Department of Social Services:

Review and Assessment of the Cost Effectiveness of AFDC Fraud Detection Programs

March 1995
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CALIFORNIA STATE AUDITOR

March 29, 1995 94023

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 139, Statutes of 1994, the Bureau of State Audits presents its audit report concerning the Cost Effectiveness of AFDC Fraud Detection Programs. This report concludes that the early and continuing fraud programs are clearly cost effective. However, the amount of savings attributable to the program is difficult to calculate. Finally, although the program is cost beneficial, the Department of Social Services could improve its management and oversight activities.

Respectfully submitted,

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Bureau of State Audits

Department of Social Services:

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Prepared by
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March 1995

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SUMMARY

RESULTS IN BRIEF

Early and Continuing Fraud Programs are Cost Effective

We found that the selected counties' early and continuing fraud programs are clearly cost effective. The program returns between $6 and $67 in fraud costs avoided to state, federal and county governments for every $1 spent for early fraud prevention and detection activities. The program returns between $3 and $12 in fraud costs avoided to state, federal and county governments for every $1 spent for continuing fraud prevention and detection activities.

We determined that Riverside County was the most cost-effective county we reviewed primarily due to their preventive fraud investigations. These investigations utilize fraud technicians at a lower cost than fraud investigators to interview applicants for clarification of statements made on the application. The applicants are notified that they are in the fraud investigation process and are scheduled an appointment with the fraud technician. Based on our interviews, a high percentage (40 percent) of applicants do not return for the follow-up interview.

Cost Effectiveness of the AFDC Fraud Programs is Difficult to Calculate

We reviewed the performance of 7 of the 58 counties and are reporting results on 6 of those counties. During our review, we noted errors in counties' accumulation of fraud activity, instances where the key statistical reports were not prepared in accordance with the Department of Social Service's (department) instructions, inadequate instructions from the department regarding the preparation of the key statistical reports, and the use of outdated information for calculation of the average length on aid. In 4 of the 7 counties reviewed, we found errors in the preparation of the Fraud Investigation Activity Report. For 3 of the 4 counties, the errors could be quantified and the cost-effectiveness calculation was adjusted as appropriate. In San Bernardino County, the error was not quantifiable and therefore, the county is excluded from the cost-effectiveness analysis presented in Chapter 1. Although the department cannot calculate the cost effectiveness of the AFDC fraud programs with precision, variances in the factors used in the calculation would not likely affect the overall conclusions about the programs' cost effectiveness.

The Department of Social Services Should Improve Management and Oversight of the AFDC Fraud Programs

Although the AFDC fraud programs appear to be cost effective, significant improvement could be realized with improved management and oversight by the department. The department collects substantial information, but does not perform sufficient review of the data to identify inconsistent and erroneous data and provide feedback to the counties. The department could improve the quality and consistency of the data by providing thorough written instructions to include data retention requirements, formal training classes, desk review of submitted reports, field audits of supporting documentation, and continual feedback to the counties. The department pays the costs for most counties to utilize the statewide computerized matching system. Two of the seven counties in our review were receiving enhanced funding, but not fully utilizing the statewide matching system. Since the county data is frequently incorrect and inconsistent, the department cannot precisely calculate the cost effectiveness of its various fraud activities and programs and cannot establish reliable performance measures.

Recommendations

The department should ensure that the accurate, timely and relevant fraud information is collected from all 58 counties. It should ensure that the information collected is needed to manage the program and is cost beneficial for the counties to gather. The department should develop performance measures to help evaluate the effectiveness of the various fraud programs, techniques and investigators. The department should strengthen its monitoring of the counties receiving enhanced funding for the utilization of the statewide matching system to ensure their compliance.

INTRODUCTION

Description of the Program

The Aid to Families with Dependent Children (AFDC) program provides cash grants to children and their parents or guardians whose income is insufficient to meet the children's basic needs. A family that receives an AFDC grant must meet certain eligibility requirements to qualify for a cash grant. Eligibility is limited to families with needy children whose parent or parents are deceased, incapacitated, not fully employed, continually absent, or to children who require out-of-home care in a foster home or institution. The amount of cash grant is determined by the number of eligible persons in the family and the family's income. Additionally, a family can receive an AFDC cash grant only from the county where the family maintains a permanent residence. Counties maintain a single case file for each applicant and recipient; the case file identifies each individual and family eligible for aid.

The Department of Social Services (department) regulations specify that fraud in public assistance programs occurs when a person knowingly makes a false statement or fails to disclose a fact in order to obtain public aid, increase public aid or avoid a reduction in public aid. These regulations also state that public assistance fraud occurs when persons knowingly receive aid to which they are not entitled. The California Welfare and Institutions Code also prohibits AFDC recipients from withholding or falsifying information to collect more than the amount of aid to which they are entitled. California counties, under the direction of the department, are responsible for administering the AFDC program.

The AFDC Fraud Detection and Prevention Programs (fraud programs) are administered at the local level by each of the 58 county welfare departments and district attorney's offices. The department supervises county activities through its regulations, and through its State Fraud Bureau which is responsible for facilitating policies relevant to fraud investigations. Each county with a caseload exceeding 1,000 must have a special investigative unit or a cooperative agreement with an outside agency such as the District Attorney's Office. According to the department, there are approximately 920 county welfare fraud investigators throughout the State and the fraud program is budgeted at approximately $90 million annually.

