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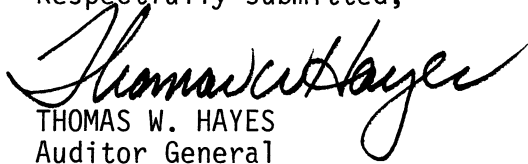
I-717

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning an investigation of the Disability Evaluation Division of the Department of Social Services. Staff of the division have been interfering with the sampling procedures used to randomly select cases for quality assurance review by the Social Security Administration. Staff made substitutions in samples when they found cases with performance errors. As a result, the number of errors that the division makes in determining the medical eligibility of California residents for disability benefits is understated. Branch officials within the division were aware of and condoned the practice of substitution.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

THE AUDITOR GENERAL'S  
REPORT OF INVESTIGATION I-5008

ALLEGATION

An official of the Disability Evaluation Division, (division) Department of Social Services (department) has illegally instructed division personnel to screen all cases submitted to the Social Security Administration for review. The division substitutes up to 80 percent of the cases in randomly selected samples with cases that have been carefully screened for errors. As a result, the Social Security Administration, which is responsible for evaluating the performance of the department, is receiving and using unrepresentative data to assess the accuracy of state-processed disability cases.

RESULTS OF INVESTIGATION

Our investigation substantiated the allegation. We found that at five of the six branch offices, professional staff screen cases included in the random sample and make substitutions when they find cases with errors. We found no evidence that the division official instructed personnel to screen the cases. We did find that branch officials have been aware of and have condoned the substitution practice. The cases included in the samples are reviewed by the disability quality branch of the Social Security Administration to assess the performance of the department in administering the disability program. Therefore, the Social Security Administration is developing and using performance measures of the State's disability program from an unrepresentative sample of cases. As a result, performance measures do not accurately reflect program performance. We can conclude that the measures used to ensure quality are inflated; however systemic weaknesses in the sampling procedures make it impossible to determine the frequency of substitution or the degree of inflation.

Background

Under an agreement with the federal government, the department's disability evaluation program determines the medical eligibility of California residents for benefits under Title XVI (Supplemental Security Income) and Title II (Disability Insurance). The Social Security Administration provides program standards, leadership, and oversight. The department is responsible for providing and maintaining an effective system for processing the claims of those who apply for benefits under the program. To ensure effective and uniform administration of disability programs throughout the United States, federal regulations specify two performance standards for the state-administered programs--one for performance accuracy and one for processing time. To evaluate the performance accuracy, the disability quality branch of the Social Security Administration

reviews a random sample of cases from each state and computes a performance accuracy rating. States that consistently fail to meet the minimum performance standards may receive mandatory technical and management assistance from the federal government. If, after a period of assistance, a state continues to fail to meet minimum performance standards, the federal government may find the state in substantial failure and may ultimately take over the disability function.

### Case Substitution

Our review of sampling procedures at the six branch offices disclosed that the following five branches are substituting cases selected for the random samples: Fresno, Los Angeles East, Los Angeles West, Oakland and San Diego. Clerical staff of these branches assemble completed cases and pull samples at designated intervals. Professional staff then review the cases in the sample before forwarding it to the Social Security Administration's disability quality branch for its review. At the five branches named, the reviewers substitute cases with no performance errors for those with performance errors. The branch staff we interviewed estimated the following substitution rates:

Fresno branch: between 20 and 40 percent  
Los Angeles East branch: 40 percent  
Los Angeles West branch: less than 1 percent  
Oakland branch: 5 percent  
San Diego branch: between 10 and 12 percent.

The branches vary in the circumstances that they consider justification for substituting cases. Los Angeles West, the branch reporting the lowest substitution rate, substituted cases whenever failure to correct a decisional error at the branch level might prolong determination for an especially needy claimant. The branches with the highest substitution rate substituted cases whenever a performance error appeared possible.

All but one of the five branches initiated the practice of substituting sample cases within the last 18 months. The fifth branch, Los Angeles West, has had for several years a policy for making substitutions under specific circumstances. Officials in all five branches were aware of the practice and condoned it; in fact, most of the officials assumed responsibility for initiating the practice. However, one branch official indicated that an official from the division headquarters had given instructions to review and substitute cases targeted for the samples. We were unable to corroborate that statement or to uncover any consistent patterns in the circumstances that precipitated the practice of substitution.

We cannot determine the degree to which the practice of substitution has affected the performance ratings for state and

branch offices. We can conclude, however, that the ratings are inflated. The minimum performance standard mandated by federal regulation is a rating of 90.6 percent, meaning that in 90.6 percent of the cases reviewed, two performance standards are met: 1) the decisions are correct and 2) case files contain the documentation needed to justify the decisions. In the past two years, the Social Security Administration's monthly, statewide ratings for California have never been at or below the 90.6 percent level. However, during the same time, in four of the six branches, monthly ratings have been at or below that level 22 times. If the ratings at all branches had been accurate, the overall state rating could have fallen below the minimum performance level.

