

**USE OF TECHNOLOGY  
TO IMPROVE PUBLIC BENEFIT PROGRAMS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON HUMAN RESOURCES  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED NINTH CONGRESS  
SECOND SESSION

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**WEDNESDAY, APRIL 5, 2006**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON HUMAN RESOURCES,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 3:04 p.m., in room B-318, Rayburn House Office Building, Hon. Wally Herger (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

## SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE  
March 29, 2006  
HR-7

CONTACT: (202) 225-1025

### **Herger Announces Hearing on the Use of Technology to Improve Public Benefit Programs**

Congressman Wally Herger (R-CA), Chairman, Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the use of technology to improve public benefit programs. **The hearing will take place on Wednesday, April 5, 2006, in room B-318 Rayburn House Office Building, beginning at 3:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include program administrators and other experts familiar with how technologies have been used to improve public benefit programs. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Subcommittee and possible inclusion in the printed record of the hearing.

#### **BACKGROUND:**

Recent improvements in technology can offer better service to individuals seeking a variety of public benefits.

Some technologies already have been applied widely. For example, electronic payments exceeded payments by paper checks for the first time in 2003. In its application in government programs, this increasing use of electronic payments has accelerated individuals' access to needed funds while creating billions of dollars in program savings for taxpayers and reducing fraud and abuse. Surveys suggest benefit recipients are 30 times less likely to experience a payment problem with electronic payments compared to paper checks, which is essential in programs that assist low-income individuals or those recently laid off from work.

Other technologies are still under development. Some States and agencies recently implemented more efficient application, identity verification, and service monitoring processes designed to provide better services to those in need. For example, pilot programs using child care "smart card" technology can better track services provided to children, making better use of existing resources. Other States are poised to make more extensive use of data matching to better ensure the provision of benefits to eligible individuals, and to more efficiently target additional services such as work supports to those who recently found a job.

In announcing the hearing, Chairman Herger stated, "Americans from all walks of life have experienced in recent years the benefits of new technologies in their homes and workplaces. These improvements have led to better, less expensive and more accessible services. Families and individuals in need of government assistance should benefit from the same revolutionary advances in getting the help they need. This hearing will explore how programs and agencies are using these new technologies to better serve beneficiaries and taxpayers alike. It also will provide an opportunity to review what can be done to further improve services, which is what the American people rightly expect."

**FOCUS OF THE HEARING:**

The hearing will focus on the use of technology to improve public benefit programs under the Subcommittee's jurisdiction.

**DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

**Please Note:** Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "109th Congress" from the menu entitled, "Hearing Archives" (<http://waysandmeans.house.gov/Hearings.asp?congress=17>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business Wednesday, April 19, 2006. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

**FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

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Chairman HERGER. Welcome. At today's hearing we will review ways technology can be used in public benefits programs to improve customer service, better prevent fraud and abuse, and even produce savings for taxpayers. This may seem like rocket science to some, but the advantages of using technology are both obvious and necessary for programs to work successfully. Consider how

people apply for welfare or other unemployment benefits. The old way involved going to and waiting your turn in a government office, providing information face to face to a caseworker who fills out a paper form, and then waiting to see if you qualified. This is time intensive and labor intensive for applicants and government workers. It is also expensive to administer and often frustrating to all involved. Despite those flaws, some States and programs still operate this way.

The new way involves encouraging individuals to apply for key benefits either over the phone or online. This is easier, faster, and more convenient for applicants. It is also cheaper, as several States will describe today, and it allows States to focus more resources on what people really need, like helping find a job, getting job training or referring individuals to substance abuse treatment. The new way also has other important benefits. Consider disaster preparedness. States and agencies that have moved to online application for and the electronic payment of benefits are able to serve more people better and faster under the very worst circumstances. As we saw following Hurricane Katrina and other storms, programs that maintained only paper files effectively lost recipients. Paper checks sat unopened in post offices or mailboxes, and coordinating benefits people needed was even harder than under normal circumstances.

Today we will explore what several States have done to improve their use of technology in these programs, and what more remains to be done. We will learn about how technology can improve service delivery at every stage of the benefit process, whether it is application, payment, or ensuring program integrity. We will learn how real people benefit along the way, which is the most important part. For instance, surveys suggest people who receive benefits the old way, by paper check, are 30 times more likely to encounter a payment problem than people who receive electronic payments. Checks get lost, damaged or stolen. Checks take days to arrive in the mail. Checks need to be signed, delivered and deposited. Checks cost programs more in the process and too many recipients need to pay fees just to get their check cashed.

It is no wonder States are increasingly turning to direct deposit or other electronic payments for welfare, unemployment, child support and other benefits. Recipients who get electronic payments are the biggest beneficiaries of this improved benefit delivery system. Today we will learn more about how we can use these and other improvements and technology to better serve all Americans. On a day-to-day basis and in times of disaster such as Hurricane Katrina, it turns out that it is smarter, cheaper, and faster than the old way, both for recipients and taxpayers alike. That is the kind of win-win solution we should be looking for across all public benefit programs. Mr. McDermott, would you care to make a statement?

Mr. MCDERMOTT. Thank you, Mr. Chairman. For too many Americans, we are the last line of defense. That is painfully true after the hurricanes which devastated the Gulf Coast last year. Thousands of hurricane victims were scattered by the winds to cities across the country, put in my city of Seattle, and no doubt, Mr. Chairman, to the communities in your own congressional district. It was estimated that we had about 5,000 people in Seattle from



New Orleans, and that is a long way from Louisiana. I recently held a town meeting in Seattle, where displaced Americans recounted their stories of their personal triumphs and public malfunction. I have to agree after touring the region—we went down with the Speaker and Nancy Pelosi, the Minority Leader—that during that trip we saw things that confirmed what I heard from people in Seattle.

Now, in New Orleans a member of the clergy told us their biggest fear was that they would drop off the front page of the newspaper, and drop off page ten, and drop off the paper all together. I went back and looked at my own Seattle newspaper, there was not a thing in there about Katrina of New Orleans or anything else. It is a real problem that the problems that we see as acute in event, become chronic and are soon forgotten by most of the country. One extraordinary public servant you will meet shortly, told me how she lived, not just afraid, but really terrified for weeks after the storm because hundreds of foster kids were missing and they had to find them one by one. It was going out looking for the sheep one at a time.

Maybe it is because I represent the city that is at the forefront of our technological transformation with Microsoft and all the rest of what goes on in Seattle, I firmly believe technology can have a profound and positive influence in our lives if used appropriately. I really welcome today's hearing to explore the role technology can play in how public benefit programs are implemented. We cannot forget for a second that we must translate the ones and zeros of computerese into the meaning of the needs of people especially children. This is not a theoretical discussion. If we learned anything from Katrina and Rita, it is that we need electronic lifelines and homing beacons to better protect foster and disadvantaged kids during and after natural disasters. We really need to build an electronic levee, if you will, around the vulnerable kids, and we need guidance and real-world experience to help us do it right, and that is why I am pleased to have someone here from the Gulf Coast, the head of Louisiana's State Child Welfare Program to join us today. Marketa Gautreau is someone who lived through the nightmare of locating hundreds of missing kids, and someone whose advice and counsel we should heed.

When we were in New Orleans, this is about a month ago the largest radio station was already doing the countdown to the beginning of the hurricane season again. We are talking 57 days and it starts all over again. Now, technology can undoubtedly help us track kids and better understand their backgrounds, but what comes next? Well, remember, it is about meeting the needs of vulnerable Americans in the wake of a crisis. We think of a hurricane, but an abuse event is the same kind of crisis in a family. We have critical questions that have to be answered. How can we help families get past the emotional trauma they experience during and after a disaster? How do we better support the children and families outside the child welfare system? What more should we be doing to ensure that children can be safely maintained in their own homes? How can we ensure the children, who must be placed in foster care, are safe and their needs met, and are reunited with

parents or are permanently placed with their loved ones on a timely basis?

Technology can help, but we need a dedicated and qualified workforce to determine the needs of every vulnerable child, and you got to do it one at a time. You can't do it in groups. When we know what needs to be done, we must act, especially if we have to remove a child from his or her parents. It is about action. That becomes more and more difficult for States as the Congress reduces its commitment to child welfare programs, to Medicaid and to the Social Services Block Grant (SSBG). Against that backdrop of congressional withdrawal, ordinary Americans stepped in to nurture vulnerable children as foster parents. They have opened their homes and hearts even as the Republican leadership in this Congress has closed their eyes and wallet, and you will see it in the budget that we pass this week. When I was in New Orleans I met foster parents who told me about the challenges they faced. The first storm was forecast in the Gulf. The second storm was not forecast out of Washington, D.C. Good, decent, ordinary Americans leaped in, but the Federal Government ducked out, and the burden is too great to be carried by the American people alone or by technology. Technology would not have fixed much of what went on down there.

To meet the needs of vulnerable children we need to recruit and retain foster parents and adoptive parents. We need the adequately fund services aimed to help vulnerable children and their families. We are not adequately doing any of those things now, in my opinion. I look forward to hearing more about that technology can meet our responsibility to kids, but ones and zeros will never replace hearts and minds. As we know in Seattle, and lots of other American citizens know, the Gulf Coast is certainly not the only place where a natural disaster can and will strike. In Seattle we are waiting for the big one, the big shaker. We had a shaker on the 26th of October 2001. It was an 8.6, and we know that we will have one. I am looking at this not as something in other places, but what affects my area. Mr. Chairman, you also live on the West Coast so you know about shakers too. I look forward to hearing the testimony of the witnesses. Thank you.

Chairman HERGER. Thank you, Mr. McDermott. Before we move on to our testimony today I want to remind our witnesses to limit their oral statements to 5 minutes. However, without objection, all the written testimony will be made a part of the permanent record. We have one panel today, and our witnesses who are seated at the table. To introduce our first witness, the gentleman from Texas, Mr. Johnson.

Mr. JOHNSON OF TEXAS. Thank you, Mr. Chairman. I appreciate that. Diane Rath, Chairwoman of the Texas Workforce Commission (TWC), we are glad to have you here today. She has overseen implementation of welfare reforms, and the rolls have decreased 71 percent since 1996. She understands the importance of local involvement. Most of her budget is in control of the local workforce boards, who know the needs of their neighbors. In the wake of Katrina, she has been working to get evacuees from Louisiana trained and back into the workforce. We have done our best here in Congress to make sure Texas is able to continue to offer

those services as long as they are necessary. I will tell you what, her staff reflects the kind of leader a person is, and I have heard nothing but great things about your staff here in Washington. Thank you for being here. We are glad to hear you testify. Thank you, Mr. Chairman, for allowing me to make the introduction.

Chairman HERGER. You are welcome. Thank you. The gentleman from Louisiana, Mr. McCrery, to introduce one of our witnesses.

Mr. MCCRERY. Thank you, Mr. Chairman. We are also delighted to have with us today, Ms. Marketa Gautreau from Baton Rouge, the Assistant Secretary of Community Services, Louisiana Department of Social Services. I think, as my colleague from Washington pointed out, this is a timely hearing based on the experience we have had on the Gulf Coast with, frankly, having a lack of technology to assist us in the aftermath. The State of Louisiana, along with others, had a difficult time, to say the least, putting back together all of our records, locating children and so forth. This is in fact a timely hearing.

I think, Ms. Gautreau would join me though in thanking Dr. McDermott, Chairman Herger, the Congress, not the Republican Congress, but the Congress, because Democrats and Republicans worked together to try to get immediate aid in the form of unemployment compensation, money. Louisiana got about \$400 million quickly there to bolster our fund, getting about \$220 million for social services. Those kinds of quick responses that we join together here in the Congress to provide, were, I think, indispensable to my State, Ms. Gautreau's State, just really surviving in those first few months following Katrina. I want to thank Dr. McDermott for going with us down to Louisiana, and for his efforts to really get into the nitty-gritty details of what the needs are, and for offering very constructive suggestions, really, since September 1st, on ways to help. It is very much appreciated. This Congress, and this Committee particularly, the staff on both sides of the aisle, Democrat and Republican, responded admirably to my call for help and others' calls for help. Ms. Gautreau, welcome, and we are delighted to have you and looking forward to your testimony.

Chairman HERGER. I thank the gentleman from Louisiana. We would also like to welcome Mr. Don Winstead, Deputy Secretary of the Florida Department of Children and Families (DCF), from Tallahassee, Florida; Ms. Lisa Henley, Project Director of the Oklahoma EBT Project for the Oklahoma Department of Human Services, from Oklahoma City, Oklahoma; and Mr. Dennis Fecci, Former Chief Information Officer for the New York City Human Resources Administration, from New York, New York. With that, the gentleman from Louisiana, to inquire. Excuse me.

[Laughter.]

Ms. Rath to testify, please.

**STATEMENT OF DIANE RATH, CHAIR AND COMMISSIONER  
REPRESENTING THE PUBLIC, TEXAS WORKFORCE COMMISSION,  
AUSTIN, TEXAS**

Ms. RATH. Thank you. Good afternoon, Mr. Chairman, Members of the Committee, and thank you for that introduction, Mr. Johnson. I appreciate it. I am Diane Rath, and I am Chair and Commis-

sioner of TWC, and we appreciate being invited to share the experience of Texas in using technology to more efficiently serve our residents. We no longer have unemployment offices in Texas. In 1998 we established Tele-Centers that allow Texans to file unemployment claims and to file for payments online or over the telephone. We also created a comprehensive online capability for our unemployment insurance program. Claimants and employers can complete all their business with TWC online if they so choose. 90 percent of our users now access our service without having to go to an office or stand in line.

One of the Commission's most valuable tools is the Workforce Information System of Texas (TWIST). The TWIST is a centralized point of intake, case management, service delivery and reporting for our employment and training programs. In addition to the advantage of integrated case management, it eliminates duplication in enrollment. Folks only have to give us information one time, and it provides real-time access to information. Any time we need to check enrollment figures for a particular program, workforce board, or individual, we can do so without any time lag. The linchpin of our employment services program is our award-winning WorkInTexas.com, a real-time website designed to match employers of all sizes and all industries, at no charge, with qualified job candidates, and we have separate sections for both employers and job seekers. WorkInTexas is fully integrated with our TWIST, so that participants in various employment and training programs are automatically registered. All unemployment claimants are required to register and make a minimum of three work searches per week. Since its debut almost 2 years ago, more than 147,000 employers—that is about one out of three employers in Texas—have used WorkInTexas.com. More than 415,000 people have found jobs using WorkInTexas.

Our agency's total capabilities were tested like never before last fall with Hurricanes Katrina and Rita. No matter how you plan, nothing can prepare you for nearly a million people to cross over your State line with no advance notice and no timeline for returning home. Almost half a million have remained in Texas. Our resources and manpower have been challenged, but we have been able to provide employment and support services to tens of thousands of our neighbors who had nowhere else to turn, and we were able to do that only because of our commitment to technology and our ability to adapt. The TWC immediately stepped forward to spearhead a multi-State effort to process a massive of Louisiana unemployment claims. We created a separate toll free number for Louisiana callers that went into our Texas Unemployment Insurance (UI) Tele-Centers, and then were either handled by our representatives or routed to other States that had volunteered to help. Our use of technology allowed us to reroute those calls to other States in a way that was seamless. The caller didn't know if they were speaking to someone from Rhode Island or Washington unless they picked up on the accents.

The hotline we established received more than 2.6 million calls, of which Texas employees handled nearly half. We also helped Louisiana develop an Internet application for both regular and disaster UI, used by their residents or our staff. To date, Texas has

processed nearly 68,000 unemployment claims for Louisiana. On the workforce side, our local workforce boards established temporary workforce shelter centers at the major hurricane shelters. These centers allowed evacuees to file for unemployment, to receive job counseling, conduct a job search, prepare a resume, meet with employers, and attend job fairs on site. Each center had computers available, and we encouraged job seekers to use WorkInTexas to identify opportunities for employment. Our local boards also deployed mobile workforce units, each equipped with computers and satellite Internet access.

We adapted WorkInTexas to allow Louisiana job seekers to indicate their evacuee status, and allow employers to indicate a preference to hire Katrina evacuees. We partnered with the Louisiana Association of Business and Industry on an initiative to recruit workers to fill their members' critical labor shortage. Now we have Louisiana employers and Louisiana job seekers looking for and finding each other on WorkInTexas.com. We have also created a separate tracking system for these Louisiana job matches. Technology has helped us integrate our various programs and provide a more comprehensive and coherent approach to helping people find work. Service integration had kept Texas on a leading edge of workforce service delivery, and we believe that other States can achieve similar results if they are willing to abandon their old models and embrace technology and service integration. More details about our initiatives are found in the written testimony, and I appreciate the chance to share our story and look forward to your questions.

[The prepared statement of Ms. Rath follows:]

**Statement of Diane Rath, Chair and Commissioner Representing the Public, Texas Workforce Commission, Austin, Texas**

Chairman Herger, Ranking Member McDermott and members, good afternoon. My name is Diane Rath, and I am the Chair and Commissioner Representing the Public for the Texas Workforce Commission. Thank you for inviting me to share with you how TWC is creatively using technology to provide high-quality services to Texans.

By way of background, the Texas Workforce Commission celebrated its 10<sup>th</sup> anniversary last month. Prior to 1995, the state's 28 employment and training programs were spread across 10 different state agencies, but then-Governor George W. Bush believed that Texans would be better served by bringing all the traditional labor programs—payday, UI, etc.—all employment services—including TANF, Food Stamp, Wagner-Peyser, and state funded—and child care under a single umbrella. The Commission was created as that umbrella, and we were additionally charged with developing a new model for integrated delivery of those services. We have now block-granted nine of those programs—representing \$800 million of our total budget of \$1.1 billion—to our network of 28 Local Workforce Development Boards.

First of all, we no longer have local unemployment offices in Texas. In 1998, TWC established "Tele-Centers" that allow Texans to file unemployment claims and request payments over the telephone. In 2002, we also created a comprehensive online capability for our UI program. Not only can claimants file their claims online, but employers can also create new tax accounts, file their tax reports, respond to separation requests, and report unemployment fraud online. Instead of having to drive across town or to a different county to wait in line at an unemployment office, claimants and employers can transact their business with us from their homes or offices.

We have two major initiatives that will make extensive use of technology to improve our unemployment program. First, we are transitioning from paper checks to direct deposit and debit cards for unemployment benefits. The Lone Star Card, Texas' debit card for social service benefits, has been accepted by the public and reduced both administrative costs and fraud associated with delivering benefits. We

have also started work towards a complete integration of our Unemployment Insurance and Employment Services programs.

One of the Texas Workforce Commission's most valuable tools is TWIST, The Workforce Information System of Texas. TWIST is a centralized point of intake, case management, service delivery, and reporting for six of our largest employment and training programs. Besides the obvious advantage of integrated case management, this system helps us in three critical ways. First, it eliminates duplication in enrollment. If someone enrolls in one of our programs and then wants to enroll in others, they only have to provide us the information the first time. Second, it creates economies of scale. Third, it provides us with real-time access to performance data. Any time we want to check enrollment figures for a particular program, workforce board, or individual, we can do so without any time lag in the data.

The linchpin of our Employment Services program is WorkInTexas.com, a real-time web site designed to match employers of all sizes and industries with qualified job candidates. We have separate sections for employer and job seeker resources, and because it is on the Internet, it is available 24 hours a day, 7 days a week, 365 days a year.

WorkInTexas.com takes a unique approach as a recruitment and employment resource. The job posting format allows employers to match on multiple combinations of occupation experience and education, view detailed comparisons of each job seeker to their job's requirements, and create customized screening questions to obtain specific information from interested job seekers. Employers can set up multiple accounts for different hiring groups within their organization, manage their account and its users, and manage their job postings. Even without posting a job, they can test the workforce and training available in potential new job sites, or perform keyword searches to find specific skills.

Job seekers can create multiple matching combinations for different location and pay preferences, use a wizard to create a professional resume, view detailed comparisons of their qualifications to each job posting, and email job postings to their friends. Job seekers interested in career planning can link to a skills-assessment test, research the suggested occupations and available training, and select occupations to add to their matching profile in WorkInTexas.com.

WorkInTexas.com is fully integrated with TWIST so that the participants in our various employment and training programs are automatically registered for WorkInTexas.com. All unemployment claimants are required to register with WorkInTexas.com and make a minimum of three work searches per week.

Since its debut not quite two years ago, more than 147,000 employers—roughly one-third of the state's total—have registered on WorkInTexas.com. These employers have access to nearly 4.2 million job seekers. More than 410,000 people have been hired through the site—about one-third of these people had been receiving unemployment at the time of their hiring. WorkInTexas.com was selected by Harvard University's Ash Institute as one of the "Top 50 Government Innovations for 2006," and took first place for the Government-to-Business category in the 2004 Digital Government Achievement Awards, a national award program recognizing outstanding government Web sites and services.

Our agency's total capabilities were tested last fall like never before by Hurricanes Katrina and Rita. No matter how many worst-case scenarios you plan, nothing can prepare you for having nearly a million people cross over your state line with no advance notice, and no timetable for returning home. Almost half a million have remained in Texas. Our resources and manpower were challenged, but we have been able to provide employment and support services to tens of thousands of our neighbors who had nowhere else to turn. And we were able to do that only because of our commitment to technology and our ability to adapt it to situations for which we could not possibly prepare.

Immediately after the storm, TWC stepped forward to spearhead a multi-state effort to process the massive number of Louisiana unemployment claims. We created a separate toll-free number for Louisiana callers that went into our UI Tele-Centers, and then were either handled by our Texas claims representatives or routed to other states that had volunteered to process claims. Our use of Voice Over Internet Protocol (or VoIP) in the Tele-Centers allowed us to route those calls to other states in a way that was seamless to the client. The caller didn't know they were speaking to someone from Rhode Island or Montana unless they picked up on the accents. The hotline we established received more than 2.6 million calls, of which Texas Tele-Center employees handled nearly half. We also helped Louisiana develop an Internet application for both regular and disaster unemployment that either their residents could fill out online or that our claims takers could do in our Tele-Centers. To date, Texas has processed nearly 68,000 unemployment claims for Louisiana.

On the workforce side, our local Workforce Boards established temporary workforce centers at the major hurricane shelters. These centers allowed evacuees to file for unemployment, receive career and professional counseling, conduct a job search, prepare a resumé, and meet with prospective employers. Each of these centers had computers available, and we encouraged the job seekers to use WorkInTexas.com to identify opportunities for temporary and permanent employment. We also established voice mailboxes to which evacuees could call in and receive personalized job referrals. Our local boards also deployed five mobile workforce units—each equipped with computers and satellite Internet access—to assist with overflow at the larger centers and to provide services in communities with smaller shelter operations. These mobile units later served as temporary replacements for the Southeast Texas one-stop centers that were badly damaged by Hurricane Rita.

We adapted WorkInTexas.com to allow Louisiana job seekers to indicate their evacuee status and to allow employers to indicate a preference to hire Katrina evacuees. And as the number of Louisiana residents registered on WorkInTexas.com surpassed 30,000, we partnered with the Louisiana Association of Business & Industry on an initiative to recruit workers to fill their members' critical labor shortages. Now we have Louisiana employers and Louisiana job seekers looking for and finding each other on WorkInTexas.com. We have also created a separate tracking system for these Louisiana job matches.

At the Texas Workforce Commission, we have made the cultural shift and are steadfast believers in the power of technology to improve the quality of services we deliver Texans. The main lesson from our experience is that technology must be central to program design. Technology not only makes programs run more efficiently, but it allows for easier scalability—you can expand or shrink capacity based on demand with relatively limited costs. Related to that is the importance of VoIP. We gave the example for the Katrina calls, but when Hurricane Rita looked like it was headed for the southern tip of Texas, we had to make contingency plans to close our McAllen Tele-Center. In the old days, that would have presented a major disruption to our network, but with VoIP, we can instantly route the calls to our other five centers and continue with barely a hitch.

Our agency has switched from a personal-service model (where you have to go to a person to get help) to a self-service model (where you can help yourself but also have the option to talk to someone if you need to). In the unemployment program, employers and job seekers can complete *all* their business electronically, *if they choose*. But if they want personal service, the staff in our workforce centers is available to assist them. More than 90 percent of our users are now accessing our services without having to go to a local office or stand in line. This maximizes our staff resources and allows us to invest less in bricks, mortar, and overhead, which, in turn, makes more of our limited resources available for direct services.

Technology has helped us to integrate our various programs and provide a more comprehensive and coherent approach to helping people find work. Service integration has kept Texas on the leading edge of the workforce service delivery, and we believe that other states can achieve similar results if they are willing to abandon their old models and embrace technology and service integration.

The last item I want to share with you is our recent rollout of the first online version of the Transition Assistance Program, which provides job-search assistance, employment services, labor market information and other forms of assistance to separating service members and their spouses during their transition into civilian life. Traditionally, this has been offered in the form of 2- to 3-day seminars, which we operate at 13 sites in conjunction with the U.S. Department of Defense. But TWC has now taken that material and developed a six-chapter, self-directed course that any service member or spouse can access at any time, from any computer, anywhere in the world. The eTAP program has already become extremely popular with service members, and is particularly important for the returning Reserves and National Guard.

I appreciate the chance to share our story with you today, and I will look forward to answering any questions you might have.

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Chairman HERGER. Thank you very much, Ms. Rath, and we certainly appreciate the job you did in being so helpful during this tragic time we had. Now, Ms. Gautreau.

