



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

June 29, 1981

B-203774

The Honorable Richard S. Schweiker
The Secretary of Health and
Human Services



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Dear Mr. Secretary:

Subject: Concerns about [HHS' Ability to Effectively
Implement Incentive Funding for State
Information Systems in the Aid to Families
with Dependent Children Program] (HRD-81-119)

Public Law 96-265, enacted on June 9, 1980, authorized the Federal Government, beginning on July 1, 1981, to pay 90 percent of the costs incurred by States for the planning, design, development, or installation of statewide mechanized claims processing and information retrieval systems for administering the \$11.3 billion Aid to Families with Dependent Children (AFDC) program. The Federal Government currently pays 50 percent of both development and operating costs related to these systems. ^{1/} Public Law 96-265 contained several specific conditions for obtaining increased Federal matching funds. First, the system must operate on a statewide basis; control all factors in the eligibility determination process; control and account for the costs, quality, and delivery of funds and services furnished to applicants and recipients; provide eligibility information to other welfare programs; and provide security against unauthorized access to data in the system. Second, the Secretary of the Department of Health and Human Services (HHS) must determine that the system is likely to provide more efficient and effective administration of the AFDC program and be compatible with systems used to administer Social Services programs and Medicaid.

To meet these requirements, HHS' Office of Family Assistance (OFA) has developed a general systems design called the Family

^{1/}Ninety percent incentive funding was not authorized under Public Law 96-265 for operating costs; therefore, the Federal Government will continue to pay for 50 percent of the operating costs of the State systems.

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Assistance Management Information System (FAMIS) which provides a standard approach for State AFDC systems development activities. FAMIS is to serve as a system standard that States must meet to be eligible for the increased Federal matching funds.

FAMIS is composed of three subsystems:

1. Client Certification Subsystem
2. Financial Information and Control Subsystem
3. Management Information and Control Subsystem

The Client Certification Subsystem, which consists of eight modules, 1/ is the heart of the system, interfacing with the client and determining client eligibility. The Financial Information and Control Subsystem, consisting of three modules, disburses public assistance funds and provides management with program accounting information. The Management Information and Control Subsystem, consisting of six modules, provides management with reports which show how effective and responsive the system is to implementing and adhering to Federal and State policy directives.

According to OFA it took about 11 staff-years to develop FAMIS. Features from several State AFDC systems were incorporated into FAMIS. However, FAMIS has never been tested to determine its feasibility and applicability as a model AFDC system.

FAMIS documentation was provided to the States in July 1980 for their use in planning for increased Federal matching funds. In transmitting the documentation, OFA indicated that additional information related to implementation of Public Law 96-265 would be provided in the form of a "Notice of a Proposed Rule Making." The proposed rule, however, was never published. Instead, HHS is developing an interim final regulation which will be published as final rules; a 60-day comment period will be provided, and as appropriate, changes will be made in these regulations. Eight States have submitted their Advance Planning Documents to receive approval for increased Federal matching funds, and OFA officials expect another 33 States to submit their plans in the next 6 months. HHS estimates that development of State systems under FAMIS will

1/A module is a group of related processes that work together to accomplish a specific function.

cost about \$207 million over the next 6 years--\$186 million will be paid by the Federal Government and \$21 million by the States. Through the incentive of increased Federal matching funds in implementation of FAMIS, HHS intends to achieve improvements in State AFDC systems and in the administration of AFDC programs.

This letter discusses a number of concerns that should be addressed before your Department provides increased matching funds to States for their AFDC systems. Specifically, because FAMIS has not been pilot tested to demonstrate its feasibility, we are concerned that FAMIS' system requirements:

- have not been shown to be cost beneficial for all State systems,
- do not contain sufficiently specific performance standards for evaluating the quality of State developed systems,
- do not adequately address the internal controls needed to ensure that State systems function as mandated by Public Law 96-265, and
- do not facilitate compatibility of State AFDC systems with systems used to administer other welfare programs.

We are also concerned that adequate requirements have not been set forth in FAMIS or the proposed implementing regulation to avoid problems that were encountered in the past during systems development activities in States with county-administered programs. In New York, for example, State legislation required the implementation of a statewide uniform system to administer public welfare programs. However, the State has incurred additional costs and delays in attempting to implement a statewide system because a number of counties (which administer the public assistance programs) would not or could not develop the interfaces required for a statewide system.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed HHS policies and procedures for approving and administering Federal incentive funding of State AFDC systems and discussed their implementation with HHS officials. The documentation we reviewed included the FAMIS general systems design manual, the draft Title IV-A (AFDC) Statewide Automated Application Processing and Information Retrieval System Guide, and draft interim final regulations for implementing increased Federal matching funds.

