

House Committee on Agency Reorganization and Reform February 14, 1991 -
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proceedings, please refer to the tapes.

HOUSE COMMITTEE ON AGENCY REORGANIZATION AND REFORM

February 14, 1991Hearing Room D 3:30 p.m.Tapes 23 - 24

MEMBERS PRESENT:Rep. Clarno, Chair Rep. Katz Rep. Derfler Rep. Jones
Rep. Clark Rep. Brian

MEMBER EXCUSED: Rep. Hugo, Vice-Chair

VISITING MEMBER:Rep. Cease

STAFF PRESENT: Susan Browning, Committee Administrator Scott
Kaden, Committee Assistant

MEASURES CONSIDERED:None - Informational Meeting with Introduction of
Committee Bills

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statements made during this session. Only text enclosed in quotation
marks report a speaker's exact words. For complete contents of the
proceedings, please refer to the tapes.

TAPE 23, SIDE A

010 CHAIRPERSON CLARNO: Calls the meeting to order at 3:36 p.m..
Addresses the business of the committee. Introduction of Bill Miles,
Audits Division Director, Office of Secretary of State.

024 BILL MILES: Introduces Gene Potter, Assistant Director for
performance audits. Conducts a brief overview of his division and audit
process. See Exhibit A.

131 CHAIRPERSON CLARNO: Mr. Potter. Welcome, please identify yourself
for the record.

132 GENE POTTER: Introduces himself as Assistant Director, Division of
Audits. - Reports on the overpayment recovery process. See Exhibit B
for further detail. - The focus was on the fiscal year 1989 - 1990;
specifically, heir management goals and controls. The recoveries go to
offset the administrative expenditures which are paid for by the General
Fund. We looked for efficiency and effectiveness. - We found that AFS
is not as effective as it could be, with regard to recovery of

overpayments. - The overpayment recovery process consists of three steps. 1. Branch staff identify overpayments. 2. Overpayment writers or branch staff "write" overpayments, a process which includes researching policy, calculating overpayment amount, and preparing the overpayment report. 3. Revenue agents initiate procedures to recover overpayments.

194 REP. JONES: Who recovers the overpayment?

196 GENE POTTER: The Recovery Services Section of AFS. There are two sections involved, the Field Services Section and the Recovery Services Section.

204 REP. JONES: They actually call them revenue agents?

205 GENE POTTER: I don't know if that is a position description title. That is what they refer to them as. - Returns to Exhibit B, see exhibit for further detail.

261 REP. JONES: The best method would be to prevent the overpayment in the first place. Have I missed something? Why wasn't that looked at in greater detail?

268 BILL MILES: You are exactly correct. That is a possibility for future audits - eligibility determination. We felt and the agency felt that reviewing eligibility determinations would not be very productive, due to the uncertainty with CASCADE (a computerized process which handles eligibility determinations). We felt that audit should occur at a later date when the issue of CASCADE was resolved. That is a definite possibility, though.

291 REP. JONES: If they recover money, they get to use it in the cost of administration? The General Fund pays for the administrative costs and that would be an amount they could use to offset administrative costs. Is that correct?

297 GENE POTTER: About 63% of the funds in the ADC program are provided by the federal government. There is a distribution back that must be adjusted. The remainder of those funds must come from the State and other revenues. Those other revenues are basically composed of recoveries of overpayment. Now it is different in the food stamp program because all of the food stamp money is federal, with the exception of some of the administrative costs. Approximately 33% of the ADC recoveries would be available to offset the administrative cost of the program, revert to the General Fund, or provide additional services.

315 REP. JONES: I am trying to balance what the benefit is to them for not having overpayments versus the benefit of recovering overpayment, in terms of what they are able to accomplish in their agency. Is there a larger benefit in recovery than in stopping it in the first place?

