DEPARTMENT OF SOCIAL SERVICES
SUMMARY

The Department of Social Services (DSS) is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs—Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Program (SSI/SSP). In addition, welfare recipients, low-income individuals, and persons in need of protection may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services. The budget proposes total expenditures by the department of $8.8 billion in 1986–87. This is an increase of $424 million, or 5.0 percent, above estimated current-year expenditures. Table 1 identifies total expenditures from all funds for programs administered by DSS, for the past, current, and budget years.

Table 1
Department of Social Services
Expenditures and Revenues, by Program
All Funds
1984–85 through 1986–87
(dollars in thousands)

				Change From 1985–86	
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Amount*	*Percent*
Departmental support	$185,509	$226,346	$214,133	−$12,213	−5.4%
AFDC [a]	3,443,171	3,913,851	3,920,229	6,378	0.2
SSI/SSP [b]	2,387,751	2,667,261	2,921,522	254,261	9.5
Special Adult programs	1,732	1,897	2,093	196	10.3
Refugee programs	52,783	55,989	57,857	1,868	3.3
County Welfare Department Administration [a]	657,409	685,783	714,059	28,276	4.1
Social Services programs [a]	712,961	829,494	974,312	144,818	17.5
Community Care Licensing	9,873	11,198	11,198	—	—
Totals	$7,451,189	$8,391,819	$8,815,403	$423,584	5.0%
Funding Sources					
General Fund	*$3,259,400*	*$3,771,497*	*$4,030,854*	*$259,357*	*6.9%*
Federal funds [b]	*3,809,509*	*4,190,155*	*4,333,382*	*143,227*	*3.4*
Interstate Collection Incentive Fund	*633*	—	—	—	—
County funds	*374,064*	*419,422*	*438,576*	*19,154*	*4.6*
Reimbursements	*8,358*	*9,306*	*10,251*	*945*	*10.1*
State Children's Trust Fund	*−1,107*	*914*	*2,340*	*1,426*	*156.0*
Special Deposit Fund	*332*	*525*	—	*−525*	*−100.0*

[a] Includes county funds.
[b] Includes SSI federal funds.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by DSS. The budget requests a total of $4 billion from the General Fund for these programs in 1986–87. This is an increase of $259 million, or 6.9 percent, above estimated current-year expenditures.

DEPARTMENT OF SOCIAL SERVICES
SUMMARY—Continued

Table 2
Department of Social Services
General Fund Expenditures
1984–85 through 1986–87
(dollars in thousands)

Program	Actual 1984–85	Est. 1985–86	Prop.[a] 1986–87	Change From 1985–86 Amount	Change From 1985–86 Percent
Departmental Support	$53,798	$64,266	$67,967	$3,701	5.8%
AFDC	1,591,829	1,828,902	1,833,927	5,025	0.3
SSI/SSP	1,248,571	1,410,536	1,591,370	180,834	12.8
Special Adult programs	1,657	1,822	2,018	196	10.8
County Welfare Department Administration	122,627	129,181	133,848	4,667	3.6
Social Services programs	233,833	328,448	393,382	64,934	19.8
Community Care Licensing	7,085	8,342	8,342	—	—
Totals	$3,259,400	$3,771,497	$4,030,854	$259,357	6.9%

[a] Includes proposed cost-of-living adjustments.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

We are recommending a net reduction of $11,233,000 from the amount proposed for expenditure from all funds. This amount consists of $7,427,000 from the General Fund and $3,806,000 in federal funds. In addition, we are withholding recommendation on $170,622,000 in proposed expenditures, pending receipt of additional information. Our recommendations are summarized in Table 3.

Table 3
Department of Social Services
Summary of Legislative Analyst's Recommendations
(dollars in thousands)

Program	Recommended Fiscal Changes: General Fund	Recommended Fiscal Changes: Federal Funds	Recommended Fiscal Changes: All Funds	Recommendations Pending (All Funds)
Departmental support	—	—	—	$3,661
AFDC	–$3,367	–$3,806	–$7,173	34,200
SSI/SSP	—	—	—	—
Special Adults	—	—	—	—
Refugees	—	—	—	—
County Administration	—	—	—	2,244
Social Services	–4,060	—	—	119,319
Community Care Licensing	—	—	—	11,198
Cost-of-living adjustments	—	—	—	—
Totals	–$7,427	–$3,806	–$11,233	$170,622

Department of Social Services
DEPARTMENTAL SUPPORT

Item 5180 from the General Fund and Federal Trust Fund — Budget p. HW 148

Requested 1986–87	$75,822,000
Estimated 1985–86	71,885,000
Actual 1984–85	62,156,000
Requested increase $3,937,000 (+5.5 percent)	
Total recommended reduction	None
Recommendation pending	2,529,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Department of Social Services Support	General	$67,804,000
5180-001-890—Department of Social Services Support	Federal	(138,146,000)
Reimbursements	—	8,018,000
Total		$75,822,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Statewide Automated Welfare System (SAWS). Withhold recommendation on $2,265,000 ($1,133,000 from the General Fund, $943,000 in federal funds, and $189,000 in reimbursements) proposed for development and implementation of the SAWS project, pending receipt of the annual SAWS Progress Report. 911
2. Community Care Licensing Workload Standard. Withhold recommendation on $1,396,000 requested from the General Fund for increased licensing activities, pending receipt of a revised workload standard. 911

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. It is also responsible for (1) licensing and evaluating nonmedical community care facilities and (2) determining the medical/vocational eligibility of persons applying for benefits under the Disability Insurance program, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal/medically-needy program.

The department is authorized 3,368.1 positions to administer these programs in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $75,822,000 from the General Fund and reimbursements for support of the department in 1986–87. This is an increase of $3,937,000, or 5.5 percent, above estimated current-year expenditures.

The budget proposes expenditures from all funds, including reimburse-

DEPARTMENTAL SUPPORT—Continued

ments, of $214,133,000. This is $12,213,000, or 5.4 percent, below estimated current-year expenditures.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $4,-811,000 in such costs. Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1 identifies the department's expenditures, by program and funding source, for the past, current, and budget years.

Table 1
Department of Social Services
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Change From 1985–86 Amount*	*Change From 1985–86 Percent*
AFDC-FG&U	$16,631	$19,618	$15,921	−$3,697	−18.8%
AFDC-FC	4,534	5,010	5,486	476	9.5
Child Support	6,639	7,104	8,474	1,370	19.3
SSI/SSP	886	1,002	1,048	46	4.6
Special Adult programs	248	290	303	13	4.5
Food Stamps	17,062	18,116	15,935	−2,181	−12.0
Refugee programs					
Cash Assistance	1,930	2,197	2,456	259	11.8
Social Services	1,439	1,293	1,211	−82	−6.3
Targeted Assistance	1,137	1,058	1,255	197	18.6
Child Welfare Services	2,262	2,529	2,615	86	3.4
County Services Block Grant	1,343	1,415	1,492	77	5.4
IHSS	2,185	2,706	2,635	−71	−2.6
Employment programs					
WIN	13,610	24,248	954	−23,294	−96.1
GAIN	—	1,500	1,939	439	29.3
Adoptions	6,346	6,662	7,179	517	7.8
Child Abuse Prevention	1,419	1,961	2,258	297	15.1
Community Care Licensing	20,939	27,401	28,081	680	2.5
Disability Evaluation	80,485	96,476	108,983	12,507	13.0
Administration	6,414	5,760	5,908	148	2.6
Totals	$185,509	$226,346	$214,133	−$12,213	−5.4%
Funding Sources					
General Fund	*$53,798*	*$64,266*	*$67,967*	*$3,701*	*5.8%*
Federal funds	*123,084*	*153,934*	*138,146*	*−15,788*	*−10.3*
Reimbursements	*8,358*	*7,619*	*8,018*	*399*	*5.2*
Special Deposit Fund	*332*	*525*	—	*−525*	*−100.0*
State Children's Trust Fund	*(63)*	*2*	*2*	—	—

Proposed General Fund Changes

Table 2 shows the changes in the department's General Fund support expenditures that are proposed for 1986–87. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed General Fund Changes
1986–87
(dollars in thousands)

1985–86 expenditures (revised)		$64,266
Proposed Changes		
A. Workload adjustments		
1. Expiration of limited-term positions	−$772	
2. Reduction in SCO audit workload	−122	
3. One-time court case costs	−475	
4. One-time attorney fees	−432	
5. One-time implementation costs Community Care Licensing Management Information system	−153	
6. Extension of office automation to district offices	316	
7. Other	−8	
B. Cost adjustments		−1,646
1. Salary and benefits	1,982	
2. Retirement	334	
3. OASDI	127	
4. Staff reclassification	228	
5. Disaster relief	175	
6. Other	4	
C. Program adjustments		2,850
1. Transfer of Work Incentive Program from support to local assistance	−2,337	
2. Implementation of GAIN (Ch 1025/85)	220	
3. Enhancement and maintenance of Statewide Automated Welfare Systems	1,133	
4. Implementation of new Child Support outreach requirements	188	
5. Lower salary savings requirement	254	
6. Reduction in audits backlog and contract with SCO	164	
7. Increased legal support for Community Care Licensing	1,405	
8. Implementation of Elder Abuse Prevention Pilot Projects	24	
9. Extension of limited-term positions in Foster Care Rate Bureau	150	
10. Extension of Child Abuse Primary Prevention Program	393	
11. Increased Community Care Licensing activities	734	
12. Community Care Licensing Management Information System Conversion	169	2,497
1986–87 expenditures (proposed)		$67,967
Changes from 1985–86		
Amount		$3,701
Percent		5.7%

Proposed Position Changes

The budget requests authorization for 3,754.5 positions to staff the department in 1986–87. This is a net increase of 386.4 positions, or 11.5 percent, over the staffing level that would otherwise be authorized in the budget for 1986–87. The net increase reflects a proposed increase of 452.9 positions and a proposed reduction of 66.5 positions. The single largest increase—320.9 positions—reflects the administration's proposal to expand the Disability Evaluation Division (DED) so that it can process the additional workload resulting from the resumption of continuing disability reviews (CDRs). Most of the decrease—32.5 positions—reflects the proposal to reduce the department's salary savings level by abolishing various

DEPARTMENTAL SUPPORT—Continued

positions throughout the department. Table 3 displays the position changes proposed for 1986–87.

Table 3
Department of Social Services
Departmental Support
Proposed Position Changes
1986–87

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Positions*	*Net Changes Percent*
AFDC-FG/U	260.6	−5.6	9.2	264.2	3.6	1.4%
Employment programs	15.5	—	35.0	50.5	35.0	225.8
GAIN	—	—	(35.0)	(35.0)	35.0	100.0
WIN-Demo	(15.5)	—	—	(15.5)	—	—
AFDC-FC	115.4	−23.2	12.9	105.1	−10.3	−8.9
AFDC-Child Support Enforcement	75.2	—	—	75.2	—	—
SSI/SSP	26.2	−0.2	—	26.0	−0.2	−0.8
Special Adult programs	2.0	−0.1	—	1.9	−0.1	−5.0
Food Stamps	285.7	−2.4	7.0	290.3	4.6	1.6
Refugee programs	87.8	−9.2	0.7	79.3	−8.5	−9.7
Cash Assistance	(43.3)	(−0.7)	—	(42.6)	−0.7	−1.6
Social Services	(24.5)	(−8.5)	(0.7)	(16.7)	−7.8	−31.8
Targeted Assistance	(20.0)	—	—	(20.0)	—	—
Disability Evaluation	1,601.9	−16.1	320.9	1,906.7	304.8	19.0
In-Home Supportive Services	50.0	−2.2	0.2	48.0	−2.0	−4.2
Child Welfare Services	57.1	−0.4	—	56.7	−0.4	−0.7
County Services Block Grant	32.1	−0.1	1.0	33.0	0.9	2.8
Adoptions	142.1	−1.2	—	140.9	−1.2	−0.8
Maternity Care	3.7	—	—	3.7	—	—
Deaf Access	5.2	—	—	5.2	—	—
Child Abuse Prevention	23.0	−0.2	9.0	31.8	8.8	38.3
Community Care Licensing	499.2	−5.2	50.0	544.0	44.8	9.0
Services to other agencies	85.4	−0.4	7.0	92.0	6.6	7.7
Totals	3,368.1	−66.5	452.9	3,754.5	386.4	11.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following program changes that are not discussed elsewhere in this analysis:

- The transfer of $29,782,000 ($2,337,000 General Fund) from the department's support budget to the counties (Item 5180-151-001) for various employment programs. The counties would provide services through these programs either directly or through a contract with the Employment Development Department (EDD) or another contractor. Currently, the DSS uses these funds to reimburse the EDD for the cost of various employment services it provides to county welfare department clients.
- An increase of $19,788,000 in federal funds to provide for increased workload in the DED due to the federally mandated resumption (PL 98-460) of CDRs.
- A net increase of $466,000 ($164,000 General Fund) to: (1) reduce the current audit backlog, (2) implement a contract with the State Controller's office to perform specified audits, and (3) staff the audit resolution and application processes.

- A net increase of $639,000 ($254,000 General Fund) to reduce the department's salary savings requirement by $1,284,000.
- An increase of $1,523,000 ($1,405,000 General Fund) for increased legal support of the Community Care Licensing program.
- An increase of $2,380,000 ($1,411,000 General Fund) to implement various legislative measures, including GAIN (Ch 1025/85), Adult Protective Services projects (Ch 1127/85), and the Child Abuse Primary Prevention program (Ch 1638/84).
- An increase of $1,128,000 ($188,000 General Fund) for increased workload in the Child Support Enforcement program.
- An increase of $182,000 ($169,000 General Fund) to pay for staff overtime associated with the conversion of the Community Care Licensing Division's Management Information System from a manual operation to an automated system.
- An increase of $273,000 ($150,000 General Fund) for continuation of six limited-term positions in the Foster Care Rate-Setting Bureau.

Statewide Automated Welfare System (SAWS)

We withhold recommendation on $2,265,000 ($1,133,000 from the General Fund, $943,000 in federal funds, and $189,000 in reimbursements) requested for the SAWS project, pending receipt of the department's annual report on the project.

The budget proposes $2,265,000 ($1,133,000 General Fund, $943,000 federal funds, and $189,000 in reimbursements) to support the department's costs of developing and implementing the Statewide Automated Welfare System (SAWS) project in 1986–87. Chapter 268, Statutes of 1984, requires DSS to report to the Legislature on its progress in achieving the goals established in the SAWS project. The report is due annually in March.

We withhold recommendation on the funds proposed for SAWS, pending review of the annual progress report on the SAWS project. Any decision concerning continued funding for this project should be made in light of its progress in meeting its stated objectives.

Community Care Licensing Activities

We withhold recommendation on $1,396,000 requested from the General Fund for support of increased activities of the Community Care Licensing Division, pending receipt of a revised workload standard.

The budget proposes $1,396,000 from the General Fund in order to implement various community care licensing requirements. These proposals involve adding staff to perform activities such as assessing penalties on specified facilities, collecting fines, conducting post-licensing visits, and checking criminal records. Currently, the department is in the process of revising its workload standard for community care licensing staff.

Because the budget proposals were not based on an updated workload standard, we withhold recommendation on these proposals, pending receipt of a revised workload standard.

Legislatively Required Reports

Adoptions Performance Report. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report to the Legislature, by December 1, 1985, that established specified goals for adoption agency performance during 1985–86. The report also is supposed to provide recommendations regarding how the Relinquishment program's performance could be improved. At the time this analysis was prepared the report had not been submitted.

DEPARTMENTAL SUPPORT—Continued

IHSS Assessments and Service Awards. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report to the Legislature by March 1, 1986, that provides an evaluation of its efforts to (1) increase statewide uniformity in the IHSS assessment process and (2) standardize the award of service hours. The report specified that the evaluation include (1) measurable objectives and (2) an implementation plan for achieving those objectives. The department informs us that its report is in progress, and will be completed by March 1, 1986.

IHSS Revised Allocation Formula. The *Supplemental Report of the 1985 Budget Act* required the DSS to evaluate the effect on each county's IHSS program of the 1984–85 and 1985–86 allocations, and submit a report on its findings to the Legislature by January 1, 1986. These allocations were based on a different formula than the one used before 1984–85. The department informs us that the report is complete, and that it will be submitted to the Legislature following the completion of a departmental review.

IHSS Pilot Project. The *Supplemental Report of the 1984 Budget Act* required the DSS to submit an interim report by December 1985, based on the experience of a pilot program in Santa Cruz County. The pilot program is intended to compare the cost-effectiveness and quality of care associated with both contract and individual provider modes of service delivery. The department has submitted the required report which describes (1) the county's experience in negotiating and awarding its contract for services, (2) the effect on some recipients of the transition to the contract mode, (3) the project's research design, including the comparative data that the county will collect, and (4) two project innovations, including a revised "Equity" program, which is a computer-assisted assessment system. We discuss this report further in our analysis of Item 5180-151.

Work Incentive Demonstration (WIN-Demo) Program. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report by January 1, 1986, on the transfer of responsibility for registration and referral under the WIN-Demo program from the Employment Development Department to county welfare departments. At the time this analysis was prepared, the department had not submitted the report to the Legislature.

County Welfare Department Performance. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report by December 1, 1985, on its progress in implementing a system to collect data reflecting the effectiveness of counties in administering the Aid to Families with Dependent Children (AFDC) and the Food Stamps programs. The supplemental report specified a variety of performance indicators that should be included in the system, including measurements of how promptly counties process applications for aid. At the time this analysis was prepared, the department had not submitted the report to the Legislature.

Department of Social Services

AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 5180-101 from the General Fund and Federal Trust Fund — Budget p. HW 150

Requested 1986–87	$1,833,927,000 [a]
Estimated 1985–86	1,828,902,000
Actual 1984–85	1,591,829,000
Requested increase $5,025,000 (+0.3 percent)	
Total recommended reduction	$3,367,000
Recommendation pending	$15,400,000

[a] Includes $80,678,000 in Item 5180-181-001 (c) to provide a 4.9 percent cost-of-living adjustment.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for Children	General	$1,753,249,000
5180-101-890—Payments for Children	Federal	(1,825,429,000)
5180-181-001 (c)—Cost-of-Living Adjustments	General	80,678,000
5180-181-890—Cost-of-Living Adjustments	Federal	(94,594,000)
Total		$1,833,927,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Aid to Families with Dependent Children-Family Group (AFDC-FG) Caseload. Recommend that, prior to budget hearings, the Department of Social Services (DSS) report to the fiscal committees on its progress in incorporating specified noneconomic factors in its May revision estimate of family group caseloads. 920
2. Aid to Families with Dependent Children-Foster Care (AFDC-FC) Caseload. Recommend that, prior to budget hearings, the Department of Social Services report to the fiscal committees on its progress in incorporating specified factors in its May revision estimate of foster care caseloads. 922
3. Foster Care Services for Handicapped Children (Ch 1274/85). Recommend the Department of Finance advise the fiscal committees of the amount needed to provide foster care services to handicapped children pursuant to Ch 1274/85. 924
4. Foster Parent Training Fund Transfer. Recommend the Department of Finance advise the fiscal committees on how it intends to finance the transfer of $1.8 million in General Fund monies in 1986–87 from the Foster Care Program to the Foster Parent Training Fund, as required by current law. 925
5. Reduced Federal Funding Due to *Simon v. McMahon*. Recommend that, prior to budget hearings, the Department of Social Services report to the fiscal committees on its progress in securing a waiver from the federal govern- 925

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

ment in order to avoid a cost shift to the state and county governments for AFDC cases affected by the ruling in *Simon v. McMahon.*

6. Greater Avenues for Independence (GAIN) Program—AFDC Grant Savings. Withhold recommendation on \$36 million (\$15,400,000 General Fund, \$18,800,000 federal funds, and \$1,800,000 county funds) in grant savings budgeted for AFDC caseload reductions expected to result from the GAIN program, pending receipt of an up-to-date estimate. 927
7. Child Support Enforcement Program. 928
   - (a) Recommend that, prior to budget hearings, the department provide the fiscal committees with a cost estimate for a study of various child support collection techniques.
   - (b) Recommend adoption of legislation establishing an allocation formula that sets incentive payments equal to a *fixed* percentage of collections.
   - (c) Recommend adoption of legislation phasing in the inclusion of non-AFDC collections as part of the base on which the incentive formula will be applied.
   - (d) Recommend adoption of legislation retaining the current requirement that counties use child support incentive payments to support the Child Support Enforcement Program, sunsetting this requirement on July 1, 1988, and requiring the DSS to report by December 1, 1988, on the advisability of postponing the sunset date.
8. Welfare Fraud Early Detection/Prevention (FRED) Program. Recommend adoption of Budget Bill language requiring the Department of Social Services to report to the Legislature by December 1, 1986, on the potential costs and savings of mandating the FRED program. 933
9. ***Asset Clearance Match. Reduce Item 5180-101-001 by \$1,931,000 and Item 5180-101-890 by \$2,173,000.*** Recommend reduction of \$1,931,000 to reflect more accurate estimate of the AFDC grant savings that will result from the asset clearance match. 935
10. ***Integrated Earnings Clearance. Reduce Item 5180-101-001 by \$1,436,000 and Item 5180-101-890 by \$1,633,000.*** Recommend reduction of \$1,436,000 to reflect a more accurate estimate of the savings that will result from the integrated earnings clearance. 936

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) program provides cash grants to certain families and children whose income is not adequate to provide for their basic needs. Specifically, the program provides grants to needy families and children who meet any of the following criteria:

AFDC-FG. Families are eligible for grants under the AFDC-Family Group (AFDC-FG) program if they have a child who is financially needy due to the *death, incapacity, or continued absence* of one or both parents.

In the current year, an average of 478,100 families each month will receive grants through the AFDC-FG program.

AFDC-U. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) program if they have a child who is financially needy due to the *unemployment* of one or both parents. In the current year, an average of 75,810 families each month will receive grants through the AFDC-U program.

AFDC-FC. Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) program if they are living with a licensed or certified foster care provider pursuant to either a court order or a voluntary agreement between the child's parent(s) and a county welfare or probation department. In the current year, an average of 36,540 children each month will receive grants through the AFDC-FC program.

In addition, the Adoption Assistance program provides assistance to parents who adopt children who have special needs that make them difficult to place in adoptions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1,833,927,000 from the General Fund for AFDC cash grants in 1986–87. The amount includes $1,753,249,000 in Item 5180-101-001 and an additional $80,678,000 requested in Item 5180-181-001(c) to provide a 4.9 percent cost-of-living increase in maximum AFDC-Family Group (AFDC-FG) and AFDC-Unemployed Parent (AFDC-U) grants. (The budget does not propose to provide a cost-of-living increase in the rates paid to foster care providers.) This is an increase of $5,025,000, or 0.3 percent, from estimated 1985–86 expenditures.

As shown in Table 1, total expenditures from all funds for AFDC cash grants are budgeted at $3,918 million in 1986–87. This is $6 million, or 0.1 percent, above estimated expenditures in the current year.

Table 1 shows the costs of AFDC programs for 1984–85 through 1986–87. Under state and federal laws, the federal government, the state, and the counties contribute 50 percent, 44.6 percent and 5.4 percent, respectively, toward the cost of grants provide to *Non-Refugee* AFDC recipients who are eligible under the federal Family Group and Unemployed Parent programs, and 50 percent, 47.5 percent and 2.5 percent, respectively, toward the costs of foster care grants. The federal government's percentage share of *total* AFDC costs incurred under the Family Group and Unemployed Parent programs exceeds 50 percent because the grant costs for *refugee* families are 100 percent federally funded during these families' first 36 months in the United States. The state's share of total foster care costs exceeds 47.5 percent because the state pays 95 percent (and the counties pay 5 percent) of foster care costs which are not eligible for federal funding under federal law.

For those AFDC-FG and U recipients who are not eligible for grants under federal law, the state pays 89.2 percent of the grant costs and the county pays 10.8 percent. These sharing ratios apply to the cost of grants provided under the State-Only AFDC-U program as well as to the cost of grants provided to women during their first six months of pregnancy.

The AFDC-FG program accounts for $3,065 million (all funds), or 75 percent, of total estimated grant costs under the three major AFDC programs (excluding Child Support Collections). The Unemployed Parent program accounts for 16 percent of the total, and the Foster Care program accounts for 9 percent.

Table 1
Expenditures for AFDC Grants, by Category of Recipient
1984–85 through 1986–87
(in thousands)

	Actual 1984-85					*Estimated 1985-86*				*Proposed 1986-87* [c]			
Recipient Category	*State*	*Federal*	*County*	*ICF* [a]	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
Family groups	$1,197,693	$1,363,094	$145,009	—	$2,705,796	$1,362,700	$1,529,867	$164,990	$3,057,557	$1,369,579	$1,529,782	$165,876	$3,065,257
Unemployed parent	242,231	327,369	29,331	—	598,931	268,807	357,471	32,544	658,822	266,300	358,075	32,255	656,610
Foster Care	201,614	68,277	10,610	—	280,501	245,321	82,869	12,912	341,102	248,894	84,156	13,101	346,151
Adoption programs	6,456	1,120	—	—	7,576	8,239	2,162	—	10,401	10,262	3,491	—	13,753
Child support incentive payments to counties	13,690	19,753	−32,288	633	1,788	16,325	22,253	−38,272	306	14,964	23,404	−38,368	—
Child support collections	−69,855	−73,407	−8,159	—	−151,421	−72,490	−75,133	−8,401	−156,024	−76,072	−78,885	−8,818	−163,775
Subtotals	$1,591,829	$1,706,206	$144,503	$633	$3,443,171	$1,828,902	$1,919,489	$163,773	$3,912,164	$1,833,927	$1,921,802	$164,046	$3,917,996
Court-ordered retroactive payments	(115)	(131)	(14)	—	(260)	(36,671)	(42,041)	(4,440)	(83,152)	—	—	—	—
AFDC cash grants to refugees													
Time-expired [b]	(116,598)	(128,357)	(14,117)	—	(259,072)	(138,147)	(152,222)	($16,727)	(307,096)	(164,157)	(180,881)	(19,876)	(364,914)
Time-eligible	—	(50,356)	—	—	(50,356)	—	(93,943)	—	(93,943)	—	(100,386)	—	(100,386)
Totals	$1,591,829	$1,706,206	$144,503	$633	$3,443,171	$1,828,902	$1,919,489	$163,773	$3,912,164	$1,833,927	$1,921,802	$164,046	$3,917,996

NOTE: Detail may not add to total due to rounding.
[a] Interstate collection incentive fund.
[b] Estimated expenditures—no actual data available.
[c] Includes funds for a 4.9 percent cost-of-living adjustment.

Proposed General Fund Budget Changes

Table 2
Proposed General Fund Changes for AFDC Grants (dollars in thousands)

	Cost	Total
1985 Budget Act		$1,731,609
Adjustments to Appropriation		
1. Caseload increase		
a. AFDC-FG and U	$49,268	
b. AFDC-FC		
(i) Group home placements	23,969	
(ii) Other	4,713	
Subtotal		$77,950
2. *Simon v. McMahon*		$12,730
3. Reduced fraud detection savings		$3,667
4. Other adjustments		$2,946
Total, adjustments to appropriation		($97,293)
1985–86 Expenditures (Revised)		$1,828,902
A. Adjustments		
1. Caseload increase		
a. AFDC-FG and U	−6,323	
b. AFDC-FC		
(i) Group home placements	2,485	
(ii) Other	1,088	
c. Adoption assistance	2,023	
Subtotal		−$727
2. State and federal legislation		
a. Ch 1441/84 (technical overpayments)	−24	
b. Ch 1151/83 (bonus child support incentive)	−1,844	
c. HR 4179 DEFRA	38	
Subtotal		−$1,830
3. Court cases		
a. *Simon v. McMahon*	6,304	
b. Consolidated cases	−52,423	
c. Other	2,410	
Subtotal		−$48,529
4. Increased grant savings due to fraud detection		
a. FRED	−3,515	
b. Integrated clearance	−27	
c. FTB match	−1,549	
Subtotal		−$5,091
5. Grant savings due to GAIN		−$15,400
6. SAWS		
a. Central data base	−391	
b. Automated intake	−1,170	
Subtotal		−$1,561
7. Child support collections		
a. Basic collections	−1,872	
b. Intercept systems	−420	
c. Collections from other states	−1,290	
Subtotal		−$3,582
8. Other adjustments		$1,067
Total, adjustments		(−$75,653)
B. Proposed Changes		
1. 1986–87 cost-of-living adjustments		
a. AFDC-FG and U (4.9%)		$80,678
C. 1986–87 Expenditures (Proposed)		$1,833,927
Change from 1985 Budget Act:		
Amount		$102,318
Percent		5.9%
Change from 1985–86 Estimated Expenditures:		
Amount		$5,025
Percent		0.3%

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 2 shows the factors resulting in the net increase of $5,025,000 in General Fund support proposed for the AFDC program in 1986–87. As the table shows, the largest cost *increases* projected for 1986–87 are attributable to:

- A 4.9 percent COLA proposed for AFDC-FG and AFDC-U recipients ($80,678,000).
- The increased costs resulting from the judgment against the state in the *Simon v. McMahon* court cases ($6,304,000).
- The expected increase in the foster care caseload ($3,573,000).