**STATEMENT OF MARKETTA GARNER GAUTREAU, ASSISTANT  
SECRETARY OF COMMUNITY SERVICES, LOUISIANA DEPART-  
MENT OF SOCIAL SERVICES, BATON ROUGE, LOUISIANA**

Ms. GAUTREAU. Thank you, Mr. Chairman, and Members, and thank you, Texas. I do not know what we would have done without this. I am Marketa Garner Gautreau, and I am the Assistant Secretary of the Office of Community Services, which houses the child welfare system in Louisiana. On behalf of my Governor, Ms. Blanco, I appreciate the opportunity to be here. I would like to talk about technology in the context of who we are in child welfare and what we did before the storm. We have 1,800 employees that investigate about 35,000 allegations of child abuse and neglect each year. On any given day, I have 5,200 to 5,400 children in foster care, 7,000 in subsidized adoption, and another 500 in the Young Adult Program, which is the program of foster children aging out of the system. We had a budget of \$255 million before the storm. 60 percent of that is title IV-E eligible, which shows the very high penetration rate that we have.

At the height of the storm, 73 percent of my foster care population evacuated. 2,000 children had to leave the Greater Orleans area. Another 500 had to evacuate yet less than a month later in Rita. The Department of Social Services in Louisiana is charged with staffing shelters. Our of my 1,800 employees, 600 evaluated in the first hurricane. 900 of them went to work in shelters for 1 month. 600 stayed for the next 6 weeks. Our workforce was very, very impacted by the storm. Our highest priority was finding those 2,000 children, and then, of course, we had those famous missing children that you heard so much about in the national media, the thousands of Katrina orphans supposedly that were floating around somewhere in Louisiana. Those were the first things that happened.

In technology, I am not a technology expert, but I want to tell you what didn't work. What didn't work was that I had no capacity to reach my staff in real time. Cell phones were down. Land lines were down. Technologies that we had always relied on were not available to us. There was no accurate real-time data to track these children where they were and where they were going and how they were getting there. I needed geo-mapping so I could track people and find out if they were in Texas or Washington or Minnesota. We didn't have any of that.

The main technology lessons that we learned from Rita is that the traditional systems failed. Cell phone towers were down. Land lines were down. Blackberries worked, but unfortunately, the Department of Social Services doesn't staff every single one of our 1,800 child welfare workers with Blackberries. We needed policies and procedures in place in our registration sites and shelters that were uniform and systematic. We used paper registration. Red Cross used a different form. Different State agencies used different forms, and so nobody matched and nobody knew where anybody was when we tried to call a shelter across town to find a child. Those need to be standardized. That needs to be done by technology and not by paper. We needed centralized reporting outside of the affected area, call centers that would not be blown away by the winds. Finally, we recognize very clearly that paper is no



match for a Category three, and the records, the precious life books of our foster care children and their case files, and the court documents that were lost in Katrina will take us forever to replace and to redocument.

The other issues that we dealt with that the Federal Government could help us with are very clear to me. First of all, our Children's Bureau was hampered greatly by the lack of authority to waive, extend or otherwise adjust Federal reporting. Under the Child and Family Service Review, we are evaluated on the major metro area, which became the smallest metro area in the State, and there was a report due September 1st. If you remember, Katrina struck August 29th. It was a little difficult for us to try to meet the Federal requirements of a form to fill out that many days after the storm, and yet there was no ability for the Bureau to waive that requirement. Child welfare workers are not deemed emergency responders, and that hampered us in our work tremendously. We did not have the same priority for housing, for offices, or for communication systems that other first responders had, and yet, we were on the frontline looking for those children, trying desperately to reunite them with their families. We need a new way for rapid distribution of supplemental funds. We are extremely grateful for the 220 million that just came into Louisiana, but it came 7 months after the storm. We needed that money faster than that. I believe that Congress can help us with that. I believe that the SSBG is money that is absolutely critical, and title IV-E money is absolutely critical to the State, and we must address those issues at this level. Thank you, and I will be glad to answer questions later.

[The prepared statement of Ms. Gautreau follows:]

**Statement of Marketa Gautreau, Assistant Secretary of Community Services, Louisiana Department Of Social Services, Baton Rouge, Louisiana**

Mr. Chairman and Members of the committee, my name is Marketa Garner Gautreau and I am the Assistant Secretary of Louisiana's Department of Social Services (DSS). On behalf of Governor Kathleen Babineaux Blanco and that state of Louisiana, I thank you for the opportunity to be here. I am responsible for DSS' Office of Community Services (OCS) which administers our state's child welfare system. We investigate allegations of child abuse and neglect, provide prevention services, place children in foster care and residential services, and help children achieve permanency as quickly as possible—by reunification with their birth families, adoption, or placement in independent living.

OCS handles about 35,000 allegations of abuse and neglect a year and has roughly 5,400 children in care at any point in time. Under the best of circumstances, ours is difficult and challenging work. Roughly 1,800 staff care for children who have lived through traumatic situations. Dealing with displaced and disrupted families is our stock and trade on a daily basis—the aftermath of Hurricanes Katrina and Rita forced us to cope with these issues on a much broader and more urgent scale, but it remained work with which we are intimately familiar.

I consider myself an advocate for children who has entered public service to further their interests. I am not an information technology specialist. But as head of a \$250 million state human services agency, I can easily define what I need from technology as a routine matter. I need:

- The ability to reach my subordinates and field staff (and for them to reach me) 24/7.
- Accurate, real time information about the status of abuse allegations.
- Accurate real time contact information for our children, their foster parents, birth parents and other caregivers.
- Reliable data on our costs.
- Historical information about caseload, services, child outcomes, staffing, and other operational issues.

- Geo-based mapping so that we can track the physical location of our population and analyze the nature of abuse and neglect by area.
- Excellent management reports to allow us to be strategic as well as tactical in making program and policy decisions.

DSS is the agency responsible (under the state's emergency management plan) for operating special needs shelters for children, the elderly and the disabled during natural disasters or other emergencies. These situations require special communications technology as well as information systems that can handle evacuee registration and tracking, rapidly dispense emergency aid and ensure that there are central data collection and reporting centers so that separated families can make contact and have a better chance for rapid reunification.

Louisiana's existing technology systems are not adequate to fully meet our day to day needs or support "typical emergencies" (average storms with shelter needs of a few hours to a few days) let alone the massive crises created by Katrina and Rita.

On a day-to-day basis we do not yet have a real time case tracking and management system. While I can generally rely on phones and e-mail for 24/7 communication with the field, we remain very weak in management reporting, cost analysis and currently have no geo-based technology available. In emergencies these weaknesses are magnified. The most important lessons we have learned about technology from the Katrina/Rita experience are:

1. Land-lines, traditional cell phones, and e-mail and other web-based communications, cannot be relied on during a large scale natural disaster. The only reliable communication we had between the central office and the field staff in affected areas was through wireless text messaging using PDA devices. A very small percentage of OCS and DSS staff have access to such devices as that technology is expensive and generally considered non-essential for all levels of staff. This severely hampered our ability to know where staff or clients were or to respond quickly where staff, materials, or other resources were most needed.
2. Systematic registration and tracking of evacuees is essential if families are to be kept together, highest need people appropriately triaged, and missing persons reunited as quickly as possible. No common procedure existed between the public special needs shelters and privately operated regular shelters (e.g., Red Cross, church-based) for registering evacuees and few lap-top based or other technology was available to manage this process.
3. Existing legacy systems used for child welfare caseload management are not sufficiently accurate or timely to be relied upon in an emergency as a source for contact information and child status. There can be lag-times of a few days to several weeks in entering new information about birth parents, child placement, investigation status, and related contact information. Individual social workers almost always have timely information about all cases in their care. But the data may not get entered into our systems as it is difficult and time consuming to do and there is no reporting capacity from the system that makes any individual worker's job better. As a consequence, the most accurate information is sometimes off-line, in the caseworker's possession. It works reasonably well under normal circumstances. But in an emergency of the scale of Katrina and Rita—when as many as 600 of our 1800 staff (and virtually all of the staff in the affected areas) were themselves missing or out of communication—it makes the ability to "find" our children extremely difficult.
4. Paper record keeping is simply not tenable in this day and age in weather emergency prone areas. We had whole offices where all of the case records were totally destroyed. The history of the child's care, records of legal status, treatment related information, and similar critical information about a child's history were permanently lost.

To be fully prepared in a new emergency situation, we need wide spread wireless messaging capability; policies, procedures and systems support for the management of evacuee populations that is shared between federal, state and local agencies and among and between public and private non-profit shelter providers; better core systems so that we can centrally access accurate, real-time contact and status information about our clients; and electronic record keeping with back-up in areas unlikely to be affected by natural disasters.

To prepare for the upcoming hurricane season, our Department is currently planning to test a product this season in a limited number of locations that can scan drivers' licenses or ID's and can issue a bar coded wristband allowing for registration. It has the ability to link families to a head of household that could be used

to match child to parent should they become separated. The system is web based and all updates are back to a central database so that all sites have access to the same information. This kind of registration solution would be most helpful in tracking people from evacuation points to shelter or other sites to meet their needs.

The best solution of course would be that all agencies responsible for shelter registration could use compatible systems so that information can be shared. Legislation allowing the sharing of information may be appropriate since privacy issues in the sharing of data such as shelter registrations, may arise as they did in the post Katrina event when thousands were missing and being sought by family members.

An imaging solution is being planned for areas below Interstate 10, the areas most prone to hurricane damage. This would allow the Department to reestablish an office virtually anywhere else in the state and have full access to the case file and proceed with needed services base on the facts of the case history. This information can be made available via the web for both front line workers and management.

I'd like to share some of the other issues that have emerged in the aftermath of Katrina and Rita—particularly as they relate to OCS and its interaction with the Federal government.

- The Federal Administration of Children and Families (ACF) has been very supportive since the storms but their ability to be helpful has been constrained by lack of authority to waive, change, or amend Federal program rules and requirements in emergency situations. We have been mutually frustrated by the lack of authority to waive reporting requirements and submission deadlines that result in financial penalties—or waive the penalties themselves for programs such as:
  - ASFA
  - Title IVE (eligibility documentation requirements)
  - CFSR Program Improvement Plan
  - Title IVE Program Improvement Plan
  - Child and Family State Plan

In lieu of simply being able to waive penalties and requirements, the Children's Bureau staff worked tirelessly with our state to re-write the CFSR Program Improvement Plan and are to be commended for their efforts to lessen the impact of the original plan for the state of Louisiana.

- A second problem involves the timeliness of supplemental funding for emergency needs of children in custody. Our population has special housing, clothing, transportation and medical needs. While we now have supplemental social services block grant funding to cover some of the extraordinary expenses being incurred post-storms, that funding took more than seven months to be authorized and received. Certain other expenses—such as the transportation costs for caseworkers to visit children in out-of-state settings—have not been deemed storm related by FEMA and may not be reimbursed. These visits are court-ordered and generally cannot be done by substitute staff in other jurisdictions.
- Child welfare workers are not deemed “first responders” or critical staff under most Federal emergency programs. Consequently, they have not been high on the priority lists for temporary housing or other access related resources. The ability to get offices in the affected areas back up and running has been severely constrained by the lack of staff housing.
- The ability to meet matching requirements for federal programs has been severely affected by the magnitude of the state's fiscal crisis. In some cases Federal dollars will have to be forgone even when they are many multiples of the state match required simply because of the lack of state general funds.

Based on our experience the past six months, Federal oversight agencies for child welfare are very constrained in their ability to waive, except, or otherwise amend reporting, penalties, matching and other compliance requirements when an extraordinary emergency has occurred. While we hope America never has to witness a dislocation on the scale of the New Orleans and Lake Charles devastation again, responsible leadership demands that we all plan for such circumstances. That planning needs to recognize that abused and neglected children, their foster parents and caregivers—and the public agencies responsible for their care—need special support in times of emergency in order to avoid further trauma to these children.

I believe the funding issues Congress can address are clear:

Child welfare agencies responsible for the care, custody, and safety of minor children need immediate response to disasters of this magnitude. Louisiana did receive supplemental emergency funds through the Social Services Block Grant—seven

months after the disaster. This was the first and only supplemental child welfare funding received to date.

The Budget Reconciliation Act resulted in a projected reduction in Title IVE benefits for LA for an estimated \$3.5 million. Reducing our ability to claim IVE reduces the basic services we are able to provide children and families in our care.

There are on-going discussions to cap the Title IVE entitlement program. Title IVE is the only uncapped revenue for the child welfare population and maintenance and administrative costs increase each year. Capping that program severely impacts every state's child welfare agency in their ability to provide the most basic services.

There are also efforts to cut the Social Services Block Grant—funds that are used entirely for child welfare in Louisiana. I would like to advocate for the current level of SSBG funding to states remain unchanged. Recent budget proposals included \$7M reduction which for LA would be almost 30% of total SSBG.

Because our children in foster care are among the most vulnerable and have complex mental health issues, I also ask that you consider promoting legislation that would designate a percentage of mental health/Medicaid funds to child welfare clients. This would help prioritize the services for these children.

In closing, I would like to ask the committee to consider support of prevention funding for child welfare. Because of funding limitations, most child welfare systems focus on response once abuse and neglect has happened and children are in the state's custody. We believe that investments in prevention would help stabilize families before tragedies occur. I strongly support an expansion of funding opportunities for states to move toward more prevention focused child welfare system. (However not at the expense of entitlement programs such as IVE.)

I am happy to answer any questions about the Louisiana experience and will be happy to work with the committee and its staff as you address issues of technology and human services administration and consider special needs for child welfare management in large-scale emergencies.

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Chairman HERGER. Thank you. Don Winstead, Deputy Secretary of the Florida Department of Children and Families, from Tallahassee, Florida. Mr. Winstead.

**STATEMENT OF DON WINSTEAD, DEPUTY SECRETARY, FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES, TALLAHASSEE, FLORIDA**

Mr. WINSTEAD. Mr. Chairman, Mr. McDermott, Members of the Committee, I am pleased to be here today to discuss the use of technology to improve public benefit programs. I am Don Winstead, Deputy Secretary of the DCF. We are the State agency in Florida that, among other programs, is responsible for determining eligibility for benefit programs including Temporary Assistance for Needy Families (TANF), food stamps, and Medicaid.

Mr. Chairman, the world of customer service has changed. When I flew to Washington for this hearing, I traveled on an electronic ticket purchased online. At the airport I checked myself in the computer terminal, and printed out my boarding pass. Although there were a few employees there to assist if I needed help, I was able to manage the process pretty efficiently. In Florida, we have been using many of the same technologies used in airports, retail outlets and other businesses to improve customer service, while decreasing cost and improving effectiveness. We call our business model ACCESS FLORIDA. Let me contrast how ACCESS FLORIDA works compared with traditional public benefit approaches. As you said, Mr. Chairman, in the old, traditional public benefit model, people apply at agency offices. They fill out a lengthy paper application, spend an inordinate amount of time waiting—probably in an un-

comfortable blue plastic chair—and then go through an extensive interview and provide additional information to verify key items.

In Florida, in contrast, families needing help can apply anywhere, anytime, using ACCESS FLORIDA, our Web application. Customers enter their own information. While people may apply from computers anywhere that can access the Web, they also can go to a wide variety of other sites. In addition to our offices, the ACCESS FLORIDA program includes over 2,500 community partner sites around the State. Partner sites include Workforce One-Stops, community centers, health clinics, hospitals, homeless service centers, domestic violence shelters, public libraries, faith-based and community-based organizations, and on and on. My written statement describes the process, and I have attached some copies of some of our computer screens to give you a better idea of what the customer sees. Part of the process is when our eligibility staff review the Web application. They are assisted by a process the technology folks call “data streaming.” As an old public assistance worker, I call it “magic.”

The Web application flows the information at lightning speed into our legacy computer system, pausing when necessary for the eligibility worker to make decisions or authorize benefits. This minimizes duplicate data entry and greatly improves efficiency. Our agency staff have also constructed a Web-based document imaging system to better manage information. statewide implementation is underway and will result in the electronic storage of 1.25 million records with \$4.5 million in annual savings. Savings have already more than paid for the equipment necessary and have produced a net gain to the State. So far, our other results have been remarkable. Since 2002, we have reduced positions from 7,200 to less than 4,200 today that are filled, and our target is 4,109 positions by June 30. This is over a 40-percent reduction in staff; at the same time, our workload has increased by over 20 percent. We have gone from about 1.9 million recipients unduplicated in July 2002 to about 2.3 million today. Since inception, ACCESS FLORIDA implementation has reduced costs to taxpayers over \$83 million.

Since we implemented the Web application in 2005, the acceptance and use by Floridians has been astounding. In February, 77 percent of our applications for public assistance were e-signed Web applications. Of the Web applications, over half came via the Internet rather than the intranet. This means that over half came through home computers or computers in partner sites rather than computers in our offices. High utilization is one measure of acceptance. In addition, we ask customers to complete a customer satisfaction survey at the conclusion of the application process. The last page attached to my written statement gives you a recap of the results. Importantly, 90 percent of the respondents said they would use the application again. In conclusion, we say that ACCESS FLORIDA is supported by technology and powered by partnerships. DCF staff have transformed customer services in Florida. Working with thousands of community-based partners, we have improved access, increased efficiency, reduced costs, and improved performance. Mr. Chairman, we are far from finished. I appreciate the opportunity to testify today and provide the Committee with informa-

tion about ACCESS FLORIDA, and I would be happy to respond to any questions.

[The prepared statement of Mr. Winstead follows:]

**Statement of Don Winstead, Deputy Secretary, Florida Department of Children and Families, Tallahassee, Florida**

Mr. Chairman, Mr. McDermott, and Members of the Committee, I am pleased to appear before you to discuss the use of technology to improve public benefit programs. My name is Don Winstead. I am Deputy Secretary of the Florida Department of Children and Families (DCF). DCF is the state agency in Florida responsible for determining eligibility for public benefit programs including Temporary Assistance for Needy Families (TANF), Food Stamps and Medicaid.

Mr. Chairman, the world of customer service has changed. When I flew to Washington for this hearing, I traveled on an electronic ticket, purchased on-line. When I arrived at the airport, I checked myself in at a computer terminal and printed out my boarding pass. Although there were a few employees there to assist if I needed help, I was able to navigate the process easily and efficiently.

In Florida, we are using many of the same technologies used in airports, retail outlets and many other businesses to improve customer service while decreasing cost and improving effectiveness. We call our business model, ACCESS FLORIDA. Let me contrast how ACCESS FLORIDA works compared with traditional public benefit approaches.

In the old, traditional public benefit model, people apply at agency offices. They generally fill out a lengthy paper application, spend an inordinate amount of time waiting to be interviewed—probably in an uncomfortable, blue plastic chair—go through an extensive interview and provide additional information to verify key items. While the interview might be conducted with the aid of a computer terminal, the agency employee asks the questions and, based on the application and the information provided by the customer, goes through the tedious process of key-entering the information into the legacy computer system. At the end of the process, the family may be ultimately approved for benefits and issued an EBT card. We used to call this “technology”.

***Our Focus: Customer Service***

In Florida, families needing help can now apply anywhere, anytime using the ACCESS FLORIDA web application. Customers enter their own information. While people may apply from any computer that can access the web, they also can go to a wide variety of other sites. In addition to our offices, the ACCESS FLORIDA program includes over 2,500 community partner sites around the state. Partner sites include Workforce One-Stops, community centers, health clinics, hospitals, homeless service centers, domestic violence shelters, public libraries, faith-based and community-based organizations, and so on.

At a community partner site, applicants can access a computer to apply or check on the status of a previous application, drop off or fax verification information to us, access a help-line telephone or get assistance in using the technology.

Customers can also visit agency offices but they won't find the same process they did a few years ago. Today our lobbies have self-service computer terminals, greeters and helpers to answer questions or assist in the process, telephones to access help-lines and printers so that applicants can print out copies of information they have submitted. Plastic chairs are being replaced by upholstery and seating areas have been redesigned to reflect a more professional environment.

To improve customer service, call center agents are available by toll free number. We have three customer call centers, in Jacksonville, Tampa and Miami with over 500 employees to assist customers. In addition we have developed telephone and web based automated response units, so that people can find out key information about the status of their application or review without needing to talk to a live agent.

When customers enter information into the web application, the information is reviewed by eligibility staff. In some cases, people still will need to come into an office for a face-to-face interview and in other situations, needed information can be obtained by telephone, fax or mail. Full interviews are required in complex or error-prone situations. These cases are called “red track” and require more detailed review. Simpler and less error-prone situations are designated “green track” and simplified or abbreviated processes can be used. Of course, if the applicant is applying for temporary cash assistance and is required to participate in work activities, he or she will have to go into one of our Workforce One-Stop centers.

When our eligibility staff review the web application, they are assisted by an automated process the technology folks call “data streaming.” As an old public assistance worker, I call it “magic.” The web application flows the information at lightning speed into our legacy computer system, pausing when necessary for the eligibility worker to make decisions or authorize benefits. This process minimizes duplicate data entry and greatly contributes to the efficiency of the process. Soon customers will also be able to report a change in their circumstances via the internet.

***Solutions: Staff-Driven Initiatives***

Another important part of the process is document imaging. Our agency staff have constructed a web-based document management system to which commercially available scanning devices can connect. These devices permit documents to be digitized and indexed so that the information is available to eligibility staff using our secure network anywhere in the state. There are no imaging software costs associated with the scanning since the software application was developed by agency employees in our Tampa Bay region.

The Tampa Bay region designed, created, and implemented this comprehensive electronic filing system for the storage and retrieval of the region’s 190,000 public assistance case files. After trial and error with different models, the scanning equipment vendor secured a new machine (Ricoh IS760D) that had not previously been available in the United States. The first machine released in the U. S. was shipped directly from the manufacturer so the Tampa Bay region could use it for this project. The scanner performs high speed tray-fed images of approximately 100 pages per minute. This enterprise solution, along with the software written by agency staff, has been implemented region-wide and is currently being adopted statewide. This system improves security and accessibility to case information yet eliminates costs associated with the creation, maintenance, location and retrieval of paper case files. In the pilot region, this technology saved \$270,000 in the first year and is projected to save \$930,000 over the next three years. Statewide implementation will result in the electronic storage of approximately 1.25 million records and nearly \$4.5 million in annual savings. Savings more than paid for the equipment necessary for implementation, resulting in a net gain to the State.

Recent and planned refinements to our technology include use of “screen scraper” technology in our call centers so that key information from multiple computer screens is collected in one place so that call center agents can see the most relevant data for a family without needing to scroll through multiple computer screens. This speeds customer response and reduces call wait time. We are working on additional innovations, such as speech interactive capability to make more information and services available by telephone and through the web.

***Results So Far: Remarkable***

So far, the results have been remarkable. In 2002, we had slightly over 7,200 positions in our Economic Self-Sufficiency program. Right now, we have about 4,173 filled positions with a target of 4,109 by June 30, 2006. This means we will have over a 40 percent reduction in staff over this period of time. At the same time, our workload has increased over 20 percent. We had about 1.9 million public assistance clients in July 2002. Now we have about 2.3 million. Since inception, we have reduced costs to taxpayers over \$83 million.

While the TANF caseload has continued to decline, the food stamp and Medicaid caseloads have continued to increase. Like in the TANF program, the majority of the adults in these families are employed and are receiving benefits or health coverage to supplement their earnings. Those who are not employed or elderly are most likely to be disabled. A key benefit of our model is that it is consistent with program goals that emphasize work.

Since we implemented the web application in mid 2005, the acceptance and use by Floridians has been astounding. In February, 77% of our applications for public assistance were e-signed, web applications. Of the web applications, over half came via the internet rather than the intranet. This means that over half came through home computers or computers in partner sites rather than from our offices.

High utilization is one measure of acceptance. In addition, we ask customers to complete a customer satisfaction survey at the conclusion of the application process. In February 2006, 73 percent of respondents said they were able to complete the application without help. 57 percent said it took less than thirty minutes to complete the application with only 14% saying it took over an hour. 52 percent found the process easy and 87 percent rated the experience either easy or fairly easy. Importantly, 90 percent told us they would use the web application again.

We say that ACCESS FLORIDA is supported by technology and powered by partnerships. Working with our thousands of community-based partners we have im-

proved access, increased efficiency, reduced costs and improved performance. And Mr. Chairman, we are far from finished.

***Background: How We Got Here***

Important to the development of the model was the direction of the Florida Legislature. The 2003 General Appropriations Act included proviso language requiring the department to develop a plan to outsource public assistance eligibility functions or to develop alternative service delivery and administrative approaches to achieve greater efficiency in these functions. Ultimately, in 2004, a detailed business case was developed showing an outsourced option and an in-sourced option. The in-sourced option included development of community partnerships while retaining core eligibility functions being performed by agency employees.

Governor Bush examined the alternatives and on January 12, 2005 decided that Florida would pursue the in-sourced option.

The other important factor in the development of ACCESS FLORIDA, was the hurricane season of 2004. That summer, visitors to Florida included Charley, Frances, Ivan and Jean, in rapid succession. To serve the affected citizens in our state, Florida had to implement a Disaster Food Stamp Program of unprecedented volume. The "Food for Florida" program was begun, but we were rapidly overwhelmed by applications. We quickly had tens of thousands of paper applications, far beyond our capacity to process. We needed an automated solution, and we needed it fast. Over the course of 72 hours, agency staff developed a prototype web application. We took paper applications at sites in affected counties and shipped them to back room processing centers outside the disaster areas where staff fed the information into the web application for processing.

Two things emerged from this experience. First, the Food for Florida program provided desperately needed help to over 2 million Floridians. Secondly, the agency staff came out of the experience feeling like they could do just about anything. Since then, history has proved them right.

The hurricane season of 2005 gave us more opportunity for learning. We used streamlined procedures from 2004 when Hurricane Dennis slammed into the Florida panhandle last July. We added functions to our web applications to provide simplified access to special food stamp, TANF and Medicaid benefits for Katrina evacuees from Alabama, Mississippi and Louisiana. Finally, Hurricane Wilma brought devastating power outages and damage to some of the most populated areas of our state. Again, our Food for Florida program was able to help about 3 million Floridians in addition to our guests from other Gulf states.

***Future Developments***

During this past year, we have focused on reengineering two of our three major business processes: applications and reported changes. During the coming year, we plan to reengineer the third process, complete redeterminations. We will continue to move towards a system where customers will manage their accounts on-line. This will be accomplished through a web-based system which has conversational functionality with our legacy system.