322 GENE POTTER: In terms of benefits, the largest leakage that AFS has is in the overpayments that are made. We have identified this issue as one that should have further study. Please see Exhibit B, page 27. - About 45% of the overpayments are caused by administrative error. Had the division acted properly upon information that was provided to them by the client, they would not have made that overpayment. If you cut down on the administrative error, you will save more than you would if you concentrated on the recovery of overpayments.

344 REP. JONES: And the agency would benefit in the same way from

prevention as they would from recovery?

347 GENE POTTER: They could lower the cost of providing services or provide more services with the same amount of money. Yes, that is absolutely correct.

351 CHAIRPERSON CLARNO: I think you mentioned in your report that a lot of this occurs because the caseworkers don't have the proper training on eligibility processing.

357 REP. DERFLER: We often hear about agency software problems. Has there been any oversight on the computer programs which are started by the state agencies?

360 BILL MILES: There is an oversight committee - Joint Legislative Data Processing Committee. They are exercising more control than they have previously. I don't know exactly when they began CASCADE, but it has been a long term project. Other systems have been experimented in other states. I can't tell you how much oversight the Data Processing Committee exercises over the development of other types of programs in other agencies.

392 REP. DERFLER: It would be interesting to know how much money we spend on programs that don't work out as we had anticipated.

394 BILL MILES: I am not sure you could ever get that number. We have a system within the Department of Transportation that we spent approximately \$7 million to fix (not to mention the costs of the initial purchase).

400 CHAIRPERSON CLARNO: We will have a witness later in the session who will testify on CASCADE. We can also tap the expertise of Rep. Katz, who has a great deal of knowledge on that matter. - In the essence of time, please continue your presentation.

415 GENE POTTER: Returns to his presentation; see Exhibit B.

490 CHAIRPERSON CLARNO: Do you know if any of your recommendations have been put in place? Is that part of your audit process . . . to go back and do a follow up?

495 GENE POTTER: During the course of our audit, we kept the agency informed of things that we were identifying. There are some very specific recommendations (found in Exhibit B) that have been acted upon. They are very interested in increasing their effectiveness. I don't know the results overall, of all the recommendations. The report was just issued last month.

TAPE 24, SIDE A

037 CHAIRPERSON CLARNO: You mentioned some of the different regions and their performance. Could you expand on some of the ways the different regions can improve their delivery of services?

042 GENE POTTER: The Northern region was the most effective in identifying overpayments to ADC recipients. The Eastern region was the least effective. The Northern region recovered about 77% of their overpayments. The Eastern region recovered about 27%. In the food stamp program, the Northern region was also the most effective (approximately 25%). The Western region was the least effective (approximately 11%).

Each region has very different ways of going about the collection of overpayments. All in all, they recovered \$3.7 million dollars. The \$1.5 million increase in recoveries that we suggest is possible would be a significant increase in recoveries.

061 CHAIRPERSON CLARNO: You may have covered this, but how do we pay these overpayments? Who pays the penalties?

064 GENE POTTER: The client would have to pay back the overpayments.

065 CHAIRPERSON CLARNO: We are not getting a fine from the federal government when we have these overpayments?

068 GENE POTTER: If our error rate exceeds 3% (in the ADC program) we are subject to federal sanctions. At the present time, our error rate is about 3.4%. At one time, we did have sanctions imposed but we never had to pay those because the state contended that the set error rate was almost impossible for the states to attain. The rate became 6%. In the food stamp program, the error rate is now 10%. We are below that error rate, but we are above the ADC level.

077 CHAIRPERSON CLARNO: When you say sanctions . . . is there interest that accumulates on those millions of dollars of penalties that the state has? Could you expand on what you mean by sanctions?

078 GENE POTTER: To the extent that our overpayments rate exceed 3%, we were approximately \$1 million over the amount we were allowed by the federal guideline . . .

085 REP. DERFLER: It sounds like the problems come from the difference in the management styles of the agencies. Did we have to wait for this audit to identify this inconsistency, or would the home office (Salem) have picked that up eventually?

