of the Central Office Quality Initiatives Branch receives copies of the errors on a weekly basis from Quality Control. The errors are reviewed case-by-case by the Quality Initiatives Branch (QIB) member. QIB also makes copies of the errors for review by the Food Stamp, AFDC, and Medical Assistance sections of the policy branch. The QIB member also contacts the four regional offices to obtain worker codes, case decision, and case review information on each case cited as an error. This contact also affords the local office the opportunity to take exception with the error if they believe the case was processed correctly.

The Case Review program requires supervisors to review 75 cases monthly. The major Quality Initiative used to address the high error rates of the early 1980's was "case review" (also

called "117 case reviews") of 90 tenured (case decision) caseworker cases each month. In recent years the required case reviews have been reduced from 90 to 75. These case reviews are analyzed monthly and county/unit totals are forwarded "up the management chain". Reports are issued from the Frankfort central office each month, publishing the number of cases reviewed and the percentage of errors (by category) found. This data is then available for comparison with that generated by the Management Evaluation program.

Management Evaluation (ME) is a comprehensive local office review process. Management Evaluation Reviews are performed by the regional QI offices and are a review of the entire operation of local offices (including a sampling of cases for review). Every local office is covered at least once every two years by a team of 12 reviewers and urban areas are evaluated annually. After completing each Management Evaluation there is a ME Exit interview and, if procedural or case errors are above established levels, a corrective action (CA) plan is required of the unit.

CORE case review intervenes to stop fraud before payment is made. The Cooperative Review of Eligibility (CORE) program is run by the CHR Office of the Inspector General (OIG). Through this program, local DSI caseworkers can refer a case (at application or recertification) to the OIG, and a CORE investigator can intervene immediately to determine eligibility or fraud/misrepresentation. It is viewed as a preventive program. A discussion of CORE is presented in Chapter 4.

APPENDIX D
AFDC Pending/Past Due Claims by County September 1995

APPENDIX D
AFDC Pending/Past Due Claims by County September 1995

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
MARION	49	49	100%
BOONE	22	22	100%
BUTLER	20	20	100%
PENDLETON	16	16	100%
GRANT	9	9	100%
EDMONSON	4	4	100%
POWELL	3	3	100%
GREEN	2	2	100%
GALLATIN	1	1	100%
KENTON	956	942	99%
FRANKLIN	253	249	98%
SCOTT	276	270	98%
BRECKINRIDGE	40	39	98%
FAYETTE	1748	1704	97%
JESSAMINE	349	337	97%
HARDIN	406	392	97%
NELSON	691	664	96%
SIMPSON	51	49	96%
CALLOWAY	74	71	96%
HOPKINS	258	246	95%
OHIO	302	287	95%
BULLITT	179	170	95%
WOODFORD	70	66	94%
LOGAN	81	76	94%
CAMPBELL	842	789	94%
MERCER	15	14	93%
GRAYSON	68	63	93%
LARUE	51	47	92%
WARREN	481	435	90%
LETCHER	37	33	89%
ANDERSON	108	95	88%
DAVIESS	40	35	88%
LEWIS	24	21	88%
MORGAN	52	45	87%
MEADE	94	81	86%
HARRISON	35	29	83%
CHRISTIAN	11	9	82%
HARLAN	394	313	79%
MCLEAN	137	106	77%

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
BATH	19	14	74%
CLINTON	7	5	71%
LESLIE	46	32	70%
GARRARD	13	9	69%
HENRY	3	2	67%
LINCOLN	17	11	65%
OLDHAM	5	3	60%
MENIFEE	12	7	58%
PULASKI	7	4	57%
BOYLE	30	15	50%
ALLEN	4	2	50%
BOYD	74	32	43%
OWEN	7	3	43%
CARROLL	5	2	40%
MASON	10	3	30%
BRACKEN	7	2	29%
CLARK	33	7	21%
LYON	5	1	20%
ADAIR	17	3	18%
JEFFERSON	348	60	17%
FLEMING	6	1	17%
SHELBY	32	5	16%
MONTGOMERY	48	7	15%
UNION	14	2	14%
WAYNE	25	3	12%
GRAVES	18	2	11%
PERRY	10	1	10%
RUSSELL	10	1	10%
MCCRACKEN	31	3	10%
BELL	52	4	8%
KNOX	44	3	7%
LAUREL	44	3	7%
WEBSTER	15	1	7%
BARREN	38	2	5%
CASEY	20	1	5%
GREENUP	34	1	3%
FLOYD	71	0	0%
PIKE	64	0	0%
MADISON	61	0	0%
WHITLEY	47	0	0%

