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**THE INCOME AND ELIGIBILITY VERIFICATION  
SYSTEM (IEVS) TARGETING DEMONSTRATION:**

**FINDINGS AND GUIDELINES FOR STATE  
FOOD STAMP IEVS PROGRAMS**

**FINAL REPORT**

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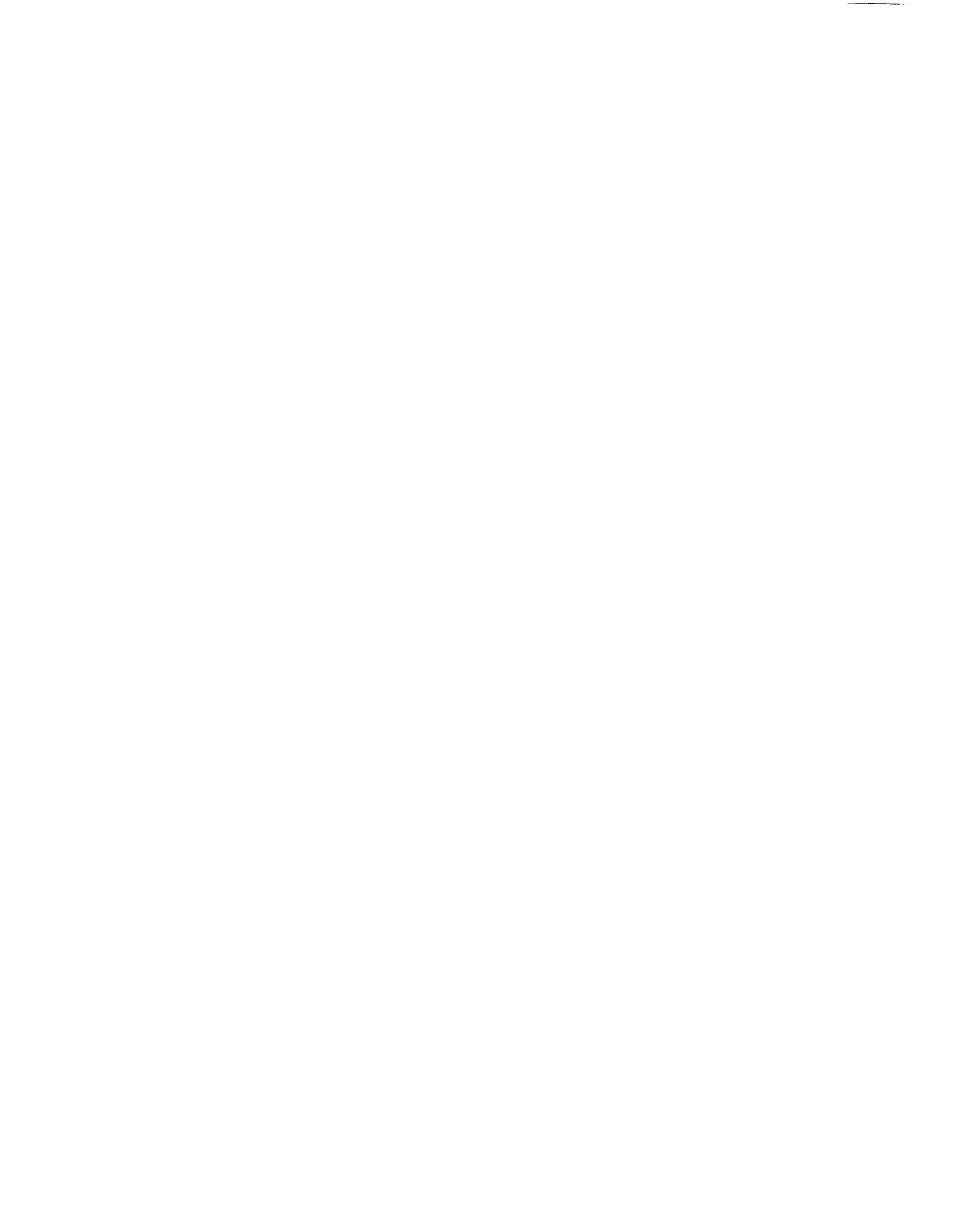
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## **EXECUTIVE SUMMARY**

### **BACKGROUND**

In 1984, the U.S. Congress enacted the Income and Eligibility Verification System (IEVS). The idea of IEVS was that verifying income and asset information provided to welfare programs by the applicant or recipient could be efficiently done by using computers to compare the information to existing Federal databases. Welfare programs would thus be able to identify inaccuracies in client-provided information. Correcting the inaccuracies would make the eligibility determination and benefit computation more accurate, thereby improving the integrity of the program administration. In addition, on the assumption that most inaccuracies in client-reported information served to increase the client's welfare payment, correcting the inaccuracies would reduce program costs.

Each state was required to operate an IEVS program, comparing client-reported information to six databases -- quarterly reports of wage income by employers to state Unemployment Insurance programs (SWICA), annual reports of wage income by employers to the Social Security Administration (BEER), extract of personal income tax returns (IRS), and records of payments by other Federal programs, including Social Security (BENDEX), Supplemental Security Income (SDX), and Unemployment Compensation (UI).

In 1991 The Food and Consumer Service (FCS) of the U.S. Department of Agriculture engaged Mathematica Policy Research, Inc. to evaluate the cost-effectiveness of the IEVS system in two sample states. The cost-effectiveness of some IEVS databases had been called into question during the first few years of the program's operation when caseworkers found that the large majority of potential inaccuracies indicated by the IEVS system proved not to result in any savings to the Food Stamp Program. In addition, the IEVS regulations required states to justify the design of their particular IEVS program on cost-effectiveness grounds.

### **OBJECTIVES**

This report presents findings from the cost-effectiveness demonstration study of IEVS matching and targeting approaches implemented in Michigan and Arizona which was conducted between July and October 1992. It is a companion to Fasciano and McConnell (1995),<sup>1</sup> which presents the technical details of the study, and is intended for a research audience.

This portion of the study was designed to investigate the anecdotal caseworker evidence that several of the IEVS database were not cost-effective, and to provide state IEVS programs with assistance in their preparation of the required cost-effectiveness justification of their program design. The report is intended for an IEVS program operator audience, presenting:

- The cost-effectiveness findings of the study

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<sup>1</sup>This report does not present many of the details of the operation of the demonstration or of the evaluation procedures. For such technical documentation, the reader is referred to Fasciano and McConnell.

- The lessons we learned during the study about how to design and implement an IEVS program
- The steps a state agency can take to request federal approval of its IEVS program

## THE IEVS PROGRAM

IEVS programs consist of the following steps and components:

- **Computer matching** is the automated process of identifying information on external databases that pertains to a welfare case. A **match** occurs when information on a welfare case is available from an external database.
- **Targeting** is the selection of a subset of matched cases on which to follow up. Under current regulations, targeting is permitted for ongoing cases, but not for new applicants. A **hit** is a matched case designated for follow up.
- **Follow up** refers to any actions taken to (1) check that the client-reported information in the computer match is valid, (2) verify information on the external database, (3) recompute eligibility and benefits with information from the external database, (4) process claims, disqualify recipients, and investigate fraud.
- The **client database** refers to the state food-stamp agencies' database of welfare applicants and recipients that is matched to the external database. This database may also contain information on persons who are neither applicants nor recipients, such as persons who have become ineligible for benefits or who live in the home of an applicant or recipient but are not eligible for benefits.
- A **client** is any person listed on the client database.

## THE TESTED MATCHING/TARGETING APPROACHES

The Arizona demonstration focused on recipients, and the Michigan demonstration, on applicants. Arizona introduced three new matching and targeting approaches: (1) matching recipients with the SWICA database and using a new targeting approach, (2) following up recipient matches with the BEER database and using a new targeting approach, and (3) following up recipient matches with the IRS database and using a new targeting approach. Michigan introduced two new targeting approaches: (1) not following up any match of an applicant with the SWICA database and (2) increasing the tolerance threshold for the IRS match.

In Arizona, we estimated the cost-effectiveness of the SWICA recipient match, the BEER match, and the IRS match. In Michigan, we estimated the cost-effectiveness of conducting (or not conducting) the SWICA applicant match, and the cost-effectiveness of the IRS match. We also measured the cost-effectiveness of the UI, BENDEX, and SDX matches.



- Some state targeting approaches exclude IEVS matches with persons whose income is not counted in the benefit computation. If the Federal rules for counting the income of students in the benefit computation are revised, the state targeting approach should be revised in a consistent fashion.
- Some state targeting approaches exclude IEVS matches in which the discrepancy between the client-reported income and the external IEVS income data is less than \$35. The reason for this discrepancy threshold is that states are not required to pursue claims of less than \$35. If FCS were to raise the Federal threshold for claims, say to \$100, then the state discrepancy threshold should be revised accordingly.
- Identify potential problems with current matching/targeting approaches by speaking with the local office staff about which reports appear to be useful and which do not.
- When designing the new targeting approaches, obtain input from both computer systems staff and field staff. This will help to ensure that the approaches can be implemented on the current system and that they address the local office staff's concerns. It will also help all of the staff involved to feel more "signed on" to the project.
- Matching/targeting approaches can vary substantially in their complexity. In deciding what approach to take, consider the amount of resources available both for designing and implementing the new approaches. Simple approaches require caseworkers to bear more responsibilities, but are likely to require fewer resources for design, implementation, and testing than do more complicated approaches.

## **PROGRAM IMPLEMENTATION LESSONS**

The following lessons for the process of implementing new matching/targeting approaches are based on the experiences of Michigan and Arizona during the study:

### **Modifying System Software**

- Before attempting to modify the existing targeting programs, and possibly before designing new approaches, make sure that everyone involved in the project understands exactly what the *current* targeting programs do. This may sound like a simple task, but our experience during the demonstration showed that in both of the demonstration states, the programming staff had trouble identifying exactly what the original targeting programs did. This process will involve interpreting the programming code and testing the programs to ensure that the programs do what they appear to do. Before the implementation process begins, the programming staff should be able to document the current matching/targeting procedures and carefully explain them to the rest of the project team.
- Find out as early as possible who the programming staff will be during the implementation process and get them and their supervisors involved in the project at an early stage so that they feel they are "part of the team." This is especially important if your department does not have its own programming staff. Maintain frequent contact

with the programming staff (for example, meet with them or call weekly) during the design and implementation phases so that their progress can be monitored and, if necessary, changes can be made in the way in which the new approaches are implemented. It is important to avoid changes in the programming staff during the project.

- Implementing new approaches can give the systems staff an opportunity to "clean up" their original matching/targeting approaches. If changing matching/targeting approaches becomes an opportunity to fix long-standing problems with the original programs, expect that the implementation process will become resource-intensive, requiring more supervision from systems and policy staff. It will be very helpful to clearly outline what changes will be made to the programs, in addition to the modifications for the new matching/targeting approaches, before the implementation process begins and to meet at regular intervals to discuss how any previous problems are being resolved.
- Be aware of the fact that the implementation process is likely to be more time-consuming and staff-intensive if the approaches are more than the simplest matching/targeting approaches -- especially if the approaches involve comparing income amounts on two different databases.

### **Testing the Systems Modifications**

- Before the systems modifications have been implemented, meet to discuss how the modifications will be tested, approximately how long testing will take, and when testing will occur. A written testing plan and schedule would be very helpful even if changes are subsequently made to the plan or the schedule. A detailed schedule that considers other modifications that will be made to the system will help to avoid having to test the new approaches more than once.
- Once the systems modifications are in place, route the targeted reports to a policy staff person who is very familiar with the new approaches so that errors and duplicate reports can be identified and reported to systems staff before the reports are distributed to the field. Staff in both states did this and found it to be extremely helpful.

### **Managing and Monitoring the Implementation Process**

- Although implementing a matching/targeting approach is a computer-oriented effort, it is important that the policy staff who are involved in the project maintain frequent contact with the systems staff during the implementation phase. This "bridge" can help to keep the project on schedule and to catch any problems that may arise in the implementation process.

### **Field Office Procedures**

- Consolidate and streamline the IEVS process. This can include designating certain staff to follow up all cases for an office (rather than having all of the caseworkers in an office

perform follow ups), assigning some of the follow-up tasks to clerical staff, consolidating reports, and sending statewide verification requests.

- Improve the system of establishing claims. Although this can involve a substantial amount of work, start by speaking with local office staff about what they find frustrating in the process of establishing claims to identify key issues that need to be addressed, and then organize a committee or task force to devise methods of improving the process. The IEVS process will be much more effective if the system of establishing identified claims is working smoothly.
- Implement on-line access to the SWICA and UI databases. The Arizona staff we spoke with were very enthusiastic about having on-line access and refer to those databases at application, recertification, or when there is a change in the household's circumstances.

## **KEY IEVS REGULATIONS**

The following are paraphrases of the key provisions of the IEVS statute and regulations. The regulations fall into three categories: (1) regulations that pertain to matching; (2) regulations that pertain to targeting, but not to the reporting requirements for targeting; and (3) regulations that pertain to the reporting requirements for targeting. The first category is found in the original IEVS regulations, and are currently in force. The second category is found in the interim IEVS targeting regulations, but have been implemented even though they are still interim. The third category are also found in the interim targeting regulations, but have not yet been implemented or enforced. This third category includes the specifications of the cost-effectiveness study, justifying the state FSA's targeting approach.

