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# **PRESS** ★

## **The Recipient Fraud Incidence Study**

Conducted by

**THE FRAUD REVIEW PANEL**

for the

**STATE OF CALIFORNIA – HUMAN RELATIONS AGENCY  
DEPARTMENT OF SOCIAL WELFARE**

### **PART I**

### **Study and Findings**

**JANUARY 1970**

REPORT ON A STUDY TO DETERMINE THE  
EXTENT OF RECIPIENT FRAUD IN THE  
AID TO FAMILIES WITH DEPENDENT CHILDREN WELFARE PROGRAM

January, 1970

January 7, 1970

Mr. Robert Martin, Director  
State Department of Social Welfare  
744 P Street  
Sacramento, CA 95814

Dear Mr. Martin:

Enclosed is our report covering a special study made for the purpose of identifying the extent recipient fraud is present in the Aid to Families With Dependent Children (AFDC) welfare program and more specifically, the Family Group and Unemployed Parent components of that program. This study was requested following a preliminary survey, the results of which were published in a report dated July, 1968.

The report is presented in six sections:

1. Study Background
2. Selection of a Sample of AFDC Cases
3. Guidelines Established for the Investigation
4. Conduct of the Investigation
5. Review by the Regional Teams and Fraud Review Panel
6. Study Findings and Projections

In performing the study the Fraud Review Panel used the services of District Attorneys and, in some counties, welfare departments to investigate in excess of 1,200 AFDC cases selected at random from all such cases in the State. In addition, contributing efforts were received from a number of other state and federal departments and agencies. We wish to thank and express our gratitude to the hundreds of people who gave so much effort to assure that this study was effective in determining the extent of recipient fraud.

Findings developed by the investigators were first screened for completeness and accuracy by one of three Regional Review Teams established to provide study coordination and supervision. Following that screening, cases were reviewed in detail by a Fraud Review Panel composed of five attorneys familiar with the AFDC welfare program. In its review of cases the Panel designated those as containing fraud only if there was clear evidence that the case fell within the definition of fraud set forth on page 7 of the accompanying report.

Study results reveal that 15.75% of the sample cases contained fraud. Of the dollar amount paid in June, 1969 to all sample cases, 10.00% was determined to have been received fraudulently by recipients.

The estimate of fraud developed by this study as applicable to June, 1969 can be used to project the amounts fraudulently obtained during the total year 1969. The Research and Statistics Division, California Department of Social Welfare, has indicated that welfare payments have continued to increase since June and that considering June as an average 1969 month would lead to a realistic, but slightly conservative, estimate of the annual amounts. Multiplying the estimate of fraud dollars in June by twelve, we estimate that during 1969 payments totaling \$59,109,744 were received fraudulently by recipients included in these components of the AFDC program.


It is the sincere hope of the Fraud Review Panel that the findings in this report and the comments and observations that have been made a part of the study will be viewed in a positive context. It has been the Panel's goal not only to establish the extent of AFDC recipient fraud, but also to indicate

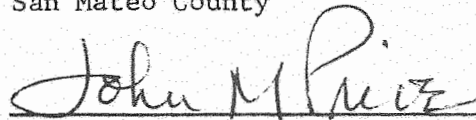
January 7, 1970


areas in which this fraud is most prevalent, all to the end that those truly in need may be most benefited.

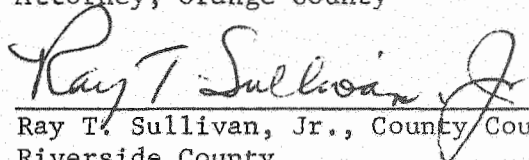
Very truly yours,

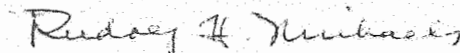
FRAUD REVIEW PANEL MEMBERS

  
Keith C. Sorenson, District Attorney  
San Mateo County

  
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Sacramento County

  
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State Department of Social Welfare

REPORT ON A STUDY OF WELFARE FRAUD IN THE  
AID TO FAMILIES WITH DEPENDENT CHILDREN WELFARE PROGRAM

STUDY BACKGROUND

In the spring of 1969, the State Department of Social Welfare was directed to form a Fraud Review Panel to conduct a statewide study of the incidence of recipient fraud in the Aid to Families with Dependent Children (AFDC) program in California. This study was a follow on to an earlier survey of welfare fraud which was reported in July, 1968. That study had failed to produce definitive results relative to the extent of undetected recipient fraud in the AFDC program. The requirement for such a review evolves from the continued controversy over the extent of improper payments to recipients aided under this program, how much is improperly paid, and in what manner such improper payments are obtained.

To determine the extent, if any, that improper payments had been made to recipients, this study began with the selection of a sample from the State AFDC caseload. It is important to note that the sample was a statewide sample, not a sample of particular counties. Every effort was made to complete the study promptly to make it possible for useful and effective legislation to be enacted, should any be appropriate from the findings and conclusions developed. Accordingly, once the decision had been made to go ahead with the study, the work tasks were expedited as much as possible. The investigation focussed on two AFDC cash grant assistance programs: the Family Group and the Unemployed Parent. The Boarding Home and Institutions component of the AFDC program was not covered by the study.

The legal and administrative framework within which the investigation was conducted includes the provisions of the laws and regulations related to welfare administration as contained in the federal Social Security Act, the State Welfare and Institutions Code, and the Operations Manual of the State Department of Social Welfare.

In addition to developing a plan for scientific sampling of the state-wide AFDC caseload, a carefully structured investigative plan for the conduct of the investigation was also established. A description of the extent to which security was maintained and the efforts which went into the selection of an independent and statistically reliable sample follow.



## SELECTION OF A SAMPLE OF AFDC CASES

The investigations made in this study relate to payments made to recipients in the month of June, 1969. In that month, approximately 1,000,000 people, representing approximately 270,000 families, were participating as recipients of the Family Group and Unemployed Parent components of the AFDC program. Since the unit of measure was to be the family, it was from these two sub-groups that the sample was selected.