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
CLAY	38	0	0%
MAGOFFIN	38	0	0%
ROWAN	28	0	0%
JOHNSON	25	0	0%
JACKSON	14	0	0%
LAWRENCE	14	0	0%
MUHLENBERG	13	0	0%
ROCKCASTLE	12	0	0%
HENDERSON	11	0	0%
MCCREARY	11	0	0%
CALDWELL	10	0	0%
KNOTT	9	0	0%
WASHINGTON	9	0	0%
WOLFE	9	0	0%
LEE	7	0	0%
TODD	7	0	0%
TRIGG	7	0	0%
CARTER	5	0	0%
HANCOCK	5	0	0%
HART	5	0	0%
METCALFE	5	0	0%
SPENCER	5	0	0%
BREATHITT	4	0	0%
ELLIOTT	4	0	0%
NICHOLAS	4	0	0%
TAYLOR	4	0	0%
BOURBON	3	0	0%
MARTIN	3	0	0%
MONROE	3	0	0%
FULTON	2	0	0%
LIVINGSTON	2	0	0%
MARSHALL	2	0	0%
OWSLEY	2	0	0%
BALLARD	1	0	0%
CUMBERLAND	1	0	0%
HICKMAN	1	0	0%
ROBERTSON	1	0	0%
CARLISLE	0	0	0%
CRITTENDEN	0	0	0%

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
ESTILL	0	0	0%
TRIMBLE	0	0	0%
TOTAL	9,926	8,060	81%

Source: Compiled by Program Review Staff from DSI PAFS-430 Report, September 1995.

APPENDIX E

Food Stamp Pending/Past Due Claims by County September 1995

**FOOD STAMP PENDING/PAST DUE CLAIMS BY COUNTY
SEPTEMBER 1995**

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
JESSAMINE	204	204	100%
BRECKINRIDGE	5	5	100%
CARROLL	5	5	100%
MERCER	1	1	100%
FAYETTE	953	896	94%
FRANKLIN	95	89	94%
SCOTT	280	258	92%
WOODFORD	140	129	92%
BATH	17	15	88%
CAMPBELL	642	566	88%
GRAYSON	103	89	86%
KENTON	501	427	85%
BOONE	6	5	83%
OHIO	6	5	83%
CALLOWAY	65	53	82%
NELSON	187	152	81%
BUTLER	8	6	75%
DAVIESS	22	16	73%
PENDLETON	10	7	70%
BOYLE	26	18	69%
GARRARD	9	6	67%
GALLATIN	6	4	67%
MARION	3	2	67%
HARDIN	106	67	63%
LESLIE	8	5	63%
MCLEAN	38	23	61%
HARRISON	15	9	60%
MEADE	50	29	58%
OLDHAM	7	4	57%
ANDERSON	40	22	55%
MORGAN	10	5	50%
LARUE	6	3	50%
LOGAN	6	3	50%
BULLITT	4	2	50%
EDMONSON	2	1	50%
MARSHALL	2	1	50%
CARTER	11	5	45%
FLEMING	11	5	45%
KNOTT	7	3	43%
HARLAN	97	41	42%
BOURBON	5	2	40%