We will be continuing to improve our processes in anticipation of the 2006 Hurricane season. We are looking at new ways to pre-register applicants to reduce the large crowds at disaster sites. We are examining use of point of sale devices to speed issuance of benefits and also to provide access to Florida's drivers' license database to improve verification of identity. As in the past, we plan to move the disaster-related innovations into the mainstream program. Using data matches to automate verification of identity and citizenship and using card swipe technology to access case files are part of this plan.

To help illustrate how ACCESS FLORIDA works, I have attached copies of several computer screens to this testimony. Below is a list of attachments. A brief explanatory comment is shown at the top of each page. These selected screens do not, however, tell the full story. I invite any Member of the Committee to browse through the information on our web site to see the system for yourself. The easiest way to access the information is to go to the state's web portal, [www.myflorida.com](http://www.myflorida.com). Select the tab, "Find an Agency" and click your way to the Department of Children and Families home page and from there to the ACCESS FLORIDA link. You can see the web application, get further information about partner sites, and find our offices by county or zip code.

While at our web site, I would invite you to also check out our "Performance Dashboard". You, along with every citizen of Florida, can monitor our performance on a variety of measures. You can check how we're doing with application processing standards and dozens of other metrics. Our goal is to measure key performance indi-



cators and, not only make ourselves accountable for results, but be entirely transparent in the process.

Supported by technology and powered by community partnerships, our staff has transformed customer services in Florida. Mr. Chairman, I appreciate the opportunity to testify today and provide the Committee with information about ACCESS FLORIDA. I would be happy to respond to any questions.

#### Attachments

Attachment #1—Welcome Screen (page 6).

Attachment #2—Start Screen (page 7).

Attachment #3—Benefit Information (page 8).

Attachment #4—Household List (page 9).

Attachment #5—Common Application Form and Eligibility Survey (page 10).

Attachment #6—ACCESS Online Survey (page 11).

Attachment #7—Survey Results (page 12).

#### Attachment #1—Welcome Screen

This welcome screen permits the customer to select a language and provides introductory information.

Economic Self-Sufficiency  
Access FLORIDA

English Spanish Korean

Welcome to ACCESS ONLINE [? HELP](#)

Welcome to Florida Department of Children and Families (DCF). **If you need help in completing this application or need interpreter services, please contact an Economic Self-Sufficiency Office or Authorized Community Partner.** We need at least your name, address, and a signature. However, please complete the entire application, providing as much information as you can, to help us determine your eligibility quickly. Processing begins the day we receive your application. Your application is dated the day you submit your application using the electronic signature or the next business day if submitted after hours or on a weekend or holiday. However please allow us 15 to 30 days to process your application. Some applications for Medicaid may take longer if we need to determine if someone is disabled. Normal business hours are 9:00 A.M. to 5:00 P. M. local time, Monday through Friday.

Household members who are ineligible, or who are not applying for benefits, may be designated as non-applicants. Non-applicants, or persons applying only for Emergency Medicaid, Refugee Cash Assistance, or Refugee Medical Assistance, are NOT required to provide a Social Security Number (SSN).

If you were not eligible for an SSN because of your immigration status, you may be eligible for a non-work SSN to receive the benefits that require one. If you need an SSN, we can help you apply for one. Non-applicants are NOT required to provide proof of immigration status. Non-citizens who are applying for benefits will have their immigration status verified with the Bureau of Citizenship and Immigration Services (BCIS). We will not tell BCIS about the immigration status of those living in your household who are not applying for benefits. Under no circumstances will individuals who are not applying for benefits be reported as not lawfully residing in the United States.

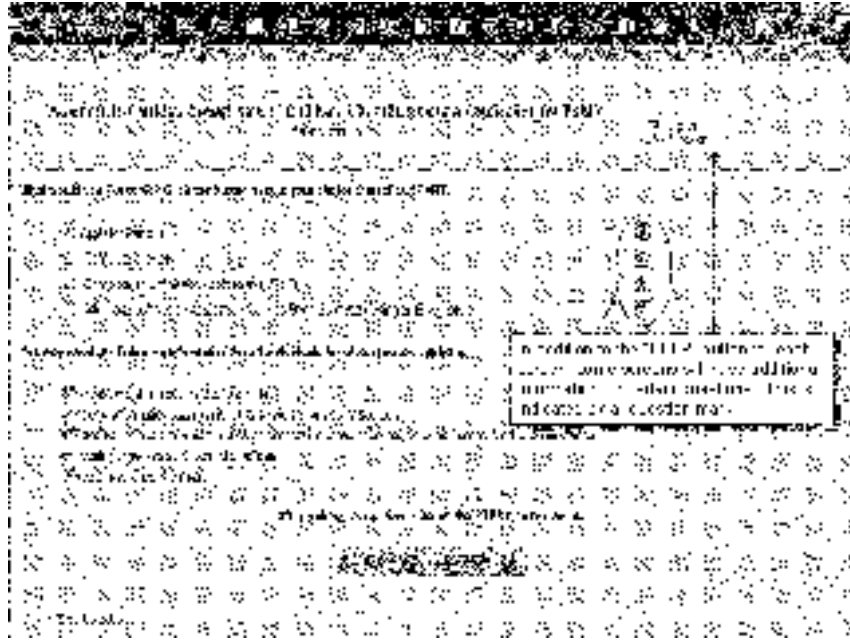
Click on the CONTINUE button below.

GO BACK CONTINUE

CF-ES2353 02-2006

**Attachment #2—Start Screen**

This screen starts the application process. Note that both screen-level and item-level help are available.



**Attachment #3—Benefit Information**

This screen permits the applicant to designate for whom he or she is applying and the benefits applied for. Some combinations of choices will activate additional drop-down options.

Benefit Information

Please check here if you are a Katrina evacuee from Alabama, Louisiana, or Mississippi:

I am not a Katrina evacuee

I am a Katrina evacuee from Alabama

I am a Katrina evacuee from Louisiana

I am a Katrina evacuee from Mississippi

Are you a dependent of a military member?

No

Yes

Yes - Spouse

Yes - Child

Yes - Other

Yes - Other (Specify)

Back Next

**Attachment #4—Household List**

This screen shows an example of screen with customer-entered information. The tabs across the top show progress in the application process. By clicking on the “Save and Quit” button, the applicant can return later to finish the application

**Household List**
? HELP

Add, remove or make changes to individuals for whom you are applying. Add all people in the home even if you are not applying for them. If you are not applying for a member, you do not have to give their SSN or citizenship status.

**Current Members** ( Click on "Change" or "Delete" buttons to make changes to existing members )

Name	SSN	Date of Birth	Sex	Change	Delete
Cassandra Jones	45566587	03-10-1970	Female	✎	✖

Do you want to add another member?  Yes  No

**Please use the legal name of the member (do not use nicknames).**

First Name

Last Name

Social Security Number

Date of Birth  /  /

Sex

Is this person applying for benefits?  Yes  No

Is this person a Katrina evacuee?  Yes  No

Middle Initial

Suffix

When completed, click on the CONTINUE button below.

SAVE & QUIT

CF-ES2353 02-2006

### Attachment #5—Common Application Form

Information from the web screens is placed on the common application form. The applicant can review all the information submitted and can print out a copy for her records.

The screenshot shows a web browser window titled "Economic Self-Sufficiency Access FLORIDA". The page contains a navigation menu with options like "Home", "Application", "About Us", "Help", "Contact Us", "Online Training", "Expansion", and "Apply". The main content area is titled "Common Application Form and Eligibility Questionnaire (CAFEQ)" and includes a "HELP" icon. Below the title, there is a scroll bar and instructions: "Use the scroll bar on the right side of the CAFEQ Form to review information you reported as shown on this screen. If you need to make a change, use the Go Back buttons or the navigation menu at the top of the page to return to the section where a change is needed. Once you have made the changes, click CONTINUE to return to this page." The form itself has a header with the "Department of CHILDREN & FAMILIES" logo and an "Office Use Only" section with fields for "Worker" and "Date Rec'd". The main body of the form is titled "Common Application Form and Eligibility Questionnaire" and includes a note: "If you need help completing this form, please contact the local DCF office." Below this, there is a table for personal information:

First Name	Middle Initial	Last Name	Home or Storage Phone Number		
Cassandra		Jones			
Street Address Where You Live		City	State	Zip Code	Work Phone Number
111 North Beach Street		Jacksonville	Florida	32211	
Mailing Address (if different)		City	State	Zip Code	Cell Phone Number/ Fax Address

Below the table, there is a section titled "Please check any of the following benefits you wish to apply for:" with several checkboxes: "Food Stamp", "Cash", "Medicaid", "Medicaid Waiver", "Nursing Home Care", and "Other". The "Food Stamp" checkbox is checked. At the bottom of the form, there is a "CONTINUE" button and a "PRINT" button. The page footer includes "SAVE & QUIT", "GO BACK", and "CONTINUE" buttons.

**Attachment #6—ACCESS Online Survey**

This screen provides customer feedback on the web application process.

The screenshot shows a web browser window with a dark header bar containing the text "Economic Self Sufficiency" and "Access FLORIDA". Below the header, the URL "ACCESS ONLINE number: 507/3433" is visible. The main content area is titled "ACCESS Online Survey" and contains a thank-you message: "Thank you for agreeing to complete our survey. This will only take you a few minutes. Please tell us about your experience using the ACCESS ONLINE Web Application." The survey consists of six questions with radio button options:

- Please rate your experience with our screens:  Easy  Fair  Difficult
- How long did it take to complete the application?  1-30 minutes  30-60 minutes  more than 1 hour
- Did you need help using the Web application?  Yes  No
- Where were you when you completed the application?  In a DCF Office  Other Location
- How much computer experience do you have?  First time user  Use occasionally  Use frequently
- Would you use this web application again?  Yes  No

At the bottom of the survey area, there is a "SUBMIT" button with a checkmark icon. Below the survey area, a "Thank you for completing this survey" message is displayed.

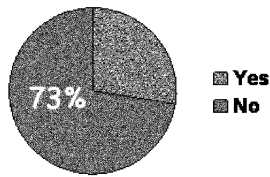
**Attachment #7—Survey Results**

These graphs summarize key data from the customer survey for February 2006

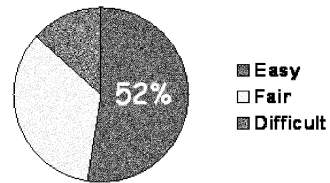
# User Feedback Survey

February 2006

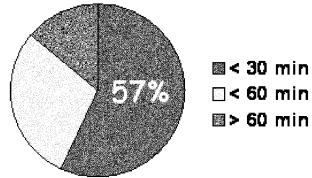
*Needed Help to Complete?*



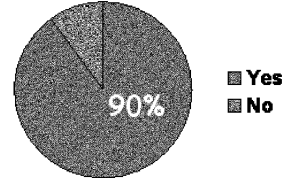
*Experience with Screens*



*Time to Complete*



*Use Again?*



Chairman HERGER. Thank you. Ms. Henley to testify.

**STATEMENT OF LISA HENLEY, PROJECT DIRECTOR, OKLAHOMA EBT PROJECT, OKLAHOMA DEPARTMENT OF HUMAN SERVICES, OKLAHOMA CITY, OKLAHOMA**

Ms. HENLEY. Thank you, Mr. Chairman and Members, for having Oklahoma in today to talk to you about our electronic benefit services for child care. The Oklahoma Department of Human Services began implementing an Electronic Benefit Transfer (EBT) child care system in fiscal year 2000. The factors that led to our decision to put child care on an EBT card were simple. We needed to reduce overpayments, whether those were done inadvertently because of the cumbersome paper process or were intentional overpayments by providers claiming for services that had not been rendered. We wanted to improve the quality of child care received by eliminating and reducing the paperwork required by providers to complete each month. We wanted to ensure that all participants in the system were accountable, including our staff, the providers, and our clients. We wanted to improve cash flow for our providers. In the current paper system, providers were paid on a monthly basis. We needed to get parents involved in child care. They needed to get into the centers and homes and see what was going on with their child care providers and their children. We wanted to reduce administrative costs.

Did we accomplish these goals? Our system has been in effect now for 3 years and operates like a dream. Overpayments have been reduced by 10 percent. In Oklahoma, that is a \$10 million saving. Those savings have been put back into the quality program, which affects all of Oklahoma's kids. Everybody benefits. Providers no longer complete paper claims unless they have been granted an exception. We have approximately 47,000 kids in the program. We do fewer than 50 claims per month. Our staff have 2 working days to either approve or deny services, and we actually accomplish that in Oklahoma in 1.4 days. Parents are responsible for payment to providers for services if they fail to swipe their cards. Child care benefits are linked to their food stamp and TANF cards, which ensures or we hope ensures that parents will not be leaving their cards at a provider's location. Providers know that the first swipe of every day if the child is approved for services, the co-pay amount that is to be paid by the parent, and the part-time and full-time rates that the provider will be paid for rendering those services.

Providers are paid weekly now, 2 weeks in arrears, all via direct deposit. There are no paper checks given. Liquidated damages are applied to any providers who are found in receipt of a card. The parents must swipe in accordance with the child care facility's requirements. They must at the very least conduct swipes once every 10 days. We have eliminated eight staff, and we no longer mail monthly claim forms or warrants. The child care EBT system by itself has not produced significant savings. It has been in association with the agency's policy changes that we have really seen some cost savings. The two together are a strong and powerful tool for reducing costs and putting those funds back in to improved quality child care. Thank you.

[The prepared statement of Ms. Henley follows:]



**Statement of Lisa Henley, Project Director of the Oklahoma EBT Project,  
Oklahoma Department of Human Services, Oklahoma City, Oklahoma**

**OKDHS Electronic Benefits and Child Care Subsidy Fact Sheet—State Fiscal Year 2005**

**The Program**

The Child Care Subsidy pays for part or all of childcare costs while parents or caretakers work, job search, attend school or receive training. Childcare services may also be provided as part of a protective service plan to prevent abuse, neglect or exploitation. The subsidy is paid directly to the childcare provider on the family's behalf. The family may have a co-payment for the childcare based on their income, the number of family members and the number of family members needing services.

**Vendors and Rates**

The OKDHS Rates Schedule (OKDHS Appendix C-4), available at <http://www.policy.okdhs.org/home/>, presents the payment tables listed with a variety of determining factors. Payment is scaled and tiered based on the age of the child, the county in which the vendor is located (standard and metropolitan market rates), the care setting (center or home), the quality of the provider and the type of authorization. Authorization type, such as part-time care, full-time care or special needs care is determined during the eligibility process.

All childcare providers in the state of Oklahoma must meet the requirements to be licensed through the OKDHS Division of Child Care. Licensed providers are then able to request that Family Support Services Division execute a contract that allows their facility to receive payment for eligible clients through the subsidy program.

- Approximately 70 new contracts were opened each month and 79 were closed
- 5,103 contracts were in effect for some part of the fiscal year

**Child Care Quality—"Reaching for the Stars"**

Oklahoma was the first state to successfully implement a tiered reimbursement program that helps childcare providers succeed and improve childcare quality. Called Reaching for the Stars, licensed childcare programs that meet quality criteria receive a higher Star rating and higher reimbursement rates for child care services.

- At the end of fiscal year 2005 nearly **94 percent** of children supported by OKDHS Child Care Subsidy in childcare centers were in facilities rated higher quality as determined by independent raters.

**Eligibility System**

Prospective clients obtain an application for services from the county Human Services Center (there is at least one HSC in all Oklahoma counties), a childcare provider or online through [www.okdhs.org/childcare](http://www.okdhs.org/childcare). OKDHS Social Workers make an eligibility decision based on both need for services and financial status. The commitment is that an eligibility determination will be made within two working days of the receipt of a complete application packet, which consists of the application with accompanying verification documents. In SFY 2005 this timeliness goal was achieved on **88.5 percent** of application approvals.

Services are delivered by issuing an authorization that approves a specific child to attend a specific vendor for a number of days per month that is determined by service need. This authorization for care is processed in a statewide, real time and online system through the OKDHS Wide Area Network and an Electronic Benefits Transfer (EBT) application. Delivered care is recorded with magnetic cards produced by the HSC and Point of Sale (POS) devices that are present at each vendor location. This data is processed for a direct deposit payment on a weekly basis.

- Clients took an average of **9.1** days to complete the application packet, the eligibility decision was returned in an average of **1.4** working days
- Social Workers process an average of 5,160 approved authorizations per month

**Administration**

At the administrative level seven OKDHS divisions directly support operational aspects of the program. These divisions and their primary role are:

Family Support Services Division	Eligibility Policy, Provider Contracting
Division of Child Care	Provider Licensing and Quality
Finance Division	EBT and Payment Processing
Field Operations Division	Eligibility Determination
Office of Inspector General	Auditing and Program Integrity
Data Services Division	Systems and Application Support

- Administrative or state-office level staff assigned full time to subsidy functions number approximately 20
- There are approximately 2,032 staff statewide devoted to eligibility determination and case management (these staff also perform the same function for a number of other programs including Food Stamps, Medicaid and Temporary Assistance for Needy Families)

Electronic Benefit Services (EBT) Child Care

### **The EBT System in Oklahoma**

The Oklahoma Department of Human Services began implementing Electronic Benefits for Child Care in 2000. Factors leading to our decision include—

- Reducing overpayments.
- Improving the quality of care received by eliminating/reducing the paperwork required by providers.
- Insuring OKDHS staff, providers and clients were accountable for the services provided.
- Improving cash flow for providers. Providers were paid monthly.
- Getting parents involved in their children's child care needs and environment.
- Reducing administrative costs.

Did we accomplish these goals?

- Overpayments have been reduced by approx. 10%.
- Providers no longer complete paper claims unless they have been granted an exception (OKDHS pays fewer than 50 paper claims for exceptions per month).
- OKDHS staff have two (2) working days to either approve or deny eligibility.
- Parents are responsible for payment to providers if they fail to swipe when services are received.
- Child Care benefits are linked to the same card as Food Stamps and TANF making it less likely that parents will leave cards at a provider's facility.
- Providers know with the first swipe of each day if the child is approved for services, the copay amount to be paid by the parent and the part-time and full-time rates OKDHS will pay for that child.
- Providers are paid weekly, two weeks in arrears.
- Liquidated damages are charged to any provider found in receipt of a card.
- Parents must swipe in accordance with the Child Care facility requirements but must at least conduct swipes once every ten days.
- OKDHS has eliminated 8 FTE and no longer mails monthly claims forms or warrants.

### **Brief Overview of the System**

Swipes can be conducted daily or within 10 days of the service or any combination thereof. Child Care facilities decide how swipes will be conducted with their facility. Parents can check in/out up to ten (10) children in a single swipe transaction. All members of a family are assigned "person numbers" and parents can conduct swipes for any combinations depending on which kids are in care on any given day. An example is listed below:

Case #123456 has 3 children

- Swipe Card
- Enter PIN number
- Select choice on key pad of check in/out
- Enter child number
- Enter child number if applicable
- Enter child number if applicable
- Hit enter again which informs POS that parent has no more child numbers to enter
- System returns approved or denied message and prints info for each child checked in/out

Providers can run daily exceptions reports that inform them of kids that are checked in but have not checked out. Detail weekly payment reports are printed on the POS terminal for providers with fewer than 20 kids. Providers with more than 20 children receive a "summary" report with detail provided by the OKDHS Provider website.

Broadcast messages can be sent to individual providers, providers in a specific county or to all providers statewide. Caseworkers can also send individual messages to specific parents, which is printed when they swipe in.

All swipes, whether approved or denied, can be seen by OKDHS staff. OKDHS staff can also determine how many subsidy kids are in care, at any given time, insuring Licensing requirements are being met.

An Average Month

**Pre-Statewide Implementation**

Contracted Vendors	4,805 (Childcare Centers and Family Childcare Homes)
Children Receiving Services	<b>46,870</b>
Pay for Services	<b>\$11,673,304</b>

- Services are delivered in all 77 of Oklahoma’s counties
- **\$249.06** average per child
- Recipient families are responsible for approximately \$1.58 million in co-pays
- There are approximately 27,570 recipient families

**Post-Statewide Implementation**

Contracted Vendors	4,348 (Childcare Centers and Family Childcare Homes))
Children Receiving Services	<b>47,294</b>
Pay for Services	<b>\$10,615,827</b>

- Services are delivered in all 77 of Oklahoma’s counties
- **\$224.46** average per child
- Recipient families are responsible for approximately \$1.59 million in co-pays
- There are approximately 27,300 recipient families

**EBT and Policy**

Electronic Benefit systems by themselves do not affect significant cost savings. Cost savings are based on the policies implemented, in conjunction with EBT, by the States. OKDHS initially built the EBT system based on current policy and procedures and the system failed. The success of the system is attributed to a favorable political environment, the backing of leadership, improvements in county operations and our commitment to a successful system. Policy changes include:

- Two working days to approve or deny application
- No payment for failure to swipe unless a medical emergency prevents swiping
- Liquidated damages applied to any provider found in receipt of a card
- Cancellation of subsidy contract after three possessions
- Parent’s must enter Child Care facility at least once every ten days
- Creation of new rates to facilitate swipe process

**System Costs**

The monthly Cost Per Case Month (CPCM) is \$5.24 and includes:

- Call Center Operations—located in Sandy City, Utah
- Transaction Processing—Time and Attendance tracking
- Settlement to providers
- Reconciliation
- Card stock
- Embosser installation and maintenance
- POS installation and maintenance
- Training

The average CPCM paid to the Contractor for above services is \$247,993.48  
Original Contract Award (one-time funding)—\$5.2m

• Design	\$378,067.11
• POS Terminals	\$3,600,000.00
• Training	\$1,221,932.89

The Department spent an additional \$793,174.50 on enhancements during the life of the contract.

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Chairman HERGER. Thank you. Mr. Fecci to testify.

**STATEMENT OF DENNIS FECCI, FORMER CHIEF INFORMATION OFFICER, NEW YORK CITY HUMAN RESOURCES ADMINISTRATION, NEW YORK, NEW YORK**

Mr. FECCI. Mr. Chairman, Members of the Committee, my name is Dennis Fecci. I am former Deputy Commissioner and Chief Information Officer for New York City Human Resources Administration. I am here to talk to you today a little bit about external data matching for caseload integrity. Experience has shown us that many applicants and recipients supply information that is not accurate or current. By current, I mean that at the time of eligibility determination, the information was accurate, but changes in circumstances were not reported at all or not reported on a timely basis. A recent study in Indiana revealed that over 25 percent of the Medicaid recipients in long-term care had assets that were unknown to the State. We have seen that many States do not aggressively seek to externally verify information that is submitted by applicants and recipients. They depend on information supplied by the applicant or recipient and the documentation that they provide. We have also seen in New York and now in Indiana that it is possible to do a series of simple data matches to identify and correct critical information about the applicants and recipients. This results either in termination of the benefits or rebudgeting the case to the correct benefit levels.

The process is very simple. The State eligibility database is matched against external databases using demographic keys. When a discrepancy is discovered, a letter is sent to the recipient requesting them to call in to discuss the discrepancy. They have 10 days to respond. If they do not respond within that 10-day period, another letter is sent to them stating the State's intent to close that cases. If there is no response within 10 days, the case is closed. If the client verifies the match, they are asked to submit documentation. When the documentation is received, the case is rebudgeted, and the rebudgeting could result in a reduction in benefits of closing of the case. Indiana has embarked on a program to utilize as much information technology as possible to assure that only truly eligible persons receive benefits.

Starting on February 9, 2006, Indiana modified some data matches, sent over 20,000 discrepancy letters to recipients, and so far we expect that in about 36.5 percent of these cases there will be a reduction of benefits or a temporary or permanent termination of benefits. Indiana plans to pursue about 35 different matches, which I have listed in the written testimony. We found both in New York and in Indiana that obtaining access to the external data can be very difficult and time-consuming. Many organizations do not understand the legal privacy and confidentiality regulations and, therefore, are hesitant to share the information. We found that it takes many times longer to get the access to the information and the technical issues of actually programming the match and operationalizing the match. Thank you very much. I will be pleased to answer questions.

[The prepared statement of Mr. Fecci follows:]

**Statement of Dennis Fecci, Former Chief Information Officer, New York  
City Human Resources Administration, New York, New York**

*External Data Matching for Caseload Integrity*

- Experience has shown us that many applicants and recipients supply information that is not accurate or current. For example, a recent study in Indiana revealed that over 25% of Medicaid recipients in long term care had assets that were unknown to the state.
- Many states do not aggressively seek to externally verify information submitted by applicants and recipients.
- It is possible, using simple data matches, to identify and correct critical information that states have about applicants and recipients either terminating the ineligible or rebudgeting the case to the correct benefit grant levels.
- Typical data matches seek: undisclosed assets; new employment; private medical benefits; actual addresses/living arrangements; etc.
- Indiana is embarking on a program to utilize information technology to assure that only truly eligible persons receive benefits.
- Starting on February 9, 2006 Indiana modified an existing data match alert relating to new employment of recipients and has sent over 20,000 information discrepancy letters to those recipients. In approximately 36.5% of these cases, this process has (will) resulted in:
  - Reduction of benefits
  - Temporary termination of benefits
  - Permanent termination of benefits
- Indiana Plans to pursue the following external Data Matches:
  - Bank Match
  - Bureau of Motor Vehicles Match
  - Casino Winnings Match
  - Child Care Employment Match
  - County Employment Match
  - Credit Bureau Match
  - Home Attendant employment Match
  - Hoosier Lottery Match
  - Identity Unduplication Match
  - Inheritance Match
  - Insurance Award Match
  - Medicare Eligible 65+ Match
  - National Fleeing Felon Match
  - National New hire Match
  - Neighboring States Public Benefits Match
  - Outstanding Warrants Match
  - Personal Injury Awards Match
  - Professional License Match
  - Property Tax Match
  - PARIS Match
  - Quarterly Wage Reporting Match
  - Racing Winnings Match
  - SSA 40 Quarters CITIZENS Match
  - School Address/Guardian Match
  - Securities Match
  - Section 8/Public Housing Match
  - State Payroll/Pension Match
  - SAVE Match
  - TPhi Match
  - UIB Match
  - Utilities Match
  - VNS Employment Match
  - Vital Statistics Match
  - Worker's Comp. Match
  - 24-Month Continuing Eligibility Match
- Obtaining access to external data can be difficult and time consuming. States need assistance to promote this exchange of data.