The State of California engaged the international accounting and management consulting firm of Ernst & Ernst to assist the Fraud Review Panel in obtaining an appropriate, unbiased sample for investigation, as well as to assist in coordinating the study. The firm provided an operations research and statistical sampling specialist to work with representatives of the State Department of Social Welfare's Research and Statistics Division to develop a proper method of selecting the statewide sample to be used.

After study, a general plan was developed which conformed to the essential criteria for unstratified random sampling. This type of sampling was chosen because the purpose of the study was to measure the level of undetected fraud among family welfare recipients as a whole, rather than any segment of these recipients (age, ethnic group) or any one county or other geographical area.

To meet the accuracy criteria established for the study, it was determined that a sample of 1,219 cases should be examined. To make allowance for the fact that cases would inevitably be included in the final sample which could not be investigated because they were closed at the time of the investigation, investigators were provided with a larger number of cases than was actually required so that sufficient cases might be investigated to provide the degree of confidence and accuracy desired. Thus, an appropriate amount of over-sampling was built into the random sample design.

After determining the number of cases which would have to be investigated in order that the desired level of reliability might be achieved, the next question to be answered was: From what source might the cases be selected?

The State Department Social Welfare maintains a Master Persons File which was established for purposes of medical claims clearance. This file includes the names of recipients in the Family Group and Unemployed Parent components of the AFDC program, as supplied by the county welfare departments. As a prelude to its use, appropriate tests were made of the file before any investigations began to determine that it was reasonably reflective of payments actually being made by the counties. Where it was found that this was not the case, appropriate supplemental statistical sampling techniques were applied to augment the sample so that it would be representative.

Ernst & Ernst provided independent guidance in the sample selection process. That firm selected and maintained complete control over the random number table used and directed the entire selection process as the random numbers were applied against the Master Persons File. The random numbers used were destroyed by Ernst & Ernst to prevent any possibility of disclosure of the sample case numbers prior to the time they were given to the investigators.

To achieve study reliability and insure an unbiased sample, the cases selected were scrambled before the order of investigation was designated. Thus, assurance was given that the order of listing in the Master Persons File would not be determinative of the cases selected for investigation. The cases were then listed and all copies of the listing retained by Ernst & Ernst until such time as the investigative process began. No representatives of the State of California, the Fraud Review Panel, or any other body other than the firm of Ernst & Ernst had any access to the list of cases selected for investigation until the time that the investigation process began.

All of the steps taken were fully in line with meeting the most rigorous requirements of unrestricted random sampling. Cases were examined sequentially until the desired number of investigations was made. The field investigation conformed well to the sampling plan. The actual number of cases investigated was 1,213 compared with a planned investigation of 1,219 cases.

## GUIDELINES ESTABLISHED FOR THE INVESTIGATION

### ORGANIZATION AND RESPONSIBILITIES FOR THE INVESTIGATION

As previously noted, a Fraud Review Panel was formed to direct the study. The functions of the Panel were:

1. To establish the guidelines for the conduct of the study, including agreements on the nature and extent of the investigation, and to adopt an appropriate definition of recipient fraud.
2. To review in detail, each of the sample cases selected, for the purpose of determining the existence of fraud based on a predetermined definition thereof.

To support the Fraud Review Panel in its efforts, a group of four consultants was named. They included experts in the welfare field representing county and state agencies.

To further aid the Panel, and as noted previously, the services of an outside management consulting organization were requested. Ernst & Ernst was selected from a number of firms invited to submit qualifications to assist with such a study. It was the function of this firm to:

1. Provide guidance to insure the objectivity of the study at all levels.
2. Provide guidance to insure adherence to the guidelines established by the Fraud Review Panel.
3. Tabulate the results of the investigation.
4. Aid the Fraud Review Panel in the preparation of the final study report.

The actual investigation was performed by welfare and District Attorney investigators throughout the state. From the sample case names provided, these representatives developed case findings and conclusions with sufficient documentation to enable the Fraud Review Panel to determine the existence of fraud.

## DEVELOPMENT OF THE GUIDELINES

After preliminary planning, the Panel began meeting in May, 1969, to formulate the basic structure for the conduct of the investigation, as well as the manner in which the study should be controlled until its completion. It became obvious early in this organizational phase that investigation of over 1,200 welfare cases could not be properly supervised by a small group of people coordinating the study from Sacramento. Accordingly, it was deemed advisable that three area or Regional Review Teams be formed to assist the Panel in coordinating and supervising the study. Each Team included a representative from a District Attorney's office, a representative from a county welfare department, a representative from the State Department of Social Welfare, and a representative from the firm of Ernst & Ernst who acted as regional team leader.

So that findings might be related to total State payments, the study concerned itself only with payments received by AFDC recipients in June, 1969, and the case sample was drawn from the statewide AFDC caseload. Thus, the incidence of fraud identified at the conclusion of the study was to be a statewide figure which would in no way reflect the situation in a particular county.

A major factor in establishing the investigation guidelines was the definition of fraud which was to be applied. The Panel was in agreement that the definition of fraud contained in Section 20-003 of the State Department of Social Welfare regulations represented a valid definition for the purpose of this study. That definition reads:

Fraud by applicants for or recipients of public assistance exists when the applicant or recipient has:

1. Knowingly and with intent to deceive or defraud made a false statement or representation to obtain aid, obtain a continuance or increase of aid, or avoid a reduction of aid.
2. Knowingly and with intent to defraud failed to disclose a fact which, if disclosed, could have resulted in denial, reduction or discontinuance of aid.

3. Accepted aid knowing he is not entitled thereto, or accepted any amount of aid knowing it is greater than the amount to which he is entitled.
4. For the purpose of obtaining, continuing, or avoiding a reduction or denial of aid, made statements which he did not know to be true with reckless disregard of the truth.

