

An Attestation Audit of

The Office of the Attorney General's Report on Senate Bill 84



Office of the State Auditor
Lawrence F. Alwin, CPA

March 1996

Report No. 96-054

Key Points Of Report

An Attestation Audit of the Office of the Attorney General's Report on Senate Bill 84

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Overall Conclusion

The Office of the Attorney General (OAG) has made and documented a good-faith first effort to estimate the extent to which child support enforcement offsets welfare costs; however, of the \$498 million cost avoidance reported by the OAG's current methodology, we can attest to \$330.7 million, using reasonable criteria. Estimated cost avoidance could have legitimately risen to \$501.7 million had the OAG considered Food Stamps and non-AFDC cases in its calculations. Further refinements in the methodology used could raise future cost avoidance well beyond the \$498 million presently reported. Subsequent reports should more fully reveal both the methodology used and program costs. Before expanding its cost avoidance estimation effort, the OAG should confer with key stakeholders to better determine the information most needed and its intended uses.

Key Facts and Findings

- The OAG estimates a \$498 million welfare cost avoidance during fiscal year 1994 as a result of child support enforcement. If cost avoidance is limited to welfare cases which show offsetting child support collections or to non-paying child support cases which leave the AFDC rolls for failure to cooperate with the OAG, the amount generated by the OAG's methodology is closer to \$330.7 million. A principle source of this difference is the need to refine the criteria under which closed cases are counted toward cost avoidance.
- The current estimation methodology does not explore cost avoidance reasonably arising from other possible sources. For example, had the OAG tracked reductions in Food Stamp benefits and non-AFDC cases in which child support collections occur, it could have accrued an additional \$171 million in cost avoidance. Further expansion of the scope of the methodology to examine reductions in both Medicaid service use and other welfare programs could raise future cost avoidance above that presently reported. However, to avoid future overestimation of cost avoidance, care should also be taken to gather more precise data on why and for how long a given case leaves and stays off welfare.
- Applicable legislation intends that the OAG report on program costs and benefits. However, cost data are generally absent from the latest report. Other information which would enhance the usefulness of future reports includes data on the relative state and federal shares of cost avoidance and a full explanation of the cost avoidance methodology.
- Reasonable controls exist over the integrity of the data used in welfare cost avoidance calculations. Development of such controls should continue as the OAG expands its cost avoidance methodology.
- The Office of the Attorney General generally agrees with the report recommendations and has taken steps toward implementation.

Contact:

Kay Wright Kotowski, CPA, Audit Manager, (512) 479-4755

Office of the State Auditor

Lawrence F. Alwin, CPA



This review was conducted in accordance with Government Code, § 321.0133. The project was undertaken at the request of the Senate Interim Committee on Juvenile Justice and Child Support.

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Section 1:

Of the \$498 Million Cost Avoidance Reported by the Office of the Attorney General's Methodology, We Can Attest to \$330.7 Million, Though an Expanded Methodology Could Close this Gap

Our assessment indicates that the current Office of the Attorney General (OAG) methodology generates \$330.7 million in cost avoidance. This assessment is based on conservative criteria which limit cost avoidance to either those welfare cases which also show child support collections (see Appendix 4) or non-paying child support cases which leave the AFDC rolls for failure to cooperate with the Office of the Attorney General. The primary difference is the Office of the Attorney General's assumption that cost avoidance arises in all closed child support cases that go off of AFDC, regardless of whether or not the child support collections which offset welfare costs actually occur. Also noted is a failure to age cases such that cost avoidance can be claimed regardless of when cases left the welfare rolls. This failure to age cases does not adequately account for the fact that, at some point in time, the receipt of child support can cease to be the reason a given case stays off welfare.

At the same time, the present methodology did not capture cost avoidance in several key areas. Here the concern is the methodology's limited scope. For example, had the Office of the Attorney General considered cost avoidance from Food Stamps and non-AFDC cases, the agency could have claimed as much as \$171 million in additional cost avoidance, thereby raising the total to \$501.7 million. More complete consideration of these and

other welfare programs, particularly Medicaid services, might reasonably raise future estimates above that presently reported. Other concerns noted include overreliance on averages, as opposed to data from individual cases, and overuse of rounding.

A table summarizing our assessment and adjustment of each reported partial cost avoidance is found on the following page. A general rationale for each adjustment is found in the last column of the table at Appendix 5. Detailed discussion of each adjustment occurs in sections 1-A through 1-C.

Section 1-A:

Some Key Assumptions Underlying the Present Methodology Are Not Supportable and Need Closer Scrutiny

The Office of the Attorney General claims cost avoidance for all closed child support cases which also leave the welfare rolls, often regardless of whether child support collections occur to offset welfare costs. Assessment of the various types of closed child support cases in which the OAG claims cost avoidance indicates that:

1. It is not supportable to claim \$56.4 million in AFDC-related cost avoidance for all the closed child support cases that left the AFDC rolls. Since neither child support payments nor failure to cooperate with the Office of the Attorney General occurred in these cases, this entire amount may be an overestimation. Some cost avoidance may occur in such cases. However, the criteria under which the OAG might legitimately include such cases in cost avoidance estimates need further refinement.

