



Memorandum

Date . MAR 10 1993

From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject The Administration for Children and Families' Review of State Cost-Benefit Analysis Reports for State Automated Data Processing Systems (A-12-92-00038)

To

Laurence J. Love
Acting Assistant Secretary for
Children and Families

Attached is our final report on the Administration for Children and Families' (ACF) review of State automated data processing (ADP) cost-benefit analysis reports. The Office of Inspector General, as a participant in a joint study led by the Office of Management and Budget (OMB), independently assessed the reporting and use of cost-benefit information provided by States after ADP implementation. The OMB project was designed to, among other things, review the current Federal-State relationship, assess State cost-benefit estimating, and determine the extent to which the Federal ADP investment is contributing to reducing welfare dependency.

In accomplishing our task we: (1) considered information from Federal reviews of State systems and State submitted documentation, (2) reviewed five available State cost-benefit reports, and (3) interviewed cognizant ACF headquarters and regional personnel regarding post-implementation oversight.

The ACF requires the submission of annual cost-benefit reports. This requirement became effective May 1990. Five reports were available at the conclusion of our field work. However, only two of the reports were from States that were required to submit reports; the other three available reports were not required by the 1990 regulations. The ACF did not have reports for our review from three States that were required to submit reports. We found no procedures for: tracking the receipt of States' cost-benefit reports, contacting States that fail to submit reports timely, and analyzing, evaluating, and critiquing State submissions.

In our opinion, while some of these reports contained useful management information, they failed to accurately account for all costs and benefits and did not make the required comparison between estimated and actual costs and benefits to date. In reviewing the ACF files, we could not find documentation that ACF staff had analyzed the reports sufficiently to detect the shortcomings we observed. We noted that the ACF drafted a cost-benefit guide for use by analysts and States alike. The guide's requirements are similar to those contained in OMB Circular A-94, the Federal Government's long-standing source of information on how to conduct cost-benefit analyses.

In ACF's February 23, 1993 response to the draft of this report, the ACF generally agreed with our findings but offered suggestions to be included in our recommendations. These have been incorporated in the report. Please advise us regarding any further actions taken on our findings and recommendations within the next 60 days. If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE ADMINISTRATION FOR CHILDREN
AND FAMILIES' REVIEW OF STATE
COST-BENEFIT ANALYSIS REPORTS
FOR STATE AUTOMATED DATA
PROCESSING SYSTEMS**



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To Laurence J. Love
Acting Assistant Secretary for
Children and Families

This report presents the results of our review of the Administration for Children and Families' (ACF) use of cost-benefit information provided by States for the States' automated data processing (ADP) systems. Our review was performed in conjunction with an Office of Management and Budget (OMB) review of ACF efforts to automate State programs and ultimately reduce welfare dependency.

We found that ACF had certified 36 State systems for statewide implementation. In 1990, the ACF began to require States to submit annual cost-benefit reports on approved statewide systems. The requirement became effective May 1990. Since the requirement became effective, five States implemented statewide systems that are subject to the new reporting requirement. For these five States, the ACF was able to provide us with only two of the required reports. While the ACF had three other reports from States, the States were not required to submit these reports.

We reviewed the five reports that were available. The reports failed to accurately account for all costs and benefits and did not make the required comparison between estimated and actual cost benefits to date. The ACF has developed a guide to performing cost-benefit analyses. The guide has requirements similar to those in OMB Circular A-94, the Government's basic guidance on the subject of cost-benefit analysis.

We provided a draft of this report to the ACF for review and comment on December 21, 1992. In written comments, dated February 23, 1993, the ACF concurred with the findings, but disagreed with our original recommendations. After careful evaluation, we determined that ACF's suggested changes could be made without altering the effectiveness of our report. We are now recommending that the ACF stress to States the requirement in the regulations to submit the cost-benefit reports, and provide technical assistance to States in using the cost-benefit guide.

INTRODUCTION

Background

The OMB raised concerns about the escalating costs of implementing ADP systems in States. A task force was organized to assess the matter, and subgroups of the task force were assigned to evaluate specific issues. The Office of Inspector General offered to assess the use of cost-benefit information in the post-implementation phase of the State systems.

The requirement that ADP systems have cost-benefit analyses was established in the October 1, 1978 revision to the Code of Federal Regulations (CFR), following passage of Public Law 96-265 amending the Social Security Act. The law provides Federal assistance for States developing ADP systems. The requirement, found in the definitions section of 45 CFR 95.605, describes a "preliminary" cost-benefit analysis as one of several documents comprising the initial Advance Planning Document (APD). States submit the initial APD to request Federal financial participation (FFP). The FFP is a means by which the Federal Government subsidizes State costs in implementing a computerized system to execute Federal programs, such as Aid to Families with Dependent Children (AFDC) and Child Support Enforcement.