### **Original Regulations**

- Food stamp applicants and recipients must be matched to all IEVS databases. The FSA may not omit one or more of the IEVS databases.
- Applicants, as well as recipients, must be matched. Screening, that is, eliminating types of households before the match is performed, is not permitted.

### **Interim Regulations, Excluding the Reporting Requirements**

- Although all applicants and recipients must be matched, not all of the matched recipients are required to be targeted for follow up. The targeting methods must be specified in the state FSA Plan of Operations, and approved by USDA, prior to their being implemented.
- Recipients may be targeted, but applicants may not be targeted.

### **Unimplemented Reporting Requirements of the Interim Regulations**

- A matching/targeting approach may be implemented only after FCS explicitly approves it. The state agency must apply for permission to implement a matching/targeting approach as a part of its annual Plan of Operations submission.

- The Plan of Operation must include a cost-effectiveness analysis of the proposed targeting approach for each IEVS database. The state FSA must submit a cost-effectiveness analysis every year even if the IEVS database is not targeted in order to justify not targeting.
- Targeting may eliminate only recipients for whom follow up is not cost-effective. The cost-effectiveness justification must establish not only that targeting certain matches for follow up is cost-effective, but also that following up "non-hits" is not cost-effective.
- The cost-effectiveness study must be included in the Plan of Operation even if no targeting is performed. It must demonstrate not only that targeting certain matches for follow up is cost-effective, but also that following up "non-hits" is not cost-effective.

## **WHEN WAIVERS ARE NEEDED**

States seeking approval of a matching/targeting program that complies with all provisions of the statute and regulations need not request a waiver. Targeting programs with the following features do not require a waiver:

### **Type I Matching/Targeting Approaches**

- Thresholds for the IEVS data, such as IRS asset income over \$500
- Discrepancy between the IEVS data and the case file data for the same period, such as a discrepancy between IEVS earnings and case file earnings greater than \$500
- Personal or household characteristic(s), such as age of the recipient greater than 18
- Not following up on specific types of IEVS data that are not cost-effective, such as BEER data on earning from in-state employers
- Not targeting an IEVS database

Several targeting programs that are implemented, or are under consideration, by state FSAs comply with the IEVS statute, but do not comply with one or more provision of the regulations. In these cases, FCS must approve the proposed matching/targeting program and must waive the relevant provisions of the regulations. The waiver request is described in Section C. Matching/targeting programs with the following features require a regulation waiver:

### **Type II Matching/Targeting Approaches**

- Targeting applicants
- Not matching some recipients with an IEVS database for a specific time period. For example, not matching recipients to SWICA during their first quarter on the program.

FCS does not have the authority to waive provisions of the IEVS statute. It can, however, under certain circumstances, grant a temporary demonstration waiver of statutory provisions. A demonstration waiver is the only way for a state FSA to implement a matching/targeting program that does not comply with all provisions of the statute. The purpose of a demonstration waiver is to enable FCS to collect critical information that would not otherwise be available. FCS grants demonstration waivers only when the information to be collected is deemed to be essential for the resolution of a legislative policy issue under consideration by the department. Demonstration waivers are approved by FCS under the authority of the Food Stamp Act. Demonstration project proposals should include the background, hypothesis to be tested, technical approach, sampling plan, data collection plan, analysis plan, schedule, and anticipated findings.

Matching/targeting programs with the following features require a demonstration waiver:

### **Type III Matching/Targeting Approaches**

- Screening, as opposed to targeting, based on personal or household characteristics
- Using neither an IEVS database nor a substitute database that provides the same data items
- Using an IEVS database only for recipients, not for applicants

### **COST-EFFECTIVENESS STUDY**

Most of the currently unimplemented interim reporting requirements in the interim targeting regulations pertain to the cost-effectiveness study that each state FSA would perform and submit to FCS in order to justify and support its targeting approach. FCS is currently re-evaluating the cost-effectiveness study requirements. One of the outcomes of the IEVS Targeting Demonstration was a set of recommendations to FCS pertaining to the type of a cost-effectiveness study that (1) would be feasible for each state FSA to perform, and (2) would provide FCS with sufficient information to determine whether the state's matching/targeting approach is cost effective. FCS intends to implement the final cost-effectiveness study requirements when the final IEVS targeting regulations are published.

## I. INTRODUCTION

To be eligible for benefits from the Food Stamp Program (FSP), a household must have income and assets that fall below specified limits. However, if a household provides incorrect income information at the time of application or fails to report later changes in financial circumstances, it is possible for individuals who are actually ineligible for the program to receive benefits and for eligible individuals to receive an incorrect amount of benefits. Minimizing such errors in eligibility and benefit levels is important because it increases the resources available to the truly needy and strengthens public support for the program.

The Income and Eligibility Verification System (IEVS) was established by Congress under the 1984 Deficit Reduction Act to minimize errors in determining eligibility and benefit levels in the Food Stamp, Aid to Families with Dependent Children (AFDC), and Medicaid programs. The IEVS regulations require state agencies to compare income reported by program applicants and recipients with income reported on six federal databases containing information on: earnings reported to the state by in-state employers; earned and unearned income reported to the Internal Revenue Service (IRS); and the receipt of social security, unemployment insurance, and supplementary security income benefits. Lists of welfare applicants and recipients are matched, using a computer, to the external database. Caseworkers at food-stamp agencies conduct follow-up procedures, which may include reviewing the client's case, contacting the client, verifying information on the external database, recomputing eligibility and benefits, investigating fraud, and recovering benefits paid in error.

In 1986, the FSP regulations were amended to require states to implement the IEVS procedures.<sup>1</sup> These regulations required states to match *all* applicants and recipients to the six

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<sup>1</sup>The final IEVS regulations are discussed in the February 28, 1986 *Federal Register*. The regulations became effective October 1986. The final IEVS regulations pertaining to the FSP are contained in 7 CFR, Parts 271-273; the regulations pertaining to the AFDC program are contained in 45 CFR, Parts 205-206; and the regulations pertaining to the Medicaid program are contained in 42 CFR, Parts 431 and 435.

external databases, and to follow up on *all* cases about which the external database supplied information.

After implementing IEVS under these regulations, some state food-stamp agencies expressed concern that the IEVS regulations were inflexible and burdensome. While caseworkers followed up on many matches with the external database, errors were detected in only a small proportion of follow ups. As follow ups can be very time-consuming, caseworkers perceived that IEVS used a large amount of resources in relation to the savings it generated and, at least for some databases, was not cost-effective.

Specifically, state agencies perceive a number of problems with some of the information provided by the IEVS-mandated databases. The three problems cited most often are:

1. ***Out-of-Date Data.*** BEER and IRS data can be up to 30 months out of date. SWICA data can be up to six months out of date. Thus, income on those databases could refer to periods of time when the client was not receiving benefits. Moreover, verifying out-of-date information is more difficult.
2. ***Data Are Aggregated over Different Time Periods.*** While clients report monthly income, income collected by the source agencies are often aggregated over a longer period of time. BEER and IRS data are annual and SWICA income data are quarterly. Thus, it is difficult to directly compare income reported by the client with income reported by the external data source.
3. ***Duplicate Data.*** Most of the BEER data duplicates SWICA data. The only income data provided by BEER, but not SWICA, are (1) self-employment income, (2) out-of-state wages, (3) federal and military employees wages, and (4) agricultural earnings.

Although few states have conducted formal cost-effectiveness studies, many states feel that the listed problems prevent some of the mandated IEVS databases from being cost-effective. Matches with the SWICA, UI, BENDEX, and SDX databases were generally regarded as being cost-effective. The SWICA match was the most popular--80 percent of the states viewed it as cost-effective.<sup>2</sup> Staff argued that information on earned income was useful in detecting incorrect benefit and eligibility

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<sup>2</sup>The percentages of states in this discussion are from Allin (1992).

determinations and easy to use. However, other states were more critical of the match, arguing that the SWICA information was out-of-date and costly to follow up because it required contact with employers. UI, BENDEX, and SDX matches were popular because the data are current, monthly, and do not require third-party verification.

The least popular matches were those with the IRS and BEER databases. Only 12 percent of states perceive the BEER match to be cost-effective. Problems with these matches include (1) out-of-date data, (2) the use of annual, rather than monthly, data, (3) duplication of SWICA data by BEER data, (4) a long turnaround time for receiving the data, and (5) stringent security requirements for using these data.

The perception that IEVS program was inefficient and burdensome is reflected in the evidence we found of state noncompliance with the regulations. Neither of the two demonstration states fully complied with the IEVS regulations prior to the demonstration. States have suggested the following changes to the IEVS program:

- Allow states to conduct matches only with those databases they view as cost-effective
- Allow states to use screening, that is, to send only selected clients to be matched with the external database
- Allow states to target new applicants and on-going recipients. Targeting means that only selected IEVS matches are followed up.

In response to these concerns and suggestions, the U.S. Department of Agriculture (USDA) and the U.S. Department of Health and Human Service (HHS) published interim regulations for comments in February 1988 permitting states to follow up on only a subset of matches that were most likely to lead to a benefit savings. The process of selecting a subset of matches to follow up is known as *targeting*. The interim amendments to the IEVS regulations gave the states the option to target recipient matches, although they are still required to follow up all applicant matches.<sup>3</sup>

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<sup>3</sup>The interim IEVS targeting regulations pertaining to the FSP are contained in 7 CFR Part 272.

While many states have adopted targeting approaches, their efforts to design and implement cost-effective approaches have been limited by the lack of information with which to evaluate targeting approaches. In response, the Food and Consumer Service (FCS) of USDA contracted with Mathematica Policy Research, Inc. (MPR) to conduct demonstrations in Michigan and Arizona in order to estimate the cost-effectiveness of matching and targeting under IEVS. The demonstrations were conducted between July and October 1992. The purpose of this study was to compare the cost-effectiveness of matching/targeting IEVS databases with the cost-effectiveness of not following up any matches with the databases. This report presents the findings from the cost-effectiveness study of IEVS matching and targeting approaches implemented in Michigan and Arizona. The demonstrations were conducted between July and October 1992. It is a companion to Fasciano and McConnell (1995),<sup>4</sup> which presents the full technical detail of the study, and is designed to summarize:

- The findings and implications of the study
- The lessons we learned during the demonstration about how to design and implement an IEVS targeting approach
- The steps a state agency can take to request federal approval of an IEVS targeting plan

Chapter II describes the matching/targeting approaches that were tested. Chapter III presents our findings on the cost-effectiveness of several matching/targeting approaches. Chapter IV explains how to design and implement a matching/targeting program. The impact of the new targeting approaches on caseworkers is covered in Chapter V, and we conclude in Chapters VI and VII by reviewing the statutes and regulations that guide state efforts to implement a matching/targeting program.

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<sup>4</sup>This report does not present many of the details of the operation of the demonstration or of the evaluation procedures. For such technical documentation, the reader is referred to Fasciano and McConnell.

## II. TESTED IEVS MATCHING/TARGETING PROCEDURES

The *IEVS process* is the sequence of procedures involved in verifying client-reported information under IEVS regulations. It includes preselecting cases to be matched with databases, as well as computer matching, targeting, and follow up. While FSP, AFDC, and Medicaid regulations specify certain procedures to be followed in the IEVS process, the procedures actually implemented vary considerably from state to state. In this chapter, we explain the IEVS regulations and matching, targeting, and follow up procedures, we discuss how IEVS is implemented, and we briefly describe the new procedures tested in the Michigan and Arizona demonstrations.

Because technical terms used in the IEVS process often have different meanings for different people, we define some of the technical terms used in this report:

**Screening** is the preselection of a subset of cases to match. Current regulations prohibit most forms of screening.

**Computer matching** is the automated process of identifying information on external databases that pertains to a welfare case.

A **match** occurs when information on a welfare case is available from an external database.

**Targeting** is the selection of a subset of matched cases on which to follow up. Under current regulations, targeting is permitted for ongoing cases, but not for new applicants.

A **hit** is a matched case designated for follow up.

**Follow up** refers to any actions taken to (1) check that the client-reported information in the computer match is valid, (2) verify information on the external database, (3) recompute eligibility and benefits with information from the external database, (4) process claims, disqualify recipients, and investigate fraud.<sup>1</sup>

The **client database** refers to the state food-stamp agencies' database of welfare applicants and recipients that is matched to the external database. This database may also contain information on persons who are neither applicants nor recipients, such as persons who have become ineligible for benefits or who live in the home of an applicant or recipient but are not eligible for benefits.

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<sup>1</sup>In the regulations, the definition of follow up also includes targeting. We do not include targeting in our definition of follow up, but we do include all actions taken after a case is targeted.

A *client* is any person listed on the client database.

