AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES
And
ASSEMBLY COMMITTEE ON HUMAN SERVICES

Assemblymember Judy Chu, Chair
Assemblymember Lois Wolk, Chair

WEDNESDAY, MARCH 19, 2003
STATE CAPITOL, ROOM 444
1:30 P.M.

ITEMS TO BE HEARD

<table>
<thead>
<tr>
<th>ITEM</th>
<th>DESCRIPTION</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>5180</td>
<td>DEPARTMENT OF SOCIAL SERVICES</td>
<td>2</td>
</tr>
<tr>
<td>ISSUE 1</td>
<td>FOOD STAMP ERROR RATE UPDATE</td>
<td>2</td>
</tr>
<tr>
<td>ISSUE 2</td>
<td>CHANGES TO THE FOOD STAMPS PROGRAM</td>
<td>3</td>
</tr>
<tr>
<td>4130</td>
<td>HEALTH AND HUMAN SERVICES AGENCY DATA CENTER</td>
<td>5</td>
</tr>
<tr>
<td>5180</td>
<td>DEPARTMENT OF SOCIAL SERVICES</td>
<td>5</td>
</tr>
<tr>
<td>ISSUE 3</td>
<td>STATEWIDE FINGERPRINT IMAGING SYSTEM</td>
<td>5</td>
</tr>
<tr>
<td>ISSUE 4</td>
<td>EBT OVERSIGHT</td>
<td>7</td>
</tr>
<tr>
<td>ISSUE 5</td>
<td>CMIPS OVERSIGHT</td>
<td>8</td>
</tr>
<tr>
<td>ISSUE 6</td>
<td>CWS/CMS OVERSIGHT</td>
<td>9</td>
</tr>
<tr>
<td>ISSUE 7</td>
<td>WDTIP OVERSIGHT</td>
<td>11</td>
</tr>
<tr>
<td>ISSUE 8</td>
<td>COMBINING HHSDC OPERATIONS WITH THE TEALE DATA CENTER</td>
<td>12</td>
</tr>
<tr>
<td>ISSUE 9</td>
<td>HHSDC OPERATIONAL RECOVERY</td>
<td>13</td>
</tr>
<tr>
<td>ISSUE 10</td>
<td>OTHER LAO HHSDC RECOMMENDATIONS</td>
<td>14</td>
</tr>
</tbody>
</table>
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #1: FOOD STAMP ERROR RATE UPDATE

The Subcommittee will discuss the State's Food Stamp Error Rate.

BACKGROUND:

Currently California's Food Stamp error rate is so high that the State faces imminent federal fiscal sanctions. In the 2001 Federal Fiscal Year, 17.37 percent of all of the State's food stamp benefits were determined incorrectly statewide, significantly higher than the national average of 8.66 percent. In Los Angeles County, the error rate was over 22 percent. As a result, the State stands to face a fiscal penalty of over $114.3 million.

In Federal Fiscal Year 2002, the State's error rate will be about 14-15 percent while the nation average will be about 8 percent.

Under current law, counties with higher than average error rates are responsible for 90 percent of the penalty attributed to their county's performance.

COMMENTS:

On February 7, 2003, the Department filed an appeal with the federal government to allow the State to reinvest its 2001 penalty amount into program improvements.

The Department will provide an error rate update at the hearing.
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #2: CHANGES TO THE FOOD STAMPS PROGRAM

The Subcommittee will discuss some proposed changes to the Food Stamp program.

BACKGROUND:

The 2001 Agriculture Appropriations Act provided the State with several new options to changes the way the State runs the Food Stamp program. These new options include:

1. Child Support Payment: Allows the state to treat legally obligated child support payments to a non-household member as an income exclusion rather than a deduction.

2. Simplified Definition of Income: Allows the state to exclude certain types of income that are not counted under the state’s TANF cash assistance or Medicaid programs.

3. Simplified Utility Allowance: Allows states to simplify the Standard Utility Allowance (SUA) if the state elects to use the SUA rather than actual utility costs for all households. This provision would require a mandatory SUA.

4. Simplified Determination of Housing Costs: Allows states to use a standard deduction from income of $143 per month for homeless households with some shelter expenses.