Issues and Recommendations

CA = Cost Avoidance CS = Child Support	SUMMARY OF REPORTED AND ADJUSTED COST AVOIDANCE	
General Category and CA Reported	Partial Reported CA and Description	Assessment/Adjustment of Partial Reported CA
AFDC \$289.1 million	\$56.4 million CA from non-paying CS cases that closed and went off AFDC for reasons other than non-cooperation with the OAG (I-A.1)*	<ul style="list-style-type: none"> Overestimated Should be \$0. Some cases without CS collections <u>may</u> yield CA. Lack of clear criteria prevents re-estimation.
	\$53.7 million CA from CS cases with collections below the grant jeopardy level** that went off AFDC (I-A.3)	Accurate
	\$4.4 million CA from paying CS cases recovering AFDC costs from prior years (I-A.5)	Accurate
	\$29.9 million CA from closed non-paying CS cases going off AFDC and referred to DHS for non-cooperation (I-A.6)	Accurate
	\$39.5 million from CS cases leaving AFDC with CS collections above the grant jeopardy level (I-B)	Underestimated Should be \$40.3 million.
	\$105.2 million CA from paying CS cases that are former AFDC recipients (I-C)	<ul style="list-style-type: none"> May be overestimated. Lack of established criteria for aging cases prevents disallowing CA claimed.
Medicaid \$208.9 million	\$159.4 million CA from CS cases going off and staying off AFDC for 12 months which neither showed later collections due to OAG legal action nor were referred to DHS for non-cooperation (I-A.2 and I-C)	<ul style="list-style-type: none"> Overestimated Should be \$47.7 million. Some cases without CS collections <u>may</u> yield CA. Lack of clear criteria prevents determining which such cases should count toward CA. <p><i>Note: Medicaid CA may also be underestimated since it includes only Medicaid premiums and omits Medicaid usage. See also "Other Programs" below.</i></p>
	\$25.3 million CA from third-party insurance coverage of otherwise Medicaid-eligible children (I-A.4)	Accurate
	\$9.9 million CA from CS cases going off AFDC with later collections due to OAG legal action (I-A.5)	Accurate
	\$14.3 million CA from closed non-paying CS cases going off AFDC and referred to DHS for non-cooperation (I-A.6)	Accurate
Food Stamps \$0	\$0 CA from CS collections reducing or eliminating Food Stamps benefits (I-B)	Not estimated by OAG. Should be \$112.6 - \$133.6 million.
Non-AFDC Cases \$0	\$0 CA from paying CS cases not on AFDC (I-B)	Not estimated by OAG. Should be \$37.4 million.
Other Programs \$0	\$0 CA from reductions in Medicaid use or from reductions in welfare costs in other public assistance programs such as WIC, Child Care Assistance, Foster Care, etc. (I-B)	<ul style="list-style-type: none"> Probably underestimated, though OAG did not consider. Derivation of CA estimate was beyond the scope of the audit.
Adjusted CA		\$330.7 million
Estimated CA Including Food Stamps and Non-AFDC Cases		\$480.7 - \$501.7 million

* Items in parentheses indicate the report section where each partial cost avoidance is discussed. See also Appendix 5.

** Grant jeopardy level = income level at which welfare recipient is ineligible for further benefits.

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2. Of the \$159.4 million in Medicaid-related cost avoidance claimed for all child support cases that left and stayed off the AFDC rolls for 12 months, \$111.7 million is not supported by child support payments. Thus, the cost avoidance claimed should be reduced to \$47.7 million. Moreover, analysis of Medicaid cost avoidance should be based on Medicaid case data, not on AFDC case data, as is current practice.
3. It is reasonable to claim \$53.7 million in cost avoidance for child support cases that left the AFDC rolls even though child support collections were below the grant jeopardy level, i.e., that level of income which, once achieved, makes a welfare recipient ineligible for further benefits. Since collections occurred in these cases, cost avoidance may be claimed, particularly since these cases may have stayed on AFDC without such child support payments.
4. It is reasonable to claim \$25.3 million in Medicaid-related cost avoidance for those cases in which the health insurance costs of Medicaid-eligible children are covered by the non-custodial parent. In such cases, the "child support payment" comes via the non-custodial parent's payment of the health insurance costs of children whose medical costs the State would otherwise bear.
5. It is reasonable to claim \$4.4 million in AFDC-related cost avoidance from cases that are recovering AFDC costs from prior periods since payments are actually made in such cases. It is also reasonable to claim \$9.9 million in Medicaid-related cost avoidance from cases which go off AFDC but which subsequently submit payments owing to Office of the Attorney General legal action.
6. In non-paying cases leaving the welfare rolls due to OAG action, the Office of the Attorney General reasonably claims a \$29.9 million AFDC-related cost avoidance when custodial parents are ejected from the AFDC rolls for failure to meet the requirement to cooperate with the Office of the Attorney General in establishing paternity and/or pursuing collections of child support due. The OAG also reasonably claims a \$14.3 million Medicaid-related cost avoidance arising from such cases of non-cooperation. The Office of the Attorney General notifies the Department of Human Services (DHS) when non-cooperation occurs, and DHS can then take action to drop the case from the welfare rolls, thus avoiding the cost of providing benefits to an otherwise eligible family.

During the course of the audit, the OAG sought to enhance the criteria it might use to assess these and other cases as candidates for cost avoidance. The further resolution of such issues will provide a more accurate future estimate of cost avoidance.

Recommendation:

Among the strategies the Office of the Attorney General might consider to refine its cost avoidance estimate are:

- Continue researching and developing criteria for determining when it is reasonable and appropriate to include in cost avoidance calculations those welfare cases in which child support payments are not made. It may be necessary to discuss these criteria with both subject matter experts and key stakeholders to reach consensus on both their legitimacy and usefulness in estimating cost avoidance. Once these criteria are formalized, they

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should be integrated into the computer programs and analytical techniques used to determine and report cost avoidance. Care should be taken that these criteria define mutually exclusive types of cases to avoid duplicate counting of cost avoidance.

- Report aggregate cost avoidance as a range of dollars. The lower limit would involve only welfare cases in which child support payments are made. The upper limit of this range would factor in welfare cases in which child support payments are not made.
- Clearly state all criteria and related assumptions used when reporting a given partial cost avoidance, preferably immediately adjacent to or as a footnote to the number as it is reported. In addition to explaining how and why a given number is included, separately report each partial cost avoidance in terms of both payment status and welfare program, i.e. paying AFDC cases, non-paying AFDC cases, paying Medicaid cases, non-paying Medicaid cases, and so on.
- Base analysis of Medicaid cost avoidance on Medicaid case data, rather than on the proxy information yielded by AFDC case data.