The fraud programs are divided into two basic types: the early fraud prevention and detection program and the continuing fraud prevention and detection program. The early fraud prevention and detection program consists of a coordinated effort between intake eligibility workers and welfare fraud investigators in the early identification of fraudulent applications. Coordination is facilitated by locating the investigators with intake eligibility staff to generate immediate investigative referrals, provide for the completion of intake investigations within the application-processing timeframes, and encourage prompt feedback from the investigator to the intake eligibility worker.

The continuing fraud prevention and detection program refers to investigations of suspected fraud involving persons already on aid. Referrals may come from several sources, including the eligibility workers and the public through letters or the toll-free welfare hotline maintained by the State Fraud Bureau in the department.

To assist fraud investigators in performing investigations and to identify potential suspicious circumstances needing an investigation, the department maintains a computerized matching system. This system, the Income and Eligibility Verification System (IEVS), matches an applicant or recipient name and social security number with income and benefit files from state welfare files, unemployment and disability files from the Employment Development Department, interest and dividend income files from the Franchise Tax Board and the Internal Revenue Service, and social security benefit and wage information files. These matches are referred to the county welfare offices for investigation. IEVS is also used to identify tax refunds and lottery winnings that can be intercepted to collect overpayments.

Many of the counties have developed their own unique fraud programs and techniques for welfare fraud prevention and detection. The department has sponsored several fraud projects to improve the effectiveness of fraud detection and prevention in an individual county and statewide. This includes the Automated Fingerprint Image Reporting and Match (AFIRM) project implemented in Los Angeles County in July 1994, and fraud incident studies in several counties.

Finally, the department provides total or enhanced funding for early and continuing fraud programs, IEVS, and collections, in order to ensure that counties are able to take timely and effective action to detect, prevent and deter fraud.

The Welfare Fraud Investigator Role

The welfare fraud investigator in California is a peace officer, responsible for conducting investigations for the purpose of establishing whether there is adequate evidence to support a charge of welfare fraud.

Upon completion of the investigation, it is the investigator's responsibility to prepare an investigative report in accordance with forms and procedures prescribed by the local welfare department and/or the prosecuting authority. The investigator may also be responsible for requesting the issuance of criminal complaints from the district attorney on all cases showing evidence of fraud and other criminal activity, and providing that office with all records and reports pertinent to the case.

While the majority of the investigator's work is fraud related, they may also deal with perjury, embezzlement, conspiracy, child abuse, theft, and forgery. Therefore, the investigator is required to be familiar with the criminal sanctions of the law, as well as the welfare regulations under which the department operates.

Most fraud cases detected are not prosecuted since minimal amounts of money have been granted. Prosecutions of all welfare fraud cases is not deemed to be cost beneficial by most counties, and the volume of potential prosecutions would create a backlog in the district attorney's office and the courts. At the seven counties reviewed, fraud cases involving grant awards of $1,000 or more, and for which "intent" of fraud can be proved, are prosecuted by most district attorneys based on a referral from fraud investigators. Intent is usually proved by false documentation, statements by witnesses, or by an admission by the AFDC recipient.

Techniques and Procedures Used
To Prevent, Detect, and Investigate Fraud

The seven counties included in this review utilized the following techniques to prevent and detect fraud and the following procedures to investigate fraud allegations:

Techniques to prevent fraud:

- Applicant views a video at intake explaining the application process, eligibility criteria, applicant's rights and consequences for program violations and/or fraudulent acts;
- IEVS matches;
- Eligibility worker emphasizes the rules and regulations;
- Eligibility worker explains and then asks the client to sign a form noting the applicant's understanding of his/her rights and responsibilities; and
- County publishes in the newspaper or posts in a prominent place names of persons convicted of fraud.

Techniques to detect fraud:

- IEVS matches;
- Utilization of manual and automated fraud characteristic surveys;
- County-developed computer matching of certain attributes;
- Experienced eligibility workers;
- Fraud referral hotlines;
- Referrals from other government agencies such as the counties' family support division; and
- AFIRM fingerprinting.

Procedures to investigate fraud allegations:

- Unannounced home visits;
- Surveillance;
- Contacting other government agencies; and
- Interviewing neighbors, landlords, employers or other relevant parties.

Scope and Methodology

The purpose of our review was to evaluate the cost effectiveness of the fraud programs. This review was conducted to comply with the Budget Act of 1994 (Chapter 139, Statutes of 1994), which required the Bureau of State Audits to contract with an independent consultant to perform this evaluation. The review objectives included the following:

- Selecting a representative sample of six counties (two small, two medium and two large counties) plus Los Angeles;
- Understanding the type of early and continuing fraud prevention and detection programs operated at each of the selected counties;
- Reviewing and assessing the reliability of any statewide data available regarding early and continuing fraud prevention and detection programs;
- Determining the cost effectiveness of each county's fraud prevention and detection program during the three-year period;
- Comparing and analyzing the differences in the cost effectiveness by county; and
- Reporting observations and recommendations for improvement in the management of the fraud programs.

To select a representative sample of counties, all 58 California counties were classified as small, medium and large based on population and total welfare dollars. Two counties were then randomly selected from each classification. In addition to Los Angeles County, the counties of Mendocino and Tuolumne (small), Merced and Shasta (medium), and Riverside and San Bernardino (large) were selected for review.