5. Simplified Determination of Deductions: Allows states to disregard reported changes in deductions during certification periods except for changes associated with a new residence or earned income until the next re-certification.

6. Simplified Definition of Resources: Allows states to exclude certain types of resources that the state does not count for TANF or Medicaid.

7. Semi Annual Reporting: Allows states to extend semi-annual reporting of changes to all households not exempt from periodic reporting.

8. Transitional Food Stamp Benefits: Allows states to extend from the current three months up to five months, the period of time households may receive transitional food stamp benefits when they lose TANF cash assistance.

COMMENTS:

The California Food Policy Advocates (CFPA) believes that increased food stamp utilization would benefit the State. CFPA has sponsored a bill AB 231 (Steinberg) that proposed the following changes to the State policy:

1. Transitional Benefits for Families Leaving Cash Assistance: Last spring, Congress and President Bush gave states an opportunity to providing five months of transitional food stamp benefits for people leaving cash assistance.

2. Reducing Face-to-Face Interviews for Food Stamp Applicants: Unlike Medi-Cal applicants, food stamp applicants are required to complete a face-to-face interview with a caseworker before getting food stamp benefits. These interviews almost always take place in the county
food stamp office during regular business hours, when many prospective applicants are working. Limited office hours and face-to-face interviews have long been barriers to food stamp participation; research by USDA documented that working families have a difficult time getting food assistance because it takes an average of 5 hours and 3 trips to the food stamp office in order to get food stamps. Current federal law allows states to exempt certain households from a face-to-face interview if they have a condition that makes it difficult to get to the food stamp office -- including a job that conflicts with office hours, transportation difficulties, residency in a rural area, or care for another household member. Under this law, applicants can complete the interview over the phone but must provide the same extensive written verification of income and household situation as other applicants.

3. Changing the Auto Resource Rule California is one of only 11 states that makes low-income households ineligible for food stamps if they own a car with a "Blue Book" value of $4,650 or more. This rule, which was established by the Food Stamp Act of 1977, has only increased by 3 percent since 1977, even though the Consumer Price Index for cars has tripled over that same period.

USDA recently conducted a demonstration project in North Carolina that allowed food stamp households to own one car, regardless of its value. Among households who were able to enroll under this relaxed policy, 65 percent had vehicles with a fair market value of less than $8,000. Ninety percent of the households had autos with an equity value of less than $6,000--and the car most frequently owned by these food stamp household was a Ford Escort, followed by the Nissan Sentra, the Honda Accord, the Toyota Corolla, the Toyota Camry, the Chevy Cavalier, and the Ford Taurus. The study also found that the food stamp applicants most frequently disqualified for owning a vehicle are those who have been recently laid off. While employed, applicants had enough money to afford a new car (almost always with a loan), but once they were laid off, the car made them ineligible for food stamps.

AB 321 also includes a provision eliminating the Statewide Fingerprint Imaging System, this proposal will be discussed in the next issue.

The Department of Social Services estimates that it would cost between $8-10 million General Fund per year to implement transitional food stamps.
ISSUE #3: STATEWIDE FINGERPRINT IMAGING SYSTEM (SFIS)

The Subcommittee will review the benefits of continuing the SFIS system.

BACKGROUND:

The 1996 Budget Social Services Trailer Bill required applicants and recipients of CalWORKs or Food Stamps benefits to be fingerprinted as a condition of eligibility. As a result, the Department of Social Services adopted regulations that require the following groups to be both fingerprinted and photographed in order to receive benefits:

1. Parents and caretaker relatives of the child that live in the home of the child
2. Parents and caretaker relatives applying for aid on the basis of an excluded child.
3. Aided adults.
4. Aided applicant pregnant women.

In addition, in some California counties undocumented adults are required to be photographed and fingerprinted as a condition for an eligible family member to receive CalWORKs or Food Stamp benefits. Undocumented adult family members are not eligible for Food Stamps, CalWORKs or the California Food Assistance Program. According to advocates, if an undocumented adult refuses to be photographed and fingerprinted, the entire family can face sanctions or be denied eligibility.

The original justification for the SFIS program is based upon a pilot program in Los Angeles County called AFFIRM. A 1997 evaluation of the AFFIRM program showed that fingerprinting all welfare clients would save an estimated $53-65 million per year in Los Angeles County alone by preventing between $59-82 million in welfare fraud.