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
HOPKINS	15	5	33%
OWEN	6	2	33%
GRANT	3	1	33%
SIMPSON	3	1	33%
BARREN	15	4	27%
PULASKI	8	2	25%
SHELBY	9	2	22%
CHRISTIAN	5	1	20%
TODD	5	1	20%
WARREN	41	8	20%
CLARK	71	13	18%
RUSSELL	6	1	17%
LETCHER	42	5	12%
GREENUP	19	2	11%
GRAVES	21	2	10%
BOYD	65	4	6%
JEFFERSON	420	19	5%
PERRY	49	2	4%
LAUREL	81	3	4%
MCCRACKEN	32	1	3%
KNOX	130	4	3%
MADISON	82	2	2%
PIKE	120	0	0%
WHITLEY	71	0	0%
CLAY	70	0	0%
FLOYD	55	0	0%
BELL	52	0	0%
MONTGOMERY	37	0	0%
MAGOFFIN	31	0	0%
ROWAN	27	0	0%
WEBSTER	17	0	0%
JOHNSON	15	0	0%
MCCREARY	14	0	0%
WASHINGTON	11	0	0%
CASEY	9	0	0%
LAWRENCE	9	0	0%
LINCOLN	9	0	0%
MARTIN	9	0	0%
JACKSON	8	0	0%
MASON	7	0	0%
ADAIR	6	0	0%
HART	6	0	0%
MUHLENBERG	6	0	0%
ROCKCASTLE	6	0	0%

COUNTY	PENDING LOCAL OFFICE	PAST DUE LOCAL OFFICE	% PAST DUE LOCAL OFFICE
BRACKEN	4	0	0%
BREATHITT	4	0	0%
LEE	4	0	0%
METCALFE	4	0	0%
SPENCER	4	0	0%
UNION	4	0	0%
CRITTENDEN	3	0	0%
FULTON	3	0	0%
HANCOCK	3	0	0%
HENDERSON	3	0	0%
LIVINGSTON	3	0	0%
MONROE	3	0	0%
ROBERTSON	3	0	0%
WAYNE	3	0	0%
ALLEN	2	0	0%
CARLISLE	2	0	0%
CLINTON	2	0	0%
HICKMAN	2	0	0%
LEWIS	2	0	0%
NICHOLAS	2	0	0%
OWSLEY	2	0	0%
TAYLOR	2	0	0%
WOLFE	2	0	0%
BALLARD	1	0	0%
CALDWELL	1	0	0%
ESTILL	1	0	0%
GREEN	1	0	0%
LYON	1	0	0%
POWELL	1	0	0%
TRIMBLE	1	0	0%
CUMBERLAND	0	0	0%
ELLIOTT	0	0	0%
HENRY	0	0	0%
MENIFEE	0	0	0%
TRIGG	0	0	0%
TOTAL	5,515	3,273	59%

Source: Compiled by Program Review Staff from DSI PAFS-430 Report, September 1995.

APPENDIX F
Recommendation Worksheet With Agency Responses

**PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
ELIGIBILITY STUDY
RECOMMENDATION WORKSHEET WITH AGENCY RESPONSE**

September 12, 1996

RECOMMENDATION 1: STRENGTHEN COLLATERAL STATEMENTS

DSI should examine ways to strengthen the veracity and verifiability of collateral contacts. These measures could include: strengthening warnings on collateral contact forms, limiting who can sign these forms, requiring notarized statements and prosecuting people who knowingly sign false statements.

AGENCY RESPONSE:

DSI: Agrees in Part. Will explore strengthening collateral verification to increase program integrity. However, DSI does not concur with the recommendation to require notarized documents for the following reasons:

- Use of notarized documents exceeds USDA mandate for verification in FS program.
- Many clients cannot afford a notary fee.
- The requirement of signing in the presence of a notary could create a burden on landlords and employers who may not be sympathetic to a clients need for benefits.

STAFF RESPONSE/COMMITTEE ACTION:

Using notarized statements is merely a suggestion. The recommendation calls for DSI to determine how collateral verification can be strengthened.

Adopted by Committee 9/26/96

**PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
ELIGIBILITY STUDY
RECOMMENDATION WORKSHEET WITH AGENCY RESPONSE**

September 12, 1996

RECOMMENDATION 2: INCREASE VERIFICATION RESOURCES

DSI should work with the OIG to expand investigative and verification resources, such as the CORE program. DSI should also attempt to identify and develop additional data matches with other agencies and entities that could provide independent verification of client statements.

AGENCY RESPONSE:

DSI: Accepts Recommendation

STAFF RESPONSE/COMMITTEE ACTION:

Adopted by Committee 9/26/96

OIG: Agrees. OIG is currently working with Office of Policy and Budget in an effort to obtain sufficient personnel to meet increases in referrals. OIG is confident that expansion of CORE will significantly reduce erroneous and fraudulent payments.

PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
ELIGIBILITY STUDY
RECOMMENDATION WORKSHEET WITH AGENCY RESPONSE

September 12, 1996

RECOMMENDATION 3 : INCREASE TIMELY CLAIMS ESTABLISHMENT AND REPORT ON CLAIMS
CONTRACTING

DSI should develop and establish procedures to increase the timely establishment of claims and prevent recurring backlogs. DSI should report to the Program Review and Investigations Committee by December 31, 1996, on the procedures which have been established. DSI should also report to the Program Review and Investigations Committee, by December 31, 1996, on the success of the claims work contracts. The report should include:

1. Number of cases reviewed.
2. Number of established claims (and cost) by claim type
3. Number of "no claims" established (and cost)
4. Costs of training and expenses
5. Plans for future contracting

AGENCY RESPONSE:

DSI: Accepts Recommendation. Will report by 12/31/96.

STAFF RESPONSE/COMMITTEE ACTION:

Adopted by Committee 9/26/96

**PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
ELIGIBILITY STUDY
RECOMMENDATION WORKSHEET WITH AGENCY RESPONSE**

September 12, 1996

RECOMMENDATION 4: STREAMLINE FRAUD PROCESS

DSI should make the fraud investigation process more efficient and streamlined. DSI should present to the Program Review and Investigations Committee, by December 31, 1996, a comprehensive plan and budget for fraud prevention, investigation, prosecution and collection. This plan should clearly define roles and responsibilities and should describe the ways in which the process will:

1. Reduce costs and increase efficiency
2. Reduce time of and delays in investigation and prosecution
3. Reduce duplication and fragmentation of roles and responsibilities
4. Increase the number of cases investigated
5. Increase visibility of the fraud process, arrests, and convictions
6. Establish a uniform set of data elements and definitions to ensure uniform reporting of performance
7. Establish benchmarks by which to compare any plans and their implementation to current performance

AGENCY RESPONSE: STAFF RESPONSE/COMMITTEE ACTION:

DSI: Accepts Recommendation. Will present plan by 12/31/96. Adopted by Committee 9/26/96

OAG: Agrees. The current system to prosecute welfare fraud is cumbersome and a major overhaul of the system is long overdue. OAG and DSI have agreed to significant administrative changes to improve program effectiveness.

APPENDIX G
AGENCY RESPONSES



CABINET FOR HUMAN RESOURCES
COMMONWEALTH OF KENTUCKY
FRANKFORT 40621

DEPARTMENT FOR SOCIAL INSURANCE
"An Equal Opportunity Employer M/F/D"

September 11, 1996

Mr. Joseph F. Fiala, Ph.D.
Assistant Director
Office of Program Review and Investigations
Legislative Research Commission
State Capitol
Frankfort, Kentucky 40601

Dear Mr. Fiala:

The Department for Social Insurance has completed its review of the report, "Eligibility Determination For AFDC And Food Stamps" (not adopted by the committee), that was drafted by John Snyder of your staff. We find the report, in general, to be accurate and objective. However, we would like to take this opportunity to address some areas of the report that require correction or clarification and to respond to your recommendations to the Department.

CHAPTER III

On page 31, under the section "Problems With Eligibility Determination", you cite reliance on client and collateral statements as a weakness of the certification process. In the last paragraph, you state that, "In cases in which a client has documented employment and income, income information is readily verifiable through sources other than a collateral statement."

Individuals who have stable employment are required to verify their income using wage stubs. However, many of our participants have low paying jobs as day laborers, farm hands, and self employment that is not verifiable through sources other than a collateral statement. Collateral contacts are utilized only as a last resort. The Department must have a mechanism to accommodate these individuals who do not have a steady source of income and wage stubs as verification.

Recommendation 1: Strengthen Collateral Statements (page 33)

The Department will explore strengthening collateral verification to increase program integrity. However, we cannot concur with the recommendation to require notarized documents.