## A. MATCHING

FSP regulations require states to conduct computer matches of all applicants and recipients with six external databases:

1. ***State Wage Information Collection Agency (SWICA) Database.*** This database, maintained by a state agency such as the Department of Employment Security or the Department of Labor, provides quarterly earnings information that employers whose employees are covered by unemployment insurance must report each quarter. In most states, when the SWICA match takes place, the data refer to earnings information from the quarter prior to the previous quarter.
2. ***Unemployment Insurance (UI) Database.*** This database provides weekly data on UI benefits received in the previous month. It is often maintained by the same agency that maintains the SWICA database.
3. ***Beneficiary Data Exchange (BENDEX) Title II Database.***<sup>2</sup> This database, maintained by the Social Security Administration (SSA), provides monthly information on Social Security and other benefits provided under Title II of the Social Security Act such as Black Lung benefits, Railroad Retirement benefits, and Medicare. At the time of the match, the data refer to benefits that will be received in the subsequent month.
4. ***Beneficiary Earnings Exchange Reports (BEER) Database.*** This database, maintained by the Social Security Administration (SSA), provides annual earnings information compiled from the IRS Form W-2. If the match is made before about April, the data refer to the year prior to the previous year; if the match occurs after April, the SSA sends data from the previous year when it becomes available.
5. ***State Data Exchange (SDX) Database.*** This database, also maintained by SSA, provides monthly information on Supplemental Security Income (SSI) benefits. At the time of the match, the SDX data refer to the subsequent month.
6. ***Internal Revenue Service (IRS) Database.*** This database provides annual information on unearned income, such as interest and dividends, compiled by the IRS from the IRS Form 1099. If the match occurs before July, the data refer to the year prior to the previous year; if the match occurs in July or later, the data refer to the previous year.

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<sup>2</sup>Strictly speaking, BENDEX refers to the system at SSA through which Title II and Beneficiary Earnings Exchange Reports information is accessed. However, in this report we use the term BENDEX to refer to only the Title II information.



4. ***Use of a Discrepancy Threshold.*** Individuals or cases are targeted for follow up if the difference between income reported on the external database and income on the client database exceeds a given threshold. A more general variant of this rule is to follow up if there is any discrepancy between the two databases--the item may be the dollar amount of income, the receipt of a type of income, or the employer name.

The IEVS census reported that the most common targeting approach for the SWICA, UI, BENDEX, and SDX databases is the use of a discrepancy threshold. The level of the threshold varies by database and by state. The most common targeting approach used for the BEER database is to examine income data that are not also contained on the SWICA database--information on earnings from out-of-state activities, pensions, agricultural work, and self-employment. Most states do not use a discrepancy threshold as part of their targeting approach for BEER, because the BEER data are annual and one or two years old at the time of the match. Therefore, states would require an extensive benefit-history file in order to compare income from the same periods on the BEER database and the client database. The predominant approach for the IRS database is to follow up on matches only if one or more of the types of unearned income are above a tolerance threshold. States rarely use a discrepancy threshold for the IRS database for the same reason that they do not use one for the BEER database--the data are annual and out of date.

### C. FOLLOW UP

A case designated for follow up is called a hit. There are two main procedures used to send information on hits to local offices: (1) hard-copy reports (IEVS reports) and (2) messages, or "alerts," that appear on the caseworker's computer screen. These procedures may vary by database.

The caseworker is usually responsible for most of the follow up. However, clerical staff, specialized caseworkers, and fraud investigators may also be involved. Follow-up procedures involve:

1. ***Reviewing the Information in the Casefile.*** This involves checking that the client-reported information used in the computer match is valid and was correctly entered into the computer; checking that the information had not already been received from the client or via another match, and whether the computer system has not already made this check; and checking whether there is a discrepancy between the

information reported by the client and the information provided on the external database.

2. ***Contacting the Client.*** The caseworker may contact the client to (1) ask for verification of income, (2) obtain permission for the collateral contact (e.g., a bank or other third party) to release information, (3) inform the client that there is a discrepancy between income he or she reported and income on the external database, or (4) inform the client that an action is going to be taken as a result of the IEVS match.
3. ***Verifying Information from the External Database If a Discrepancy Exists.*** This involves contacting the client and/or making a collateral contact. In some states, the computer system produces letters to the collateral contacts if the caseworker enters into the system the necessary information. *Data on SSI, Title II, and UI benefits are considered already verified and do not require third-party verification.*
4. ***Recomputing Eligibility and Benefits Using Information from the External Database.*** In many states, this can be performed by the computer. After recomputing the eligibility and benefits, the caseworker inputs the new information into the client database.
5. ***Processing Claims and Investigating Fraud.*** Processing claims involves computing total overpayments and initiating action to recover the overpayment. Depending on the state, the caseworker, a specialized worker, or the state agency's collection division is responsible for processing claims. In most states a special unit is responsible for investigating fraud.

IEVS regulations require states to complete follow-up procedures within 45 days of receipt of the matched information. If follow up is delayed because the state is waiting for information from collateral contacts, the state is permitted to follow up 20 percent of the cases in more than 45 days. Estimates of how many cases are followed up within the 45-day limit vary widely from state to state, but most states complete follow-up procedures within 45 days for two-thirds to three-quarters of cases.

#### **D. THE DEMONSTRATIONS**

The demonstration to test the cost-effectiveness of IEVS involved introducing a total of five new IEVS matching and targeting approaches in two states, Arizona and Michigan. Cost-effectiveness was measured as the ratio of program savings from IEVS to the cost of matching, targeting, and following up under IEVS. Program savings, the numerator of the ratio, included FSP and AFDC benefits that would have been erroneously paid to clients, benefits that were erroneously paid to

clients and are recovered, and the cost of administering cases that would have been opened or maintained on the rolls in the absence of IEVS. The cost of IEVS, the denominator of the ratio, includes the cost of matching and targeting, the cost of the caseworkers' follow ups, the cost of investigating fraud, and the costs of establishing and collecting claims. We also estimated the cost of developing new matching and targeting rules. However, as the development costs are one-time-only costs, we did not include them in the savings-to-cost ratio. Because cost-effectiveness was measured from the perspective of the federal and state governments, we did not include the costs of IEVS to the clients or to third parties (that is, the time required to verify reported income amounts), such as employers and financial institutions. We also included only directly measurable savings and costs. Hence, we did not include any measure of the savings that may have resulted because IEVS deterred clients from misreporting or because it improved caseworkers' morale. The predemonstration and postdemonstration matching/targeting procedures in Arizona and Michigan are presented in Tables II.1 and II.2, respectively. The Arizona demonstration focused on recipients, and the Michigan demonstration, on applicants. Arizona introduced three new matching and targeting approaches: (1) matching recipients with the SWICA database and using a new targeting approach, (2) following up recipient matches with the BEER database and using a new targeting approach, and (3) following up recipient matches with the IRS database and using a new targeting approach. Michigan introduced two new targeting approaches: (1) not following up any match of an applicant with the SWICA database and (2) increasing the tolerance threshold for the IRS match.

In Arizona, we estimated the cost-effectiveness of the SWICA recipient match, the BEER match, and the IRS match. In Michigan, we estimated the cost-effectiveness of conducting (or not conducting) the SWICA applicant match, and the cost-effectiveness of the IRS match. We also measured the cost-effectiveness of the UI, BENDEX, and SDX matches. The current matching and targeting approaches used with these databases were not changed.

TABLE II.1

PREDEMONSTRATION AND DEMONSTRATION TARGETING STRATEGIES IN ARIZONA

Match	Predemonstration Targeting Strategy	Demonstration Targeting Strategy
SWICA		
Tape	Match did not take place	<p>Follow up if all of the following are satisfied:</p> <p>INDIVIDUAL AND CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>• Person is active for food stamps in current month or was active in one of the two previous months</li> <li>• Person is 16 or older in the current month</li> <li>• Case received a benefit during at least one month over the reference quarter</li> </ul> <p>TOLERANCE THRESHOLD</p> <ul style="list-style-type: none"> <li>• The person's total quarterly earnings reported on the SWICA database from all employers are \$3,600 or more</li> </ul> <p>DISCREPANCY THRESHOLD</p> <ul style="list-style-type: none"> <li>• The difference between the total prorated earnings on the SWICA database and the total earnings reported on the client database over the same quarter is 20 percent or more of the total prorated earnings on the SWICA database</li> </ul>
BEER	No matches were followed up	<p>Follow up if all of the following are satisfied:</p> <p>INDIVIDUAL AND CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>• Employer identification code on the BEER database is different from the employer identification code on the SWICA database</li> <li>• Person was active for at least six months during the reference year</li> <li>• Information from the BEER database for the same employer during the same reference period has not already been received</li> <li>• Person is active for food stamps in current month or was active in one of the two previous months</li> <li>• Person is 16 or older in the current month</li> <li>• Case received a benefit during at least one month of the reference year</li> </ul>

TABLE II.1 (continued)

Match	Predemonstration Targeting Strategy	Demonstration Targeting Strategy
IRS	No matches were followed up	<p>Follow up if all of the following are satisfied:</p> <p>INDIVIDUAL AND CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>• Person was active for at least six months during the reference year</li> <li>• Person is active for food stamps in current month or was active in one of the two previous months</li> <li>• Person is 16 or older in the current month</li> <li>• Case received a benefit during at least one month of the reference year</li> </ul> <p>TOLERANCE THRESHOLD</p> <ul style="list-style-type: none"> <li>• Total unearned income for the case, excluding UI income and prior year tax refunds, exceeds \$100</li> </ul>

TABLE II.2

PREDEMONSTRATION AND DEMONSTRATION TARGETING STRATEGIES IN MICHIGAN

Match	Predemonstration Targeting Strategy	Demonstration Targeting Strategy
SWICA		
Applicants	None	All matches are followed up in first research group, no matches are followed up in second and third research group
UI		
Applicants and Recipients	<p>Follow up if both of the following are satisfied:</p> <ul style="list-style-type: none"> <li>The UI database reports that the client has applied for UI benefits in the past 30 days, has received UI benefits in the past 60 days, or has returned to work in the past 90 days</li> </ul> <p>INDIVIDUAL AND CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>Client is currently active</li> </ul>	Same as current strategy
BENDEX	<p>Follow up if both of the following are satisfied:</p> <p>INDIVIDUAL OR CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>Client is currently active</li> </ul> <p>TOLERANCE THRESHOLD</p> <ul style="list-style-type: none"> <li>Client is currently receiving any Title-II benefits</li> </ul>	Same as current strategy
SDX	<p>Follow up if both of the following are satisfied:</p> <ul style="list-style-type: none"> <li>Client is currently active</li> <li>Client has applied for SSI, is currently receiving SSI benefits, has just had SSI benefits denied or terminated, or has had a change in address or living arrangements</li> </ul>	Same as current study

TABLE II.2 (continued)

Match	Predemonstration Targeting Strategy	Demonstration Targeting Strategy
<p>IRS</p>	<p>Follow up if all of the following are satisfied:</p> <p>INDIVIDUAL AND CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>• Client is currently active</li> </ul> <p>TOLERANCE THRESHOLDS</p> <ul style="list-style-type: none"> <li>• Amounts of unearned income as reported on the IRS database exceed specified tolerance thresholds                             <ul style="list-style-type: none"> <li>- Interest income exceeds \$100 or</li> <li>- Dividends exceed \$100 or</li> <li>- Agricultural subsidies exceed \$100 or</li> <li>- Capital gains exceed \$100 or</li> <li>- Stock dividends exceed \$100 or</li> <li>- Stock liquidations exceed \$100 or</li> <li>- Savings bond interest exceeds \$100 or</li> <li>- Income from rental properties exceeds \$100 or</li> <li>- Bond liquidations exceed \$100 or</li> <li>- Royalties exceed \$100 or</li> <li>- Prizes and awards exceed \$100 or</li> <li>- IRA distributions exceed \$100 or</li> <li>- Profit sharing distributions exceed \$100 or</li> <li>- Real estate sales exceed \$100 or</li> <li>- State income tax refund exceeds \$300</li> </ul> </li> </ul>	<p>Follow up if all of the following are satisfied:</p> <p>INDIVIDUAL AND CASE CHARACTERISTICS</p> <ul style="list-style-type: none"> <li>• Client is currently active</li> </ul> <p>TOLERANCE THRESHOLDS</p> <ul style="list-style-type: none"> <li>• Amounts of unearned income as reported on the IRS database exceed specified tolerance thresholds                             <ul style="list-style-type: none"> <li>- Interest income exceeds \$200 or</li> <li>- Dividends exceed \$200 or</li> <li>- Agricultural subsidies exceed \$200 or</li> <li>- Capital gains exceed \$200 or</li> <li>- Stock dividends exceed \$200 or</li> <li>- Stock liquidations exceed \$200 or</li> <li>- Savings bond interest exceeds \$200 or</li> <li>- Income from rental properties exceeds \$200 or</li> <li>- Bond liquidations exceed \$200 or</li> <li>- Royalties exceed \$200 or</li> <li>- Prizes and awards exceed \$200 or</li> <li>- IRA distributions exceed \$200 or</li> <li>- Profit sharing distributions exceed \$200 or</li> <li>- Real estate sales exceed \$200 or</li> <li>- State income tax refund exceeds \$300</li> </ul> </li> </ul>

### III. COST-EFFECTIVENESS FINDINGS

Our findings indicate that the tested matching/targeting approaches are a cost-effective way to monitor the distribution of benefits in the Food Stamp and AFDC programs. In this chapter, we present our cost-effectiveness findings for each state; we discuss match, hit and action of each matching/targeting approach; and we present the savings realized and costs incurred by the approaches tested in each state.