Section 1-B:

Expand the Scope of the Methodology to Accrue Cost Avoidance in Other Areas

The present methodology does not explore cost avoidance arising from changes in a Food Stamp recipient's eligibility status or benefit level. Since Food Stamps were a \$2.3 billion dollar program during the reporting period, significant cost avoidance might lie within this program. Based on data from a national study

of cost avoidance conducted by Advanced Sciences Incorporated and SRA Technologies, the audit team determined that, depending on the method used, the Office of the Attorney General's Food Stamps cost avoidance might have ranged between \$112.6 and \$133.6 million, had such analysis been performed.

The Office of the Attorney General also did not consider possible cost avoidance arising from paying cases not on AFDC, though such persons would be eligible for public assistance were their child support payments hypothetically taken away. This resulted in an underestimation of cost avoidance of approximately \$37.4 million.

It also appears that consideration of changes in recipients' actual use of Medicaid services was omitted from the model and that Medicaid calculations are based only on the Medicaid premiums paid. Factoring in Medicaid use may require looking for cost avoidance in such areas as the Vendor Drug Program, EPSDT-Comprehensive Care Program, Cost Reimbursed Services Program, and Medical Transportation Program, among others. The AFDC Employment Services Program also appears to have been overlooked. Given the \$1.8 billion size of these programs, some level of cost avoidance may reside in these areas.

Relatedly, the Office of the Attorney General did not consider possible cost avoidance from other welfare programs in which child support recipients might reasonably participate. Among these programs are the Women, Infants, and Children's Supplemental Nutrition Program (WIC), Child Care Assistance Program, and Foster Care Program. Limitations on both time and data availability constrained our ability to estimate possible cost avoidance in these programs.

Additionally, the Office of the Attorney General only claimed cost avoidance from paying child support cases which were off

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AFDC for a period of 6 to 12 months. No cost avoidance was claimed for such cases off AFDC for between one and six months. This resulted in an underestimation of cost avoidance of approximately \$850,000.

Recommendation:

At the minimum, the Office of the Attorney General should explore cost avoidance in the Food Stamps program, given its characteristic inclusion in other studies of cost avoidance. Then, in the longer term, the OAG needs to expand its current methodology to explore and report cost avoidance within the full range of public assistance programs in which child support recipients might reasonably participate. While this would require both a full assessment of the welfare participation of the individuals associated with each child support case and a complete inventory of public assistance available to such persons, these explorations may prove beneficial, particularly since billions of dollars are appropriated for the programs presently overlooked. In so doing, care should be taken separately to track and report cost avoidance from changes in each of eligibility, service use, and benefit levels for individual participants in all public assistance programs analyzed. It may also be appropriate separately to track and report cost avoidance on the following three types of cases in each public assistance program assessed:

- paying cases, with child support collections less than the applicable grant jeopardy level, which left a given welfare program during the reporting period
- paying cases, with child support collections greater than the applicable grant jeopardy level, which left a given welfare program during the reporting period

- paying cases which left a given welfare program in prior reporting periods, subject to the case aging criteria developed under the recommendations in Section 1-C of this report.

A more complete analysis, which includes the factors noted above, would likely exceed the cost avoidance disallowed in this report.

Section 1-C:

Address Factors Which Might Cause Overestimation of Welfare Cost Avoidance

The Office of the Attorney General claims \$105.2 million in cost avoidance arising from paying child support cases that went off AFDC in prior years. While child support payments did occur, it may be unreasonable to claim cost avoidance for all such cases for the entire period between the time the case left the welfare rolls and the time when the children for whose benefit child support payments are made reach age 18. At some point, receipt of child support may cease to be the reason a former welfare recipient stays off welfare.

Thus, criteria for the time period over which such cases are aged are needed. Unfortunately, the literature reviewed during the audit was unclear about such criteria. A Massachusetts study of this issue, known as the "labor supply response," suggests that child support ceases to be a factor in the welfare-work trade-off decision after 2.8 years. However, this criterion may not apply to Texas since Massachusetts' AFDC grant is substantially higher than Texas' AFDC grant. Until some criteria for aging are established, no grounds exist to challenge the Office of the Attorney General's estimated cost avoidance.

Also, in calculating the \$159.4 million Medicaid-related cost avoidance, the OAG assumed that the average case stays off

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Medicaid for six months during the year. However, in some cases, child support cases leaving the AFDC rolls are eligible for Medicaid benefits for up to one year. Thus, the assumption of six months may overestimate cost avoidance.

Finally, better information on precisely why a given case leaves the welfare rolls would further enable the OAG to control overestimation of cost avoidance. Ideally, a form already used by the Department of Human Services (DHS) to code why cases leave AFDC could gather this information. However, this form does not reliably track the extent to which the presence or absence of child support causes going off AFDC, and the use of this form is presently out of the Office of the Attorney General's control. The OAG has taken initial steps to better coordinate the use of this form with DHS, but more work is needed to enhance it as a source of data for the Office of the Attorney General's use.

Recommendation:

The Office of the Attorney General should establish reasonable criteria for the aging period beyond which cost avoidance ceases to be claimed. While this may be difficult, possibilities for consideration include:

- Use the (moving) average length of time a typical Texas welfare recipient remains on a given welfare program.
- Determine the length of time past which receipt of child support ceases to be the driving force in the welfare-work trade-off decision in Texas, i.e., study the labor supply response in Texas.
- Adopt a criterion time frame for aging cases from another state whose welfare and/or child support payment benefits closely resemble those in Texas.