These increases are partially offset by *reductions* attributable to:

- One-time costs associated with a group of court cases known as the "consolidated court cases" ($52,423,000).
- Grant savings resulting from implementation of the Greater Avenues for Independence (GAIN) program ($15,400,000).
- The expected reduction in the AFDC-FG and U caseload ($6,323,000).
- Grant savings resulting from increased welfare fraud detection and prevention activities ($5,091,000).
- Increased child support collections ($3,582,000).

The table shows that the $5 million increase proposed for 1986–87 represents a 0.3 percent increase over the department's estimate of General Fund expenditures in the current year. The level of expenditures proposed in the budget, however, is 5.9 percent above the amount *appropriated* by the 1985 Budget Act.

The department estimates that General Fund expenditures in the current year will exceed the amount appropriated in the Budget Act by $97,293,000. This results from (1) AFDC caseloads that are 2.1 percent higher than the caseloads assumed in the 1985 Budget Act ($77,950,000) and (2) the unanticipated costs stemming from a judgement against the state handed down in the *Simon* case ($12,730,000).

Eligibility, Caseloads, and Grants

Table 3 lists the eligibility criteria for the AFDC and Food Stamp programs (most AFDC recipients receive food stamps).

Caseload Decrease. Table 4 shows that in 1986–87, the AFDC caseload is expected to decrease by 10,508 persons from the revised estimate of caseload in 1985–86. As the table shows, this reduction reflects (1) a reduction of 11,270 persons, or 3.2 percent, in the AFDC-U caseload and (2) a reduction of 80 persons, or 0.01 percent, in the AFDC-FG caseload.

Table 3
Basic Eligibility Requirements
For the AFDC and Food Stamp Programs

A. Categorical Requirements		
1. AFDC—Family Group	Child with one parent absent, deceased, or physically or mentally incapacitated.	
2. AFDC—Unemployed Parent	"Principal Wage Earner" unemployed. Federal eligibility available if principal wage earner is unemployed for 30 days and has recent work experience. Otherwise, family is eligible for 3 months of Emergency Assistance and State-Only AFDC.	
3. AFDC—Foster Care	Child placed in foster care. A child removed by the court from an AFDC eligible home is eligible for federal support; the state supports court-placed children not linked to AFDC, and, for 6 months, voluntarily placed children.	
4. Food Stamps	Any family or individual qualifies who meets federally determined income and resource requirements.	
B. Income and Resource Requirements	*AFDC*	*Food Stamps*
1. Real and Personal Property	$1,000 limit; home exempt	$1,500 limit ($3,000 for household with one member aged 60 years or over)
2. Household Goods Personal Effects	Exempt	Exempt
3. Motor Vehicle	First $1,500 of net market value exempt	Limit of $4,500 on fair market value
4. Gross Income Limit	185 percent of AFDC minimum basic standard of need (see Table 5)	Limit $540 for an individual; each additional household member increases limit by $189 (family of 3 limit of $917)
5. Allowable Income Deductions	1. Standard work expenses ($75 full time; $50 part time) 2. Child care expenses (up to $160 per child) 3. If the family has received AFDC within past 4 months, $30 and one-third of remaining income; not applied to families not previously on AFDC [a]	1. 18 percent of earned income 2. Standard deduction ($95) 3. $134 limit on the sum of excess shelter costs and dependent care expenses 4. Excess medical expenses (actual amount less $35) for households with member over 60 or receiving Title II disability payments
6. Net Income Limit	AFDC maximum aid payment (see Table 5)	Limit of $415 for individual; each additional household member adds about $145 (family of 3 limit is $705)

[a] Once a family qualifies for aid, during the first four months, it is entitled to the $30 and one-third earned income exemption in calculating the AFDC grant. For the remainder of its first year, the family is entitled to a $30 earned income exemption.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Maximum Payment Levels

Table 5 shows the maximum grant levels in 1985–86 for selected family sizes under the family group and unemployed parent components of the AFDC program. It also shows the maximum grant levels for 1986–87, based on the 4.9 percent COLA proposed in the budget.

Table 4

Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1985–86 and 1986–87

Program	*1985–86 Estimated*	*1986–87 Proposed*	*Change* Number	Percent
AFDC-Family Group	1,276,560	1,276,480	−80	−0.01%
AFDC-Unemployed Parent	344,790	333,520	−11,270	−3.2
AFDC-Foster Care	36,540	37,000	460	1.3
Adoptions Assistance program	3,014	3,396	382	12.7
Refugees:[a]				
Time-eligible	(48,408)	(49,733)	(1,325)	2.7
Time-expired	(151,217)	(169,683)	(18,466)	12.2
Totals	1,660,904	1,650,396	−10,508	−0.6%

[a] Grants to refugees who have been in the United States less than 36 months (time-eligible) are funded entirely by the federal government. Time-expired refugees, those who have been in the United States longer than 36 months, may qualify for and receive AFDC grants supported according to the normal sharing ratio.

Table 5

Maximum AFDC-FG and U Grant Levels
1985–86 and 1986–87

Family Size	*1985–86*	*1986–87*[a] *Amount*	*Change*
1	$288	$302	$14
2	474	497	23
3	587	616	29
4	698	732	34
5	796	835	39

[a] Based on an estimated 4.9 percent increase in the California Necessities Index (CNI) during 1985.

ANALYSIS AND RECOMMENDATIONS

AFDC-FG Caseload Estimate Is Not Consistent With Recent Trends

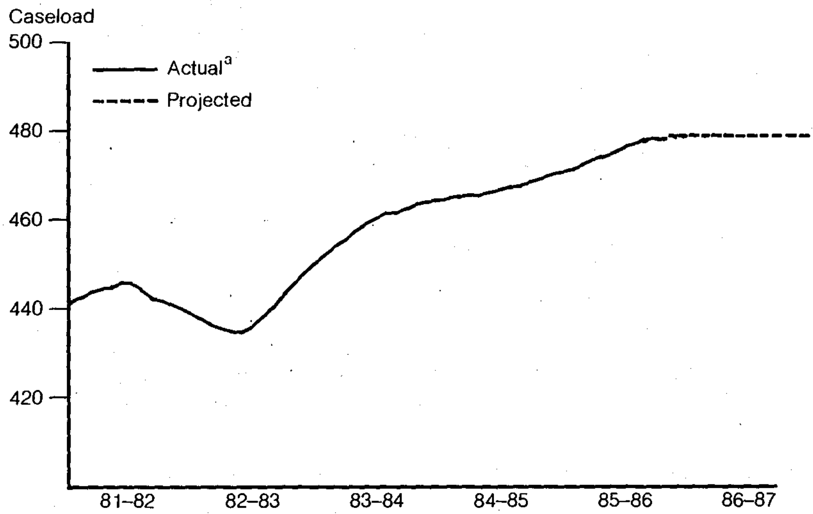
We recommend that, prior to budget hearings, the department advise the fiscal committees of its progress in incorporating in its May revision estimate of the AFDC-FG caseloads, changes in refugee caseload and changes in California's marriage, divorce, and illegitimate birth rates.

The budget proposes total spending of $3,065 million (including the costs of the proposed 4.9 percent COLA) in 1986–87 for cash grants to AFDC-FG recipients. This proposal assumes an average monthly AFDC-FG caseload of 478,080 cases, which represents 1,276,480 persons on aid. This is approximately the same caseload anticipated for the current year.

Chart 1 displays the actual AFDC-FG caseloads from 1981–82 through 1984–85, and the department's projection of the caseload in the budget year. As the chart shows, the department assumes that the steady increase in caseload which has occurred in the recent past will level off by the beginning of 1986–87. This assumption has significant consequences for the budget totals. If the actual caseload trends observed between 1981–82 and 1984–85 continued through 1986–87, this would result in 495,000 cases per month, during 1986–87—17,000 cases, or 3.5 percent, *more* than the budget anticipates. This would increase 1986–87 General Fund costs above the budget estimate by $48 million.

Chart 1

AFDC-FG Caseloads, Actual and Projected
Seasonally Adjusted
1981–82 through 1986–87 (in thousands)



[a] Because the data shown is seasonally adjusted, caseloads for 1985–86 consist of projected, as well as actual, caseloads.

The reason why the department assumes that there will be no increase in the AFDC-FG caseload during 1986–87, despite recent trends, is that *it can find no satisfactory explanation for the recent steady increases in the caseload.* The department points out that these increases in caseload have occurred during a period of steadily declining unemployment and general economic recovery. Moreover, the available data indicate that changes in eligibility standards account for only a very limited portion of the caseload growth that has occurred since 1983. The department believes it would be unwise to project a simple continuation of the recent trend absent an understanding of the forces causing the trend, or some basis for believing that the trend will, in fact, continue into the budget year.

We agree that the recent increases in caseloads are perplexing. While the correlation between economic conditions and AFDC-FG caseloads has

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

never been adequate to explain all of the fluctuations in caseloads, it is reasonable to expect that caseloads would at least remain stable in good economic times. There are, however, several *noneconomic* factors which may explain the recent caseload increases. For example, the number of refugees in the state has been increasing steadily. Because of language and cultural barriers, these individuals are less likely than are other potential AFDC recipients to take immediate advantage of improvements in the economy.

Another noneconomic factor that could explain the recent increases in caseload is the change in household composition. A recent study published by the Department of Health and Human Services found that 45 percent of new AFDC recipients enter the program as a result of becoming divorced or widowed. Another 30 percent of new recipients enter the program as a result of becoming pregnant or having a child out of wedlock. *Only 12 percent of new recipients enter the program due to a loss of or reduction in their earnings.* The same study found that 45 percent of the recipients who leave the program do so because of a change in household composition, while 32 percent leave as a result of an increase in their earnings.

Thus, changes in the marriage, divorce, or illegitimate birth rates within California *could* explain some of the recent increase in AFDC caseloads.

Obviously, we cannot confirm that the recent caseload increases are due to either of these factors—the increase in California's refugee population or changes in household composition. These factors, however, are worth exploring further to see if they *can* explain why caseloads have increased in the face of economic prosperity.

We, therefore, recommend that, prior to budget hearings, the department advise the fiscal committees of its success in incorporating in its May revision estimate of AFDC-FG caseloads the following noneconomic factors: (1) changes in refugee caseloads and (2) changes in California's marriage, divorce, and illegitimate birth rates.

Foster Care Caseload Estimate Is Not Consistent With Recent Trends

We recommend that, prior to budget hearings, the department advise the fiscal committees on its progress in incorporating specific factors in its estimate of the foster care caseloads for the May revision.

The budget proposes total spending of $346,151,000 for the AFDC-Foster Care (AFDC-FC) program in 1986–87. This amount includes $248,894,000 from the General Fund, $84,156,000 in federal funds, and $13,101,000 in county funds. The expenditure proposal assumes that there will be an average of 37,000 children in foster care during 1986–87. This is approximately the same caseload anticipated for the current year.

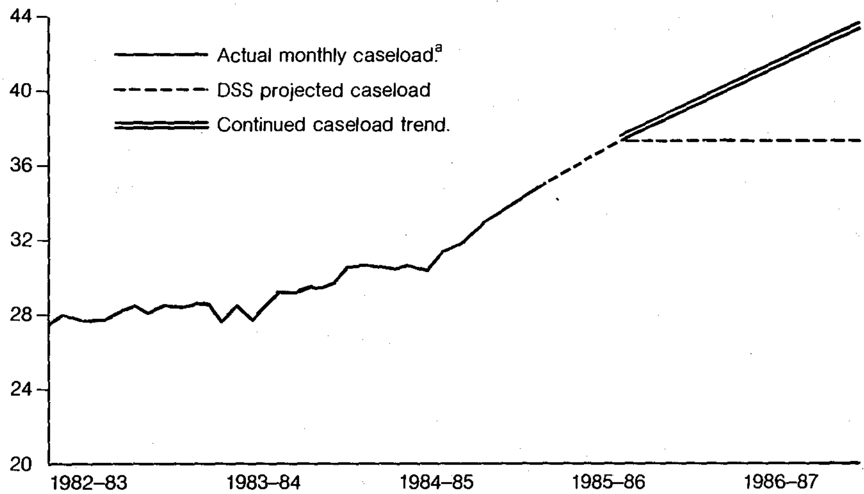
Chart 2 shows the actual caseload for the Foster Care program from July 1982 through September 1985 as well as the department's caseload projection for the remainder of the current year and the budget year.

As the chart shows, the foster care caseload grew at an average annual rate of 12 percent between July 1982 and September 1985. The department projected that the foster care caseload would increase to 37,000 children in December 1985, at which time it would level off for the next 18 months. At the time this analysis was prepared the department did not have the December caseload data.

The chart also shows what the foster care caseload would be in 1986–87 *if* recent trends continue through 1986–87. Were this to happen, the foster care caseload would increase to approximately 43,400 cases per month by the end of the budget year. This increase would result in *additional* costs above the budget amount of about $59.7 million. Approximately $42.9 million of this amount would have to be financed by the General Fund.

Chart 1

Foster Care Caseload, Actual and Projected June 1982 through June 1987 (in thousands)



[a] Because data for 1985–86 is seasonally adjusted, it includes actual and projected caseloads.

The department advises that it chose to extend out the AFDC-FC caseload at the anticipated December 1985 level because it had no reason to believe that caseloads would continue to increase. While the foster care caseload may not continue to increase at the same rate as in the past, it is unlikely that it will suddenly level off.

There are several factors which the department did not take into consideration which may affect foster care caseloads during 1986–87. For example, the department should consider the number of reports charging child abuse as well as the number of emergency assistance referrals when it projects the foster care caseloads. This is because children who are abused and neglected or are receiving emergency assistance services may eventually be removed from their homes and be placed in foster care homes. To the extent that child abuse reports and emergency response referrals continue to increase, it is reasonable to expect a proportional increase in foster care caseloads.

Another factor that may affect foster care caseloads is the Child Welfare Services (CWS) system. The budget proposes an additional $19 million from the General Fund in order to fully fund the state's share of actual

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

county costs between 1981–82 and 1984–85. With these additional funds, counties are expected to increase CWS staffing. This is likely to change the rate of growth in foster care caseloads. With increased funding, counties may put more emphasis on the preplacement preventive services. These services are provided to children and their families while the child still resides in his or her own home, in hopes of avoiding foster care placement. If counties choose to increase these preplacement services, the rate of foster care caseload growth could slow down.

On the other hand, counties may use the additional funds to increase staffing in the emergency response progam. This program provides emergency services to abused and neglected children. If the counties increase staffing for this function, they may respond to reports of abuse that, in the past, they have deemed to be low priority. An increase in emergency response (ER) staffing, coupled with increased reports of abuse, could result in a faster rate of growth in foster care caseloads.

Another factor that may affect foster care caseloads is the extent to which probation departments place children who are under their supervision in foster care. In general, probation departments supervise children who are considered delinquent. Probation departments can place these children in facilities which are funded almost 100 percent by the county or in foster care facilities for which the county's share of cost is 5 percent. It would be important to determine if the recent increase in total foster care caseloads is attributable, at least in part, to an increase in the rate at which probation departments are placing children under their supervision in foster care facilities.

The department should examine these and other factors to see if they can explain the caseload increases shown in Chart 2. We recommend that, prior to budget hearings, the Department of Social Services advise the fiscal committees on its progress in incorporating the following factors in estimating the foster care caseloads for the May revision: (1) the number of child abuse reports, (2) the number of emergency assistance referrals which result in foster care placement, and (3) the number of children who are placed in foster care and supervised by probation departments.

Costs of Foster Care Services for Handicapped Children

We recommend that the department advise the fiscal committees how much funding is needed to meet the requirements of Ch 1274/85.

Foster care services are provided to children who have been placed out of their own homes due to the loss of parental support, because of a court order, or pursuant to an Individualized Education Plan (IEP). The purpose of IEPs is to ensure that children who have been determined as handicapped receive appropriate education and services. The education and services may include special education classes, various types of therapy, or out-of-home placement in a private education institution. Currently, if the child is under the custody of the courts, the funds for these out-of-home placements are provided by the AFDC appropriation (Item 5180-101-001).

Chapter 1274, Statutes of 1985 (AB 882), requires that funds for these out-of-home care placements be appropriated from a separate item within the budget, starting July 1, 1986. The 1986 Budget Bill, however, does not contain the separate appropriation required by Chapter 1274.

The department advises that the budget does not contain a separate appropriation for these costs because it does not have an estimate of the number of children receiving foster care payments pursuant to an IEP. In addition, the department could not estimate any potential caseload increase that might occur due to the provisions of Chapter 1274. The department advises us, however, that it intends to include an estimate of these costs in the May revision.

It is possible that Chapter 1274 could increase foster care caseloads because under the provisions of the bill, parents no longer have to transfer custody of their children to the courts in order to place a child in foster care pursuant to an IEP. To the extent that more parents take advantage of this provision, there will be an increase in foster care costs. Therefore, we recommend that the department advise the Legislature how much is needed to provide out-of-home care for severely emotionally disturbed children pursuant to Chapter 1274.

Budget Fails to Transfer Funds to the Foster Parent Training Fund

We recommend that, prior to budget hearings, the Department of Finance advise the fiscal committees how it intends to finance the transfer of $1.8 million from the Foster Care program to the Foster Parent Training Fund as required by current law.

Under current law, parents of children who are placed in foster care are required to pay for a portion of their children's out-of-home care costs if they are financially able to do so. These collections are used to offset the state, county, and federal costs of the Foster Care program.

State law requires that the General Fund share of child support collections exceeding $3.75 million be transferred to the Foster Parent Training Fund. The Foster Parent Training Fund provides money to both foster parent training programs run by community colleges and foster youth services sponsored by local school districts.

The budget estimates that the General Fund's share of child support collections for the Foster Care program in 1986–87 will total $5.6 million. This is approximately $1.8 million over the ceiling of $3.75 million. Therefore under the provisions of current law, $1.8 million must be transferred in the budget year from DSS to the Foster Parent Training Fund, for use by community colleges and local school districts. The department, however, did not take this requirement into consideration when preparing the budget for 1986–87. Thus, the transfer of these funds will cause the Foster Care program to be underfunded by $1.8 million in 1986–87. It also will cause General Fund expenditures in 1986–87 to exceed the amount shown in the budget by $1.8 million.

We also note that foster care support collections in the current year will exceed the $3.75 million ceiling by about $1.6 million. This will cost the Foster Care program another $1.6 million because of the required transfer and further reduce the General Fund balance at the end of 1986–87.

We recommend that, prior to budget hearings, the Department of Finance advise the fiscal committees how it intends to finance the transfer of $1.8 million from the Foster Care program to the Foster Parent Training Fund as required by current law in 1986–87.

Budget Proposal Depends on the Federal Government "Waiving the Unwaivable and Allowing the Unallowable"

We recommend that, prior to budget hearings, the department advise the fiscal committees on its progress in securing the federal waivers needed to avoid a $46,855,000 ($40,030,000 General Fund and $6,825,000 county

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

funds) cost shift from the federal government to the state and counties which otherwise will occur as a result of the Simon v. McMahon case.

The budget proposes $21,339,000 ($19,034,000 General Fund and $2,305,000 county funds) to pay the costs in 1986–87 of complying with the court's ruling in the *Simon v. McMahon* case. In its ruling, the California Supreme Court struck down a state law which required that children with "restricted" income be included as part of the AFDC family for purposes of calculating the family's grant. ("Restricted" income is income that is received exclusively for the use of a particular child in an AFDC family.)

The effect of the court's order will be to give AFDC parents the option of excluding children with restricted income from the "assistance unit" (the assistance unit consist of the members of an AFDC household for whose needs the AFDC grant is intended). This will mean that the income of these children will not be counted as income to the family. In most cases, the exclusion of such children (and their income) will result in a higher grant to the family and, therefore, increased costs to the state and counties.

The DSS estimates that the court's decision will increase General Fund costs for grants under the AFDC program by $28.1 million in 1985–86 and by $42.0 million in 1986–87. In addition, the department estimates that the decision will increase the General Fund costs of administering the AFDC program by $1.1 million in 1985–86 and by $1.0 million in 1986–87. The department also estimates that total county costs will increase by $4.7 million in 1985–86 and $6.4 million in 1986–87.

Table 6 displays the department's estimate of costs attributable to the *Simon* case in 1985–86 and 1986–87.

Table 6

Fiscal Effect[a] of *Simon v. McMahon*

1985–86 and 1986–87

(dollars in thousands)

1985–86	*General Fund*	*Federal Funds*	*County Funds*	*Totals*
Increased Program Costs	$13,093	—	$1,922	$15,015
Cost Shift	16,055	−$18,792	2,737	—
Totals	$29,148	−$18,792	$4,659	$15,015
1986–87				
Increased Program Costs	$19,034	—	$2,305	$21,339
Cost Shift	23,975	−$28,063	4,088	—
Totals	$43,009	−$28,063	$6,393	$21,339

[a]Includes administrative costs which would normally be budgeted under Item 5180-141-001—County Administration of Welfare Programs.

As the table shows, the costs of the *Simon* case consist of the following two components:

- ***Increased program costs*** ($15.0 million in 1985–86 and $21.3 million in 1986–87). These are the increased grant and administrative costs associated with the court's ruling that AFDC parents be given the option of excluding children with restricted income from the assistance unit.
- ***Cost shift*** ($18.8 million in 1985–86 and $28.0 million in 1986–87). The

court's decision will shift grant and administrative costs from the federal government to the state and counties. This is because under federal regulations, parents do *not* have the option of excluding children with restricted income from the assistance unit. As a result, the federal government will no longer fund its share of grant and administrative costs for these families. Thus, the court, in effect, has created a "state-only" program, and as a result the state and counties will have to fund those costs formerly covered with federal money.

The budget includes sufficient funds to cover the increased *program* costs identified in the department's estimate. It does not, however, include the funds needed to cover the state's share of the costs which the federal government no longer will fund. The department advises that it did not budget funds to cover these costs because it is planning to seek a waiver from the federal Department of Health and Human Services (DHHS) that would allow the state to continue receiving federal financial participation for the grants to families affected by the *Simon* case. Specifically, the department will ask DHHS to participate in that portion of the grants representing what the family would have received under the pre-Simon rules.

A federal official has informed us that, in order for California to continue receiving federal financial participation for these costs, the DHHS will have to "waive the unwaivable and allow the unallowable." There is a provision of federal law, however, that, in effect, permits the Secretary of Health and Human Services to do exactly that. The budget proposal assumes that the Secretary will exercise this broad authority to waive all relevant federal AFDC regulations and grant California's request for a waiver for the *Simon* case.

We do not know whether the Secretary will grant the department's waiver request. Given the cuts in federal programs made necessary by the Gramm-Rudman amendment, it would be not just a little surprising if the DHHS voluntarily increased federal aid to California by nearly $30 million next year.

In the event that the Secretary does not grant the request, the cost to the state and counties of the AFDC program in 1985–86 and 1986–87 will be $46,822,000 ($40,030,000 General Fund and $6,792,000 county funds) higher than anticipated by the budget. An increase of this magnitude would reduce the Legislature's fiscal flexibility in putting together a budget for 1986–87. We therefore recommend that the department advise the fiscal committees, prior to budget hearings, on its progress in securing the federal waiver.

The Grant Savings from GAIN Anticipated by the Budget Are Based on an Out-Dated Estimate

We withhold recommendation on $36,000,000 ($15,400,000 General Fund, $18,800,000 federal funds, and $1,800,000 county funds) in savings anticipated from the Greater Avenues for Independence (GAIN) program, pending receipt of an up-to-date estimate.

Chapter 1025, Statutes of 1985, created the Greater Avenues for Independence (GAIN) program. This progam provides employment and training services to AFDC recipients to help them to become financially self-sufficient. The AFDC budget anticipates that these services will result in grant savings totaling $36 million ($15.4 million General Fund, $18.8 million federal funds, and $1.8 million county funds) in 1986–87. We discuss the department's fiscal estimate for the GAIN program in our analysis

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of the social services programs item (please see Item 5180-151-001).

We note in that analysis that the department's estimate of the program costs is out-of-date for several reasons, including the fact that the estimate assumes an implementation date of January 1, 1986. The department advises that counties probably will not begin implementing the GAIN program prior to July 1, 1986. This delay will greatly reduce the savings that the program will generate in 1986–87. Therefore, we withhold recommendation on the savings budgeted for the AFDC program as a result of the GAIN program, pending the receipt of a more up-to-date estimate.

CHILD SUPPORT ENFORCEMENT PROGRAM

Review of Program Performance

1. *We recommend that, prior to budget hearings, the department provide the fiscal committees with an estimate of what it would cost to conduct a controlled study of the various child support enforcement strategies.*
2. *We recommend that the Legislature adopt legislation establishing an incentive allocation formula based on a fixed, rather than a varying, percentage of child support collections.*
3. *We recommend that the Legislature adopt legislation phasing in of non-AFDC collections as part of the base on which the incentive payments will be paid.*
4. *We recommend that the Legislature adopt legislation retaining the current requirement that counties use child support incentive payments to support the Child Support Enforcement program, sunsetting this requirement on July 1, 1988, and requiring the DSS to report by January 1, 1988, on the advisability of postponing the sunset.*

The Child Support Enforcement program is a revenue-producing program administered by district attorneys' offices throughout the state. Through this program, district attorneys locate absent parents, establish paternity, and obtain and enforce court-ordered child support payments. This service is available to welfare recipients and nonwelfare families. Child support payments collected on behalf of AFDC recipients are used to reduce state, county, and federal welfare costs. Collections on behalf of nonwelfare clients are distributed directly to the client.

In a report on California's child support program published in September 1985 (LAO Report No. 85-21), we reviewed the performance of California's child support program and the potential effect of recently enacted federal legislation (PL 98-378) on the program. In the report, we recommended legislative action to (1) conform state law to federal regulations, (2) identify the most effective enforcement strategies, and (3) improve the performance of the program. Specifically, the report contains the recommendations listed above.

REVIEW OF THE WELFARE FRAUD EARLY DETECTION/PREVENTION PROGRAM

The 1983 Budget Act established the Fraud Early Detection/Prevention (FRED) program in order to detect and prevent fraud at the time an individual applies for AFDC and/or food stamp benefits. The FRED program was modeled after a pilot program implemented by Orange County in early 1980.

The 1983 Budget Act required all counties that processed a specified number of AFDC and food stamp applications to submit a report to the DSS by August 15, 1983, on their existing fraud prevention programs. Any county which determined that its existing program was not as cost-beneficial as the Orange County pilot project was authorized to seek funds from the department to implement a program comparable to Orange County's. To date, 23 counties have applied for and received funds to operate a FRED program. One of these counties (San Mateo) began program operation in 1983; 16 began in 1984; 2 began in 1985; and 4 (Santa Clara, Santa Cruz, Fresno, and Yuba) plan to commence operation of a FRED program in early 1986.

While each county's FRED program is unique, they all fit the basic structure envisioned in the 1983 Budget Act. Basically, the program involves assigning welfare fraud investigators or specially trained investigative-eligiblity workers to work with countly welfare department eligiblity staff. The investigators are on-call to conduct in-depth investigations of the statements made by applicants for welfare.

Eligibility workers refer cases to the fraud investigators whenever (1) the statements made by the applicant establish eligibility for welfare *and* (2) the intake worker has reason to believe that one or more of the statements in the application is false. For example, the intake worker might suspect the applicant had falsified his/her application if the person indicates on the application that he/she had no means of support during the current or preceding months. Such a response would raise doubts because it is difficult to understand how a family could survive for several months with no means of support.

Intake workers in Orange County refer approximately 8 percent of all welfare applications they process to FRED investigators.

When an investigator is assigned to a case, he or she uses standard investigative techniques to verify the facts set out in the welfare application. These techniques include interviews with the applicant in the welfare office, visits to the applicant's home, and interviews with individuals who may have personal knowledge of the applicant's situation. Investigators in Orange County find that about 50 percent of the applications referred to them by intake workers result in a denial of aid or in the recipient withdrawing his/her application.

The FRED Program Has Been Successful in Those Counties that Have Implemented It

In order to determine whether the FRED program has been successful in those counties where it has been implemented, we identified two important indicators of the program's performance—client protection and cost-effectiveness. Our review indicates that the program has been successful in achieving each of these goals.

Client Protection. The Budget Acts of 1983, 1984, and 1985 contained provisions designed to protect the rights of applicants for public assistance benefits. Specifically, counties are required to provide a complaint form to every applicant who withdraws his or her application after a fraud referral. These forms advise the client of his/her right to file a complaint either in person or through the mail. The DSS requires counties to retain all complaints.

In 1984, 20 counties operated FRED programs. They completed more than 19,000 investigations, which resulted in 7,457 applications being denied or withdrawn. Of those persons whose applications were denied or withdrawn, only 11 filed complaints and 7 of these complaints were un-

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related to the FRED program.

It seems highly likely that if any of the 20 counties were systematically using the program to intimidate applicants, a substantial number of the applicants who were denied aid would have lodged complaints. Moreover, the department advises that only nine clients who were denied aid as a result of the program in 1985, requested and received fair hearings. Of the nine fair hearings, three are still pending and five of the six that have been completed were decided in favor of the county.

Based on the relative dearth of complaints and the counties' success in FRED-related fair hearings, we conclude that the program has protected the rights of clients.