#### A. MEASURING COST-EFFECTIVENESS

We used two measures of cost-effectiveness. The first is the cost-effectiveness ratio, which is the ratio of savings to the Food Stamp and AFDC programs to the costs of the match, targeting, follow up, and claims collection. It indicates the amount saved by IEVS per dollar spent on IEVS. Savings include changes in benefits for cases that are closed or for which benefits are reduced, and recouped or otherwise collected overpayments. A ratio of 1.0 indicates that for every dollar spent on IEVS, the FSP and AFDC agencies save a dollar of benefits. Ratios greater than 1.0 indicate that more money is saved by IEVS than is spent on IEVS. The second measure of cost effectiveness is the net savings per case. Net savings is total savings minus total cost. This difference, divided by the number of cases that were eligible to be matched, indicates the net savings one can expect from a given matching/targeting approach, rather than the total saved per dollar spent.

It is important to use both measures of cost-effectiveness because a matching/targeting approach with a high cost-effectiveness ratio can still generate a low net savings. Specifically, highly targeted approaches, that is, approaches that designate only a small number of hits, may be expected to have a large cost-effectiveness ratio. This is because such programs designated only the most egregious situations for follow up, passing over cases with lesser overpayments and misreported income. Such targeting programs, however, may be expected to generate relatively small net savings, since only a fraction of all the overpayments and misreported income are followed up. Thus, matching/targeting

programs that have the highest cost-effectiveness ratios may not be the most desirable. The most desirable approach would have a cost-effectiveness ratio greater than 1.0, while generating the maximum net savings.

Every tested matching/targeting combination had a cost-effectiveness ratio greater than 1.0:<sup>1</sup>

- Arizona
  - SWICA 1.55
  - BEER 3.13
  - IRS 3.53
  
- Michigan
  - SWICA 2.82
  - UI 6.40
  - BENDEX 7.26
  - SDX 1.24
  - IRS 10.66

The net savings per case for the tested matching/targeting approaches are:

- Arizona
  - SWICA \$0.70
  - BEER \$2.35
  - IRS \$3.00
  
- Michigan
  - SWICA \$6.63
  - UI \$5.64
  - BENDEX \$1.56
  - SDX \$0.14
  - IRS \$2.12

## B. MATCH, HIT, AND ACTION RATES

The cost-effectiveness of each matching/targeting approach is largely determined by how many past overpayments and incorrect current benefits are detected. The following figures indicate the

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<sup>1</sup>These figures are based on the assumption that monthly savings from the case becoming ineligible or having its benefit reduced persists until the subsequent scheduled recertification.

proportion of cases that had a match with each tested IEVS database (the match rate), the proportion of matched cases that were flagged by the targeting approach (the hit rate), and the proportion of targeted cases for which a past overpayment or incorrect current benefit was detected (the action rate). The designation NA indicates that some of the data required to compute the rate were not available.

	Match Rate	Hit Rate	Action Rate
• Arizona			
- SWICA	4%	20%	6%
- BEER	NA	NA	10%
- IRS	8%	13%	16%
• Michigan			
- SWICA	31%	100%	6%
- UI - Applicant	44%	17%	4%
- UI - Recipient	33%	17%	4%
- BENDEX	NA	NA	9%
- SDX	NA	NA	5%
- IRS	21%	2%	12%

The proportion of all cases that are followed up (a measure of caseworker burden associated with a matching/targeting approach) is computed by multiplying the match rate by the hit rate. The proportion of all cases for which a past overpayment or a current incorrect benefit is detected is computed by multiplying all three rates together.

The action rates verify the caseworkers' contention that the large majority of follow ups do not result in any action. Caseworkers in both states reported that the lack of action is most often the result of the following factors:

- The income information reported by the IEVS database was already recorded in the case record. These hits would be eliminated if a discrepancy targeting rule were adopted.
- The income reported by the IEVS database does not affect benefits or eligibility.
- The case was no longer active.

Virtually, the lack of action was not caused by the fact that information on the IEVS database proved to be incorrect.

### **C. SAVINGS**

The figures in this section present the average savings produced by the tested IEVS approaches in each state. Savings associated with each separate matching/targeting approach, as well as a detailed presentation of the assumptions underlying these figures, are presented in Fasciano and McConnell (1995). As in the previous section, savings are estimated assuming that monthly benefit savings persist until the case's subsequent scheduled recertification.

- **Arizona**

Case closings

- \$794 per month for each case closed as a result of the follow up
- \$68 per month per follow up, including follow ups that did not result in closing the case
- \$1,387 per follow up over all the months the case would have continued to participate in the program. See Fasciano and McConnell (1995) for an explanation of how the number of months was estimated.

Overpayments

- \$1,836 average overpayment among cases with a detected overpayment
- \$1,130 recovered through recoupment or claims collection per case with an overpayment
- \$54 recovered per follow up, including follow ups that did not detect an overpayment

- **Michigan**

Case closings

- \$1,129 per month for each case closed as a result of the follow up
- \$52 per month per follow up, including follow ups that did not result in closing the case

- \$115 per follow up over all the months the case would have continued to participate in the program.

#### Overpayments

- \$288 average overpayment among cases with a detected overpayment
- \$113 recovered through recoupment or claims collection per case with an overpayment
- \$2 recovered per follow up, including follow ups that did not detect an overpayment

#### D. COSTS

The largest cost of the IEVS program is the cost of the time spent by caseworkers on follow ups. Labor costs include salary, fringe benefits, and overhead. Follow ups in Arizona took 50 minutes, costing \$32.40, on average. Follow ups in Michigan took 13 minutes, costing \$10.73, on average. Claims establishment and collection cost \$152 per overpayment in Arizona and \$284 per overpayment in Michigan. On a per-follow-up basis, including the follow ups that did not detect an overpayment, the cost was \$7 in Arizona and \$5 in Michigan.

IEVS data processing costs proved to be minor. Data processing for matching and targeting costs an average of 2 cents per case in both states.

Implementing a new matching or targeting approach required the development of software. Arizona spent approximately \$104,000 developing its matching/targeting software from scratch. This cost is primarily the labor cost of programmers. Michigan had developed most of its software prior to the demonstration. The total operating cost of the tested matching/targeting approaches was \$40 per follow up in Arizona and \$16 per follow up in Michigan. On a per-case basis, total operating cost was \$1.17 in Arizona and \$1.70 in Michigan.



#### **IV. THE PROCESS OF DESIGNING AND IMPLEMENTING A MATCHING/TARGETING PROGRAM**

This chapter describes the experiences in Arizona and Michigan as they designed and implemented their IEVS matching/targeting approaches. The design and implementation lessons from these experiences were drawn largely from interviews with the key staff members in each state.

The process of designing a program is presented in the first sections, and the process of implementing a program is presented in the final sections.

##### **A. DESIGN**

The design process comprises four tasks: (1) analyzing the limitations of the current targeting approaches, (2) obtaining permission to implement new approaches, (3) organizing a project team, and (4) designing new approaches.

##### **1. Analyzing the Limitations of Current Targeting Approaches**

The local offices in both states communicated extensively with the state office about the fact that current targeting approaches needed to be changed--that is, that they were getting too many IEVS reports that were "useless." Their input was specific to certain matches in both states; in Michigan, the local office staff felt very strongly that the SWICA match was not worthwhile for applicants, and in Arizona, the caseworkers argued that the SWICA tape match with recipients (as opposed to the online matches), and the BEER and IRS matches were not worth the effort.

Both states initiated studies to determine if this feedback from the field could be validated. In Michigan, a fairly sophisticated cost-effectiveness evaluation of the SWICA database was conducted by the Planning and Evaluation Division of the Office of Planning, Budget, and Evaluation. The

study found that following up all applicant matches with the SWICA database was not cost-effective, but that following up recipient matches with the SWICA database was cost-effective.<sup>1</sup>

Although local office staff in Arizona complained about the SWICA tape match, and the BEER and IRS matches, the state conducted a study only for the SWICA tape match. This study, performed by a Streamlining Workgroup comprising both state and local office staff, involved in determining the outcome of the follow-up process for SWICA tape match reports sent to selected offices and calculating the percentage of those follow ups that led to a change in benefit amount or the detection of an overpayment. The authors found that SWICA reports were being sent to the field each quarter for approximately 50 percent of the caseload; many of the reports were for household members whose incomes were not considered in determining the benefit amount or who were not active in the case. The workgroup concluded that the percentage of follow ups leading to a change or to the detection of an overpayment was too small to merit the time expended in following up all the hits on a report. Because programming resources were not available to "fix" the SWICA tape match to reduce the number of reports being sent to the field, the workgroup recommended that the SWICA tape match be discontinued.

## **2. Obtaining Permission to Implement New Approaches**

The results of studies conducted in both states and the anecdotal evidence supplied by the field were used to convince state program administrators that the current targeting approaches needed to be changed. Michigan program administrators requested a waiver from FCS to discontinue matching applicants to the SWICA database, while the program administrator for the Family Assistance Administration (FAA) in Arizona decided to stop sending the SWICA, BEER, and IRS reports to the field. In both cases, the targeting approach that was chosen at this point was to discontinue

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<sup>1</sup>At the time the study was conducted, the current targeting approach was to follow up recipient matches (regardless of the program involved) if the difference between the reported income amount for a quarter and the amount on the SWICA database was greater than \$500.

sending all reports from one or more of the matches to the field, rather than to more heavily target them.

Neither of these new approaches proved to be long-term solutions. FCS denied Michigan's request for a waiver, and the program administrators in Arizona knew that, by not sending the SWICA, BEER, and IRS reports to the field, it was out of compliance with the IEVS regulations. It was these circumstances that led both states to participate in this demonstration. Administrators in Michigan believed that if an independent research firm verified the findings of their study, FCS might reconsider their request for a waiver, and administrators in Arizona wanted to more formally determine the cost-effectiveness of the SWICA, BEER, and IRS matches. We were told by the Arizona project staff that if this study found that one or more of these matches was not cost-effective, the state would also request a waiver from FCS. For both states, the key to their decision to implement new matching/targeting approaches was that the new approaches would decrease the caseworkers' workloads by decreasing the number of ineffective IEVS follow ups.<sup>2</sup>

### **3. Organizing a Project Team**

Once FSP administrators in a state have obtained permission to implement new approaches, they must then form teams to design those approaches, implement them, and to oversee the process to ensure that the approaches are implemented correctly and in a timely manner. In both of the demonstration states, these teams included representatives from the policy division, the systems division, and from the field. In Michigan, the specific units represented were the Office of Planning, Budget, and Evaluation; the Office of Systems and Technical Services; the Bureau of Information Systems; and the Food Stamp Unit. In addition, a focus group of local office staff was formed to provide input. In Arizona, the project team included representatives from the Program and Policy

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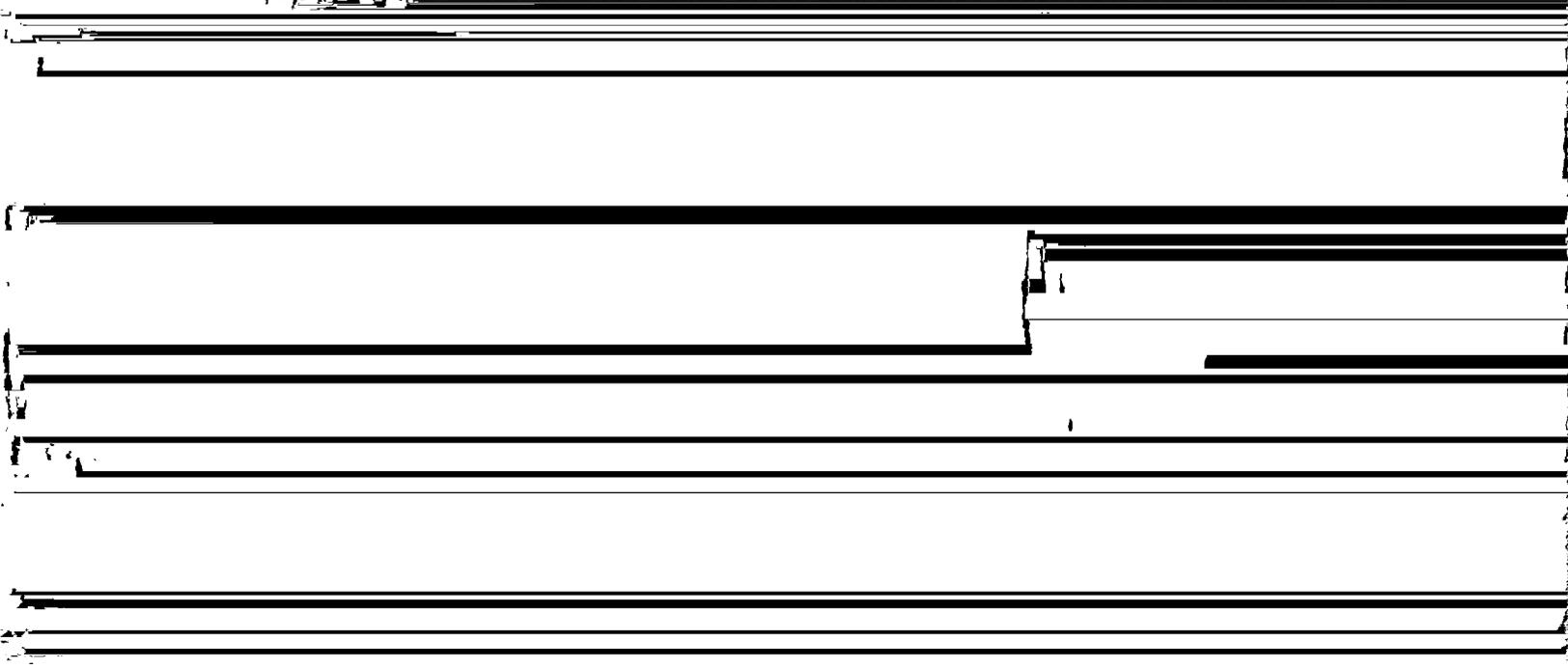
<sup>2</sup>Since the caseworkers in Arizona were not receiving SWICA, BEER, or IRS reports prior to the demonstration, and since they did receive them during the demonstration, their workloads *increased* in the short run.