Other guidelines prescribed by the Fraud Review Panel included the following:

1. That the study would begin as soon as a statistically reliable sample was developed.
2. That the random sample drawn at the beginning of the study would be sufficiently large to satisfy the requirements of the statewide sample needed, allowing for cases that would have to be rejected because they were inactive at the time the investigation began.
3. That requirements for minimum investigative efforts be established.  
By establishing these requirements it was not the intention of the Panel to limit an investigator's effort but only to suggest the minimum efforts for investigating each case. It was determined that each step in the investigative process would be completed in spite of the fact that evidence of fraud might be obtained at some point early in the investigation.
4. That an orientation program be developed to insure that investigations would be conducted uniformly throughout the State, and that the program be presented by each of three regional teams to the investigators in their area who would be involved in the study. As developed, the program included the following:
  - A. Necessary instruction which provided the investigator with an overview of the general approach and purpose of the study, as well as the individual steps of the investigative and review process with which he would be involved.

- B. An explanation of the sampling process.
  - C. An explanation of the organizational structure of the study and the specific responsibilities of each person involved in the study.
  - D. Instruction on the definition of fraud to be applied.
  - E. A review of the investigative guidelines prepared for use by the investigators.
5. That the Panel develop appropriate forms and procedures to assist each investigator in his gathering of data, and developing conclusions on each individual case. The checklists so developed, as well as appropriate summary and conclusion forms, were distributed to each county investigative unit for inclusion in each individual case file. The checklists essentially covered the review steps suggested for a minimum investigation effort as previously prescribed by the Panel.

## CONDUCT OF THE INVESTIGATION

### ORIENTATION AND INITIATION OF THE INVESTIGATION

The orientation programs were conducted in each of the three regions in mid-July, 1969. At these meetings the investigation checklists as well as the master list of cases selected for each region were distributed to representatives of county investigative units. This was the first time the cases selected for investigation had become known to anyone other than the consultant firm of Ernst & Ernst.

At each of these meetings, the Executive Secretary of the State Social Welfare Board, the project coordinator from Ernst & Ernst, the Regional Review Team leader and members, took part in describing the study and its approach. Special attention was given to the role of the investigator and the requirements he was to satisfy. A portion of the meeting was set aside for investigators to ask questions relating to any facet of the study.

In the course of these meetings, certain qualifications were stressed. For instance, the fraud to be investigated was explained to be solely that which pertained to the welfare payments made in June, 1969. If, during the course of the investigation, fraud was believed to have occurred, either before or after the month of June, the investigator was asked to provide supplemental information in the file and mention this fact in his report. It was made clear that local District Attorneys' prosecution of suspected fraud cases should not be deferred until the study was completed. It was made clear that any amounts of fraud discovered which related to payments made in months other than June were not going to be included in the results of this study. As noted, the study related only to payments made in June, 1969. Administrative errors which came to the attention of the investigator in the normal process of conducting his investigation were also



to be noted. The investigators were invited to accumulate information which could be useful to the Fraud Review Panel in developing recommendations for improvement of the AFDC program.

The procedures to be followed in processing the cases were explained. Upon completing his investigation and preparing his report, each investigator was to transmit the file of documents developed in the investigation to the regional team for review. If the Regional Review Team found that all requirements were satisfied in terms of the criteria and guidelines earlier established, it would then transmit the case file to the Fraud Review Panel. If it was found the case file did not indicate the investigative requirements had been met, it was to be returned to the investigator for further work and completion.

Owing to the variation in size of the participating counties, the number of investigators involved and attending this meeting in each region varied from one to approximately sixteen per county. The county representatives were primarily District Attorneys' personnel. In most counties, the District Attorney's investigative unit was responsible for performing the investigations. In several of the larger counties, the District Attorney's office was assisted by the local county welfare department in performing the investigations.

#### THE COMPILATION OF FINDINGS AND DEVELOPMENT OF CONCLUSIONS

Documentation and findings were compiled in accordance with a standard checklist for the conduct of each investigation. Even though fraud or administrative error was found in a particular case prior to completing all of the investigative tasks, the investigator completed the collection and analysis of all items required in the checklist. Where documentation or information could not be included in the case file, the investigator was asked to provide justification for its absence from the file.

The primary responsibility for developing the case information necessary to enable the Fraud Review Panel to reach a conclusion rested with the investigator assigned the case. This placed a responsibility on each investigator to prepare a report on his investigation which conveyed to the Regional Review Team and the Fraud Review Panel as complete and accurate a presentation of the case as possible. He was required to show that his findings in each case flowed logically from the evidence he developed, as shown by the documents included in his case file.

## REVIEW BY THE REGIONAL TEAMS AND FRAUD REVIEW PANEL

The review of cases was divided into two phases. The first phase was a preliminary review performed by one of the three Regional Review Teams. The second and final review was made and conclusions were reached by the Fraud Review Panel in Sacramento.

### THE REGIONAL REVIEW TEAM

The three Regional Review Teams were in existence for the duration of the study. The scope of their involvement included the following:

1. Development and presentation of the orientation for investigators.
2. Providing assistance to the investigators in initiating the investigations.
3. Conducting periodic reviews of the investigation progress and coordinating as required.
4. Controlling cases and information about the study within their region.
5. Reviewing submitted cases.
6. Transmitting completed cases to the Fraud Review Panel, or returning incomplete cases to the investigative unit.
7. Providing general assistance to the Fraud Review Panel as required.

The first two tasks in this list have been discussed briefly in previous sections of this report. Highlights of the other tasks are discussed below.

Periodic reviews of the investigation progress and investigative coordination were performed in each region. This was necessary to assure that the study deadlines would be met and to alleviate problems, particularly with agencies not directly involved in the study, whose assistance had been requested. Individual members of each regional team assumed special coordination assignments. In one region, the county welfare department representative was instrumental in acquiring many additional services from the welfare agencies in support of the study.

For two of the Regional Teams, this coordinating task was especially time consuming owing to the extensive geographical area included in their regions.