Chairman HERGER. Thank you. I want to thank each of you for your testimony and particularly for traveling to be with us here today. It seems that a key advantage of increased use of technology involves disaster preparedness, which is obviously something that Texas, Louisiana, and Florida have experienced firsthand. Would each of you please briefly address how the use of automation can help speed services and assistance to people when disaster strikes and comment on what we have learned from Katrina to help better prepare for future disasters?

Ms. RATH. Mr. Chairman, I think it was important that the technology has to be very closely tied and an integrated part of the program service delivery. From our perspective, the most important aspect of it was the scalability. You can immediately increase your capacity and your capability for delivering services without being limited by your personnel, your location, or your offices. If you have that scalability, then you are able to respond to a sister State's needs. We had our own Rita. We had 65,000 unemployment claims come in in 2 weeks, to immediately process those, not by the offices in the area, but we had centers in El Paso responding to that need. Technology allows us to do that very seamlessly and without the customer being aware of it.

Chairman HERGER. Thank you.

Ms. GAUTREAU. In Louisiana, we issued 500 million emergency food stamp applications in a very short period of time, and I know that the technology there to do that was critical for our State's success in being able to handle that incredible volume. The technology failure, however, in the registration of people coming into shelters I think was one of the most glaring errors that really we saw so clearly with Texas because we were working with them multiple times during every day, trying to understand who was coming into their shelters. What we saw happen in the evacuation was, as the waters rose, children were taken from rooftops, from dangerous situations, and flown to Baton Rouge where we had an emergency children's shelter. The helicopters that came back then took the parents to Texas. There was no way that we had any electronic means to register either those children or those parents at those shelters. If we had had some kind of common data system that we could have used for registration, then we would have been certainly better equipped in our reunification process. We are looking at maybe electronic bracelets. We have a new Permat system that we plan to hopefully not have to test in 56 days, but as the new season approaches, we are looking at more technology at the registration sites in those shelters, and we hope that that will give us an edge against that kind of destruction and separation.

Chairman HERGER. Thank you.

Mr. WINSTEAD. Mr. Chairman, the hurricane season of 2004 was one of the important events that really led to the development of our Web application. Among the visitors to Florida in 2004 were Charley, Frances, Ivan, and Jeanne, and we were frankly devastated by that. In the Disaster Food Stamp Program, we were faced with having tens of thousands, if not hundreds of thousands of applications that we could not process. In a 72-hour period, our agency staff developed the prototype Web application that became the start of our ACCESS FLORIDA Web application. Ultimately,

we served 2 million Floridians in the Disaster Food Stamp Program in 2004. Then in 2005, with Hurricane Dennis that hit the Panhandle and then Hurricane Wilma that hit some of the most populated areas of Florida, we served an additional 3 million Floridians in 2005, and there we were able to apply those lessons. We took paper applications, but we drop-ship them to processing centers where we scan them in and then stream the data to our Web application for processing, and then issue benefits by EBT card.

We are planning new things in anticipation of the hurricane season of 2006. We have enhancements to our Web application, looking at ways to do more issuance of EBT cards on sites, looking at point of sale terminals for card swipe technology, integrated with the Florida driver's license database. All of our driver's licenses now have magnetic strips on them, so we are working on technology so you can swipe your driver's license to verify your identity, swipe your EBT card to validate your benefits there. We can associate the EBT card number, the case number, and the driver's license number so that we can make sure we have got the right person and speed the application of benefits. We are also looking at some additional mobile technology, including satellite technology, to try to be ready to rapidly respond to the needs of people this hurricane season.

Chairman HERGER. Thank you. Mr. Fecci, do you have any post-9/11 New York thoughts?

Mr. FECCI. Yes, I do. I was very heavily involved in the recovery after 9/11 in the city. We were able to rebuild facilities that were heavily damaged very quickly and convert our systems over to the issuance of emergency benefits. One of the chief lessons I learned from that was that we were able to do that because we were able to suspend the very complex and time-consuming procurement regulations, and I would suggest that many States should have emergency contingency type contracts that would only be exercised in a time of emergency to get us the goods and services that we need to rebuild very quickly.

Chairman HERGER. Thank you. Ms. Henley, do you have any comments?

Ms. HENLEY. Well, as it relates to disasters? No, sir. I think that there are—one of the things that I would like to see with technology, especially with EBT and child care, is incentives offered. It would be a real shame to have saved the \$10 million plus that we have saved in Oklahoma and pour it back into quality child care, just to have that taken back out, because all of our kids are benefiting now, so incentives would be a great opportunity.

Chairman HERGER. Thank you. The gentleman from Washington, Mr. McDermott, to inquire.

Mr. MCDERMOTT. Thank you, Mr. Chairman. When I went to Louisiana, the trip was scheduled to see a lot of oil fields, and I sort of skipped all that and went to see foster kids and hospitals and the kinds of social services things. I would like to ask you a couple questions about that. There is a budget laying on the desk here in the Senate—or in the House right now that cuts 30 percent out of the SSBG. In light of that, talk about what the disaster did to your planning for technology and also your ability to give mental health services, because nobody here has said a single thing about

what happens to human beings emotionally in this, which we all know creates more turmoil, which creates more child abuse, which creates more foster kids. It is a system that is feeding itself, and unless you arrest that, the mental health issue has got to be there someplace in it. Talk about a 30-percent cut and where you are in putting your system back online since you have had a whole 7 months to get it back all together, right?

Ms. GAUTREAU. Yes, thank you, Dr. McDermott. We were in the process of doing an integrated case management system across the Department of Social Services called “No Wrong Door” that actually would have several of the ingredients that my colleagues here have talked about today. That project was put on hold in the financial constraints that hit Louisiana immediately after the storm. We are now going to have to—I believe the word is “hold” or “freeze” that contract. We are finishing up the first phase of it so that we will have a product to deliver, but it will not put us in statewide Automated Child Welfare Information System (SACWIS) compliance, which is the Federal standard for child welfare systems and our technology. The original product would have done that. It will not do that now, and that is due to our budget cuts. The cuts to the social services block grants mean an awful lot to a State that is already in fiscal constraints. Our use of those funds really does allow us to enhance our mental health services. Our Department of Health and Hospitals, which houses our mental health, can only meet the needs of about 14 percent of the population, of the identified need that we know we have. That was pre-storm. We have always used our money and the child welfare system to augment those mental health services.

The children that come into the foster care system are already, by virtue of coming into the system, children that have been traumatized by abuse and neglect, and so their mental health needs certainly exceed those of most ordinary children. We have staff as well as foster families and foster children whose mental health is very fragile. The radio station that you referenced, counting down the days to the storm, I don’t think there is an Louisianian anywhere in this Nation that does not realize that hurricane season starts June 1st. People are frightened. They are fragile. They are worried. We are seeing an incredible increase in post-traumatic stress. We are seeing children that were adjusting well in other States getting frantic. We are seeing our incidence of child abuse in the resettled part of New Orleans going up exponentially. We took 13 children into care in 1 month in a city that has less than half of the population that it had before. We are just seeing the exponential repercussions of not addressing the mental health services of this population—not just the foster care population, but our staff and our regular citizenry. The technology that we need to move forward as SSBG, if that cut goes through, as the Budget Reconciliation Act (P.L. 109–171) impacts that, if title IV–E gets capped, as is often talked about in these hallowed halls, you are really putting a burden on States that are fiscally constrained by the aftermath of the storm. We were fiscally constrained before, but we certainly have a dual impact now.

Mr. MCDERMOTT. Talk about the title IV–E cap, what that means to you.



Ms. GAUTREAU. The title IV-E cap would be an immediate \$3.7 million hit to my budget, and that is just in the first year, and then the outward progressions would change as—

Mr. MCDERMOTT. Is that salaries of employees or is that—

Ms. GAUTREAU. It is administrative cost, which includes some salary, but it also includes some service delivery.

Mr. MCDERMOTT. Are you retaining foster parents or are you— how are you dealing with the 13 new ones you got? What do you do them? You just plo p them on top of what you already have, or have you got foster parents standing out there waiting?

Ms. GAUTREAU. No, we do not have foster parents sitting out there waiting. We hoped that we would with the aftermath of the storm when all of the people that called that wanted to adopt a Katrina orphan. We tried to sign them up and encourage them to become foster parents in their own States as well as Louisiana. We have a shortage of foster care families in the State. We still have about 136 foster families outside of the State that have not been able to come back into the State, and that leaves us a shortage of those families. We waived the normal restrictions for foster care about space and house size and room capacity so that we could double and triple up with our foster families who are in the State and who are willing to take extra children. We are in desperate need of foster care families, and that takes money to recruit them.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Chairman HERGER. Thank you. The gentleman from Louisiana, Mr. McCrery, to inquire.

Mr. MCCRERY. Thank you, Mr. Chairman. I thank all of you for your testimony today and for trying to help us as we figure out the best way to proceed nationally on improving our social services benefit programs across the board. I want to assure all of you that, even though the President's budget calls for a 30-percent cut in social services block grants, the President cannot pass anything. The Congress has to pass the budget and appropriate all moneys, and every once in a while we disagree with the President, whether he is Republican or Democrat. I cannot remember in 18 years in Congress when a President's budget has been adopted by the Congress. Don't worry about this 30-percent cut in the President's budget. My guess is that when the Congress passes the real budget, there will not be a 30-percent cut in the SSBG.

Ms. Gautreau, I want to explore just for a minute your reference to the SCWAS. As you know, this has been basically an open-ended entitlement for States. Initially, back in the early nineties, there was a 75-percent match. For every dollar spent by the State, the Government would put up 75 cents of it. Now it is a 50-percent match, 50 cents per dollar Government contribution, Federal Government contribution. Yet our State never got to the point where we were implementing a program. Of course, that is not your fault. That has been a number of years that that inaction has occurred. Where are we now? Why haven't we been taking advantage of this open-ended entitlement?

Ms. GAUTREAU. We were taking advantage of it in the No Wrong Door system that we were building that I referenced a moment ago. The program was put on hold because of the lack of the State's ability to meet its 50-percent match now to move forward

in light of the budget constraints that we are under. The system that we were building would have been SACWIS compliant. We are one phase into a three-phase, 10-year project, and we were not quite 2 years in. We have the beginning of a SACWIS compliance system, but we will not be there with the implementation of this first phase.

Mr. MCCRERY. If we were to have had a system fully operational before Katrina, would it have helped us deal with the effects of Katrina?

Ms. GAUTREAU. Absolutely. We would have not been so reliant on the paper records. We lost the entire record system in St. Bernard Parish. We lost many of the records in Plaquemines Parish. We were fortunate that in Orleans our office was on the 15th floor of a building downtown, and so when we got the papers dried out, most of them were there. The courts lost a lot of documents, but between us we have been able to piece together case records. Had we been SACWIS compliant, had that technology been in place, all of that would have been computerized data, and we would have had no fear of losing any child's record.

Mr. MCCRERY. Have all the foster children been accounted for?

Ms. GAUTREAU. Yes, sir. We found them all very, very quickly. They were scattered across our Nation, and they were—we still have quite a few children in Texas, Mississippi, and in Georgia. There are only 136 out of State now, so out of 2,000, we are thrilled to have them home.

Mr. MCCRERY. We talked a little bit about the \$220 million in additional social services coming to Louisiana. What do you plan to do with that?

Ms. GAUTREAU. Fifteen million out of the \$220 million will go to help us catch up with some of these children, the mental health services that we desperately need for these children we will use to kind of backfill some of our budget deficit. We will use that money to do the mental health. The travel—we have this unique dynamic now where we have a court of jurisdiction in New Orleans, we have a child maybe living in Texas, and then we have a birth parent in, say, Alabama. We have this unique triangular system, and courts require foster children see their birth parents monthly and they come to court monthly. We do not have the transportation dollars to manage this system, and we will be using some of that SSBG money to help us literally transport these children across State lines. We will also use some of it to implement some new prevention programs which we hope will in the long run keep children out of foster care and keep families stable and together.

Mr. MCCRERY. All right. Thank you very much.

Ms. GAUTREAU. Thank you.

Chairman HERGER. Thank you. The gentleman from California, Mr. Stark, to inquire.

Mr. STARK. Thank you, Mr. Chairman. Just very quickly, while I am intrigued and encouraged by information technology that can help us all do our work, sometimes I think that we have to be careful, particularly in dealing with children, that we not lose the human contact. Ms. Henley, you point out that your program gets parents involved in the children's child care needs and environment. I suspect that means as a result of requiring them to be at

the child care facility at least once every 10 days and swipe a card. That does not mean that they are really getting in and involving themselves in the activities of the child care. It just means they have got to be there to put their key in the lock. That is better than nothing. Don't misunderstand me, but I hope that you wouldn't lose sight of the way that we could entice parents to become more actively involved. Mr. Winstead, while I am intrigued with the Florida system—and I am sure this is something you have heard more about than you care to, but it seems to me that your Statewide Child Welfare Automated System was fully working at the time you lost Rilya Wilson, wasn't it?

Mr. WINSTEAD. If I may—

Mr. STARK. Well, and you have not found her yet, as far as I know. Now, maybe it would be easier to find her with the electronic system, but I merely suggest that as a means of saying that losing contact with people that, particularly in your communities, you are charged with—and particularly with children, where I think that well-trained caseworkers still could be the quickest way to determine when children might need the services of Dr. McDermott. He is not going to be replaced very soon by a computer, I don't think. I guess I would just like to—I would say the thing to Mr. Fecci, that while I am intrigued with how much money Indiana has saved by matching data, there is nothing in that list that says they have also found a lot of people who might be entitled to benefits who are unaware. The outreach was not emphasized. I guess I would just hope that with some of the savings that you get, Mr. Winstead, you would raise the pay of the workers who have face-to-face contact with your cases and in Louisiana that we would have some money left over from rebuilding to get preventative services to children who are going to be more traumatized than ever by being uprooted and moved to a strange community. God help them if they had to come to Oakland, California, from beautiful Louisiana. That could be a really traumatic experience for them. I am just suggesting that while we would like to help any way we can to encourage automation, that we don't become so intrigued with the push-pull, click-click of the computers and our BlackBerries and all this that we lose sight of what you all are really charged with is at some point that human interrelation that only a well-trained caseworker who is interested, and particularly with children, can be the one to help.

Mr. WINSTEAD. If I may?

Mr. STARK. Please, Mr. Winstead.

Mr. WINSTEAD. I think we would agree, and I would in no way try to do anything but agree that the Rilya Wilson situation was a tragedy, and I offer no excuse, no rebuttal.

Mr. STARK. Probably not caused by data processing—

Mr. WINSTEAD. If I may quickly say a couple of things. First of all, yes, we have raised those frontline caseworker salaries. Governor Bush has led that charge. Secondly, one of the things that was not happening in Florida was proper attention in keeping up with monthly visits by caseworkers to children. That has been a real emphasis for us. The U.S. Department of Health and Human Services Inspector General did a report released in December about monthly visitation to children that noted Florida has the second

highest compliance in that, but that was far too low for us. Last month, in March 2006, out of over 47,000 children in in-home care and out-of-home care in our State, caseworkers visited 99.18 percent of them. That is what we are doing. The other thing, though, with technology that I would mention very quickly, Mr. Chairman, just to make you aware of a new project, it is a pilot using Nextel IH70 GPS-enabled camera/cell phone and Zora time track technology.

Mr. STARK. You lost me.

Mr. WINSTEAD. What it does—and I have seen it work. We right now are piloting—we have got 82 protective investigators in Florida using this technology. They have got GPS cell phones. The supervisor can call up on a computer screen. You can actually see a map, and you can watch where the caseworker goes. We have got a camera. The caseworker can take a picture of the child—

Mr. STARK. Don't you tell my wife about that, Mr. Winstead, or I am in trouble.

[Laughter.]

Mr. WINSTEAD. The caseworker can also, when they go on annual leave or go to the doctor, enter a button to turn off the technology, but their supervisor knows it is turned off. The next version that we are getting in the pilot also will have a panic button so that if the caseworker gets in trouble in the field, we know where they are; we know to send help. Also, in rural counties, knowing where your caseworker is when a call comes in, you do not have to wait for somebody to come back to the office. You can look and see who is closest to that child and get somebody out there. That is a way that we are coupling the human contact that is so important—I agree completely about the training and the skill because it is really a people business. If we can give our workers the tools that they need and use the technology to help them do a better job, I think that is where you—

Mr. STARK. Great, and that is what I guess I just wanted to remind everybody. Thank you all for your testimony. Thanks, Mr. Chairman.

Chairman HERGER. The gentleman from California, Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you very much, and thank you for holding this hearing. To the witnesses, thank you for your testimony, especially on how you have tried to respond under some very compelling circumstances in many cases, especially, I know, in certain States more than others, things have been very difficult. Applause to you for the work that you do because we know you are already overworked to begin with. Let me just add, I know we have a vote coming up, so I would just like to say one thing. I hope we can continue to make use of every piece of technology we can, because as I see it, we are losing social workers faster than we can train them. Unless we do something to provide them with a better environment and they do not feel so overburdened, all that technology is going to go for naught because we will not have the human face that the technology allows us to put before these individuals, whether it is a foster child or parents who are trying to help out, as quick as we should.

I hope that we can find ways or you can let us know ways that we can harness this technology to help you save money with other administrative costs, because if we do not figure out a way to have the average social worker stay on the job more than 2 years, we are in real trouble. There is no way that anyone can do a decent job of providing services when you have got 100 families you are trying to monitor, when you should really be looking at no more than 15 or so. Kudos to you if you have implemented some things. Congratulations if you have faced adversity and you overcame it. Then let us know how we can help you harness that technology sooner than later. With that, I will yield back the balance of my time because of the votes that we have coming up. Thank you very much for being here.

Chairman HERGER. Thank you, and I want to thank each of you for the time you have taken for traveling here. Your information you have provided has been very interesting and will be helpful in the future as we look for ways to improve service delivery, achieve program efficiencies, and stretch taxpayer dollars. I would like to request of you, if we have some more written questions, if you would respond to those, please. Thank you again very much, and with that this Committee stands adjourned.

[Whereupon, at 4:10 p.m., the hearing was adjourned.]

[Questions submitted from Chairman Herger to Ms. Rath, Mr. Winstead, and Mr. Fecci, and their responses follow:]

#### **Questions from Chairman Wally Herger to Ms. Diane Rath**

**Question: I understand that Texas plans to use electronic payments for unemployment benefits. How will receiving electronic payments help recipients? What type of savings do you expect to produce for taxpayers?**

Answer: Receiving electronic payment of benefits via a debit card will assist Unemployment Insurance (UI) claimants by:

1. Eliminating lost or stolen warrants;
2. Decreasing the time between payment authorization and availability of funds to the claimant;
3. Eliminating check-cashing fees for claimants who do not have a bank account;
4. Allowing the claimant 24-hours-a-day, 7-days-a-week access to the claim's payment history through an interactive voice-response system, customer support, or the Internet; and
5. Providing 24-hours-a-day, 7-days-a-week customer support for payment-related problems.

TWC anticipates the following savings by transitioning to a debit card system of UI benefit payments:

1. Elimination of postage associated with mailing a warrant every 2 weeks;
2. Elimination of warrant cancelation and reissue expenses;
3. Elimination of the need to store, print, process, and account for special warrant stock.

**Question: What is involved in Texas's "complete integration of our Unemployment Insurance and Employment Services programs" that you note in your testimony? How long will that take? What do you expect that process to yield in terms of better services for recipients? Will taxpayers see additional savings?**

Answer: Complete integration is a large coordination and coding project intended to both combine and streamline the information collection processes for UI claim filing and work registration. One of the primary goals is increasing data integration and sharing between both components of the UI claim filing systems—telephone and Internet, and WorkInTexas.com, the state's automated labor exchange system. TWC is also redesigning how job seekers input information into WorkInTexas.com to provide better quality résumés and applications for UI claimants.

How long will that take? We estimate approximately 18 months for completion of the project as currently scoped.

What do you expect that process to yield in terms of better services for recipients? The project envisions a single, more efficient, and essentially seamless claim filing and work registration process, resulting in a better quality work application. These integration efforts will provide a more user-friendly process for UI claimants and a more efficient method for Texas Workforce Center staff to match job seekers and employers.

Will taxpayers see additional savings? Ultimately, our efforts at system integration will enhance the ability of our employers to fill their vacancies quickly, using the public workforce system they fund. We also believe that improving the quality and timeliness of UI claimants' work registration will reduce the amount of time claimants are unemployed.

**Question: Your testimony notes that the "Lone Star Card" is now used for social service benefits and that administrative costs and fraud have been reduced. Can you tell us how much has been saved or made available for other benefits by this innovation? What were some examples of fraud and abuse that has been prevented?**

Answer: How much has been saved or made available for other benefits by using the "Lone Star Card" for payment of social service benefits, including savings achieved through reduced administrative costs and fraud? The Lone Star Card is used for food stamp benefits as well as Temporary Assistance for Needy Families cash assistance. Eligibility and payment of benefits are administered by the Texas Health and Human Services Commission. Although exact savings are difficult to calculate, during the first 7 years of implementation, according to information from the Texas State Comptroller, the Lone Star Card was estimated to save \$126 million in administrative and other costs. In addition, data from electronic benefits transfer makes it easy to detect and eliminate duplicate accounts and redundant information. The computerized system can also quantify the amount of unused benefits from 1 month to the next. As a result, in fewer than 3 years following implementation of the Lone Star Card, almost 900,000 dormant cases worth more than \$28 million were removed from the Food Stamp rolls and cases worth more than \$5.5 million were removed from the Temporary Assistance for Needy Families rolls.

What are some examples of fraud and abuse that have been prevented? A \$1 million illegal food stamp ring was uncovered at the end of the pilot project as a direct result of the electronic audit trail provided by the Lone Star Card. In addition, in 1996, a U.S. Department of Agriculture investigation in Houston only disqualified 9 percent of the area's food stamp retailers, compared to 15 percent that were disqualified in cities in states using paper coupons. This discrepancy suggests that unscrupulous retailers might have voluntarily withdrawn for fear of exposure with the electronic benefits transfer system.

**Question: What differences have you seen since unemployed workers have been required to register with WorkInTexas.com? How do you verify that claimants are making at least three work searches per week?**

Answer: What differences have you seen since unemployed workers have been required to register with WorkInTexas.com? Texas has always maintained a requirement that UI claimants register for work in the state's automated labor exchange system. Implementation of WorkInTexas.com has made that registration process much easier. Because WorkInTexas.com is Internet-based, UI claimants can access the labor exchange system 24-hours-a-day, 7-days-a-week, from any location that has an Internet connection. Additionally, feedback from users continues to validate that the WorkInTexas.com application compares extremely favorably to other Internet job search applications. We anticipate that the number of Texas employers and job seekers using the publicly funded labor exchange application will continue to grow.

How do you verify that claimants are making at least three work searches per week? TWC uses a statistically valid, random sampling methodology to verify that UI claimants, who are required to do so, are making the appropriate weekly work searches. Each week, UI claimants are randomly selected to submit their work search logs to TWC. Staff verifies that (1) the requested log is received, (2) the log contains the appropriate number of work search contacts, and (3) the work search activities contained in the log are valid. TWC enacted state rules that integrate UI with each of our 28 Local Workforce Development Boards (Boards). TWC has determined that UI claimants must demonstrate that they are actively seeking work by making at least 3 weekly work search contacts. TWC has further determined that it may be appropriate to require more than three contacts per week, depending upon local labor market conditions as determined by the Boards. Boards, using various

economic and geographic factors within their local workforce development areas, may raise the required number of work search contacts. In addition, TWC also provided Boards with the ability to lower the number of work search contacts in rural counties. However, the vast majority of UI claimants in Texas are required to make a minimum of three work search contacts per week. UI claimants who have been temporarily laid off, with definite return-to-work dates, as well as UI claimants attached to nondiscriminatory union hiring halls, are not required to conduct weekly work searches

**Question: What efficiencies have you noted since Texas started running data matches using the National Directory of New Hires? Which programs are involved? What savings have you achieved? Do you have plans to use this information or similar data matching more broadly in the future?**

Answer: What efficiencies have you noted since Texas started running data matches using the National Directory of New Hires? Accessing the National Directory of New Hires (NDNH) database has contributed to TWC's ongoing initiative for early fraud detection, while reducing the amount of overpayments. Since TWC entered into a computer-matching agreement with the Office of Child Support Enforcement (OCSE) in fall 2005, weekly new hire matches have increased by 75 percent. OCSE reports New Hire W-4 information 30 days from the date of hire, which is much timelier than acquiring employer wage information. Additionally, TWC has noted an increase in collection notices generated to UI claimants, which can be directly attributed to the additional new hire matches.

Which programs are involved? Federal statute limits TWC's use of the NDNH to administration of the unemployment compensation program.

What savings have you achieved? In Federal Fiscal Year 2005, TWC recovered overpayments in excess of \$3 million. Additionally, TWC estimates potential overpayments that were avoided of approximately \$3.9 million.