Unit and FAA Systems, as well as the program manager of one the six districts in the state. A quality control analyst and a representative of the medical programs were consulted at the design stage of the project.

Not all of the team members were involved in all phases of the project. When we interviewed the project staff in Michigan, we were told by the programmer from the Bureau of Information Systems, who was responsible for implementing the new targeting approaches, that he would have felt more "signed on" to the implementation phase if he had been included in the design phase. The Michigan staff agreed that it is very important to include on the design team people who are familiar enough with the capabilities of the system that they limit their suggested targeting approaches to those that are feasible. In Arizona, the staff who would be doing the actual programming were never included on the project team because they are employees of a division outside of the Family Assistance Administration. Given the comment of the Michigan programmer, some of the implementation problems in Arizona could possibly have been avoided if those programmers had participated in the design phase discussions.

#### 4. Designing New Approaches

The two states approached the design of the new targeting approaches quite differently. The



Arizona designed fairly stringent and complicated approaches in an attempt to identify *ineligible* participants, rather than to identify benefit changes or overpayments for eligible participants, and to simulate the types of judgments that caseworkers would make using this information. For example, the targeting approach for the SWICA match attempted to answer the following questions: Is the person currently active? Was he or she active during the period to which the data refer? Did he or she receive food stamps during the period to which the data refer? Taking into account the number of months the person was active, did his or her earnings (as reported on the SWICA database) differ substantially from what was reported? Did the person earn enough to make him or her ineligible? The Arizona staff believed that if the targeting approaches helped to answer these questions, the follow ups would be less of a burden on the caseworkers *and* the caseworkers would be likely to receive only reports of hits that would lead to a change in benefits or eligibility, or to the detection of an overpayment.

The Arizona demonstration staff said that if they had not been participating in the demonstration, but were designing new approaches under the threat of sanctions for not sending any reports to the field for the SWICA, BEER, and IRS matches, they would have been more conservative in designing their approaches. They felt they could design very stringent approaches for the demonstration because MPR was providing technical support and evaluating the approaches.

##### **5. Recommendations for Designing New Targeting Approaches**

The following recommendations for designing new targeting approaches are based on the experiences of Michigan and Arizona during the demonstration:

- Identify problems with current targeting approaches, and speak with the local office staff about which reports appear to be useful and which do not. (It is likely that if there are major problems with the targeting approaches, the local office staff will alert the state program staff.) These discussions will be most helpful if the local office staff are very specific in describing which reports are not useful.
- When designing the new targeting approaches, obtain input from both systems and field staff. This will help to ensure that the approaches can be implemented on the

current system and that they address the local office staff's concerns. It will also help all of the staff involved to feel more "signed on" to the project.

- Targeting approaches can vary substantially in terms of complexity. For this demonstration, Michigan implemented simple screens, while Arizona implemented complicated algorithms that simulated caseworker decisions. In deciding what approach to take, consider the amount of resources available both for designing and implementing the new approaches. Simple screens will not be able to capture the complexity of the decisions made using the data but are likely to require fewer resources in the designing, implementing, and testing phases than will more complicated algorithms.

## **B. IMPLEMENTATION**

Like designing new targeting approaches, implementing new approaches is likely to be more involved than anticipated. To simplify the implementation process, we have divided it into three tasks: (1) modifying systems software to reflect the new approaches, (2) testing systems modifications, and (3) managing and monitoring the implementation process.

### **1. Modifying Systems Software**

When we spoke with demonstration staff in Michigan and Arizona about the process of modifying systems software to reflect the new targeting approaches, we learned that the experiences in the two states were very different. This task appeared to go more smoothly in Michigan than in Arizona. Each state's experience with this task is described below.

#### **a. Michigan**

The systems staff decided that since they were implementing changes only for the demonstration, which would end in a few months, they would create temporary programs to process the project cases, rather than modify the existing targeting programs (referred to hereafter as the original targeting programs). A program was written to separate the matched project cases from the rest of the matched cases, and modified versions of the original targeting programs were created for the project cases. The project staff believed that since these changes to the original targeting programs would not be permanent, it would take less time to create the temporary programs than to modify the

original programs and do the necessary testing that would accompany a permanent change. Also, at the end of the demonstration, it would be very easy to erase the temporary programs and return to the original targeting programs for all matched cases.

The Michigan staff asserted that other project-related programming tasks (that is, tasks other than modifying the software to implement the new approaches, such as creating monthly tapes of case characteristics for MPR) were a large part of the systems burden of the demonstration. In fact, they estimated that the other tasks accounted for 90 percent of the time systems staff spent on the demonstration. The project staff believed that to implement new approaches statewide would have been "a minor burden," since they are very comfortable making changes to their automated system. However, since they did not modify the original targeting programs, we cannot be sure that they would indeed find this to be so. In fact, when we asked for a more detailed description of the original targeting approaches later in the demonstration, we found that the programming staff could neither easily identify which programs contained the original targeting algorithms nor describe exactly what those programs did.

The Michigan staff stressed that implementing their targeting approaches was relatively easy since the approach for the IRS database is a simple screen, and the "approach" for the applicant SWICA match involved not sending matched cases to the field. More complicated approaches would require more programming and more extensive testing of the modifications. The staff also emphasized the fact that the Bureau of Information Systems and the Food Stamp Unit have a very good relationship, which greatly facilitated the implementation process.

#### **b. Arizona**

Modifying the systems software to implement the new matching/targeting approaches in Arizona was a very time-consuming and arduous process for the following several reasons.

**Programs Had to Be Rewritten.** The Arizona systems staff were not at all familiar with the three matching/targeting programs that had to be modified. The programs were written in 1984 and little

had been done with them since that time. In addition, they were written in a language no longer used by the systems staff--Natural. Consequently, the first step of the implementation process was to decipher the old programs to determine exactly what the programs did, and rewrite them in COBOL. It was necessary to review the rewritten programs fairly extensively to ensure that they executed the same tasks as the old programs, and that the translation into COBOL was correct.

**Old Problems Were Corrected.** Several of the problems with the SWICA, BEER, and IRS matches that led to the discontinuation of sending reports from these matches to the field, as well as problems that arose during the time those reports were not sent to the field, were corrected when the matching/targeting programs were being rewritten. Three examples are given below.

Arizona staff had previously tried to match the employer identification numbers on the BEER and SWICA databases so that they could target out information on the BEER database for which more recent information was already available on the SWICA database--primarily information on earnings received from employers residing in the state. However, they were unsuccessful because the state employer identification number on the SWICA file did not match the federal employer identification number on the BEER file. A significant amount of time was spent during the implementation phase of this demonstration to resolve this problem by developing a "map" between the state and federal identification numbers so that information on earnings received from in-state employers could be targeted out of the BEER match.

When the SWICA reports were not distributed, caseworkers in Arizona changed from *retrospective* budgeting to *prospective* budgeting to calculate benefits and eligibility. In retrospective budgeting, eligibility and benefits are based on actual income in some previous month. In prospective budgeting, program eligibility and benefits for a given month are based on the expected income for that month. In Arizona, eligibility and benefits are based on actual income two months prior to the month for which the eligibility decision is made. The SWICA targeting approach involves a comparison of the income amount reported by the client and that on the SWICA database for the

same quarter. Thus, for example, in retrospective budgeting, the income amount reported by the client in March, April, and May of a given year would be compared to the income amounts on the SWICA database in January, February, and March of the same year. In contrast, in prospective budgeting, the projected budgets for January, February, and March would be compared with the SWICA data for January, February, and March. During the implementation phase of this project, the targeting program for the SWICA database had to be changed to reflect the change from retrospective to prospective budgeting so that the reference period of the external data corresponded to that of the reported income information.

When the BEER, IRS, and SWICA reports were distributed prior to the demonstration, there was no targeting in place that filtered out reports for clients who were not active on a case--that is, they were not participating in the program or receiving benefits in the period to which the data referred. For example, in a household with five people, two of whom received food stamp benefits, the caseworkers were receiving IEVS reports for all five household members. This also was corrected when the matching/targeting programs were rewritten; the current targeting approaches limit follow up to those who were active and receiving benefits for at least part of the reference period. The systems analyst who worked on this task said that it took quite a bit of time and effort to write the computer specifications for those who would be considered "active," and she recommended that other states think carefully about how to define an "active" case when they design or redesign their targeting approaches.

**Staffing Changed During Implementation.** The programming responsibilities for modifying the targeting programs did not remain with one person (or unit) during the implementation phase, and consequently, a large amount of programming was redone. Although a systems unit is part of the FAA, the actual programming for FAA projects is usually done by programmers in the Division of Data Administration (DDA), which is *not* part of FAA. Rather, DDA serves several departments, including FAA. During the implementation phase of this demonstration, the programming

responsibilities started with an on-call employee working in the systems unit of FAA, but were transferred mid-way through this phase to programmers at DDA because funding for the on-call employee was exhausted. Since the DDA programmers do not use Natural, the first thing they did was to rewrite in COBOL the programs that the on-call employee had written in Natural.

**Programmers Were Not FAA Employees.** All of the Arizona staff stated that because the programmers that eventually made the systems modifications were not employees of FAA, they had less control over the programming of the modifications than they would have had if the programmers had been FAA employees.

**Targeting Approaches Were Very Complicated.** In contrast to Michigan, Arizona designed and implemented very complicated targeting approaches, which involved comparing income amounts in different databases and calculating the degree to which the two amounts differed. It is very likely that this complexity made the implementation process more difficult and time-consuming because such approaches require more resources--both to program the changes and to test the systems modifications.

**Other Systems Modifications Were Being Implemented.** When the matching/targeting programs were being implemented in Arizona, another major systems modification was being implemented--the client database was being split into two smaller databases to reduce the time required to run some of the larger computer programs. This split made implementing the matching/targeting programs more difficult--it was particularly difficult to process clients who moved during the demonstration.

## **2. Testing Systems Modifications**

Once the systems software is modified to reflect the new targeting approaches, those modifications must be tested to verify that the changes were correctly input. As stated, Michigan put temporary programs in place during the demonstration. These programs were tested to ensure that the targeting approaches were implemented correctly, but it is likely that the testing process would have been more involved if the original targeting programs had been modified. One of the systems

staff involved in the project stated that due to the time schedule of the project, they had to simultaneously design, develop, and test the temporary targeting programs. He would have preferred to have had more time to modify the software and test the modifications.

The testing of the Arizona targeting programs was done by an FAA systems staff person who reported that she spent the majority of her time on the project testing programs. A test database containing both typical and atypical client situations was created, and the matching/targeting programs were run on this database to determine whether they were equipped to process the different types of client data that would be found in the full client database.

In addition, because the client database was being split when the matching/targeting programs were implemented, the targeting programs had to be tested more than once to ensure that they were compatible with the other changes that were being made. This made the testing process more difficult and substantially more time-consuming.

In both states, a policy staff person performed the additional tests of the targeting programs. The reports generated by the matching/targeting programs in both states were routed to a policy staff person before being distributed to the field. The policy staff person reviewed the reports to identify problems and eliminate duplicate forms. Problems identified through this process were brought to the attention of the systems staff and subsequently corrected. Staff in both states reported that this additional testing was extremely helpful, since it limited the number of incorrect reports that were sent to the field.

### **3. Managing and Monitoring the Implementation Process**

The two states approached the managing and monitoring of the implementation process quite differently. In Michigan, one person, a policy analyst in the Food Stamp Unit, was made responsible for overseeing all of the operations of the demonstration, including the implementation of the new targeting approaches. If necessary, the Manager of the Food Stamp Unit would provide assistance in managing the process to ensure that it was conducted in a timely manner. We were told that

during the implementation phase, the policy analyst maintained frequent contact with the programmer responsible for modifying and testing the systems software to ensure that the work was progressing.

In Arizona, while the overall responsibility for the demonstration rested with one person, the Manager of the Program and Policy Unit, responsibility for overseeing various phases of the demonstration, including the implementation process, was delegated to other project staff. Thus, the management of the demonstration was less centralized in Arizona than in Michigan. An FAA systems analyst was responsible for managing and monitoring the implementation process, and once tasks in this area were delegated, there appears to have been little ongoing supervision of the way in which they were handled. It is likely that the implementation process in Arizona would have run more smoothly if a well-thought-out plan, in terms of who would do the programming and in what language it would be done, had been discussed by all of the project staff in advance and the progress of that plan had been monitored so that deviations could be readily amended.