090 GENE POTTER: I believe most of the material we found out was not known before this audit. They have a lot of data, but they don't have a means of measuring effectiveness of the recovery processes. The Department itself has not established goals for recovery. Therefore, they do not monitor to determine how effective they really are. It was a lack of information. They were not emphasizing recovery; they are very busy providing services.

103 CHAIRPERSON CLARNO: Perhaps along with goals, we could add carrots to increase the volume of overpayment recovery.

108 REP. JONES: We have to be careful not to reward overpayment, because then we could have a real problem on the "front end."

111 GENE POTTER: That is a very important point. When the agencies become more efficient at identifying what I call leakages, they are not rewarded with the portion of those revenues to provide additional services, even though it is very cost effective to do. They have the fiduciary responsibility with regard to recovery of overpayments.

122 REP. DERFLER: I think Rep. Jones has the better idea. Let's not have these overpayments in the first place. Maybe we need to watch the front end, more so than the recovery of overpayments.

126 REP. JONES: When you look at how well people manage, you look at the front end as well as the back end. My interest is in seeing if they

couldn't have the opportunity to manage those recovered resources. If the revenue vanishes, and there is no benefit, there is not much incentive for them.

135 CHAIRPERSON CLARNO: The incentive process is lacking and we need to take a very serious look at this issue.

142 GENE POTTER: I feel that concludes my presentation. You can review the conclusions and recommendations (Exhibit B) if you like.

144 REP. DERFLER: After you do these audits, do you get a chance to follow up to see if things are corrected? Do you have that opportunity or is that up to someone else?

146 BILL MILES: There is a follow-up process, in general. I have learned recently that the follow-up process is not working. Executive Department has a procedure in place. But they are not devoting the resources to follow up on these audits - in particular the performance audits. We are watching these audits to see if the recommendations we made are feasible and are capable of achieving what we suggest that they might. - We can do follow-up work and we are doing some follow-up work.

161 REP. DERFLER: Can you share what you have found as a result of your follow-up?

162 BILL MILES: We have not done any follow-up, but we certainly will.

163 REP. DERFLER: So we really don't know if the audits have accomplished much of anything.

164 BILL MILES: From an audit perspective, we do not. We have talked with people and they tell us that in fact they are achieving some of the savings that we thought they would. We do not know for sure, and we would like to be shown rather than told. That is why we are going to go back and do the follow-up work.

171 REP. JONES: They do report back to committees with a follow-up, for example, the Department of Transportation audit.

175 REP. DERFLER: I think there should be a process, where after six months or a year later, you can go back and review the changes that have happened. A follow-up would help reinforce the things that you have suggested to the agencies.

179 BILL MILES: I was under the impression that the Joint Legislative Audit Committee would be involved in that process and that there would be communication between the Audit Committee and Ways & Means and the Emergency Board. Thus, there would be appropriate legislative oversight.

186 REP. DERFLER: When you get that many people involved, I can understand why it doesn't get done.

187 CHAIRPERSON CLARNO: If it is alright with the committee, I think we should have Steven Minnich write us a note about the steps he has taken as a result of your audit. If the committee would prefer, we could have him come back and testify with regards to this matter.

196 GENE POTTER: We are going back and doing a follow-up at this time. We just started that process and we will be doing a report that will

identify the extent to which they have implemented the recommendations. We will attempt to validate and verify the savings that occurred as a result of those audits. We will be making those presentations to the Joint Legislative Audit Committee.

209 REP. BRIAN: Some have suggested that the performance audit function might be best and most economically accomplished by being conducted by private firms. Could you comment on that?

214 BILL MILES: That is a difficult question to answer. Some states have done that with CPA firms, and have not experienced the satisfaction they had hoped for. My feeling is that it would probably not be more economical (overall) where you already have an audit function in place. . . which is similar with the various agencies. We do financial audits and so some of the material is the same work necessary for performance audits. Thus, we are able to achieve some economies. I can't really tell you at this point, whether it would or would not be cheaper to do it by contracting.