Do you have plans to use this information or similar data matching more broadly in the future? TWC is interested in expanding our use of the NDNH to confirm employment for individuals participating in other programs. However, our use of NDNH is limited based upon federal statute. TWC administers many workforce programs in addition to unemployment insurance. If the federal statute were amended to provide workforce agencies more flexibility in the use of NDNH for all programs they administer, TWC would be able to conduct cross matches for other income eligible programs, and determine if individuals were fraudulently receiving benefits. In addition, TWC has been working closely with the United States Department of Labor (DOL) and OCSE in developing the design for the quarterly wage cross match. OCSE anticipates that the new cross match design will be available in fall 2006. TWC also is working to enhance the current data-sharing agreement with the Social Security Administration (SSA) to improve verification of identity, while obtaining additional personal characteristics to reduce fraud. These additional data elements include disability, death, and prison information.

**Question: What defines the difference between states that have taken steps to improve their use of technology in public benefit systems and those that haven't yet? Does it boil down to resources, leadership, vision, or something else? All states have access to the same federal funding rules when it comes to paying for systems; so that seems to suggest that funding is not the key issue. So what drives state differences on this?**

Answer: What defines the difference between states that have taken steps to improve their use of technology in public benefit systems and those that have not yet? We can only speak to those factors that have driven technology decisions as they relate to the Texas workforce system. For Texas, the challenge to meet employer and job seeker needs counterpoised against very real budget constraints has led to the use of technology and automation. Additionally, Texas continues to foster a climate favorable to high-technology and science-oriented business. Enhanced use of technology by the public workforce system is a natural extension of that effort.

Does it boil down to resources, leadership, vision, or something else? We believe that in Texas, it is a combination of all three.

1. Resources: Texas receives less than 40 cents of every dollar paid by its employers in UI tax. With that rate of return, we have been driven toward finding efficiencies and process improvement through the strategic use of technology. Our efforts have helped us to simultaneously contain costs and improve the services we provide to employers and job seekers.

2. Leadership: TWC is a leadership partner with the Governor in ensuring that the Texas workforce system effectively and efficiently serves employers and job seekers of Texas. Employing technology in innovative ways throughout the publicly

funded workforce system maintains services, contains costs, and positions Texas as a leader among states in economic and workforce development.

3. Vision: The vision of Texas' leadership is to ensure that it maintains a workforce and economic development infrastructure that makes Texas highly attractive to business, thereby generating high-growth, high-demand jobs for Texans. Successful deployment of automation and technology are key factors in realizing this vision. All states have access to the same federal funding rules when it comes to paying for systems, so that seems to suggest that funding is not the key issue.

What drives state differences on this? As previously indicated, resources, leadership, and vision are the key drivers of the differences among states. However, we should note that Texas has long been concerned that federal funding rules do not drive states toward seeking the efficiencies that Texas has—particularly regarding UI. We have, for years, puzzled over the discrepancies between the allotment criteria in federal statute and the factors that DOL says it has relied upon to allot grant funds among the states. Indeed, two of the three factors set forth in section 302 of the Social Security Act for allotting funds necessary for “proper and efficient administration” of each state’s UI laws have been ignored by DOL in awarding base grants to states. This allotment practice not only reinforces, but finances inefficiencies and inequity among states, while penalizing streamlining and cost-reductions. The population covered by state laws and the number of unemployed in a state should be key factors in any allocation methodology. While differences in states’ administrative costs are often attributable to choices that states have made regarding UI claimant eligibility, overall reciprocity, and program administration—DOL methodology should not consider these cost factors “uncontrollable,” thereby allowing other states’ programs to be financed by tax proceeds from Texas’ employers. Texas has worked diligently to enhance services to employers and UI claimants while containing costs. Strategic deployment of technology and automation have been key to those service enhancements.

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#### Questions from Chairman Wally Herger to Mr. Don Winstead

**Question: What has Florida done with the estimated \$83 million in savings you produced by improving your use of technology in public benefit programs? Are those state or federal funds? Did your saving state funds also reduce federal spending in Florida?**

Answer: The \$83 million in savings was achieved from administrative costs due to reductions in personnel and related expenses, such as savings from reducing leased office space. These savings resulted in reductions in our agency’s budget requests to the Florida Legislature. The savings included state funds, Temporary Assistance for Needy Families (TANF) federal funds and federal matching funds for food stamp and Medicaid administrative expenditures. The state fund reductions permitted the Legislature to use the resources on other priorities and to reduce the overall budget. The TANF savings were redirected by the Legislature to other permissible uses and the portion consisting of federal matching funds resulted in reduced federal expenditures and savings for federal taxpayers.

**Question: How are welfare and food stamp benefits paid in Florida? Specifically, do you still use paper checks? How about benefits for Hurricane Katrina evacuees? What are the advantages to Florida of paying benefits electronically?**

Answer: Florida no longer uses paper checks for either welfare or food stamp benefits. Most of such benefits (including cash payments or food stamps to Hurricane Katrina evacuees) are paid using Electronic Benefit Transfer (EBT) cards. Cash assistance recipients also have the option of having their benefits deposited to their bank accounts through electronic funds transfer (EFT). Currently about 300 recipients choose EFT rather than EBT. Most cash assistance customers also receive food stamp benefits, so the EBT card provides the convenience of providing both benefits. Medicaid recipients receive “Gold Cards” through which they receive access to health care by authorized health providers.

EBT and EFT services are a win-win for customers, retailers, financial institutions as well as federal and state agencies. Customer benefits are received more quickly and are less likely to be lost or stolen. It is also easier for customers to access benefits. Efficiencies in processing payments and recordkeeping provide savings for taxpayers. In addition, electronic payments enhance program integrity. This is particularly evident in the food stamp program where the use of EBT cards help assure that benefits are only used on authorized food items at participating retailers.



**Question: What does Florida do to promote electronic payments? What do you do to help people without bank accounts who cannot receive direct deposits? Do you foresee a day when every government payment is made electronically, and none by paper check?**

Answer: Florida is a leader in promoting electronic payments. However, we believe we can do much more in this area. State statutes require most state employees to use direct deposit. Payments to contracted providers are also primarily issued via direct deposit. As indicated above, benefits are issued for the major Economic Self-sufficiency Programs electronically via EBT cards or EFT. While cash assistance recipients can choose the option of direct deposit into bank accounts, they do not have a choice to receive paper checks. Additionally, direct deposit is used for unemployment compensation payments to people with bank accounts and discussions are underway now to enable the use of EBT cards for others. The Department's Strategic Plan also includes a cross functional workgroup to plan for use of electronic payments for Independent Living stipends, foster care and adoption subsidies, and self-directed mental health and substance abuse services. Regarding assistance for people without bank accounts, bank accounts are not needed when benefits are issued on EBT cards. However, the department has worked with the State Comptroller's office to encourage financial institutions to create low cost bank accounts for individual use. Finally, we do foresee a day when every government payment is made electronically and we are rapidly moving toward that day.

**Question: You note that in your Economic Self-Sufficiency programs you now serve more people, with literally thousands of fewer staff. If my math is correct, each worker now helps about 560 recipients per year, compared with about 260 recipients served per worker in 2002.**

- **What programs are included in the Economic Self-Sufficiency plan?**
- **What happened in terms of the quality of services? Is there any evidence that services suffered in the process?**
- **What became of the caseworkers who formerly carried out these functions for applicants?**

Answer: The Economic Self-Sufficiency program includes determining eligibility for TANF, food stamps, Medicaid, Optional State Supplementation, Refugee Cash Assistance and Refugee Medical Assistance.

We have seen improvements in quality of services in a variety of measures. Our food stamp error rate has been reduced and we have also seen reductions in the error rate in cash assistance payments. For example, in our TANF program the payment error rate declined from 6.2% in 2001 to 2.87% in 2005. The food stamp error rate fell from 9.8% in 2001 to an estimated 7.02% in 2005. This improvement in quality occurred even though the state was hit with seven hurricanes and had to shift tremendous amounts of resources to disaster relief.

As I stated in my testimony, we include a customer survey at the conclusion of the web application and 90% of customers indicated they would use the web application again. In addition, our Quality Control staff surveyed customers on their use of the self-service areas of our service centers. 92% of those who used the self-service area reported that it was convenient and easy to use.

Regarding caseworkers affected by the improved efficiency of our operation, the significant majority of the reductions in staff were accomplished through attrition and elimination of vacancies. Where attrition was not sufficient to achieve appropriate reductions, we formed teams to facilitate the job change process. These included Human Resources staff as well as staff from local Workforce agencies. These teams worked to assist employees in finding other opportunities within our agency, or in other positions within either government or the private sector. Approximately 400 employees were affected by layoffs. Some chose to retire, but most were able to find other employment. Fortunately, through this period, Florida was a leader in job growth and experienced record low unemployment.

**Question: What defines the difference between states that have taken steps to improve their use of technology in public benefit systems and those that haven't yet? Does it boil down to resources, leadership, vision, or something else? All states have access to the same federal funding rules when it comes to paying for systems; so that seems to suggest that funding is not the key issue. So what drives state differences on this?**

Answer: Resources, leadership, vision and other factors all played a role in shaping Florida's approach to modernizing the public benefits system. Governor Bush and the Florida Legislature provided very high level leadership and direction on this issue. Proviso language in the 2003 Appropriations Act directed the department to achieve efficiencies in the public benefits system. Additionally, Florida was fortu-

nate to have some highly talented and creative staff who were able to envision a new system and create the necessary technological tools to achieve it. As I indicated in my testimony, the need to respond to disasters also played a role. The 2004 hurricane season, in which four major hurricanes struck the state in only 6 weeks, and the ensuing disaster food stamp programs created an environment where the state was forced to test new approaches to meet emergency needs. The web-based tool developed for this need became the prototype of the web application that is in operation today.

**Question: Your testimony notes that today about 77 percent of public assistance applications in Florida are submitted over the Internet. That's compared with 41 percent in July 2005. That's a huge leap in a short time.**

- **What do you do to ensure that with the increased electronic applications there aren't ore people improperly claiming benefits, such as by claiming benefits from another state, or under someone else's Social Security number, or some other scheme?**
- **Are the systems in place to prevent fraud and abuse in the electronic world stronger than when paper applications were the norm?**

Answer: We use multiple mechanisms to reduce improper payments and improve the integrity of public benefit programs. One mechanism is to designate cases that meet certain "error-prone" criteria as "red track cases". These situations are subject to more rigorous review through the application process. Another important mechanism is data exchange. We perform approximately 20 data matches with external sources. These include the Benefit Earnings Exchange Reports System (BEERS), the Beneficiary Data Exchange Title II (Bendex) system, the Numident system to validate Social Security numbers, IRS unearned income data, Unemployment Compensation benefits, UI Wage data, and so forth. Seven of the data exchanges are part of the Income Eligibility Verification System (IEVS) and the remainder are additional matches done with federal and state sources. We currently perform a match with the State Directory of New Hires and we are in the process of implementing use of the National Directory of New Hires.

We have reengineered our program integrity and front-end fraud prevention programs as part of modernization. These staff have access to more electronic data than the typical employee and are specially trained to find inconsistencies in information and follow up to prevent and uncover fraudulent activities.

Florida also is one of 36 states participating in the Public Assistance Report Information System (PARIS) to identify potential duplicate program participation.

The use of electronic data matching provides improved program integrity over the days when paper applications and paper verifications were the norm.

**Question: What are Florida's future plans to continue improving efficiency in providing public benefits? How can the federal government help?**

Answer: We are constantly working to improve the model and achieve greater efficiency. We think there are great opportunities to use electronic data matching in better ways including verification of identity. On-line, real-time matches with the Department of Motor Vehicles are planned. We are working on a process whereby customers can report changes on touch tone telephones, complete an eligibility review by updating information currently in their case, and receive more information on their applications using speech interactive technology. Secure authentication of the person's identity will make this two-way information highway possible. Centralized mail centers that interface with our Electronic Filing System for scanning and indexing of case file documents are also being considered for future streamlining enhancements.

The federal government can help in a number of ways. Federal agencies can continue to be supportive and work with states to test new ideas and grant waivers where needed. For example, the Department of Agriculture has granted waivers to certain interview requirements to facilitate implementation of the web application. It is important to focus on outcomes rather than procedural requirements. States have been the laboratories of innovation in program design. States can also be the laboratories of innovation in use of technology. We believe Florida is an excellent example of what states can accomplish.

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#### **Questions from Chairman Wally Herger to Mr. Dennis Fecci**

**Question: Is data matching such as that practiced in New York or Indiana cost effective? In short, do the program savings from data matching more than offset any costs of running the matches? Do individuals benefit,**

**for example when states are better able to target work supports like child care to people who just got a job?**

Answer: Data matching is extremely cost effective in New York. Technical and operational cost are clearly offset by revenues intercepted, and changes in eligibility status of individuals due to new and more accurate information. Large amounts of newly acquired or undisclosed assets are revealed through this process. New York has recovered many millions of dollars from bank accounts, court awards, inheritances, and lottery winnings, and so forth. The cost benefit of the new data matching initiative in Indiana will be determined in the third quarter of 2006 as the initiative is its initial stages, but is expected to yield substantial savings and be cost effective. Although some of the information obtained in the data matching process has been used to assist clients, data matching in New York, and thus far in Indiana, has focused on correcting and updating applicant and recipient eligibility information such as new and undisclosed assets (salaries, bank accounts, awards, third party health insurance, and so forth.).

**Question: Why do you think more states haven't used data matching to ensure the public benefits they pay are correct?**

Answer: I believe that many states do not aggressively pursue data matching because they have limited resources and more pressing priorities. The process to obtain access to external data is difficult and time consuming. External entities are protective of their information, and are not familiar with the privacy, confidentiality and legal precedents regarding the release of information to states. Experience has shown that obtaining access to external data files takes many times longer than the technical tasks required to perform the match.

**Question: I note the closing comment in your testimony that "States need assistance to promote this exchange of data." What sort of assistance? What specifically should the federal government do to better promote data matching?**

Answer: Data matching and its substantial financial benefits can be greatly accelerated nationwide if the Federal Government were to promulgate legislation and/or HHS regulations that would require private sector organizations to share data for the sole purpose of promoting applicant and recipient caseload integrity.

**Question: You note that a study in Indiana "revealed that over 25% of Medicaid recipients in long term care had assets that were unknown to the state." What did the state do after learning this information? Did any savings result?**

Answer: It is my understanding that the state is in the process of determining what course of action should be taken to ameliorate this problem.

**Question: Does New York use biometrics to confirm an individual's identity or otherwise better ensure proper payments? What are the advantages of that approach?**

Answer: Approximately 10 years ago, New York implemented the Automated Finger Imaging System (AFIS) to positively identify applicants and recipients for the sole purpose of preventing duplication of benefits. AFIS has achieved this goal, has added to the integrity of the eligibility process in New York, resulting in the closing of several thousand cases. AFIS has also provided information which has led to many hundreds of arrests, prosecutions, and convictions for benefit fraud.

**Question: What defines the difference between states that have taken steps to improve their use of technology in public benefit systems and those that haven't yet? Does it boil down to resources, leadership, vision, or something else? All states have access to the same federal funding rules when it comes to paying for systems; so that seems to suggest that funding is not the key issue. So what drives state differences on this?**

Answer: I believe that the major differences between states that emphasize technology to improve public benefit programs and those that do not, are necessity and the availability of resources. In New York, for example, with its large volume of applicants, recipients and multitude of programs, technology is a key to efficient management and control. In forward thinking states, technology is seen as the way to ease the burden on operational staff and increase productivity. This vision as a motivator would be meaning less with out the technical and financial resources to design, develop, and implement automated data processing solutions. Large states such as New York have sufficient resources to elevate technology as a high priority without sacrificing other priorities. Regarding Federal funding, I do not agree that all states are on equal footing. This occurs only when a project is 100% federally

funded. I have seen examples where states do not have the necessary budget to fund the substantial state share required to begin a data processing project.

[Submissions for the record follow.]

ACS Government Solutions  
*April 17, 2006*

We were privileged to attend the hearing led by Chairman Herger on April 5 addressing the use of technology to improve public benefit programs, and we appreciate this opportunity to submit written comments that we hope will provide additional clarity on the policy implications of the testimony presented at the hearing.

The use of electronic payments for distributing benefits to families has skyrocketed. As Congressman Herger pointed out, “electronic payments exceeded payments by paper checks for the first time in 2003.” ACS is a strong proponent of electronic payment and electronic benefit delivery technology, and we have successfully implemented such technology in states throughout the country. We are proud to enable families to receive benefits more efficiently, more securely, and more cost-effectively.

Virtually all of the invited witnesses commented on the value of electronic benefits delivery, pointing out cost savings, delivery reliability (especially in the face of natural disasters), and enthusiasm of benefit recipients. However, interactions at the hearing did not make clear an important distinction between the use of electronic cards to disburse cash assistance, food stamps, and other benefits and the use of such cards to pay fees for specific services. Cash assistance, unemployment compensation, and other benefits may be spent as recipients see fit. Food stamps may be spent for a limited purpose, and the use of electronic benefit cards helps ensure that inappropriate purchases are not made. The use of electronic payment cards for payment of state and Federal subsidies for specific services should be understood as a distinct use for such cards, presenting clear opportunities for reduction of erroneous payments. The testimony provided at the hearing by Lisa Henley, of the Oklahoma Department of Human Services, illustrated the potential impact of this use of electronic payment cards, and we are submitting this additional testimony to draw attention to the policy implications.

While we believe that it may be valuable for the Federal government to provide incentives for states to move toward electronic benefit disbursement methods generally, we wish to point out the particular value of providing incentives for states to pay providers for subsidized services using electronic “time and attendance” payment systems, so as to reduce errors, fraud, and abuse. In fact, without utilizing the proven “time and attendance” card technologies readily available to prevent overpayments and fraud, electronic cards may simply accelerate the disbursement of unjustified overpayments.

In her testimony before the Subcommittee, Ms. Henley, Project Director of the Oklahoma EBT Project, indicated that by coupling policy changes with technology that allows child care service benefits to be distributed and tracked electronically, the Oklahoma Department of Human Services was able to significantly reduce the amount of overpayments made to child-care providers. The policies and technology employed by Oklahoma enabled State officials to:

- Exclude ineligible providers and clients at the point of serviced delivery, before service was provided
- Prevent invoicing for service hours not provided
- Create real-time, online audit documentation at the point of service delivery
- Significantly reduce expenditures by preventing erroneous and improper payments.

Oklahoma is now able to provide child care services to more children at a 10% reduction in the average cost per child—from \$249.06 per month before implementation to \$224.46 after implementation. In addition, the Oklahoma Department of Human Services was able to eliminate administrative positions, since payment and auditing are completely automated. The cost to implement the time and attendance system was recouped by eliminating over-payments to service providers within only six months of operation (within the fiscal year during which the project was implemented.) The State is saving about \$1 million a month. The Department has invested these savings into provider training and increased provider rates, which means better care is provided for Oklahoma’s children.

Savings such as those experienced by Oklahoma are easily achieved when actual time and attendance is tracked for services provided. The swiping of electronic cards at the child-care center or home when a child arrives and departs creates an elec-

tronic invoice that the State uses to pay the provider. The automatic invoices completely replaces the time-consuming paperwork that was necessary to document attendance and prepare and submit invoices in the past, and the State never pays for hours of care that were not, in fact, provided. There is no need for after-the-fact audits of attendance records and recoupment of over-payments that were never made. Providers benefit by receiving prompt payments via direct deposit from the State, without ever submitting invoices or tolerating attendance record audits.

Potential savings are by no means limited to child care services. In fact, the same simple, proven technology can be applied toward many other fee-for-service subsidy programs. Medicaid services that involve recurring transactions (such as drug and alcohol therapy, in-home health services) and TANF job-search/job-training participation can make good use of simple electronic payment cards to track time and attendance and ensure that fees paid to service providers are for services actually used.

When considering legislation that encourages states to expand electronic delivery of subsidy payments and benefits, we urge the members of the Subcommittee to make the distinction between benefits distribution and fee-for-service payments and to provide specific incentives for states that establish effective fraud and abuse deterrence programs, such as the child care time and attendance tracking system that Oklahoma implemented. Such incentives can prevent improper payments from ever being made by preventing an erroneous invoice from ever being submitted.

The hearing made it clear that electronic distribution of benefits produces postal savings and other cost-efficiencies that states are already recognizing. The opportunity to reduce erroneous payments by using electronic cards to document service usage before paying fees for service mentioned but not highlighted at the hearing, and we believe that it may not get much attention from state officials without a Federal push. Perhaps state officials are not focusing on eliminating wasteful spending when the funding source is a Federal block grant, or perhaps they are so focused on eliminating paper checks that they haven't realized the other potential benefits of moving to electronic payment cards, including accurate invoicing for fee-for-service subsidies and elimination of payments for services not actually provided.

Thank you for permitting us to draw attention to this opportunity. We urge those drafting legislation addressing electronic benefits distribution to encourage states implementing electronic payment cards to promptly adopt use of this simple and proven technology to significantly reduce erroneous payments in fee-for-service programs such as child care and Medicaid and to also use it for tracking time and attendance in work participation activities in the TANF program.

Respectfully submitted,

Sherri Z. Heller, Ed.D.  
*Vice President, Children and Youth Services*  
 Gregory Cohen  
*Business Development Manager*

Social Security Administration  
 April 5, 2006

Mr. Chairman and Members of the Subcommittee:

Thank you for allowing me to discuss the Social Security Administration's (SSA) effort to move from a paper-based disability claims process to an electronic one. Our disability programs provide income security to over 11 million Americans with disabilities through the disability insurance program and the supplemental security income program. Commissioner Jo Anne B. Barnhart has made improving the disability determination process one of her highest priorities throughout her tenure as Commissioner. Our new electronic disability process—eDib—is central to our efforts to make those improvements.

Shortly after she became Commissioner in 2001, Commissioner Barnhart asked for a detailed analysis of the entire disability determination process from the time that a claim is filed with SSA to the time that a review is under taken by a United States district court. This analysis showed that SSA's reliance on old-fashioned paper files was limiting the Agency's ability to efficiently manage this vital workload.

This review showed a disability determination process tied to a paper folder that grew larger and larger as the process continued. The disability determination process started with a call to our "800" number or a visit to one of SSA's 1300 field offices. Claimants were asked to fill out several forms providing the necessary information. Six-part paper folders were established for each claim. These forms along with signed authorizations for release of records were filed in these paper folders

and then mailed to the State Disability Determination Services (DDSs)—the state agencies charged with making initial disability determinations. DDSs then mailed a request for medical evidence to the treatment sources, who then mailed paper copies of their records back to them for review. A DDS might also contact third parties and arrange consultative examinations to obtain more evidence, also by mail and also on paper. After reviewing all the evidence and making an initial disability determination, the DDS would then mail the disability folder back to the SSA field office. All of the forms and documents obtained during the process were shipped and stored in a traditional paper folder.

A person dissatisfied with an initial determination made by a DDS could pursue an appeal through three administrative levels and the Federal courts.

At each point, the process would start over again: paper forms completed and mailed, requests for evidence mailed and paper replies reviewed, and paper files transferred between offices. All this mailing back and forth was time consuming and often resulted in important evidence, or even entire files, getting damaged or lost.

At the time of that analysis the Agency was on a 7-year timeframe to implement an electronic disability process that would replace the traditional paper folders. Seven years was too long to wait, so Commissioner Barnhart asked me and other members of her senior staff how soon we could roll out eDib if the necessary resources were provided and we told her two years. I want to thank the Members of this subcommittee who supported providing those resources, because with them and with a lot of hard work we in fact rolled out the electronic disability process in two years instead of seven.

Reaching this goal required the coordination of enormously complex computer systems. To make this new system work, we had to do an extraordinary amount of programming not just on SSA's computers but on the different hardware and software used by the DDSs. This was and continues to be a monumental task. There were serious technical issues to overcome, especially in the early days. We aggressively worked to resolve all those issues. I want you to know that we are aggressively looking for and addressing problem areas.

Implementation of the electronic disability folder began in January 2004, and as of January 31, 2006, all 50 State DDSs have rolled out the electronic disability folder and more than half are working in a completely electronic environment for new cases.

I want to note at the outset that eDib does not replace the millions of paper files that SSA already maintains. We will be working with them to conduct post-entitlement eligibility actions, such as continuing disability reviews, for years to come. But with eDib, we are seeing the beginning of the end of paper files, and the burden and expense associated with them.

I would like to highlight for you the key elements of the new electronic disability process, and provide an overview of where we are with the rollout of that process.

Before I begin, I would like to especially recognize the people responsible for the successful implementation of eDIB—SSA's dedicated employees and its partners in the State DDSs. The computer systems and software behind eDIB are incredibly complicated, and eDIB is a tribute to the talent of the men and women at SSA who analyzed the disability determination process, developed the software and hardware platforms, tested it and then rolled it out in a very controlled process.

#### *Overview of eDib*

eDib starts with the submission of an application for disability benefits to SSA. Once this application is received field office staff enter information that used to be collected on several paper forms into a central Electronic Disability Collect System (EDCS). The information gathered to make a disability determination is stored in an electronic folder organized along the lines of the traditional paper folder. Forms that were once printed and signed by hand are created and stored in the electronic folder. The data are automatically shared with the DDS systems in a way that eliminates the need for re-keying. So far, over 12.9 million claims have been processed through EDCS.

The contents of the electronic folder can be accessed by field office staff, quality assessment reviewers, and State and Federal adjudicators (and support staff) from anywhere in the country without the need to physically transfer the file. This provides greater flexibility and protects against lost or damaged folders.

#### *Electronic Disability Collect System (EDCS)*

With eDib, SSA offers an option to those comfortable with using the Internet of starting the application process on-line. By visiting [www.socialsecurity.gov](http://www.socialsecurity.gov), claimants can provide or start to provide the information on their medical, work, and education history necessary to adjudicate their claims. At a minimum, this option

familiarizes claimants with what is needed to determine their claims, and optimally, it makes for a much more efficient disability determination process once the claimant does visit the field office to complete the application. Since the first Internet applications were taken beginning August, 2002, SSA has taken over 500,000 disability claims over the Internet.