To understand the type of early and continuing fraud prevention and detection programs at each selected county, we interviewed and/or surveyed key fraud prevention and detection personnel such as eligibility workers, fraud investigators, IEVS unit personnel, and supervisory staff.

To review and assess the reliability of statewide available data, we reviewed and tested two forms which the counties prepare and file with the department: the Quarterly Administrative Expense Claim form and the Fraud Investigation Activity Report (DPA 266).

To determine the cost effectiveness of each county's fraud prevention and detection program, we accumulated the costs of operating the program at each county and the number of applicants denied aid or recipients discontinued from aid. We calculated the average AFDC grant. We obtained the average length an AFDC recipient remains on aid from a Legislative Analyst's Office report.

We compared and analyzed the differences in the cost effectiveness by county. The results are discussed in Chapter 1. Chapter 2 discusses our methodology and the results of our tests. Our observations and recommendations for improvement of the fraud programs are presented in Chapter 3.

Chapter 1
The AFDC Fraud Programs Appear to be Cost Effective

The major task of this review was to calculate and evaluate the cost effectiveness of the AFDC Fraud Prevention and Detection Programs for the seven selected counties. We found the early fraud programs at all the counties for each of the three years reviewed to be cost effective. We also found the continuing fraud programs to be cost effective at every county in each of the three years except for Mendocino County in 1994. We consider a program to be cost effective if more than one dollar of fraudulent AFDC costs are avoided for each dollar invested in prevention and detection.

The cost effectiveness of the fraud programs was assessed by calculating for each county:

- Net benefit of the fraud programs;
- Fraudulent AFDC costs avoided per dollar invested in prevention and detection;
- Average percentage of fraudulent AFDC cases detected; and
- Fraudulent AFDC costs avoided per each additional dollar invested in prevention and detection.

As discussed in the Introduction, we accumulated the information necessary to perform the calculations by reviewing the Fraud Investigation Activity Report (DPA 266) monthly that the counties provide the department showing certain AFDC fraud activity results and tracing selected information from those forms to supporting documentation and individual case files. We reviewed each county's calculation of average AFDC grant amount and the department's calculation of the average length of time an AFDC recipient remains on aid. We also obtained operating costs for the fraud programs by reviewing the Quarterly Administrative Expense Claim form filed with the department.

We discovered errors in four of the counties' preparation of the DPA 266. The errors for three of the counties were quantified and considered in the cost-effectiveness calculation. The errors for San Bernardino County were significant and not quantifiable and that county has therefore been excluded from the cost benefit calculations. These errors as well as other considerations in interpreting the cost effectiveness calculations are described in Chapter 2.

The size of the county does not appear to have a significant impact on the cost effectiveness of the fraud programs. Small counties tend to be less automated, have higher eligibility worker turnover and have fraud investigators performing certain administrative tasks that at larger counties are handled by administrative support staff. On the other hand, it is easier for small counties to facilitate communication between eligibility workers and fraud investigators because of the smaller number of locations at which AFDC cases are handled and the smaller number of employees involved. Also, fraud workers in small counties are more likely to be acquainted with the community (which leads to lower incidence of multiple aid cases, quicker identification of absent parent in the home or unrelated adult living in the home). The net impact these differences between small and large counties have on the cost effectiveness of the fraud programs appears small in comparison to the large impact that close coordination between eligibility workers and fraud investigators appears to have.

Net Benefit of the Fraud Programs

Table I shows the excess of fraudulent AFDC costs avoided due to fraud prevention and detection activities over the costs of funding the fraud programs for each of the six counties included in our cost-effectiveness calculations for fiscal years 1991-92 through 1993-94 and the total for the three years. The net benefit represents the amount of AFDC expenditures that we estimate federal, state and county governments avoided due to the prevention and detection of fraud within the fraud programs that are in excess of salaries and other costs of the fraud programs.

Table I
Net Benefit of the Fraud Programs
(in millions)

	1992		1993		1994		
	Early	Continuing	Early	Continuing	Early	Continuing	**Total**
Los Angeles	$31.9	$24.5	$51.7	$27.5	$29.1	$33.0	$197.7
Mendocino	0.1	0.4	0.1	0.1	0.0	0.0	0.7
Merced	1.4	1.7	1.0	1.9	2.7	1.8	10.5
Riverside	26.3	2.2	32.4	4.3	44.1	4.7	114.0
Shasta	1.5	1.2	1.0	0.7	2.2	0.6	7.2
Tuolumne	0.2	0.1	0.6	0.3	0.4	0.4	2.0
Total	$61.4	$30.1	$86.8	$34.8	$78.5	$40.5	$332.1

The table above shows that the net benefit of the fraud programs for the six counties for fiscal years 1991-92 through 1993-94 was approximately $332 million. Net cost savings per county for the three-year period under review ranged from $700,000 to $197,700,000. The range of cost savings can generally be correlated to the volume of intake applications and continuing caseloads of the AFDC program at the individual counties. For example, for the period ended June 30, 1994, Tuolumne County had only 755 intake applications and an average continuing caseload of 1,160, compared to Los Angeles County with 165,150 intake applications and an average continuing caseload of 261,896.