The ACF recently expanded the requirement for cost-benefit analysis reports with the issuance of 55 Federal Register (FR) 4365 (February 7, 1990). The change amended 45 CFR 95.605 to require a second cost analysis report that "compares estimated cost-savings with actual cost-benefits to date." States are instructed that "[t]he proportion of costs to savings must remain as projected in the APD." The change also specifies that a cost-benefit report showing actual cost data, as part of the Annual Advance Planning Document Update (Annual APDU), is to be submitted yearly to show post-implementation cost savings. Although it is a status report of the past year's activities, the Annual APDU should also include background and activity information from prior years.

The post-implementation phase begins with ACF's "certification" of State ADP systems. Certification entails a detailed examination by ACF personnel to determine whether prescribed system features are in place and working. Although States receive FFP prior to certification to procure and install their ADP systems, continuation of Federal funding for operations costs is contingent on certification. To date, ACF has certified 36 AFDC and Child Support Enforcement systems for statewide implementation.

Objectives and Scope

The objectives of our review were to evaluate the adequacy of the cost-benefit reports showing actual (as opposed to forecasted) cost-benefit data, and to assess the reviews performed and the uses made of the information in those reports. These objectives were concurred in by the OMB staff who led the overall project. Our review was performed in accordance with generally accepted government auditing standards.

The scope of our task was to review the thoroughness of cost-benefit analysis reports of ADP systems procured for Titles IV-A (AFDC program) and IV-D (Child Support) of the Social Security Act. The cost-benefit report required by the amended regulation at 45 CFR 95.605 is part of the Annual APDU, and therefore was the subject of our review. Accordingly, reports submitted as part of the planning APDs were not within our scope (because actual costs and benefits are not shown in a planning APD); nor were State reports submitted in support of "enhancement" (modification) requests (because they show costs and benefits for only the enhancement, not the entire project).

We interviewed ACF headquarters and regional staff, analyzed regulations, and reviewed reports submitted by States. To evaluate the cost-benefit information submitted by States, we relied on OMB Circular A-94 which describes criteria and a methodology for cost-benefit analysis. The work was performed in Washington, D.C., between June and August 1992.

RESULTS

The ACF procedures for controlling and analyzing the cost-benefit reports were inadequate. Five State systems were implemented after the effective date of the reporting requirement and those States should have submitted reports. The required reports from only two States were available for review. However, a total of five reports were available but each deviated significantly from cost-benefit analysis procedures described in OMB Circular A-94. This problem may be alleviated following release and use of an ACF guide prescribing cost-benefit measuring and reporting procedures. The guide's cost-benefit procedures are in close agreement with those prescribed in OMB Circular A-94.

Controls Over Cost-Benefit Reporting

The ACF has certified 36 AFDC and Child Support systems for statewide implementation. However, ACF did not require reports from all States with

certified systems. States with ADP systems certified before May 8, 1990¹ did not have to submit a cost-benefit analysis report showing entire project costs. Reports were required from five States for systems that were later certified. The ACF had five reports available; however, only two of these reports were from States that were required to submit them. Three other States voluntarily submitted reports.

Quality of Cost-Benefit Reports

Following system implementation and certification, a comparison of planned and actual costs helps in learning better methods of cost estimation. Likewise, a comparison of expected and actual benefits yields insight into the limits of system capabilities vis-a-vis legislated or program requirements. The five cost-benefit analysis reports we reviewed did not conform to the requirements of OMB Circular A-94, dated March 27, 1972. This circular prescribes a methodology to be used when costs and benefits are expected to accrue over a period of 3 years or more. Although the circular is currently under revision, staff from OMB confirmed that it contains appropriate criteria for assessing the analyses. The circular requires:

- use of a 10 percent discount factor to translate dollar amounts into present value costs and benefits,
- recognition of all costs,
- calculation of annual costs and benefits for the entire life of the project, from the first outlay of funds to the expiration of the project,
- explanation of estimated costs and benefits that are reasonable and valid, and
- identification of Federal costs.

In our review of the reports, we noted that: (1) none of the five reports used discount factors, (2) three reports did not take into account the total acquisition costs, (3) none of the reports calculated costs and benefits annually for the entire life of the project, (4) although four reports contained

¹ May 8, 1990 is the effective date of the FR issued February 7, 1990. This volume of the FR amended the CFR to require cost-benefit reports following statewide implementation of the ADP system. See the Background section of this report.

explanations of estimates, two included contradictory data that undermined the apparent reliability of the information presented, and (5) three reports did not clearly identify Federal costs. None of the reports provided the information needed by Federal program managers to obtain an informed opinion on the merits of a project or determine whether the project's undertaking was warranted in light of its costs and benefits. We also examined the five reports to determine whether they compared "...the estimated cost-savings from the State's approved APD to actual cost-benefits to date..." as required by 45 CFR 95.605. Our examination showed that only one State, Texas, made a comparison of estimated cost-savings and actual cost-benefits. The report makes reference to the estimated savings documented in the original APD, but does not cite what these amounts are. Further, the report failed four of the five A-94 criteria, so the usefulness of the information for comparative cost-analysis purposes is severely limited.