Page Two

The use of notarized documents is not a viable solution for the following reasons:

- ° Use of notarized documents exceeds the Federal mandate for verification in the Food Stamp Program. The Department could be cited by the Federal agency for placing an undue hardship on certain populations of the caseload.
- ° Notary Publics can charge a fee. Many of our clients cannot afford this expense.
- ° Notary Publics require both parties to be present when the form is notarized. This creates a burden on employers and landlords who may not be sympathetic to the client's need for welfare benefits.

Recommendation 2: Increase Verification Resources (page 35)

The Department accepts the recommendation of the committee.

CHAPTER IV

Recommendation 3: DSI Should Increase the Timely Establishment of Claims and Report on Claims Work Contracting (page 48)

The Department accepts the recommendation of the committee. As stated on page 47 of the report, additional funding has been set aside for FY 97 in demonstration of the Department's commitment to establishing claims and increasing collections. As requested, the Department will report to the committee by December 31, 1996, on the success of the claims work contracts.

CHAPTER V

Recommendation 4: Streamline Fraud Processes (page 64)

The Department accepts the recommendation of the committee. As requested, the Department will present a comprehensive plan and budget for fraud prevention, investigation, prosecution and collection to the committee by December 31, 1996.

Thank you for the opportunity to review and comment on the report. If you have any questions, please contact me at 564-3703.

Sincerely,


John L. Clayton,
Commissioner

JLC:MM:MC



CABINET FOR HEALTH SERVICES
COMMONWEALTH OF KENTUCKY
275 EAST MAIN STREET - 4 EAST
FRANKFORT 40621-0001

OFFICE OF INSPECTOR GENERAL

September 12, 1996

Dr. Joseph F. Fiala, Ph.D.
Assistant Director
Office of Program Review and Investigations
Legislative Research Commission
State Capitol
Frankfort, Kentucky 40601

Dear Mr. Fiala:

I am in receipt of a copy of your letter of September 6, 1996, to John H. Morse, Secretary, Cabinet for Health Services, in regard to your staff report on the Department for Social Insurance's (DSI) eligibility determination process, and a copy of the most recent draft of the report, dated September 12, 1996. Per your request, we have reviewed the report's findings and recommendations.

As with the preliminary draft of the report, previously reviewed by this office, we find ourselves in general agreement with the report's findings. We are also in basic agreement with the recommendations stated therein. This letter serves to restate some of the concerns expressed in our first response, and provide some additional information in regard to the CORE program.

Chapter 3, CORE Investigations

The current draft of your report addresses the concerns stated in our first response as to length of time that this office has operated the CORE program, noting at page 34 that it began during the mid-1980's. The initial draft referenced a start date of October 1994. We appreciate this correction. We also agree with and welcome your recommendation, stated at page ix of the report, that "DSI should work with the OIG to expand investigative and verification resources, such as the CORE program." In support of this recommendation, we would like to take this opportunity to provide some additional information that you may find beneficial.

Although the current draft of your report does note that the CORE program has enjoyed significant growth in recent years, we believe a fuller statement of such expansion may provide additional support for your recommendation. In fact, the increase in requests for CORE investigations in recent years has been dramatic, amounting to almost 700 percent (682.01%) from fiscal year 1993 to projected receipts for fiscal year 1997. You may find the following data interesting:

<u>Fiscal Year</u>	<u>Referrals</u>	<u>Savings</u>
1993	137	\$291,562
1994	121	\$201,940
1995	213	\$272,513
1996	565	\$783,784
1997	158 (7/1/96-8/28/96)	n/a

If we are able to meet this projected demand, estimated savings to the Commonwealth for the current fiscal year will exceed \$1,250,000.00 for the ten counties presently served by the program, which contain only 35.72% of the state's population, based on 1990 census data. Based on our current staff and workload, however, we are not confident that we will in fact be able to adequately respond to CORE referrals during the current fiscal year. We are currently working with the Office of Policy and Budget concerning resource allocations for CORE investigations, in an effort to obtain sufficient personnel to meet not only our projected demand for the ten counties currently being served by the program, but for the entire state.

We are confident that an adequately staffed expansion of the CORE program to all Kentucky counties will significantly reduce erroneous and fraudulent payments in all the various assistance programs administered by DSI, and do so at a very attractive cost/benefit ratio.