Fraudulent AFDC costs avoided in excess of the operating costs of the early fraud program is nearly double those for the continuing fraud program. Early fraud investigations generate a greater net benefit than continuing fraud investigations because:

- Investigations require fewer resources than continuing case investigations since the individual has been on assistance for a shorter period of time or has not yet received any assistance;

- There is rarely a requirement to calculate overpayments of assistance to applicants since minimal amounts of aid have been granted; and

- The average length of time that the counties avoid paying on a fraudulent AFDC case is greater when discovered early.

The net benefit of the fraud programs increased each of the years in the period under review for both the early and continuing fraud programs. These increases correspond to increases in AFDC intake and AFDC fraud referrals. In addition, the State began enhanced funding of the counties' early and continuing fraud program costs beginning in fiscal year 1991-92. Counties which submitted and had a department-approved early fraud plan received full funding of the county share of early fraud program costs and received funding for additional fraud investigator positions.

Fraudulent AFDC Costs Avoided
Per Dollar Invested In Prevention and Detection

Table II shows fraud costs avoided per dollar invested in prevention and detection for each county by early and continuing programs for each year reviewed, and the average for each county.

Table II
Fraudulent AFDC Costs Avoided per Dollar Invested
in Prevention and Detection

	1992		1993		1994		Average	
	Early	Continuing	Early	Continuing	Early	Continuing	Early	Continuing
Los Angeles	$ 7	$ 5	$ 7	$ 6	$ 5	$ 7	$ 6	$ 6
Mendocino	14	7	7	3	9	0	10	3
Merced	12	12	8	13	13	11	11	12
Riverside	66	4	70	5	65	8	67	6
Shasta	15	9	7	5	13	5	12	6
Tuolumne	6	4	8	10	4	15	6	9

This table shows that for each dollar invested in prevention and detection, with the exception of one county, more than the dollar was saved in fraudulent AFDC costs avoided for the counties for both early and continuing fraud for each year.

Early Fraud - The average fraud costs avoided by spending a dollar on prevention of early fraud for the three years, 1991-92 through 1993-94, ranged from a high of $67 to a low of $6.

Of key interest is the fact that Riverside County had a substantially greater return per dollar spent on early fraud than the other five counties. This occurred primarily because the county performs a high volume of applicant interviews prior to aid being granted. Based on discussions with fraud supervisors at the county, we noted that these interviews act as a significant fraud deterrent as approximately 40 percent of applicants that are scheduled for fraud investigation interviews do not show up for the interview. Early fraud technicians at Riverside County also perform the majority of tasks performed by fraud investigators at other counties. They interview applicants to help them understand reporting responsibilities, clarify factual discrepancies, and use the interview process to investigate potentially fraudulent situations.

Even though Los Angeles County avoided the most fraudulent AFDC costs in total as shown in Table I, it appears to have generated the least amount of costs avoided per dollar of investment among the six counties. This lower return per dollar invested is largely due to the fact that during the three years under review, the county's operating and supporting staff costs as a percentage of total costs of the fraud programs were approximately 10-15 percent higher than the average of the other counties.

Continuing Fraud - The average fraud costs avoided by spending a dollar on detection of continuing fraud for the three years, 1991-92 through 1993-94, ranged from a high of $12 to a low of $3.

Of key interest is the fact that Merced County had a substantially higher rate of return on their investment in the continuing fraud program. This is primarily because the county utilizes an automated system to facilitate communication with eligibility workers and obtain information to support investigations.

Mendocino County had a substantially lower return per dollar spent on continuing fraud than the other five counties. Based on interviews and observations, in our opinion, there was limited communication between eligibility workers and fraud investigators. Mendocino County does not have an established Income and Eligibility Verification System (IEVS) unit like most other counties. IEVS reports were not utilized and eligibility workers do not match such reports with AFDC case documentation. Therefore, the county has had less probability of detecting continuing fraud.

Average Percentage of Fraudulent AFDC Cases Detected

Table III presents the percentage of AFDC applications that are denied because of fraud as well as the percentage of continuing cases where program fraud is detected for each of the six counties for the three-year period ended June 30, 1994.

Table III
Average Percentage of Fraudulent AFDC Cases Detected
For the Three Years Ended June 30, 1994

	Fraudulent Cases Detected During Intake (Early Fraud Program)	Fraudulent Cases Detected After Aid is Granted (Continuing Fraud Program)
Los Angeles	2.5%	2.5%
Mendocino	.6	1.8
Merced	2.2	5.0
Riverside	15.2	2.8
Shasta	6.2	4.1
Tuolumne	7.8	6.3
Weighted Average	4.0%	2.7%

This table demonstrates significant differences in the frequency with which counties detect fraud. The percentages are affected by many factors including the demographics of the county, the county's effectiveness in deterring fraudulent applicants prior to submitting an application, and the county's success in the other fraud activities (i.e., success in preventing early fraud reduces the likelihood of having and finding continuing fraud).

A Legislative Analyst's Office (LAO) study in 1986 indicated AFDC early fraud detected as a percent of total intake to be approximately 2.6 percent. Early fraud detected was an average of 5.6 percent for the counties included in our study; an increase of over 100 percent. This increase may be the result of the implementation of computer assisted detection techniques. The LAO study did not evaluate fraudulent cases detected after aid was granted.

Mendocino County's .6 percent denial rate in early fraud results from the county placing a low priority on the early fraud program. Based on Mendocino County's early fraud plan submitted to the department in 1991, the county was expected to refer approximately 10 percent of applications to the early fraud unit. It referred only 2 percent, 3 percent and 4 percent of its applications to the early fraud unit in 1994, 1993 and 1992, respectively. Even though Mendocino County's performance is well below its submitted plan, it is generating modest cost avoidance as shown in Table I.