Our purpose was to determine if the policies and procedures were adequate to ensure effective and efficient development of such systems under incentive funding. To develop criteria for making this determination, we reviewed past GAO reports and other studies of efficiency and effectiveness of Federal incentive funding for automatic data processing (ADP) systems in the Medicaid program. In addition, we used GAO reports, which evaluated the usefulness of AFDC quality control (QC) system error rates, to develop criteria to determine if QC error rate statistics are an appropriate basis for savings that can be achieved through automation. We also used Federal Information Processing Standards publications as criteria for evaluating the internal controls. The need for and types of performance standards that should exist in ADP systems have been demonstrated in prior GAO reports, the Medicaid Management Information System (MMIS) Task Force study on MMIS, "Steps for its More Effective Use in the Coming Decade," and the proposed revision of the MMIS System Performance Review package for fiscal year 1982. We used these studies as the basis for evaluating the performance standards proposed in FAMIS.

INADEQUATE COST-BENEFIT ANALYSIS

Public Law 96-265 requires that State AFDC systems must provide more efficient, economical, and effective administration of the AFDC programs to be eligible for increased Federal matching funds. Since FAMIS will serve as a system standard to implement the law, it must meet the above requirement. However, the cost-benefit analysis conducted by OFA to demonstrate that savings would result from implementation of FAMIS on a State-by-State basis was based on unsupported assumptions and very general data which do not consider the diversity among States in the quality of program administration, size, and complexity. Furthermore, OFA used national AFDC quality control (QC) error rate reductions as the sole basis for estimating the benefits to be achieved from implementing FAMIS. We do not believe that the QC error rate is appropriate for this purpose. Consequently, we believe there is not adequate cost-benefit justification for FAMIS and that a rigorous cost-benefit analysis should be conducted.

According to OFA's analysis, \$207 million will be spent on FAMIS-type system activities during fiscal years 1981-86. This estimate was based on 45 States developing systems during this period. Because of an Office of Management and Budget regulation which prohibits placing an undue reporting burden on the States, OFA officials stated that they had not been able to gather accurate data on the costs of developing and operating AFDC-related ADP systems. OFA officials stated that, when they happened to be in

contact with a State, they would ask the State how much it would cost to develop an upgraded ADP system there. OFA attempted to refine its cost-benefit analysis but gave up the effort when data could not be obtained.

In our opinion, to make an acceptable estimate of development costs, OFA should have considered the effect of differences in State AFDC programs, such as caseload size, administrative costs, and program complexities. For example, the States' caseloads in June 1980 ranged from 1.38 million recipients in California to 7,052 in Wyoming. Differences in caseloads must be considered when a State, during its system design activities, decides on computer equipment requirements. The cost of administering the AFDC program in fiscal year 1979 ranged from over \$57 per case, per month, in New York and Nevada to under \$14 per case, per month, in Mississippi and Wisconsin. These differences in administrative costs in part are due to regional differences in labor costs, which have a direct effect on the systems' operating costs. Differences in program characteristics among States, which in our opinion affect the complexity, and thus the cost, of developing systems, include optional categories of recipients that States provide assistance to, such as

- children 18 to 21 years of age who are regularly attending a school, college, university, or course of vocational or technical training;
- mothers on behalf of an unborn child if there are no other children in the family; and
- families in need because of an unemployed parent.

To determine the benefits expected to be accrued from the development of FAMIS-type systems, OFA estimated that erroneous payments, amounting to 1 percent of program expenditures, would be eliminated. This estimate was based on national QC system statistics. We found that OFA had no support for its estimate of a 1 percent reduction, nor did it have specific reasons for such a decline other than the fact that computers make fewer arithmetic errors than caseworkers, and they believed that eligibility errors would be reduced.

In our opinion, using a national average QC error rate reduction figure as the basis for a cost-benefit analysis is not appropriate when considering State-by-State implementation of systems.