We found no evidence that ACF staff had analyzed the reports sufficiently to detect the shortcomings we noted.

New ACF Guidance on Cost-Benefit Analyses

In January 1992, ACF drafted new guidance that describes how to complete cost-benefit analyses. The draft guide was prepared by a contractor and is to be issued to States as technical assistance; it will be used by ACF staff to evaluate State cost-benefit analyses. The guide was prepared using other agency input on the subject, and should prove helpful to ACF and State staff alike in developing more consistent and usable data. We noted that the procedures prescribed by the guide parallel closely those which are contained in OMB Circular A-94.

CONCLUSIONS AND RECOMMENDATIONS

The ACF lacks adequate procedures for: tracking receipt of cost-benefit reports, following up with States which fail to submit them, or analyzing, evaluating, and critiquing State submissions.

We recommend that ACF:

- Enforce the requirement that States submit cost-benefit reports.
- Use the cost-benefit guide to evaluate the adequacy of State cost-benefit reports. States should be advised of shortcomings noted.

ACF Comments and Office of Inspector General Response

In their February 23, 1993 response (Attachment 1) to our draft report, ACF officials concurred with the findings, but offered suggestions to be included in our recommendations. After careful evaluation, we incorporated these in our report. A recapitulation of our original recommendations and ACF's response follows.

We originally recommended that ACF withhold funding from States that fail to adequately report cost-benefit information. The ACF argues that with encouragement and technical assistance, the States will comply. We agree with ACF, and have modified our recommendation accordingly.

Our second recommendation was that ACF require States to use the cost-benefit guide in preparing the cost-benefit reports required by ACF regulations. The ACF disagreed. The ACF believes that through use of the guide in evaluating cost-benefit reports and by providing additional training to State personnel, improvements in State's use of cost-benefit reports will occur. The ACF stated that considerable effort would be required to issue additional regulations to make the guide mandatory. We have changed this recommendation to state that the guide can be effectively implemented if the ACF uses it to evaluate the adequacy of State cost-benefit reports.

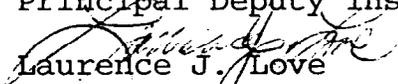


February 23, 1993

ADMINISTRATION FOR CHILDREN AND FAMILIES

Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

TO: Bryan B. Mitchell
Principal Deputy Inspector General

FROM: 
Laurence J. Love
Acting Assistant Secretary
for Children and Families

SUBJECT: The Administration for Children and Families' Review of
State Cost-Benefit Analysis Reports for State
Automated Data Processing Systems (A-12-92-00038)

We have reviewed the draft report on the Administration for Children and Families' (ACF's) review of State automated data processing (ADP) cost-benefit analysis reports. Your report concludes that ACF lacks adequate procedures for tracking receipt of cost-benefit reports, following-up with States which fail to submit them, or analyzing, evaluating and critiquing State submissions. We acknowledge that some weaknesses exist in this process, and have worked closely with your staff during their review so that they would understand our procedures, and our plan for improving the process.

While, in general we agree that the cost-benefit reporting process needs to be improved, we do not agree with your recommendations. Consequently, we have the following comments on the Report's conclusions and recommendations:

TRACKING RECEIPT OF COST-BENEFIT REPORTS AND FOLLOWING UP WITH STATES WHICH FAIL TO SUBMIT

As your report points out, States are statutorily required to conduct a cost-benefit analysis before ACF approves a State systems project. In addition, effective May 1990 ACF issued a regulation, which required States, once they begin operation of a project, to report the cost-savings achieved by the project in an annual Advance Planning Document (APD) for 2-5 years until ACF determines the projected savings are achieved. Prior to 1990, States were not required to report cost savings after a system was certified as operational.

We agree with your finding that ACF failed to track and follow-up with three States that did not submit the required cost-benefit savings report, and we are taking action to bring these three States into compliance with the regulatory requirement. We do not agree with your recommendation that submission of these reports should be "...a condition of receiving continuing funding" from ACF. The regulatory requirement for States' submission of cost-benefit reports does not provide for assessment of a penalty for failure to submit these reports.

For both Child Support Enforcement Systems (CSES) and Family Assistance Management Information Systems (FAMIS), the authorizing legislation provides that an APD must include a cost-benefit analysis of alternatives, but does not require that the State follow-up with a report of savings achieved. While our May 1990 regulation required States to report actual savings, these regulations do not provide for the Agency to withhold continued funding if a State fails to meet this requirement. We do not believe a penalty action is necessary or intended by the authorizing legislation, and believe States will comply with the requirement through our encouragement and technical assistance. As you know, up to now we have not focused our resources on providing technical assistance in this area.