Riverside County's 15.2 percent denial rate in early fraud is consistent with the previous discussion related to Table II.

Tuolumne County's 6.3 percent discontinuance rate in continuing fraud is due to three factors. First, the county sets a goal to perform home visits on 50 percent of recipient renewals to determine household composition, vehicle resources and residency. Second, the county has an established IEVS unit with specific procedures in place to match with the case file, follow-up with the recipient, refer to the fraud investigator and calculate and process overpayments. Third, effective communication of potentially fraudulent activities between eligibility caseworkers and continuing case fraud investigators is facilitated by having them located on the same premises. In addition, there appears to be a significant level of community support (i.e., fraud referral hotline), and the local newspaper publishes the identities of fraud offenders.

Impact of Enhanced Funding

During the three years included in this review, the State provided additional funding to the counties for fraud programs in two forms: enhanced funding for early fraud programs and increased funding for additional fraud investigators and IEVS units. All of the counties included in the scope of this review received both sources of funding.

In order to measure the savings realized by this additional funding for the counties reviewed, we calculated the amount of fraud costs avoided for each additional dollar invested in prevention and detection. This amount was computed as the increase in fraudulent AFDC costs avoided from 1992 to 1994 divided by the increase in the cost of the fraud programs from 1992 to 1994.

The incremental fraud costs avoided from fiscal years 1992 to 1994 was $31 million for the six counties. The incremental cost of the fraud program for the same period was calculated to be $3.5 million. Therefore, for every additional dollar spent on fraud programs from 1992 to 1994, a savings of $8.86 was realized. Based on these results, it appears beneficial for the State to continue enhanced funding of the fraud programs.

Chapter 2
The Cost Effectiveness of the AFDC Fraud Programs is Difficult to Calculate

The cost effectiveness of the fraud programs, as presented in Chapter 1, is difficult to calculate with precision. This chapter presents the formulas used to assess cost effectiveness and defines the key components of each formula. The discussion of the components also highlights the errors we found in the data, limitations on the consistency of the data, and an outdated assumption used by the department.

We applied the following formula to calculate the fraudulent AFDC costs avoided resulting from early and continuing fraud activities in excess of the operating costs of the fraud programs at each of the selected counties:

$$\left\{ \textbf{Denials and Discontinuances} \times \textbf{Average Length On Aid} \times \textbf{Average County Grant} \right\} - \textbf{Cost of the Fraud Programs} = \textbf{Net Benefit of the Fraud Programs}$$

We applied the following formula to calculate fraudulent AFDC costs avoided per dollar invested in prevention and detection:

$$\textbf{Fraudulent AFDC Costs Avoided} \div \textbf{Cost of the Fraud Programs} = \textbf{Fraudulent AFDC Costs Avoided per Dollar Invested}$$

We applied the following formula to calculate fraudulent AFDC costs avoided per each additional dollar invested in prevention and detection:

$$\frac{\textbf{1994 Fraudulent AFDC Costs Avoided} - \textbf{1992 Fraudulent AFDC Costs Avoided}}{\textbf{1994 Cost of the Fraud Programs} - \textbf{1992 Cost of the Fraud Programs}} = \textbf{Fraud Costs Avoided per each Additional Dollar Invested}$$

During the course of our review, we noted errors in counties' accumulation of fraud activity, instances where the Fraud Investigation Activity Report (DPA 266) was not prepared in accordance with the department instructions, inadequate instructions from the department regarding the preparation of the DPA 266, and use of outdated information for calculation of the average length on aid.

Denials and Discontinuances

Denials and discontinuances result from a completed early or continuing fraud investigation that results in either a denial of the application, discontinuance of the case or a reduction in the benefits received. Early fraud discontinuances occur in the Homeless Assistance and Emergency Aid programs, where aid is provided prior to completion of the early fraud investigation.

The data for denials and discontinuances is accumulated on the DPA 266, which is submitted monthly to the department. We tested the data on the DPA 266 for each of the counties by selecting a nonstatistical sample and reviewing case files. We extracted the number of denials and discontinuances resulting from early and continuing fraud activity for the three-year period under review for each of the selected counties.

Several of the counties do not properly interpret the department's instructions for gathering and reporting fraud activity. Based on the testing of denials and discontinuances, we noted the following discrepancies:

- Los Angeles County, for the period March 1992 through February 1994, double counted approximately 210 investigations resulting in a $2.1 million overstatement of fraudulent AFDC costs avoided. We excluded this amount from our cost-effectiveness calculations.

- Tuolumne County did not report 41 completed fraud investigations during the period of July 1993 through May 1994 on the DPA 266. This resulted in an $84,000 understatement of fraudulent AFDC costs avoided which we included in our cost-effectiveness calculations.

- Mendocino County's number of early fraud denials and discontinuances was understated on the DPA 266 for the month of September 1991. Due to clerical error, 1 out of the 11 case dispositions for September 1991 was recorded as a negative fraud finding for insufficient evidence when in fact it was an early fraud denial.