SFIS is designed to prevent "Multiple Case Fraud" when an individual receives multiple aid payments by applying for benefits using different identities or residency in multiple counties.

COMMENTS:

The Governor's budget contains $10.7 million for the continued operation of SFIS.

The Department assumes the following $68.7 million in total savings from the SFIS as detailed below:

<table>
<thead>
<tr>
<th>Estimated Savings</th>
<th>Total</th>
<th>TANF</th>
<th>State</th>
<th>County</th>
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<tbody>
<tr>
<td>CalWORKs Grant Savings</td>
<td>$(64,447,642)</td>
<td>$(62,836,451)</td>
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<td>$(1,611,191)</td>
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<td>CalWORKs Admin Savings</td>
<td>$(3,042,397)</td>
<td>$(3,042,397)</td>
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<tr>
<td>Total CalWORKs</td>
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<td>$(65,878,848)</td>
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<td>$(1,611,191)</td>
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<td>NAFS Admin Savings</td>
<td>$(1,196,303)</td>
<td>$(598,152)</td>
<td>$(418,706)</td>
<td>$(179,445)</td>
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<tr>
<td>Total Savings</td>
<td>$(68,686,342)</td>
<td>$(66,477,000)</td>
<td>$(418,706)</td>
<td>$(1,790,636)</td>
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</tbody>
</table>
The California State Auditor has conducted an audit of the SFIS system. Among the findings of the auditor:

- DSS implemented SFIS without determining the extent of duplicate-aid fraud throughout the State.
- DSS estimated statewide savings from SFIS based upon an evaluation of LA county's system without conducting its own evaluation.
- Since SFIS does not collect statewide data, there is no way to verify the actual amount of savings from the system.
ISSUE #4: ELECTRONIC BENEFIT TRANSFER (EBT) OVERSIGHT

The Subcommittee will hear the Department's progress in implementing the EBT system.

BACKGROUND:

Federal welfare reform legislation required all states to implement an EBT system for food stamps by October 1, 2002. The system uses debit card technology and retailer terminals to automate benefit authorizations, delivery, redemption and financial settlement. AB 2779 (Aroner), Chapter 329, Statutes of 1998 required that the state contract with a single vendor for the implementation of California's EBT system and that the HHSDC provide the project management for the EBT project.

The State received a waiver from the federal government to delay implementation of the system until September 2004. Currently thirteen counties have implemented their system and the Department expects the State to meet the implementation deadline set in the waiver.

COMMENTS:

The Administration has proposed a Budget Change Proposal that decreases funding for the EBT project in the current year and increases funding in the budget year. The shift in funding reflects some counties delaying implementation of the system until the budget year.

In addition to Food Stamp benefits, counties also have the option to use EBT for cash benefits, like CalWORKs aid payments.
ITEM 4130 HEALTH AND HUMAN SERVICES AGENCY DATA CENTER
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #5: CASE MANAGEMENT INFORMATION AND PAYROLLING SYSTEM (CMIPS) OVERSIGHT

The Subcommittee will hear on the Department's progress in implementing an updated CMIPS system.

BACKGROUND:

The Case Management Information and Payrolling System (CMIPS) is the automated system that records eligibility, manages program information, and performs the payrolling function for the In Home Supportive Services Program (IHSS). Over 274,000 IHSS providers receive their paychecks through the CMIPS system.

The existing CMIPS system is nearing obsolescence. A new system is needed to handle the increased complexity and scope of the IHSS program. The Department intends to replace the existing CMIPS system once the current contract for maintenance and operations expires. The Department intends to utilize an option to extend the system an additional year to continue the existing system.

The new CMIPS system will be called CMIPS II. In order to meet the needs of the diverse needs of the CMIPS II, the Department of Social Services has convened focus groups. These groups included representatives from county welfare departments, labor unions, public authority agencies, county controllers, and district attorneys.

COMMENTS:

The Governor's budget increases funding to begin planning for the CMIPS II system. The Department anticipates releasing a request for proposal this summer and selection of a contractor around June 2004.
ITEM 4130 HEALTH AND HUMAN SERVICES AGENCY DATA CENTER
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #6: CWS/CMS OVERSIGHT

HHSDC and DSS will discuss the State's progress in meeting federal child welfare automation goals.