#### **4. Recommendations for Implementing New Matching/Targeting Approaches**

We make the following recommendations for implementing new matching/targeting approaches based on the experiences of Michigan and Arizona during the demonstration:

##### **Modifying Systems Software**

- Before attempting to modify the existing targeting programs, and possibly before designing new approaches, make sure that everyone involved in the project understands exactly what the *current* targeting programs do. This may sound like a simple task, but our experience during the demonstration showed that in both of the demonstration states, the programming staff had trouble identifying exactly what the original targeting programs did. This process will involve interpreting the programming code and testing the programs to ensure that the programs do what they appear to do. Before the implementation process begins, the programming staff should be able to document the current matching/targeting procedures and carefully explain them to the rest of the project team.
- Find out as early as possible who the programming staff will be during the implementation process and get them and their supervisors involved in the project at an early stage so that they feel they are "part of the team." This is especially important if your department does not have its own programming staff. Maintain frequent contact with the programming staff (for example, meet with them or call

weekly) during the design and implementation phases so that their progress can be monitored and, if necessary, changes can be made in the way in which the new approaches are implemented. It is important to avoid changes in the programming staff during the project.

- In Arizona, the demonstration gave the systems staff an opportunity to "clean up" their original matching/targeting approaches. If changing matching/targeting approaches becomes an opportunity to fix long-standing problems with the original programs, expect that the implementation process will become resource-intensive, requiring more supervision from systems and policy staff. It will be very helpful to clearly outline what changes will be made to the programs, in addition to the modifications for the new matching/targeting approaches, before the implementation process begins and to meet at regular intervals to discuss how any previous problems are being resolved.
- Be aware of the fact that the implementation process is likely to be more time-consuming and staff-intensive if the approaches are more than simple screens--especially if the approaches involve comparing income amounts on two different databases. If the approaches to be implemented are more complicated, it is very important that everyone on the project understand exactly what the new approaches are.

#### **Testing the Systems Modifications**

- Before the systems modifications have been implemented, meet to discuss how the modifications will be tested, approximately how long testing will take, and when testing will occur. A written testing plan and schedule would be very helpful even if changes are subsequently made to the plan or the schedule. A detailed schedule that considers other modifications that will be made to the system will help to avoid having to test the new approaches more than once, which was what happened in Arizona.
- Once the systems modifications are in place, route the targeted reports to a policy staff person who is very familiar with the new approaches so that errors and duplicate reports can be identified and reported to systems staff before the reports are distributed to the field. Staff in both states did this and found it to be extremely helpful.

#### **Managing and Monitoring the Implementation Process**

- Although implementing a targeting approach is a computer-oriented effort, it is important that the policy staff who are involved in the project maintain frequent contact with the systems staff during the implementation phase. This "bridge" can help to keep the project on schedule and to catch any problems that may arise in the implementation process.



## V. IMPACTS ON CASEWORKERS

We examined how implementing a new IEVS system affects caseworkers by interviewing staff in three local offices in each state. Although these discussions differed somewhat from one office to the next, the following several topics were discussed in all of the offices: the effect of the matching/targeting approaches on the caseworkers' workloads, the perceived effectiveness of the follow ups, the effect of targeting on caseworker morale, the deterrence effect of IEVS, and suggestions for further improvements to the states' targeting approaches.

### A. IMPACTS OF TARGETING

The targeting approaches directly affected the caseworkers' workloads and the perceived effectiveness of the follow ups.

**Caseworker Workload.** Caseworkers in Michigan saw no difference in the number of reports they received as a result of the more stringent targeting approaches that had been implemented. In Arizona, it was difficult for many of the respondents to assess whether they were performing fewer follow ups since they had not performed any follow ups for the two years prior to the demonstration. However, a few respondents could tell that their offices were receiving significantly fewer BEER and IRS reports than the last time those matches had been performed.

**Perceived Effectiveness of Follow Ups.** Caseworkers in Michigan did not perceive follow ups to be more effective after the new approaches were implemented than they were before the new approaches were implemented. In fact, some of the caseworkers seemed somewhat baffled by this question because they tend to think less about the *effectiveness* of follow ups and more about simply completing them. However, they did say that the SWICA applicant match is not cost-effective because in most cases, the client was not receiving food stamps during the period to which the SWICA data refer, and the report of hits often is not received in time to affect the application process. The caseworkers in one office also stressed that the IRS match is rarely useful. They

reported that even for long-term clients, who are more likely to have assets, only 5 to 10 percent of follow ups on IRS matches are useful.

In Arizona, on the other hand, some respondents did say that follow ups of matches with the IRS and BEER databases were effective; that is, these follow ups were more likely to lead to a change in eligibility or benefits, or to the detection of an overpayment. Even so, the SWICA match was unanimously seen as ineffective, since information on this database is already available online. Follow ups of matches with the BEER database were considered effective only for income earned from nonprofit employers, since this information is not reported on the SWICA database. IRS follow ups were, for the most part, described as being very useful. One caseworker thought that at least 50 percent of the IRS hits she received led to a change in benefits or eligibility, or to the detection of an overpayment. She gave two reasons for the effectiveness of these follow ups: (1) reports of IRS hits had not been sent to the field in two years, and (2) because of the demonstration, the matches were actually being followed up. In the past, caseworkers received numerous IRS reports and did not have time to follow up on all the cases listed on them.

The Arizona staff in one office stressed that while the IRS follow ups did appear to be effective, the information on the IRS reports is often very difficult, and therefore costly, to verify--especially pension and bank account information. One caseworker found that banks have information on current, not previous, balances. Caseworkers in Arizona could not say that the IRS match is cost-effective because although they know about cases that will be closed or for which benefits will be reduced, they do not know what portion of the identified overpayments will actually be collected. A caseworker and an overpayment writer were assigned to this project full-time for the duration of the demonstration.

## **B. IMPACTS OF MATCHING**

Since most caseworkers in both demonstration states did not consistently follow up cases before the demonstration, many of their comments related to follow up, *per se*, not to the changes brought about by the targeting. Caseworkers' views on the effects of the follow up component of the tested approaches on workload and morale are summarized below.

**Caseworker Workload.** The caseworkers in Michigan said that because of an expanding caseload and several job vacancies, their workload has been increasing and they feel overburdened. While receiving the match reports did not add to this burden, they did not like the fact that during the demonstration, they were required to make the IEVS reports a priority. Although overburdened even before the demonstration, they were still able to prioritize their workload so as to concentrate on tasks they believed to be more pressing. Since follow up was previously a low priority, some of the caseworkers had to "come up to speed" on *how* to conduct a follow up.

In two of the three Arizona offices that we visited, some caseworkers were assigned to the project and followed up all the cases listed on reports received by their offices. To stabilize the workload of these people, they were relieved of other responsibilities for the duration of the demonstration. For instance, in one of these offices, three caseworkers did not handle applications (that is, they worked only with ongoing cases) during the demonstration so that they could spend about two hours per day on follow-up activities. In another office, one caseworker was relieved of all regular responsibilities during the demonstration so that she could work full-time on follow ups. The third Arizona office is quite small and received few reports, so they did not assign specific caseworkers to the demonstration.

Caseworkers in both states asserted that many of the time-consuming follow-up activities could be performed by clerical staff. For example, caseworkers may not have the historical file for a client who has recently moved, and so would find it very helpful if clerical staff performed tasks such as retrieving the historical files from the clients' previous offices and sending requests for verification.

Caseworkers in both states would want the clerical staff to be more involved if they were consistently required to follow up cases after the demonstration.

**Caseworker Morale.** Although none of the caseworkers we spoke with were enthusiastic about following up cases, this did not appear to have a large impact on their morale--it was just "one more thing." Staff in one of the Michigan offices stated that the only way to raise morale would be to stop sending caseworkers IEVS reports. In another Michigan office, staff reported that when the office assigned certain caseworkers to perform follow up on the SWICA reports (so that the other caseworkers did not have to), morale increased substantially. In Arizona, morale was not affected since the caseworkers knew the project would end, and as mentioned, in two of the offices, they were relieved of other responsibilities during the demonstration so their workload remained relatively

stable.

### C. CASEWORKERS' VIEWS OF IEVS IN GENERAL

Caseworkers' impressions of IEVS fall into four categories: (1) general views about IEVS, (2)

However, even they were skeptical that enough of the identified overpayments are collected to make the IRS match cost-effective.

**The Deterrent Effect of IEVS.** The majority of the caseworkers interviewed in both states believe that IEVS has no deterrence effect. As discussed below, caseworkers in both states said that the penalties for fraud are too lenient, which undermines any potential deterrent effect.

Caseworkers in one of the Arizona offices said that personal contact with the client, not follow up activities, indicates whether the client is providing fraudulent information. They said that their own intuition and client errors (for example, bringing in verification for expenses that exceed reported income) are more common ways of identifying fraud.

**The Effect of IEVS on caseworker Morale.** When we asked the caseworkers in both states about the effect of the tested approaches on their morale, they were often more interested in talking about the effect of IEVS on their morale. In particular, they expressed frustration with their states' systems of establishing and collecting claims, and with the IEVS regulations regarding fraud. The caseworkers felt very strongly that they have little incentive to follow up cases if claims are never established for overpayments and if clients who are caught lying are not sufficiently penalized.

In Michigan, cases with potential overpayments are sent to the Office of the Inspector General (OIG) for fraud investigations. The caseworkers we interviewed said that they send many cases to OIG, only to have them returned three years later for "insufficient information." The caseworkers said that this happens so often that they sometimes mark a potential fraud case as an inadvertent household error so that the state can start recouping benefits; otherwise, they believe nothing will happen. In Arizona, the caseworkers said that the process of determining fraud, which involves the Office of Accounts Receivable and Collections, the Office of Special Investigations, and the Attorney General's Office, appears to be very inconsistent and that they would feel better about the process if it were more systematic.

The caseworkers in both states expressed dissatisfaction with the regulations regarding suspected fraud. A caseworker in Arizona argued that the criteria for establishing intentional program violations (IPVs) are so strict that it is very difficult to prove that a client did lie. While cases suspected of fraud are being investigated, the error is treated as an inadvertent household error and the client is allowed to remain on the program.<sup>1</sup> While the client remains on the program, his or her household benefits may be reduced by the greater of 10 percent of the household's monthly allotment or \$10. Caseworkers in both states believe that too often, clients who are caught lying remain on the program receiving 90 percent of their benefits instead of being disqualified from the program because the criteria for an IPV were not or have not been met. Caseworkers believe that this gives clients an incentive to lie again. Several caseworkers said that recouping a client's benefits at such a slow rate (10 percent) is just a "slap on the hand."

**Caseworker Suggestions for Improved Targeting.** Because caseworkers were asked to follow up cases listed on the IEVS reports during our demonstration, whereas they may not have done so before the demonstration, they became very familiar with the reports that were useful and those that were not. Caseworkers in both states thought there was room for substantial improvement in the targeting approaches. Their suggestions are listed below:

- **Send SDX reports only when there is a change in the benefit receipt or amount.** Currently, caseworkers in Michigan get SDX reports if there is any change, including a change of address.
- **Increase targeting of the IRS match or eliminate it.** Caseworkers in Michigan said that this match has limited use, and therefore, recommended eliminating it. In Arizona, the caseworkers complained that the information on the IRS reports regarding pension income is so limited that it is impossible for them to verify that information, so it is not worth their time to follow up those reports. In addition, the caseworkers in Arizona suggested that IRS reports not be sent to the field for negative rent and utility allowances, since both types of income are excluded.

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<sup>1</sup>If it is established that a client has intentionally violated program rules, he or she is disqualified from the FSP for six months for the first offense, 12 months for the second offense, and permanently for the third offense.

- **Do not send reports for income that is disqualified.** This comment was made in reference to the income of aliens.
- **Do not send SWICA reports for the income of 17-year-olds.** Caseworkers in Arizona said that they got many reports for 17-year-olds' Job Training Partnership Act summer employment.
- **Send one UI report for each spell of unemployment.** A caseworker in Michigan said that once a client starts collecting UI, the caseworkers know that they will be collecting it for 26 weeks, and during that time period, they receive many reports telling them that the client is receiving UI.

Two other suggestions made by caseworkers were (1) to consolidate the information from all of the matches into one report so that they only have to look at the casefile once, and (2) to have statewide bank verification requests so that banks do not receive verification requests from many local offices at the same time.

#### **D. IMPLICATIONS FOR CASEWORKER IMPACTS**

The following recommendations for other states that want to change their targeting approaches are based on views of the caseworkers in our demonstration.

- **Prior to designing new targeting approaches, speak with local office staff about targeting approaches they suggest.** Based on those suggestions and other relevant information (such as studies and input from state staff), target the matches as heavily as possible. It is likely that, in terms of caseworker morale and workload, only fairly stringent targeting approaches will have an impact.
- **Attempt to consolidate and streamline the IEVS process.** This could include designating certain staff to follow up all cases for an office (rather than having all of the caseworkers in an office perform follow ups), assigning some of the follow-up tasks to clerical staff, consolidating reports, and sending statewide verification requests.
- **If necessary, attempt to improve your state's system of establishing claims.** Although this could involve a substantial amount of work, start by speaking with local office staff about what they find frustrating in the process of establishing claims to identify key issues that need to be addressed, and then organize a committee or task force to devise methods of improving the process. The IEVS process will be much more effective if the system of establishing identified claims is working smoothly.