Cost-Effectiveness. The 1984 Budget Act required the department to report to the Legislature on the performance of the FRED program, including its cost-effectiveness. This report, issued in June 1985, concludes that for every dollar the counties spend to support the FRED program, they generate between $8.20 and $18.10 in welfare savings.

Our review of the department's report identified the following flaws in the methodology which the department used to estimate the program's benefit-to-cost ratio:

- The department estimated welfare cost avoidance based on the assumption that the average AFDC case receives aid for 24 months. This estimate was based on a sample of active cases. Based on a sample of *closed* cases, we estimate that the average duration of an AFDC case is approximately 17 months.
- The department assumed that 17 percent of the fraudulent applications would have been detected by another fraud detection program once the recipient actually began receiving aid. (We believe that the use of the average time on aid to calculate program savings should account for this factor because the sample used to estimate the average would include any cases that were closed as the result of a fraud investigation.)
- The department did not take into account the possibility that some applicants who were denied aid as a result of the FRED program would successfully reapply at a later date (without necessarily committing fraud in the process).

In addition to these methodological flaws, the department's report was based on performance data reflecting program results in 1983 and 1984—years in which several counties' programs were in operation for only a few months.

We believe that a report on the Orange County FRED program, issued by the U.S. Department of Health and Human Services (DHHS) in October 1985, provides a more reliable estimate of the benefit-to-cost ratio of the program. The report concludes that Orange County's FRED program returns between $16.60 and $33.81 in savings to state, federal, and county governments for every $1.00 in operating costs. The benefits of the program range between $16.60 and $33.81, depending on (1) what the average duration on aid is assumed to be and (2) the method used to estimate the costs of the program. We believe that the most reasonable combination of these two assumptions is the one which results in an estimated benefit-to-cost ratio of 22.1 to 1. Regardless of which set of assumptions is used, however, it is clear that the Orange County FRED program is highly cost-effective.

We reviewed the performance of 15 of the 19 counties, excluding Orange County, that operated FRED programs during 1985 using a methodology similar to the one used to prepare the DHHS report. Table 7 displays our estimate of the program's benefit-to-cost ratio, by county, as it applies to the AFDC program only. The table also shows the estimated benefit-to-cost ratio for each of the three levels of government involved in the program. The ratios are different because each level of government pays a different share of what it costs to administer the program and because each receives a different share of the savings that result from the program. The table clearly indicates that the program is highly cost-effective. On average, the program returns $17.80 in AFDC savings to the General Fund for every $1.00 in operating costs to the General Fund.

Table 7
The FRED Program
Estimated Benefit-to-Cost Ratio by Funding Source
1985

	Total Funds [a]	*General Fund*	*County Funds*	*Federal Funds* [a]
El Dorado	11.9	20.8	2.5	11.9
Glenn	12.9	22.7	2.7	12.9
Mendocino	15.8	27.8	3.4	15.8
Nevada	3.5	6.2	0.7	3.5
San Luis Obispo	8.9	15.7	1.9	8.9
San Mateo	17.9	31.4	3.8	17.9
Santa Barbara	43.8	76.9	9.3	43.8
Sonoma	45.1	79.2	9.6	45.1
Stanislaus	14.1	24.7	3.0	14.1
Sutter	24.8	43.6	5.3	24.8
Trinity	3.3	5.8	0.7	3.3
Tulare	36.6	64.2	7.8	36.6
Ventura	13.4	23.5	2.9	13.4
Yolo	7.2	12.6	1.5	7.2
Weighted average	10.1	17.8	2.1	10.1

[a] The federal funds benefit-to-cost ratio is the same as the total funds ratio because the federal government pays the same percentage share of administrative costs as it pays of grant costs.

Conclusion. We conclude that the FRED program has been highly cost-effective in the counties that have implemented it to date. In addition, the cost savings have been achieved while protecting the rights of applicants.

Why Haven't More Counties Implemented the FRED Program?

The 1983 Budget Act required that counties report to the DSS on the cost-effectiveness of their existing fraud detection programs. Most counties reported that their existing fraud detection programs were at least as cost-effective as Orange County's FRED program. Consequently, in the last three years, only 23 counties have requested additional funds to implement the program. In other words, the majority of counties believe that their current fraud detection programs are as effective as the FRED program.

There are several reasons to believe that non-FRED counties have underestimated the potential savings from implementing the FRED program:

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1. ***When the non-FRED counties analyzed their existing fraud programs, they were not aware of the actual cost-effectiveness of the Orange County FRED program.*** The DHHS report was not published until late 1985—more than two years after the effective date of the 1983 Budget Act which required counties to compare their existing detection programs to Orange County's program. Prior to the publication of the DHHS report, the cost-effectiveness of Orange County's program had not been independently verified.

2. ***The benefit-to-cost ratios displayed in Table 7 reflect FRED savings that have been achieved in addition to the savings generated by other fraud detection programs.*** In general, the counties that have implemented FRED programs continue to operate other fraud detection programs. Our estimate of savings associated with the FRED program does not include any savings from these other detection programs.

3. ***Most non-FRED counties emphasize detection of fraud in established cases, rather than prevention of fraud during the initial intake of cases.*** Detection of fraud at intake is more effective than detection of fraud in continuing cases for two reasons:

- ***It eliminates the need to collect reimbursements from recipients who have defrauded the program.*** This is because, when fraud is detected at intake, it prevents wrongful payments. This is important because, on average, counties recoup only 55 percent of the money wrongfully paid to fraudulent recipients.
- ***It reduces criminal justice costs.*** It does so by reducing the number of welfare fraud prosecutions. The FRED program results in prosecution for welfare fraud in 1.3 percent of the cases in which fraud is established. Other fraud detection programs lead to prosecution in approximately 15 percent of the cases where fraud is established.

4. ***Orange County detects substantially more fraud than do the other large counties.*** We compared the total number of fraud cases identified by Orange County through all of its fraud detection systems, including FRED, as a percentage of the county's AFDC caseload with the same figures for the other large counties. Table 8 displays the results of this comparison. As the table shows, Orange County detected three times more fraud than did the other large counties. We believe the difference can be attributed to the Orange County FRED program. This is because (a) the Orange County FRED program accounts for the bulk of the fraud detected by the county and (b) prior to the implementation of the FRED program, Orange County actually detected more fraud through its traditional detection programs than the other large counties were detecting through their programs.

For these reasons, we conclude that most of the non-FRED counties could significantly increase the effectiveness of their fraud detection programs by implementing a FRED program.

There are probably several reasons why the majority of counties (including most of the large counties) have not implemented a FRED program. Some counties may believe that the FRED program does not adequately protect the rights of clients. We have shown that this is not the case. Others may believe that their current programs detect fraud as effectively as the FRED program. We have shown that this is highly unlikely. Perhaps the most likely reason that counties have not implemented FRED is revealed by Table 7: the FRED program is much less cost-effective from a county's perspective than it is from the state or federal government's perspective.

Table 8
AFDC Fraud Detected as a Percent of Total Caseload
Orange County and Eleven Other Large Counties
(July 1983 through December 1983)

Eleven Large Counties	*Percent*
Riverside	3.2%
San Diego	3.1
San Bernardino	2.7
Fresno [a]	2.3
Los Angeles	2.2
Santa Clara [a]	1.8
Contra Costa	1.8
Alameda	1.7
San Francisco	1.5
San Joaquin	1.3
Sacramento [b]	1.2
Average	2.2%
Orange County	7.4%

[a] Fresno and Santa Clara County plan to implement FRED programs in early 1986.
[b] Sacramento County implemented a FRED program in May 1984.

Currently, counties finance 25 percent of the FRED program's operating costs (this sharing ratio also applies to other fraud detection programs). On the other hand, counties pay for only 5.4 percent of AFDC grant costs and therefore share in only 5.4 percent of any savings generated by the FRED program. As a result, the effect of the program on county budgets is much less favorable than it is on the state or federal budget. As the table shows, counties, on average, save $2.10 for every $1.00 they spend on the program, while the state saves $17.80 for every dollar it spends. For some counties, the program actually results in a net cost.

For these reasons, the counties' fiscal incentives to implement the FRED program, are relatively weak. Thus, counties—especially those with fiscal problems—may not consider the FRED program to be worthwhile, since costs must be incurred at the front end in order to achieve savings later on.

How Can the Legislature Encourage More Counties to Implement FRED Programs?

We recommend Budget Bill language requiring DSS to (1) assess the costs/savings of the FRED program in non-FRED counties and (2) report, by December 1, 1986 on the fiscal effects of mandating FRED on all counties.

There are probably only two options available to the Legislature for increasing the counties' use of the FRED program, other than increasing the counties' share of AFDC costs (which would give counties a greater stake in the savings associated with the program). We discuss these options below.

Wait and see. The first option is simply to wait and see if more counties implement the FRED program. As the benefits associated with the program become better understood, more counties *may* decide to implement it. In fact, the recent decisions of Fresno and Santa Clara counties to implement FRED programs may indicate that counties are becoming increasingly aware of the advantages to be gained from the program. On the other hand, other counties seem steadfast in their belief

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that their current detection programs are adequate. Thus, this option does not guarantee that all of the counties which could improve their fraud detection systems by implementing the FRED program will do so. To the extent counties which could benefit from the FRED program choose *not* to implement it, the state foregoes an opportunity to: (1) achieve substantial savings and (2) enhance the integrity of California's welfare programs.

Mandate FRED for those counties in which it would be cost-effective to do so. Under this option, the Legislature would authorize the department to require counties to implement FRED programs under specified circumstances. Specifically, the department would assess the potential benefits and costs from implementing the FRED program in individual counties, and require those counties where it would be cost-effective to implement the program. The drawback to this option is that it would create a state-mandated local program, obligating the state to pay for 100 percent of the program's nonfederal costs. The obvious advantage of this option is that it would allow the Legislature to ensure that all counties capable of operating a cost-effective FRED program are required to do so.

We have estimated the costs and savings that would be associated with the second option. The estimate assumes that *all* counties which currently do not operate a FRED program would be required to do so. (It is likely, however, that some counties would not be required to implement the FRED program because it would not be cost-effective for them to do so.) The estimate reflects a conservative assessment of the savings that would result from implementing FRED programs in counties where a program does not currently exist. This is because (1) it is based on the benefit-to-cost ratio of the current FRED counties other than Orange (Orange County's program is more cost-effective than the average FRED program) and (2) the savings used in the estimate include *only* grant savings; we did not include in our calculations savings in AFDC administrative costs, food stamp costs, or criminal justice system costs.

The estimate divides costs into two categories: (1) the state's 50 percent share of program costs in those counties that do *not* currently operate a FRED program (the federal government would pay for the other 50 percent of the program's costs) and (2) an additional 25 percent share of FRED program costs in counties that already operate the program. (The state currently pays 25 percent of the costs in these counties, but because the program would be mandated, rather than voluntary, the state would have to pick up the current county share of costs.) Table 9 displays our estimates of the costs and savings to be gained from mandating the FRED program statewide.

Table 9

Estimated Costs and Savings to the State of Mandating Counties to Implement the FRED Program

	Costs	*Savings*	*Net Fiscal Effect*	*Savings-to-Cost Ratio*
Counties that already operate FRED programs	$558,000	—[a]	$558,000	—
Counties that do not currently operate FRED programs	7,706,000	−$68,651,000	−$60,945,000	8.9 to 1[a]
Totals	$8,264,000	−$68,651,000	−$60,387,000	8.3 to 1

[a] The General Fund benefit-to-cost ratio displayed here is one-half of the benefit-to-cost ratio displayed in Table 7. This is because, under this option, the General Fund would support 50 percent of program costs, instead of the 25 percent share currently paid in the counties listed in Table 7.

The table shows that mandating FRED on counties in which it would be cost-effective to do so could result in a substantial savings to the state. Given the track record of the FRED program in preventing fraud while protecting client rights, we see no reason why the program should not be mandated in counties where the DSS believes it would be cost-effective. Therefore, we recommend that the Legislature adopt the following Budget Bill language, directing the department to (1) assess the potential costs and savings of the FRED program in counties that currently do not operate the program and (2) report to the Legislature by December 1, 1986, on the potential costs and savings in 1987–88 and future years, of requiring counties to implement the FRED program where it would be cost-effective to the state:

"The DSS shall assess the potential costs and savings that would result from implementation of FRED programs in counties that do not currently operate such programs. The DSS shall, by December 1, 1986, submit a report to the Legislature providing its detailed estimates of these costs, on a county-by-county basis, for 1987–88 and subsequent years. In preparing its report, the department shall consider the estimating methodology used in preparing federal report #18-P-00241-9-01. The department's report shall also provide an estimate of the increased costs to the state that would result from mandating the FRED program on counties that currently operate it on a voluntary basis."

TECHNICAL BUDGETING ISSUES

Savings From Asset Clearance Match Underbudgeted

We recommend a reduction of $4,337,000 ($1,931,000 General Fund, $2,173,000 federal funds, and $233,000 county funds) to reflect a more accurate estimate of the savings that will result from the asset clearance match program in 1986–87.

The budget anticipates that the asset clearance match program will result in savings of $8,674,000 ($3,861,000 General Fund, $4,346,000 federal funds, and $467,000 county funds) in 1986–87. This program identifies welfare recipients who have bank accounts that accrue interest of more than $30 a year. Once these recipients are identified, county welfare departments determine whether the recipients have correctly reported these assets to their caseworkers. If these assets have resulted in the recipient receiving more money than he or she was entitled to receive, the county welfare department attempts to recoup the overpayment.

The department's estimate of the savings that will be generated by the asset clearance match in 1986–87 assumes that each investigator can complete 16 cases per month. Based on data provided by the department, we estimate that investigators currently process 24 cases per month. The 16 cases per month figure used by the department corresponds to the *unweighted average* number of cases per investigator in large, medium, small, and very small counties. Our estimate of 24 cases per month reflects the *weighted average* for these four groups.

If the department's estimate is adjusted to reflect the weighted average number of cases per investigator, the savings estimate increases by 50 percent. Specifically, we estimate that the asset clearance match program will generate savings of $13,012,000 ($5,792,000 General Fund, $6,519,000

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federal funds, and $701,000 county funds). We therefore recommend a reduction of $4,337,000 ($1,931,000 General Fund, $2,173,000 federal funds, and $233,000 county funds) to reflect a more accurate estimate of the increased savings that will result from the asset clearance match in 1986–87.

Savings From The Integrated Earnings Clearance Program Are Underbudgeted

We recommend a reduction of $3,243,000 ($1,436,000 General Fund, $1,633,000 federal funds, and $174,000 county funds) to reflect a more accurate estimate of the AFDC grant savings that can be expected to result from the Integrated Earnings Clearance program in 1986–87.

The budget anticipates savings to the AFDC program of $1,321,000 ($585,000 General Fund, $665,000 federal funds, and $71,000 county funds) due to increased activity in the Integrated Earnings Clearance (IEC) program. The IEC program is a welfare fraud detection program which identifies recipients who have income that they do not report to their caseworkers. The program identifies these individuals by matching welfare records against the records of other governmental agencies such as the Franchise Tax Board, the Social Security Administration, and the Internal Revenue Service. These records are matched once every quarter.

The department's estimate of the savings that will result from the IEC program in 1986–87 is based, in part, on the assumption that 80 percent of the individuals who are identified by the program as having failed to report income in each quarter were also identified by the program in the previous quarter. Based on data provided by the department, we estimate that only 30 percent of the individuals identified each quarter have been previously identified. If the department's estimate is adjusted using the 30 percent estimate, savings from the program grow by $3,243,000 ($1,436,000 General Fund, $1,633,000 federal funds, and $174,000 county funds). Therefore, we recommend a reduction of $3,243,000 ($1,436,000 General Fund, $1,633,000 federal funds, and $174,000 county funds) to reflect a more accurate estimate of the AFDC grant savings that can be expected to result from the IEC program in 1986–87.

Department of Social Services

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED

Item 5180-111 from the General
Fund and Federal Trust Fund — Budget p. HW 152

Requested 1986–87	$1,591,370,000 [a]
Estimated 1985–86	1,410,536,000
Actual 1984–85	1,248,571,000
Requested increase $180,834,000 (+12.8 percent)	
Total recommended reduction	None

[a] This amount includes $104,732,000 proposed in Item 5180-181-001 (a) for cost-of-living increases.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$1,486,638,000
5180-111-890—Payments to aged, blind, and disabled	Federal	(8,043,000)
5180-181-001 (a)—Payments to aged, blind, and disabled COLA	General	104,732,000
5180-181-890—Payments to aged, blind, and disabled COLA, refugees	Federal	(226,000)
Total		$1,591,370,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Caseload Estimates. Recommend that the Department of Finance reconcile the discrepancy between the aged caseload estimates of the Departments of Social Services and Health Services. 942
2. Continuing Disability Reviews. Recommend that the Legislature adopt supplemental report language directing the department to reconcile any discrepancy between its estimate of savings due to the resumption of continuing disability reviews (CDRs), and the savings actually realized as a result of implementing the new CDR regulations. 943
3. State Monitoring of Federal Administration. Recommend that the Legislature adopt supplemental report language directing the department to outline its plan for monitoring the quality of federal administration of the Supplemental Security Income/State Supplementary Program. 945

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. A person may be eligible for the SSI/SSP program if he/she is elderly, blind, or disabled and meets the income and resource criteria established by the federal government.

The federal government pays the cost of the SSI grant. California has

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund. In California, the SSI/SSP program is administered by the federal government through local Social Security Administration (SSA) offices.

During the current year, an estimated 679,896 persons will receive assistance each month under this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $1,591,370,000 from the General Fund for the state's share of the SSI/SSP program in 1986–87. This is an increase of $180,834,000, or 13 percent, above estimated expenditures in the current year. The budget also assumes that federal expenditures for the SSI/SSP program will be $1,322,109,000. This is an increase of $72,941,000, or 5.8 percent, above estimated federal expenditures in the current year. The budget estimates that combined state and federal expenditures for the SSI/SSP program in 1986–87 will be $2,913,479,000, which is an increase of $253,775,000, or 9.5 percent, above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures, by category of recipient and by funding source, for the years 1984–85 through 1986–87.

Table 1
SSI/SSP
Expenditures 1984–85 through 1986–87
(dollars in thousands)

Category of Recipient	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87* [a]	*Percent Change From 1985–86*
Aged	$751,845	$841,613	$920,020	9.3%
Blind	80,174	90,353	98,812	9.4
Disabled	1,549,426	1,727,738	1,894,647	9.7
Totals	$2,381,445	$2,659,704	$2,913,479	9.5%
Funding Source				
General Fund	*$1,248,571*	*$1,410,536*	*$1,591,370*	*12.8%*
Federal funds [b]	*1,132,874*	*1,249,168*	*1,322,109*	*5.8%*

[a] Includes 4.9 percent COLA.
[b] Includes federal funds to support SSP costs for refugees.

Table 2 shows the budget adjustments that account for the increase in SSI/SSP expenditures proposed for 1986–87. The increase in General Fund costs can be attributed to the following significant changes proposed for the budget year:

- A $104.7 million increase needed to provide a 4.9 percent cost-of-living adjustment (COLA) for grants, beginning January 1, 1987.
- A $74.8 million increase which reflects the effect of (1) the full-year cost in 1986–87 of the 5.7 percent COLA provided for SSI/SSP grants on January 1, 1986, and (2) the increase in recipient's unearned income (as a result of the 3.1 percent COLA provided for social security benefits on January 1, 1986).
- A $33.9 million decrease made possible by increased federal funds that

are expected to be available for a COLA to SSI grants, beginning January 1, 1987.

- A $45.3 million increase needed to fund an estimated 2.7 percent increase in caseload.
- A $15.5 million decrease reflecting an anticipated increase in recipient's unearned income (primarily as a result of the estimated 3.5 percent COLA provided for social security benefits on January 1, 1987), which reduces grant costs.
- A $14 million increase due to the cost of errors made by the federal government in administering the SSI/SSP program in 1985–86 which the federal government will no longer finance.

Table 2
SSI/SSP
Proposed Budget Changes
1986–87
(dollars in thousands)

	General Fund	*Federal Funds*[a]	*Total*[a]
1985–86 expenditures (revised)	$1,410,536	$1,249,168	$2,659,704
Proposed changes:			
1. Basic caseload increases	45,281	48,531	93,812
2. Cost-of-living adjustments			
a. Proposed 4.9 percent grant increase (1/87)	104,732	226	104,958
b. Full-year cost of 1/86 grant increase	74,815	22,405	97,220
c. Estimated federal SSI increase (1/87)	−33,943	32,949	994
d. Estimated social security benefit increase (1/87)	−15,480	−9,630	−25,110
Subtotals	($175,405)	($94,481)	($271,874)
3. Program adjustments			
a. Decreased federal reimbursement for errors	$14,000	−$14,000	$0
b. Resumption of disability reviews	−7,400	−7,900	−15,300
c. $10 state supplement (Ch 1161/85)	1,167	0	1,167
d. Court cases	−1,852	−126	−1,978
e. All others	−486	487	0
Subtotals	($5,429)	(−$21,539)	(−$16,111)
1986–87 expenditures (proposed)	$1,591,370	$1,322,109	$2,913,479
Change from 1985–86:			
Amount	$180,834	$72,941	$253,775
Percent	12.8%	5.8%	9.5%

[a] Includes federal funds of $7,557,000 in 1985–86 and $8,043,000 in 1986–87 to support SSP costs for refugees.

ANALYSIS AND RECOMMENDATIONS

Eligibility Requirements

The Social Security Administration (SSA) administers the SSI program. In addition, the SSA will administer a state's SSP program if it is requested to do so by the state. When the SSA administers a state's SSP program, as it does in California, federal eligibility requirements are used to determine an applicant's eligibility for both the SSI and SSP programs.

To be eligible for the SSI/SSP program, individuals must fall into one of three categories—aged, blind, or disabled. In addition, their income and resources cannot exceed certain specified limits. Table 3 summarizes the eligibility requirements for the SSI/SSP program.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

Table 3
SSI/SSP
Basic Eligibility Requirements

A. Categorical Requirements	
Category	*Criteria*
1. Aged	a. 65 years of age or older.
2. Blind	a. Vision no better than 20/200; limited visual field of 20 degrees or less with the best corrective eyeglasses.
3. Disabled	a. A physical or mental impairment which precludes "substantial gainful employment" and is expected to last at least 12 months or result in death.
B. Income and Resource Limits	
Type	*Limit*
1. Home	Entire value exempt.
2. Personal and real property	$1,700 for individual, $2,550 for couple.
3. Household goods/personal effects	$2,000 equity value.
4. Life insurance policies	$1,500 face value.
5. Burial plots or spaces	$1,500 per person.
6. Motor vehicle	Total exclusion, or exclusion to $4,500 of market value. 2nd automobile—no exclusion.
7. General income exclusion	$20/month general exclusion.
8. Earned income exclusion	
a. All categories	a. First $65/month of earned income plus one-half of remaining earned income.
b. Blind and disabled	a. Any income used toward gaining self-sufficiency.
9. Income limit	Maximum SSI/SSP grant. (see Table 5).

The Deficit Reduction Act of 1984 (DEFRA) increased the limit on personal and real property that an SSI/SSP recipient may own and still retain eligibility for benefits. The limit will increase by $100 for individuals and $150 for couples for each year for five years, beginning January 1, 1985. Thus, as a result of this provision, the resource limits will increase to $2,000 and $3,000, respectively, by 1989. Otherwise, the eligibility requirements for the SSI/SSP program are essentially unchanged from last year.

Status of the Current-Year Budget

The department's latest estimate of General Fund costs for the SSI/SSP program in 1985–86 is $1,410,536,000. This is $20,213,000, or 1.5 percent, above the amount appropriated in the 1985 Budget Act. The major factors that account for the increase are as follows:

- Costs have increased by $6.9 million because the amount provided by the federal government to reimburse the state for errors it made in administering the SSI/SSP program was less than expected.
- Costs have increased by $6 million because the amount of federal funds provided for COLAs to SSI/SSP grant recipients and the increase in social security benefits in 1985 were less than anticipated. The budget assumed an increase of 3.5 percent for both the SSI grant and social security benefits; the actual increase on January 1, 1986, was 3.1 percent.
- Costs have increased by $4.4 million because the moratorium on disability reviews was extended from March 1985 through January 1986.
- Costs have increased by $4.2 million due to a 0.5 percent increase in caseload.

Grant Levels and Cost-of-Living Adjustments

The maximum grant amount received by an SSI/SSP recipient varies according to the recipient's eligibility category. For example, in 1986 an aged or disabled individual can receive up to $533 per month, while a blind individual can receive up to $597. In addition to categorical differences, grant levels vary according to the recipient's living situation. The majority of SSI/SSP recipients reside in independent living arrangements. Other recipients reside in (1) independent living arrangements without cooking facilities, (2) the household of another person, or (3) nonmedical board and care facilities. The grants provided to these individuals differ from the grants received by individuals in independent living arrangements.

Table 4 shows the maximum grant levels for the major recipient categories in 1985 and 1986, as well as what the grant levels will be in 1987 if the 4.9 percent increase proposed in the budget is approved.

Table 4
SSI/SSP
Maximum Monthly Grant Levels
Calendar Years
1985 through 1987

Category of Recipient	*1985*	*1986*	*Governor's Budget[a] 1987*	*Change From 1986 to 1987 Amount*	*Percent*
Aged or disabled:					
Individual:					
Total grant	504	533	559	26	4.9%
SSI	325	336	347	11	3.3
SSP	179	197	212	15	7.6
Couple:					
Total grant	936	989	1,037	48	4.9
SSI	488	504	521	17	3.4
SSP	448	485	516	31	6.4
Blind:					
Individual:					
Total grant	565	597	626	29	4.9
SSI	325	336	347	11	3.3
SSP	240	261	279	18	6.9
Couple:					
Total grant	1,099	1,162	1,219	57	4.9
SSI	488	505	521	16	3.2
SSP	611	657	698	41	6.2

[a] Assumes a 3.5 percent increase in SSI grants, effective January 1, 1987.

Federal Requirements. The Social Security Act Amendments of 1983 require California to maintain its SSP grants at or above the July 1983 level. This means that, for aged or disabled individuals—who represent the largest groups of recipients—the state must provide at least $157 per month in addition to the SSI grant provided by the federal government. As Table 4 shows, the SSP grant levels proposed in the budget exceed those required by federal law.

State Requirements. Existing state law requires that the total SSI/SSP payment levels be adjusted, effective January 1, 1987, based on the change in the California Necessities Index (CNI) during calendar year 1985. The Commission on State Finance is required to calculate the CNI and will announce the actual change in the CNI for calendar year 1985

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

during March 1986. The commission's calculation, therefore, will be available for use in calculating the *actual* grant adjustments required by current law, prior to when the Legislature completes action on the budget.

Budget Proposal. The budget proposes to provide the cost-of-living increase required by state law. Based on a Department of Finance estimate of the change in the CNI during 1985, the budget proposes a 4.9 percent increase in the maximum grants at a cost of $104,732,000 to the General Fund. Table 4 shows the effect of a 4.9 percent increase to the grant levels for various recipient categories.

Caseload Estimates Need to be Reconciled

We recommend that the Department of Finance (1) reconcile the discrepancy between the aged caseload estimates of the Departments of Health Services (DHS) and Social Services (DSS) and (2) report to the fiscal committees, prior to budget hearings, regarding any changes that are warranted in the amounts proposed under this item and under the Medi-Cal program item (Item 4260-101-001).

The budget proposes General Fund expenditures of $1,403 million to fund the SSI/SSP caseload in 1986–87. This is an increase of $45.3 million, or 3.3 percent, above estimated current-year expenditures and is due to caseload growth. The department estimates that the total SSI/SSP caseload will grow by 2.7 percent between 1985–86 and 1986–87, as shown in Table 5. The SSI/SSP caseload is comprised of aged, disabled, and blind recipients. The aged population is 39 percent of the total caseload, and the department estimates that the aged caseload will grow by 1.8 percent between the current year and 1986–87.

For the most part, the aged caseloads for the Medi-Cal program (excluding the medically needy only), and for SSI/SSP consist of the same individuals. It is not possible, therefore, for one caseload to increase at the same time that the other is decreasing. Despite this fact, DSS and DHS have developed conflicting estimates of the aged SSI/SSP caseload for 1986–87. While DSS projects that this caseload will increase by 1.8 percent between the current and budget years, DHS projects that the aged population receiving medical assistance will *decrease* by 1.2 percent during this period. Thus, the caseload projections of DSS and DHS are inconsistent with one another. It is difficult to understand how a difference of this magnitude—3 percentage points—could have occurred in a budget that, presumably, was carefully reviewed by both the Health and Welfare Agency and the Department of Finance.

Table 5
SSI/SSP
Average Monthly Caseload
1984–85 through 1986–87

Eligibility Category	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Aged	264,283	266,646	271,500	1.8%
Blind	18,804	19,446	20,067	3.2
Disabled	379,800	393,804	406,542	3.2
Totals	662,887	679,896	698,109	2.7% [a]

[a] The Department of Health Services projects a 1.2 percent *decrease* in the aged population receiving Medi-Cal between 1985–86 and 1986–87.