First, the specific types of errors which comprise the State error rate may vary. For example, in a 1980 report, 1/ we pointed out that the way States establish need in an eligibility determination can affect the error rates. The extent to which such need errors are avoidable with ADP systems relative to other types of errors, coupled with the different rates of occurrence, could affect the cost-benefit ratio in the States. Currently, need is established using either consolidated or partially consolidated standards. For example, Maine uses a consolidated standard in which all basic needs--food, shelter, clothing, utilities, household supplies, personal care items, and recreation--are included in a standard allowance which varies according to family size. New York uses a partially consolidated need standard, in which all basic needs except for shelter and utilities are included in the standard allowance, which varies according to family size, while shelter and utilities are added at cost up to a maximum amount. Contrasting the error rates of Maine, with a consolidated standard, and New York, with a partially consolidated standard, indicates the effect of consolidation on errors. In the January to June 1978 review period, Maine had only two errors related to basic needs in its 603 case QC sample. New York, however, had 101 such errors in its 1,238 case QC sample for the same period. Thus, the method in which need is established can greatly affect error rates which will not be reduced through the use of data processing.

Second, State error rates and therefore the potential for reduction and cost savings, through ADP, vary greatly from State to State. For example, in the QC sample for October 1979 to April 1980, the error rate ranged from 16.7 percent in Massachusetts to less than 1 percent in Nevada.

Third, the statistical precision of QC error rates varies among States. The QC error rate is an estimate derived from a sample. Such estimates have ranges which vary due to several factors--the most important being sample size. For example, if a State's reported error rate is 3 percent based on a QC review of 1,200 cases, 95 times out of 100 the State's true error rate will lie between 2.04 and 3.96 percent. However, if the reported

1/"Better Management Information Can Be Obtained From the Quality Control System Used in the Aid To Families With Dependent Children Program" (HRD-80-80, July 15, 1980).

error rate is 3 percent based on a QC sample of only 150 cases, the State's true error rate will lie between 0.27 and 5.73 percent. Using the QC error rate without recognizing its range may result in an erroneous cost-benefit analysis.

We believe OFA should develop cost data and a cost-benefit analysis that reflects specific types of savings that can be achieved through FAMIS before mandating its implementation as a prerequisite for 90-percent Federal incentive funding under Public Law 96-265. OFA has not sufficiently demonstrated that savings would result from requiring each State to implement FAMIS. OFA's cost-benefit analysis was based on unsupported cost figures and use of national QC error rate reduction as the only benefit. OFA did not consider such factors as the diversity among States in caseload size, administrative costs, program characteristics, types of errors, error rates, and the statistical precision of error rates.

INADEQUATE PERFORMANCE STANDARDS

The performance standards currently included in the FAMIS general systems design are inadequate for assisting the States in meeting the basic requirements of Public Law 96-265 to design efficient and effective systems to administer the AFDC program. In addition, since the primary objective of the FAMIS' general systems design is to provide OFA with a procedure for evaluating whether State systems are performing efficiently and effectively, FAMIS' performance standards are inadequate for OFA's use in conducting such an evaluation. Specifically, we found that FAMIS only measures performance as doing a set of functions and, therefore, there are no quantifiable levels of performance, such as response time and accuracy, which would give the States and OFA a means to determine whether any system is efficient and effective.

Since States will be responsible for designing and implementing their systems based on the FAMIS "standard" general systems design, OFA should provide specific performance expectations to assure that uniform performance requirements drive the system development efforts in the States. Thus, States need to know system performance requirements, such as response time, update processing time, throughput time, and accuracy, etc., in order to make hardware, software, and operational design decisions that will result in systems which efficiently and effectively support the AFDC program.

To illustrate the above, we identified some examples of functional standards in FAMIS and translated these into quantifiable performance standards that could be applied to FAMIS:

Functional
standard

Performance
standard

The system will provide on-line inquiry of client records via local office terminals.

95 percent of on-line client record inquiries should have a response time of 5 seconds or less.

The system will provide lock-unlock password protection to control access to system data via terminals.

Operating system software should require terminal password changes at least every 30 days.

The system will provide for notification of errors and follow up on errors outstanding.

75 percent of error transactions should be cleared within 3 days, 90 percent within 7 days, etc.

The system will automatically generate a report of changes as they occur on standard system table files.

Reports of changes on standard system table files must be printed and delivered to the FAMIS program director within 24 hours after changes are made.