- San Bernardino County reported denials and discontinuances on the DPA 266 based on fraud investigator recommendation rather than on the ultimate resolution of the case. Additionally, cases that have been referred for a fraud investigation but are closed prior to the start of the investigation are recorded as a discontinuance regardless of the reason for case closure. We selected 28 completed fraud investigations which resulted in recommendations of denials or discontinuances during the three years under review. Eighteen of these cases were not denied or discontinued by eligibility workers. Five cases were discontinued prior to the start of a fraud investigation. As a result, the county's statistics as reported on the DPA 266 are overstated by an unknown amount. Because this was a systemic problem and we could not quantify the amount of the overstatement without reviewing 100 percent of the cases, we excluded San Bernardino County from our cost-effectiveness calculations.

The DPA 266 instructions provided by the department to the counties are not thorough enough to assure consistent completion by all counties, especially considering that many counties have unique programs, techniques and organizational structures. Based on our review of the instructions, we noted the following items that are not separately reported. The impact of these items on the cost-effectiveness calculation is not known but could be significant.

- The department does not instruct the counties to distinguish between dispositions resulting in terminations of aid and those resulting in a reduction in benefits. Since the counties do not distinguish between continuing fraud case dispositions resulting in terminations of aid and those resulting in a reduction in benefits, all dispositions are assumed to result in a savings approximating an average grant instead of an average grant reduction.

- The department instructs the counties to report on the DPA 266 the total number of completed early fraud investigations that result in a discontinuance or a reduction of aid for both AFDC and homeless assistance cases. However, the department utilizes the average AFDC grant amount to calculate cost savings. Since the maximum homeless assistance grant of approximately $2,000 is substantially less than the average AFDC cost avoided of approximately $9,300, cost savings are overstated by approximately $7,300 for each fraudulent homeless assistance case reported on the DPA 266.

- Applications withdrawn by applicants prior to being granted aid are not included as denials on the DPA 266. Riverside County's preventive fraud investigation process appropriately captures the withdrawal information on the DPA 266 for the approximately 40 percent of the applicants that are scheduled for fraud technician interviews but do not show up for the interview. It should be noted that applicants who withdraw prior to referral for fraud investigation at the other six counties are not reported as denials on the DPA 266 as the other counties do not measure such results.

- The department does not calculate recidivism. Recidivism is defined as applicants or recipients that are denied or discontinued from assistance because of fraudulent acts or violations of the AFDC program who reapply and are accepted under other eligibility criteria. Although considering the effect of recidivism would provide a more accurate presentation of fraudulent AFDC costs avoided by the counties, it is not considered for the counties in our sample because the information needed to calculate it was not accumulated by the department or the counties for any of the three years under review.

Average Length on Aid

Average length on aid is the amount of time that the average AFDC recipient receives aid. Only one of the seven counties calculated average length on aid. Los Angeles County calculated the average length on aid to be 32 months. The Legislative Analyst's Office, in February of 1986, estimated a 17-month average length on aid. The department has been using this 17-month "convention" since 1986 in its calculations of fraud program cost effectiveness. Although the department attempted to update the calculation of the average length on aid in 1993, questions about the accuracy of the calculation were not resolved to the department's satisfaction, so the results of this more recent calculation are not being utilized.

The 17-month convention was calculated over nine years ago. This convention may not be realistic due to changes in the economy, demographics and welfare policies in the last nine years. However, 17 months appears to be the best available estimate of average length on aid and has been used in our cost-effectiveness calculations.

Average County Grant

Average county grant amount represents the average amount of AFDC cash aid granted monthly for each active case. The amount was calculated by each selected county as the total AFDC cash aid for the month divided by active caseload for the month. We obtained this calculation for the three years under review. We tested the methodology and summarization of the calculation and traced selected items to the source documentation.

The department uses $585 as the average grant amount in its calculation of cost avoidance. We believe for the purpose of this review that the average county grant is more appropriate since the cost effectiveness is calculated by county. The range of average county grant was from a high of $640 (Merced) to a low of $519 (Tuolumne) and an average of $576.

Cost of Fraud Programs

In determining the cost of the fraud program, we identified the following major cost components which are readily associated with the fraud programs:

- Fraud investigator and supervisory salaries and benefits;
- Salaries and benefits of clerical staff who support the investigators and supervisors;
- Contract costs (i.e. contracting with the District Attorney's Office to provide investigative support);
- Statewide and county Income and Eligibility Verification System (IEVS) costs;
- Data processing costs;
- County administrative overhead;
- Transportation costs; and
- Services and supplies.

All of the cost components for the fraud programs were accumulated by reviewing each Quarterly Administrative Expense Claim form which is filed with the department. We obtained these costs, selected items and traced those items to the supporting documents at the selected counties. We obtained statewide IEVS costs from the department and allocated the costs to the seven selected counties based on AFDC dollars expended. Based on our testing, we noted the following discrepancies:

- Riverside County utilizes fraud technicians in their early fraud program. Although the costs of the fraud technicians are not allocated to the fraud programs, we included them ($296,000, $356,000 and $574,000 for fiscal years 1991-92, 1992-93 and 1993-94, respectively) in our calculation to appropriately reflect the total costs of Riverside County's program.

- IEVS costs incurred at the county level for the period of July 1993 through June 1994 totaled $7.3 million for the six counties. These costs were not accumulated during the period of July 1991 through June 1993, and, therefore, were unavailable to be included in the calculation for the period under review. If the IEVS costs were allocated to the AFDC early and continuing fraud programs for each of the six counties, we do not believe that it would have significant effect on the cost-effectiveness calculations.