Based on the need for reliable study results, the scientific design of the study, and the techniques applied in the selection of sample cases, control of the cases in each region was imperative. Master lists of case names and numbers were maintained by each Regional Review Team for control over the systematic and sequential allocation and investigation of cases. Each case reviewed by the Teams was checked against the master list to insure it was properly includable in the study. In addition to control for statistical purposes, each Team was responsible for maintaining the confidentiality of each case and the information evolving from the investigations.

The scope of review of individual cases also included the measuring of the quantity and quality of the investigative work as presented against the guidelines set forth for the investigation; determination of the completeness of the documentation and its orderly compilation; assurance that the findings and reporting were accurately and completely presented; and the correcting of any clerical errors.

The screening process at the Regional Review Team level called for individual members of each Team to review individual cases. For particularly complex cases or cases in which the investigator's reporting raised questions, the entire Team participated in the review. Team members making the individual case reviews used the expertise of other members of the Team for support in assuring that a proper investigation had been made and the findings were properly presented.

From this screening, cases were either forwarded to the Fraud Review Panel with appropriate comments, or returned to the investigative unit for further work. In a few instances cases were rejected from the study by the Regional Team inasmuch as the case was not active at the time the investigation began.

## THE FRAUD REVIEW PANEL

The Fraud Review Panel held meetings in Sacramento as the number of cases received merited such meetings. An Ernst & Ernst representative, serving as coordinator, attended each of these meetings as a non-voting participant and as a Regional Review Team coordinator. Great care was taken by the Panel in this review to ascertain that there was clear evidence of recipient fraud in a case before it was so designated. Each case of recipient fraud, as determined by review of the case, was discussed at length by the entire Panel. All of the Panel members were attorneys familiar with the AFDC program. As such, they were familiar with the implications of the definition of recipient fraud. Further, they were aware of the evidence needed to establish the existence of fraud.

In addition to compiling information on the extent of fraud in the sample cases investigated, the Panel also gathered information on administrative errors that had come to the attention of the investigator at the time of his review. The frequency and extent of the incidence of administrative errors are included in the final section of this report. However, it should be emphasized that the study was not aimed at determining the extent of administrative error. This information, as a by-product of the study, is submitted in this report in the expectation that it will be useful in reducing the extent of such errors in the future.

## STUDY FINDINGS AND PROJECTIONS

Investigation of the AFDC cases selected for review from the statewide Master Persons File indicated a significant number contained recipient fraud. It was also noted that a significant number contained administrative error which resulted in an incorrect payment to the recipient.

Cases investigated totaled 1,213. Of these, 191 or 15.75% were found to contain recipient fraud. The most common type of identified fraud was found to be 'Unreported Income' which was present in 8.74% of the cases investigated. The second most common was the presence of an 'Unreported Man Assuming the Role of Spouse' which was found to be present in 4.21% of the cases investigated. Recipient fraud of some other type was found to be present in 2.80% of the cases investigated.

Although the study's aim was to determine the amount of recipient fraud present in the program, examples of administrative error also came to the attention of the investigators as they performed their review tasks. Administrative errors were found to be present in 5.36% of the cases investigated. The study was not aimed at determining the extent of administrative error. Accordingly, the amount of such error quoted here, and in the accompanying tables, is not to be considered as properly reflective of all such error in the sample or the AFDC program.

A tabulation of the findings developed by the study is outlined in Table I accompanying this report.

The statistics outlined above deal with the frequency recipient fraud and administrative errors were found to be present in the cases investigated. When the findings relating to the dollars fraudulently received by recipients are examined, a better understanding of the effect of these fraudulent activities

is obtained because mere determination that fraud existed in a given case does not necessarily mean that the entire grant was fraudulently obtained. In instances of outright ineligibility, the entire amount paid would be due to fraud but in other cases, such as those of unreported income or the failure to report the ineligibility of one of several children, only a part of the grant would be attributable to the fraud while the balance would be characterized as "properly paid." Of the total amount paid to recipients covered by the cases included in the sample, 10.00% was found to have been received fraudulently. Further, 1.76% was found to have been paid as a result of administrative error.

The total amount paid in June, 1969 to all recipients included in the Family Group and Unemployed Parent components of the AFDC program amounted to \$49,258,124 according to Welfare Department records. Relating the study findings to these total payments, and considering the reliability which can be given to the results developed from the sample used, there is a 95% reliability that, plus or minus 1.61%, \$4,925,812 of the total amount paid in June, 1969 to the families covered by these components were received fraudulently. Table II further outlines these findings.

The estimate of the dollar amount of fraud in June, 1969, can be used to project the fraudulent amounts for all of 1969. The Research and Statistics Division, California Department of Social Welfare, has indicated that welfare payments have continued to increase since June and that considering June as an average 1969 month would lead to a realistic, but slightly conservative estimate of the annual amounts.

By multiplying the June estimates by twelve, it is estimated that payments totaling \$59,109,744 were received fraudulently and payments of at least \$10,403,316 were received as a result of administrative error in 1969.

Payments received fraudulently are estimated to have been made as a result of the following fraudulent acts in the amounts indicated:

	<u>Estimated 1969 Amount</u>
Type of fraud:	
Unreported Income	\$27,958,908
Unreported Man Assuming Role of Spouse	20,688,408
Other	<u>10,462,428</u>
	<u>\$59,109,744</u>