The inability to measure the effectiveness of systems--in the absence of performance standards--has already occurred within HHS during the planning, development, and implementation of the Medicaid Management Information System (MMIS) in the early 1970s. MMIS, like FAMIS, was a general systems design for increased Federal matching funds of statewide mechanized claims processing and management information systems. The MMIS general systems design was distributed without quantifiable performance standards even though the Task Force on Medicaid and related programs, in its June 29, 1970 report, recommended that such standards be developed for administering Medicaid. We also recommended in a 1978 report 1/ that the Congress consider legislation which would require HHS to establish system performance standards for MMIS. Performance standards are only now being developed for MMIS--in response to Public Law 96-398, which provides the legal basis for applying these standards and authorizes a reduction in incentive funding of operational costs when standards are not met.

1/ "Attainable Benefits of the Medicaid Management Information System Are Not Being Realized" (HRD-78-151, Sept. 26, 1978).

An analyst working with the MMIS general systems design update told us that, if performance standards had been developed and included in the original general systems design, many of the problems within the MMIS design might not have existed or would have been detected earlier and corrected. For example, if a performance standard currently proposed for MMIS--"Process all claims in accordance with Federal and State requirements for coverage***The Acceptable Performance Level for this standard is 99 percent"--had been in effect since MMIS' inception, State systems' performance would have been evaluated for the efficient and effective processing of claims in compliance with State and Federal Medicaid requirements. In our 1978 report we discussed test claims we processed to evaluate enforcement of these requirements in two States. The test claims were processed to the point of erroneous payment. Our tests indicated that the States can be inefficient and ineffective because they may spend more Medicaid dollars than they intended, by processing claims in violation of Medicaid requirements.

OFA officials agree that stronger performance standards should be developed and implemented. They plan to issue quantifiable performance standards; however, they do not plan to develop them until after FAMIS has been operational in several States. We believe that OFA and the States should know, before attempting to implement FAMIS, the required level of performance these systems are expected to achieve. This will better ensure that States, using FAMIS as the system standard, would design, develop and implement systems which provide for efficient and effective administration of the AFDC program.

INADEQUATE INTERNAL CONTROLS

Public Law 96-265 requires that a State system must be able to perform the following functions before receiving HHS' approval for increased Federal matching funds:

- Security against unauthorized access to or use of the data in the system,
- Ability to control and account for costs, quality, and delivery of funds and services furnished to applicants and recipients,
- Capability for notifying other public assistance programs of changes in AFDC eligibility or benefit payment amount, and
- Capability for verification of factors with other agencies through identifiable correlation factors, such as social security numbers, names, etc.

In our review of FAMIS' internal controls, we found that the general systems design fails to address or inadequately addresses the internal controls that States should design into their system in order to produce timely and reliable information. For example, we found that FAMIS' general systems design lacks many of the internal controls needed in such functions as:

- data processing transaction entry,
- computer processing, and
- output processing.

OMB Circular No. A-90 Transmittal Memorandum No. 1 dated September 7, 1976, extends the coverage of the Federal Information Processing Standards (FIPS) publications down to the States. In essence, this Circular requires that any Federal information and computer requirements, such as FAMIS, which are placed on State or local governments must be compatible with the FIPS publications. FIPS publication no. 41 states that adequate security against unauthorized access to or use of the data in the system must be established. Adequate data processing transaction entry controls would ensure the security of the system. FAMIS does have detailed specifications for software-type controls which could prevent unauthorized access through the terminal. However, FAMIS does not address hardware controls, such as built-in terminal identification, or managerial controls, such as the periodic changing of passwords. In addition, we identified a deficiency in the software controls for transaction entry. We found in the log-on/log-off procedures that the operator must key in a code to log off the system. If the operator forgets to perform this function, the terminal will remain "live" and anyone can access the system. A specific software control is needed in FAMIS to automatically time out or log off the terminal after a predetermined time.

Computer processing controls should ensure that the system has the ability to control and account for the costs, quality, and delivery of funds and services furnished to applicants and recipients through FAMIS. FIPS publication no. 73 states that data should be validated during data collection, data entry, and continuously as new data are generated or used during processing. FAMIS, however, does not require the inclusion of data validation methods, such as control totals during data input and data output phases, nor does it require data validation, and computation and logic controls, such as control totals, file completion checks, and arithmetic accuracy

checks during the data processing phase. These deficiencies can lead to inaccurate and incomplete data processing. For example, control totals should be required by FAMIS to make sure that no data has been lost or added during processing. Further, arithmetic accuracy checks should be required by FAMIS to ensure that the system performed correct computations.