236 REP. BRIAN: From the auditor's stand point, and arms length issues which are so important, have you seen an issue of potential conflict of interest? Too much familiarity with the players in the various agencies, political influence and so forth?

246 BILL MILES: I don't think that would enter into any of the work that we do. We are an independent organization, we operate independently. The staff are all professionals and we have professional standards that we are required to follow. Those are exactly the same standards that a CPA firm would follow if they were doing the audits. We are reviewed (at least every three years) by a group from the National State Auditors Association which reviews the quality of our work. I don't perceive that there is a problem with independence. We do rotate the staff, as well as we can.

267 REP. BRIAN: Have you contracted out to supplement the work of your division?

272 BILL MILES: No. The only contracting that I am aware of occurred in 196 9. That occurred with regard to an audit of the Department of Revenue.

276 CHAIRPERSON CLARNO: Thanks Mr. Miles and Mr. Potter for their testimony. - Ends informational hearing and begins the work session for the purpose of introducing committee bills.

283 MOTION:CHAIRPERSON CLARNO: Moves for introduction of LC 2875, 2986, 298 7, 298 8, 2990, 2991, and 2992 as committee bills.

290 MOTION:REP. JONES: Moves for the adoption of the LC's as committee bills.

293 REP. CLARK: The bill which you said was mistakenly included in our packets . . . is that the bill concerning jury size.

294 CHAIRPERSON CLARNO: Yes.

VOTE:Hearing no objection, Chairperson Clarno so moves.

307 CHAIRPERSON CLARNO: Closes the work session and re-opens the informational meeting (4:25 p.m.). - Introduction of Keith Putman.

324 KEITH PUTMAN: Thank you for the introduction. - Begins his testimony concerning government reorganization. See Exhibit C for further detail.

TAPE 23, SIDE B

151 REP. CEASE: I appreciate your comments. I have a bill that will combine Department of Health and DEQ. If you do as you suggest, do you think you will lose a health focus or health orientation? Or do you not really have that orientation at this time?

166 KEITH PUTMAN: The laws defining the responsibility for the Health Division are really marvelous. They start with a sentence that says state health administrators are responsible for the health of all Oregonians. Following this statement are many, many pages of things you cannot do while carrying out the charge. - Offers another example of this contradiction - licensing boards. - To directly answer your question, Rep. Cease, I would see that (health focus) as being a legitimate function of the Office of Medical Assistance. - I am just suggesting a different realignment, with the DEQ-like functions put into DEQ-like agencies. Radiation could go to the Department of Energy.

198 REP. CEASE: It wouldn't bother you that you would not end up with a separate Health unit?

199 KEITH PUTMAN: No, I don't believe so. I would see that function as being with the Office of Medical Assistance. - Refers to Exhibit C, page six, (the item labeled "C").

223 REP. KATZ: It is an interesting concept, to go beyond just the welfare client. OSU has that concept in their education programs. If their graduates are not doing satisfactory work in their teaching positions, they take them back because they feel they have failed.

233 REP. JONES: One of the school districts in Washington County has provided a guarantee for students. It says if you go through this system, and you cannot perform at a level that is acceptable, within two years you may return . . . at no cost.

238 KEITH PUTMAN: I don't want to measure them on the basis of being able to graduate. I want to measure them on the ability to perform in the labor market that the United States must develop in order to continue to compete with the world.

242 REP. JONES: I didn't say that graduation was the basis for determination. I said a certain determined level.

252 CHAIRPERSON CLARNO: I appreciate your comments, Mr. Putman. I hope Rep. Katz will take this material with her, so we can sit down (at a later date) and have an open workshop which discusses the direction of this committee.

269 CHAIRPERSON CLARNO: With that, the meeting is adjourned (4:51 p.m.).

Submitted by:

Reviewed by:

Scott Kaden

Susan M. Browning

EXHIBIT LOG

Exhibit A - Bill Miles - 23 pages Exhibit B - Bill Miles - 36 pages
Exhibit C - Keith Putman - 6 pages Exhibit D - Chair Clarno - 5 pages