BACKGROUND:

The Child Welfare Services/Case Management System (CWS/CMS) is one of the world's largest Windows based systems. CWS/CMS is designed so caseworkers can open and track cases through the components of the CWS program. The system assists caseworkers in recording client demographics, contacts, services delivered, and placement information. The system also enables case workers to record and update assessments, create and maintain case plans, and manage the placement of children in the appropriate foster homes or facilities. The system will generate and manage many forms associated with a client or case. The application also collects data for the purposes of state, county, and federal reporting.

The Federal Government requires California to maintain the CWS/CMS system to comply with federal automation requirements relating to the child welfare, foster care, and adoptions. The Federal Government requires the State’s computer system to meet different 76 components and the State currently meets 62 of these components. The attached chart illustrates the 14 out of 76 components that are still in the planning stage.

The Health and Human Services Agency Data Center (HHSDC) proposes to increase its expenditure authority by $4.7 million to develop the Child Welfare Services/Case Management System (CWS/CMS) Expanded Adoption Subsystem (EAS).

The Federal Government has threatened to reduce funding to California if the State does not implement the EAS in a timely manner. The penalty could include a one time $50 million penalty and the annual loss of approximately $16 million in federal maintenance and operations costs.

COMMENTS:

The LAO has made the following recommendations regarding CWS/CMS

- **CWS/CMS Financing**: HHSDC proposes to increase its expenditure authority by $30 million to upgrade hardware and software used to support CWS/CMS. Since interest costs would be reimbursed by the federal government, the LAO recommends the Legislature (1) reduce the request by $11 million in hardware costs not proposed to be financed and (2) direct HHSDC to submit a revised request that includes financing of all hardware acquisitions.

- **Procurement of EAS**: HHSDC proposes to increase its expenditure authority by $4.7 million to develop CWS/CMS Expanded Adoption Subsystem (EAS). The HHSDC intends to amend the current CWS/CMS contract for the development and implementation of EAS. Since a competitive procurement may result in lower costs, the LAO recommends the
Legislature adopt budget bill language directing HHSDC to examine competitive procurements options prior to amending the current CWS/CMS contract.
4130 Health and Human Services Agency Data Center
5180 Department of Social Services

**ISSUE #7: WELFARE DATA TRACKING IMPLEMENTATION PROJECT (WDTIP) OVERSIGHT**

The Subcommittee will hear on the Department's progress in implementing the WDTIP system.

**BACKGROUND:**

The Welfare Data Tracking Implementation Project (WDTIP) is designed to measure the following data:

- Cumulative time-clock calculations of the Temporary Assistance for Needy Families (TANF) 60-month, CalWORKs 60-month, and Welfare-To-Work 18/24-month clocks, including exemption and exception information.
- Diversion information to identify payments received across counties and over time and their effect on time clocks.
- Sanction information to provide appropriate CalWORKs sanction data to counties.

Federal law allows individuals to receive only 60 months of TANF assistance during their lifetime. State law limits welfare-to-work services to 24 months during their lifetime. The WDTIP system collects that data necessary to enforce these laws.

**COMMENTS:**

The original project plan called for the full implementation of WDTIP by December 2002. Current Los Angeles, Modoc and Stanislaus counties (representing 36 percent of the State's caseload) is not connected to the WDTIP system. The Department reports that these counties have local systems for tracking time on aid and will be transitioning to WDTIP in the near future. The Department reports that the State complies with all federal requirements to monitor time on aid.

The Administration has proposed a Budget Change Proposal that decreases funding for the WDTIP project in the current year and increases funding in the budget year. This change reflects the Los Angeles's conversion to WDTIP in the budget year.
ITEM 4130 HEALTH AND HUMAN SERVICES AGENCY DATA CENTER (HHSDC)
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #8: COMBINING HHSDC OPERATIONS WITH THE TEALE DATA CENTER

The LAO has identified a $14 million ($7 million General Fund) savings from transferring the HHSDC administrative functions and server locations to the Teale Data Center.