The "Title IV-A (AFDC) Statewide Automated Application Processing and Information Retrieval System Guide" translates statutory requirements of Public Law 96-265 into data processing system functions for FAMIS. This draft guide states that the automated system must edit, control, and report any erroneous transactions. The system must have a process for controlling transactions that are in error and have a direct effect on the ability to calculate grants and make eligibility determinations. The computer processing internal controls described in FAMIS place erroneous cases on a suspense file until the errors are corrected. However, FAMIS also suggests that erroneous cases can be processed and placed on the main data base with an error flag. This suggestion contradicts FIPS publication no. 73 guidelines, which state "Errors should be detected and corrected as soon as possible in order to prevent the propagation of invalid data throughout the system and the potential contamination of the system data base." The processing of erroneous cases defeats the purpose of having a suspense file for controlling errors and allows data fields to contain inaccurate information. This could also result in erroneous payments to recipients and erroneous information being transferred to other welfare programs. The suspense file required by FAMIS should be established for transactions that are in error, and these cases should not continue to be placed on the main data base until the errors are corrected.

FIPS publication no. 73 also warns that data are particularly vulnerable at the output processing stage, and in our analysis of FAMIS' general systems design we found the controls in this area were also deficient. Output controls ensure that the output is distributed only to authorized personnel, and that privacy and security of information are maintained. Without these controls (such as control totals, transaction log, output handling procedures, and output report distributing control procedures), FAMIS would not be capable of ensuring that complete and reliable information is sent to Child Support, Food Stamps, Social Services, and Medicaid programs concerning changes in AFDC eligibility or benefit payment amount. Output processing controls should thus be added to the FAMIS general systems design.

On May 7, 1981, we reported to the Congress on the importance of internal controls, noting that:

"Strong systems of internal controls designed into each Federal program or operation are the primary mechanism managers have to protect public funds. Internal controls are the first line of defense against fraud. In addition to reducing the amount of fraud, internal controls also aid in earlier detection of questionable activities when they do occur. * * * During our review we found many instances where controls were either inadequate, not followed, or nonexistent. In many cases, we believe this was due to a lack of management concern about adequate controls." 1/

We believe OFA has shown some concern about designing internal controls into FAMIS; however, these controls are inadequate to ensure that systems function in a timely and reliable manner, as required by Public Law 96-265. It is not unusual for system developers to think of system functions first and to delay control concerns until later. However, many opportunities to include effective controls are lost if internal controls are not considered from the initial phase of the system development. We believe that adequate internal controls should be incorporated into the FAMIS general systems design before the States implement FAMIS.

FAMIS DOES NOT FACILITATE COMPATIBILITY
WITH OTHER WELFARE PROGRAMS

Public Law 96-265 requires that State AFDC systems must be compatible with systems used to administer Social Service programs and Medicaid. FAMIS, in our opinion, does not facilitate the development of integrated systems and thus does not provide guidance to States on how FAMIS can be incorporated into integrated systems in existence or under development.

Many State welfare agencies currently have, or are in the process of developing, integrated systems to process claims for public assistance programs. Integrated systems are characterized by a combined data base containing information that is needed for processing claims under several programs, such as AFDC, Medicaid, and Food Stamps. They reduce redundant data collection,

1/"Fraud In Government Programs: - How Extensive Is It? - How Can It Be Controlled?" Volume 1 (AFMD-81-57, May 7, 1981).

verification, entry, and storage, etc. For example, an application form can be developed so that one form is completed for all programs to which an individual is applying. Integrated systems thus reduce the paperwork burden for the individual and the State agency--an obvious goal as well as a requirement for the Federal Government since the enactment on December 11, 1980, of Public Law 96-511, the Paperwork Reduction Act of 1980.

The Federal Government offers Federal matching funds for State systems at several different levels and on a program-by-program basis. Such funding has been authorized in several laws; for example, the Federal Government will fund 90 percent of systems development in support of AFDC and 50 percent of operating costs under Public Law 96-265, and will at the same time fund 90 percent of systems development and 75 percent of operating costs for the Medicaid program under Public Law 92-603. Consequently, systems development is being funded on a program-by-program basis without adequate attention to integrating systems. This, in our opinion, has the potential for duplicative system development activities by the various Federal and State agencies, thus increasing the total costs of such systems.

Officials in HHS have recognized these problems and the value of using integrated systems. The Assistant Secretary for Management and Budget pointed out, in a memorandum to the former Secretary of HHS, that:

"The lack of integrated systems makes the intake worker's task of gathering accurate, relevant, and timely information more difficult, and reduces the ability of State and local governments to: reduce error rates, identify common types of errors and their sources, and reduce administrative costs."