We are concerned about this inconsistency because it casts doubt on the validity of the administration's estimate of the costs of both the SSI/SSP program and the Medi-Cal program. To the extent that there are more aged SSI/SSP recipients in the Medi-Cal program than is reflected in the DHS caseload estimate, the cost of the Medi-Cal program will be more than the amount currently budgeted in the Medi-Cal item (4260-101-001).

We have no basis for determining which department's estimate of caseload is most reasonable. Consequently we cannot advise the Legislature whether the amount of funds proposed to fund the caseload increase in the SSI/SSP program is correct. We can only note that the budget asks the Legislature to appropriate money for two major budget items based on *two contradictory estimates of the same caseload.* We therefore recommend that the Department of Finance reconcile this discrepancy between the two department's caseload estimates and advise the fiscal committees, prior to budget hearings, of any changes that are warranted in (1) the amounts proposed under this item for the SSI/SSP program and (2) the amounts proposed for the Medi-Cal program (Item 4260-101-001).

Savings Estimate from Continuing Disability Reviews May Be Overstated

We recommend that the Legislature adopt supplemental report language which requires the Department of Social Services (DSS) to submit a report by December 1, 1986, that reconciles its estimate of savings due to the resumption of continuing disability reviews (CDRs) with the savings actually realized.

In 1980, Congress enacted amendments to the social security Act (P.L. 96-265) which expanded the requirement for periodic reviews of both disabled social security and SSI/SSP recipients, in order to determine their continued eligibility for benefits (referred to as "Continuing Disability Reviews" (CDRs). These reviews resulted in thousands of appeals to the federal courts by individuals whose grants were reduced or terminated, threats by federal courts to serve contempt of court citations on the Secretary of Health and Human Services (HHS) for refusing to pay benefits when ordered, and the decision of several states not to follow federal CDR regulations. As a result, on April 1, 1984, the Secretary of HHS imposed a moratorium on the CDR process, pending further legislative action. Congress established new standards for disability reviews in the Social Security Disability Benefits Reform Act of 1984 (P.L.98-460). Based on this legislation, HHS prepared new CDR regulations which became effective December 6, 1985.

The most significant change in the regulations brought about by P.L.98-460 was the addition of a "medical improvement standard." Under the *old* regulations a recipient could be terminated from aid even though his/her *physical or mental condition* was unchanged. Under the *new* regulations a recipient can only be terminated from aid based on proof of improvement in his/her medical condition. In addition, the new regulations make other changes such as requiring more extensive documentation of recipients' medical condition.

The department estimates that resumption of the CDRs will result in savings to the General Fund because these reviews will identify some current SSI/SSP recipients as ineligible for assistance. The department estimates that the General Fund savings from discontinuing benefits to these persons will total $700,000 in 1985–86, and $8.1 million in 1986–87.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

We have reviewed the basis for the department's estimate, and we have identified a number of factors which could cause the savings from CDRs to be either higher or lower than what the budget anticipates. Specifically, we find that:

- ***The SSI/SSP cases which are determined to be ineligible for aid will not be discontinued from assistance immediately, thereby reducing the estimate of savings.*** The department assumes that savings will start to accrue on March 1, 1986, as an average of 360 recipients per month are terminated from aid. This estimate fails to consider that recipients will receive two additional months of benefits following the receipt of a termination notice. Therefore, in the current year, costs will continue to occur for two months beyond the month that an individual receives a notice of termination. We estimate that this will reduce the current-year savings by $474,000. *If the department is unable to make up for this loss by processing additional cases in 1986–87, savings for the budget year will be $914,000 lower than estimated by the department.* (This is because savings for 1986–87 are cumulative, based on savings in the current year.)
- ***The department's estimate fails to take into account appeals by individuals who have been notified that they are no longer eligible for aid.*** Individuals who appeal a termination notice can continue to receive benefits during the appeals process, thereby reducing the savings still further.While it is difficult to estimate the number of appeals, it is important to note that prior to the moratorium on CDRs, there was a very high rate of successful appeals. In general, the appeals process takes approximately two-to-eight months to complete. If the appeal results in a reversal of the termination, the recipient will continue to receive benefits until the next review of his/her case.
- ***There is some uncertainty as to how many individuals will be found ineligible for aid under the new "medical improvement" standard.*** The department estimates that an average of 20 percent of the cases reviewed will be terminated from aid. The SSA indicates, however, that between 17 percent and 21 percent of cases reviewed will be dropped from aid. The department based its estimate on its experience in performing CDRs prior to the moratorium. During this period, the department was determining eligibility based on a decision in a court case which imposed a standard similar to the new "medical improvement" standard. The new regulations, however, are more detailed than the court standard, and include other changes in addition to the "medical improvement" standard. *If the department terminates from aid fewer than 20 percent of those subject to the CDRs, savings will be lower than projected. On the other hand, if more than 20 percent of the cases are terminated from aid, the savings will be higher than estimated.*
- ***The number of cases which will be reviewed in the current year probably will be lower than the number estimated in the budget, thereby reducing the savings in the current year.*** This is primarily because the department will not hire the staff necessary to perform the CDRs until February, but it assumes that the full workload of CDRs will be performed beginning March 1, 1986. Although the department is requiring experienced staff to work overtime to help with

the reviews, it is unlikely that the department will be able to handle the projected workload immediately because (1) the new staff requires one year of training and work experience before becoming fully productive and (2) the overtime may be insufficient to cover both the incoming CDRs and the regular workload. *If the department processes fewer cases than it estimates, then the savings will be lower than it projects.*

Because of these uncertainties it is difficult to assess the accuracy of the department's savings estimate. Accordingly, we recommend that the Legislature adopt supplemental report language requiring the department to submit a report to the Legislature by December 1, 1986, that reconciles its estimate of savings due to the resumption of CDRs with actual savings achieved.

The following language is consistent with this recommendation:

"The Department of Social Services shall submit a report by December 1, 1986, that reconciles its estimate of savings due to the resumption of CDRs with its actual experience in implementing the new CDR regulations."

State Monitoring of Federal Administration

We recommend that the Legislature adopt supplemental report language requiring the department to (1) review the findings of the State Controller's audit of the SSI/SSP program and (2) submit a report by September 1, 1986, that outlines the state's contract proposal regarding the federal quality assurance system.

The Social Security Administration (SSA) administers the SSI/SSP program in California pursuant to a contract between the federal and state government. Under the provisions of the contract, the federal government is responsible for a number of activities, one of which is monitoring the accuracy with which *it* administers the program. The federal government monitors its administration of the program based on quality assurance (QA) reviews.

The state relies primarily on the findings from the federal QA system in order to monitor federal administration of the program. In addition, the state performs audits to monitor federal administration of the program. The contract between the state and federal government specifies the conditions under which these audits are performed and describes the federal QA system.

The department currently is negotiating a new contract with the SSA. The department indicates that it has two major concerns with the new contract proposed by SSA. The proposed contract:

- Deletes a description of the federal QA system.
- Limits the effectiveness of state audits.

Federal QA System Changes. Prior to 1985–86, as part of its QA system, the federal government reviewed a sample of SSI/SSP cases in order to identify erroneous payments to recipients. Subsequent to this review, the state examined a portion of the federal sample to test the accuracy of the federal review. The findings from these two reviews were combined to produce an error rate. The error rate was the basis for reimbursing the state for erroneous payments made by SSA to SSI/SSP recipients.

On October 1, 1984, however, the SSA eliminated federal reimbursement for erroneous payments. As a result, the state eliminated the staff which had reviewed the federal sample. The department explained that

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

since the federal government was no longer going to reimburse states for erroneous payments, the state would have limited ability to influence the quality of the QA reviews. It indicated, however, that the risk of inaccurate QA reviews and misspent program funds could increase.

The state relies primarily on the federal QA system to monitor federal program administration. The department informs us that the contract proposed by the federal government does not describe the QA system. As a result, the department does not know what type of system SSA is planning to operate in the future. Because the description of the QA system was left out of the new contract proposal, several states, including California, New York, Michigan, and Nevada, have refused to sign the contract.

The department plans to propose that the contract include a description of the QA system that will protect the state's interest in accurate program administration. The department, however, has not yet decided what kind of QA system it will propose to the federal government.

State Audits of Federal Administration. In addition to the federal QA system, the state continues to periodically audit federal administration of the program. In 1983, the Department of Finance (DOF), and the State Controller's office performed the last major state audit of the program. As a result of that audit, DOF estimated that SSA owed the state approximately $30 million due to erroneous payments to recipients. In addition, the state recommended that SSA correct several administrative deficiencies.

The SSA agreed with most of the state's recommendations, but it did not agree that it owed the state $30 million. Currently, the SSA is reviewing the state's claim.

Neither the old contract, nor the proposed contract provide a definite time period for resolution of claims identified in state audits. The department informs us that it intends to propose a one-year period for resolution of these claims. In addition, the new contract deletes the provision that state audit results may be used by the state to recommend improvements in the federal government's QA process. This effectively eliminates state oversite of the federal QA process.

State Controller's Report. A planned State Controller's audit report will provide the department with some of the information it needs in order to develop a contract proposal which protects the state's interest in accurate federal administration of this program. The State Controller's office advises us that the three-part audit will:

- Review SSA's current QA system and SSA's plans to modify it,
- Review SSA's procedures for verifying the $30 million identified in the 1983 audit and follow-up on other recommendations made in the 1983 audit and
- Review regional and district offices' administration of the program in 1981–82, 1982–83, and 1983–84.

The State Controller's office informs us that it will complete the first two parts of the audit by July 1986, and the third part later in 1986–87. The first two parts of the audit report will identify weaknesses in both the current QA system, and any planned changes. The department can use that information to develop a contract proposal for a more effective QA system. If the state's proposal succeeds, it will allow the state to:

- Identify administrative errors as a result of both the QA system and state audits, and
- Require the federal government to reimburse the state for some of those errors.

Accordingly, we recommend that the Legislature adopt supplemental language requiring the department to (1) review the findings of the State Controller's audit report on the SSI/SSP and (2) submit a report by September 1, 1986, that outlines the state's contract proposal regarding the federal QA system.

The following language is consistent with this recommendation:

"The Department of Social Services shall (1) review the findings of the State Controller's audit report of the SSI/SSP and (2) submit a report by September 1, 1986, that provides the state's proposal for the contract with the federal government regarding the federal quality assurance system."

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 153

Requested 1986–87	$2,018,000
Estimated 1985–86	1,822,000
Actual 1984–85	1,657,000
Requested increase $196,000 (+10.8 percent)	
Total recommended reduction	None

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult Programs	General	$2,018,000
5180-121-890—Special Adult Programs	Federal	(75,000)

GENERAL PROGRAM STATEMENT

The Special Adult programs consist of three distinct program elements designed to fund the emergency and special needs of Supplemental Security Income/State Supplementary Program (SSI/SSP) recipients. These elements are the (1) Special Circumstances program, which provides financial assistance for emergency needs, (2) Special Benefits program, which provides a monthly food allowance for guide dogs belonging to blind SSI/SSP recipients, and (3) Temporary Assistance for Repatriated Americans program, which provides assistance to needy U.S. citizens returning from foreign countries.

SPECIAL ADULT PROGRAMS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $2,018,000 for the Special Adult programs in 1986–87. This is $196,000, or 11 percent, more than estimated General Fund expenditures for this program in the current year. This increase results primarily from projected caseload growth in the Special Circumstances program. The Department of Social Services (DSS) anticipates that the caseload for the Special Circumstances program will increase because the potential applicant pool—SSI/SSP recipients—is growing at an accelerating rate.

The budget also proposes $75,000 in federal funds to provide cash assistance to repatriated Americans. This is the same amount that will be spent in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The 1985 Budget Act required DSS to limit state reimbursement for an individual county's administrative costs under the Special Circumstances program to 100 percent of the county's total benefit expenditures, or actual administrative costs, whichever was less. The department estimates that total administrative costs for this program in 1986–87 will not exceed 100 percent of benefit expenditures. Furthermore, the department indicates that it will restrict each county's administrative costs to 100 percent of benefit expenditures.

Department of Social Services
REFUGEE CASH ASSISTANCE PROGRAMS

Item 5180-131 from the Federal Trust Fund — Budget p. HW 155

Requested 1986–87	$57,857,000 [a]
Estimated 1985–86	55,989,000
Actual 1984–85	52,783,000
Requested increase $1,868,000 (+3.3 percent)	
Total recommended reduction	None

[a] Includes $1,553,000 proposed in Item 5180-181-890 for a 4.9 percent cost-of-living increase.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-131-866—Refugee programs, local assistance	Federal	$56,304,000
5180-181-866(c)—Refugee programs, local assistance	Federal	1,553,000
Total		$57,857,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Refugee Caseload Estimates. Recommend that prior to budget hearings the Department of Finance reconcile the conflict in caseload estimates and advise the Legislature of any changes that are warranted in the funds proposed. 949

GENERAL PROGRAM STATEMENT

This item appropriates the federal funds that pay for the costs of cash grants and medical assistance provided to refugees who are eligible for assistance and who have been in this country for less than 36 months. These individuals are referred to as "time-eligible" refugees. Refugees who have been in this country for more than 36 months, and who meet applicable eligibility tests, receive assistance under the Aid to Families with Dependent Children (AFDC), Supplemental Security Income/State Supplementary Program (SSI/SSP), Medi-Cal, and county general assistance programs.

ANALYSIS AND RECOMMENDATIONS

Refugee Caseload Estimates

We recommend that the Department of Finance (1) reconcile the discrepancy between the refugee caseload estimates of the Departments of Health Services (DHS) and Social Services (DSS) and (2) report to the fiscal committees prior to budget hearings any changes that are warranted in the amounts proposed under this item and under the Medi-Cal program item (Item 4260-101-001).

The budget proposes expenditures of $57,857,000 in federal funds for cash and medical assistance provided through Refugee Cash Assistance programs to refugees and entrants in 1986–87. This is an increase of $1,868,000, or 3 percent, above estimated current-year expenditures for this program.

The $1,868,000 increase reflects three principal changes: (1) a $1,553,000 increase proposed in Item 5180-181-866 for a 4.9 percent cost-of-living adjustment to cash grant amounts provided to refugees, (2) an $825,000 increase to cover the costs of a *2.7 percent increase in caseload projected by the DSS* for its cash assistance program, and (3) a reduction of $510,000 in the projected costs of providing medical services to refugees that is primarily due to a *3.6 percent reduction in caseload projected by the DHS.*

For the most part, the same individuals make up the caseloads for refugee cash assistance and medical assistance. It is not possible, therefore, for one program's caseload to increase while the caseload for the other is decreasing. Thus, the DSS's and DHS's caseload projections are inconsistent with one another. It is difficult to understand how a difference of this magnitude—6.3 percentage points—could have occurred in a budget that, presumably, was carefully reviewed by both the Health and Welfare Agency and the Department of Finance.

Not only does this inconsistency cast doubt on the administration's expenditure estimate for *this* item; it also brings into question the administration's estimate of General Fund costs under the Medi-Cal program. This is because the General Fund cost estimates for the Medi-Cal program depend, in part, on the amount of federal funds available to reimburse the DHS for medical assistance provided to *time-eligible* refugees. To the

REFUGEE CASH ASSISTANCE PROGRAMS—Continued

extent that the number of time-eligible refugees turns out to be more in line with DSS's caseload projections, the amount of federal funds available to offset the General Fund costs of Medi-Cal services for refugees will exceed the amount budgeted in this item. If this happens, the amount needed from the General Fund to pay costs under the Medi-Cal program will be less than the amount proposed in the Medi-Cal item (Item 4260-101-001).

We have no basis for determining which department's estimate of caseload is the most reasonable. Consequently, we cannot advise the Legislature whether the amount of federal funds proposed for refugee cash and medical assistance under this item is correct. We can only note that the budget asks the Legislature to appropriate money for two major budget items based on *two contradictory estimates of the same caseload.* We therefore recommend that the Department of Finance reconcile the discrepancy between the two department's caseload estimates and advise the fiscal committees, prior to budget hearings, of any changes that are warranted in (1) the amounts proposed under this item for refugee cash and medical assistance and (2) the amount needed from the General Fund for the Medi-Cal program item (Item 4260-101-001).

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and Federal Trust Fund — Budget p. HW 154

Requested 1986–87	$133,848,000
Estimated 1985–86	129,181,000
Actual 1984–85	122,627,000
Requested increase $4,667,000 (+3.6 percent)	
Total recommended reduction	None
Recommendation pending	999,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County Administration	General	$133,848,000
5180-141-890—County Administration	Federal	(394,294,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Productivity Targets. Recommend that the Legislature adopt Budget Bill language requiring the Departments of Social Services (DSS) and Health Services, in conjunction with the County Welfare Director's Association, to establish productivity standards for the AFDC, Food Stamps' and Medi-Cal programs based on a "model" county methodology. 955

2. Overpayment Collections Report. Recommend that the Legislature adopt Budget Bill language allocating $122,000 from the General Fund to counties to cover their costs of preparing an overpayment collection report, only after the Director of Finance has certified that the DSS has taken appropriate action to ensure that the counties will report accurately and on a timely basis. 958
3. Statewide Automated Welfare System (SAWS). Withhold recommendation on $2,244,000 ($999,000 General Fund and $1,245,000 federal funds) proposed for the SAWS project, pending receipt of the annual SAWS progress report. 959

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by the counties in administering (1) the Aid to Families with Dependent Children (AFDC) program, (2) the Food Stamp program, and (3) special benefits for aged, blind, and disabled recipients. It also funds costs of training county eligibility and nonservice staff. In addition, this item identifies the federal and county costs of administering child support enforcement and cash assistance programs for refugees.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $133,848,000 from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1986–87. This is an increase of $4,667,000, or 3.6 percent, over estimated current-year General Fund expenditures for this purpose. The $133.8 million includes $6,106,000 to fund the increased General Fund costs resulting from the estimated 4.8 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1985–86*. In accordance with the policy established by the Legislature in recent budget acts, during 1986–87 counties will pay for any COLAs that they grant their employees in the budget year using county and federal funds. The state will fund its share of these costs starting in 1987–88.

The budget proposes total expenditures of $714,059,000 for county administration of welfare programs during 1986–87, as shown in Table 1. This is an increase of $28,226,000, or 4 percent, over estimated current-year expenditures.

Proposed General Fund Changes

Table 2 displays the adjustments to General Fund expenditures for county administration proposed for 1986–87. The net increase of $4,667,000, in large part, reflects the $6,106,000 needed to fund the estimated 4.8 percent retroactive COLA, partially offset by the elimination of one-time administrative costs in 1985–86 associated with a variety of court cases ($2,523,000).

Table 1
Expenditures for County Welfare Department Administration
1984–85 through 1986–87
(in thousands)

	Actual 1984–85				Estimated 1985–86				Proposed 1986–87			
Program	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
AFDC administration	$95,536	$207,823	$108,786	$412,145	$99,942	$212,968	$109,418	$422,328	$102,807	$224,372	$114,749	$441,928
Nonassistance Food Stamps	23,257	57,098	27,329	107,684	25,012	60,837	27,859	113,708	26,854	66,982	29,617	123,453
Child Support Enforcement	—	92,119	30,723	122,842	—	92,542	39,661	132,203	—	92,542	39,661	132,203
a. Welfare	—	(68,703)	(22,917)	(91,620)	—	(68,696)	(29,442)	(98,138)	—	(68,696)	(29,442)	(98,138)
b. Nonwelfare	—	(23,416)	(7,806)	(32,222)	—	(23,846)	(10,219)	(34,065)	—	(23,846)	(10,219)	(34,065)
Special Adult programs	2,295	—	52	2,347	2,494	—	60	2,554	2,555	—	109	2,664
Refugee cash assistance	—	5,774	—	5,774	—	7,028	—	7,028	—	6,850	—	6,850
Staff development	1,524	3,333	1,738	6,595	1,611	3,538	1,781	6,930	1,611	3,538	1,781	1,781
Adoption assistance	15	7	—	22	22	10	—	32	21	10	—	31
Subtotals	$122,627	$366,154	$168,628	$657,409	$129,081	$376,923	$178,779	$684,783	$133,848	$394,294	$185,917	$714,059
Local mandates	(291)	—	(−291)	—	(291)	—	(−291)	—	—	—	—	—
Employment programs [a]	—	—	—	—	100	900	—	1,000	—	—	—	—
Totals	$122,627	$366,154	$168,628	$657,409	$129,181	$377,823	$178,779	$685,783	$133,848	$394,294	$185,917	$714,059

[a] Funds to support employment programs in 1986–87 are budgeted under Items 5180-151-001 and 5180-151-890, social services programs.

Table 2
County Administration of Welfare Programs
General Fund Changes Proposed for 1986–87
(dollars in thousands)

	Cost	*Total*
1985–86 Expenditures (Revised)		$129,181
A. Adjustments to Ongoing Costs		
1. AFDC Administration		
a. Basic Costs	$668	
b. Court Cases	−2,523	
c. Fraud Detection Savings	−186	
d. Employment Programs Transfer	−201	
e. Other	75	
Subtotal		−$2,167
2. Nonassistance Food Stamps		
a. Basic Costs	56	
b. Other	−33	
Subtotal		$23
3. Other Programs		−$40
B. New Costs		
1. SAWS		
a. AFDC	169	
b. Nonassistance Food Stamps	576	
Subtotal		$745
2. Retroactive COLA (4.8%) [a]		
a. AFDC	4,863	
b. Nonassistance Food Stamps	1,243	
Subtotal		$6,106
1986–87 Expenditures (Proposed)		$133,848
Change from 1985–86:		
Amount		$4,667
Percent		3.6%

[a] This reflects the 1986–87 General Fund costs of the estimated 4.8 percent cost-of-living increase granted by counties to their employees in 1985–86.

COST CONTROL MEASURES IN COUNTY ADMINISTRATION

The Department of Social Services (DSS) allocates funds to counties for the administration of welfare programs using a formula that considers a number of factors, including (1) caseload, (2) productivity targets for eligibility workers, (3) the existing salary structure in each county, (4) allowable cost-of-living increases, and (5) allocated support (overhead) costs. One of the primary objectives of this formula is to control the growth in state-funded county costs for administering welfare programs.

The department calculates the county's allocation of funds for administrative costs in the following way. First, it determines the productivity targets (the number of cases to be handled by an eligibility worker) and supervisory ratios for the county. The cost control plan requires counties to meet the average of the productivity standards achieved by counties having a similar caseload during a specific base year, or their own performance during the base year if it was above average. Second, the department determines the allowable salary costs per worker. Third, the department calculates total administration costs by multiplying the DSS May estimates of caseloads in AFDC and food stamps by the average cost per case, which is derived from the productivity target and average salary costs. Several other adjustments are made in order to fund overhead costs, fraud investigation activities, and other special items.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

The state's share of these costs is approximately 25 percent of the total. The counties are notified of their allocation early in the budget year. The amount actually paid to a county is determined by adjusting the allocation for actual caseload during the year.

Current Productivity Targets

The cost control plan specifies productivity targets that provide a basis for limiting allocations to counties. Currently, the base years used to set these targets are 1980–81 for AFDC administration and 1979–80 for Food Stamp administration.

Proposed Evaluation of Cost Control System

The 1985 Budget Act required the DSS and the Department of Health Services (DHS) to submit to the Chairman of the Joint Legislative Budget Committee (JLBC), by October 1, 1985, a plan for conducting a study of the eligibility determination process under the AFDC, Food Stamps, and Medi-Cal programs. The Budget Act specified that the study should be designed to determine the appropriate productivity targets for these programs. It also prohibited the DSS from changing the productivity targets for the AFDC and Food Stamps programs until the study is completed. The Budget Act, however, *required* the DHS to update the base year used to set Medi-Cal productivity targets for 1986–87. (We discuss the Medi-Cal target update in our analysis of Item 4260-106-001).

The departments submitted their study plan to the JLBC in January 1986. The plan calls for reviewing three aspects of the current cost control plan over a period of at least two to three years. Specifically, the plan sets out the following schedule for the study.

Alternative Approaches to Grouping Counties According to Caseload Size. Under the proposed plan, the two departments and the County Welfare Director's Association would review the current method used to group counties based on caseload size and set average productivity targets for each group. Currently, the counties are grouped into four categories based on caseload size for the purposes of setting productivity targets. The proposed study would consider such alternatives as groupings based on level of automation and geography. The department believes it can complete this portion of the study during 1986–87, using available resources.

Alternative Approaches to Budgeting Support Costs. This part of the study would consider changes to the way the department budgets for support ("overhead") costs. Currently, DSS reviews, on a case-by-case basis, county requests to increase their total support costs. Overhead costs are allocated to each program based on the ratio of each program's line-worker costs to total line-worker costs within the welfare department. The proposed study would consider such alternatives as using targets for counties' support-to-line staff ratios and direct billing of some support costs. The department believes it can complete this portion of the study during 1986–87, using available resources.

Evaluation of Current Productivity Targets. The two departments propose a two-step approach to evaluating the productivity targets. The first step would be to contract with an independent contractor, to provide (1) a list of the methodologies that could be used to evaluate the targets and (2) the costs, benefits, and time frames associated with each methodology. The second step would be to select one of the methodologies identified in the preliminary study and to conduct the actual productivity target study. The departments advise that the contract for the preliminary study would cost $50,000 and that the study could be completed by April 1987. (The DSS proposes to absorb the costs of the contract within the amounts budgeted for 1986–87.) The costs and time frames for the actual study of the targets would depend on the methodology selected.

We believe that the department's proposal to study the way counties are grouped for the purpose of setting productivity targets and to consider alternative ways of budgeting for overhead costs could improve the current cost control plan. This would be true to the extent that these studies identify ways of making the plan more reflective of the actual costs that counties incur to administer welfare programs. Moreover, these studies could be completed on a timely basis. Therefore, we recommend that the Legislature approve these elements of the department's proposal.

Proposed Evaluation of Productivity Targets Would Unnecessarily Delay Needed Improvements to System

We have two major concerns regarding the department's proposal for evaluating the current productivity targets. First, the scope and cost of the evaluation are unknown. Both would depend on the results of the methodology study to be completed by an independent contractor. Second, it is unlikely that the evaluation itself would be completed in time to use the results in budgeting for the 1987–88 fiscal year. In fact, the DSS advises that, depending on the methodology selected, the evaluation could take *several years* to complete.

It is important that the evaluation be completed as soon as possible for two reasons:

- ***Potential Savings.*** The Budget Act prohibits any change in productivity targets until after the study has been completed. This means that under the department's plan, it could be several years before the targets are adjusted. As we have noted above, the targets for AFDC are based on actual performance in 1980–81, and the targets for Food Stamps are based on performance in 1979–80. In recent years, there have been major changes in the complexity of the cases that counties process and in the extent to which counties rely on computers to perform major components of the eligibility determination and benefit issuance process. To the extent that county productivity has improved as a result of these, or other changes, updating the targets could result in major savings to the state.
- ***SAWS.*** If the Statewide Automated Welfare System (SAWS) project meets its schedule for enhancing counties' computer systems, it will have a major impact on county productivity during the next several years. For example, the automated eligibility determination component of SAWS, if it is implemented according to the current schedule, could dramatically increase productivity in the next few years. Should this occur, the department's proposed evaluation of the current productivity targets might well be out-of-date before it is even published.

We believe that the two departments could evaluate the current productivity targets during 1986–87, by using a methodology described in the 1985 Budget Act.

Improvements in Productivity Targets are Possible, Within Reasonable Timeframes

We recommend that the Legislature adopt Budget Bill language directing the DSS and the DHS, in conjunction with the County Welfare Direc-

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

tor's Association, to use a "model" county methodology to evaluate the current productivity targets for the AFDC, Food Stamps, and Medi-Cal programs. We further recommend that the departments report to the Chairman of the Joint Legislative Budget Committee, by December 1, 1986, on their progress in using this methodology to establish productivity targets for 1987–88.

The 1985 Budget Act required that any methodology for evaluating the productivity targets address the effect of the targets on program performance. (The Budget Act stated that program performance should be measured by the rates of overpayment and underpayment of program benefits and the waiting times and processing delays experienced by clients.) In our view, the effect of the targets on program performance is the critical, *perhaps the only issue* to consider when setting the targets. We believe that the "correct" target for any county is that target which is consistent with the sound operation of the program.

Obviously, the Legislature wants to provide counties with adequate resources to operate welfare programs with minimal errors in the amounts paid for benefits and with minimal delays for the recipients. On the other hand, we know of no reason that the Legislature would want to pay counties any *more* to operate the programs than they need in order to do a good job. Given this objective, the issue facing the Legislature with respect to the current productivity targets is technical—how should the department identify the highest productivity standard that is consistent with the sound operation of welfare programs?

Table 3

Productivity, Error Rates, and Processing Delays for the Twelve Largest Counties 1984–85

	Eligibility Worker Caseloads [a]	*Error Rates* [b]	*Percent of Cases Over 45 Days* [c]
Alameda	105.8	3.6%	13.0%
Contra Costa	85.5	2.3	4.9
Fresno	123.8	2.4	8.2
Los Angeles	110.4	2.4	0.5
Orange	80.8	2.6	2.8
Riverside	102.8	2.2	0.8
Sacramento	93.5	2.5	0.0
San Bernadino	95.7	2.2	0.4
San Diego	91.4	3.7	4.7
San Francisco	98.7	5.4	0.2
San Joaquin	113.9	1.1	1.0
Santa Clara	89.0	1.5	11.0
Twelve county average	99.3	2.6%	0.4%
Average of the three "model" counties	109.0	1.9%	0.8%

[a] Figures reflect the weighted average number of intake and continuing cases processed by AFDC eligibility workers and first-line supervisors during 1984–85.