All of the information provided by the claimant either over the Internet or in person at one of our field offices is automatically entered into EDCS. During the field office review of the application, EDCS ensures that the SSA claims representative obtains all necessary information from the claimant through a system of alerts. While resolving these alerts take extra time, EDCS results in better documented claims and makes for more efficient processing during subsequent steps of adjudication. In addition, this information is electronically stored and propagates to other computer applications later in the process, avoiding the need for re-keying the information.

100 percent of SSA's field offices are using EDCS, and over 97 percent of initial claims are taken using EDCS. Approximately 20,000 disability claims a day are taken in this manner.

#### *Electronic Disability Folder*

One of the most important aspects of eDib is the electronic disability folder and the flexibility it offers SSA in managing the disability workload. Specifically, an individual's electronic disability folder can be accessed at any time by decision makers with authorized access. Multiple users in multiple locations may view the information they need even though they do not physically have the folder. I cannot over-emphasize the importance of the flexibility afforded by the electronic disability folder, and I further want to emphasize that it is being done in a secure environment.

For our decision makers, the heart of eDib is the electronic disability folder. We worked hard to make sure that the information in the folder was presented in a manner that was familiar and easy to understand by our decision makers. In the electronic folder, there are sections for payment information, queries, non-disability development, medical records, and so forth. Despite the underlying technical complexity, on the surface the electronic disability folder looks fairly simple, is organized along the same lines as the traditional paper claims folder, and contains both information from EDCS and images of medical records.

Medical evidence enters the electronic disability folder in two ways. Those medical sources that maintain traditional paper files can either send the records to SSA electronically by facsimile or through paper documents. The paper documents must be scanned into an electronic format and then entered into the electronic folder. SSA has secured the services of a contractor to take care of the bulk of the scanning while SSA and DDS offices have the capability to do on-site or low volume scanning. For the growing number of medical sources that maintain their records electronically, electronic medical evidence may be forwarded to the electronic disability folder via a secure Internet website or bulk transfer facility.

Already, the electronic claims folder is the official Agency record in more than half of the DDSs. The medical information we capture electronically is the world's largest repository of electronic medical records, with over 36.5 million records. SSA's goal is to move toward more electronic submissions. As part of its efforts to encourage medical providers to submit medical evidence electronically, SSA has conducted several outreach programs to the medical community to allay privacy law fears that medical professionals have concerning the provisions of HIPAA, the Health Insurance Portability and Accountability Act of 1996.

Once medical evidence is received, eDib allows SSA to electronically capture, index, route, store, and retrieve medical evidence. The electronic disability folder offers adjudicators a wide array of tools that enables them to view, annotate, bookmark, paginate, categorize, and work with evidence electronically. For example, as an adjudicator reviews the medical evidence in the electronic disability folder, he or she has the ability to mark and highlight key pieces of evidence, making it easier to refer back to that evidence during the disability determination process.

Finally, SSA has taken the forms used in the disability determination process and converted them into an electronic format. The use of electronic forms provides decision makers convenient access to them and ensures that they are always using the latest, most up-to-date version. The forms can be filled out on-line, electronically signed by the employee completing the form, and easily filed in the electronic disability folder.

#### *Quality Assurance*

eDib also improves SSA's ability to manage quality assurance. eDib's Disability Case Adjudication and Review System automates all aspects of the disability quality

review function. Specifically, the system identifies cases for review, interfaces with the electronic disability folder, tracks processing, and provides reviewers with electronic versions of forms needed for the quality assurance review. eDib also provides electronic routing between the quality assurance office and DDS, replacing the old folder mailing process. Access to the electronic disability folder offers reviewers greater flexibility, which will allow SSA to transition to a quality assurance system that relies on both in-line and end-of-line reviews and will provide more timely and efficient feedback on quality.

#### *Office of Hearings and Appeals (OHA) Improvements*

At OHA, eDib required the development of the Case Processing and Management System (CPMS) to replace an outdated system that required manual data entry. CPMS eliminates much of the manual data entry, and provides improved case control and better management information. In addition, CPMS provides Administrative Law Judges with the ability to access the electronic disability folder.

In addition to CPMS, OHA has rolled out the use of digital audio recording equipment and software in all our hearing offices, replacing the outdated analog cassette recording equipment that has been in place for over 20 years. Although most digital recordings are being stored on compact disc, we are beginning to store digital recordings in the electronic folder.

#### *Implementation Status*

All of these steps in the eDib process are being rolled out carefully and quickly. Roll-out was staggered to ensure that SSA was able to provide each DDS with the support necessary for successful implementation. After initial roll out in a DDS, the number of DDS decision makers working with electronic folders gradually expanded as the DDS developed expertise with the process. To date, all of the 50 States have implemented the electronic disability folder. Nationally, over 92% of DDS staff adjudicate cases in an electronic environment.

We have developed a certification process, called the Independence Day Assessment (IDA), to determine when each State is ready to use eDib exclusively as the official Agency record and no longer maintain paper folders for new cases. In January of 2005, the Mississippi DDS became the first DDS in which new disability claims are processed in a totally electronic environment. We currently have more than half of the State DDSs in a fully electronic environment, with the remainder scheduled to be IDA certified by the end of calendar year 2006.

At OHA, all but five hearing offices now have the equipment to conduct video hearings. From October 2005 through February 2006, SSA conducted approximately 15,000 video hearings. CPMS has been rolled out in all of the hearing offices and is being used to control case flow and provide management information. In addition, 75% of our hearing offices have been trained on using electronic disability folders and are working electronic cases. To date, the volume of hearings involving electronic disability folders has been low (approximately 3,200 as of February 2006), but the initial response from OHA's administrative law judges, and claimants and their representatives has been positive.

#### *Next Steps*

This year, I expect each of the DDSs and OHA to be using electronic disability folders on a regular basis, and I expect all 50 states to be fully IDA certified by the end of calendar year 2006. The President's FY 2007 administrative budget of \$9.496 billion for SSA would provide the resources to allow SSA to make the necessary technological investments in eDib to maintain service levels and continue to improve the way we do business in the disability process.

#### *Conclusion*

As I noted earlier, eDib allows adjudicators in the disability determination process to view an individual's claims file anywhere in the country. This flexibility affords SSA a new opportunity to make changes to improve the administrative efficiency of the program.

Let me share with you a real-life story that makes obvious the necessity of eDib. In the aftermath of Hurricane Katrina—while issuing almost 74,000 immediate benefits payments for displaced persons and setting up response units at the Houston Astrodome and other evacuation centers—SSA provided further relief. Of the 5,000 cases in the New Orleans office of the Louisiana Disability Determination Services, 1,500 had already been stored electronically through eDib. These records were immediately transferred to other offices to be processed. Ultimately, we gained access to the building, packed the remaining 3,500 folders in 400 boxes, and carted those down six flights of stairs by flashlight.



In closing, I believe that eDib is vital. Thank you for the opportunity to discuss this important initiative. I would be happy to answer any written questions that you may have.

Martin H. Gerry

*Deputy Commissioner for Disability and Income Security Programs*

### **Statement of Donald V. Hammond, U.S. Department of the Treasury**

I am pleased to submit this statement for the record to the Subcommittee on Human Resources. The Committee should be commended for the attention and focus it is placing on how technology can be leveraged to improve the delivery and access to public benefit services. Treasury is on the technological forefront in its use of automated systems and is committed to integrating the latest technology across all our business lines to increase efficiencies and improve services to individuals.

The Fiscal Service, within the Department of the Treasury, is comprised of the Office of the Fiscal Assistant Secretary; and, two Treasury bureaus: the Bureau of the Public Debt (BPD) and the Financial Management Service (FMS). Our mission is to develop policy for and to operate the financial infrastructure of the federal government. FMS provides central payment services to federal program agencies, operates the federal government's collections and deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt.

FMS disburses 85 percent of the federal government's payments, including income tax refunds, Social Security benefits, veterans' benefits, and other federal payments to individuals and businesses. In FY 2005, this represented over 952 million non-Defense payments with a dollar value of nearly \$1.5 trillion, with more than 76 percent of these payments being issued electronically. FMS also manages the collection of revenues such as individual and corporate income tax deposits, customs duties, loan repayments, fines and proceeds from leases. Through its collection network, FMS receives more than \$2.67 trillion annually, of which more than \$2.11 trillion, nearly 80 percent, is transacted electronically.

This statement focuses on the electronic delivery of federal benefit payments. Direct deposit is a payment program for consumers who authorize the deposit of payments automatically into a checking or savings account via the Automated Clearing House (ACH) network<sup>1</sup>. Direct deposit is safe, convenient and reliable. The benefits became all too clear in the wake of last summer's hurricanes when direct deposit worked flawlessly.

**Benefits of Direct Deposit:** Direct deposit is, without question, the best way for all Americans to get their money because it eliminates the risk of lost or stolen checks, reduces fraud, and gives more people control over their money.

- **It's safer.** Direct deposit protects people from fraud and identity theft. In fact, check recipients are 30 times more likely to have a problem with a federal check than with a direct deposit payment. Last year alone, half a million people called Treasury to report problems with checks.
- **It's easier.** Payments go straight to the recipient's bank account, so they don't have to go to the bank or credit union to deposit a check.
- **It gives control.** Direct deposit is completely predictable. The payment is deposited at the same time each month and the money is immediately available wherever and when ever it is needed.

**Savings to the Government:** Direct deposit represents significant savings over checks—75 cents per federal benefit payment. If the almost 159 million benefit checks, of which 147 million were Social Security and Supplemental Security Income (SSI) payments, that FMS issued in FY 2005 were converted to direct deposit, the savings to the American taxpayer would total an additional \$120 million. The vast majority of these savings (\$110 million) would accrue to the Social Security Trust Fund.

**Certainty in Uncertain Times:** The benefits of direct deposit were reaffirmed and came sharply into focus in the wake of hurricanes Katrina and Rita, which displaced thousands of federal benefit recipients days before their checks were scheduled to arrive. In preparation for uncertain times, a simple action like enrolling in direct deposit can offer much-needed peace of mind to people who get federal benefits, most of whom are seniors, the disabled or people with low incomes. While

<sup>1</sup>The Automated Clearing House (ACH) network is a secure funds transfer system which provides for the interbank clearing of electronic entries for participating financial institutions.

Treasury and the federal program agencies were able to make check payments available to individuals on a timely basis, extraordinary logistical challenges had to be overcome to deliver the payments in the disaster areas or to the individuals who had been relocated to other areas of the country. FMS used its technology during the Katrina recovery to identify for the Social Security Administration specific persons and areas where Treasury check payments were not being cashed. This assisted SSA in quickly arranging replacement payments for beneficiaries. However, the special handling of the check payments in the disaster areas was labor intensive and inefficient. The inherent delays in delivering checks caused inconvenience and hardship for the evacuees. Individuals who had direct deposit were able to access their funds immediately on the payment date from almost anywhere.

**Go Direct Campaign:** Today, around 80 percent of the federal benefit payments are made by direct deposit. However, the direct deposit growth rate for federal benefit payments has leveled off to a rate of less than one percent a year compared to the five percent per year increase between FY 1997 through FY 1999. As the government prepares for the enormous increase in retiring baby boomers in the years to come, it is critical that the government reverse the low direct deposit growth rate trend. To increase the use of direct deposit for federal benefit payments, FMS, partnering with the Federal Reserve, has a nationwide campaign called Go Direct.

Go Direct is a nationwide, grassroots marketing campaign designed to motivate Americans to use direct deposit for Social Security, SSI and other federal benefit payments. The campaign champions Treasury's longstanding efforts to shift from paper to electronic payments.

**Enrollment made Easy:** Treasury uses technology to make the direct deposit sign up process fast, easy and convenient for everyone involved. Individuals may call our Go Direct toll-free number (800-333-1795) or use the recently launched online enrollment tool available at [www.godirect.org](http://www.godirect.org). The online enrollment tool is available to financial institutions, nursing homes, community service organizations, and other organizations that would be completing multiple sign-ups. It greatly streamlines the process by allowing organization to set up a one-time secure profile that can be used time and again by to sign up federal benefit recipients for direct deposit. Each time an enrollment is entered, the profile provides basic information, which means faster enrollments with fewer errors. From the Go Direct campaign launch in June 2005 through mid-March, over 326,000 individuals signed up for direct deposit, of which approximately 44,000 have signed up through the online enrollment tool.

In summary, the underlying technology used for direct deposit program is efficient, safe, and secure. Direct deposit effectively improves the delivery of public benefits to U.S. citizens. Increasing the growth rate of direct deposit participation for Social Security and other federal benefit payments will continue to improve service while saving taxpayer funds.

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#### **Statement of Kentucky Cabinet for Health and Family Services, Frankfort, Kentucky**

During the past year and a half, the Kentucky Cabinet for Health and Family Services has been actively exploring the use of mobile and Web-based computer technology with the goals of improving the quality and timeliness of child protection service investigations and of electronically verifying visits by social workers in child protection cases. This study consisted of a proof of concept using mobile technology including PDAs and laptops equipped with digital cameras and GPS capability; a field test using tablet PCs and laptop technology and a pilot project in one of six Cabinet regions in the state.

During this 18-month process, a "tool kit" consisting of a laptop computer loaded with an investigation template; digital cameras with docking stations and date/time stamping capabilities; and state-of-the-art cell phones was created and is currently being used by 50 social workers in the field. The "tool kits" have the combined benefits of guiding social workers through the investigation process to assure accuracy and completeness, of date/time stamping the high resolution pictures taken at the referred child's location and condition, and of direct downloading of information collected into the mainframe-based worker information system (SACWIS). As a result, accuracy and timeliness of documentation is greatly improved, social worker efficiency is increased and electronic verification of home visits can be provided. A report of the results of the "tool kit" pilot will be completed on May 15th of this year and funding has been included in both the Kentucky House and Senate budgets and is awaiting passage. With funding secured, the refined "tool kits" will be distributed

to all 1,500 of Kentucky's child protective service workers during the next state fiscal year (SFY '07).

In a related project, Kentucky's worker information system is in the process of being upgraded to allow for remote access using Web-based technology. When fully operational, social workers will be able to access the mainframe system that contains all of the case information on a child and family from any personal computer with Web access capability. Again, having critical information available to all social workers concerned with a case enhances the Cabinet's ability to protect the children of the Commonwealth.

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**Statement of Brian Kibble-Smith, J.P. Morgan Chase Treasury Services,  
Chicago, Illinois**

***Introduction***

JPMorgan Chase Bank, N.A. (JPMorgan) has had a long and productive history as the industry pioneer in the use of debit cards for the delivery of government funds and services. For over 17 years, one unit of the company has specialized in the delivery of public assistance benefits and entitlements through Electronic Benefits Transfer (EBT). More than 30 states and territories have selected JPMorgan to provide the EBT debit cards and related services that have replaced paper Food Stamp coupons nationwide. In most states, EBT has also replaced the paper checks once relied upon by programs such as Temporary Assistance to Needy Families (TANF).

Nationally, JPMorgan is responsible for supporting about eight million EBT accounts, handling over \$1 billion per month in benefit payments, and for disbursements under the Food Stamp and TANF programs, among others, that support more than 60% of our country's neediest households and individuals. Working closely with its state clients, JPMorgan operates EBT services that have repeatedly won the agencies using them recognition for excellence in technology and government.

For example, in 2004, *Government Technology* magazine wrote of one of JPMorgan's clients: "The California [EBT] program is an excellent example of a tremendous effort that involved all levels of government and the private sector." That year, the California EBT project, supporting nearly 900,000 California EBT cases under the Food Stamp program, TANF and others, received the Electronic Funds Transfer Association's "EBT Project of the Year" award and a state award for "excellence in technology."

***Debit Cards in Government Generally***

Debit cards provide the convenience, safety and reliability of direct deposit for their users. For governments, they are a tool for cost reduction, fraud control, greater accountability and improved services. In contrast, checks and vouchers are labor intensive, expensive to issue and replace, easily lost or stolen, and subject to forgery. Paper checks can also be expensive or difficult for recipients to cash. Americans without bank accounts reportedly spend roughly \$8 billion annually for check cashing and similar services. Debit cards are an excellent way to serve consumers who have no other banking relationship, reducing the consumer's cost of accessing funds while enhancing convenience and safety.

EBT is just one of many government roles for debit cards. Governments at all levels are using debit cards to deliver funds as diverse as:

- Federal entitlements, like Social Security, Supplemental Security Income (SSI) and Veterans Administration (VA) payments
- Employee payroll and expense advances and reimbursements
- Child support payments
- Unemployment compensation
- Pensions and annuities, and
- Incidental fees and payments, such as those to trial witnesses and election judges

Other government-related payments and programs suitable for debit cards include healthcare savings accounts, workers compensation, in-home care providers, subsidized foster care and child care payments, and check (and sometimes cash) disbursements to former inmates released from correctional centers. The use of debit cards only recently began reaching into some of these areas.

The federal government took an initial, significant step toward debit cards in 1991, when the JPMorgan unit responsible for EBT was selected by the U.S. Treasury Department to conduct a pilot program for delivery of federal payments and en-

titlements, including Social Security, SSI, VA, Railroad Retirement, and others through a debit card-accessed, direct deposit account. The program was a success and led to a steady expansion in the application of debit cards to government payments. Over 50,000 of these accounts remain active with JPMorgan.

In 2006, JPMorgan extended its debit card service one step further, rolling out a pre-paid debit card to speed payment of tax refunds geared especially for people who qualify for refunds under the Earned Income Tax Credit (EITC) and who do not have bank accounts. The card allows taxpayers to get their EITC refund through a debit card instead of a paper check, eliminating check cashing fees and allowing consumers to access their funds directly at retailers through Point-of-Sale (POS) purchases and from ATMs.

The card was made available in numerous cities across the country in a partnership between JPMorgan and community organizations that gathered together under the Volunteer Income Tax Assistance (VITA) program for free tax preparation services. The money is available to consumers as soon as the IRS deposits the EITC refunds electronically. Consumers who also received a federal payment such as Social Security, SSI or VA could enroll for direct deposit of future payments in the same account as they received their EITC.

As the public and private sectors have continued their movement toward increased debit card usage, consumers' groups have expressed concerns at times about debit cards and regulatory compliance. In JPMorgan's debit card business, compliance is an important focus. For years JPMorgan debit cards for payroll, Social Security and more recent applications like child support and unemployment compensation have essentially replicated the process of direct deposit banking. This has included compliance with applicable banking and consumer protection regulations.

These laws and regulations include, for example, the requirements of Federal Reserve Regulation E, FDIC insurance for individual accounts, Gramm-Leach-Bliley privacy notices, "Know Your Customer" requirements and name checks against Office of Foreign Assets Control watch lists. Federal and state policy-makers and regulators have paid considerable attention lately to laws and regulations as they pertain to emerging uses of debit, stored value and pre-paid cards. JPMorgan has been very much involved over the years in helping to develop new regulations and reform existing ones to make card-based payments work at their best for all stakeholders. The company intends to stay involved in this area and lend its expertise wherever it is beneficial.

#### ***Debit Cards in Emergencies and Disasters***

One use of debit cards that JPMorgan has been engaged in since 1999 but which only recently received national attention is the large-scale issuance of cards in an emergency. Hurricanes Katrina and Rita magnified the importance of debit and EBT cards as a part of our country's emergency response infrastructure. JPMorgan is the EBT contractor for Louisiana, and so was directly involved in the use of EBT and debit cards issued after these two disasters. Some of the ways JPMorgan deployed debit cards included:

- Working with Louisiana Parish staff, JPMorgan issued over 414,000 emergency Food Stamp benefit EBT cards in that state for victims of both hurricanes
- JPMorgan converted Louisiana unemployment checks to debit cards, rapidly issuing over 300,000 cards which allowed unemployed Louisianans to access their funds even if they had relocated to another state
- JPMorgan is now replacing Louisiana child support checks with up to 50,000 debit cards
- JPMorgan added a first-of-a-kind state cash benefit, the "Emergency Transition Assistance Program" to the EBT service in Louisiana, serving 10,000 people
- In other states where JPMorgan is the EBT contractor, JPMorgan issued thousands of EBT cards to Gulf Coast evacuees, notably in Tennessee, issuing 5,000 EBT cards and could have issued 30,000 if needed
- JPMorgan issued several hundred thousand cards for the American Red Cross to provide financial assistance to disaster victims and for staff and volunteers to pay their expenses
- In Texas, JPMorgan issued about 12,000 disaster relief cards, each with \$2,000 in federal cash benefits, to Katrina evacuees in shelters
- Finally, JPMorgan issued payroll cards on behalf of numerous public and private sector clients not able to send payroll checks to employees in the affected areas, including McDonald's, the Teamsters Union and the City of New Orleans itself

JPMorgan had the expertise to respond because the company had initiated the concept of the emergency debit card, first by issuing 75,000 EBT cards for Food

Stamp benefit access in North Carolina after Hurricane Floyd, then 100,000 cards in Virginia after Hurricane Isabel, and 400,000 cards in Florida during the 2004 hurricane season before expanding the service's scope and reach last year. In addition, through novel emergency measures, JPMorgan quickly restored EBT services to over 1,200 small retailers in Lower Manhattan after the attacks of 9/11 destroyed telecommunication switches in the World Trade Center, shutting off these retailers' ability to accept EBT cards. JPMorgan coordinated with retailers and government to keep benefits flowing at this crucial time.

Today, of JPMorgan's current EBT client states, benefit agencies in Alaska, California, Florida, Georgia, Guam, Hawaii, Louisiana, South Carolina and Tennessee have each added high-volume, emergency EBT card issuance services to their regular EBT contracts. The company works closely with state agencies in pre-planning to ensure it can deliver both the cards and additional support needed for their effective use. After Katrina, for example, California increased its emergency card requirement from 400,000 to 1,000,000 so JPMorgan is increasing its delivery and support capacity for that state should it see its time of greatest need.

In addition to these large-scale uses, JPMorgan has conducted many smaller-scale emergency card issuances, beginning with its replacement, chapter-by-chapter, of the checks and vouchers formerly used by the American Red Cross. Prior to Katrina, these cards were used for local emergencies affecting families and individuals. JPMorgan has issued emergency EBT cards for victims of tornados and even issued approximately 200 cash-value cards for evacuees from Haiti during that country's recent civil unrest.

JPMorgan views EBT, debit, stored value and pre-paid cards as more than a "best practice" for government and an effective access mechanism for funds recipients. They have proven themselves to be a reliable, resilient, and mobile component of our national disaster response capabilities.

#### ***EBT and WIC Benefits Delivery***

The next frontier for EBT is the federally-funded, state-administered Supplemental Nutrition Program for Women, Infants and Children (WIC). WIC has historically relied on cumbersome paper "prescriptions" to enable expecting mothers or those with small children to buy specific food items for themselves and their children as prescribed by WIC clinics in addition to the pre- and post-natal care the clinics provide.

For benefit recipients, these paper forms are stigmatizing and inefficient, often forcing WIC mothers to choose between purchasing an entire food prescription at once or risk seeing portions of the monthly prescription go unused and expire. For WIC-participating retailers, the paper forms are labor intensive to process and cause them unnecessary write-offs when completed or submitted incorrectly, even in a minor respect. There is clearly a need for improvements in WIC benefit access and management.

In addition, WIC is one of the largest "discretionary" USDA budget items. It is important to use cost-effective technology to relieve funding pressures on taxpayers wherever possible. An online EBT solution for WIC can emulate the savings, management efficiencies and reductions in benefit fraud and diversion experienced as the Food Stamp program converted from paper to plastic. JPMorgan and the USDA's Food and Nutrition Service both regard EBT as a key part of a long-term WIC strategy.

Due to the information-intensive requirement for in-lane verification of specific WIC items, price and quantities, it was long believed that using expensive chip-embedded "smart cards" was the only way to bring EBT to WIC. Smart cards can cost up to ten times as much as ordinary magnetic stripe cards to produce. They also require special equipment at participating retailers and WIC clinics to allow for loading and accessing information on the chip at an additional, significant cost.

The far less expensive magnetic stripe cards, however, are universally used by consumers in the national retail POS and ATM infrastructures. For this reason, they have long been the standard technology for government benefits delivery in the U.S. In sharp contrast, numerous smart card EBT projects have ended or are winding down, having failed to establish the technology as a preferred benefits delivery solution for government.

In July 2005, JPMorgan launched a successful WIC pilot program in Michigan that uses standard magnetic stripe EBT cards to replace paper food prescriptions for more than 3,500 WIC families at over 30 retail locations in Jackson County. The pilot is going very well and has proven the effectiveness of the JPMorgan magnetic stripe solution for all stakeholders. JPMorgan hopes to extend the technology to additional states through more pilots and, eventually, statewide WIC EBT services.

Using magnetic stripe cards for WIC avoids the national retrofit that would be needed to make retailers smart-card ready and eliminates the need for specialized smart card equipment in WIC clinics. Magnetic stripe cards are already used with the POS infrastructure grocers have in place, making WIC benefits potentially redeemable on a uniform basis with other benefits accessed by standard EBT cards. Market forces may eventually bring about expanded use of smart cards, and at that time, the technology may become appropriate for a variety of debit applications. Unless and until that happens, however, promoting smart cards for WIC also requires committing to a substantial, almost exclusively federal expense.

**Conclusion**

There are many areas of state and local government that could benefit from greater use of debit and EBT cards. JPMorgan has even extended the government card concept overseas, replacing with debit cards the Social Security checks formerly sent to expatriated recipients in several countries, and the United Kingdom's former "coupon-based" system for government pension issuance to 4,000,000 annuitants. Debit cards have proven their worth to government millions of times over in both day-to-day usage and under the most extreme emergency conditions.

JPMorgan appreciates the opportunity to submit these comments.

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**Statement of National Association of State Workforce Agencies**

The National Association of State Workforce Agencies (NASWA) appreciates the opportunity to submit written testimony addressing how technology is used to serve beneficiaries and taxpayers of public benefit programs under the Subcommittee's jurisdiction.