The memo went on to say that:

"Because of the lack of policy and administrative conformity at the Federal level, information and computer systems at the State level are not sufficiently compatible to maximize the efficiencies of available technology.***"

HHS is studying the expansion of the FAMIS model so it can be used as the basis for an integrated process for eligibility determination for AFDC, Social Services, and Medicaid programs. This study, however, will not be completed before July 1, 1981, when HHS is to begin 90-percent incentive funding for the development of State systems. Not only has the FAMIS system as it is

currently designed not yet been tested, but the test of FAMIS as an integrated system will not begin until the end of 1981. In our opinion, the FAMIS system should also be developed to function as an integrated system and fully tested before being used as the model for State AFDC system development activities. Without such an option, States will have no guidance for developing an integrated system, and without adequate testing there is no assurance that the system will function as intended at an acceptable cost.

INADEQUATE PROCEDURES FOR CONTROLLING
SYSTEM DEVELOPMENT ACTIVITIES IN STATES
WITH COUNTY-ADMINISTERED PROGRAMS

Public Law 96-265 requires the development of statewide systems. Supporting ADP system development activities in States with county-administered AFDC programs 1/ has the potential for becoming very costly if it is not well controlled. Counties can have ADP system requirements and administrative procedures which are unique, and designing systems which allow for too many of these differences can be expensive.

The difficulty in developing a system in a State with a county-administered AFDC program is evident in New York State's effort to develop its Welfare Management System (WMS). In early 1977, the State received approval for the development of WMS. This system was to be basically a client eligibility and case maintenance system for AFDC, Medical Assistance, Child Support Enforcement, and Social Services. It's development was originally budgeted at \$41.8 million and was targeted for full implementation by September 1, 1979. In December 1980, a supplemental planning document for the WMS was submitted by the State with an estimated WMS development cost of \$93.4 million and implementation projected for the middle of 1982. According to OFA officials, county administration of AFDC in New York contributed heavily to these overruns.

The State welfare agency does not appear to have taken into consideration, when WMS was originally designed, the differences in county administration of public assistance programs. The

1/Currently, States can organize the administration of AFDC in two ways--either a State agency can administer AFDC statewide, or local government agencies can administer AFDC under State agency supervision.

State expected each county to develop its own interface with WMS. The counties either did not or could not adequately develop interfaces because of differences in local methods of administering the programs. According to State officials, some of the county differences were accounting practices which were not uniform and in some cases were considered inadequate; work flow processes which were found to be different; and management practices such as case folder controls which, in some counties, were inadequate and cumbersome. Therefore, WMS' statewide implementation has faced numerous delays and projected cost overruns in trying to develop an interface for each county system.

In our opinion, HHS should develop requirements to ensure that States which have county-administered programs minimize the impact of county differences on FAMIS development. These requirements should include provisions for predeveloped assessments of county differences and for formal agreements between the State and counties on the implementation of a statewide FAMIS-type system.

CONCLUSIONS AND RECOMMENDATIONS

Significant questions exist about HHS' readiness to ensure that mechanized claims processing and information retrieval systems for AFDC developed by States with increased Federal matching funds are likely to meet the requirements of Public Law 96-265. FAMIS, the general system design standard, has not been tested, and therefore there is not reasonable assurance that it provides a more efficient, economical, and effective system for administration, nor that it is compatible with similar systems for Medicaid and Social Services programs.

Accordingly, we recommend that you defer implementing Public Law 96-265 nationwide until the FAMIS general systems design is fully tested in several States which have differences in program complexity, caseload size, and program administration. In conducting this testing program, HHS should

- develop cost-benefit data on the FAMIS system that applies to States with different caseloads and error rates;
- develop performance standards for assisting States' system development activities and for evaluating State systems developed in accordance with the FAMIS general systems design;

- expand FAMIS' general systems design to include adequate internal controls which would assist the States in meeting the requirements of the law;
- identify ways to enhance the FAMIS general systems design so that it can be used as an integrated system for processing AFDC, Medicaid, Food Stamps, and Social Services program activities; and
- develop requirements to prevent expensive county-by-county implementation of State systems.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this letter to the Chairmen of the four above-mentioned Committees and other interested congressional committees and subcommittees and to the Director, Office of Management and Budget.

Sincerely yours,



Gregory J. Ahart
Director