[b] Figures reflect the simple average of the percentage of benefit overpayments in the April 1984 through September 1984, and October 1984 through March 1985, quality control samples. Underpayment errors were not available on a county-by-county basis at the time this analysis was prepared.

[c] Figures reflect the simple average of the percentages of cases that were not processed within 45 days during the March 1984 and June 1984 quarters.

The Budget Act language which requires the evaluation suggests a way to do this. Specifically, it suggests that one option available for evaluating the productivity targets is to use a peer grouping approach in which counties with exceptionally high error rates or long processing delays are excluded from the sample used to establish the targets.

We analyzed the AFDC eligibilty worker caseloads, error rates, and processing delays of the state's 12 largest caseload counties during 1984–85 (the most recent period for which this data was available). Table 3 displays the data used in this analysis. As the table shows, 3 of the 12 counties—Los Angeles, Riverside, and San Joaquin—combined high productivity with exemplary program performance.

The average productivity of these three "model" counties is 109.0 cases per worker, which is about 10 percent higher than the average for the remaining counties. We refer to these counties as "model" counties because they represent the ideal combination of high productivity and solid program performance. Their productivity, therefore, *could* be used as a standard for the other large counties. It is noteworthy that the average productivity of the 12 large counties in 1980–81 (the base year used for the current productivity targets) was 92.6 cases per worker. Thus a target of 109 cases per worker would represent a 17.7 percent increase over the current target.

Before requiring the other nine large counties to move toward this level of productivity, of course, it would be important to determine whether the three model counties differ in any relevant way from the other large counties. Do these counties, for example, have unusual caseload characteristics, geography, or degrees of computerization that could make it easier for them to combine high productivity with good program performance than it is for the other counties? To a large extent, the proposed studies of groupings and of support costs would account for variations of this kind.

We believe that the departments could complete a productivity target evaluation, based on the model county methodology described above, on a timely basis and within available resources. This is not to say that the department's study should take into account *only* the kinds of information reflected in Table 3. It does, however, provide a good starting point for a more detailed evaluation of productivity targets.

It is important to note that our proposal *does not* require that all counties be moved immediately to the model level of productivity. In fact, we would be reluctant to recommend any sudden, large increases in a county's productivity targets because of the potential effect that such a change could have on the county's error rate. Over a period of several years, however, we would expect the DSS to bring the lower productivity counties up to the level of the model counties, without adversely affecting error rates.

Conclusion. In sum, we believe that the departments could use a model county methodology to set achievable productivity standards that would reflect what it actually costs counties to administer the AFDC, Food Stamps, and Medi-Cal programs effectively. Therefore, we recommend that the Legislature adopt Budget Bill language directing the departments, in conjunction with the County Welfare Director's Association, to use a model county methodology to evaluate the current productivity targets for the AFDC, Food Stamps, and Medi-Cal programs. We further recommend that the language require the departments to report to the

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Joint Legislative Budget Committee and the fiscal committees, by December 1, 1986, on their progress in using this methodology to establish productivity targets for 1987–88. The following Budget Bill language is consistent with this recommendation:

"The Departments of Social Services and Health Services, in conjunction with the County Welfare Director's Association, shall conduct a study of the productivity targets in the AFDC, Food Stamps, and Medi-Cal programs during 1986–87. The study shall identify model counties within the various peer groupings established by the departments. These model counties shall be those that combine relatively high caseloads with relatively good program performance (as indicated by positive and negative error rates, processing delays, and any other performance indicators identified by the departments). The departments shall report to the Joint Legislative Budget Committee, and the fiscal committees by December 1, 1986, on their progress in using this methodology to establish productivity targets for 1987–88."

OTHER ISSUES

What a Bargain: Useless Data, Only $509,000

We recommend that the Legislature adopt Budget Bill language prohibiting the DSS from allocating $122,000 from the General Fund to the counties for their costs of preparing the overpayment collection report until the Director of Finance certifies that the DSS has taken the appropriate steps to ensure accurate reporting.

The budget proposes $509,000 ($122,000 General Fund, $265,000 federal funds, and $122,000 county funds) to cover the counties' costs of submitting a report to the state on overpayments to AFDC recipients. The report, which is required by the federal government, also provides data on overpayment collections.

Overpayments to AFDC recipients occur for one of three reasons: (1) administrative errors caused by Welfare Department staff, (2) errors caused by clients, or (3) fraud committed by clients. When the county becomes aware that an overpayment has occurred, it is required by law to record the overpayment as an account receivable and to attempt to recoup the amount that was overpaid. If an individual who has been overpaid is still receiving aid, the county is required to reduce the individual's welfare grant to recoup the overpayment. In the case of individuals who are no longer receiving aid, counties are also required to attempt to collect outstanding overpayments.

According to the overpayment collection report, accounts receivable involving overpayments totaled $164.4 million as of September 30, 1985. Of this amount, $51.6 million was identified as having been overpaid during FFY 1985 (October 1, 1984 through September 30, 1985). In that year, the counties report that they collected $23.7 million in overpayments and "wrote-off" $5.1 million in accounts receivable as uncollectible.

We *attempted* to assess the counties' performance in recouping overpayments by analyzing the data contained in the overpayment collection report. We were prompted to do so because, on its face, a collection ratio of 46 percent ($23.7 million is 46 percent of $51.6 million) does not seem adequate. The Franchise Tax Board, for example, collects more than 95 percent of accounts receivable from delinquent taxpayers.

Unfortunately, we were unable to assess the counties' performance because the DSS told us *the data contained in the overpayment collection* *report is useless* in terms of assessing individual counties' success in collecting overpayments. Specifically, 12 counties (including 3 of the 12 largest caseload counties) do not provide any data at all; several counties report too late for their data to be included in monthly summary statistics, and 4 counties (including 2 of the 12 "large" counties) provide estimated, rather than actual, data.

We asked the department what it is doing to improve the quality of the data reported by counties in the overpayment collections report. Frankly, the department's answer was not encouraging. The department advises that it simply notifies counties when the report is due and follows up these notifications with telephone contacts.

Until the department begins collecting accurate data on overpayment collections, we see little hope for the Legislature's efforts to assess the adequacy of counties' collections efforts, much less improve their performance. Were these efforts successful, the benefits to the General Fund would be considerable. In fact, we estimate that if the counties collected all of the funds that currently go uncollected, 45 percent of the recoveries, or roughly $75 million would be returned to the General Fund.

Given the amount at stake, it would seem that something more than a telephone call from the department is warranted when the counties do not fulfill their reporting obligations. This is especially true in light of the department's proposal to pay the counties $509,000 for preparing a report which the department acknowledges has no value to the state. Therefore, we recommend that the Legislature adopt Budget Bill language prohibiting the department from allocating state funds to the counties for overpayment collections reports until the Director of Finance has certified that the DSS has taken appropriate steps to ensure that the counties will report accurately, and on a timely basis. The following Budget Bill language is consistent with this recommendation:

> "Of the General Fund monies appropriated by this item for allocation to county welfare departments, the Department of Social Services shall hold $122,000 in reserve until such time as the Director of Finance certifies that the department has taken the appropriate action to ensure that the counties provide accurate information, on a timely basis, in the overpayment collection report."

Statewide Automated Welfare System (SAWS)

We withhold recommendation on $2,183,000 ($999,000 General Fund, $1,245,000 federal funds, and a savings to the counties of $61,000) proposed for the SAWS project, pending receipt of the department's annual report on the project (due in March).

The budget proposes $2,183,000 ($999,000 General Fund, $1,245,000 federal funds, and a savings to the counties of $61,000) to support the net county costs of the Statewide Automated Welfare System (SAWS) project in 1986–87. Chapter 268, Statutes of 1984, requires the DSS to report to the Legislature on each year's progress in achieving the goals established in the SAWS project. The annual report is due in March.

We withhold recommendation on the proposal for SAWS positions, pending review of the annual progress report on the SAWS project. Any decision concerning continued funding for this project must be made in light of its progress in meeting its stated objectives.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and Federal Trust Fund — Budget p. HW 155

Requested 1986–87	$388,274,000[a]
Estimated 1985–86	308,315,000
Actual 1984–85	232,237,000
Requested increase $79,959,000 (+26.0 percent)	
Total recommended reduction	4,560,000
Recommendation pending	28,064,000

[a] This amount includes $624,000 proposed in Item 5180-181-001(b) for cost-of-living increases.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social Services Programs, local assistance	General	$387,650,000
5180-151-890—Social Services Programs, local assistance	Federal	(489,359,000)
5180-181-001(b)—Social Services Programs, local assistance	General	624,000
5180-181-890—Social Services Programs, local assistance	Federal	(620,000)
Total		$388,274,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services (CWS) Review. Recommend that prior to budget hearings, the department report to the fiscal committees on tracking incidents of reabuse. 966
2. CWS—Caseloads. Recommend that prior to budget hearings, the department advise the fiscal committees on its progress in incorporating specific factors into its caseload estimate. 967
3. CWS—Allocation Formula. Recommend that the Legislature adopt Budget Bill language requiring the department to base its allocation formula 50 percent on caseload in 1986–87 and 100 percent on caseload in 1987–88. 967
4. CWS—Cost Control. Recommend that the Legislature adopt Budget Bill language requiring the department to adopt a cost control plan based on specific factors. 968
5. CWS—COLA. Recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to support the state's share of the CWS program given the CWS budget proposal. 970
6. Adult Protective Services. Recommend that the Legislature adopt supplemental report language requiring the department to make specific changes in its data collection for Adult Protective Services. 972

7. In-Home Supportive Services (IHSS)—County Match. Recommend that prior to budget hearings, the department report to the fiscal committees on (a) its reason for requiring the counties to exceed the matching amount specified in state law and (b) how it intends to address the problems resulting from the overmatch. 982
8. IHSS—Funding For Hours Growth. Recommend that prior to budget hearings, the department tell the fiscal committees how it plans to limit the growth in hours per case consistent with the assumptions on which the budget is based. 982
9. ***IHSS—Refugee Expenditures. Reduce Item 5180-151-001 by $610,000 (General Fund).*** Recommend a reduction to reflect savings that will result from requiring the counties to match the General Fund allocation for IHSS services to refugees. 984
10. IHSS—Gatekeeper. Withhold recommendation on $5,514,000 proposed for the Gatekeeper program, pending receipt of the May revision. Recommend that the May revision include a revised cost estimate and a revised allocation methodology for these funds. 984
11. IHSS—Service Providers. Recommend that the Legislature adopt supplemental report language directing the department to compile and evaluate information about IHSS service providers. 985
12. ***Greater Avenues for Independence (GAIN) Program—Proposed Budget.*** Withhold recommendation on the $45,100,000 ($22,550,000 General Fund, $22,550,000 federal funds) proposed for the GAIN program, pending receipt of an updated estimate reflecting the enabling legislation and incorporating changes that result from the department's review of county plans. 990
13. GAIN—Impact on Other Programs. Recommend the department advise the fiscal committees what it expects the impact of GAIN to be on other state-administered programs. 992
14. GAIN—Federal Reimbursement for Subsidized Day Care. Recommend that, prior to budget hearings, the Department of Finance report to the fiscal committees on the administration's progress in developing accounting procedures needed to claim federal reimbursement for state-subsidized day care costs. Withhold recommendation on $31 million in federal funds requested for the purpose of reimbursing the Department of Education, pending receipt of this report. 993
15. ***GAIN—Reappropriation. Reduce Item 5180-151-001 by $3,950,000 and reappropriate $3,950,000 from Ch 1025/85.*** Recommend that the Legislature reappropriate $3,950,000 remaining from Ch 1025/85 and reduce the General Fund appropriation proposed for GAIN in 1986–87 by the same amount to reflect the availability of these funds. 994
16. GAIN—Refugee Social Services. Withhold recommendation on $37,705,000 in federal funds proposed for refugee social services, pending a determination of whether these funds are budgeted twice. 995

SOCIAL SERVICES PROGRAMS—Continued

17. GAIN—Unintended Overhead Cost Shifts. Recommend that the Legislature adopt Budget Bill language directing the department to eliminate, or minimize the potential for unintended overhead cost shifts resulting from implementation of the GAIN program. 996
18. GAIN—Out-Year Fiscal Impact. Recommend that the Legislature adopt Budget Bill language requiring the department to (a) notify the Legislature when the department approves a county plan that implies a higher-than-anticipated cost (given the caseload of the county), and (b) advise the affected county that approval of its plan is subject to review by the Legislature as part of the 1987–88 budget process. 997
19. GAIN—Employment Development Department's (EDD) Role. Recommend adoption of supplemental report language directing the EDD and the DSS to advise the counties that EDD is available to provide services under the GAIN program on a contractual basis. 999

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various programs that provide services, rather than cash, to eligible persons who need governmental assistance. The six major programs providing these services are (1) Other County Social Services (OCSS), (2) Specialized Adult Services, (3) Employment Services, (4) Adoptions, (5) Refugee programs, and (6) Child Abuse Prevention.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, IV-E, and XX of the Social Security Act and the Federal Refugee Act of 1980. In addition, 10 percent of the funds available under the federal Low-Income Home Energy Assistance (LIHEA) block grant are transferred to Title XX social services each year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $388.3 million from the General Fund to support social services programs in 1986–87. This is an increase of $80 million, or 26 percent, above estimated current-year expenditures.

The budget proposes $974.3 million in expenditures from all funds to support social services. This amount consists of $883.4 million in appropriated funds (state and federal funds), $88.6 million in anticipated county expenditures, and $2.3 million from the State Children's Trust Fund. Table 1 displays program expenditures and funding sources for these programs in the past, current, and budget years.

Table 1
Department of Social Services
Social Services Programs
Expenditures From All Funds
1984–85 through 1986–87 [a]
(dollars in thousands)

Programs	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87* [b]	*Change From 1985–86* *Amount*	*Percent*
A. Other county social services	$269,734	$295,857	$326,205	$30,348	10.3%
1. Child Welfare Services	(202,449)	(222,813)	(252,590)	(29,777)	13.4
2. County Services Block Grant	(67,285)	(73,044)	(73,615)	(571)	1.0
B. Specialized Adult Services	340,720	418,870	434,888	16,018	3.8
1. In-Home Supportive Services	(335,943)	(413,202)	(429,220)	(16,018)	3.9
2. Maternity Home Care	(2,167)	(2,254)	(2,254)	(—)	—
3. Access Assistance for Deaf	(2,610)	(3,414)	(3,414)	(—)	—
C. Employment Services	13,871	32,533	125,381	92,848	285.0
1. GAIN	(—)	(14,300)	(45,100)	(30,800)	215.0
2. WIN-Demo	(10,682)	(13,535)	(37,903)	(24,368)	180.0
3. JTPA	(3,189)	(4,698)	(211)	(−4,487)	−95.5
4. Other	(—)	(—)	(42,167)	(42,167)	100.0
D. Adoptions	24,182	20,873	20,738	−135	−0.6
E. Refugee Assistance	52,850	41,707	43,803	2,096	5.0
1. Social Services	(19,733)	(22,928)	(27,109)	(4,181)	18.2
2. Targeted Assistance	(33,117)	(17,260)	(15,175)	(−2,085)	−12.1
3. RDP	(—)	(1,519)	(1,519)	(—)	—
F. Child Abuse Prevention	11,604	19,654	23,297	3,643	18.5
Totals	$712,961	$829,494	$974,312	$144,818	17.5%
Funding Source					
General Fund [c]	*$233,833*	*$328,448*	*$393,382*	*$64,923*	*19.8%*
Federal funds	*419,239*	*423,264*	*489,979*	*55,715*	*15.8*
County funds	*60,933*	*76,870*	*88,613*	*11,743*	*15.3*
Children's Trust Fund	*−1,044*	*912*	*2,338*	*1,426*	*156.4*

[a] Includes actual 1984–85 and anticipated 1985–86 and 1986–87 county expenditures.
[b] Includes funds for COLAs ($19,675,000 from the General Fund, $6,233,000 in federal funds, and $6,733,000 in county funds). Included in these amounts is the Child Welfare Services COLA for 1981–82 through 1984–85.
[c] Includes General Fund expenditures of $388,274,000 requested in the Budget Bill and $5,108,000 from other appropriations.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services in 1986–87 is $144.8 million, or 17.5 percent, above estimated current-year expenditures. It also shows the various changes in funding for social services programs that are proposed in the budget year. The more significant of these changes are as follows:

- A $6.2 million increase due to anticipated growth in caseloads under the Child Welfare Services (CWS) program.
- A $31.3 million increase to provide for prior-year cost-of-living adjustments (COLAs) in the CWS program.
- A $3.1 million increase for administration of the In-Home Supportive Services (IHSS) program due to increased caseloads.
- A $3.2 million reduction due to savings associated with the IHSS Management Information System.
- A $36.8 million increase due to increased caseloads in the IHSS program.
- A $21.6 million decrease due to the one-time costs in the current year of the settlement in the *Miller v. Woods* court case.

SOCIAL SERVICES PROGRAMS—Continued

Table 2
Department of Social Services
Proposed Budget Changes
Social Services Programs
1986–87
All Funds
(dollars in thousands)

1985–86 expenditures (revised)		$829,495
A. Proposed changes:		
1. Other County Social Services		
a. CWS increased caseload	$6,182	
b. Chapter 1426, Statutes of 1985, COLA augmentation	−7,733	
c. CWS prior-year COLA	31,328	
d. IHSS administration increased caseload	3,085	
e. *Miller v. Woods*	−706	
f. Savings due to IHSS Management Information System	−3,223	
g. Increased administrative costs attributed to Gatekeeper	265	
h. Chapter 1163, Statutes of 1985 Adult Protective Services Demonstration Project	900	
i. Chapter 1159, Statutes of 1985, Adult Shelter Demonstration Project	250	
		30,348
2. In-Home Supportive Services		
a. Increased caseload	38,334	
b. Adjustments to basic costs	2,828	
c. *Miller v. Woods*	−21,600	
d. Time-per-task	−5,710	
e. Gatekeeper	2,411	
f. Other	−938	
		15,325
3. Employment services		
a. WIN	24,368	
b. JTPA child care	−4,487	
c. Employment Preparation Program	9,707	
d. GAIN	30,800	
e. San Diego EWEP	840	
f. SDE child care transfer	31,000	
		92,228
4. Adoptions		
a. Caseload adjustments	29	
b. Joint Assessment Facilitation	−125	
c. Inter-country adoptions	−39	
		−135
5. Refugee programs		
a. Social services	4,181	
b. Targeted assistance	−2,085	
		2,096
6. Child abuse prevention		
a. Chapter 1618, child abuse prevention training	—	3,642
B. Proposed COLAs		
1. IHSS Statutory maximum	693	
2. Employment Services	620	
		1,313
1986–87 expenditures (proposed)		$974,312
Change from 1985–86		
Amount		$144,817
Percent		17.5%

- A $5.7 million decrease due to savings associated with the implementation of the time-per-task standards in the IHSS program.
- A $92.2 million increase in the cost of employment programs due to (1) the implementation of Chapter 1025 and (2) the transfers of funding for some of these programs from other parts of the state budget into this item.
- A $4.2 million increase due to increased caseloads in the Refugee Services Program.
- A $3.6 million increase in order to fund the Child Abuse Prevention Training Act (Chapter 1618) as an ongoing program.

The proposed increase of $144.8 million from all funds consists of (1) a General Fund increase of $64.9 million, or 20 percent, (2) a federal funds increase of $55.7 million, or 16 percent, (3) an increase in county funds of $11.7 million, or 15 percent, and (4) an increase of $1.4 million from the State Children's Trust Fund. The General Fund bears a larger share of the increase in the cost of social services programs for the following reasons:

- ***State Law Limits the Counties' Share of Costs.*** Chapter 978, Statutes of 1982, limits the increase in the counties' share of OCSS program costs to the percentage cost-of-living increase provided in the program. As a result, the state will fund 82 percent of the increase in nonfederal costs under the OCSS program in 1986–87; the counties will pay for the remaining 18 percent. Similarly, state law (Chapter 69, Statutes of 1981) limits the counties' share of costs under the IHSS program to 10 percent of any increase in total program costs over a specified base amount. The administration, however, proposes that in 1986–87, counties be required to provide a match exceeding the amount specified in state law by 58 percent, or $9.6 million. (We discuss this issue in more detail below.)
- ***Limited Federal Funds.*** The amount of federal funds (Title XX, Title IV-B, Title IV-C, Refugee, and LIHEAP) made available to California is based on federal appropriation levels and the state's share of the nation's population (or other demographic measures). The amount of these funds is not provided based on program costs, as is the case under programs such as Aid to Families with Dependent Children. Thus, although expenditures for the programs supported by Title XX (IHSS) are budgeted to *grow* by 3.7 percent in 1986–87, California's Title XX allocation for federal fiscal year (FFY) 1987 is expected to be about 3 percent *less* than the state's allocation for FFY 1986.

ANALYSIS AND RECOMMENDATIONS

OTHER COUNTY SOCIAL SERVICES

Proposed Funding for OCSS. The budget proposes total spending of $326.2 million for the OCSS program in 1986–87. This amount consists of $60.2 million in federal funds (Titles IV-A, IV-B, and IV-E), $204.6 million in General Fund support, and $61.4 million in county funds. The total amount proposed for OCSS is $30.3 million, or 10.3 percent, larger than the 1985–86 amount.

Of the amount requested for OCSS, $252.6 million is proposed for the Child Welfare Services (CWS) program. This amount includes $31.3 million (all funds) to fully fund COLA as provided by county welfare departments to their staffs between 1981–82 and 1984–85. The balance of the OCSS request—$73.6 million—is proposed for the County Services Block

SOCIAL SERVICES PROGRAMS—Continued

Grant (CSBG). The budget does not propose a COLA for OCSS to compensate for inflation in 1986–87.

County Services Block Grant (CSGB). The CSBG programs include IHSS administration, out-of-home care and protective services for adults, information and referral, staff development, and 13 optional programs.

Child Welfare Services (CWS). The CWS program provides services to abused and neglected children and children in foster care and their families. The program has four separate elements:

- *The Emergency Response program* requires counties to provide immediate social worker response to allegations of child abuse and neglect. In addition to initial investigation and intake, the program provides supportive services for abused and neglected children and their parents or guardians. These services may include counseling, emergency shelter and care, and transportation.
- *The Family Maintenance program* requires counties to provide ongoing services to children (and their families) who have been identified through the Emergency Response program as victims, or potential victims, of abuse or neglect. The primary goal of the program is to allow children to remain with their families under safe conditions, thereby eliminating unnecessary placement in foster care. Services provided through this program include social worker case management and planning, as well as supportive services such as counseling, emergency shelter and care, in-home caretakers, and teaching and demonstrating homemakers.
- *The Family Reunification program* requires counties to provide services to children in foster care who have been temporarily removed from their families because of abuse or neglect. The program also provides services to the families of such children. The primary goal of the program is to safely reunite these children with their families. Services provided through this program include social worker case management and supportive services.
- *The Permanent Placement program* requires counties to provide case management and planning services to children in foster care who cannot be safely returned to their families. The primary goal of the program is to ensure that these children are placed in the most family-like and stable setting available, with adoption being the placement of first choice.

Review of the Child Welfare Services Program

We recommend that prior to budget hearings, the department describe for the fiscal committees (1) the type of information yielded by its system for tracking recidivism rates among children who have been reunited with their families (that is, the rate at which children reenter the CWS system) and (2) the usefulness of this information.

In a May 1985 report entitled *Child Welfare Services: A Review of the Effect of the 1982 Reform on Abused and Neglected Children and Their Families* (No. 85-13), we evaluated the performance of the CWS program and its effect on abused and neglected children and their families. That report contains the recommendation listed above. This recommendation reflects the fact that no information is available which allows the Legislature to determine if a child is returned to foster care after having received family reunification services.

Caseload Estimates for Family Reunification and Permanent Placement May be Underestimated

We recommend that, prior to budget hearings, the department advise the fiscal committees on its progress in incorporating specific factors into its estimates of the family reunification and permanent placement caseloads.

In our analysis of the AFDC-Foster Care (AFDC-FC) program, we point out that the department's caseload projections for 1986–87 are not consistent with recent experience. Specifically, the department assumed that the foster care caseload will increase until December 1985, at which time it will flatten and remain level through 1986–87. Because the children in the family reunification and permanent placement programs are essentially the same children served by the AFDC-FC program, DSS has also assumed that the caseload for these two CWS programs will display a similar no-growth pattern. The department's assumption may cause the CWS program to be underfunded by about $11 million (all funds).

As we point out in our analysis of the foster care caseload, the department did not consider a number of factors which might explain why the foster care caseload has been increasing. These factors include increased reports of abuse and increased CWS activities made possible by the increased level of funding. These factors also may help to explain the increase in caseloads for family reunification and permanent placement programs.

With this in mind, we recommend that DSS (1) consider the increasing number of abuse reports, as well as the effects of the CWS system, when estimating future caseload growth for the family reunification and permanent placement programs, and (2) report to the Legislature on its progress in explaining recent caseload trends using these variables.

Child Welfare Services Allocation Formula Needs Improvement

We recommend that the Legislature adopt Budget Bill language modifying the formula used to allocate funds to counties.

As we have pointed out in recent years, there is a large disagreement between the state and the counties as to whether the funds provided for CWS have been adequate to fully fund the program. One of the reasons for this disagreement is that the department allocates funds to the counties based on measurements of need that are different from the measures used to determine the statewide costs of the program.

The department estimates the statewide costs of the program based almost entirely on the actual and projected CWS caseloads. The department, however, allocates funds to the counties using a formula that is not based primarily on CWS caseloads. This formula is based on the following factors:

1. Number of AFDC-FC children in each county (weighted 26.6 percent).
2. Number of AFDC-FG/U children in each county (26.6 percent).
3. Population age 0–17 in each county (26.6 percent).
4. County reports on emergency response and family maintenance caseloads (10 percent).
5. County reports on family reunification and permanent placement caseloads (10 percent).

Thus, CWS caseload measures are given only a 20 percent weight in the allocation formula. The other 80 percent is accounted for by broad indicators of need.

SOCIAL SERVICES PROGRAMS—Continued

While AFDC caseloads may be good indicators of the amount of poverty in a county, we have never found any significant correlation between poverty levels and child abuse. Moreover, while population age may be a good measure of the *potentially* abused and neglected population, it does not measure need as adequately as CWS caseloads. As a result, the department's allocations to counties may not accurately reflect the counties' actual CWS program costs.

The requests from a number of counties to shift $1.9 million (net) of their 1984–85 CWS allocations to their County Services Block Grant allocations is another indication that the allocation methodology is not reflective of individual county needs.

Historically, DSS has argued that the CWS caseload data collected from the counties are not accurate enough to guide the allocation of CWS funds. We believe, however, that caseload reports have become increasingly more accurate since the beginning of the present CWS program, due to the efforts of both the department and the counties. Moreover, DSS must have a large degree of confidence in this data since it uses the data to prepare the budget proposal for the CWS program. If the caseload information received from the counties is accurate enough to be used in this manner, it is not clear why it should not be used as the basis for allocating CWS funds to the counties.

We believe it is time to begin allocating CWS funds based on program need as measured by program caseload. To allow for a smooth transition to a new caseload-based allocation system, we suggest that the new system be phased in over two years. Accordingly, we recommend that the Legislature adopt Budget Bill language requiring DSS to increase the weight given to caseload reports in its allocation formula from 20 percent to 50 percent in 1986–87, and from 50 percent to 100 percent in 1987–88. The following language is consistent with this recommendation:

> "The Department of Social Services, in consultation with representatives from county welfare departments, shall implement a formula for allocating Child Welfare Services (CWS) funds to counties, that in 1986–87 is based 50 percent on CWS caseloads, and is based 100 percent on CWS caseloads in 1987–88. The other factors currently used to allocate funds—AFDC caseloads and population age 0–17—shall be reduced accordingly."

DSS Needs a CWS Cost Control Plan

We recommend that the Legislature adopt Budget Bill language requiring DSS to adopt a cost control system for CWS based on specified factors.

State law requires the department to establish "a plan whereby costs of county-administered social services programs will be effectively controlled within the amount annually appropriated for these services." The DSS currently uses its county allocation plan as its cost control plan.