Conclusion

Although it is not possible to calculate the cost effectiveness of the AFDC fraud programs with precision, the best information available shows that the program appears to be very cost-beneficial. Significant variances in the factors used in the cost-effectiveness calculations (due to the difficulties described in this chapter) could change the magnitude of the calculated cost effectiveness. However, significant variances are not likely to affect the overall conclusions about the fraud program's cost effectiveness.

Chapter 3
The Department of Social Services Should Improve Management and Oversight of the AFDC Fraud Programs

Although the fraud programs appear to be cost effective, as discussed in Chapter 1, they could be even more so with improved management and oversight by the department.

**The Department Should
Ensure Accurate County Data**

The primary method used by the department to collect AFDC fraud program results from the counties is through the Fraud Investigation Activity Report (DPA 266). The DPA 266 provides monthly caseload data where reasonable grounds for suspecting fraud have resulted in a referral for investigation to the special investigation unit (SIU) or the person designated to coordinate such referrals with the district attorney or prosecuting authority, as well as cases independently acted upon by SIUs. The DPA 266 provides basic data on requests for investigation, cases referred to the county district attorney, and the ultimate disposition of those cases (i.e., whether a suspected applicant was denied assistance or a suspected recipient's aid was discontinued).

However, the DPA 266 instructions provided to the counties are not thorough enough to assure consistent completion by all counties, especially considering that many counties have unique programs, techniques and organization structures.

For example, the DPA 266 does not instruct the counties on how to distinguish between dispositions resulting in terminations of aid and those resulting in a reduction in benefits. The DPA 266 also does not instruct the counties on how to distinguish between the total number of completed early fraud investigations that result in a discontinuance or a reduction of aid for both AFDC and homeless assistance cases. The DPA 266 instructions also do not instruct counties on how to accumulate information needed to assess the effect of recidivism on the cost-effectiveness calculations.

We discovered errors in the preparation of the DPA 266 at Los Angeles, Mendocino, San Bernardino and Tuolumne counties. The errors are discussed in Chapter 2.

The department collects substantial information about the fraud programs from the counties. It requires a significant effort to gather and report this information. The department does not perform sufficient review of the county data to identify inconsistent and erroneous data and provide feedback to the counties on the proper accumulation of needed data. The department could improve the quality and consistency of the county data by providing thorough written instructions, formal training classes, desk review of submitted reports, field audits of supporting documentation, and continual feedback to the counties.

With the substantial quantity of financial and nonfinancial data that the department collects from the counties, it has an excellent opportunity to develop appropriate performance measures that would allow the department to more easily:

- Identify counties not performing up to expectations;
- Identify best practices to share with other counties;
- Determine the cost effectiveness of various programs and techniques;
- Evaluate fraud investigator effectiveness; and
- Communicate program priorities to the counties.

Since the county data is frequently incorrect and inconsistent, the department cannot precisely calculate the cost effectiveness of its various fraud activities and programs; it cannot accurately evaluate the effectiveness and efficiency of each county's programs; and, it cannot reliably measure performance against established benchmarks.

During the period of our study, the department provided the State Legislature with the 1992-93 Statewide Cost/Benefit Analysis and the Form PA4 (a quarterly summary of the DPA 266 statistics). We could not compare the information on the 1992-93 Statewide Cost/Benefit Analysis to the data included in our review because it shows only the State's share of AFDC fraud programs costs. We could not compare information on the Form PA4 because it does not have any county-by-county information. However, the sources of the information for these reports is the same as those that we used for our cost-effectiveness calculations. Based upon the errors and inconsistencies in the data collected from the counties noted in Chapter 2, the information in those reports is not reliable.

The Department Should
Ensure That Counties Fully Utilize IEVS

Income and Eligibility Verification System (IEVS) is a federally mandated computerized system by which federally funded programs (such as AFDC) request, exchange, and use information for the purpose of verifying the accuracy of income and assets reported by the applicant or recipient to establish eligibility. Federal regulations required the State to implement such a computerized system. The department in turn requires the counties to compare active cases to information produced by IEVS within 45 days of the date the department produces the report.

Beginning July 1, 1993, the department began fully funding IEVS wages and assets matches at 45 of the 58 counties. All 7 counties included in our review received the enhanced IEVS funding. However, we found that Mendocino County does not review or match IEVS information to the case files and Merced County only performed minimal matching of IEVS information. Mendocino claimed $15,000 and Merced $146,000 for reimbursement from the department to properly utilize the IEVS system. By not reviewing and matching active cases to IEVS reports, potential fraud based on unreported earnings and assets is less likely to be detected.

The Department Should
Ensure Consistent Record Retention

Federal regulations 45 CFR.74.20 require recipients of federal grants "to maintain financial records, supporting documents, statistical records, records for equipment purchased under the grant, and any other records pertinent to an Health and Human Services grant. Retention period three years from date of submission of annual or final expenditure report; or if federal audit has not been completed or audit findings have not been resolved at the end of three years, until resolution of all audit findings."

None of the seven counties in our review retained case file listings to support amounts reported on the DPA 266 for the three years required by federal regulations. This appears to be caused primarily by the fact that the department instructs counties to retain records for only one year. The department's Statistical Reports Handbook, section 26-090, states that "agencies shall retain file copies of all statistical summary reports, case report transmittal lists, and supporting documents for these reports, for at least one complete year following the date of submission."