- Attempt to get online access to the SWICA and UI databases. According to our census of state IEVS staff (conducted in the summer of 1991), about half of the states had online access to those databases. The Arizona staff we spoke with were very enthusiastic about having online access and refer to those databases at application, recertification, or when there is a change in the household's circumstances.

## VI. IEVS STATUTES AND REGULATIONS

The purpose of Chapters VI is to provide information that will enable state agencies to implement their desired IEVS matching/targeting program in a manner that complies with federal statutes, regulations, and procedures. This chapter reviews federal statutes and regulations pertaining to IEVS matching and targeting.

In the sections that follow, we summarize key sections of the statute and regulations, followed by the verbatim language of the provisions. The interpretation appears in **bold**, the official language, in *italics*.

### A. PUBLIC LAW 98-369

On July 18, 1984, PL 98-369 was enacted, amending Title XI of the Social Security Act by establishing the IEVS system. This is the federal statutory basis for the IEVS program in states. The provisions of the statute are significant because they define the boundaries of the FCS waiver flexibility. Key provisions of the statute are as follows:

**A state cannot discontinue the operation of its IEVS system.**

*A state must have in effect an income and eligibility verification system.*

**Every member of the applicant or recipient household must provide his or her Social Security number to the FSA.**

*... each applicant for or recipient of benefits under that program shall furnish to the State his social security account number (or numbers, if he has more than one such number)...*

**Case information must be matched with SWICA data. No other specific databases are mandated by the statute.**

*(2) wage information from agencies administering State unemployment compensation laws available pursuant to section 3304(a)(16) of the Internal Revenue Code of 1954, wage information reported pursuant to paragraph (3) of this subsection, and wage, income, and other information from the Social Security Administration and the Internal Revenue Service available pursuant to section 6103(1)(7) of such Code, shall be requested and utilized to the extent that such information may be useful in verifying eligibility for, and the amount of, benefits available under any program listed in subsection (b)*

**The state may not use IEVS data in ways that are not effective.**

*(C) the use of such information shall be targeted to those uses which are most likely to be productive in identifying and preventing ineligibility and incorrect payments;*

**All IEVS data must be verified before the state agency can take action.**

*...no Federal, State, or local agency receiving such information may terminate, deny, suspend, or reduce any benefits of an individual until such agency has taken appropriate steps to independently verify information relating to--*

*(A) the amount of the asset or income involved,*

*(B) whether such individual actually has (or had) access to such asset or income for his own use, and*

*(C) the period or periods when the individual actually had such asset or income.*

## **B. IEVS REGULATIONS**

In 1988, following the enactment of PL 98-369, FCS and DHHS promulgated IEVS regulations. The following are key provisions of the current version of the FCS regulations, taken from 7 CFR 272.8 (1-1-92 Edition). IEVS regulations fall into two categories, the *original* IEVS regulations that did not permit any form of targeting, and the subsequent *interim* regulations that first permitted targeting. Under the original regulations, state FSAs were required to follow up on all IEVS matches.

The interim regulations adopted a particular regulatory strategy -- that of specifying broad categories of permissible targeting approaches, but not specifying a specific targeting program that each state FSA must implement. Such an approach gives a wide latitude to each state to design its own targeting approach. Having adopted this regulatory strategy, FCS added a set of reporting requirements so that it could monitor states' use of this discretion. The interim regulations state that each FSA must justify its targeting approach on cost-effectiveness grounds. The interim regulations imply that FCS would approve only those targeting approaches that were demonstrated by the FSA to be cost-effective.

These reporting requirements have not been implemented or enforced. nearly all states have implemented, and continue to operate, IEVS targeting, but few states have demonstrated that their approach is cost effective. FCS is currently re-evaluating the reporting requirements in the interim regulations. Final reporting requirements will become effective upon the publication of final targeting regulations, sometime in the future.

**All household members must be matched.**

*Such information shall be requested and used with respect to all household members, including any considered excluded household members as specified in § 273.11(c) whenever the SSNs of such excluded household members are available to the State agency.*

**Food stamp applicants and recipients must be matched to all IEVS databases. The FSA may not omit one or more of the IEVS databases.**

*The wage and benefit information and agencies are:*

- (i) Wage information maintained by the State Wage Information Collection Agency (SWICA);*
- (ii) Information about net earnings from self-employment, wages, and payments of retirement income maintained by the Social Security Administration (SSA) and available pursuant to section 6103 (1)(7)(A) of the Internal Revenue Service (IRS) Code; and Federal retirement, and survivors, disability, SSI and related benefit information available from SSA;*
- (iii) Unearned income information from the IRS available pursuant to section 6103(1)(7)(B) of the IRS Code; and*
- (iv) Claim information from the agency administering Unemployment Insurance Benefits (UIB) and any information in addition to information about wages and UIB available from the agency which is useful for verifying eligibility and benefits, subject to the provisions and limitations of section 303(d) of the Social Security Act.*

**The only circumstance in which the state FSA can omit an IEVS database is when the Secretary of FCS approves the use of an alternative database.**

- (c) Alternate data sources. The Secretary may, upon a State agency's application which is included in the attachment to the Plan of Operation specified in paragraph (i) of this section, permit a State agency to request and use income information from an alternate source or sources in order to meet any requirement of paragraph (a) of this section. The application shall document that the alternate source or sources provides accurate and timely information that is as useful for verifying eligibility and benefit amounts. State agencies shall comply with the requirements specified in paragraph (a) of this section unless this application for an alternate source has been approved. The Secretary shall consult with the Secretary of the Department of Health and Human Services and with the Secretary of the Department of Labor prior to approval of any alternate data source.*

**Applicants, as well as recipients, must be matched. Screening, that is eliminating types of households before the match is performed, is not permitted.**

- (e) *Requesting and using information for applicants. State agencies shall request and use information about members of all applicant households as specified below.*
- (1) *Information shall be requested at the next available opportunity after the date of application even if the applicant household has been determined eligible by that time. . . . Information received within the 30-day application period shall be used to determine household eligibility and benefits, if the information is received timely enough that it can be used for that determination.*

**Recipients must be matched with SWICA every quarter, including the first quarter in which they become recipients.**

- (f) *Requesting information about recipients. Except as provided in paragraph (f)(7) of this section, with respect to all members of recipient households State agencies shall:*
- (1) *Request information from the SWICA quarterly, such requests including all households which participated in any month of the quarter;*

**Recipients must be matched to BEER and SDX at least monthly.**

- (2) *Request information about household members from SSA data bases no later than the second month of the certification period, when requests at application did not establish automatic reporting to the State agency of changes in SSA data. Requests shall be submitted according to procedures specified by the Commissioner of SSA;*

**Recipients must be matched to IRS data annually.**

- (3) *Request information from IRS annually for all current recipients. Requests shall be submitted to IRS according to procedures specified by the Commissioner of IRS;*

**Recipients who neither report a job loss nor report receiving UI benefits must be matched with UI data quarterly. Other recipients must be matched with UI data monthly.**

- (5) *Request information about Unemployment Insurance Benefits (UIB) from the agency administering that program as follows:*
  - (i) *For all household members about whom requests at application indicate no receipt of UIB, information shall be requested for the three months subsequent to the month of application or until the receipt of UIB is reported, whichever is earlier;*
  - (ii) *For all household members who report a loss of employment, information shall be requested for the three months subsequent to the month the loss is reported or until the receipt of UIB is reported, whichever is earlier; and*
  - (iii) *For all household members receiving UIB, information shall be requested monthly until UIB are exhausted*

**All matches must be followed up. IEVS data that is not self-verifying must be verified by either the recipient and/or by collateral contacts.**

- (g) *Actions on recipient households. With respect to information items received as a result of requests made according to paragraph (f) of this section, State agencies shall initiate and pursue action according to the attachment to the Plan of Operation specified in paragraph (i) of this section.*
- (1) *State agency action on information items about recipient households shall include:*
  - (i) *Review of the information and comparison of it to case record information;*
  - (ii) *For all new or previously unverified information received, contact with the households and/or collateral contacts to resolve discrepancies as specified in §§ 273.2(f)(4)(iv) and 273.2(f)(9)(iii) and (9v); and*
  - (iii) *If discrepancies warrant reducing benefits or terminating eligibility, notices of adverse action.*

**Eighty percent of follow ups must be completed within 45 days of receipt of the IEVS information by the state FSA, rather than within 45 days of receipt of the information by caseworkers.**

- (2) *State agencies shall initiate and pursue the actions specified in paragraph (g)(1) of this section so that the actions are completed within 45 days of receipt of the information items. Actions may be completed later than 45 days from the receipt of information items on no more than 20 percent of the information items if:*
  - (i) *The only reason that the actions cannot be completed is the nonreceipt of verification requested from collateral contacts; and*
  - (ii) *The actions are completed as specified in § 273.12 when verification from a collateral contact is received or in conjunction with the next case action when such verification is not received, whichever is earlier.*

The following are the key provisions of the reporting requirements of the interim targeting regulations. They are not currently implemented.

**Although all applicants and recipients must be matched, not all of the matched recipients are required to be targeted for follow up. The targeting methods must be specified in the state FSA Plan of Operations, and approved by FCS, prior to their being implemented.**

- (i) *Plan of Operations. The requirements for the IEVS specified in this section shall be included in an attachment to the State agency's Plan of Operations as required in § 272.2(d). This document shall include:*
- (3) *For each of the data sources specified in paragraphs (c) and (f) of this section, a separate description of how the State agency will select (target) information items for the actions specified in paragraph (g)(1) of this section. The description shall:*

- (i) *Describe the targeting method which will be used including such details as: What selective criteria (thresholds) are used, including (when feasible) assurances that the most cost-beneficial data are targeted in instances of redundancy across data sources; what program standards and/or information about households are used, in any; whether the criteria are applied on the basis of individual or groups of information items, and about individual household members or households; and whether the criteria are applied before any follow-up action specified in paragraph (g) of this section are initiated or are applied as part of the comparison of match results to casefile information;*

**The Plan of Operation must include a cost-effectiveness analysis of the proposed targeting approach for each IEVS database. The state FSA must submit a cost-effectiveness analysis even if the IEVS database is not targeted in order to justify not targeting.**

- (ii) *State the approximate number of information items which will be acted on and the approximate percentage that number is of the number of information items received;*
- (iii) *Include a sufficiently comprehensive and detailed cost-benefit analysis to justify the targeting method. If the State agency will follow-up on all information items received, it shall certify in its Plan of Operation that it performed an analysis which showed that 100 percent follow up is cost beneficial. If the targeting method will select certain information items for follow up, the justification shall show that following up on more information items than selected would not be cost-beneficial.*

**Costs in the cost-effectiveness study must include the costs of follow ups and the associated administrative costs, and shall exclude the costs of software development, the cost of accessing data, indirect costs, and the cost of processing recoupments, claims, and fraud investigations.**

- (A) *Total costs shall include both the Federal and State share of administrative costs. The elements of the total costs shall be limited to the costs of targeting and follow-up action. The justification shall include an estimate of the cost per follow-up action. No costs for any developmental, start-up and other one-time costs or indirect ongoing costs shall be included.*

**Benefits shall include recoupment, collected claims, avoided benefit payments to households that terminate a spell of participation, and avoided administrative costs associated with households that terminate a spell of participation.**

- (B) *Total benefits shall include such quantifiable factors as the amounts of collections on claims established because of IEVS-obtained information, and the amounts of overissuances and the total of Federal and State administrative costs avoided due to terminating participation and reducing benefits.*

**The state FSA must submit an evaluation of its IEVS program to FCS every year. The evaluation must include an update of the cost-effectiveness study.**

- (j) *Reports and documentation.*
- (1) *The State agency shall annually assess the targeting aspects of its IEVS specified in paragraph (i)(3) of this section and shall report that assessment to FCS. Such reports shall cover a Federal Fiscal Year (October 1 through September 30) and are due to the appropriate FCS Regional Office by December 30 following the particular Fiscal Year. In*

*the reports the State agency shall provide the following information about its targeting activities separately for each data source:*

- (i) The actual number of information items acted on and the percentage that that number is of the number of items received;*
- (ii) A summary of any significant operational events and patterns in targeting, and any consequent changes made or planned in such areas as automated data processing and targeting methods; and*
- (iii) Any change to the cost-benefit justification which is required by paragraph (i)(3) of this section.*

**C. INTERIM TARGETING REGULATIONS: FEDERAL REGISTER, VOL. 53, NO. 21, FEBRUARY 2, 1988, PAGE 2817**

The following are the key provisions of the Federal Register announcement of the interim IEVS targeting regulations. These provisions are incorporated in the current IEVS regulations as a preamble to those regulations. The purpose of this Federal Register announcement was to clarify several provisions of the interim IEVS targeting regulations. The announcement includes several provisions pertaining to the unimplemented reporting requirements.