We recognize that an allocation plan limits the amount of state and federal funds that each county may spend, and is, therefore, a *spending plan*. A spending plan, however, is not the same as a cost control plan, for the following reasons:

- ***An Allocation Plan Provides Information on How Much Money Will be Spent for a Program: It Does Not Help Control Program Costs.*** The state needs to exert some control over individual county expenditures because the counties make decisions that directly affect the cost of the CWS program. For example, counties are able to influence the following factors:

- ***Caseloads.*** To the extent that counties prioritize the types of referrals to which they respond, they affect caseload size. For example, some counties may determine that they will respond only to the most urgent, life-threatening of abuse reports. Other counties may respond to reports of a less threatening nature (for example, a report of a child occasionally being left alone).
- ***Salaries.*** Counties set the salary ranges for their employees. While their flexibility in this area is constrained by collective bargaining and labor market conditions, counties have a much more direct impact on the staff costs of the CWS program than does the state. Because the budget proposes to remove the limit on General Fund support for county-granted COLAs, the state will no longer be able to rely on this mechanism to control costs in the program.
- ***Staff Size.*** Counties, rather than the state, decide how funding—and thus, staff—is allocated among the four CWS programs. Counties may opt to place more social workers in a program than are necessary in order to comply with state law. For example, our May 1985 report on CWS shows that counties have allocated more social workers to the family reunification and permanent placement programs than are needed in order to achieve the goals of the program. Although DSS uses staffing "guidelines" when estimating the costs of the CWS program, these guidelines are not enforced at the county level. By enforcing workload standards at the county level, DSS would be able to limit the state's share of CWS program costs, while assuring that state aid is adequate to provide for the social workers needed in order to comply with the service requirements.

- ***An Allocation Plan Cannot Serve as the Basis for Determining the Appropriate Costs of Providing These Services.*** Specifically, the allocation plan provides no basis for determining workload standards (that is, the number of cases a social worker *should* carry). These workload standards are important because they provide a means for ensuring that staffing increases (and therefore increased costs) are the result of increases in workload (cases).

We believe that a cost control plan based on workload standards will ensure that increased costs in the program are the result of increased workload, rather than inefficiencies. These workload standards should:

- ***Reflect the counties' actual experience*** in each of the four CWS program areas after full-funding of the program.
- ***Include a clear definition of what constitutes a "case."*** Currently, the definition of a "case" can be a child, an entire family, or any individual receiving services through the CWS system.
- ***Include a clear measure of what is a successful termination of service.*** It is important that counties and DSS be able to measure the *effectiveness* of the CWS program, not just compliance with regulations.

Accordingly, we recommend that the Legislature adopt Budget Bill language requiring DSS to adopt a cost control system based on (1) workload standards reflective of the increased level of staff allowed by the additional funding of the program, (2) clear definitions of what constitutes

SOCIAL SERVICES PROGRAMS—Continued

a case, and (3) a clear measurement of the effectiveness of county-delivered CWS. These standards should be reviewed annually and revised as necessary. In order to provide for a smooth transition to the new system, we recommend that it be phased-in over a two-year period. The following language is consistent with this recommendation:

"The Department of Social Services shall, in consultation with representatives of county welfare departments, adopt a cost control system that employs workload standards for each of the four Child Welfare Services programs. These standards shall be implemented over a two-year period beginning in 1986–87. The standards shall be reviewed annually by the department and the counties and revised as necessary. The department shall, also in consultation with county representatives, develop a definition of what constitutes a "case" in all four Child Welfare Services programs, to be applied in regulation. The department and the counties shall develop clear measures for the successfulness of service delivery in the Child Welfare Services program."

Underfunding of Child Welfare Services

We recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to support the state's share of the Child Welfare Services (CWS) program.

Our review of the proposed budget for the CWS program finds that the program is underfunded by approximately $2 million. The shortfall consists of $1.3 million in General Fund support and $0.7 million in federal and county funds.

The Department of Social Services (DSS) estimates that in 1985–86, the counties will grant COLAs of 4.8 percent to their employees in the county-administered welfare programs—Aid to Families with Dependent Children (AFDC), Food Stamps, and CWS. The budget proposals for AFDC and Food Stamps include General Fund support for the state's share of the full 4.8 percent COLA. The budget, however, provides General Fund support for COLAs amounting to only 4 percent in the case of the CWS program. This results from a technical error in the budget proposal.

We recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to fund the state's share of the CWS program.

ADULT PROTECTIVE SERVICES

The Adult Protective Services (APS) program in California provides protective services to dependent adults and elders in order to prevent or remedy neglect, abuse, or exploitation of these individuals. Under the APS program, an elder is someone who is age 65 or over. A dependent adult is anyone over the age of 18 who is unable to live independently because of physical, mental, or emotional handicaps.

Examples of Service Delivery

The types and extent of services provided under the APS program vary significantly among the counties. This is because state law and regulations do not specify the type of services to be provided to eligible clients. As a result, counties have established programs that differ depending on demographics, history, and financial and political priorities.

Most counties offer a core of basic services which are designed to provide short-term, crisis intervention assistance to eligible adults. These basic services include:

- Direct telephone access to the county APS agency.
- Screening of telephone calls to determine the urgency of the situation and the appropriate action that should be taken.
- Emergency response to calls during working hours. Generally, APS agencies can have a social worker respond to emergency situations within several hours, depending on the urgency of the situation. In most counties, this capability exists only during regular working hours.
- Referral to other community services and law enforcement agencies. Often APS agencies receive calls from individuals who are requesting only information or who would be better served by another agency.
- Limited case management. In some instances, social workers provide case management services by arranging for the provision of direct services such as counseling and respite care, rather than providing these services directly. In most counties, the goal is to limit case management services to about 30 days. The length of time an individual case is carried by a social worker depends on the seriousness of the case and the amount of funds available to the agency.
- Placement assistance. Social workers will arrange for out-of-home care for an elder or dependent adult when the individual is unable to arrange such services. Placement is usually into a board and care or skilled nursing facility or hospital.

In addition to these basic services, some counties elected to provide other services. These additional services may include:

- ***Transportation.*** Some counties provide transportation to medical appointments, day care/treatment facilities, shopping, shelter, or placement out-of-county.
- ***Counseling.*** Some counties provide this service directly if they have the resources and expertise available.
- ***Twenty-Four Hour Emergency Response.*** A few counties have the staff and resources to provide around-the-clock emergency assistance to eligible adults. This normally consists of face-to-face contact between the social worker and the abused adult, and may include finding emergency shelter or placement in a medical facility.
- ***Shelter Care.*** County-operated or funded shelters are available in a few counties. In counties that operate or fund their own shelters, this service usually is available to the eligible person for a very limited period of time—usually 24 hours. Use of Salvation Army shelters and similar facilities is common in counties with and without their own shelters.
- ***Emergency In-Home Supportive Services (IHSS).*** Counties are authorized to arrange for IHSS before a person's eligibility has been determined. Counties use this service to varying degrees.

Funding of Adult Protective Services

The Other County Social Services (OCSS) program provides funds for Child Welfare Services (CWS) and the County Services Block Grant (CSBG). The CSBG funds are then divided between In-Home Supportive Services (IHSS) administration and "other social services." Other social services include Adult Protective Services, Information and Referral, staff development, and several optional programs.

SOCIAL SERVICES PROGRAMS—Continued

Although funds for CWS and CSBG are provided to counties in separate allocations, counties may request a transfer of funds between these two programs. In 1984–85, 16 counties requested a shift of funds between their CWS and CSBG allocations. This resulted in a net shift of $1.9 million out of CWS and into CSBG. Counties also have wide discretion as to how they allocate funds to the programs within the CSBG.

Table 3 shows the funding levels for CSBG between 1983–84 and 1986–87. Although the funds for IHSS administration and other social services are identified separately, counties can shift funds to any program within the block grant according to their own priorities. For this reason it is difficult to estimate what the actual level of expenditure will be for the individual programs within the block grant. Funding for APS at the county level will depend on the emphasis placed on the program by the counties in relation to the other block grant programs.

Table 3
County Services Block Grant
All Funds
1983–84 through 1986–87
(in thousands)

	Other Social Services [a]	*IHSS Administration* [b]	*Total*
1983–84	$25,560	$36,931	$62,491
1984–85	26,602	41,053	67,655
1985–86	27,665	45,379	73,044
1986–87	27,665	44,800	72,465

[a] Increases due to COLAs.
[b] Fluctuations due to changes in caseload and COLAs.

Legislature Needs Better Information on the Adult Protective Services Program

We recommend that the Legislature adopt supplemental report language requiring the department to make specific changes in the data it collects regarding Adult Protective Services.

During the last couple of years, the Legislature has expressed increasing concern about California's Adult Protective Services Program. In order to address these concerns, the Legislature enacted several measures including the following:

- ***Chapter 1273, Statutes of 1983 (SB 1210).*** This measure requires specified professionals—primarily doctors, welfare and probation department workers, and employees of nursing homes—to report incidents of elder abuse. The measure also required the Department of Social Services to submit a report to the Legislature on various aspects of elder abuse.
- ***Chapter 1163, Statutes of 1985 (SB 129).*** This measure appropriates $1.0 million from the General Fund in order to establish model APS projects in a minimum of five counties.
- ***Chapter 1159, Statutes of 1985 (AB 57).*** This measure appropriates $560,000 from the General Fund to develop a pilot program to establish emergency and temporary shelters for elderly and dependent adult victims of abuse, neglect, or abandonment.

In December 1985, the department submitted to the Legislature the report required by Chapter 1273. We have reviewed the findings contained in the report.

In general, the report provides the Legislature with some valuable information on the extent to which dependent adults and elders are abused. It offers statistical information on the number of dependent adult and elder abuse referrals received by counties during calendar year 1984. The report also provides limited information on the nature of abuse situations and the relationship between the victim and the abuser. The Legislature, however, should be aware that the data in the report have these limitations:

- ***In General the Report Does Not Distinguish Between Abuse and Self-Neglect.*** While the report shows that in one month (July 1984) self-neglect accounted for about 52 percent of the reports of abuse and neglect, it is not clear that this is representative of reports received in other months.
- ***To a Certain Extent, the Report Double-Counts Cases of Abuse and Neglect.*** This is because more than one person may report the same case of abuse to an elder protective agency.
- ***The Characteristics Study of Abuse Victims and Their Abusers Was Derived From Data Collected During Only One Month—July 1984.*** As a result, there is no information available about whether or not the characteristics of abuse victims and their abusers change over time. The department advises us that it does not have any plans to collect more data on the characteristics of the abused and the abusers.
- ***The Report Does Not Identify the Number of Reports of Abuse and Neglect Which Result in a Case for Which Ongoing Services Are Provided.*** As a result, the department cannot identify the number of APS cases in a county.

The department advises that while it will continue to compile information on reports of abuse and neglect, it has no plans to submit this information to the Legislature or to conduct another characteristic survey.

We believe the department should improve the reporting of dependent and elder abuse and self-neglect and submit this information to the Legislature. Such information will assist the Legislature in determining the potential fiscal impact of expanding statewide the pilot projects established by Chapters 1159 and 1163.

In order to improve the reporting of dependent adult and elder abuse and self-neglect, we recommend that the department modify the current reporting system so that it:

- Prevents duplicate counting of abuse reports.
- Distinguishes between abuse by others and self-neglect.
- Identifies the type of abuse or neglect that has occurred (for example, physical, sexual, fiduciary).
- Indicates the person (friend, relative, medical practitioner, etc.) who identified the abuse or neglect.
- Identifies the action taken by the county in response to the report of abuse or neglect.
- Identifies the number of APS cases in a county, using a consistent definition of a case.
- Collects information once a year on the characteristics of dependent adults and elders who are abused or suffer from self-neglect.

To assure that this occurs, we recommend that the Legislature adopt the following supplemental report language:

SOCIAL SERVICES PROGRAMS—Continued

"The Department of Social Services shall report to the Legislature by March 1, 1987, on the characteristics and frequency of dependent adult and elder abuse and self-neglect in the state during 1986. The report shall:

"• Identify the number of dependent adults and elders who are victims of abuse according to the type of abuse that has occurred (physical, etc.).

"• Identify separately the number of dependent adult and elder abuse and self-neglect cases.

"• Identify the sources of reports of abuse or neglect.

"• Identify the action taken by the county for each report of abuse or neglect.

"• Identify the APS caseloads in each county, using a consistent definition.

"• Include a characteristic survey of abuse victims and abusers for at least one month during 1986."

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance. This criterion implies that the IHSS program *prevents* the institutionalization of recipients. Eligibility for the program, however, is *not* based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he/she lives in his or her own home, or is capable of safely doing so, if IHSS is provided and meets one of the following conditions:

- Satisfies all SSI/SSP eligiblity criteria.
- Was once eligible for SSI/SSP due to disability, and although currently employed, still has the disability.
- Has income that exceeds the SSI/SSP limits, but is otherwise eligible for SSI/SSP and is willing to pay a share of the costs of services provided by IHSS.

An eligible individual will receive IHSS services if the county determines that (1) these services are not available through alternative resources and (2) the individual is unable to remain safely at home without the services.

The following services are available through the IHSS program:

- ***Domestic and related services*** such as routine cleaning, meal preparation, shopping, and other household chore services.
- ***Nonmedical personal services*** such as feeding, bathing, bowel and bladder care, dressing, and other services.
- ***Essential transportation.***
- ***Yard hazard abatement.***
- ***Protective supervision,*** such as observing the recipient's behavior to safeguard him or her against injury.
- ***Teaching and demonstration*** to enable recipients to perform services that they currently receive from IHSS.
- ***Paramedical services*** which are (1) performed under the direction of a licensed health care professional, (2) necessary to maintain the recipient's health, and (3) activities the recipient would normally perform but for their functional limitations.

The IHSS program is administered by county welfare departments. Each county may choose to deliver services in one or a combination of three ways: (1) directly, by county employees, (2) by private agencies under contract with the counties, or (3) by individual providers hired directly by the recipients. The most common services delivery method involves the use of individual providers. The department estimates that individual providers will provide services to 80 percent of all IHSS recipients in 1985–86.

IHSS Faces Major Deficit in the Current Year

The department estimates that expenditures for the IHSS program in 1985–86 will exceed the current-year appropriation by $23,270,000. This increase includes:

- $20 million due to average hours per case being 5.7 percent higher than what was estimated in the 1985 Budget Act.
- $3.3 million due to a caseload that is 1 percent higher than what was estimated in the 1985 Budget Act.

The department indicates that it will not implement program reductions in order to keep the IHSS program within the amounts appropriated by the 1985 Budget Act. Instead, the department proposes to fund $17.1 million through a deficiency appropriation that will consist of $15.6 million from the General Fund and $1.5 million in county funds. In addition, the department indicates that (1) it will allocate $585,000 in federal Title XX funds to the program and (2) the counties will fund an additional $5.6 million of the deficit. (The department's plan to fund the deficit is discussed further later in this analysis.)

Deficit May Be Higher Than the Department Projects

Our analysis indicates that the 1985–86 deficit actually is $26,070,000, or $2.8 million higher than the department currently projects. The department reduced the estimate of the deficit by $2.8 million on the assumption that the growth in hours per case will decline slightly as a result of county controls. The department, however, has provided us with no information to document this assumption.

Proposed Budget-Year Expenditures

The budget proposes $428,527,000 in expenditures for the IHSS program in 1986–87. This is an increase of $15.3 million, or 3.7 percent, above estimated current-year expenditures. The significant changes that account for the increase are as follows:

- A $36.8 million increase to fund an estimated 8 percent increase in basic caseload, and a 2.5 percent increase in average hours per case.
- A $2.8 million increase in adjustments to basic costs because savings of a like amount will not occur in 1986–87.
- A $2.4 million increase to fund increased basic costs, which the department attributes to the Gatekeeper program.
- A $1.5 million increase to fund the 1985–86 provider COLA.
- A $21.6 million decrease reflecting one-time costs in the current year associated with the settlement in the *Miller v. Woods* court case.
- A $5.7 million decrease resulting from full-year implementation of time-per-task standards.

Table 4 displays IHSS program expenditures, by funding sources, for the past, current, and budget years.

SOCIAL SERVICES PROGRAMS—Continued

Table 4
Department of Social Services
IHSS Program
Expenditures and Funding Sources
1984–85 through 1986–87
(dollars in thousands)

Funding Sources	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
General Fund	$161,587	$90,034	$103,639 [a]	15.1%
Federal funds	166,774	303,221	298,673	−1.5
County fund	7,582	19,947	26,215 [a]	31.4
Totals	$335,943	$413,202	$428,527 [a]	3.7%

[a] Includes $693,000 to provide a 4.9 percent statutory cost-of-living adjustment to raise the maximum payment level for specified recipients.

Table 4 shows that, while expenditures for the IHSS program from all funds are expected to increase by 3.7 percent, expenditures from the General Fund are expected to increase by 15 percent, and expenditures from county funds are expected to increase by 31 percent. The increase in General Fund expenditures results from the fact that federal Title XX funds carried over from 1984–85 to 1985–86 will not be available in 1986–87. The increase in county expenditures results from (1) the department's proposal to increase the county matching amount (discussed later in this analysis) and (2) the fact that statute requires the counties to fund 10 percent of a growing proportion of the total IHSS program costs.

The budget estimates that the number of persons served by the IHSS program will increase by 9,145, or 7.9 percent, above the estimated number of persons served in the current year. Table 5 displays the average monthly caseload, by service delivery type, for the past, current, and budget years.

Table 5
Department of Social Services
IHSS Program
Average Monthly Caseload
By Provider Type
1984–85 through 1986–87

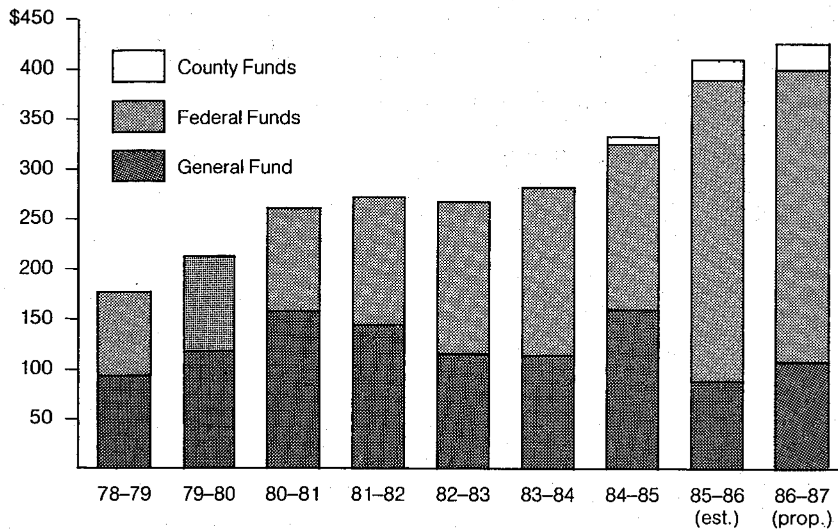
Service Provider Types	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent of Total 1986–87*	*Percent Change From 1985–86*
Individual providers	84,545	92,852	101,375	81.2%	9.2%
Contract provider agencies	20,298	21,536	22,158	17.7	2.9
County welfare staff	1,487	1,350	1,350	1.1	—
Totals	106,330	115,738	124,883	100.0%	7.9%

Expenditures and Program Growth Returning to Pre-SB 633 levels

Chapter 69, Statutes of 1981 (SB 633), made significant changes in the IHSS program that slowed the growth of program expenditures for several years. Senate Bill 633 required counties to (1) share in the costs of the program and (2) submit expenditure plans to DSS. The bill also authorized counties to make specified program cuts in order to stay within their allocation of funds. In addition, Senate Bill 633 eliminated "comfort" as a basis for assessing an individual's need for services. As a result of these changes, counties are required to provide only those services that recipients need in order to ensure that they can live *safely* at home.

Chart 1 displays expenditures in the IHSS program for a nine-year period. During the period prior to implementation of SB 633 (1978–79 through 1980–81), the program grew at an average annual rate of 22 percent. Following the implementation of SB 633 in 1981–82, the annual growth rate slowed to 2.9 percent for three years. Between 1983–84 and 1985–86, however, expenditures climbed by an average annual rate of 20 percent.

Chart 1
In-Home Supportive Services' Expenditures Continue to Increase 1978–79 through 1986–87 (in millions)



In spite of the recent growth in IHSS expenditures, DSS proposes an increase of only 3.7 percent for the IHSS program in 1986–87. The department asserts that the following three factors will cause IHSS expenditures to grow more slowly than in previous years:

- The average number of hours per case will not grow as fast as it has

SOCIAL SERVICES PROGRAMS—Continued

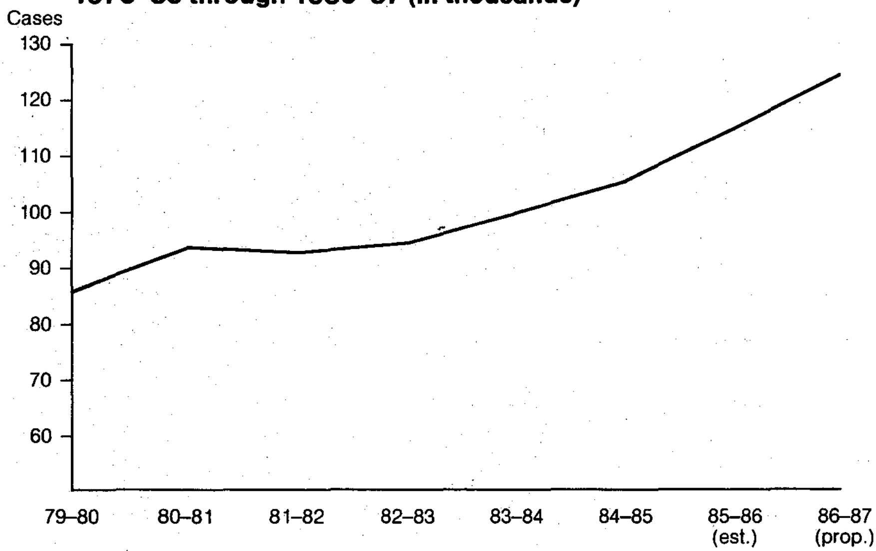
in recent years. Although the average hours per case have grown at an annual rate of 4.5 percent in the past, the department estimates that these hours will increase by only 2.5 percent in 1986–87. This reduces estimated costs by $9 million (all funds).

- The budget does not provide a discretionary cost-of-living (COLA) increase for service providers, resulting in a decrease of $3.6 million for each 1 percent increment.
- The budget anticipates that a settlement in the *Miller v. Woods* court case covering retroactive costs will result in a one-time cost of $21 million in the current year which will not occur in 1986–87.

It is important to note that if the department (1) proposed to fund the average hours per case based on recent experience and (2) provided a 4 percent COLA as it did in the current year, expenditures for 1986–87 would increase by 9.4 percent over the current year, instead of by 3.7 percent as the department projects. This rate is less than the 1985–86 rate because of the one-time costs in the current year resulting from *Miller v. Woods.*

Growing Demand for Services Explains Expenditure Growth. In general, two factors account for the growth in IHSS expenditures: (1) increased caseloads and (2) increases in the average hours of service provided to recipients. For example, the 20 percent average annual growth in expenditures between 1983–84 and 1985–86 can be attributed to (1) an average annual growth of 5.5 percent in hours per case and (2) a 7.6 percent average annual growth in caseload. Chart 2 shows that the IHSS caseload has increased steadily since 1982–83.

Chart 2
In-Home Supportive Services' Caseload is Growing
1979–80 through 1986–87 (in thousands)



The rate of growth in caseload and average hours per case is unlikely to diminish. This is because factors that are external to the program will continue to increase public demand for IHSS. These factors include the following demographic trends and governmental initiatives:

- ***The Population That Is Potentially Eligible for IHSS in California Is Increasing.*** The SSI/SSP caseload—which is the primary source for IHSS cases—has been increasing steadily since 1983–84. The department projects that the average monthly SSI/SSP caseload will increase by 18,213 recipients, or 2.7 percent, between 1985–86 and 1986–87. In addition, between 1980 and 1990 the population over the age of 65 is expected to increase at approximately double the rate for the under age 65 group, and the population which is 85 years of age and over is expected to increase at three times that rate.
- ***Hospitals Are Accelerating the Rate of Patient Discharges Because the Government and Private Insurers Are Reducing Reimbursements to Hospitals.*** For example, Medicare payments to hospitals have been curtailed by the new prospective payment system based on diagnostically related groups (DRGs). The payment system provides an incentive for hospitals to discharge patients "quicker"—and possibly "sicker" than they might have been in the past. Counties report that hospital discharge planners are referring an increasing number of these patients to IHSS so that they can safely recover in their own homes. As a result, many counties report an increase in referrals from hospitals.
- ***The Legislature Has Initiated Several Programs Which May Channel Individuals into the IHSS Program, Such as Adult Protective Services (APS), the Gatekeeper Program, Linkages, and the Multipurpose Senior Services Program (MSSP).*** In 1985, the Legislature also passed Ch 1286/85 (AB 2541), which provides funds to counties to serve the mentally ill homeless. All of these programs provide referral services to individuals that (1) are eligible for IHSS and (2) may be in need of IHSS.
- ***Advances in Medical Technology, Such as Portable Respirators and Treatment, Allow More Seriously Disabled Individuals Who Need More Hours of Service to Live at Home.***
- ***Demand for Services Is Accelerating in Those Counties That Have the Largest Share of Both the State's IHSS and SSI/SSP Populations.*** Therefore, in those countries that are already adding more than their share of new IHSS recipients, a greater number of individuals are *potentially* eligible for services than in other counties. For example, between 1983–84 and 1984–85, the eight counties that serve 71 percent of the state's IHSS caseload added 78 percent of the new IHSS recipients, while the other 50 counties that serve 29 percent of the caseload added only 22 percent of the new recipients. If this trend continues, it will drive the caseload upward.
- ***A Portion of the Eligible Population (1) are Unserved and (2) May Demand Services in the Future.*** Table 6 shows that counties provide IHSS to between 7 and 22 percent of their SSI/SSP recipients. The difference in the percentage served may represent (1) variation in the distribution of the elderly and disabled population, (2) availability of alternative resources, and (3) an unmet need for IHSS services. To the degree that there is unmet need, SSI/SSP recipients who do not currently receive services may demand IHSS in the future.

SOCIAL SERVICES PROGRAMS—Continued

We are unable to identify an accurate assessment of the total statewide need for IHSS. In the *Perspectives and Issues,* we recommend that the Department of Aging estimate the need for various long-term care programs, including IHSS, and provide that information as part of their annual report to the Legislature.

Table 6

Counties Provide IHSS to Different Percentages of Their SSI/SSP Recipients

Counties	*Percentage of SSI/SSP Caseload Receiving IHSS* [a]
Highest Percentage	
Marin	22.3%
Amador	21.9
Glenn	21.2
Los Angeles	19.7
Santa Cruz	19.5
Lake	18.8
Tulare	18.2
Contra Costa	18.1
Fresno	18.1
STATEWIDE AVERAGE	16.0%
Lowest Percentage	
San Joaquin	10.0%
Sacramento	9.5
Colusa	9.5
Modoc	9.0
Imperial	8.9
Trinity	8.9
San Luis Obispo	8.7
Del Norte	8.0
Kern	7.8
Siskiyou	7.0

[a] Based on data from 1984–85.

Program Uniformity Is Necessary to Manage Growth. Although external factors create increased demand for services, it is program management that determines how efficiently the services are provided. Within broad state guidelines, the counties apply varied policies and standards for determining (1) the client's level of impairment and (2) the number of service hours that an individual will receive. As a result, the number of service hours awarded to clients with similar levels of impairment vary widely among counties. This variation not only results in inequitable treatment of recipients; it also leads to the inefficient use of funds. Establishing program uniformity therefore becomes more important as expenditures and the demand for services grow.

The data indicates that some IHSS recipients receive too many hours of service; and some receive too few, relative to other recipients. To the extent that some of these service hours can be shifted to more needy recipients, state and federal funds will be used more efficiently. In addition, to the extent that the program can identify clients with similar levels of impairment, it can more effectively target funds to those individuals who will benefit the most from IHSS services.

The department and the Legislature recently have taken several steps to promote program uniformity. Specifically, the Legislature required the department to prepare a report by March 1, 1986, that establishes (1) its objectives for achieving uniformity in the provision of IHSS and (2) an implementation schedule for achieving these objectives. The department informs us that the report will be submitted on schedule.

In addition, the department (1) implemented time-per-task standards statewide in three new areas (laundry, food shopping, and errands), beginning January 1986, (2) is implementing a new Case Management, Information, and Payrolling System (CMIPS) statewide that will provide an information base beginning in June 1986 for monitoring counties' assessment and service award practices, and (3) is preparing to demonstrate in Santa Cruz County, the use of a computer-assisted assessment program that is designed to produce more equitable awards. Three other counties have utilized the program, but it is now undergoing modifications so that it can be used in conjunction with CMIPS.

IHSS Deficits Reappear. For three years following the passage of SB 633, there were no funding deficits in the IHSS program. In 1984–85, however, as demand for services caused expenditures to climb, the department projected a $7 million deficit.

Although SB 633 provided a mechanism for counties to implement program reductions if projected costs exceeded their allocations, the department did not use this mechanism to deal with the shortfall in 1984–85. Instead, the Legislature enacted Ch 86/85 (AB 1470) in order to fully fund the projected deficit in 1984–85.

In addition to funding the counties' deficits, AB 1470 made various changes in the IHSS program in order to reduce the likelihood of future program deficits. Specifically it:

- Requires DSS to notify the counties of their allocations by July 31 of each fiscal year.
- Requires that within 30 days following the DSS notification, counties submit their plans to the department showing how they intend to keep their expenditures within the amount allocated.
- Requires counties that plan service reductions in order to keep within the amount of their allocations to specify in the plan which types of services will be reduced and which client groups will be affected by the reductions.
- Prohibits counties from making service reductions without the approval of the department.
- Requires each county to report on the expected impact of any new or expanded programs on the IHSS program.
- Requires the department to consider using the information reported by the counties to develop its annual budget request.