# RECIPIENT FRAUD INCIDENCE STUDY

June, 1969

## NUMBER OF CASES, TOTAL PAYMENTS, AND FRAUD PAYMENTS IN AFDC SAMPLE CASES, BY TYPE OF FRAUD

TYPE OF CASE	CASES		TOTAL PAYMENTS			FRAUDULENT PAYMENTS		
	NUMBER	PERCENT	AMOUNT	PERCENT	AVERAGE PER CASE	AMOUNT	PERCENT ALL PMTS.	AVERAGE PER CASE
Cases Determined to Contain Fraud:								
Unreported Income	106	8.74%	\$ 20,947	9.30%	\$197.61	\$10,649	4.73%	\$100.46
Unreported Man Assuming Role of Spouse	51	4.21	10,626	4.71	208.35	7,890	3.50	154.71
Other:								
Unreported Change in Family Composition	7	.58	1,561	.69	223.00	779	.34	111.29
Misstatement of Material Fact	9	.74	1,519	.67	168.78	746	.33	82.89
Unreported Ineligible Child	3	.25	664	.30	221.33	116	.05	38.67
Unreported Excess Personal Property	5	.41	936	.42	187.20	936	.42	187.20
Unreported Ineligible Recipient	4	.33	557	.25	139.25	557	.25	139.25
Failure to Disassociate	5	.41	1,165	.52	233.00	684	.30	136.80
Misrepresentation of Availability for Employment	1	.08	166	.07	166.00	166	.08	166.00
Total Other	34	2.80	6,568	2.92	193.18	3,984	1.77	117.18
Total Cases Determined to Contain Fraud	191	15.75	38,141	16.93	199.69	\$22,523	10.00%	\$117.92
Balance of Cases	1,022	84.25	187,133	83.07	183.10			
TOTAL IN SAMPLE	1,213	100.00%	\$225,274	100.00%	\$185.72			

## NUMBER OF CASES, TOTAL PAYMENTS, AND PAYMENTS INVOLVING ADMINISTRATIVE ERROR IN AFDC SAMPLE CASES

TYPE OF CASE	CASES		TOTAL PAYMENTS			ADMINISTRATIVE ERROR		
	NUMBER	PERCENT	AMOUNT	PERCENT	AVERAGE PER CASE	AMOUNT	PERCENT ALL PMTS.	AVERAGE PER CASE
Cases With Administrative Error	65	5.36%	\$ 11,161	4.95%	\$171.71	\$3,956	1.76%	\$ 60.86
Balance of Cases	1,148	94.64	214,113	95.05	186.51			
TOTAL IN SAMPLE	1,213	100.00%	\$225,274	100.00%	\$185.72			

Note: It can be accepted with 95% reliability that the sample percentages above which relate to recipient fraud are accurate to within better than  $\pm 2.2\%$ . Information relating to administrative error was noted incidental to the investigation of recipient fraud and the review tasks were not designed to determine the extent of such error. Accordingly, no accurate projections of such error can be made from the cases investigated.

# RECIPIENT FRAUD INCIDENCE STUDY

June, 1969

## ESTIMATED TOTAL NUMBER OF CASES AND AMOUNT OF PAYMENTS INVOLVING FRAUD

<u>TYPE OF CASE</u>	<u>CASES</u>		<u>PAYMENTS</u>	
	<u>SAMPLE PERCENT</u>	<u>ESTIMATED NUMBER</u>	<u>SAMPLE PERCENT</u>	<u>ESTIMATED AMOUNT</u>
Type of Fraud:				
Unreported Income	8.74%	23,170	4.73%	\$ 2,329,909
Unreported Man Assuming Role of Spouse	4.21	11,162	3.50	1,724,034
Other	2.80	7,423	1.77	871,869
Payments With Fraud	15.75	41,755	10.00	4,925,812
Balance of Payments	84.25	223,353	90.00	44,332,312
TOTAL PAID IN JUNE, 1969	<u>100.00%</u>	<u>265,108</u>	<u>100.00%</u>	<u>\$49,258,124</u>

## ESTIMATED TOTAL NUMBER OF CASES AND AMOUNT OF PAYMENTS INVOLVING ADMINISTRATIVE ERROR

<u>TYPE OF CASE</u>	<u>CASES</u>		<u>PAYMENTS</u>	
	<u>SAMPLE PERCENT</u>	<u>ESTIMATED NUMBER</u>	<u>SAMPLE PERCENT</u>	<u>ESTIMATED AMOUNT</u>
Cases With Administrative Error	5.36%	14,210	1.76%	\$ 866,943
Balance of Cases	94.64	250,898	98.24	48,391,181
TOTAL PAID IN JUNE, 1969	<u>100.00%</u>	<u>265,108</u>	<u>100.00%</u>	<u>\$49,258.124</u>

Source: Total June, 1969 cases and payments from California Department of Social Welfare, Research and Statistics Division.

Note: It can be accepted with 95% reliability that the sample percentages and derived amounts above which relate to recipient fraud are accurate to within better than  $\pm 2.2\%$ . Information relating to administrative error was noted incidental to the investigation of recipient fraud and the review tasks were not designed to determine the extent of such error. Accordingly, no accurate projections of such error can be made from the cases investigated.





**PRESS** ★

# **The Recipient Fraud Incidence Study**

Conducted by

**THE FRAUD REVIEW PANEL**

for the

**STATE OF CALIFORNIA – HUMAN RELATIONS AGENCY  
DEPARTMENT OF SOCIAL WELFARE**

**PART II**

**Recommendations**

**JANUARY 1970**

RECOMMENDATIONS DEVELOPED FROM A  
STUDY TO DETERMINE THE EXTENT OF RECIPIENT FRAUD IN THE  
AID TO FAMILIES WITH DEPENDENT CHILDREN WELFARE PROGRAM

January, 1970

January 7, 1970

Mr. Robert Martin, Director  
State Department of Social Welfare  
744 P Street  
Sacramento, CA 95814

Dear Mr. Martin:

The results of the study to determine the incidence of undetected recipient fraud in the Aid to Families With Dependent Children (AFDC) caseload have been reported to you under separate cover on this date.

In conducting this study new benchmarks have been established in cooperative relations between county and state government. The major part of the study work has been performed by District Attorneys and members of their staffs. In spite of the extreme pressure of other responsibilities, these individuals and agencies have given generously of their time, sometimes at personal sacrifice. In addition, a number of county welfare departments have also contributed investigative and other valuable staff services.

The taxpaying public which has the responsibility of caring for those who are truly in need deserves to have confidence that the regulations governing the welfare program are scrupulously adhered to. For the same reason, those who are in any way involved in the administration of the system have the absolute duty to insure that such is the case. Only in this way can the proper concept of public support of welfare programs be realized.