Chapter 5, Fraud Investigation and Prosecution

On page 49, the current draft report states that "the welfare fraud referral and investigation process is very complex," references "the duplication of investigative and other functions," and notes that major problems with the present system "have been exacerbated by ongoing contractual and organizational disputes between the

OIG and the OAG.” At page 51 of the draft report, the report compares the “Kentucky OIG/OAG” method of “investigating, prosecuting, and adjudicating welfare fraud” with states having “fee-based contract with a prosecutors association,” finding the Kentucky method “2.7 times as costly,” and noting that “less than half” of adjudicated claims “may be expected to be collected.” At page 53 of the draft report, the report examines the long time frames that are permitted or required to present a case to a local prosecutor, citing some of the problems that have resulted after prosecution referrals have been made, such as referrals getting lost in the system. On page 55, the draft report mentions some benefits that might result by having investigative and other functions “consolidated/unified within one responsible agency.” The draft report then continues, calling into question the basic value of welfare fraud prosecutions generally. At page 57, the draft report notes that “a major purpose of prosecution is deterrence and punishment,” observing that “the deterrent effect of fraud adjudication is significantly reduced as a consequence of separating the crime from the punishment by two to three years” and that “there is an overall lack of visibility to the process, with most complaints being quietly settled through probation and restitution.” The draft report then concludes this section by noting that contractual conflicts between the OIG and OAG have existed since 1980, gives a brief history of the OIG and OAG relationship during this period, and presents a discussion of the amount of staff involved in the current effort.

As noted in our response to your first draft report, we find little to which we would take exception. Your statement of the basic problems inherent in the current system is consistent with the past observations of this office, as is your overall conclusion, presented in your second paragraph, to wit, that the present system is “expensive, time consuming, duplicative, and not a visible deterrent.”

I would like to respond to some of the statements of the current draft report, however, not because of the presence of serious error or omission, but in an effort to perhaps help provide better understanding of the issues involved.

Our primary concern is the repeated reference to the duplication of effort by this office and the OAG. I believe a closer review of this issue would not reveal significant duplication of actual investigative effort by our offices in regard to efforts to obtain information and evidence relevant to the issue being investigated. Indeed, the OAG is actually prohibited from duplicating work performed by the OIG by

express provision of the OIG/OAG contract, and, as best we can determine, OAG staff do not in fact routinely or frequently repeat actions taken by this office. There is a duplication of effort, of course, in the necessity of both OIG and OAG staff to review the same case record material, and criticism in regard to such duplication is valid.

This office has a very high success rate in obtaining all of the information needed to actually establish a claim due the Commonwealth and support a referral for criminal prosecution. Review of OAG dispositions indicates that these are the cases that generally enjoy the greatest success after referral to the OAG, in that they are usually referred to local prosecutors with no change in the amount of the claim established by our investigation. Cases that we refer to the OAG without an established claim, however, such as those requiring field investigation or subpoenas /search warrants for evidence, are frequently returned to us without prosecution having been initiated because OAG staff were not able to obtain sufficient information to determine a claim and/or support criminal prosecution.

I would also like to note the limited number of OIG staff actually involved in the process relative to their ultimate work product. On pages 61 and 62, the draft report notes that "between 40 and 45 investigators and staff are assigned responsibilities for welfare recipient fraud investigation in Kentucky." For most of the history of this office, all welfare fraud cases were processed by a staff of no more than five line investigators, who also performed other investigative duties, such as CORE and special investigations. We now have a dedicated unit for such investigations, consisting of five line investigators.

As an example of the work output of our staff in this area, I would like to note that this office generated a total of 8,045 written requests for information and evidence needed for welfare fraud cases during Kentucky fiscal year 1996, and we expect the number of such requests to exceed 10,250 during the current fiscal year.

In attempting to meet our responsibilities in regard to welfare fraud investigations, this office has continually searched for better ways to do our jobs and increase our efficiency and effectiveness. A large part of this effort has resulted in computer automation of many tasks, including case management. We would welcome any impartial review of our successes and efforts in this area.

Dr. Joseph F. Fiala, Ph.D.
September 12, 1996
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In conclusion, I want to again thank you for the opportunity to review your draft report, and for your invitation to submit my comments in reference thereto. Please be assured that my staff and I stand ready to assist you in your efforts in this area. If you are interested in the recommendation to expand the CORE Program, and/or would like additional information, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Michael Lawrence". The signature is written in dark ink and is positioned above a horizontal line.