Despite implementation of AB 1470, the department currently projects a $23.3 million deficit in the IHSS program for 1985–86.

SOCIAL SERVICES PROGRAMS—Continued

Department Increases County Match

We recommend that prior to budget hearings, the department report to the fiscal committees on (1) the basis for its decision to require the counties to pay a greater portion of IHSS program costs than what is specified in state law and (2) how it intends to address the problems created by increasing the county match.

Chapter 69, Statutes of 1981 (SB 633), requires counties to share in the costs of the IHSS program. That measure requires counties to pay 10 percent of the General Fund costs in excess of the expenditures for the IHSS program in 1980–81—$255.5 million. In both the current and budget years, the department proposes to require that the counties provide a match exceeding what SB 633 requires. Specifically, the department estimates that the counties will fund $20 million of the costs of the IHSS program in 1985–86 and $26.2 million of these costs in 1986–87. These amounts exceed what SB 633 requires by $4.8 million (32 percent) and $9.6 million (58 percent), respectively.

We do not know why the department proposes to increase the counties' share of costs above that required by state law. Our analysis indicates that this proposal could create funding problems for the IHSS program in the future. This is because it builds a potential deficit into the IHSS program for 1986–87. If the counties choose not to provide the additional $9.6 million, the IHSS program will be underfunded in 1986–87. Moreover, to the degree that the department continues to require a county match above the limit set by SB 633, counties will be unable to estimate their share of costs based on a matching *formula,* and budget their funds accordingly. During the current year, for example, the department's estimate of the counties' share of costs jumped from $12.8 million to $20 million.

With this in mind, we recommend that prior to budget hearings, the department advise the fiscal committees on (1) the basis for its decision to require that the counties exceed the matching amount established for the IHSS program by state law and (2) how it intends to address the problems that may result from increasing the county match.

Deficit Caused by Underfunding

We recommend that prior to budget hearings, the department advise the fiscal committees how it plans to limit the growth in hours per case as called for by the 1986–87 budget.

The budget projects that the average hours per IHSS case will increase by 2.5 percent between the current and budget years. This estimate assumes that hours of service per case will continue to increase until June 1986, at which time the average will flatten and remain level during 1986–87. (Because the department "flattens" the hours at the June 1986 level, the average for 1986–87 is 2.5 percent higher than the average for all of 1985–86.)

Our analysis indicates that the average hours per case may continue to increase at the same rate experienced during the past two years, or approximately 4.5 percent, for the following reasons:

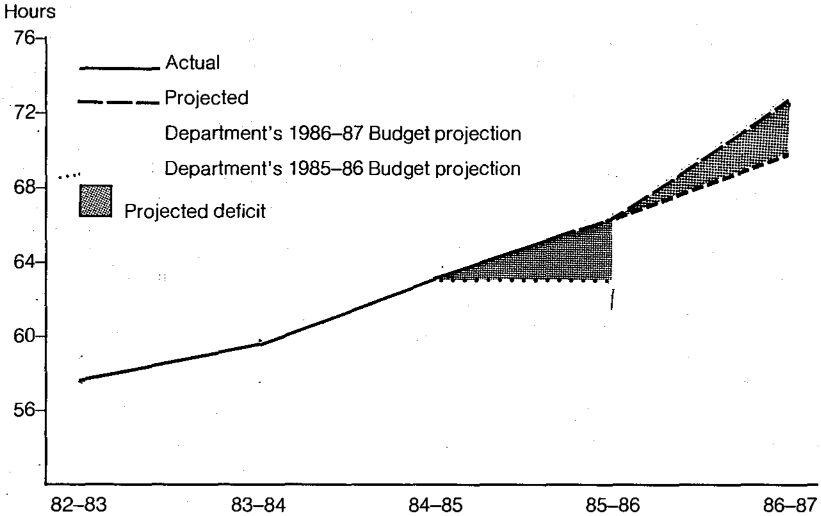
- ***The Department Has Not Provided the Legislature With a Plan to Manage the Program Differently in 1986–87 Than How it Was Managed in 1985–86.*** As a result, we have no reason to believe that growth in hours will slow down during the budget year.

- ***The Percentage of Total Clients That Are Severely Impaired Is Increasing.*** These clients require over three times more hours per case than all other recipients.
- ***Data on Average Hours Per Case for the First Three Months of 1985–86, Indicate No Difference From Last Year's Pattern of Growth.***

The growth rate in 1986–87 could be higher or lower than what it has been in recent years, depending on what percentage of recipients (1) receive services from different provider modes (which vary in cost) and (2) are severely impaired and therefore receive a higher number of hours per case than those who are not severely impaired. Chart 3 shows that if the hours per case increase by 4.5 percent, this would result in a deficit of $9 million (all funds) in 1986–87. The chart also shows that in the current year, about $20 million of the projected $23.3 million deficit is due to the fact that the department failed to propose a budget that allowed for any growth in hours.

Chart 3

In-Home Supportive Services' Hours Per Case Are Increasing 1982–83 through 1986–87



We recommend that prior to budget hearings, the department report to the fiscal committees on how it plans to limit the growth in hours per case in 1986–87 consistent with the assumptions on which the budget is based.

SOCIAL SERVICES PROGRAMS—Continued

Counties Should Match State Refugee Expenditures

We recommend that the Legislature reduce the General Fund appropriation by $610,000 in order to reflect the savings that will result from requiring the counties to match the General Fund allocation for IHSS services to refugees.

Currently, the counties are fully reimbursed by the state for the costs of providing IHSS to those refugees who (1) have been in the United States for less than 36 months and (2) receive services from individual providers. In 1986–87, the department proposes to allocate $6,098,000 from the General Fund to pay for IHSS services to these refugees. The department does not require the counties to match the General Fund costs of providing services to these IHSS recipients, even though SB 633 requires the counties to share in the costs of the program. Specifically, SB 633 requires counties to pay for 10 percent of all expenditures above $255.5 million which was the amount expended for the IHSS program in 1980–81, adjusted for several factors.

The federal government funds state programs that provide social services to refugees. In the past, the state used some of these funds to support the IHSS services it provided to refugees.

In 1984–85, the federal government restricted its payments to the states for social services like IHSS provided to refugees. As a result in 1986–87, less than $3 million in federal funds is available to pay for these refugee social services. The department has decided not to allocate any of these funds to the IHSS program. Instead, it is providing $6.1 million of state funds to pay for IHSS services to refugees.

Given the requirements of SB 633, the counties should be required to pay for 10 percent of the costs of providing IHSS services to refugees. The refugee costs are part of the basic program costs, and therefore should not be excluded from the county match required by state law. In addition, the current system is inequitable because it only provides 100 percent reimbursement for those refugees who receive services from individual providers (IPs). Counties currently are required to pay a 10 percent share of the costs for refugees who receive services from contract providers or county employees.

For these reasons, we recommend that the Legislature reduce the General Fund appropriation by $610,000 in order to reflect the savings that will result from requiring the counties to match the General Fund allocation for IHSS services to refugees.

Gatekeeper Estimate is Inaccurate

We withhold recommendation on $5,514,000 requested to fund the Gatekeeper program, pending receipt of (1) the May revision and (2) a revised methodology for distributing the Gatekeeper funds to counties.

Chapter 1637, Statutes of 1984 (AB 2226), required the Department of Health Services (DHS) to implement a preadmission screening program (referred to as the "Gatekeeper" program) in five of its field offices starting in 1984–85. The purpose of the program is to screen Medi-Cal recipients who are applicants for nursing home placement, in order to determine if such individuals could be more appropriately maintained in the community using home-based health and social services. Since 1984–85, DSS has attributed a portion of its total IHSS costs to the Gatekeeper program. These costs are based on the assumption that the Gatekeeper program increases the number of persons who are referred to IHSS. In 1986–87, the department estimates that the Gatekeeper program will result in General Fund costs of $5,514,000 to the IHSS program.

It is important to note that the IHSS costs which the department attributes to the Gatekeeper program *do not represent an increase* in the department's total estimate of program costs. Instead, the costs represent the department's estimate of what portion of existing IHSS program costs might be due to the Gatekeeper program.

Our review has identified problems with (1) the department's estimate for 1986–87 and (2) how the department allocates the Gatekeeper funds to counties.

First, the estimate of costs attributable to the Gatekeeper program is based on outdated and inaccurate information. Specifically, it assumes that the program will increase the IHSS caseload by 708 clients annually. This estimate is based on a pilot study conducted by DHS in 1983. Based on actual experience, however, the DHS has determined that the Gatekeeper program was responsible for only 36 new referrals to the IHSS program in 1984–85. Therefore, the department's estimate of the IHSS costs attributable to Gatekeeper in 1986–87 is not accurate.

Second, the department does not allocate the Gatekeeper funds to counties based on an estimate of how Gatekeeper affects individual counties. Instead, during the current year it will allocate unidentified portions of the $3.6 million in Gatekeeper funds to counties that have (1) a program deficit and (2) a Gatekeeper program. We do not know how it intends to allocate these funds in the budget year.

The department advises us that it will re-examine its methodology for determining the IHSS costs associated with the Gatekeeper program in preparing the May revision. The department further indicates that it plans to obtain new information about the impact of Gatekeeper on each county from its new Case Management, Information and Payrolling System (CMIPS).

Therefore, we withhold recommendation on $5,514,000 requested to fund the Gatekeeper program, pending receipt of (1) the May revision, which should include a revised estimate of the Gatekeeper program's impact on IHSS caseloads and (2) a revised methodology for distributing the Gatekeeper funds.

Facts About IHSS Service Providers Are Unknown

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report by December 1, 1986, containing specified information regarding IHSS providers.

Currently, each county welfare department may choose to deliver services in one or a combination of the following three ways: (1) by individual providers hired directly by the recipients, (2) by private agencies under contract to the county, or (3) directly, by county employees. The department estimates that in 1986–87, individual providers (IP) will serve 81 percent of all IHSS recipients, private agencies will provide services to 18 percent of IHSS clients, and county employees will provide services to 1 percent of IHSS clients.

In California, most counties use the IP mode primarily because it is less costly than contracting with private agencies or using county staff to provide services. The state's reliance on the IP mode has allowed it to provide IHSS to an increasing number of recipients at a lower cost than

SOCIAL SERVICES PROGRAMS—Continued

that for contracting or using county staff. The department estimates that over 116,000 individuals will receive IHSS in 1986–87, at an average cost of approximately $4.00 per hour. The method used to provide services to IHSS recipients warrants the Legislature's attention. This is because the following questions have not been answered:

How Widespread Are Recipients' Provider Problems?

- When IHSS recipients have problems locating or keeping providers, county-employed social workers must spend their time resolving these problems. Some counties say this is a significant problem that requires a lot of social worker time. To the degree that the IP method creates work for county employees, the costs of this method are partially hidden. In contrast, when provider problems arise under the contract mode, the contractors, rather than the counties, bear the cost of resolving some of these problems.
- The department is unable to provide us with information regarding how frequently provider problems arise, how much time county employees spend resolving them, or how effectively county employees are able to resolve them. Therefore we do not know (1) how much these problems cost the county, (2) whether or not these are the kind of problems that contractors can address, or (3) whether or not the problems are serious enough to warrant a legislative solution.

Does the IP Mode Expose Counties or the State to Financial Liability?

- IPs generally (1) are not trained and (2) are supervised only by the recipients. It is not clear who would incur the financial liability in the event that an IP injured a client.

  The department informs us that the recipient is the IP's employer, and consequently is liable for the IP's actions. The courts, however, do not always agree with the department. In two recent cases, the courts have found that IHSS workers are the "employees" of (1) the state for purposes of workers' compensation coverage *(In-Home Supportive Services v. Workers' Compensation Appeals Board [1984],* and (2) the counties and the state for purposes of the minimum wage provisions of the Fair Labor Standards Act *(Bonnette v. California Health and Welfare Agency [9th Cir. 1983])*.

  Although these decisions do not determine liability for providers' actions, they do define the state, county, and recipient as co-employers of the IPs for some purposes. As a result, there is increasing concern about both county and state liability for the actions of the IPs when delivering services to clients.
- Counties are taking defensive action by evaluating their procedures for assisting recipients to locate their own providers. While some counties provide extensive assistance to clients in order to prevent the employment of incompetent IPs, other counties provide no assistance so as to avoid becoming identified as the IPs employers. State regulations require counties to "make a reasonable effort" to locate providers for recipients who are unable to find a provider. The regulations do not, however, specify what actions the counties must take.
- The department indicates that it does not know what kind of assistance the counties actually offer to recipients who are in need of a provider.

Which Provider Mode Is the Most Cost-Effective, and Results in Better Quality Services?

- Some individuals argue that the contract mode offers *higher quality* services than the IP mode because (1) the contract providers' work is supervised and (2) the contract providers are more professional because they receive training and many of them work full-time as providers. Others argue that the IP mode offers higher quality services because many IPs are relatives and friends of the recipients and therefore (1) they offer a "personal touch" and (2) they are willing to perform additional tasks that are needed by the client, but are not allowed by the IHSS social worker.
- Some observers also argue that the contract mode offers more *cost-effective* care because (1) the contractor supervises the providers, (2) the providers receive training and therefore are able to work more quickly than IPs and (3) the contractor handles employee problems, and therefore relieves the county-employed IHSS social worker of this responsibility. Other observers argue that IPs are more cost-effective because (1) they can be hired for less since the county avoids the overhead costs incurred when services are procured through a contract and (2) they may be more willing to provide additional services for free.
- The department indicates that it cannot determine which mode is actually more cost-effective, or which mode offers a higher quality of care.

Santa Cruz Demonstration Project. In order to answer some of these questions, the Legislature authorized a three-year demonstration project in Santa Cruz County to evaluate the *quality of care* and *cost effectiveness* of delivering services through a mixed contract and IP mode compared to an IP-only mode of service delivery. This demonstration project should answer the question: which provider mode is the most cost-effective and results in better quality of services? The second report on the project, issued December 1985, describes the comparative data that the project will provide, which includes information on (1) the cost of IHSS per case, (2) recipient satisfaction, and (3) whether or not the efficiency of contract providers results in a lesser number of service hours per client. Santa Cruz County will provide a preliminary analysis of the first available data to the department by April 1986, and the department will provide its annual report on the project to the Legislature by December 1986.

Unanswered Questions. The Santa Cruz demonstration project, hoewever, will *not* answer the question of how the provider system *is performing statewide.* For example, it will not determine (1) the costs and benefits of the three modes as the counties currently use them, (2) the extent of recipients' problems with locating providers, or (3) the kind of assistance counties currently provide to those in need of a provider. *Without this information, it will be difficult to determine how to improve the system, or how to apply the demonstration project's results statewide.* In order to "fix" the current system, the Legislature needs additional information on the extent to which the system is "broken."

Our analysis indicates that the department cannot provide the Legislature with the information that is needed to determine how IHSS services are delivered to clients. Specifically, we are unable to determine (1) the number of service providers in each mode, (2) the average provider wage for each mode in each county, (3) the screening and referral practices of each county, and (4) the extent of recipient problems with locating and retaining competent providers.

SOCIAL SERVICES PROGRAMS—Continued

To close this information gap, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Social Services shall submit a report regarding IHSS providers to the Legislature by December 1, 1987, that includes the following information:

"1. The number of providers currently employed in each service delivery mode, including the number of IPs that are relatives or friends of recipients.

"2. The average provider wage for each service delivery mode in each county, including:

"a. The hourly cost of each service delivery contract.

"b. The cost of providing employee benefits to providers on a per capita basis.

"c. The total cost of IHSS contracts, and the number of recipients served by contract providers.

"3. The screening and referral practices of each county, including:

"a. An estimate of the time spent by social workers on these activities.

"b. Contractual agreements with private or public agencies for provider screening and referral.

"4. An evaluation of the extent of recipient problems with locating and retaining competent providers, according to measurable criteria, including:

"a. The amount of time between service authorization and provider start date.

"b. The provider turnover rate.

"c. The number of requests for services on an emergency basis.

"d. An estimate of the time spent by social workers on activities related to these recipient problems."

EMPLOYMENT PROGRAMS FOR AFDC RECIPIENTS

Chapter 1025, Statutes of 1985, created the Greater Avenues for Independence (GAIN) program. The purpose of this program is to provide employment and training services to Aid to Families with Dependent Children (AFDC) recipients in order to help them find employment and to become financially independent. Chapter 1025 allows counties a three-year period to phase in the program. The department anticipates that some counties will begin providing services under the GAIN program in late 1985–86 or early 1986–87, and that other counties will wait one or two years to begin providing services.

Once the GAIN program is fully operational on a statewide basis, county welfare departments will provide a range of Job Search, Training, and Work program services to mandatory GAIN participants and to any AFDC recipients who volunteer to participate in GAIN. Specifically, the following services will be available to GAIN participants:

- ***Registration.*** Counties will register mandatory and voluntary participants. Based on the information collected at the time of registration, counties will determine which additional services to provide to the participant.
- ***Remedial Education.*** Counties are required to refer every GAIN participant who lacks a high school diploma or basic literacy or math-

ematics skills, or the ability to speak English, to remedial educational services such as English as a second language and high school equivalency instruction.

- ***Job Club.*** Counties will offer Job Club as one of the services available under GAIN. Job Club includes (1) Job Search workshops, which consist of group training in job-finding skills, followed by (2) supervised Job Search, which consists of participants using telephones (and other methods) to look for work.
- ***Assessment.*** Participants who have been on aid more than twice during the three years preceding their most recent application for aid will be referred immediately to assessment. Other participants will be referred to assessment if they remain in the program after going through Job Club or Job Search. The purpose of the assessment is to determine what kinds of services the participant will need in order to achieve his or her employment goal.
- ***Short-Term Training.*** Based on the results of the assessment, participants will be referred to one of several short-term training programs or to unsupervised Job Search. Chapter 1025 requires large counties to provide all of the following short-term training programs (small counties can request the state to exempt them from having to provide one or more of these programs):
  - ***Short-Term Preemployment Preparation (PREP).*** Participants in Short-Term PREP will work for a public or nonprofit organization, for up to three months, in order to learn work behavior skills (basic PREP) or to enhance existing skills (advanced PREP). Participants will be required to work up to the number of hours per month that they would have to work to earn the amount of the AFDC grant, plus the value of their food stamp allotment, assuming an hourly wage equal to the average hourly wage of job orders placed by the Employment Development Department (EDD).
  - ***On-the-Job Training (OJT).*** Participants in OJT will work at a starting wage, for a private or public employer while they receive training.
  - ***Vocational Training.*** Participants in Vocational Training would be trained in specific occupational skills.
  - ***Grant Diversion.*** Participants in Grant Diversion will work for public or private employers and receive a wage comparable to what other employees of the company or agency receive. The employer will receive all or a portion of the recipient's cash grant as a wage subsidy.
  - ***Supported Work.*** Supported Work is a form of Grant Diversion in which a service provider (such as a private nonprofit organization) receives all or part of the recipient's grant and, in return, provides services such as day care, counseling, money management, etc., to help the recipient maintain a subsidized or unsubsidized job.
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  - ***Long-Term PREP.*** Participants that remain in the GAIN program after going through short-term training will be referred to Long-Term PREP. Long-Term PREP is simply an extended form of the Short-Term PREP program described above. Participants will be referred to Long-Term PREP for one year, but will be reassessed every six months.

Prior to the statewide implementation of the GAIN program, counties will continue to provide employment services to AFDC recipients under one or more of the following existing programs:

SOCIAL SERVICES PROGRAMS—Continued

- *Employment Preparation Program (EPP).* In six counties AFDC recipients receive two to three weeks of job club or other employment services under the EPP.
- *Work Incentive Demonstration (Win-Demo) Program.* AFDC recipients in 26 counties receive three days of job club under the Win-Demo program. Some Win-Demo participants also receive training and employment placement services upon completion of job club.
- *Experimental Work Experience Program (EWEP).* Recipients in San Diego receive a variety of employment and training services under the EWEP.

Budget Proposal

The budget proposes spending $124,761,000 ($32,496,000 General Fund, $91,302,000 federal funds, and $963,000 county funds) for employment-related services provided to AFDC recipients in 1986–87. Of the total amount proposed, $45,100,000 ($22,550,000 General Fund and $22,550,000 federal funds) would be used to reimburse counties for the costs of providing employment-related services to AFDC recipients under the GAIN program. The remaining $79,661,000 ($9,946,000 General Fund), $68,752,000 federal funds and $963,000 county funds) would fund the costs of the EPP, Win-Demo, and EWEP programs.

Budget Proposal Is Based on an Out-of-Date Estimate

We withhold recommendation on the $45,100,000 ($22,550,000 General Fund and $22,550,000 federal funds) proposed for the GAIN program, pending receipt of an updated estimate.

The $45.1 million proposed for the GAIN program during 1986–87 is based on (1) the department's estimate of the costs of the program once it is fully operational on a statewide basis and (2) the department's assumptions regarding the portion of the state's total AFDC caseload that will be covered by the GAIN program during 1986–87. Table 7 shows that once the GAIN program is fully implemented, the department expects that it will result in *additional* annual costs of $158.0 million. (These funds are in addition to *existing* resources, totaling $146.0 million, which the department believes will be available to support the program.)

The annual costs of the program during the next few years will be substantially less than what is shown in Table 7 for 1990–91 because the program will be phased in over a three-year period. Consequently, the amount proposed in the budget assumes that the counties implementing GAIN during 1986–87 will account for roughly one-third of the statewide AFDC caseload.

We have several concerns regarding the department's estimate of (1) the costs of the GAIN program in 1986–87 and (2) the ultimate costs of the program once it is fully operational on a statewide basis.

Table 7
DSS Estimate of Costs Associated With the Gain Program 1986–87 and Ongoing Costs Once Implementation Is Complete (dollars in millions)

	1986–87			1990–91		
Program Component	*DSS Costs*	*Costs to Other Programs*	*Totals*	*DSS Costs*	*Costs to Other Programs*	*Totals*
Registration/Orientation	$1.2	—	$1.2	$1.2	—	$1.2
Remedial Education	5.6	—	5.6	15.6	—	15.6
Job Club	43.3	—	43.3	46.1	—	46.1
Assessment	7.4	—	7.4	15.6	—	15.6
Short-Term Training	22.7	$32.3	55	64.4	83.5	147.9
90-Day Job Search	0.8	—	0.8	3.2	—	3.2
Long-Term PREP	12.4	—	12.4	70.6	—	70.6
Transitional Child Care	0.7	—	0.7	2.3	—	2.3
State Administrative Costs [a]	1.5	—	1.5	1.5	—	1.5
Subtotals	$95.60	$32.30	$127.90	$220.50	$83.50	$304.00
Resources available from existing programs	($49.0)	($32.3)	($81.3)	($62.5)	($83.5)	($146.0)
Net new costs	$46.6	—	$46.6	$158.0	—	$158.0

[a] Includes costs for marketing. These costs are budgeted under the department's support item, Item 5180-001-001.
Source: DSS

The Estimate is Out-of-Date. The department's estimate was prepared during the summer of 1985, while AB 2580 was moving through the Legislature. This estimate has long been out-of-date. For example, the estimate assumes that some counties began implementing the GAIN program on January 1, 1986. This, however, did not occur. In fact, the department advises that few, if any, counties will actually begin providing services under the GAIN program prior to July 1986. As a result, we estimate that the costs of the GAIN program in 1986–87 will be reduced by $15.0 million ($7.5 million General Fund and $7.5 million federal funds). This reflects the fact that, due to the later start-up date, fewer participants will reach the relatively more expensive program components (for example, short-term training and long-term PREP) during the budget year.

The Estimate Does Not Reflect AB 2580 as Enacted by the Legislature. The estimate used in the budget was based on the August 26, 1985, version of AB 2580. Subsequently, the Legislature made several significant changes to the program which are not taken into account in the estimate used in the budget. For example, the department's estimate assumes that 15 percent of the AFDC recipients who enter the GAIN program will be immediately diverted to remedial education programs to receive high school equivalency training or instruction in English as a second language (ESL). As enacted, however, Chapter 1025 requires that *all* GAIN participants who do not have a high school diploma or basic literacy or mathematical skills be diverted to remedial education programs.

While we cannot estimate the fiscal effect of this and other changes, it is likely to be substantial. In fact, we note that the department believes 60 percent of all GAIN participants will meet the criteria contained in Chapter 1025 for mandatory referral to remedial education programs. The estimate used in preparing the budget assumed that only 15 percent of the caseload would meet these criteria.

SOCIAL SERVICES PROGRAMS—Continued

Major Assumptions in the Estimate Will Change When the Department Has Had an Opportunity to Review County Plans. Chapter 1025 allows individual counties a great deal of discretion in determining how services will be delivered under the GAIN program. For example, counties can decide which services to provide with county staff and which to provide through contracts with private service providers or with governmental entities (such as the community colleges, EDD, and the local JTPA private industry councils). These decisions have cost implications that can be determined only through a review of individual county's GAIN plans. Moreover, the county plans will address the specific service needs of GAIN participants and the service resources already available to participants. Thus, the current estimate is apt to change substantially, once the department has had an opportunity to review the county plans. It is important to note that these changes will affect not only the estimated costs of the program in 1986–87 but the full implementation costs as well.

The Estimate Is Technically Flawed. Our analysis has identified several technical flaws in the department's estimate of the 1986–87 costs of the program. The department acknowledges these technical problems and indicates that it will correct them in time for the May revision.

For these reasons, the Legislature cannot rely on the budget estimate of GAIN-related costs in deciding how much should be appropriated for the GAIN program in 1986–87. We therefore withhold recommendation on the $45,100,000 ($22,550,000 General Fund and $22,550,000 federal funds) proposed for support of the GAIN program in 1986–87, pending receipt of an updated estimate that reflects the legislation as enacted as well as the county plans that are submitted in early 1986.

The Affect of the GAIN Program on Other State-Administered Programs Could Be Substantial

We recommend that the department advise the fiscal committees what effect the GAIN program will have on other state programs.

The GAIN program will affect several state programs other than those administered by the DSS. It will affect enrollments in the community colleges, the adult education program, the regional occupational centers and programs (ROC/P), the Job Training Partnership Act (JTPA) Program, the child care resources and referral (R and Rs) centers, and the Employment Development Department (EDD).

The Legislature will need reliable and up-to-date estimates of these effects before it acts on the budget for 1986–87. To date, however, this information has not been provided. For example, although the department indicates that GAIN ultimately will refer 6,200 participants to community colleges, it does not indicate (1) the types or duration of the services that these participants will need or (2) which community college districts will be affected in 1986–87. It should be possible for the department to provide this information once it has (1) reviewed the plans of those counties that will implement the program in 1986–87 and (2) reestimated the basic caseloads under the GAIN program. Accordingly, we recommend that at the time of the May revision, the department advise the fiscal committees what impact GAIN will have on other state programs. In particular, the department should provide the following information:

1. The number of GAIN participants that will be referred to community colleges in 1986–87 and in the first full-year of statewide implementation (1990–91), and the types and duration of services that these participants

will require. The estimate should also specify which districts are likely to be affected in 1986–87.

2. The number of GAIN participants that will be referred to the adult education and ROC/P programs in 1986–87 and 1990–91, and the types and duration of services that these participants will require. The estimate should also specify which local ROC/Ps will be affected in 1986–87.

3. The number of GAIN participants that will be referred to the JTPA program in 1986–87 and 1990–91, and an estimate of the types and duration of services that these participants will require. The estimate should also identify the service delivery areas that will be affected in 1986–87.

4. The number of GAIN participants that will be referred to R and Rs in 1986–87 and 1990–91, and the number of these participants that will need referral to local child care providers. The estimate should also identify the R and Rs that will be affected in 1986–87.

5. The number of GAIN participants that will participate in job clubs conducted by the EDD and the number that will be referred to the Job Agent and Service Center programs in 1986–87 and 1990–91. The estimate should also specify which counties will contract with the EDD to provide GAIN services in 1986–87.

Budget Proposal Could Leave SDE Holding the Bag

We recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the administration's progress in developing the accounting procedures that will be needed to claim federal reimbursement for state-subsidized day care costs. We withhold recommendation on $31 million in federal funds which are requested to reimburse the SDE, pending receipt of this report.

The budget proposes to use $31 million in federal funds to reimburse the State Department of Education (SDE) for its costs of providing day care services to the children of AFDC recipients. This proposal assumes that (1) the SDE will spend a total of $62 million during 1986–87 to provide day care services to AFDC recipients and (2) the federal government will fund 50 percent, or $31 million, of the costs of providing these services. Based on these assumptions, the Department of Finance proposes to reduce the amount budgeted from the General Fund to support SDE's subsidized child care program by $31 million.