In conducting this study the Fraud Review Panel was given a unique opportunity to survey and critically examine many of the procedures and problems related to the program.

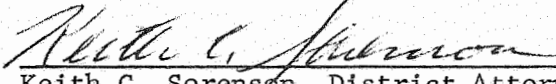
January 7, 1970

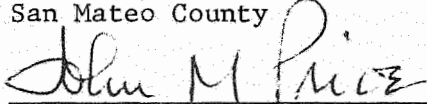
Our observations and the study findings clearly indicate a serious problem is present which will require continuing attention. It appears most advisable that a program be developed which will constantly assess the level of administrator and recipient compliance with the law and regulatory requirements. We recommend that a program be adopted which will provide for continuing review and monitoring of that compliance.


Accompanying this letter are further recommendations developed during the conduct of the study. Many are not new. Many have been discussed elsewhere. The Panel believes, however, that the study findings add a new note of urgency, and it is for this reason that they are restated here. The findings in the report, the comments and observations above, and the accompanying recommendations should be viewed in a positive context. It has been the Panel's goal to establish the extent of fraud and to suggest ways in which waste can be curtailed to the end that those truly in need may be most benefited.

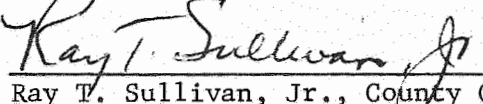
Very truly yours,


FRAUD REVIEW PANEL MEMBERS

  
Keith C. Sorenson, District Attorney  
San Mateo County

  
John M. Price, District Attorney  
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## RECOMMENDATIONS

### State and County Administration

A significant portion of welfare fraud losses result from the failure to report changes in family composition and income; either earned income, income in-kind, or income received from other sources. Related to this is the need for a clearer understanding on the part of the recipient of his responsibility to report such circumstances, and improvement in the system by which such reports and status changes are received and processed by the counties.

It is clear there is room for improvement in all of these areas. The recipient-oriented caseworker must realize the serious implications for the recipient as a result of his (the caseworker's) failure to insure the recipient's understanding of these requirements. The consequence of such a failure can lead to prosecution. While this fact should be impressed on the recipient, the caseworker must also understand that failure to adequately cover this subject in his discussions with the recipient may be exposing both to needless difficulty.

A significant portion of the fraudulent conduct and many of the errors identified in this study commenced or were permitted to continue unabated because some caseworkers were not sufficiently aware of the danger signals. The apparent lack of training and/or interest on the part of some caseworkers may be viewed as a significant factor associated with the incidence of fraud and error.

There is a serious lack of uniformity between the counties as to (1) when during the month such reports of changes in family composition and income are due, (2) the manner of processing the reports, and (3) the ease with which the information contained in the reports can be applied to the grant. In connection with these problems the Panel recommends that:



1. Regulations provide for a mandatory, timely, simplified and uniform system for reporting income and changes in family composition by recipients throughout the State.
2. Regulations and forms on this and other subjects be written in a clear and concise manner to the end that ambiguity is eliminated. For example, the word "prompt" would be better understood if a specific period of time were substituted; the words "Income" and "Family Composition" would be better understood if they were clearly defined and their definitions impressed on recipients.
3. Monthly detailed status and income reports be required as a pre-requisite of paying aid.
4. The recipient be instructed, before being asked to complete any document relating to eligibility for aid, that any false statement will subject him to criminal penalties.
5. Regulations regarding signatories on affirmations and reaffirmations require that all adults in the home who affect the grant must sign these documents, as well as any and all adults responsible for the child.
6. Greater attention be given to those cases in which there is variable income or income from self-employment, as well as during those periods in which there are five weekly pay periods.
7. Consideration be given to pressing disciplinary and/or legal action against caseworkers and others who deliberately or negligently overlook illegal situations or who aid and abet in the commission of welfare fraud.
8. It be required that each applicant for aid receive a pictorial pamphlet outlining his responsibilities; and this document be followed up with

mailings at intervals in the future. An example of such a brochure accompanies this report as Appendix A.

9. Efforts to simplify AFDC program regulations be continued. The extensive detail involved in policy, regulations and calculation of the need and the grant, results in confusion and misunderstanding of the program requirements.

In the course of the study the Fraud Review Panel was exposed to some of the administrative complexities of the internal system at both the state and county level. The vastness and costs of these systems would seem to justify close and continuing scrutiny to insure that the internal mechanism functions as efficiently and economically as possible. While payment documentation is a necessity, attention should be given to simplifying the steps, eliminating unnecessary steps and providing some tracking system in order to determine without delay the number and amounts of grants received in a particular case in a given period. Reports of all kinds should be carefully evaluated to insure they are still justified in terms of their usefulness and purpose and, if so, that they are both accurate and timely. Although these comments are of a general nature, the Panel recommends that:

10. Continuing attention be given by the State Department of Social Welfare to updating the Master Persons File and developing procedures which will assure that it remains current. In this connection it is important that the counties continually provide current information for input into the file.
11. Regulations concerning the final payment of aid in the month of discontinuance be improved. At this point substantial overpayments can be made which are difficult or impossible to recover due to the inability of the system to respond promptly to change.

12. Notices advising recipients of discontinuance contain in bold print that there is no further entitlement; that any warrants received should not be cashed but returned to the welfare department. Further, that such notice recite the penalty for non-compliance with this requirement.
13. As an aid to maintaining better controls, support contributions received by the probation or other departments of county government in all cases be uniformly transmitted to the welfare department to offset the grant instead of being paid directly to the recipient.

In their review of sample cases in this study, members of the Panel have identified a number of problem areas associated with the payment of aid and the policies and regulations related thereto. As a means of resolving these problems, the Panel recommends that:

14. A system of closer followup be established to insure that extra sums paid recipients to meet specific special needs are actually used for the purpose intended.
15. A policy be adopted which will provide for the discontinuance of aid when a recipient absents himself from the state for thirty days for whatever reason.
16. Regulations require the listing of parent social security numbers as well as other potential employable family members on the application for aid, and a greater effort made to obtain these numbers on current cases. Applicants for aid who do not have social security cards can be assisted in completing the simple application at the time the application for aid is taken.
17. In cases involving fraud, the guilty party not have the benefit of deductions for work-related expenses and/or other exemptions in computing the amount of the overpayment.