### Systemic Weaknesses in Sampling Procedures

The major factor contributing to the practice of case substitution was the absence of internal controls at two points in the sampling procedures. First, when staff at the branch offices placed closed cases in the population of cases to be sampled, they did not number the cases. Without a sequential numbering system, it is impossible to ensure that cases are pulled at the proper intervals. Second, when staff pulled the cases to be included in the quality assurance sample, they maintained no record of the specific cases pulled for the sample. Thus, it is not possible to verify that the cases pulled are, in fact, the cases forwarded to the Social Security Administration for review. Because of these weaknesses, the substitution rates estimated by the branches cannot be verified or evaluated.

During our investigation, the Disability Evaluation Division implemented an automated sampling system that should correct the weaknesses stemming from the lack of controls. The new system should eliminate the opportunity to interfere with proper random sampling procedures and should help to assure that performance measures for California are accurate.

### Other Factors Contributing to the Practice of Case Substitution

Three other factors contribute to the practice of case substitution: a competitive environment in the disability program; the branch staff's lack of regard for the performance measures; and low incentive for management to uncover improper practices that inflate performance ratings.

The disability program is characterized by a strong sense of competition. The Social Security Administration computes and publishes monthly performance ratings for each region, state, and branch. Officials of each region, state and branch know their rank compared with that of their counterparts. Officials of branches with low ratings, embarrassed by their rank, want a more favorable position in the public ratings; those with high ratings wish to maintain their positions. As a state, California has,

until recently, ranked in the lower half of the ratings compared to all other states. In the last five months of 1985, California's performance ratings improved to such a degree that its rank rose to among the top ten states in the country. We do not attribute this improvement solely to substitution of cases, although we believe this practice played some role in California's improved performance ratings. Other factors, such as management priorities and intensive case reviews, may have also contributed to the increase in ratings for California.

A second factor in case substitution is the branch staff's lack of regard for the performance rating that measures two components of performance--the accuracy of decisions and the thoroughness of documentation to support decisions. The former measures whether the decision made was a correct one. The latter measures whether the documentation compiled to justify the decision was complete and correct. The branches traditionally are rated very high on the correctness of their decisions; however, they earn lower ratings for providing proper documentation. The lower rating for providing proper documentation results in a lower overall performance rating. In the opinion of branch staff we interviewed, the combined performance rating devalues the most important issue, whether decisions are correct. Because staff do not value the combined rating, they do not consider interference with sampling procedures to be a major problem when placed in the context of their primary task--correctly determining applicants' eligibility within reasonable timeframes.

A third factor contributing to case substitution is management's lack of incentive to uncover improper practices that inflate performance ratings. Staff and management at the branch, state, and federal levels all benefit from high performance ratings that reflect favorably on the disability analysts and on overall program management. Both the department and the regional office of the Social Security Administration received the letter that prompted our investigation of this complaint. After conducting cursory investigations, the division official and an official of the Social Security Administration concluded that there was no substance to the complaint. In addition, in the six months preceding their investigations of the complaint, the Social Security Administration disability quality branch issued two reports suggesting that the samples it received from three California branches were not random samples. Despite the complaint and the reports, after only a brief investigation into the matter, both officials were satisfied with their conclusions that the complaint had no substance. Since they were familiar with the reports that raised concerns about the samples, we question the thoroughness of their investigations that disclosed no improprieties in sampling procedures.

## Conclusion

Staff of the Disability Evaluation Division of the Department of Social Services have been interfering with the sampling procedures used to randomly select cases for quality assurance review by the Social Security Administration. In five of the six branches, staff made substitutions in samples when they found cases with performance errors. Estimated substitution rates range from less than one percent to 40 percent. As a result, the Social Security Administration has been developing performance measures from unrepresentative samples, and its measures of quality assurance do not accurately reflect the performance of the department's Disability Evaluation Division. Branch officials within the division were aware of and condoned the practice of substitution. Because of systemic weaknesses in the sampling procedures, we could not determine what the actual rate of substitution was and how it influenced the performance ratings for the State and the branch offices. The Disability Evaluation Division has implemented an automated sampling system that should correct the systemic weaknesses in sampling procedures.

## AGENCY RESPONSE

According to the director of the Department of Social Services, the five branch officials involved in the sample tampering will be demoted and each will receive salary reductions amounting to over \$1,000 per month. The official at division headquarters will be relieved of his duties and demoted to a lower level position. In addition, the department will assess the division's current operation and formulate recommendations for improving and maintaining high employee morale and job satisfaction. The department will also review the division's automated sampling system to verify the system's integrity. Finally, the department will contact the Social Security Administration to obtain information regarding strategies and procedures developed by the most successful jurisdictions and to discuss the competitive nature of the program and the effect it may have on employee behavior and performance.