Mike Lawrence

Director

Division of Special Investigations

cc: Timothy L. Veno



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

A.B. CHANDLER III
ATTORNEY GENERAL

P.O. BOX 2000
FRANKFORT, KY 40602-2000

September 10, 1996

Joseph F. Fiala, Ph.D.
Assistant Director,
Office of Program Review and
Investigations
Capitol Annex, Room 026
Frankfort, KY 40601

Dear Mr. Fiala:

Attorney General Chandler has asked me to respond to your letter dated September 6, 1996 and to the preliminary report to be presented to the Program Review and Investigations Committee on September 12, 1996.

As per our letter to you of August 30, 1996, the Office of the Attorney General is resubmitting the referenced correspondence as our response to the recommendations to be considered by the Committee.

The current system to prosecute welfare fraud is cumbersome and a major overhaul of the system is long overdue. The Office of the Attorney General and the Department of Social Insurance have, in total cooperation, agreed to significant administrative changes to improve program effectiveness which will produce measurable program results.

As stated in your letter, we will attend to the Committee meeting on September 12, 1996

Sincerely,

A handwritten signature in cursive script that reads "John Cubine".

John Cubine, Director
Division of Administrative Services

c: A. B. Chandler III
Mike Duncan
John Snyder ✓



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

A. B. CHANDLER III
ATTORNEY GENERAL

P O BOX 2000
FRANKFORT, KY 40602-2000

August 30, 1996

Joseph F. Fiala, Ph.D.
Assistant Director
Office of Program Review and Investigations
State Capitol Annex
Frankfort, KY 40601

Dear Mr. Fiala:

We wanted to thank you for the opportunity to review and comment on the draft report pertaining to welfare fraud investigation and prosecution. After reviewing the draft, we generally agree on the findings and program overview. We have attached several comments for your consideration.

Attorney General Chandler and representatives of the Cabinet for Families and Children met in early January of 1996 to discuss significant changes which should be made in the current contract and procedures to improve cost effectiveness and productivity. As a result of these meetings, short term actions and contract changes were identified.

Significant changes have been made in the program administration contract for Fiscal Year 1996-97 which will revamp the entire welfare fraud investigation process.

Since January of 1996, the following actions have been effected:

1. **Reassignment of Counties**

Investigators, with cases caught up, were reassigned to counties with large numbers of pending and referred cases.

2. **Warrant Car Implemented**

Investigators were assigned to assist local law enforcement in locating subjects accused of welfare fraud and assisted in serving warrants and summonses.

3. Court Referral

Cases being referred to District Court rather than waiting for a Grand Jury to meet and return an indictment. This practice has reduced time between referrals and adjudications.

4. Reduction of Pending Cases

During the first six months of 1996, we reduced the pending cases over a year old from 260 to 107 which is approximately a 59% reduction.

5. Prosecutorial Contact

Investigators made contact with each Prosecutor in their assigned counties to discuss moving their cases up on the docket for quicker adjudication.

6. Adjudication Roundup

Each investigator was instructed to visit the court house in their assigned counties to see if any of their cases listed as referred had been adjudicated. It was found that cases had been adjudicated for which they had not received notices. These cases have since been processed and the final adjudication notices sent to the Cabinet for Families and Children.

Effective July 1, 1996, the following contract changes will be effected:

1. The Office of the Attorney General will contract directly with the Department for Social Insurance (DSI) not the Office of the Inspector General.
2. The Office of the Attorney General is sensitive to the presence of firearms in local offices. Investigators of the Office of the Attorney General are sworn law enforcement officers and are authorized to carry firearms. The Office of the Attorney General and the Department for Social Insurance will develop procedures to educate employees and assure discretion in this matter.
3. The Office of the Attorney General and the Department for Social Insurance will contact the U. S. Department for Health Services to resolve or clarify Federal Action Transmittal 78-8 related to identification as law enforcement officers.
4. The Department for Social Insurance will grant on-line access to the Office of the Attorney General to directly inquire into DSI databases to obtain information related to specific contract related cases. The Office of the Attorney General understands access would be limited solely to the purpose of this contract and violations would result in loss of access and appropriate disciplinary actions including prosecution as may be warranted.