**Recipients may be targeted, but applicants may not be targeted.**

*2. Recipients/Applicants*

*Current rules treat follow-up action on applicants and recipients differently. At 7 CFR 272.8(e)(1), current rules provide that IEVS-obtained information regarding applicants received within the 30-day application period shall be used to determine household eligibility and benefits if the information is received timely enough for these determinations. AT 7 CFR 272.8(g) the rules discuss the several components of follow-up action on recipients and the timeframe for those actions. The October 21, 1986 amendment applies its limitation to recipients, and this rule applies targeting to recipient households only. Targeting is not usefully applied to applicants for several reasons. First, in cases where IEVS information is received timely enough to be used for eligibility determinations, State agencies should be able to resolve any discrepancies as part of those determinations and the cost of the action should therefore be extremely small. Secondly, current rules provide that information requested on applicants and received after such households are recipients will be used according to the guidelines for recipients. The targeting provisions of this rule apply to such information.*

**Targeting may eliminate only recipients for whom follow up is not cost-effective. The cost-effectiveness justification must establish not only that targeting certain matches for follow up is cost-effective, but also that following up "non-hits" is not cost-effective.**

C. Targeting and Timeframes

2. Targeting in General

*As mentioned at the beginning of this preamble, the amending legislation prohibits State agencies from being required to use information obtained through IEVS to determine the eligibility of all*

*agencies to target the information items which they follow up on. Targeting is used to implement the legislation because, while the legislation sets no minimum level for follow-up action, the Department believes that State agencies should follow up on as many information items as possible. As discussed in the following parts of this preamble, targeting in the selection of as many information items for follow up as a State agency's cost-benefit analysis indicates should be followed up on.*

**A targeting approach may be implemented only after FCS explicitly approves it.**

- a. *Targeting by data source. This rule requires at 7 CFR 272.8(i)(3) that in their attachments to their Plans of Operation, State agencies separately describe for each data source the targeting methods which they will use for follow-up action. This is required so that FCS can review and approve the methods and ensure that IEVS information is used to the maximum extent useful in verifying recipient eligibility and benefits.*

**The IEVS targeting attachment to the Plan of Operation must provide estimates of the number of targeting "hits" as a percentage of the number of matched records.**

*than 100 percent of information items, the Department recognizes that State agencies would have difficulty in identifying a precise break point in the spectrum of information items at which following up on one or more item would make the overall activity more costly than the expected benefits.*

**The cost-effectiveness evaluation shall use the remainder of the certification period for estimating avoided benefit payments and avoided administrative costs.**

*With respect to the benefit part of the cost-benefit justification, the rule requires that total benefits include certain factors. One factor which must be included is the amount of claims established because of IEVS-obtained information. Two other factors are: Overissuances avoided and the total of Federal and State administrative costs avoided because of terminated cases. State agencies may include other factors if they can be quantified. In calculating overissuances and administrative costs avoided, State agencies should use the benefit levels and the number of months remaining in the certification periods of actual households whenever possible. Some components of the benefit part of the justification, for example a monthly administrative cost per case, may already be known to State agencies. The Department certainly encourages the use of such already established measures of benefits. However, such measures should not be used without adjustment when there is some likelihood that they would be misleading. For example, an established average claim collection figure might misstate claims in cases of data from IRS since that data source is relatively new.*

**Matched IEVS data that was excluded by a targeting program must be available to the state quality control program.**

#### *D. Quality Control*

*Current rules state at 7 CFR 272.8(h) that the IEVS requirements do not relieve State agencies of the responsibility of determining erroneous payments or of the responsibility for any liability for such payments as determined by QC reviews. IEVS information which caseworkers have not resolved can be used by QC reviewers as leads to information about cases. The IEVS rule published February 28, 1986 added a sentence to 7 CFR 275.15(c) to specify that full field investigations of active cases must include a review of any information pertinent to a particular case which is available through IEVS. This rule allows State agencies to target IEVS-obtained information for follow-up action and so screen out some information items from any further action. In addition, other program agencies which are following up on information items about food stamp household members under the conditions of this rule may screen out information items. The Department believes that all such screened-out information items should be available for QC reviewers as leads to information about cases. Consequently, this rule revises 7 CFR 272.8(h) by adding a sentence which requires that State agencies make available to QC reviewers information items not selected for follow-up action because of the use of targeting methods, including any such methods used by another program agency under an attachment to the State agency's Plan of Operation for IEVS.*

**The annual report on IEVS must include counts of the number of matched records and the number of targeted records for each IEVS database.**

#### *E. Reporting*

*In the reports State agencies must assess their targeting activities separately for each data source. For this purpose, the reports must include the actual number of information items acted on and*

*the percentage that that number is of the number of items received. The Department needs this information to report on the level of matching activities, and the State agencies need it for other aspects of the reporting requirement. The information should be readily available to State agencies. The rule also requires that the reports include a summary of any significant operational events and patterns in targeting, and any consequent changes made or planned in such areas as automated data processing and targeting methods. This is being required because the Department expects that State agency experience, new computer technology and other developments will warrant changes in State agency IEVS operations. A third requirement is that the report include any changes to the cost-benefit justification. This information is required because changes in operations will probably result in changes to the cost-benefit figures.*

## VII. WAIVERS AND COST-EFFECTIVENESS STUDIES

This chapter covers the procedures for requesting a waiver of regulations, and for supporting the proposed IEVS program with a cost-effectiveness study. As discussed in Chapter VI, the reporting requirements of the interim targeting regulations have not yet been implemented. This means that FCS has not implemented the process for establishing a targeting approach.

As in Chapter VI, the verbatim regulatory language, which appears in italics, follows the lay interpretation of this language, which appears in bold.

### A. WHEN WAIVERS ARE NEEDED

States seeking approval of a matching/targeting program that complies with all provisions of the statute and regulations need not request a waiver. Targeting programs with the following features do not require a waiver:

#### **Type I Matching/Targeting Approaches**

- Thresholds for the IEVS data, such as IRS asset income over \$500
- Discrepancy between the IEVS data and the case file data for the same period, such as a discrepancy between IEVS earnings and case file earnings greater than \$500
- Personal or household characteristic(s), such as age of the recipient greater than 18
- Not following up on specific types of IEVS data that are not cost-effective, such as BEER data on earning from in-state employers
- Not targeting an IEVS database

Several targeting programs that are implemented, or are under consideration, by state FSAs comply with the IEVS statute, but do not comply with one or more provision of the regulations. In these cases, FCS must approve the proposed matching/targeting program and must waive the relevant provisions of the regulations. The waiver request is described in Section C. Matching/targeting programs with the following features require a regulation waiver:

### **Type II Matching/Targeting Approaches**

- Targeting applicants
- Not matching some recipients with an IEVS database for a specific time period. For example, not matching recipients to SWICA during their first quarter on the program.

FCS does not have the authority to waive provisions of the IEVS statute. It can, however, under certain circumstances, grant a temporary demonstration waiver of statutory provisions. A demonstration waiver is the only way for a state FSA to implement a matching/targeting program that does not comply with all provisions of the statute. The purpose of a demonstration waiver is to enable FCS to collect critical information that would not otherwise be available. FCS grants demonstration waivers only when the information to be collected is deemed to be essential for the resolution of a legislative policy issue under consideration by the department. Demonstration waivers are approved by FCS under the authority of the Food Stamp Act. Demonstration project proposals should include the background, hypothesis to be tested, technical approach, sampling plan, data collection plan, analysis plan, schedule, and anticipated findings.

Matching/targeting programs with the following features require a demonstration waiver:

### **Type III Matching/Targeting Approaches**

- Screening, as opposed to targeting, based on personal or household characteristics
- Using neither an IEVS database nor a substitute database that provides the same data items
- Using an IEVS database only for recipients, not for applicants

## **B. WAIVER REGULATIONS**

The following regulations govern the ability of FCS to grant waivers of IEVS regulations. These waiver regulations apply to Type II matching/targeting approaches. These provisions are from the 7 CFR 272.3(c) (1-1-92 Edition).

**Regulations may be waived by FCS on the grounds that doing so will make the program more effective and/or efficient.**

- (1) *The Administrator of the Food and Nutrition Service or Deputy Administrator for Family Nutrition Programs may authorize waivers to deviate from specific regulatory provisions. Requests for waivers may be approved only in the following situations:*
- (ii) *FCS determines that the waiver would result in a more effective and efficient administration of the program; or*

**FCS may not waive provisions of the statute.**

- (2) *FCS shall not approve requests for waivers when:*
- (i) *The waiver would be inconsistent with the provisions of the Act; or*

**Requesting that a waiver continue for longer than one year requires the state FSA to state the duration of the requested waiver and to justify the requested duration.**

- (3) *FCS shall approve waivers for a period not to exceed one year unless the waiver is for an on-going situation. If the waiver is requested for longer than a year, appropriate justification shall be required and FCS will determine if a longer period is warranted and if so, the duration of the waiver. Extensions may be granted provided that States submit appropriate justification as part of the State Plan of Operation.*

**The waiver request must include the number and characteristics of the affected caseload. In the case of IEVS targeting, this means estimates of the number and characteristics of the cases that would be followed up in the absence of targeting.**

- (4) *When submitting requests for waivers, State agencies shall provide compelling justification for the waiver in terms of how the waiver will improve the efficiency and effectiveness of the administration of the Program. At a minimum, requests for waivers shall include but not necessarily be limited to:*
- (ii) *The portion of caseload or potential caseload which would be affected and the characteristics of the affected caseload such as geographic, urban, or rural concentration;*

### **C. REQUEST FOR A WAIVER**

Generally, a waiver request is prepared by the state FSA, and submitted to its FCS regional office for approval. After its approval, the regional office submits the request to the national office for approval. If both offices approve the request, the regional office sends an approval letter to the state FSA.

The following is a set of draft guidelines, developed by FCS and currently under consideration by FCS, specifying the key information that should be included in a waiver request.

- **Waiver serial number**

Enter the waiver number if one was assigned in previous correspondence. The waiver serial number should be used in all correspondence regarding the waiver.

- **Type of request**

Enter "Initial" if the state agency is requesting the waiver for the first time, or "Extension" if the waiver has been approved previously. Enter "Modification" if the state agency is requesting a change to a previously approved waiver. Enter "Reconsideration" if the state agency is requesting that the denial of a previous request be reexamined.

- **Primary regulation citation**

Identify the specific section of 7 CFR for which the waiver is requested. Contact the regional office if there is any question regarding the citation.

- **Secondary regulation citation**

Some proposals may require a cross-reference to another section of the regulations. For example, a waiver to count income in the month it is intended to cover, rather than the month of receipt, may relate to both 7 CFR 273.10 and 7 CFR 273.21. However, if the proposal requires waivers of two unrelated regulatory provisions (for example, to extend certification periods and to substitute a telephone interview for a face-to-face interview), two separate waiver requests and two primary regulation citations are needed.

- **State**

- **Region**

- **Regulatory requirements**

Describe the requirement that is to be waived.

- **Proposed alternative procedures**

Describe in detail the procedures the state agency plans to follow in lieu of the regulatory requirement. For example, include actions the state agency will take if the household fails to comply with a new procedure, and provide copies of forms or notices that may be required in connection with the waiver.

- **Justification for request**

Explain the purpose of the waiver and how it meets the approval criteria of the regulations. The state agency must show that the waiver is necessary because of an extraordinary temporary situation, special geographic or climatic conditions, the desire to improve program effectiveness or efficiency, or to increase consistency with AFDC monthly reporting requirements.

- **Anticipated impact on households and state agency operations**

Describe the effect the waiver is expected to have on households in terms of quality or timeliness of service, any administrative or program savings, and any adverse effect on households or the state agency if the waiver is not granted.

- **Caseload information including percent, characteristics, and quality control error rate for affected portion**

Provide detailed information regarding the percent of the total caseload that would be affected by the waiver. This could include whether the households are (1) prospectively or retrospectively budgeted, (2) monthly reporters or change reporters, (3) elderly or disabled, and (4) other relevant information. Provide the latest quality control information available for the type of household affected. For example: "Pure SSI households constitute 15 percent of the caseload and have an error rate of 7 percent."

- **Anticipated implementation date and period for which waiver is needed:**

Indicate the state agency's time frame for putting the waiver into effect and the period for which the waiver is requested.

- **Proposed quality control review procedures**

Describe the effect the waiver is expected to have on quality control review procedures. If applicable, provide detailed review procedures to be used in lieu of procedures in the FCS Handbook 310.

- **Signature and title of requesting official**

Type the requesting official's name and title, and leave sufficient space for the stamped signature.

- **Date of request**

Date stamp with the date the request is signed.

#### **D. COST-EFFECTIVENESS STUDY**

Most of the currently unimplemented reporting requirements in the interim targeting regulations pertain to the cost-effectiveness study that each state FSA would perform and submit to FCS in order to justify and support its targeting approach. FCS is currently re-evaluating the cost-effectiveness study requirements. One of the outcomes of the IEVS Targeting Demonstration was a set of recommendations to FCS pertaining to the type of a cost-effectiveness study that (1) would be feasible for each state FSA to perform, and (2) would provide FCS with sufficient information to determine whether the state's matching/targeting approach is cost effective. FCS intends to implement the final cost-effectiveness study requirements when the final IEVS targeting regulations are published.

## **REFERENCES**

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- Fasciano, Nancy, and Sheena McConnell. "The Cost-Effectiveness of the Income and Eligibility Verification System in Arizona and Michigan." Washington, DC: Mathematica Policy Research, Inc., June 22, 1995.