Before ACF would consider withholding continued funding for lack of reporting, we would have to obtain a general counsel (GC) ruling on our authority and the grounds for taking such an action. The GC would need to consider: 1) that the systems statute which provides for approval of an APD indicates that the APD would be approved if the plan, "when implemented, will generally (emphasis added) carry out the objectives of the management system", and 2) whether failure to report benefits on a system is failure to "substantially comply" with an approved APD.

ANALYZING, EVALUATING AND CRITIQUING STATE SUBMISSIONS

All States have submitted, as a part of an approved APD, the required estimated cost-benefit analysis documentation. However, until recently, ACF lacked a standard for this documentation. As your auditors observed, the cost-benefit analysis documentation States have submitted to us, reflects that in the past States have had broad discretion in the format and criteria used to present their estimated cost-benefit data. While this documentation, along with other relevant information from a State may have been acceptable at the time of project approval, it is difficult, if not impossible to use this information as baseline documentation for post-implementation reporting of benefits achieved. States had not planned for post-implementation reporting to the Federal agencies. Therefore, controls and baseline data against which to report benefits achieved were not properly established at the project's initiation.

This problem became readily apparent to ACF, once we attempted to analyze the first few reports of cost-benefits achieved. Consequently, we have focused our efforts on establishing a cost-benefit analysis and reporting standard, which culminated in the Cost-Benefit guidance document which we recently issued, and to which your report refers. The Guide has now been issued to all States to assist in standardizing and establishing documentation

uniformity as States conduct cost-benefit analyses, establishing baselines for follow-up reporting, and reporting actual benefits achieved.

You indicated in your report that "None of the five reports submitted to date provided the information needed by Federal program managers to obtain an informed opinion on the merits of a project or to determine whether the project's undertaking was warranted in light of its costs and benefits." We agree that the information in these reports is not based on a standard for cost-benefit analysis and reporting, and that States have not established baselines to allow the tracking of this type of information. However, this situation was caused by the retrospective imposition on States of the post-implementation savings reporting requirement. This has created a situation where we will need to be circumspect in evaluating the savings reported by States. If the post-implementation information reported by States, to which this requirement applied retrospectively, is assessed in the same manner as their original cost-benefit analyses, then we would accept a non-standard, non-quantifiable report of post-implementation savings.

While we are currently analyzing the reports we have received and intend to work with the States that have reported to obtain better information, we believe that we will begin to receive totally reliable information only when those States that began projects after May 1990 are operational and begin providing post-implementation savings reports. States are now establishing a baseline for reporting, and we are requiring standard and measurable data as part of the original cost-benefit analysis.

You have acknowledged in your report the merits of the Cost-benefit Guide, and we believe by encouraging and providing technical assistance to States in the use of this Guide, we will be able to analyze and evaluate the States' submissions.

Your recommendation, however, is that ACF mandate the use of this Guide. At this time, we do not believe that it would be prudent or necessary to formally mandate use of the Guide to improve State reporting. Again, we believe that the prime way to improve State reporting, is for ACF to encourage and provide technical assistance to States in the use of the Guide. We have provided training at two National conferences on the Guide and have had positive responses from the States. Also, at the time we approve a plan for a State to conduct the planning of a project, we strongly urge the State to use the Guide's procedures and methodology for estimating and tracking cost-benefits.

It would take considerable effort to mandate use of the Guide's provisions, because regulatory reports clearance and other administrative requirements would have to be carried-out before the Guide's provisions could be mandated. Therefore, we

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recommend that the second report recommendation be modified to emphasize the guide's value in improving ACF's enforcement and procedures in this area.

ACF is currently in the process of critiquing the reports we have already received, and will follow-up with States to ensure that the information presented as part of their next annual APD updates will provide, to the extent possible, more quantifiable information to allow us to conduct better analyses on the merits of a project.

We believe that with the issuance of the Guide, along with reminders and notifications which we now place in our approval and follow-up letters to States, along with technical assistance by our Regional Offices to the States, States will comply and we will be better able to determine the value of these systems projects. Therefore, we recommend that the report reflect the following changes: 1) the first recommendation should be modified to eliminate that portion of the recommendation which states that these submissions should be required "...as a condition of receiving continuing funding", and 2) the second recommendation should be changed to remove the reference to making the cost-benefit guide mandatory.

We appreciate having the opportunity to comment on the draft report. We hope that you and your staff find our comments helpful. If you or your staff would like to discuss our comments in more detail, you should contact Naomi B. Marr, Director, Office of Information Systems Management on 401-6960.