- Report only on child support cases leaving the welfare rolls during a given fiscal year, a method which avoids the need to age cases at all.
- Report cost avoidance both with and without aging of cases.
- Analyze and report on cases aged over a range of time periods, the lower limit of which examines only those child support cases leaving the welfare rolls during a given fiscal year.

Regardless of the method chosen, the OAG should establish these criteria in conjunction with appropriate subject matter experts and key stakeholders. The criteria and related assumptions used should also be clearly stated in future reports. It may be necessary to establish separate criteria for aging child support cases in each welfare program for which cost avoidance is reported. Also, the Office of the Attorney General should base analysis of Medicaid-related cost avoidance on the actual number of months each Medicaid recipient continues to receive transitional or extended benefits.

Finally, the OAG should continue coordinating activity with DHS to improve the reliability of the data from the form used to track reasons why cases go off AFDC. Such information should be used when assessing individual cases as candidates for cost avoidance.

Section 1-D:

Additional Refinements Could Enhance the Precision and Usefulness of Future Reports

Before undertaking extensive revision of its cost avoidance methodology, the Office of the Attorney General should interact with key stakeholders to further clarify both the purpose

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and use of the information contained in the report. While numerous techniques could make future cost avoidance estimates more precise, selection of which techniques to actually use should be based on knowing which information key stakeholders deem most important.

Recommendations:

Other more specific suggestions for enhancing the Office of the Attorney General's ability to accurately report cost avoidance include:

- Describe the methodology used to derive each number in more detail in future reports. Since the methodology is already being documented, it may be possible to summarize it in an appendix to subsequent versions of the document. More detailed methodological information might reduce the number of questions arising in the minds of report users.
- Consider having the Office of the Attorney General's Internal Audit Division periodically audit both the methodology and results of future reports.
- Use data from individual cases, rather than averages, to calculate cost avoidance. Computer programs and analysis methods should be adjusted to gather and process such individual case data.
- Existing methods report state and federal cost avoidance as a combined number. This complicates a stakeholder's determining the relative state and federal shares of cost avoidance in program areas funded by both entities. While reporting aggregate cost avoidance should continue, state and federal cost avoidance should be separately derived and reported. If possible, the Office of the Attorney General should report such relative shares

for each welfare program, i.e., state share of AFDC cost avoidance, federal share of AFDC cost avoidance, and so on.

- Since each tenth of a percent (.001) is equivalent to \$100,000, all calculations should be carried to at least three decimal places. This will avoid over/underestimation arising from too much rounding.
- Subtract the number of cases that went off AFDC with child support payments above the AFDC grant amount which had payments start during the reporting period before calculating cost avoidance from paying cases involving former AFDC cases. The OAG approximated the suggested method by deducting paying cases with child support orders established during the reporting period. This approach is not quite as precise as the one suggested.
- Ensure that samples used to analyze cost avoidance for a particular type of case are drawn from populations which exclude all other types of cases. In one instance, a sample was also a subset of the population from which another sample was drawn. Though the effect was not substantial, ensuring that samples are drawn from mutually exclusive populations will avoid duplicate counting of cost avoidance. The OAG should also report margins of error for all samples referenced in the report.

Section 2:

Future Reports Should Contain More Detail on Program Costs

Senate Bill 84 requires the Office of the Attorney General to report on both costs and benefits. However, the present report omits specific data on Child Support Enforcement

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(CSE) Program costs. While the OAG did report recouping \$66.2 million in child support collections for use in reimbursing federal costs and financing state child support efforts, no indication is made of the relative state and federal shares of this amount. Though these funds may technically not constitute cost avoidance, the State's share of this \$66.2 million is a benefit of the child support enforcement effort and, as such, does offset state government costs.

Recommendation:

The Office of the Attorney General should:

- Fully report on program costs in future versions of the report, including salaries, benefits, federal incentive payments, and other data as may reasonably be of interest to internal and external stakeholders.
- Where possible and appropriate, report on the relative state and federal shares of these costs.
- In all cases, before tracking and reporting a given cost or benefit measure, strive to come to consensus on its nature, legitimacy, and usefulness with both subject matter experts and interested key stakeholders.

Section 3:

Reasonable Controls Exist over Data Integrity

An understanding of the controls over data integrity was obtained by executing audit procedures. Based on this understanding, it appears that the Office of the Attorney General has good controls to protect the integrity of the data used to estimate cost avoidance. Prominent among these controls are:

1. Changes in AFDC case data, upon which analysis of welfare cost avoidance is based, are delivered into and matched with the Office of the Attorney General's records in an automated fashion.
2. SAS programs used to analyze welfare cost avoidance data are prototyped and tested to ensure they gather the necessary data elements.
3. The Office of the Attorney General's Program Monitoring Section monitors and tests the information entered into the Office of the Attorney General's Child Support System by sampling and field testing data accuracy.

While every item of data used in the cost avoidance calculations was not individually tested for accuracy, testing of the Office of the Attorney General's sample cases and related calculations was performed along with the extensive review of the methodology. This testing revealed no material inaccuracies in the data, their calculation, related percentages, or stated margins of error used by the Office of the Attorney General. In addition, tests done by the State Auditor's Office (SAO) during the 1995 Statewide Audit generally found no problems with the integrity of the data in the child support system used in welfare cost avoidance calculations.

Recommendation:

The Office of the Attorney General should continue regularly to monitor, test, and control data integrity. As the OAG expands its cost avoidance methodology to include other welfare programs, these activities will become increasingly vital to ensuring the accuracy of future estimates. These activities will also remain important as new components of the automated system are developed, evaluated, and deployed.