BACKGROUND:

Chapter 508, Statutes of 1995 (SB 1, Alquist), directed the administration to conduct a study evaluating the benefits of consolidating the existing data centers. The administration's study released in 1997 specifically examined the benefits of (1) consolidating all mainframe systems into one of the existing data centers, (2) outsourcing one entire data center's operations, and (3) placing an existing data center under private ownership and control. The study, however, did not consider all the options for consolidating state data centers. For example, the study did not consider the "organizational" consolidation of state data centers. This option would consist of creating one organizational structure for two or more existing data centers.

Another recommendation from the administration's 1997 data center consolidation study was to locate servers at a state data center. State policy was further clarified in 1998 when the administration issued a policy requiring certain types of new servers to be located at the state data centers.

COMMENTS:

The LAO believes there would be savings in consolidating HHSDC and TDC into one organization. The current locations of the two data centers would be maintained, and most computer operations would be unaffected. The LAO believes the long-term benefits would outweigh any short-term implementation problems.

The LAO also believes about two percent of all HHSDC servers could be supported by the data centers in the near term so transferring these systems to state data centers could result in annual savings of $6 million ($3 million General Fund). In addition to the savings, the LAO believes this option provides several other improvements, such as greater security and more fully supported computer systems.
ITEM 4130 HEALTH AND HUMAN SERVICES AGENCY DATA CENTER (HHSDC)
ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #9: HHSDC OPERATIONAL RECOVERY

The LAO recommends that the LAO deny a proposal to provide operational recovery services to EDD and DDS.

BACKGROUND:

Operational recovery allows computer systems that have suffered severe hardware or software failures to be "restored" or returned to normal operation within a few hours. The state has typically contracted for this service. The HHSDC proposes spending in the current and budget years $2 million to provide operational recovery services for DDS and EDD. The HHSDC currently has a baseline expenditure authority of $437,000 for such recovery activities, and it anticipates that $370,000 of the proposed activities will begin and be billed in the current year. After accounting for this $807,000 in existing resources, the budget proposes an augmentation of $1.2 million.

COMMENTS:

When a department proposes a IT project, state policy requires the department to prepare a Feasibility Study Report (FSR), which identifies the benefits for the state’s investment in the project. The FSR also includes cost details to support any proposed budget request. According to the FSR supporting this request (submitted in November 2002), the data center will annually receive (1) $984,000 from EDD and (2) $240,000 from DDS to pay a contractor to perform operational recovery services. These amounts, however, are inconsistent with the amounts included in the budget request. In addition, the budget request includes $735,000 that is not included in the FSR. Since the FSR should include all project costs, it is unclear how the $735,000 relates to the proposed operational recovery services for EDD and DDS.

The LAO also found that HHSDC did not examine the costs and benefits of having other state data centers perform these services instead of contractors. The state has other data centers—such as the Stephen P. Teale Data Center and the Department of Justice’s Hawkins Data Center—that may be able to perform these activities at a lower cost.
**ITEM 4130 HEALTH AND HUMAN SERVICES AGENCY DATA CENTER**

**ITEM 5180 DEPARTMENT OF SOCIAL SERVICES**

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**ISSUE #10: OTHER LAO HHSDC RECOMMENDATIONS**

The LAO has made other recommendations regarding HHSDC’s budget.

**BACKGROUND:**

The LAO has made the following three recommendations that have not been discussed in other sections of this agenda:

- **Equipment Cost Increases Proposal:** HHSDC requests an expenditure authority increase of $4.7 million and 15 positions to purchase computer equipment and develop rates for new data center services. Since none of this request relates to new projects, the LAO recommends the Legislature deny the augmentation since the method used to develop the proposal is based on past workload growth trends that are not reflective of 2003-04 demand for services. The LAO further recommends that the data center report at budget hearings on actions that it could take which would lower both costs and rates charged to departments in the budget year.

- **Training Budget Bill Language:** HHSDC proposes budget bill language that authorizes the Department of Finance to increase HHSDC’s expenditure authority to accommodate additional training requests. Since HHSDC already has similar budget bill language for unanticipated workload requests, the LAO recommends the Legislature delete the proposed language.

**COMMENTS:**

The Data Center believes that the increase in costs is justified due to additional users and workload generated by its client departments. The HHSDC, however, was unable to match proposed expenditure authority increases to specific department activities or projects.