The Office of the Attorney General has requested clearance for one terminal and a security code for one employee from the Department of Social Insurance.

5. The Department for Social Insurance has agreed to refer all defined welfare fraud cases with a combined amount equal to or greater than \$3,000 directly to the Office of the Attorney General for investigation and prosecution as warranted.
6. The Department for Social Insurance will refer all defined welfare fraud cases with a combined amount less than \$3,000 to the Office of the Inspector General. The Office of the Inspector General may subsequently refer these cases to the Office of the Attorney General for criminal prosecution if certain written program criteria are met, including "age" of case.
7. The Office of the Attorney General will review all new cases referred under this new policy and advise the Department for Social Insurance within 60 calendar days if a criminal investigation and prosecution will be pursued. If criminal action will not be pursued, the case will be transmitted to the Department for Social Insurance within five working days for necessary administrative action to collect the overpayment.
8. The Office of the Attorney General will meet the following performance guidelines:
 - Assess all new case referrals within 60 calendar days of receipt (This time frame may need to be revisited subject to actual experience);
 - Take action to prosecute the case within 180 calendar days of the determination action. Action shall be defined as presentation to a grand jury or issuance of a criminal summons;
 - The Office of the Attorney General is not responsible for the collection of overpayments ordered by the Court; and
 - The Office of the Attorney General will clear all cases referred to this agency under prior contracts by June 30, 1997. Clearing shall be defined as presentation to a Grand Jury, issuance of a criminal complaint/summons/warrant, or refusal of a prosecuting authority to accept case.
9. The Office of the Attorney General and the Department for Social Insurance do not have any trend data related to the new \$3,000 referral policy. Therefore, the Office of the Attorney General will not fill the 3 investigator vacancies at this time until the workload data is analyzed and approval has been received from DSI. The Office of the Attorney General will make a determination by November 30, 1996 if one of the vacancies should be filled and will submit a contract amendment to DSI to amend the contract Budget.

August 30, 1996

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10. The Office of the Attorney General will take every effort to move its Louisville office to a different location to reduce costs by October 1, 1996.
11. The Office of the Attorney General shall be entitled to receive indirect administrative cost under a cost allocation plan approved by the Federal cognizant agency.
12. The Office of the Attorney General shall be delegated by the Department for Social Insurance pursuant to Title IV-A, Title XIX and other applicable Federal Acts, to exercise prosecutorial discretion which is inherent in the statutory authority of the Office of the Attorney General.
13. The Office of the Attorney General proposes to provide the Department for Social Insurance with a proposed operating budget and to maintain record keeping required for Federal and State reporting and audit purposes. The Office of the Attorney General shall be authorized to administer the contract in a manner to achieve flexibility, effectiveness and efficiency recognizing allowable costs.
14. The Department for Social Insurance will allow the Office of the Attorney General investigators to work directly with the Department for Social Insurance caseworkers. The Office of the Attorney General will allow direct communication with investigators.
15. The Office of the Attorney General will provide training and technical assistance to the Department for Social Insurance to improve the quality of fraud referrals and a better understanding of the criminal justice system.
16. The terms and conditions of this contract are based on estimated new referrals of 450 cases in Fiscal Year 1996-97. There are presently 125 pending cases which have not yet been completed and 741 cases which are in the court system.
17. Each party has agreed to re-evaluate contract performance and procedures on a quarterly basis to determine if any revisions are warranted.

As per our discussion, Mr. Ray Franklin will be leaving the Office of the Attorney General on August 31, 1996 to accept a position with the Kentucky State Fair Board. Attorney General Chandler has named Mr. Mike Duncan as Acting Director. Mr. Duncan was most recently in this agency's Public Corruption Unit. He recently retired from the Kentucky State Police with 25 years of service with the rank of Captain.

August 30, 1996
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Attorney General Chandler has directed Mr. Duncan and I to attend the meeting on September 12, 1996 to answer any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "John Cubine", written in a cursive style.

John Cubine, Director
Administrative Services Division

Attachment

c: A. B. Chandler III
Mike Duncan
Cindy James