Appendices

Appendix 1:

Management's Response



**Office of the Attorney General
State of Texas**

DAN MORALES
ATTORNEY GENERAL

February 16, 1996

Ms. Kay Kotowski, CPA
Audit Manager
State Auditor's Office
Austin, Texas

Dear Ms. Kotowski:

Enclosed please find the Office of the Attorney General's management responses to the SAO report: *Attestation Audit of the OAG SB 84 Report (Final Draft Report)*. We appreciate your patience, and the time that you and your staff have taken to discuss the findings and recommendations with our staff. This is a complicated issue, and we believe that SAO's observations and suggestions can help us improve the process.

With respect to the exit conference, Deepak will act as our liaison and be responsible for scheduling and confirming a meeting with SAO representatives to discuss the audit. Our understanding is that the report is scheduled for release about the middle of March.

If you need further assistance or have any questions, please call Deepak.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gay Erwin".

Gay Erwin
Executive Assistant for Administration

cc: Jorge Vega, First Assistant Attorney General
Charlie Childress, Child Support Division Director

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Management's Response:

The Office of the Attorney General (OAG) appreciates the valuable recommendations, suggestions, and comments that the State Auditor's Office (SAO) made regarding improvements in the welfare cost avoidance methodology. The OAG agrees with the SAO on the need to improve and refine the process for estimating cost avoidance as discussed in the SAO report. Major points of agreement included the following:

- **Good-Faith First Effort.** The OAG agrees with the SAO's assessment of a good-faith first effort to estimate welfare cost avoidance. Furthermore, the OAG is pleased that its estimate of \$498 million in cost avoidance was within SAO's estimated range of \$480.7 - \$501.7 million. This range does not include cost savings of \$66.8 million from recoupments.

Auditor's Note: The \$480.7 - \$501.7 range noted immediately above includes \$171 million in cost avoidance which the OAG's methodology, as audited, did not include. Further, the \$66.8 million cost savings noted above includes some \$600,000 not reported in the OAG SB 84 report. Finally, attestation of cost savings was beyond the scope of the audit. The focus of the audit was cost avoidance.

- **Data Integrity Controls.** The OAG agrees with the SAO finding that reasonable controls exist over data integrity.
- **Refinements and Scope.** The OAG agrees with the SAO recommendation that this first effort can benefit from refinements and expansion of scope.
- **Confer with Stakeholders.** The OAG agrees with the overall conclusion that the OAG should confer with key stakeholders to better specify the information most

needed before expanding its cost avoidance estimation effort.

- **Enforcement Activities.** The OAG agrees that collections and actions taken against noncooperative clients should be considered in estimating cost avoidance.

The SAO's report captions are highlighted in bold and followed by OAG management response.

SAO Report Section 1-A:

Some Key Assumptions Underlying the Present Methodology Are Not Supportable and Need Closer Scrutiny

Management's Response:

(Cost Avoidance Range) The OAG agrees with the recommendation to report welfare cost avoidance as a range with lower and upper limits. The OAG's reported cost avoidance figure of \$498 million falls within the "range" (\$480.7 - \$501.7 million) reported by the SAO.

Auditor's Note: See the Auditor's Note above under "Good-Faith First Effort."

Refinement of Assumptions. The OAG agrees that some of the underlying assumptions in the current methodology need refinement. The current underlying assumptions for future reports will be amended to include cost avoidance estimates that consider other factors as discussed with the auditors. As part of its corrective action plan, the OAG agrees that criteria should be discussed with subject matter experts and key stakeholders.

Other Factors to Consider. The OAG would like to note that estimating cost avoidance is a

Appendices

complicated process for which little published guidance exists. In addition to collections and noncooperation, the OAG recognizes that there may be other cause factors that could influence cost avoidance estimates. These other cause factors will be evaluated for use in the methodology of future reports after there has been further research and discussion with key stakeholders and subject matter experts.

SAO Report Section 1-B:

Expand the Scope of the Methodology to Accrue Cost Avoidance in Other Areas

Management's Response:

The OAG agrees that its current cost avoidance methodology needs to be expanded in scope to include the cost avoidance in other welfare programs such as Food Stamps and Medicaid service use programs. Depending on the stakeholder requests and information obtained from subject matter experts, the OAG may expand the scope of cost avoidance to include additional programs. It must be noted, however, that such expansions are contingent upon the receipt of required data and information from all the pertinent sources.

SAO Report Section 1-C:

Address Factors Which Might Cause Overestimation of Welfare Cost Avoidance

Management's Response:

As part of its corrective action plan, the OAG agrees to discuss cost avoidance criteria with subject matter experts and key stakeholders to reach consensus on their legitimacy and usefulness in estimating cost avoidance. The current underlying assumptions for estimating Medicaid cost avoidance in future reports will

be amended to use information obtained from actual Medicaid case history files.

SAO Report Section 1-D:

Additional Refinements Could Enhance the Precision and Usefulness of Future Reports

Management's Response:

Underlying assumptions for future reports will be amended to include SAO's other suggestions for enhancing the OAG's ability to accurately report cost avoidance.

SAO Report Section 2:

Future Reports Should Contain More Detail on Program Costs

Management's Response:

Future reports will be amended to include the Child Support Division's program operations costs. Please note the attached spreadsheet which summarizes program costs, program savings, and costs avoided (AFDC, Medicaid, and Food Stamps.) (See also Auditor's Note below.)

SAO Report Section 3:

Reasonable Controls Exist over Data Integrity

Management's Response:

As the methodology and its scope are refined and expanded, the OAG will continue to monitor, test, and control data integrity.

Auditor's Note: The table on page 13 is part of Office of the Attorney General's Management's Response. Please note:

Appendices

1. Figures on "Program Costs" and "Program Savings" were not audited. Their publication here does not constitute attestation pursuant to this audit report.
2. The \$598,597 in Medicaid Recoupments in the "ProgramSavings" box was not included in the OAG SB 84 report.
3. The \$480.7 - \$501.7 range on the next-to-last line includes \$171 million in cost avoidance which the OAG's methodology, as audited, did not include.
4. Figures on the bottom line include both cost savings and cost avoidance.