The mission of NASWA is to serve as an advocate for state workforce programs and policies, a liaison to federal workforce system partners, and a forum for the exchange of information and practices. Our organization was founded in 1937. Since 1973, it has been a private, non-profit corporation financed by annual dues from member state agencies.

The workforce development system has come a long way in offering services through automated systems. Externally, change is driven by consumer's expectations of modern service delivery, ever changing federal funding and legislative mandates. Internally, change is driven by Governors' e-government initiatives founded on providing private sector caliber services. Pressure is also exerted from the decline in the purchasing power of annual appropriations for workforce development programs and an increasing number of customers. These forces have led state agencies to embrace information technology (IT) modernization as an answer to providing improved customer service.

Gone are the days of waiting in line to register for unemployment benefits, and gone are the days when workers and their families waited long periods for the arrival of their benefit checks. Unemployed workers now apply for their benefits online or by telephone; have their funds electronically deposited in their checking accounts (or receive payments on a debit card); and, register with an internet job bank to search for employment. Employers can register, calculate their tax liability, remit payments, and file their quarterly wage reports online.

Although the workforce development system strives to continue improving services through IT modernization, annual under funding by the federal government limits states' ability to modernize fully. The result is states often are forced to develop a patchwork of systems rather than a comprehensive modern infrastructure. Illustrative of this patchwork are states with the latest automated customer interfaces supported by antiquated mainframe and storage capability. Other states have improved automated systems to assist workers, but cannot afford to do so for employers. While the examples of modernization provided below are indeed successes, they represent only part of how the workforce development system could transform services if sufficient and consistent federal funding were appropriated.

Information contained in this testimony was obtained from workforce agency Unemployment Insurance Directors and Information Technology Directors. The testimony also used information collected by the Information Technology Support Center (ITSC)—a collaboration of the U.S. Department of Labor, Mitretek Systems, Affiliated Computer Services, Inc., and the University of Maryland. ITSC is supported by the U.S. Department of Labor. Finally, information was gleaned from the state submitted Performance and Capital Investment (PCIs) requests to the U.S. Department of Labor based on the Resource Justification Model (RJM).

## MODERNIZATION EFFORTS

States have undertaken IT modernization in the UI Benefits and UI Tax Systems. Modernization of these systems involves a replacement of states "core" mainframe systems (which are obsolete) to more robust client-server systems. When possible, state workforce agencies undertake the redesign of both systems. At other times, they undertake development separately because of a lack of funds. A mapping of business processes and reengineering within the framework of the Governor's enterprise model and federal reporting requirements must occur before new e-systems are built. Some of the states engaged in comprehensive UI systems redesign are New Jersey, New York, Indiana, Illinois, Ohio, Pennsylvania, Kansas, New Mexico, Michigan, and Colorado.

The Utah Department of Workforce Services (DWS) recently completed a total redesign of their UI benefit system. Utah's Comprehensive Unemployment Benefit System (CUBS) replaced a mainframe plagued by excessive maintenance costs, inadequate accounting systems, and antiquated technology. The system includes electronic workflow, imaging and expanded functionality for Benefit Payment Control (BPC) and Benefit Accuracy Measurement (BAM). Claims enter the system via Interactive Voice Recognition (IVR) application, Internet, or manually by customer service representatives (if the claimant is unable to complete the filing). Some decisions are automated (when no additional fact finding is required). The system, which went into production on January 1, 2006, generates and stores electronic documents and automatically creates workflow queues for adjudication, wage investigation and more. Benefit payments and adjustments are generated in real time and users are able to view results immediately. No paper checks are printed.

California's Employment Development Department (EDD) is working to modernize their Internet initial and continued claims system. These initiatives will provide a self-service filing system for UI claimants that do not require staff intervention. This will allow claimants to view and select available appointments for adjudication matters, electronically deposit benefit payments, redesign thirty-year old payment and check printing programs, develop a claims activity database to improve EDD's reporting capability, and develop a claim registry database to store claimant banking information for the direct deposit option. These improvements will help protect the state's UI trust fund by reducing improper payments and fraud and abuse. Cost savings for both of these projects is projected to total \$72,959,746 over a six year period.

States are also creating various Internet applications for their employers, often incorporated into comprehensive UI Tax System modernization efforts. A sampling of employer focused Internet applications include: on-line employer registration systems to allow new employers to open their UI accounts—a total of 33 states are currently offering employer registrations services, while 15 states are in the development phase; Internet wage reporting systems to allow employers to report on quarterly wages of their workers; Internet Tax Reporting to allow employers to calculate their tax liability and complete necessary forms—a total of 38 states are operational with wage and tax reporting systems and another 11 states are in the planning and development phase; and Electronic Funds Transfer (EFT) for tax payments to allow employers to remit their tax liability to the state—a total of 24 states are operational, 15 are accepting credit cards and 4 states are in the planning and development phase.

The Connecticut Department of Labor has built an Internet system to allow employers to register online for UI taxes, another to report changes in status, and another to file their tax returns, report wages and pay their UI taxes. It is in effect a suite of Internet services for employers. These systems make liability determinations and compute taxes due for employers. The information once completed is brought into an electronic document management system for storage and retrieval. Connecticut is also working to augment another tax and wage reporting system which allows employers who use commercially available payroll software applications to electronically file their UI and State Revenue Service returns together along with electronic payments. Currently this system works browser to server. Connecticut is modifying it to work server to server. These systems enable the state to meet national performance goals, register employers more timely and accurately, eliminate paper processing and reduce required number of staff necessary in the registration process. The total cost of the projects is estimated at about \$1,000,000, while the total cost savings is \$360,000 per year.

In Nebraska the Workforce Development—Department of Labor replaced their Automated Tax Report Preparation and Calculation systems. Preparation of the UI Employer Tax Report includes somewhat difficult calculations of gross, excess and taxable wages paid, not just during the quarter but also on a calendar year basis. Web-based reporting tools automated the task, saving employers an estimated one

hour for each report. In Nebraska, 15,226 reports were filed in the most recent quarter. By utilizing current technology Nebraska employer time-saved per quarter is 15,226 hours. Time saved annually totals 60,904 hours. Bookkeeping, accounting and auditing clerks in Nebraska earn an average hourly wage of \$12.95. Thus, total employer savings from electronic filing of wage reports is estimated at \$788,706 annually in Nebraska alone.

The Oklahoma Employment Security Commission (OESC) is engaged in an effort to provide quicker and safer payment of funds and decrease the time processing checks via mail. The OESC is also building hyperlink capabilities to provide quicker access to employer information and better customer service. In addition, a planned Interactive Voice Recognition (IVR) Tax script would increase customer service and decrease “live real-time” customer support. Among many other functionalities it is enhancing the wage file to display wage source code, re-designing data entry screens to establish continuity and conformity, and re-designing the Employer Payment Plan to increase worker efficiency in research and processing data. The cost of implementation is \$3 million, while cost savings will be \$500,000 per year.

Most workforce agencies also have implemented call centers (handling specific geographic areas) and virtual call centers (call centers linked to receive the next call in queue regardless of geographic location). Such centers offer initial and continued claims services, adjudication of claims, general help, and much more for beneficiaries and employers. Today, 47 states operate call centers—with nine states having one call center. In addition, 15 states are operating virtual call centers, while eight states are in the development phase. Many workforce agencies have implemented Internet systems for unemployed workers to apply for and manage their continued UI claims. These systems have reduced customer wait periods and payment problems. Most states report great popularity among customers for Internet based systems. A total of 43 states are operational with Internet initial claims systems, while 7 are in the planning phase. A total of 37 states are operational with Internet continued claims, while 10 states are in the development phase.

Other technology-related work involves the use of Interactive Voice Recognition (IVR) within call centers and virtual centers to help offset staff costs and combat UI fraud. For example, the State of Washington redesigned its two IVR applications for the following business reasons:

- Implement fraud detection capability;
- Consolidate two IVR applications;
- Implement a “One telephone number” approach for customer service; and,
- Improve how calls are routed.

The fraud detection-tracking tool saves and stores the telephone call details for each transaction made to the IVR. The call detail includes the telephone number used to make the call, the social security number (SSN), and the transaction type. This allow investigators to find cases of multiple telephone calls from the same phone number using different SSN’s, calls from out of the country, and calls from collections companies illegally trying to obtain confidential information. In addition, it allows investigators to disprove or prove cases of alleged forgery.

Other technology modernization includes imaging applications to reduce storage needs; SUTA dumping software implementation; record cross-match technology with the Department of Motor Vehicles, both the State and National Directory of New Hire, Social Security Administration, reemployment services technology, implementation of new emergency preparedness and disaster recovery processes, and replacement of older technology.

In Idaho, the Department of Commerce & Labor envisioned replacing outdated laptop computers used for Unemployment Insurance (UI) tax work. The state had used these laptop computers for UI audits since 1990 to implement its computer-assisted audit program (CAAP) designed around the UI audit process. Idaho anticipated the use of modern laptop computers would help it consistently meet the stringent Tax Performance System (TPS) standards, believing the \$104,208 would result in a return on investment of \$571,453. When the USDOL was unable to fund Idaho’s Performance and Capital Investments (PCI) request, it invested its own state money (approximately \$70,000). Many of the originally anticipated benefits have been realized.

#### **CUSTOMER SERVICE AND COST SAVINGS**

Newer systems ensure improved customer service by avoiding systemic failures that older automated systems often experience. New electronic benefit payment systems provide claimants faster access to accurate payments. In addition, new technology increases a state’s ability to offer customers multiple self-service options. Claimants using the web to file their claims are able to view and understand their



claim information online or they can print copies of their IRS 1099 forms (instead of requesting staff to prepare and mail forms). Employers also heavily use online access to information. By using current technology to provide more information on the monthly charge statements, employers can identify what type of charges they have, as well as the reason for any credits.

The structure of current technologies is scalable and allows state agencies to respond quickly and fairly cheaply to legislative requests (e.g., UI extensions) and national emergencies (e.g., hurricanes), or other mandates. Current technology systems allow states to respond quickly to changes because the systems lend themselves to rapid development processes as a result of modular and object-oriented design architectures. Finally, current technology grants state staff access to accurate information and staff can therefore respond quicker to legislative, employer and claimant inquiries further improving service.

IT investment in state workforce agencies' infrastructure results in cost savings to the taxpayer and improved service quality to beneficiaries and employers. Cost-savings result primarily from reduced fraud, error, and staff costs and enhanced service delivery efficiency. Employers also experience a substantial cost savings, stemming from improved compliance processes. Like cost, many aspects of customer service quality are impacted by investments in technology. Quality areas impacted include ability to avoid failure of automated systems; ability to provide self service options to the public; and ability to respond to legislative or other changes.

On-line wage-reporting systems enable employers to submit their data electronically and quickly make information available to state decision makers. This facilitates accurate benefit payment decisions and reduces error rates. Newly implemented cross match technology improves detection of benefit overpayments and cost-recovery operations, and stops additional fraudulent payments. IVR technology associates telephone numbers to specific claims, helping identify those who fraudulently submit more than one claim from the same telephone number.

New equipment is cheaper to maintain, but mostly new technologies save on staff time and associated costs. IT investments also positively impact reporting requirements. Aging technologies greatly complicate federal and state reporting. It is labor intensive to modify older systems to meet new reporting requirements. Over time, a vast array of specialized systems was created, many times using desktop applications, increasing the complexity of meeting consolidated reporting requirements. Further, the impact of technology investment on staff costs is substantial. Finding staff fluent in old technology is difficult and comes at a premium price. Training new staff in old technology is even more difficult and does not promote enterprise knowledge growth. New technology investment eliminates such issues.

Electronic tax payment systems decrease state workloads by eliminating the need for labor intensive processes like opening envelopes, completing data entry forms, encoding treasury forms, preparing batch deposits, and transferring checks to bank accounts. Electronic benefits payment systems limit the number of outstanding and cancelled warrants to track, and save on banking fees and treasury charges. As customers increase their use of the on-line systems the number of phone calls and requests for assistance is also greatly reduced, generating more cost-savings. Finally, offering employers the capability of on-line account creation provides states more accurate information on workers and wages and requires less staff follow up.

Employers benefit from IT investments primarily from improved automation of services and the need for less staff time to comply to state and federal program requirements. Electronic filing of wage reports saves employers' time in collecting employee wage data, completing forms, verifying data, copying, and mailings. Automated tax reporting systems simplify difficult calculations of gross, excess and taxable wages paid, again saving on time associated with bookkeeping, accounting and auditing clerks. Electronic tax payment curbs employer costs for check preparation, verification, mailing, staff and banking fees. Finally, on-line systems for establishing new UI accounts are less time consuming.

#### **THE NEED FOR SUFFICIENT FUNDING**

Secretary of Labor Elaine Chao stressed in her recent statement submitted to the House Labor, Health and Human Services and Education Appropriations Subcommittee a desire to improve the financial integrity of the UI system. NASWA supports this goal, but states are finding it increasingly difficult to accomplish. Since 1995, appropriations for UI state operations have not been adjusted for inflation. Although it is true the UI program operates more efficiently today than it did ten years ago, further improvements in program integrity and productivity are increasingly difficult to attain with marginal changes to out-of-date computer systems in many states, some of which are more than 30 years old. Further, rising personnel

and service costs without corresponding increases to federal level appropriations are forcing states to cut staff, reduce integrity efforts, and seek other sources of funding.

To help achieve Secretary Chao's goal, NASWA has requested of Congress \$3.023 billion for state administration of UI in fiscal year 2007 and \$100 million for computer system modernization. NASWA understands the pressures Congress faces as it confronts the task of cutting the federal budget deficit. However, we believe the performance of the workforce development system and the benefits of this investment warrant Congressional support.

Accuity Inc.  
Skokie, Illinois 60076  
April 18, 2006

The following Statement is submitted for the hearing record and references the *Hearing on the Use of Technology to Improve Public Benefit Programs* dated April 5, 2006.

Brent Newman on behalf of Accuity Inc. of Skokie, IL is submitting this Statement for the hearing record. Mr. Newman is a Managing Director of Accuity.

Since 1911, Accuity has been the Official Registrar of the American Bankers Association U.S. Routing and Transit Codes, a role that requires it to assign ABA codes to every bank, credit union, and savings and loan. In its role as ABA registrar, Accuity is required to maintain up to date information on more than 110,000 bank, credit union and savings & loan locations across the United States. In a commercial capacity, Accuity provides the most comprehensive databases and software to assist financial institutions in processing electronic funds transfers and abide by U.S. banking regulations. As such, Accuity has earned a unique reputation as the trusted source for information about, and for, the banking industry. In addition to providing data solutions the Federal Reserve, the FDIC, and the Small Business Administration, Accuity manages a technology service to aid the SSA's SSI benefit program.

Accuity strongly supports the use of technology to improve public benefit programs and clearly understands the challenges associated with determining eligibility based on the value of applicants' financial assets held at financial institutions.

In September 2003, Accuity took on a contract to design, develop and operate a pilot program to replace the existing Social Security Administration (SSA), Supplemental Security Income (SSI) benefits application and re-determination approval process. SSI is a federal income-supplement program funded by general tax revenues and provides financial benefits to low-income aged, blind and disabled persons. There are approximately seven million SSI benefit recipients in the United States. Eligibility requirements are based on both income and current financial resources. For an applicant to be eligible for SSI payments, the applicant must not have financial asset resources in excess of \$2,000. As part of the eligibility process, the SSA is must determine the total value of an applicant's financial assets held at financial institutions.

Prior to the Accuity solution, the SSA's asset verification process deployed paper-based forms filled in with information provided by the SSI applicant. The SSA would mail an asset verification request form (SSA Form e4641) to the applicant's financial institution. Under this process, response time to the e4641 request form averaged between 30–60 days while the financial institution response rate was varied from 10% to a rate less than 50 percent.<sup>1</sup> When the financial institution response time exceeds 90 days, it is SSA policy to approve payments of SSI benefits to the applicant (with a re-determination performed after one year).

The stated goals of the SSA to improve the SSI Asset Verification Process were:

1. Increase the efficiency of the account verification request and response process
2. Maximize the financial institution response rates
3. Minimize the paperwork and paper flow through automation
4. Improve the applicant experience
5. Improve the ability to detect undisclosed applicant accounts and accurately verify financial assets thereby preventing overpayment of SSI benefits to ineligible recipients
6. Provide analysis tools to measure efficiency, effectiveness and cost of the financial asset verification process.

<sup>1</sup> Response times and rates are unofficial estimates received from SSA personnel. Prior to the Accuity Asset verification System, SSA had no system in place to track actual SSI program statistics.

The Accuity Asset Verification System included three main components:

1. A secure web-based application for processing asset verification requests and responses between the SSA and the financial institution;
2. A comprehensive database of registered financial institutions participating in the asset verification program; and
3. Geographic coding logic developed to maximize the detection of undisclosed financial assets

Accuity designed, developed and implemented on February 17, 2004, an automated, secure, web-based application to facilitate the e4641 asset verification request and response process. The application supports an automated paperless transmission of all asset verification requests from an SSA field office to the respective financial institution and the corresponding response from the financial institution back to the SSA field office. The financial institution is able to receive a request via an easy-to-use and secure online interface that will notify the financial institution immediately when a request has been submitted from the SSA. The information is provided as a form that emulates the current paper form used by the SSA. After retrieving the account information related to the SSI applicant, the financial institution enters the information into an efficient online form and clicks submit to instantly deliver it to the SSA.

Application security for the Asset Verification System was designed and implemented to comply with SSA security requirements as defined by the United States Commerce Department's National Institute of Standards and Technology (NIST). The Accuity application and associated network have undergone independent security audits from two financial institutions (Citibank and Bank of America). Additionally, Accuity instituted a third party "ethical hack" test, performed by an independent leading industry organization (International Network Services). All three audits received positive opinions. Accuity's Asset Verification System has the capability to process millions of asset verification requests for the SSA. The application includes a robust analytics and reporting module that allows SSA to analyze volumes, trends, costs, and statistics on both a macro and micro level.

The initial phases of the SSA project were rolled out to all SSA field offices in New York and New Jersey (a total of 120 SSA field offices and 1200 SSA field personnel). Leveraging our position as the official registrar of ABA U.S. Routing and Transit Numbers, and our unique relationships with all U.S. financial institutions, Accuity recruited and registered to the program approximately 80% of all financial institutions in New York and New Jersey (NY/NJ). There are a total of 10,325 unique financial institution locations in NY/NJ participating in the automated asset verification program. This includes 100 percent of the largest 25 institutions in NY/NJ. In many cases, Accuity worked closely with the larger institutions to consolidate multiple-branch processing of e4641 requests to a single centralized processing site, thus further streamlining the end-to-end process. Each e4641 request for asset verification can now be sent electronically from the SSA to an assigned representative at an assigned financial institution location. Instead of mailing a paper request form to a general financial institution address indicated by the SSI applicant, the request is now sent and received instantaneously through Accuity's Asset Verification System, instantaneously reaching the correct person at the correct financial institution location; the location and person directly responsible for processing asset verification requests. In all cases, Accuity's comprehensive financial institutions database drives the routing of all asset verification requests to the appropriate financial institution location and respective personnel within the financial institution.

In addition to a standard request being sent to the financial institution designated by the SSI applicant, Accuity designed and implemented geographic-centric logic that allows the SSA to drive alternate request routing to institutions not defined by the applicant. The system searches Accuity's database, and routes alternate multiple sub-requests to financial institutions within certain geographic distance parameters from the designated institution. This process ensures that financial institutions within a reasonable proximity to the applicant's home are canvassed for possible undetected financial assets.

The following results were achieved from Accuity's Asset Verification System:

1. Overall financial institution response rate of 96% versus previously experienced 10% to 50% rate
2. Average financial institution response time of 11 days versus 30–60 days
3. In excess of 60% of all responses received in one week or less
4. A 40% decrease in the time required for SSA personnel to process a verification request

5. An 80% reduction in postage costs (a potential savings of \$1.4 million)
6. A 100% reduction in paper flow to and from the SSA
7. One of five asset verification requests disclosed an undetected account yielding potential annual savings through suspension of benefits. This detection of improper benefit payments has potential to yield annual savings in excess of \$300 million dollars.

Due to the successful results, SSA continues to expand the SSI Asset Verification System developed and operated by Accuity. SSA's stated goal is to expand the process on a national basis as they continue to study the overall SSI Benefits Program.

The Accuity Asset Verification System has potential benefits for a myriad of government programs administered at both the federal and state level. This would include public benefit programs such as Medicare, Medicaid, Food Stamps and Child Care programs.

Accuity's proven Asset Verification System can be implemented to assist other public benefit programs by providing the secure infrastructure to connect the government sector to the financial institution community. The Accuity system can allow federal and state agencies to simply and effectively provide external data matches for recipient and/or applicant eligibility determination.

As Dennis Fecci, former Chief Information Officer, New York City Human Resources Administration, discussed with the Subcommittee in recent testimony, there are many challenges facing states and localities as they develop eligibility determination systems. The use of new technologies and data matches such as those perfected by Accuity can ensure that only eligible person receive needed benefits and significantly decrease improper payments and improve federal stewardship

We appreciate this opportunity to inform the Committee's deliberations and would be pleased to provide any additional information regarding the Accuity Asset Verification System upon your request.

Brent Newman  
*Managing Director*

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### **Statement of SAS Institute Inc., Cary, North Carolina**

Thank you Chairman Herger, Ranking Member McDermott, and members of the Panel for this opportunity to provide comments on "The Use of Technology to Improve Public Benefit Programs". SAS commends the subcommittee for beginning this important line of inquiry. The witnesses that provided testimony at the hearing raised important considerations with respect to how technology might be used to better deliver government services. We respectfully offer, however, that this is only the first part of the discussion, albeit an important first step. As described in greater detail below, technology can and should be used to help government decision-makers not only administer their programs more effectively and efficiently, but to ensure that their programs are being properly administered in the first place.

#### **Introduction**

With tight budgets and increasingly restricted resources, government agencies strive to work better, faster, and smarter. As noted in detail by the witnesses, technology can be used in a myriad of ways to help achieve this mandate. One example that was given was the use of "smart card" technology to "better track" services being provided to children. Technology increases the availability of this service data, yet the data alone and without context, actually provides little informational value. It cannot provide any insight into whether the program is serving its intended beneficiaries or meeting its program objectives, or whether the demands or requirements for the program may change under different future scenarios. We offer for consideration by the committee that the application of technology can provide robust answers to these questions and, by doing so, can help decision-makers make better programmatic decisions for the future while targeting and eliminating areas of fraud, waste, abuse, and improper payments. Just this month, GAO released a report discussing the need for coordination between federal and state governments to report on improper payments within federal programs administered by the state.

While SAS has helped many agencies with data integration and advanced analytics for an array of business problems, in the essence of brevity, we have chose to focus our response on a few areas under the subcommittee's jurisdiction, including improper payments, purchase card fraud, and Medicare/Medicaid fraud.

### About SAS

SAS Institute Inc. is the world's largest privately held software company; our vision is to deliver strategic value throughout public, private, and government organizations. We are the market leader in providing a new generation of business intelligence software and services that create true enterprise intelligence. Enterprise Intelligence optimally integrates individual technology components within your existing IT infrastructure into a single, unified system. The result is an information flow that transcends organizational silos, diverse computing platforms and niche tools—and delivers new insights that drive value for your agency.

SAS solutions are used at about 40,000 sites, including 96 of the top 100 companies on the FORTUNE Global 500®. Working through its Government Operations division, SAS provides world-class solutions for civilian, defense, state and local government organizations. SAS software is used at all 15 U.S. federal departments, within all 50 states and at many local governments. For three decades, SAS has been giving customers around the world *The Power to Know*®.

### Overview of improper payments, fraud, waste, and abuse

Billions of tax dollars paid by hardworking citizens are lost each year due to improper payments, fraud, waste and abuse. Governments at all levels—federal, state and local—face the enormous challenge of rectifying this situation. They are under scrutiny by the President, Congress, state legislatures and taxpayers. Government agencies now are being held accountable for the misuse of funds originally intended to provide services and programs to citizens.

This scrutiny is a primary driver for agencies to determine anti-fraud strategies. The call for accountability also requires that agencies consider and find answers to complex questions. For instance, how can the agency not only uncover fraud but stop fraudulent or ineligible payments before they are paid? Prevention requires a different strategy and process for predicting the likelihood that a transaction is improper or fraudulent. In addition, prevention is more cost-effective than recouping payments that have already been issued. The use of analytics can provide government agencies with the robust capability to prevent improper payments, and can also be utilized to help enforcement with recoupment once the payment has been made.

What can agencies do to improve collection rates? How do they increase the productivity, effectiveness and efficiency of their auditors and investigators? By identifying a prioritized list of accounts that have a high likelihood of being fraudulent, agencies can optimize investigators' time and increase the funds collected. These are just a few objectives of an anti-fraud strategy.

"Building an Anti-fraud Strategy" (this topic will be covered in a later section) discusses these tactics and other strategies for creating a comprehensive, continuous process to curtail fraud, waste, abuse and improper payments.

### Improper payments

The Government Accountability Office estimates that \$38 billion was lost to improper payments in 2005 alone. Eliminating improper payments is a key component of the President's Management Agenda. In fact, FY 2004 was the first full year of the Improper Payments Information Act (IPIA) implementation. The IPIA and the Program Assessment Rating Tool (PART) require agencies to identify and resolve improper payment and resource productivity issues or run the risk of budget cuts.

Agencies are feeling the pressure of increased accountability for the misappropriation of funds.

After all, this misuse depletes money from services and programs for citizens who rely on the government for help. With rising costs for programs and services such as healthcare and an aging baby boomer population, agencies are increasing spending and, thus, increasing their vulnerability to improper payments. In fact, for programs with estimated improper payments exceeding \$10 million, agencies are required to report certain information to Congress including the causes of the improper payments, actions taken to correct those causes and the results of those actions.