18. Caseworkers alone not have the authority of declaring individuals incapacitated. Supervisory staff should participate in this decision after appropriate evaluation and verification.

The Panel makes two observations with regard to existing statutes and the need for legislative action. First, the wording in Section 10500, Welfare and Institutions Code is such that it is being used for purposes contrary to its intent. Secondly, Section 11482 of the Welfare and Institutions Code, as related to Section 487.1 of the Penal Code causes a distinction to be made between welfare recipients and non-welfare recipients.

The Panel recommends that legislation be introduced for the purpose of amending:

19. Section 10500, Welfare and Institutions Code reads as follows:

"Every person administering aid under any public assistance program shall conduct himself with courtesy, consideration, and respect toward applicants for and recipients of aid under that program, and shall endeavor at all times to perform his duties in such manner as to secure for every person the maximum amount of aid to which he is entitled, without attempting to elicit any information not necessary to carry out the provisions of law applicable to the program, and without comment or criticism of any fact concerning applicants or recipients not directly related to the administration of the program."

This section should contain language which speaks to the recipients' responsibility and, further, sets forth the requirement that welfare benefits are to apply as a supplement to all other benefits to which the recipient may be entitled, and after property which exceeds the limitations has been utilized.

20. Section 11482, Welfare and Institutions Code reads as follows:

"Any person other than a needy child, who willfully and knowingly, with the intent to deceive, makes a false statement or representation or knowingly fails to disclose a material fact to obtain aid, or who, knowing he is not entitled thereto, attempts to obtain aid or to continue to receive aid to which he is not entitled, or a larger amount than that to which he is legally entitled, is guilty of a misdemeanor."

This section should be amended so it is consistent with Section 487.1 of the Penal Code; that is welfare fraud resulting in an overpayment of less than \$200 should be considered a misdemeanor and in excess of \$200 should be defined as a felony. Such a change would clarify the present law.

#### Caseworker-Recipient Relationships

Efforts of caseworkers, both eligibility and social workers, are directed toward assisting the recipient in obtaining financial independence and self-determination, as well as improving his self-image and his physical and emotional environment as well as that of his family. The tools used by the caseworker in achieving these objectives are the various financial aid and service programs supported by the public or private organizations within certain limits and guidelines. The caseworkers' responsibility to render aid in a humane and understanding manner is obvious. Their responsibility in administering public funds and the public trust involved is just as obvious.

There appears to be however, a minority of caseworkers who overlook and encourage acts by recipients which are contrary to the letter and intent of the prescribed limits and guidelines. Aside from fostering greater dependency in the recipient, these few caseworkers should realize that welfare cheating is a morally degrading act. Unlawful acts are just as degrading when committed by a welfare recipient as when committed by an individual who is financially independent. For these caseworkers to fail to shoulder their responsibility in this area - to deliberately overlook or in other ways to encourage this behavior in recipients is directly contrary to basic social work philosophy. An indication of this adverse and negative attitude manifested itself recently when some caseworkers advised their co-workers and recipients not to cooperate in this study, a study

which was instituted and conducted within the jurisdiction of welfare administration. Public employees have the same obligation to taxpayers, as employees of private organizations have to their employers, and such activities should be dealt with accordingly.

Welfare recipients specifically and the public in general have a right to expect that caseworkers will be trained and knowledgeable in their areas of responsibility. Although recognizing there is a great amount of detail involved in this work, the Panel believes that a significant part of the administrative error and fraud identified in its report could have been avoided with improved caseworker training.

On the general subject of caseworker-recipient relationships, the Panel recommends that:

21. Greater emphasis be placed on developing in caseworkers, a sophisticated awareness of the possibility that they may be deceived. This subject is discussed at greater length below.
22. Increased emphasis be placed on supervision and review of case record material by caseworkers and supervisory staff. More than isolated instances were noted where glaring errors and omissions requiring follow-up did not receive necessary attention or were subject to unnecessary delay.

#### Detection and Prevention of Fraud

In general terms, one of the most pressing needs in connection with preventive programs is a systematic training program for caseworkers and eligibility workers. Such training should be included in the initial caseworker orientation and furthered by the use of in-service training programs. Involvement should be mandatory. A suggested plan for developing such a comprehensive program is contained in Appendix B.

In the area of detection and prevention, the Panel recommends that:

23. In consideration of the extent of welfare fraud and administrative error revealed by the fraud study, county governments carefully review the present level of fraud investigation and staffing to determine whether they are adequate to cope with the size of the existent problem.
24. A method be developed for identifying, for closer follow-up, those cases in which the recipient has previously been suspected of welfare fraud or has, in fact, been convicted of welfare fraud.
25. The State utilize information developed by state and federal agencies as aids to administering the program. Systematic obtaining of information on recipients earnings, benefits and property would be of significant benefit in this regard.
26. Cases involving large monthly totals of aid payments and other income, and cases involving unemployed or incapacitated parents, be scheduled for special and more frequent follow-up.
27. In instances where recipients are not furnished caseworker services, provision be made for frequent review of eligibility.
28. County governments be encouraged to expand their investigative staffs to meet the problems identified by the study. Smaller counties should receive assistance in developing investigative staffs in the areas of child support and welfare fraud, perhaps through a county pooling arrangement.
29. Where school attendance is a condition of receipt of welfare the caseworker contact the school with sufficient frequency to insure that eligibility continues to exist.
30. The policy of non-scheduled home visits by caseworkers during normal business hours be adopted by all counties.

DOES  
YOUR  
SOCIAL  
WORKER  
KNOW  
?