Appendices

Child Support Program Costs, Cost Savings, and Cost Avoidance: FY 1994

Please see the Auditor's Note which begins at the bottom of page 11.

PROGRAM COSTS	\$115,588,883
Source: Office of the Attorney General, Final FY 95 Financial Report, 12/2/95, p. 1, line 34.	

PROGRAM SAVINGS	\$ 66,772,556
AFDC Collections	\$ 91,355,726
On Behalf of Other States	(\$ 15,781,767)
Disregard Payments	(\$ 9,400,000)
AFDC Recoupment	\$ 66,173,959
Medicaid Recoupments	\$ 598,597

AFDC COST AVOIDANCE	\$270,900,000
Cases Leaving AFDC in 1994:	
Collections Above Grant Jeopardy	\$ 40,300,000
Collections Below Grant Jeopardy	\$ 53,700,000
Collections for Recovery Only Cases	\$ 4,400,000
Non-Cooperation	\$ 29,900,000
Cases Closed While on AFDC in 1994:	
Non-Cooperation (Research Ongoing)	
Former AFDC Recipients:	
Collections	\$ 105,200,000
Non-AFDC Cases (Never on AFDC):	
Collections	\$ 37,400,000

MEDICAID COST AVOIDANCE	\$ 97,200,000
Cases Leaving AFDC in 1994:	
Collections	\$ 47,700,000
Legal Actions/Subsequent Collections	\$ 9,900,000
Closed Non-Cooperation	\$ 14,300,000
Third Party Coverage	\$ 25,300,000

FOOD STAMP COST AVOIDANCE	\$112,600,000 to \$133,600,000
Cases Leaving AFDC in 1994:	
Proxy for Food Stamps	\$112,600,000 to \$133,600,000

TOTAL COST AVOIDANCE	\$480,700,000 to \$501,700,000
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GRAND TOTAL SAVINGS AND COST AVOIDANCE	\$547,472,556 to \$568,472,556
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Appendices

Appendix 2:

Objectives, Scope, Methodology, and Other Information

Objectives

Our audit objectives were twofold. The first objective was to assess the reasonableness of the methodology used to determine the welfare cost avoidance due to child support enforcement during fiscal year 1994 as reported by the Office of the Attorney General on March 1, 1995. The second objective was to determine the accuracy and the integrity of the data used by the OAG in arriving at an estimate of welfare cost avoidance.

Scope

The scope of this audit included consideration of both the soundness of the methodology used by the OAG's Child Support Enforcement Division to calculate the reported welfare cost avoidance and the integrity of the data used in estimating such welfare cost avoidance.

Consideration of the Child Support Enforcement Division's methodology included a review of:

- documents used to codify the methodology and report welfare cost avoidance
- processes used to gather data on and estimate welfare cost avoidance
- assumptions underlying cost avoidance calculations

Consideration of the integrity of the data used in estimating welfare cost avoidance included a review of:

- the reasonableness of processes used to ensure that data are properly entered into automated systems, transferred between system components, and assessed for accuracy

- the precision of the data and reported margins of error
- the soundness of sampling techniques

Methodology

The audit methodology consisted of collecting and analyzing information, performing audit procedures and tests, and evaluating the results of such procedures and tests against established criteria.

Information was collected from the following sources:

- interviews with OAG staff, key stakeholders, subject matter experts, and other sources
- review of documents obtained from OAG staff, subject matter experts, and other sources
- analysis and testing of applicable statistical methods
- review and testing of control systems and case files
- analysis of factors associated with child support enforcement and public assistance programs

The following criteria were used to evaluate the cost avoidance methodology and the integrity of the data:

- Statutory requirements
- *State Auditor's Office Project Manual System*
- Other standards and criteria developed through secondary research sources both prior to and during fieldwork (see Reference List in Appendix 7).

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Other Information

Fieldwork was conducted from November 1995 through January 1996. The audit was conducted in accordance with applicable attestation standards. No significant instances of non-compliance with these standards occurred.

The audit work was performed by the following members of the State Auditor's Office staff:

- Bruce Truitt, MPAff (Project Manager)
- Phil Kirk, MBA
- Kay W. Kotowski, CPA (Audit Manager)
- Craig D. Kinton, CPA (Audit Director)

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Appendix 3:

Background and Key Financial and Management Information

Background

Senate Bill 84, passed in Regular Session by the 73rd Legislature in May 1993, requires that the Attorney General:

- report to the Legislature each biennium on the effectiveness of the Attorney General's child support enforcement activity in reducing the State's public assistance obligations
- develop a method for estimating the costs and benefits of the Child Support Enforcement Program and the effect of the program on appropriations for public assistance

Based on this mandate, the Attorney General issued a report on March 1, 1995, which

estimated a \$498 million welfare cost avoidance resulting from the agency's child support enforcement efforts during fiscal year 1994. The reported breakdown of the total was \$289.1 million in AFDC cost avoidance and \$208.9 million in Medicaid cost avoidance.

On October 4, 1995, the State Auditor's Office received a letter from the Senate Interim Committee on Juvenile Justice and Child Support requesting that the State Auditor perform a review of and attest to the accuracy of the Attorney General's reported cost avoidance. The scope of this review was subsequently expanded to include an assessment of the reasonableness of the methodology used to arrive at the reported cost avoidance.