We have two major concerns regarding the Department of Finance's estimate:

- ***The Department of Finance Estimate Overstates the Amount of Federal Funds That Will be Available to Offset General Fund Costs.*** The estimate assumes that all AFDC recipients who currently receive state-subsidized day care will be eligible for federal financial participation. In our judgment, this is highly unlikely. The federal government will pay for only (1) the day care costs to participants in approved employment programs and (2) the hours of care that are needed according to federal rules. It is all but certain that some AFDC recipients receiving state-subsidized day care will not be participants in approved employment programs. In addition, the rules for determining hours of care used by the SDE are more generous than the federal rules. For example, the SDE subsidizes day care during the hours needed for studying, while the federal government does not.

  Accordingly, it is likely that some of the $62 million which the SDE is expected to spend for child care on behalf of AFDC families *will not* qualify for federal funding.

SOCIAL SERVICES PROGRAMS—Continued

- ***The Department of Finance Estimate Assumes That the DSS and SDE Can Develop Accounting and Claiming Procedures That Will Identify Costs That Are Eligible for Federal Funding.*** In order to claim federal reimbursements for a portion of SDE's costs, the DSS will have to provide the federal government with documentation that the costs are eligible for federal support. According to the federal government's current accounting standards, this will involve setting up an "audit trail" for *each program participant* in order to verify (1) the participant's eligibility, (2) the appropriateness, under federal rules, of the amount of day care provided, and (3) the reasonableness of the cost of care provided. The DSS currently has accounting procedures in place that track participant eligibility. The SDE advises, however, that it would have a hard time implementing the accounting procedures needed to track the last two criteria.

  The two departments are exploring the options available for satisfying the federal claiming procedures. Until an acceptable claiming process is in place, however, the state will *not* be able to receive federal reimbursement for these costs.

It is important to note, that there *is* probably a substantial amount of federal money that can be used to fund subsidized child care services. In fact, it is possible that the state could begin claiming federal reimbursements for SDE's costs during the current year *if the two departments can develop the appropriate accounting procedures soon enough.* Therefore, we recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the administration's progress in developing the accounting procedures needed to claim federal reimbursements for the costs of state-subsidized child care provided to AFDC recipients. We withhold recommendation on the $31 million in federal funds requested to reimburse the SDE, pending receipt of this report.

The Department of Finance has reduced the General Fund appropriation to the SDE by $31 million and has added $31 million in reimbursements from the DSS. To the extent that the Department of Finance's estimate of the federal funds available for this purpose is too high—and we believe there is good reason to conclude that this is the case—the DSS will not be able to reimburse the SDE for the full $31 million. Should this occur, SDE will incur a deficiency in its state-subsidized day care programs. (Please see our discussion of Child Care Programs in Item 6100-196-001.)

Funds Appropriated by Chapter 1025 Will Be Available for Reappropriation in 1986–87

We recommend that the Legislature (1) add an item to the Budget Bill which reappropriates $3,950,000 available under Chapter 1025 and (2) reduce the amount requested from the General Fund to support the GAIN program by $3,950,000 in 1986–87 in order to reflect the availability of the amount reappropriated from Chapter 1025.

Chapter 1025 appropriated $15.8 million ($7.9 million General Fund and $7.9 million federal funds) for the GAIN program in 1985–86. This appropriation was based on the department's assumption that counties would begin implementing the GAIN program on January 1, 1986.

The department now advises that few, if any, counties will begin providing services to GAIN participants prior to July 1, 1986. This is primarily due to the fact that counties must prepare a detailed GAIN plan, which must be approved by the department before they can actually implement the program.

Our analysis indicates that the department will spend only $7.9 million of the $15.8 million appropriated by Chapter 1025 for the costs of the GAIN program in the current year. This consists of:

- $5.2 million which the department indicates it will allocate to counties to support the preparation of GAIN plans;
- $1.5 million to cover the department's administrative costs; and
- up to $1.2 million for services provided to GAIN clients by those four counties that we believe *could* implement the program beginning in late 1985–86.

This means that $7.9 million ($3.95 million General Fund and $3.95 million federal funds) will remain unexpended at the end of 1985–86.

We recommend that the Legislature reappropriate these funds for the GAIN program in 1986–87. This would make available $3,950,000 in General Fund monies for the Legislature's use in achieving its priorities.

The following Budget Bill language is consistent with this recommendation:

"5180-890—Reappropriation, Department of Social Services. As of June 30, 1986, the unexpended balance of the appropriation made for the GAIN program by Chapter 1025, Statutes of 1985, is hereby appropriated for transfer to the item and in the amount as follows: in augmentation of Item 5180-151-001, $3,950,000."

Double-Budgeting for the Costs of Employment Services Provided to Refugees

We withhold recommendation on $37,705,000 in federal funds proposed for refugee social services, pending a determination of whether these funds are budgeted twice.

The budget requests $37,705,000 in federal Refugee Resettlement Program (RRP) and Targeted Assistance Program (TAP) funds to provide social services to refugees. Of the total amount proposed, $2.5 million will be spent to provide nonemployment-related social services to refugees (for example, child welfare services to refugee families). The remaining $35.2 million will be used to provide employment and training services to refugees.

These employment and training services will be provided to refugees who come within one of the following categories:

- Refugees who are participating in the Refugee Demonstration Program (RDP).
- Refugees who are receiving general assistance or are participating in the Refugee Cash Assistance (RCA) program.
- Refugees who are not receiving public assistance.
- Refugees who are receiving AFDC benefits.

The department is unable to provide us with an estimate of the amount of federal RRP and TAP funds that counties and service providers will spend for AFDC refugees in 1986–87. The department advises, however, that a substantial portion of these funds will be used to provide employment-related services to these individuals.

To the extent that RRP and TAP funds are used for the cost of employment-related services provided to AFDC refugees in counties that implement the GAIN program in 1986–87, funding for these services is double-budgeted. This is because the budget contains funds to provide services to GAIN participants, including refugees, in 1986–87.

SOCIAL SERVICES PROGRAMS—Continued

According to the department's caseload projections, AFDC refugees make up 8.6 percent of the total AFDC caseload. Based on this, we estimate that approximately $3.9 million ($1.95 million General Fund and $1.95 million federal funds), of the $45.1 million proposed for the GAIN program in 1986–87 will be spent for services to AFDC refugees. To the extent that some of the *federal* RRP and TAP funds proposed in the budget are used to provide services to these same AFDC refugees, a portion of the $3.9 million of General Fund and federal fund monies proposed to provide GAIN services to AFDC refugees will not be needed.

Because the department does not keep track of how much RRP and TAP funds are spent on services to refugees in each of the four categories described above, we cannot provide the Legislature with an estimate of the extent to which funds for employment services to AFDC refugees are double-budgeted. The department should be able to shed light on this matter when it reviews the GAIN plans that counties will submit in the spring. We, therefore, withhold recommendation on $37,705,000 in federal funds proposed for refugee social services, pending a determination of the extent to which these funds are double-budgeted.

GAIN Could Result in Unintended Overhead Cost Shifts

We recommend that the Legislature adopt Budget Bill language directing the department to eliminate, or minimize, the likelihood that implementation of the GAIN program will result in unintended overhead cost shifts.

Chapter 1025 allows counties broad discretion in administering the GAIN program. In particular, the counties can provide services to participants through contracts, using county staff, or some combination of these approaches. For example, counties could provide job club services (1) through contracts with the EDD, (2) through contracts with private agencies, (3) by hiring additional county staff to conduct the workshops, or (4) by hiring county staff to conduct the workshops jointly with a contract provider who would also provide workshop staff (the latter arrangement reflects the way counties and the EDD currently provide job club services in some EPP counties).

Our analysis indicates that the way counties deliver services under the GAIN program could result in administrative costs being shifted to the state from the counties or from the counties to the state. For example, under current law, administrative costs are allocated among the AFDC, Medi-Cal, Social Services, Food Stamps, county General Assistance, and other programs based on a cost allocation plan. Under this plan, the counties identify the costs of salaries and benefits paid to those county employees who *directly* provide services to the clients of the various programs. (These employees include eligibility and social workers.) The administrative overhead costs are then allocated to each program, based on the program's share of total costs incurred by the welfare departments for employees that provide direct services to clients. (These overhead costs include the costs of salaries and benefits of administrative and support staff, as well as such operating costs as rent, utilities, supplies, and equipment.) The purpose of the cost allocation plan is to ensure that each program pays for its appropriate share of the costs of operating the welfare department.

It is important to keep track of these costs on a program-by-program basis because each program is funded differently. For example, the costs of administering the AFDC program are shared between the state (25 percent), federal (50 percent), and county (25 percent) governments. The Medi-Cal program, on the other hand, is paid for by the state (50 percent) and federal (50 percent) governments only. Obviously, if part of the administrative costs properly attributable to the Medi-Cal program is allocated to the AFDC program, counties would pay more than their fair-share of these costs. The cost allocation plan is designed to avoid such unintended cost shifts.

Chapter 1025 sets the cost-sharing ratio for the GAIN program at 50 percent state and 50 percent federal; counties do not share in these costs. Because of the way the cost allocation plan works, however, it is possible that a county which chooses to provide most of the services required under Chapter 1025 through contractual arrangements with service providers, could actually end up paying for a substantial share of the overhead associated with the GAIN program. This would occur because under a county plan calling for services to be provided primarily by contractors, the county would hire few if any additional county staff to provide services to participants *directly*. The county, however, would have to hire administrative staff to supervise and evaluate the contractor and to account for program expenditures and results.

The effect of a county hiring relatively few line workers and at the same time incurring relatively high administrative cost, would be to increase the amount of administrative costs allocated to other programs, including those programs which the counties help pay for. In a large county, this could increase *county-funded* welfare department costs by more than $100,000, even though counties are not supposed to pay a share of GAIN program costs.

The cost shift could also go in the other direction, putting the state at a disadvantage. If, for example, a county chooses to hire a relatively large number of new direct line staff to provide services through the GAIN program, this could shift costs from programs such as AFDC to the GAIN program, causing the state to, in effect, pay more for AFDC and allowing the counties to pay less.

The department is aware of the potential for unintended overhead cost shifts to occur when the GAIN program is implemented. The department advises that it will develop a policy for avoiding these shifts. To assure that this happens, we recommend that the Legislature adopt the following Budget Bill language directing the DSS to implement its cost allocation plan in such a way as to eliminate or minimize the potential for unintended overhead cost shifts:

> "In administering the cost allocation plan for 1986–87, and in reviewing and approving county GAIN plans submitted during 1986–87, the DSS shall ensure that no significant overhead cost shifts occur as a result of the implementation of the GAIN program."

County GAIN Plans Have Out-Year Fiscal Implications

We recommend that the Legislature adopt Budget Bill language requiring the DSS to compare each county plan with the department's statewide cost estimate and, in the event that the plan implies higher-than-anticipated costs (1) notify the Chairpersons of the fiscal committees in each house and (2) advise the county that final approval of its plan is subject to review by the Legislature as part of the 1987–88 budget process.

As we noted above, Chapter 1025 provides for a three-year phase-in of the GAIN program. The department estimates that, even after all counties

SOCIAL SERVICES PROGRAMS—Continued

have implemented the program, it will take an additional two years to fully implement the various program components. This is due to two factors: (1) some recipients will remain in the program for an extended period of time and may not reach the "tail-end" long-term PREP component until they have been in the GAIN program for a year or more and (2) some counties may not require every mandatory participant to enter GAIN immediately—they may wait for up to two years after implementation to bring all of the mandatory recipients into the GAIN program.

The department estimates that the counties which implement the GAIN program in 1986–87 will account for one-third of the statewide caseload and will spend $45,100,000 to provide GAIN services. This represents approximately 28 percent of what the department anticipates all 58 counties will spend for the program once it is fully operational on a statewide basis. (The 1986–87 costs of the GAIN program are expected to be less than one-third of the ongoing costs primarily because of the lag between the time when a participant enters the program and the time when the participant reaches the relatively more expensive "tail-end" components such as short-term training and long term PREP.)

The fact that the GAIN program will be phased-in over a three-year period, and that the costs will be phased-in over a five-year period, raises issues that are not usually relevant to legislative decision making in social welfare programs—issues which are more common in capital outlay programs. Frequently, the Legislature is requested to appropriate a relatively small amount of money in the budget for capital outlay programs, recognizing that this represents a much larger commitment of funds in subsequent years. For example, a particular project may involve a contract for work in the budget year costing $1 million. Funding this contract, however, may commit the Legislature to the entire project, which may cost several tens of millions of dollars to complete over several years.

This is similar to the situation presented by implementation of the GAIN program. According to the department's estimate, the GAIN program will cost $45.1 million in 1986–87, but its yearly cost will be $156.5 million (excluding state administrative costs) when the program is fully phased in. Thus, there is a need for more legislative oversight than is common when a new social welfare program is launched.

Accordingly, we suggest that the Legislature establish guidelines for the department to follow in the event that the initial county plans prove to be more costly than anticipated. The purpose of such guidelines would be to ensure that the *decisions* made by the department on proposed county GAIN plans during 1986–87 do not foreclose the *Legislature's options* with respect to the long-term costs of the GAIN program.

Specifically, we recommend that the Legislature adopt the following Budget Bill language directing DSS to (1) compare each county plan with its statewide cost estimate and (2) in the event the plan implies a higher-than-anticipated cost (given the size of the county involved relative to the state's total AFDC caseload), notify the Chairpersons of the fiscal committees of each house and inform the county in writing that the approval of its plan is subject to legislative review as part of the budget process for 1987–88:

"The Department of Social Services shall compare the costs of each county's proposed GAIN plan with the department's estimate of the statewide costs of the GAIN program. If the department approves any county plan which has a cost in excess of what would be expected for a county with a caseload of comparable size, based on the department's statewide estimate, the department shall (1) so notify the Chairpersons of the fiscal committee of each house and (2) notify the county that the *final* approval of its plan is subject to legislative review as part of the 1987–88 budget process."

EDD's Role in the GAIN Program is Unclear

We recommend the Legislature adopt supplemental report language directing the EDD and the DSS to advise counties that EDD is available as a resource for counties to use, on a contractual basis, to provide services under the GAIN program.

The EDD currently provides a variety of employment services that are similar to several of the services that will be provided under the GAIN program. Specifically, EDD staff (1) conduct job search workshops in conjunction with several county welfare departments under the EPP and Win-Demo programs, (2) assess the employability and training needs of AFDC recipients under the EPP and Win-Demo programs, (3) provide intensive employability and placement services to AFDC recipients and other individuals under the Job Agent and Service Center programs, and (4) place AFDC recipients and other individuals in employment through the Employment Services program.

Chapter 1025 allows counties to contract with EDD to provide services to GAIN participants. The measure also requires counties to provide services under the GAIN program in a cost-effective manner. For some counties, contracting with EDD *may* represent the most cost-effective alternative for providing some of these services. The administration, however, seems to be sending mixed signals to counties regarding the availability of EDD staff to provide GAIN services.

For example, in a letter sent to all county welfare departments, dated September 27, 1985, DSS stated that "we would encourage you to consider assuming the activities that are now performed by EDD under the Win-Demo program as part of your (GAIN) implementation effort." Morever, representatives of the DSS and the EDD have advised counties on several occasions that the EDD will *not* be available in the future as a resource for counties to use in implementing the GAIN program.

On the other hand, DSS has advised us that it encourages counties to consider contracting with the EDD, as one of several alternatives for providing these services under the GAIN program. In addition, EDD has advised us that "during implementation (of GAIN), EDD anticipates being involved in job search workshops for AFDC recipients either in a technical assistance capacity or providing specific services under interagency agreements."

In view of these conflicting statements, we are uncertain as to what the administration's policy is with respect to EDD's future role in the GAIN program. One thing *is* clear, however: if the counties believe that EDD will not be available to provide services, they are unlikely to consider contracting with EDD as an alternative means of providing services.

Given the uncertainty regarding EDD's role, we believe the Legislature should make clear that if the EDD represents a cost-effective alternative for providing services under the GAIN program, this alternative is available to the counties. We, therefore, recommend that the Legislature adopt the following supplemental report language directing (1) DSS to issue an all-county letter stating that EDD is available to provide services to GAIN

SOCIAL SERVICES PROGRAMS—Continued

recipients pursuant to contracts entered into with the counties and (2) EDD to provide (a) a description of the services it can provide, (b) a price list for those services, and (c) a list of the provisions that must be included in any contract with the EDD for the provision of each of the services.

"The Department of Social Services shall issue an all-county letter, by July 15, 1986, stating that the EDD is available to provide services to GAIN participants, on a contractual basis. The letter shall include a statement, which the EDD shall prepare by July 10, 1986, laying out (1) the types of services that the EDD can provide, (2) the price that EDD will charge the counties for those services, and (3) the conditions under which the EDD will provide the services."

Department of Social Services
COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and Federal Trust Fund — Budget p. HW 160

Requested 1986–87	$8,342,000
Estimated 1985–86	8,342,000
Actual 1984–85	7,085,000
Requested increase—None	
Total recommended reduction	None
Recommendation pending	8,342,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Community Care Licensing	General	$8,342,000
5180-161-890—Community Care Licensing	Federal	(2,856,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Proposed Program Expenditures. We withhold recommendation on funds requested for Community Care Licensing, pending receipt of a workload standard study. 1001

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's cost of contracting with counties to license foster family homes and family day care homes. Funds for direct state licensing activities are proposed in Item 5180-001-001--departmental support.

Foster family homes are licensed to provide 24-hour residential care to children in foster care. In order to qualify for a license, the home must be the residence of the foster parents and must provide services to no more than six children. Family day care homes are licensed to provide day care services for up to 12 children in the provider's own home.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $8,342,000 from the General Fund to reimburse counties for licensing activities in 1986–87. The only funding change proposed for community care licensing in 1986–87 is continuation of the $1.0 million appropriation added by the Legislature in 1985–86 for use in recruiting foster family home providers.

ANALYSIS AND RECOMMENDATIONS

No Workload Standard for Licensing Activities

We withhold recommendation on funds requested for Community Care Licensing activities because the department has no workload standard upon which to base its budget request.

In general, the costs of the Community Care Licensing program are determined by two factors: (1) the number of community care facilities to be licensed or reviewed and (2) the number of staff needed to perform the various licensing functions. The number of facilities to be licensed or reviewed is estimated based on historical trends and current caseload. The number of staff needed to perform these licensing functions is determined by applying a "workload standard" to the estimated caseload. The workload standard is the average number of facilities that a license evaluator is able to review.

We conclude that the budget proposal for the Community Care Licensing program may not be appropriate since it is not based on the most recent estimate of staffing needed to carry out the functions of the program. During the subcommittee hearings on the 1985 Budget Bill, the department advised the Legislature that by July 1985 it would revise its workload standard. At the time we prepared this analysis, the department still had not completed these revisions. It indicated that the revised licensing workload standard will be completed by April 1986 and will be applied in 1986–87.

Because the department's budget is not based on the most recent estimate of the number of staff required to license facilities, we withhold recommendation on funds requested for the Community Care Licensing program, pending receipt of the new workload standard.

Department of Social Services
COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the General Fund and Federal Trust Fund — Budget p. HW 163

Requested 1986–87	$186,034,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-181-001—Cost-of-living adjustments	General	$186,034,000
5180-181-890—Cost-of-living adjustments	Federal	(96,993,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services COLA. Recommend that the Legislature adopt Budget Bill language specifying that the $31,611,000 appropriated for prior-year county-granted COLAs for the Child Welfare Services program be matched by the required county share of $8,225,000. 1004
2. Adoptions Prior-Year COLA. Recommend that the Department of Finance report, prior to budget hearings, on how the administration intends to fund the state's share of the full costs of the Adoptions program. 1005

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide cost-of-living adjustments (COLAs) to various welfare and social services programs. In general, this item provides funds to compensate for the effects of inflation on the purchasing power of grants to welfare recipients.

In accordance with the policy established by the Legislature in previous budget acts, the state will fund its share of COLAs granted to county welfare department employees one year in arrears (referred to as "retroactive" COLAs). Thus, the budget proposes to fund in 1986–87, the General Fund costs of COLAs granted to county welfare department employees in *1985–86*. (These funds are appropriated in Items 5180-141-001 and 5180-151-001.) For COLAs granted by counties in 1986–87, the state will fund its share of the costs beginning in 1987–88.

OVERVIEW OF THE BUDGET REQUEST

Statutory COLAs for Welfare Recipients

The budget proposes a General Fund appropriation of $186,034,000 to fund those cost-of-living increases that are required by state law. Specifically, current law requires that Aid to Families with Dependent Children (AFDC) grants, Supplemental Security Income/State Supplementary Program (SSI/SSP) grants, and the maximum service award under the In-Home Supportive Services (IHSS) program be adjusted to reflect the yearly increases in the California Necessities Index (CNI). The Commission on State Finance is the state agency responsible for estimating the change in the CNI. The amounts proposed for statutory COLAs are as follows:

- ***AFDC Cash Grants.*** The budget proposes to provide a 4.9 percent COLA to AFDC cash grants, effective July 1, 1986, at a cost of \$185,041,000 (\$80,678,000 General Fund, \$94,594,000 federal funds, and \$9,769,000 county funds).
- ***SSI/SSP.*** The budget proposes to provide a 4.9 percent COLA for SSI/SSP recipients, effective January 1, 1987, at a cost of \$104,958,000 (\$104,732,000 General Fund and \$226,000 federal funds).
- ***IHSS Statutory Maximum.*** The budget proposes to provide a 4.9 percent COLA to the *maximum* amount of service that each IHSS recipient is allowed by statute, at a cost of \$693,000 (\$624,000 General Fund, \$69,000 county funds). As a result, approximately one percent of IHSS recipients will be allowed to receive an increase in their maximum hours of service.

ANALYSIS AND RECOMMENDATIONS

Retroactive COLAs

The department administers three programs which receive retroactive COLAs—the county welfare department administration of the AFDC, Food Stamps, and Child Welfare Services (CWS) programs. The state pays for its share of the COLAs granted by counties to the employees assigned to these programs one year in arrears. The budget includes funds for these retroactive COLAs as follows:

- ***County Administration of AFDC and Food Stamps Programs.*** The budget proposes an appropriation of \$8,823,000 from the General Fund to pay for the cost of COLAs granted by counties in 1985–86 to eligibility determination staff who are assigned to the AFDC and Food Stamps programs. The budget includes these funds under the appropriation for the baseline costs of the county administration program (please see Item 5180-141-001).
- ***Child Welfare Services.*** The budget proposes an appropriation of \$31,611,000 (\$24,526,000 General Fund and \$7,085,000 federal funds) for the cost of COLAs granted by counties to CWS staff from 1982–83 through 1985–86. The budget includes these funds under the appropriation for the baseline costs of CWS (please see Item 5180-151-001).

Discretionary COLAs

In addition to the programs that receive statutorily mandated COLAs and retroactive COLAs, the DSS administers the following programs which have in the past received cost-of-living increases on a discretionary basis:

- ***IHSS.*** Under this program, counties provide supportive services to aged, blind, and disabled individuals to help them live in their own homes. The 1985 Budget Act included \$13,629,000 to provide a 4 percent COLA to IHSS providers. It would cost \$3,999,000 (\$3,599,000 General Fund and \$400,000 county funds) to provide a 1 percent COLA to IHSS providers in 1986–87. Funds appropriated for a COLA for the IHSS program would be used to increase the wages paid to providers.
- ***County Services Block Grant (CSBG) Program.*** Under this program, counties provide adult protective services, IHSS eligibility determination and case management services, and a variety of optional social services. The 1985 Budget Act included \$2,819,040 (\$2,275,840 General Fund and \$543,200 county funds) to provide a 4 percent

COST-OF-LIVING ADJUSTMENTS—Continued

COLA for this program. It would cost $725,000 ($584,000 General Fund and $141,000 county funds) to provide a 1 percent COLA for the program in 1986–87. In general, the counties would use any funds provided to this program for a cost-of-living increase to finance the costs of the COLAs they have granted to the social workers assigned to the program.

- ***Foster Care.*** Under this program, counties pay grants to foster family homes and foster care group homes to cover their costs of providing 24-hour residential care to abused, neglected, and delinquent children. The 1985 Budget Act included $4,133,000 ($2,687,000 General Fund, $1,305,000 federal funds, and $141,000 county funds) to provide a 4 percent COLA to foster care providers. It would cost $3,201,000 ($2,320,000 General Fund, $758,000 federal funds, and $123,000 county funds) to provide a 1 percent COLA to foster care providers in 1986–87.
- ***Adoptions.*** Under this program, counties provide services to prospective adoptive parents and to children awaiting adoption. The Governor vetoed funds from the 1985 Budget Bill which had been added by the Legislature to provide a retroactive COLA for the Adoptions program. It would cost $3,330,000 ($3,147,000 General Fund and $183,000 federal funds) to provide a retroactive COLA to the Adoptions program in 1986–87. In general, counties would use any funds provided for a COLA to finance the costs of the COLAs they have granted to adoptions social workers.

The budget does not request funds to provide a COLA for any of these programs in 1986–87.

Child Welfare Services COLA Should Be Separately Identified

We recommend that the Legislature adopt Budget Bill language specifying that the $31,611,000 (General Fund and federal funds) appropriated for prior-year county-granted COLAs for the Child Welfare Services program be matched by the required county share of $8,225,000.

The budget proposes $31,611,000 ($24,526,000 General Fund and $7,085,000 federal funds) to fund COLAs provided to CWS staff from 1982–83 through 1985–86. Under current law, counties are required to provide a 25 percent match for COLAs provided to CWS staff. The county share of costs for these prior-year COLAs totals $8,225,000.

We recommend the Legislature specify that the $31.6 million budgeted for CWS is a COLA and therefore is subject to the 25 percent county match. This is necessary because the additional funding is proposed under Item 5180-151-001—the item which appropriates funds for CWS—and not in the COLA item (5180-181-001). Because the $31.6 million is proposed under Item 5180-151, the counties could refuse to provide their 25 percent share of the proposed increase in funding for the CWS program.

In order to ensure that the counties contribute toward the COLAs which they have granted, we recommend that the Legislature adopt the following Budget Bill language specifying that the $31,611,000 appropriated in Item 5180-151 for prior-year COLAs be matched by the required county share of $8,225,000:

> "Funds totaling $31,611,000 appropriated in Items 5180-151-001 and 5180-151-890 for Child Welfare Services are for funding of county-granted, prior-year COLAs. These General Fund monies and federal funds shall be matched by counties in the amount of $8,225,000."

Funding for Adoptions Program Inconsistent with Other County-Administered Programs

We recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to support the state's share of the costs of the Adoptions program.

In the 1985 Budget Act, the Legislature and the Governor established the policy of funding the state's share of COLAs for administration of the AFDC, Food Stamps, and Medi-Cal programs one-year in arrears (referred to as "retroactive" COLAs). The 1986 Budget Bill proposes to expand this policy to the Child Welfare Services program in 1986–87.

The budget does not propose to apply this retroactive COLA policy to the Adoptions program. (The cost to the General Fund to provide a retroactive COLA to the Adoptions program would be about $3.1 million.) As a result, the budget for the Adoptions program is not consistent with the budgets for other county-administered welfare programs (that is, AFDC, Food Stamps, Medi-Cal, and Child Welfare Services).

We know of no reason why the Adoptions program should be funded at a level that is lower than actual county costs—especially in light of the funding proposals for the other welfare programs. We also note that the Legislature adopted the policy of providing a retroactive COLA to the Adoptions program when it passed the 1985 Budget Bill. (The Governor, subsequently vetoed this proposal.)

Accordingly, we recommend that prior to budget hearings, the Department of Finance advise the fiscal committees on how the administration intends to support the state's share of the costs of the Adoptions program under the current budget proposal.

DEPARTMENT OF SOCIAL SERVICES—REAPPROPRIATION

Item 5180-490 from the General Fund and the Federal Trust Fund — Budget p. HW 167

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates $3,958,000 of the funds appropriated from the General Fund by Ch 1638/84. These funds originally were provided for Child Abuse Prevention Training, and would be used for the same purpose in 1986–87. This item also reappropriates the unexpended portion of federal funds appropriated for Title XX (social services) training by the 1985 Budget Act. These funds would be used to support Title XX training activities in 1986–87. We recommend that both reappropriations be approved.

DEPARTMENT OF SOCIAL SERVICES—REVERSION

Item 5180-495 to the General Fund — Budget p. HW 167

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts $5,000 to the General Fund. This money was returned to the department by counties that received excess child support incentive payments for child support collection activities during 1981–82. Based on our review, we conclude that this reversion is appropriate.

Youth and Adult Correctional Agency

DEPARTMENT OF CORRECTIONS

Item 5240 from the General Fund and various funds — Budget p. YAC 1

Requested 1986–87	$1,239,765,000
Estimated 1985–86	1,021,385,000
Actual 1984–85	786,260,000
Requested increase $218,380,000 (+21.4 percent)	
Total recommended reduction	17,410,000
Recommendation pending	134,767,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5240-001-001—Support	General	$1,151,854,000
5240-001-036—Support	Special Account for Capital Outlay	24,155,000
5240-001-723—Support	New Prison Construction Bond Fund	3,632,000
5240-001-890—Support	Federal	(208,000)
5240-001-917—Inmate Welfare Fund	Revolving	16,878,000
5240-101-001—Local Assistance	General	32,687,000
Reimbursements	—	10,559,000
Total		$1,239,765,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Funding for Inmate and Parolee Population Growth. Withhold recommendation, pending analysis of the population proposal to be contained in the May revision. 1015