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ABOUT MONEY YOU GET FOR YOURSELF OR YOUR CHILDREN

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> from your job      | <input type="checkbox"/> from a child's father       | <input type="checkbox"/> from disability       |
| <input type="checkbox"/> from a child's job | <input type="checkbox"/> from rent                   | <input type="checkbox"/> from unemployment     |
| <input type="checkbox"/> from your family   | <input type="checkbox"/> from social security        | <input type="checkbox"/> from any other source |
| <input type="checkbox"/> from your friends  | <input type="checkbox"/> from workmens' compensation |  |
- 

ABOUT PEOPLE IN YOUR HOME - WHEN ANYONE MOVES IN,  
MOVES OUT, OR VISITS

- |  |   |                                     |
|--|---|-------------------------------------|
| <input type="checkbox"/> a family member | <input type="checkbox"/> another adult or child | <input type="checkbox"/> your child |
| <input type="checkbox"/> a friend        |   |                                     |
- 

ABOUT YOUR PROPERTY - THINGS YOU OWN OR BUY

if you are buying or selling:

- |   |                                     |   |
|---|-------------------------------------|---|
| <input type="checkbox"/> a home         | <input type="checkbox"/> a car      | <input type="checkbox"/> furniture                        |
| <input type="checkbox"/> other property | <input type="checkbox"/> appliances | <input type="checkbox"/> if you are buying life insurance |
- 

HAVE YOU MOVED LATELY? ARE YOU PLANNING TO MOVE?

Does your social worker know your new address? ☐

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SCHOOL

Do you have a child over 15 who does not go to school? ☐

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IF YOUR SOCIAL WORKER DOES NOT KNOW THE THINGS YOU  
HAVE CHECKED ABOVE, call him and tell him now - this  
is for your PROTECTION !

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PROTECT  
YOURSELF  
TELL  
YOUR  
SOCIAL  
WORKER

For your child to get the right amount of aid, your social worker must know about:

MONEY you or your child get - no matter who or where it is from.

THINGS you own or are buying.

PEOPLE who live with you - no matter who they are.

Have you told your social worker ALL he must know to pay aid for your child?

Don't wait for him to ask. Tell your social worker ALL THE FACTS now !

WHAT  
IS  
FRAUD  
?

A few people do not tell their social worker all the facts.

These people can be arrested for fraud.

What is FRAUD?

Fraud is a crime. A person may have to pay a fine and he may be put in jail for fraud.

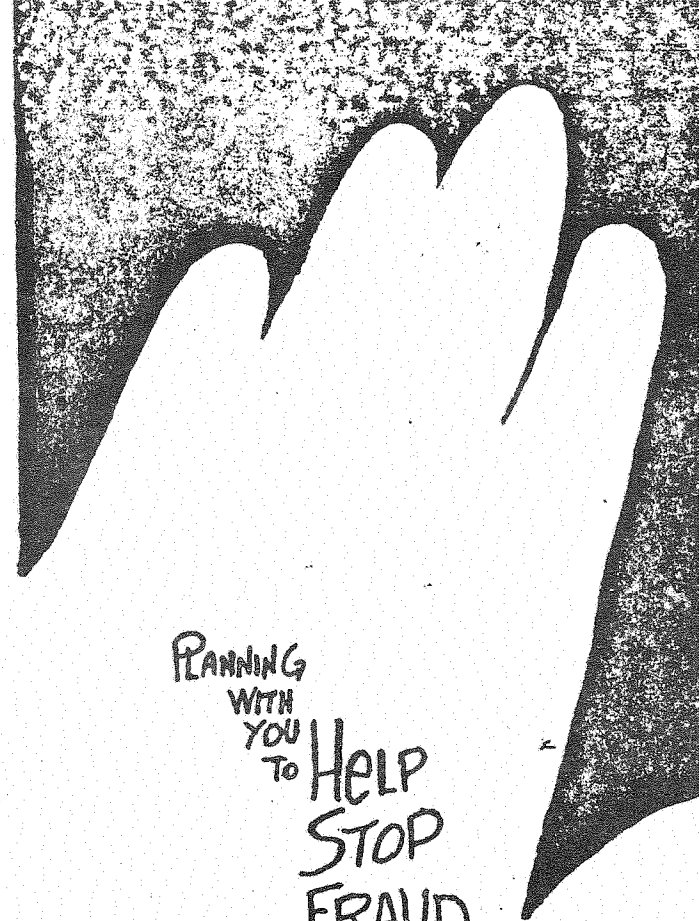
When a person gets aid that he should not get, he may be guilty of fraud...

IF the aid was paid because he lied.

IF the aid was paid because he told only part of the truth.

IF the aid was paid because he did not tell all the facts right away.

You can help stop fraud. Check the list inside this folder. If your social worker does not know all these facts about you and your family - tell him NOW !



PLANNING  
WITH  
YOU  
TO  
HELP  
STOP  
FRAUD

FRESNO COUNTY WELFARE DEPARTMENT

SUGGESTIONS FOR DEVELOPING A  
FRAUD PREVENTION AND DETECTION TRAINING PROGRAM

1. The Director of the State Department of Social Welfare would have responsibility for mandating this program in all counties.
2. The curriculum would be developed by a group consisting of representatives of the County Welfare Directors' Association and the District Attorneys' Association who have demonstrated an interest in this area. Included would be a Deputy District Attorney with experience in welfare fraud and child support, an experienced casework and eligibility supervisor, a county welfare investigator and district attorney investigator as well as selected executive staff of the State Department of Social Welfare.
3. Each new caseworker and eligibility worker would receive fraud detection and prevention training as a part of his orientation.
4. Within the first six months the new staff member would participate in a full days fraud prevention and detection training activity.
5. Advanced courses would be provided for supervising staff at regular intervals and participation would be mandatory. Subject matter would be varied.
6. Programs would include a heavy emphasis on prevention, as well as:
  - a. Identification of clues and leads
  - b. Actions to be taken
  - c. Referral procedures
  - d. Recipient responsibility
  - e. Staff member responsibility
  - f. Case examples to illustrate