Key Office of the Attorney General Financial and Management Information

Total Child Support Due -- FY 1994	\$777,391,979 ¹
Total Child Support Collected -- FY 1994	\$404,766,622 ¹
Percentage of Child Support Obligation Collected -- FY 1994	52% ¹
Child Support Enforcement Appropriations -- FY 1994	\$117,798,640 ²
Child Support Enforcement Cash Expenditures -- FY 1994	\$108,581,997 ³
Actual FTE's in Child Support Enforcement -- FY 1994	2432.4 ⁴
Child Support Enforcement Appropriations -- FY 1995	\$119,752,048 ²
Child Support Enforcement Cash Expenditures -- FY 1995	\$111,432,062 ⁵
Actual FTE's in Child Support Enforcement -- FY 1995	2367.6 ⁴
Child Support Enforcement Appropriations -- FY 1996	\$125,461,560 ⁶
Direct FTE's in Child Support Enforcement -- FY 1996	2411.5 ⁷

¹ Office of the Attorney General SB 84 Report, March 1, 1995, p. 12.

² General Appropriations Act, 73rd Legislature, Regular Session, May 23, 1993, p. I-35.

³ Budget Versus Expenditures for the Period Ending 1994, SAO CAATS, November 21, 1995.

⁴ Memo on Child Support Budget and Expenditure from Deepak Chawla, Director of Internal Audit, Office of the Attorney General, November 28, 1995.

⁵ Budget Versus Expenditures for the Period Ending 1995, SAO CAATS, November 21, 1995.

⁶ General Appropriations Act, 74th Legislature, Regular Session, May 23, 1995, p. I-6.

⁷ Memo on Appropriated FTE's for Child Support from Mike Kitley, Budget Office, Office of the Attorney General, January 30, 1996.

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Appendix 4:

Cost Avoidance Methodology

Estimating welfare cost avoidance and the costs, benefits, and effects arising from child support enforcement programs is a complex matter. Even a highly sophisticated estimation model can have margins of error of from 25 percent to 60 percent. While the possible factors one might include in such calculations are both numerous and varied, no standard methodology exists. Nonetheless, it is clear that the definitions and assumptions one uses have a great effect on the results of cost-avoidance calculations.

For the purposes of our report, cost avoidance is defined as "a situation in which public assistance benefits are either reduced or not paid as a result of the receipt of child support through the Attorney General's Child Support Enforcement Program." In general, cost avoidance arises when any of the following situations occurs:

- Public assistance program recipients are made ineligible for benefits because of the receipt of child support.
- Custodial parents, not on public assistance, who receive child support are made ineligible for benefits, though they would be categorically eligible if child support were terminated or significantly reduced.
- Actual savings in public assistance occur when an otherwise eligible individual decides not to apply for public assistance when the basis for such a decision is child support.

- Reductions in other forms of public assistance (i.e., Food Stamps and Medicaid) to both AFDC recipients and non-AFDC custodial parents occur as a result of child support payments.

While the elements of this definition address different segments of the population, they share one common feature - the receipt of child support payments.

Thus, in assessing and adjusting the Attorney General's reported welfare cost avoidance, this report assumes that cost avoidance generally occurs only in those cases in which child support payments are actually made. Without such child support payments, no revenue stream exists to offset welfare costs. Readers should note that this criterion typically produces conservative estimates of welfare cost avoidance. This conservative approach seems appropriate given this report's intention to arrive at an estimate of known cost avoidance.

Nonetheless, instances exist in which welfare cost avoidance might legitimately be claimed even though child support payments are not made, as with non-paying child support cases which leave the AFDC rolls for failure to cooperate with the OAG in establishing paternity or pursuing collections of child support due. This report includes cost avoidance associated with such non-cooperation.

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Appendix 5:

Summary of Reported and Adjusted Cost Avoidance

The table below describes each partial cost avoidance reported, assesses and adjusts each partial cost avoidance, and states the primary reason(s) for each adjustment.

CA = Cost Avoidance CS = Child Support	SUMMARY OF REPORTED AND ADJUSTED COST AVOIDANCE		
General Category and CA Reported	Partial Reported CA and Description	Assessment/Adjustment of Partial Reported CA	Cause for Adjustment
AFDC \$289.1 million	\$56.4 million CA from non-paying CS cases that closed and went off AFDC for reasons other than non-cooperation with the OAG (I-A.1)*	Overestimated Should be \$0. Some cases without CS collections <u>may</u> yield CA. Lack of clear criteria prevents reestimation.	No CS collections occurred to offset welfare costs.
	\$53.7 million CA from CS cases with collections below the grant jeopardy** level that went off AFDC (I-A.3)	Accurate	None
	\$4.4 million CA from paying CS cases recovering AFDC costs from prior years (I-A.5)	Accurate	None
	\$29.9 million CA from closed non-paying CS cases going off AFDC and referred to DHS for non-cooperation (I-A.6)	Accurate	None
	\$39.5 million from CS cases leaving AFDC with CS collections above the grant jeopardy level (I-B)	Underestimated. Should be \$40.3 million.	No CA was claimed from CS cases staying off AFDC from one to six months.
	\$105.2 million CA from paying CS cases that are former AFDC recipients (I-C)	May be overestimated. Lack of established criteria for aging cases prevents disallowing CA claimed.	At some point, CS can cease to be why one stays off AFDC.