Many public and private entities in the states are responsible for administering federal programs that report on improper payments, including support for millions of low-income families, people on disability, those out of work and children who need medical care. Programs such as the Temporary Assistance for Needy Families (TANF) and the Child Care and Development Fund (CCDF) are administered by state agencies; these programs expend about \$34 billion in state and federal funds annually. The GAO recently reported on the importance of minimizing improper payments in this area, but stated that the U.S. Department of Health and Human Services (HHS), which oversees these two programs, is hampered by a lack of ade-

quate information on the internal controls in place within each state to identify and prevent improper payments.

HHS programs are not the only areas where states determine eligibility and disburse funds, however. Another sizeable area for improper payments is unemployment insurance. The U.S. Department of Labor randomly reviews state unemployment insurance claims and estimates that

2.5 percent of benefit overpayments in 2004 were fraud-related. On average, this is nearly a \$5 million problem in each state.

#### **Purchase card fraud**

In 2001, the GAO testified and reported that significant weaknesses in internal controls made agencies vulnerable to fraud, waste and abuse due to inefficient purchasing actions. Since then, numerous GAO reports have cited agencies for inadequate control resulting in fraud, waste and abuse. The government is held liable for the value of each purchase card transaction. In addition, there has been steady growth in the amount charged to government purchase cards, from \$1 billion in FY 1994 to \$16.4 billion in FY 2003, a 1,540 percent increase in just eight years.

Although it is difficult to track compliance, agencies face the risk of a GAO audit and testimony of the audit's findings before House or Senate subcommittees. Thus, government agencies need increased oversight of purchase card management and the ability to quickly identify purchase patterns that indicate misuse, whether intentional or unintentional. Improved management tools, along with an overall program of policies, procedures, disciplinary actions and accountability, can lead to fraud deterrence and help to achieve a culture of compliance.

#### **Medicare and Medicaid fraud**

The GAO estimates that of the \$1.7 trillion Americans spend on healthcare each year, between 3 and 10 percent is fraud-related. The National Health Care Anti-Fraud Association offers a similar estimate of between 5 and 10 percent. That amounts to a \$51 billion to \$170 billion problem nationwide. At the same time, demand for Medicare and Medicaid services will only grow substantially with the aging baby boomer population. In addition, Medicare accounts for nearly half of the improper payments reported in FY 2004.

Fraud, waste, abuse, and improper payments have plagued the U.S. healthcare system since its inception. These issues have caused substantial financial losses to states and the federal government. The result is that budget resources are diverted from citizens who rely on and expect healthcare and services. Meanwhile, "bad actors" are becoming more sophisticated and savvy with their techniques. More advanced fraud controls, better tools, and enhanced technology are needed to proactively and continuously uncover and deter these practices, prosecute offenders, recoup misdirected funds, with the ultimate goal of providing more and better services to eligible recipients.

Each step in the complicated healthcare billing process is vulnerable to fraud, waste, abuse, and improper payments. Healthcare providers themselves have taken advantage of the system for illegal or unethical financial gain. For example, many cases have been found of overbilling, double-billing, or upcoding in order to bilk the system. Analytics can help government agencies detect and deter such behaviors by uncovering patterns of suspicious activities and predicting or forecasting future patterns and behaviors. It thus can provide agencies with a powerful tool to prevent improper spending before it occurs.

#### **What's Working**

Government agencies and commercial organizations around the world are working to detect and prevent fraud, improper payments, waste, and abuse. Below are two stories that describe a few of the challenges that real government and private industry organizations face and the best practices they apply to overcome a variety of obstacles.

#### **Case study: U.S. Office of Personnel Management**

One example of success in the federal government involves the U.S. Office of Personnel Management (OPM). The OPM Office of the Inspector General is responsible for conducting a nationwide program of audits on the more than 400 health insurance companies participating in the Federal Employees Health Benefits Program (FEHBP). The program serves more than 9 million federal employees and their families. The Office of the Inspector General's challenge is to determine which claims represent instances of fraud, waste or abuse. Using SAS, OPM identifies bogus claims or administrative problems in healthcare claims that result from illegal activities. As a result, OPM officials estimate a 50 percent time savings; this in turn frees the auditors' time to perform other analyses.

While this example describes how a government agency uses targeted technology solutions to successfully meet specific challenges, models of excellence in the fight against improper payments do not exist solely in the public sector, nor must they be confined to such targeted approaches. Both government and commercial organizations are applying complete solution packages that address the challenge of improper payments enterprise-wide.

#### **Case study: HSBC Holdings plc**

HSBC Holdings plc is one of the largest banking and financial services organizations in the world.

With a credit and debit card portfolio of more than 100 million cards, HSBC is also one of the world's largest plastic card issuers. Each year, banks and financial organizations across the globe lose more than \$2 billion to payment card fraud. The challenge for HSBC was to detect and deter rapidly evolving types of payment card fraud. In July 2005, SAS and HSBC announced a long term partnership to transform the payment card fraud-detection market.

HSBC will be rolling out the enterprise-wide fraud solution in all of its key markets, and it will become its key defense in the fight against credit card and debit card fraud. The major benefit for HSBC will be the significant reduction in fraud-related losses, while also lowering the overall cost of fighting fraud by having a common platform operating in all of its markets. By handling fraud in a faster, cleaner and more effective way, HSBC will be able to provide even better service to its customers because this approach is inherently customer-centric. Customers shouldn't have to experience any interruption of legitimate transactions; they will only realize the benefits of preventing those activities which are fraudulent. In addition to happier customers and earning the reputation of providing the most secure card in the world, HSBC's shareholders are likely to find the measurable results to be very pleasing indeed! For more information, read "Fraud Detection: In real Time. Right Now".

This example describes how a commercial organization uses targeted technology solutions to successfully fight payment card fraud. The same technology solutions would be applicable within government agencies to detect and deter purchase card or travel card fraud and improper payments.

#### **Building an anti-fraud strategy**

The diversity of challenges and solutions represented in the examples of OPM and HSBC illustrates the fact that—when it comes to combating fraud, waste, and abuse—the anti-fraud strategy and technology framework that is applied must be flexible enough to address the unique objectives and business processes of each agency as well as the increasingly devious and evolving mechanisms that fraudsters employ. As fraud schemes constantly change, fraud detection requires continuous vigilance. The process and strategy for fraud detection need consistent monitoring and refinement. A wide range of approaches to combat fraud are needed—ranging from a variety of individual solutions that organizations can implement in an iterative manner for meeting targeted objectives to an enterprise-wide solution, such as the approach employed by HSBC, in which a customer receives a complete solution package.

Regardless of the specific approach, it is imperative that agencies establish an analytical and business intelligence framework for fraud detection—an **enterprise intelligence platform**. The enterprise intelligence platform is the foundation upon which organizations can implement other strategies and solutions. Once this platform is established, agencies can take the next step: extending specific fraud detection efforts to enhance operations across the enterprise through financial management and performance management solutions. By supplementing the enterprise intelligence platform with financial intelligence and performance management, agencies can tie together all the essential areas of fraud management and organizational management into a cohesive strategy for control, discovery, investigation prioritization and deterrence.

#### **The enterprise intelligence platform**

An enterprise intelligence platform includes several components, or steps, that serve as a proven framework to assist government agencies as they institute business strategies and technology solutions to eliminate improper payments, fraud, waste and abuse. The following steps in the framework are always evolving. For example, if the data analysis process discovers a new fraud pattern, new information about the pattern needs to be captured in the data for further use in analysis. However, by considering each component of the framework in terms of the individual capability it provides as well as how each component fits into a larger solution plan, government leaders can construct a comprehensive strategy.

### Improve data effectiveness

Improving data effectiveness means giving government organizations a consistent version of the truth. This enables critical decisions to be made on accurate, concise, trustworthy information more efficiently and with **less risk**. Often, the most immediate challenge that agencies face is that data systems containing information relevant to fraud, waste, and abuse cannot share information with one another. This often results in an incomplete, inaccurate view of data that allows errors or fraudulent actions to “slip through the cracks.” By using data integration solutions along with sophisticated data matching and standardization routines that reach across multiple platforms and formats, agencies can create a single version of the truth so that the information upon which analyses and decisions are made is accurate and complete.

Another essential step in reducing error and fraud is to verify the identity, eligibility, and authentication of payees. This ensures that the *right* people are receiving the *right* services. Using data quality solutions, organizations can standardize and augment data while identifying duplicate names, addresses and other identifying information, thereby validating key citizen information.

This process of authenticating the citizen also reduces overpayments, underpayments, and duplicate billings.

For example, North Carolina Department of the State Treasurer is using data quality to support the NCCash program, which was implemented to meet mandates for delivering unclaimed property dollars to often unsuspecting owners. This program requires accurate information to ensure funds are properly paid to citizens. Using intelligence solutions, the Department quickly matches names and addresses from different data sources and on different platforms for accurate identification and location of owners. For more information, read “Forgotten, but not gone: N.C. state treasurer returns unclaimed cash using SAS® Data Quality”.

### Visualize data and analyze outliers

Using various visualization and analysis techniques, agencies can determine visual patterns and aberrations. **Outlier analysis** is often used to determine the “low-hanging fruit.” These are the obvious activities—such as billing for more than 24 hours in a day—that need immediate perusal.

Next, it is important for agencies to monitor information to identify fraudulent activity. Once fraudulent activity is identified, agencies can institute business rules to prevent the fraud from recurring. Many agencies have business rules associated with documented fraud schemes. As part of the anti-fraud strategy, these rules can be automated and scheduled to run. They will flag cases that need investigative follow-up. In addition, agencies can analyze data across peer groups to determine abnormalities. For instance, physician-billing practices can be compared to physicians in the same field for the same diagnostic codes to determine unusual practices.

Other techniques can add value in determining unusual patterns or practices. **Sequence analysis** and **association analysis** uncover events that tend to occur together or in sequence. **Link analysis** can identify relationships among citizens, organizations and services, thereby uncovering interactions that might need closer inspection. For example, link analysis can uncover personal injury attorneys who repeatedly send clients to the same clinics or doctors for diagnosis.

All of these techniques mentioned above are integral parts of an ongoing, continuously improving monitoring process.

### Enhance audit and investigation effectiveness

With analytical intelligence, fraud detection is taken one step further to improve audit and investigation effectiveness. A variety of advanced analytical techniques can be utilized depending on the agency’s data. If the agency has not captured data surrounding known fraud schemes, then **cluster analysis** can be used. This analysis determines unusual aberrations within the data. Once these patterns are uncovered, they need further scrutiny to deem them fraudulent or not.

However, if an agency has documentation of known fraud patterns, then **predictive analytics** can be used to identify and predict future fraud risks. Agencies can ease the burden of validating false positives, maximizing recovery and prosecution while reducing processing time and recovery costs.

Analyzing both structured and unstructured data with data mining and text mining respectively helps agencies to use both their quantitative and qualitative data to better identify fraudulent claims. By doing so, they are able to stop fraudulent payments before they are paid. Additionally, they can prioritize cases that appear to be improper for further investigation. Thus, agencies can rapidly detect new fraud schemes and patterns before they cause major problems.



Once analysis has determined a likely fraud scheme, the next steps are audit and investigation.

After fraudulence is determined, these new fraud schemes can then be incorporated into the known fraud business rules, as discussed previously. Then, the process begins again. Fraud detection is an ongoing, cyclical process of analysis and refinement.

#### **Spark insight with business intelligence**

A vital piece of developing an overall strategy to eliminate fraud, waste, and abuse is applying business intelligence (BI). BI empowers organizations to deliver insight to the right people, at the right time and in the appropriate form to help its people make effective decisions with greater confidence. This is instrumental when it comes to fraud detection, since inaccurate information or delays can leave agencies at risk. BI capabilities provide a flexible and extensible set of business interfaces to its information and supporting services, turning the information that has been collected and enriched into intelligence that it can quickly utilize. Whether an agency requires electronic distribution of reports, interactive query environments, content delivery via a Web-based portal, or publish-and-subscribe channel distribution, BI provides seamless access to reports and analysis, saving time and driving results for the agency.

#### **Financial management and performance management**

Agencies are not only concerned with detecting and deterring fraud. They also want to ensure that their processes are effective. In addition, monitoring expenditures allows for tightened internal controls on costs. Going beyond data analysis and analytics enables agencies to scrutinize financials and processes across the enterprise. Vigilance across multiple organizational functions and throughout the agency creates a culture of accountability, compliance, and deterrence.

#### **Optimize financial management**

The American public wants wasteful spending stopped. There is public outcry at reports of expenditures of tax money on frivolous items or preventable losses.

With financial management, agencies develop a consistent approach to the spectrum of financial reporting requirements. This ultimately enables greater accountability and transparency and reduces public scrutiny.

Financial management enhances the reporting and control environment with financial statements that enable agencies to receive a clean audit. By proactively managing risk, agencies can examine risk before complications arise. Early intervention in the cycle reduces the risk that funds will be misappropriated. Applying a financial intelligence strategy, the U.S. Department of the Treasury received its first unqualified or “clean” auditor’s opinion on its department-wide financial statements in 2001. Since then, the agency has continually received clean audit opinions.

Tightening internal controls is another way to reduce fraud—so much so that OMB has revised its *Circular A-123* to include additional internal control measures for the federal government. OMB decided that some of the existing controls were weak. Furthermore, the influence of Sarbanes Oxley in the commercial sector prompted the agency to make significant changes to the circular.

Therefore, it is highly likely that the *Government Auditing Standards* (the Yellow Book) for 2003 will be revised accordingly to incorporate requirements set forth in the revised *Circular A-123*.

Once adopted, these new rules will greatly influence how government organizations manage and document internal controls. This renewed focus on an internal control framework is intended to ensure that control risk is mitigated, thereby reducing opportunities for fraud to go undetected.

Agencies will have a clearer picture of how effectively funds flow throughout their organizations, where possible weakness or process gaps exist and who might be affected.

#### **Measure program performance and monitor fraudulent activity**

Incorporating a performance management strategy helps agencies monitor key performance metrics to determine program effectiveness and efficiency. This allows the agencies to define metrics in a dashboard environment and to monitor activities and threats proactively in order to curtail fraud. As a result, government leaders can identify sources of organizational failure and can isolate best practices that lead to success. A performance management solution provides a strategic heads-up that keeps organizations on course and stops fraudulent activity before it occurs.

### **Fraud detection: An iterative process**

The management and control of improper payments and fraud requires an iterative process of constant, consistent monitoring. Each agency's unique culture and business processes require the implementation of an anti-fraud strategy that is flexible to meet both the variety of internal business processes and the ever-changing ways that fraudsters try to exploit those processes.

In fact, there are various approaches to counteract fraud, waste, abuse, and improper payments, ranging from solutions for which agencies implement individual strategies in a step-by-step manner to address targeted challenges to an enterprise-wide approach in which agencies receive a complete solution package for solving a variety of fraud challenges across the organization.

No matter where the agency is in developing an anti-fraud strategy, leaders can identify and implement key technology components and solutions that allow them to use and augment current infrastructure resources and refine and monitor existing organizational processes to stop fraud, waste and abuse "before" money is lost.

### **Summary and conclusion**

SAS is committed to working with government to ensure that hardworking taxpayers receive the benefits and services they deserve, when they need them. The SAS anti-fraud strategy curtails fraud, waste, abuse, and improper payments so agencies have the resources to fund programs, provide services to citizens, and ultimately judge whether these programs and initiatives are meeting their goals and are being administered effectively.

SAS commends the subcommittee for the attention it has brought to the use of technology in enhancing service delivery. As a recommendation, SAS submits these written comments to stimulate further dialogue and consideration as to other benefits that technology can bring to bear—notably in ensuring that taxpayer dollars are indeed being spent wisely. SAS has a wealth of history and a record of accomplishment in using technology—notably enterprise-wide technology—to help reduce instances of improper payments by using data to predict, prevent, and deter unacceptable or ineligible behaviors and patterns. We would welcome the opportunity to provide more insight to the subcommittee as to our experiences, and commend to the subcommittee's attention a number of our white papers, including "Combating Improper Payments, Fraud, Waste and Abuse: A Best Practices Approach for Government".

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### **Statement of Visa Inc.**

Visa appreciates the opportunity to submit this written testimony to address the important issues raised by today's hearing on the use of technology to improve public benefit programs.

The Visa Payment System, of which Visa U.S.A. is a part, is a leading consumer payment system, and plays a pivotal role in advancing new payment products and technologies, including the growing category of prepaid cards. Visa U.S.A. is an association of 14,000 U.S. financial institutions who issue credit, debit and prepaid cards and who work with merchants to ensure the acceptance of these cards for transactions. Visa itself does not have relationships with cardholders or merchants.

This is important for understanding the use of prepaid cards for government benefit programs. While Visa establishes the technical platform for the use of prepaid cards and the standards that enable the cards to be used at merchant locations and ATM machines, it is the financial institutions who work directly with state, local and federal agencies to issue cards to government beneficiaries. The terms and conditions of the issuance of the cards, including terms and conditions to the cardholders, are set by contracts between these financial institutions and their government agency customers. There are a variety of possible contractual relationships and a large degree of competition among financial institutions interested in serving this growing market.

### **The prepaid Card Market**

The growth of prepaid cards is one element in the electronication of payments. In December 2004, the Federal Reserve System announced that electronic transactions had surpassed checks as the consumer's preferred noncash method of payment. Fifty-five percent of these noncash transactions were completed using a debit or credit card, through an automated clearing house (ACH) transaction, or an elec-

tronic benefit transfer (EBT). The remaining forty-five percent of these transactions were made by check. The trend toward electronic payments is well underway.

Prepaid cards can bring the benefits of electronic transactions to consumers who are unserved or underserved by financial institutions, that is, to those without a credit card or a checking or a savings account that can be accessed through a debit card or the ACH. Prepaid cards that access the same electronic payment networks as credit and debit cards can be used to meet the financial transactions needs of the unbanked in a highly efficient fashion. These prefunded financial services products are used to withdraw monies through ATMs, make point-of-sale debit transactions, pay bills, and transmit funds through account-to-account electronic transfers.

Prepaid payment cards are a broad series of products which represent the expansion of choice and convenience in how consumers, businesses and the public sector make and receive payments. While the category started with consumer-to-consumer gift cards, it has expanded to include:

- A payroll card, direct deposit alternative to both employers and employees
- Disbursement of government benefits programs like child support, unemployment benefits and other social services
- Consumer management of benefits funds including flexible spending accounts (FSA) and healthcare reimbursement accounts (HRA)
- Corporate rewards, rebate, incentive or bonus programs

Prepaid cards are different from both credit cards and debit cards. Credit cards offer consumers the ability to draw on a line of credit and pay their bills later—at the end of the month or over time. Debit cards provide customers with convenient access to their depository account to pay for purchases or to obtain cash at ATM machines. Prepaid cards provide customers with access to a pre-defined amount of money without drawing on a traditional banking account.

The funds associated with a prepaid card are stored in a central location by the financial institution that issues the card. There is no value on the card itself. The card functions as an access device to the funds.

In a face-to-face point of sale transaction, the card is swiped at a regular point of sale terminal. The merchant does not need to install special point of sale equipment, and no PIN number is entered. The transaction is routed over the Visa network, and is approved if the cardholder has sufficient funds to cover the purchase. ATM access is accomplished through the use of the card in conjunction with a PIN number. Visa prepaid cards are accepted wherever Visa debit cards are accepted—worldwide, online or offline.

Some prepaid cards like gift cards are not reloadable. They are designed to be used until their value is exhausted. Other cards such as payroll cards or government benefit cards are designed to be reloaded on a regular basis.

Visa estimates that the current market for all bank-issue prepaid cards (Visa, MasterCard and American Express) is less than \$25 billion. The bulk of that is government benefit cards. The market is in its infancy now, but the potential growth over the next several years is likely to be substantial.

### **Government Prepaid Card Programs**

Visa estimates that there are approximately 80 million underserved customers who receive about \$1 trillion in wages and government benefits in the form of checks. This delivery method imposes unnecessary costs on the recipients and it is costly and inefficient for the entity disbursing the funds. The prepaid card is a way to improve the efficiency of this market.

The first government prepaid card program was implemented in 2002. The program used a reloadable prepaid Visa card to disburse Child Support payments. The program was with the state of Colorado and the issuer was U.S. Bank. There are now 27 states that are using or are in the process of using a reloadable prepaid Visa card to disburse payments such as Child Support, Unemployment Insurance, Temporary Assistance to Needy Families and Payroll. See the attached chart for a current list of programs.

States are quickly adopting this method of disbursing payments to underserved recipients because of the significant cost savings and increased processing efficiencies compared to checks (cost savings from postage, check handling, processing lost/stolen checks and paying caseworkers to track down recipients). Recipients also like the benefits of receiving payments via direct deposit to a prepaid Visa card compared to receiving their benefit in the form of a check. They receive faster access to their funds and do not have to worry about paying check cashing fees. Additionally, unlike cash, if the card is lost or stolen, cardholders receive a replacement card

and are protected from unauthorized transactions with Visa's Zero Liability program.

Visa estimates that there are about 2 million prepaid Visa cards in use by underserved customers through payroll cards, government benefit cards and general purpose prepaid cards. Visa issuing banks have issued about 1 million of these prepaid as part of government benefit programs, and about 600,000 of them are currently in active use by program beneficiaries.

Overall a prepaid card program saves money for the state agencies. There are, of course, expenses associated with a prepaid card program. For instance, there are costs, which vary by program, for producing and mailing prepaid cards and educating beneficiaries on their use. The allocation of these costs is subject to the contractual agreement between the state agencies and the financial institutions issuing the cards. In some cases, the state agency does not have a direct payment for these production and distribution costs. The results from the existing prepaid programs show cost savings for the state agencies from the switch away from paper check delivery of benefits, even taking into account these and other costs of administering the program.

Consumer protections can also be an expense of administering the program. The cards are protected by zero liability, and are subject to replacement if lost or stolen. But these costs are minimal. Fraud losses from government prepaid Visa cards are low and stable, averaging less than \$.03 cents for every \$100 of transactions. In Visa's experience beneficiaries are protective of their card; they like the benefits and convenience of receiving payment through this method. Visa has not seen a lot of instances of lost or stolen cards in these government prepaid programs.

#### **Benefits to Program Recipients**

- Visa prepaid cards are accepted at merchant locations and ATM machines worldwide.
- Visa prepaid cards are Visa cards, and are subject to Visa operating rules and regulations, including all the Visa Consumer Protections.
- Zero liability applies. If a Visa prepaid card is used fraudulently, without the cardholder's authorization, the cardholder is not liable for the fraudulent transactions.
- Visa prepaid cards can be replaced if lost or stolen. The cardholder simply follows the normal procedure for notifying the issuing financial institution, and the old card will be canceled and a new one issued.
- Funds are available immediately after the card is loaded. There is no waiting period as there often is with check disbursements.
- Cardholder has the convenience, prestige and versatility of a Visa card. This is especially important to those who do not have a relationship with a financial institution.
- Cardholders have safer, less expensive access to their money. Those without a bank account do not need to go to risky, costly check cashing locations to cash their payroll or government benefit checks.

Check-cashing costs are especially troublesome for the unbanked and one of the major advantages of prepaid government benefit programs is to enable unbanked beneficiaries to avoid these fees. They can be relatively inexpensive in some states such as New York State, where fees are capped at 1.5 percent of the value of the check. In some states, however, fee limits are much higher and in eighteen states no fee limits are imposed. In addition to check-cashing fees, unbanked customers will pay fees for bill payment services, money orders, and money transfer services.

#### **Benefits to Government**

- Prepaid cards reduce costs. There are no paper checks to issue, or re-issue if they are lost or stolen.
- Funds disbursement is superior to paper check. The funds reach employees or beneficiaries in a faster, safer and more secure electronic fashion.
- Prepaid cards enhance risk management. Fraudulent use can be detected much earlier by sophisticated Visa fraud detection systems and those operated by the issuing financial institution.
- Prepaid cards provide better tracking and reporting of card use. This enables cardholders and government to understand the pattern of spending with the cards, thereby improving budgeting and other expenditure control systems.

**State Prepaid Programs (as of 3/7/06)**

<b>State</b>	<b>Use</b>	<b>Program Status</b>	<b>Issuer</b>
<b>Alabama</b>	Child Support	In rollout	Amsouth
<b>Alaska</b>	Child Support	Implemented	JPMC
<b>Arizona</b>	Child Support	Implemented	JPMC
<b>California</b>	Child Support	In implementation	BofA
<b>Colorado</b>	Child Support	Implemented	USB
<b>Iowa</b>	Child Support	Implemented	USB
<b>Kentucky</b>	Child Support	In implementation	USB
<b>Louisiana</b>	Child Support	In rollout	JPMC
<b>Louisiana</b>	Unemployment	Implemented	JPMC
<b>Maryland</b>	Child Support	Implemented	BofA
<b>Massachusetts</b>	Child Support	Implemented	JPMC
<b>Michigan</b>	Child Support	In rollout	USB
<b>Minnesota</b>	Child Support	Implemented	USB
<b>Nebraska</b>	Child Support	Implemented	USB
<b>Nebraska</b>	Child Care Credits	Launch pending	USB
<b>Nebraska</b>	State Employee Payroll	In rollout	USB
<b>Nevada</b>	Child Support	Implemented	JPMC
<b>North Dakota</b>	Child Support	Implemented	USB
<b>North Dakota</b>	TANF	Implemented	USB
<b>Ohio</b>	Unemployment	In implementation	USB
<b>Oregon</b>	Child Support	In rollout	USB
<b>Oregon</b>	Unemployment	Implemented	USB
<b>South Dakota</b>	Child Support	Implemented	USB
<b>Tennessee</b>	Child Support	Implemented	JPMC
<b>Texas</b>	Child Support	In implementation	WFB
<b>Washington</b>	Child Support	Implemented	USB
<b>West Virginia</b>	Child Support	Implemented	BB&T