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CA = Cost Avoidance CS = Child Support	SUMMARY OF REPORTED AND ADJUSTED COST AVOIDANCE		
General Category and CA Reported	Partial Reported CA and Description	Assessment/Adjustment of Partial Reported CA	Cause for Adjustment
Medicaid \$208.9 million	\$159.4 million CA from CS cases going off and staying off AFDC 12 months which neither showed later collections due to OAG legal action nor were referred to DHS for non-cooperation (I-A.2 and I-C)	Overestimated Should be \$47.7 million. Some cases without CS collections <u>may</u> yield CA. Lack of clear criteria prevents determining which such cases should count toward CA. <i>Note: Medicaid CA may also be underestimated since it includes only Medicaid premiums and omits Medicaid usage. See also "Other Programs" below.</i>	CS collections noted in only a portion of these cases. Also, Medicaid CA was a proxy based on AFDC status, not Medicaid status.
	\$25.3 million CA from third-party insurance coverage of otherwise Medicaid-eligible children (I-A.4)	Accurate	None
	\$9.9 million CA from cases going off AFDC with later collections due to OAG legal action (I-A.5)	Accurate	None
	\$14.3 million CA from closed non-paying CS cases going off AFDC and referred to DHS for non-cooperation (I-A.6)	Accurate	None
Food Stamps \$0	\$0 CA from CS collections reducing or eliminating Food Stamps benefits (I-B)	Not estimated by OAG. Should be \$112.6 million to \$133.6 million.	OAG did not estimate. Estimate is from analysis of other studies.
Non-AFDC Cases \$0	\$0 CA from paying CS cases not on AFDC (I-B)	Not estimated by OAG. Should be \$37.4 million.	OAG did not estimate. Estimate is from analysis of other studies.
Other Programs \$0	\$0 CA from reductions in Medicaid use or from reductions in welfare costs in other public assistance programs such as WIC, Child Care Assistance, Foster Care, etc. (I-B)	Probably underestimated, though OAG did not consider. Derivation of CA estimate was beyond the scope of the audit.	The OAG did not consider other welfare programs. Given their dollar size, some CA may exist, pending expansion of OAG's CA inquiry.
Adjusted CA		\$330.7 million	Per items noted above.
Estimated CA Including Food Stamps and Non-AFDC Cases		\$480.7 - \$501.7 million	Per items noted above.

* Items in parentheses indicate the report section where each partial cost avoidance is discussed.

** Grant jeopardy level = income level at which welfare recipient is ineligible for further benefits.

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Appendix 6:

Definitions of Key Terms

AFDC - Acronym for "Aid to Families with Dependent Children." The program which allows the State of Texas to award money grants to families in need of financial support due to absence or incapacity of one or both parents.

AFDC Case - A child support case in which the custodial parent receives AFDC payments from the State of Texas. This type of case is automatically referred to the Child Support Division of the Attorney General's Office by the Texas Department of Human Services.

Arrearage - The total unpaid child support obligation owed by the person responsible.

Custodial Parent - The parent with legal custody and with whom the child lives. This person may also be a relative or someone else designated by a court.

Earned Revenue - Income generated by the Child Support Division of the Attorney General's Office through recovery of AFDC expenditures and incentive payments (q.v. below) from the Federal Government. State law has permitted, since 1989, the reinvestment of this earned revenue into the Child Support Program.

Federal Financial Participation Rate (FFP) - The portion of the costs of a given program paid by the Federal Government. This rate can vary by program and according to whether the costs are for program benefits or for program administration.

Foster Care - Title IV-E of the Social Security Act mandates that states provide out-of-home placement for children removed from an AFDC recipient's household by Court Order. Federal regulations require that child support must be sought from the parent(s) of such children to partially offset the cost of

federal funds paid to the foster care facility for the child's maintenance and care.

IV-A - Title IV-A of the Social Security Act established the Aid to Families with Dependent Children (AFDC) Program. In Texas, the Department of Human Services is responsible for the administration of the AFDC Program and is the designated state IV-A agency.

IV-D - Title IV-D of the Social Security Act established a separate federal office for overseeing child support and required each state to develop a program for establishing and enforcing child support. In Texas, the Office of the Attorney General is responsible for the administration of the Child Support Enforcement Program and is the designated state IV-D agency.

The Attorney General's IV-D caseload is composed of two distinct groups, AFDC and non-AFDC cases. AFDC cases are families that are enrolled in the AFDC program and whose participation in the IV-D program is mandatory as long as the custodial parent continues to receive public assistance. AFDC parents assign their child support rights (less the first \$50 collected) to the state to offset welfare payments. In addition, the IV-D program assumes the costs associated with establishing a paternity and support order, as well as enforcement activities, for the AFDC cases. AFDC cases are referred to IV-D from the IV-A (AFDC) agency.

Grant Jeopardy Level - That level of income at which, once achieved, makes a current welfare recipient no longer eligible for program benefits.

Incentive Payments - These are federal payments to states to reward cost-effectiveness in AFDC and non-AFDC collections.

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Medicaid - The program under Title XIX of the Social Security Act which provides health coverage to the poor and disabled. In Texas, this program is administered by the Department of Health under the supervision of the Health and Human Services Commission, which is the designated Title XIX agency. Medicaid is federally-aided and state administered.

Medicaid Only Case - A child support case in which the custodial parent receives Medicaid benefits, but not AFDC payments. This type of case is automatically referred to the Office of the Attorney General, Child Support Division, to establish and enforce medical support. Child support services are also provided, unless the custodial parent gives written notice that he/she does not want such services.

Non-AFDC Case - A child support case in which the custodial parent does not receive AFDC payments from the State of Texas. Non-AFDC custodial parents either submitted an application for services, continued services after they stopped receiving AFDC, or were referred as Medicaid Only cases.

Program participation for non-AFDC families is, for the most part, voluntary (except in certain states where all divorce cases are required to enter into the IV-D program). Currently, non-AFDC parents may be required to pay a fee of up to \$25 to the state agency as compensation for enforcement services rendered. The State does not retain any collections made on behalf of the non-AFDC family. Non-AFDC families must file for IV-D services directly with the state agency.

Non-Custodial Parent - The parent who does not live with, or have custody of, the child(ren) and from whom the Office of the Attorney General collects child support.

OCSE - Acronym for the Office of Child Support Enforcement in the Administration for Children and Families, Department of Health and Human Services. This is the federal agency charged with oversight responsibility for the IV-D program.

Paternity Establishment - An action to legally determine the parentage of children born out of wedlock.

Appendices

Appendix 7:

Reference List

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