Additionally, during the review, all seven of the counties did not maintain case listings to support data presented on the DPA 266. The counties were able to create lists to support the amounts presented on the DPA 266 by compiling data documented in the fraud investigators' log for the three years under review. This appears to be caused primarily by the fact that the DPA 266 instructions provided to the counties are not thorough enough to identify the supporting documentation that should be maintained.

Recommendations

The ***Department of Social Services*** should ensure that accurate, timely and relevant fraud information is collected from all 58 counties. It should ensure that the information collected is needed to manage the program and is cost beneficial for the counties to gather. Specifically:

- The department should revise the DPA 266 instructions to clarify how the counties should complete the form and specific details regarding the supporting documentation to be retained. The instructions should require the counties to distinguish between dispositions resulting in terminations of aid and those resulting in a reduction in benefits and to distinguish between discontinuances of AFDC and homeless assistance cases. The guidance for the supporting documentation should indicate that case file listings are an integral component of the documentation. The department should develop an ongoing desk review program of the DPA 266 for consistency and reasonableness and provide timely feedback to the counties when errors are noted.

- The department should develop performance measures and benchmarks to help evaluate the effectiveness of the various fraud programs, techniques and investigators. For example, the Riverside County early fraud program appears to be ten times more cost effective than the other counties in our review, as discussed in Chapter 1. Performance measures would help the department to identify similar successful counties' programs and techniques and make timely and meaningful recommendations to the other counties.

- The department should update the 17-month convention used as the average amount of time a recipient stays on aid. This convention should be recalculated on a regular basis.

- The department should develop a methodology for calculating recidivism. Once the calculation is complete, the department should correct the gross cost avoidance calculated each year to reflect the fact that some denied applicants are subsequently approved for benefits. Additionally, the department should annually update this calculation to provide maximum confidence in its cost avoidance results.

The department should ensure that it (including the counties) is in full compliance with federal grant requirements. Specifically:

- The department should revise its Statistical Reports Handbook, section 26-090, to increase its record retention policy to comply with federal requirements. The revised retention policy should be thoroughly communicated to the counties.

- The department should implement procedures to ensure that the counties are fully utilizing IEVS as required by federal law. The department should specifically focus on the compliance of the 45 counties that are receiving enhanced funding. The department should promptly follow up on the counties that are not fully utilizing IEVS.

San Bernardino County should report denials and discontinuances on the DPA 266 based on the ultimate case resolution as required by the department's Statistical Reports Handbook instead of investigative recommendations. Additionally, they should refrain from including cases closed prior to the commencement of an investigation as a discontinuance on the DPA 266.

Mendocino County should either revise and implement its early fraud prevention and detection plan or withdraw the plan.

Mendocino and Merced Counties should ensure that IEVS matches are utilized in a timely manner and in accordance with federal mandates.

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814

March 20, 1995

Kurt R. Sjoberg
California State Auditor
Bureau of State Audits
600 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

SUBJECT: BUREAU OF STATE AUDITS (BSA) DRAFT AUDIT REPORT ENTITLED "REVIEW OF THE DEPARTMENT OF SOCIAL SERVICES' FRAUD DETECTION PROGRAM/RFP 94023"

Ms. Sandra Smoley, Secretary, Health and Welfare Agency, has asked me to respond to the above named BSA draft audit report. Enclosed are the California Department of Social Services' comments regarding the audit findings and recommendations contained in this report.

We appreciate the many opportunities your staff have provided us to furnish information and respond to the auditors' findings during the audit.

If you have any questions regarding our comments, please contact me at 657-2598, or have your staff contact Bruce Wagstaff, Acting Deputy Director, Welfare Programs Division, at 657-3546.

Sincerely,

Fred Miller for
ELOISE ANDERSON
Director

Enclosure

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES (CDSS)

Following is the CDSS response to audit findings and recommendations contained in the California Bureau of State Audits (BSA) draft report entitled "REVIEW OF THE COST EFFECTIVENESS OF THE STATE'S AFDC FRAUD DETECTION PROGRAMS/RFP 94023".

PART 1

Finding 1: Early and Continuing Fraud Programs are Cost Effective

We found that the selected counties' early and continuing fraud programs are clearly cost effective. The program returns between $5 and $67 in fraud costs avoided to state, federal and county governments for every $1 spent for early fraud prevention and detection activities. The program returns between $3 and $12 in fraud costs avoided to state, federal and county governments for every $1 spent for continuing fraud prevention and detection activities.

CDSS Comments:

We are pleased that the audit team was in substantial concurrence with the department's position on welfare fraud prevention and detection. Although the audit was limited to the General Fund savings associated with AFDC grant dollars, we would like to point out that other savings do accrue as a result of both the denial and the discontinuance of AFDC cases. Some examples are:

Medi-Cal Savings

AFDC eligibility results in automatic Medi-Cal eligibility. A denied/discontinued AFDC application equals a denied Medi-Cal application; this is an extremely large cost avoidance element.

Administrative Costs Savings

For every 150 aid cases denied, there is approximately one less eligibility worker (and resultant overhead costs) required by the aid programs.

Food Stamp Savings

AFDC eligibility results in automatic food stamp eligibility. A denied/discontinued AFDC case equals a denied Food Stamp case.

Social Service Program Savings

AFDC recipients automatically become eligible for certain social services.

Savings in other systems

There are substantial savings in the prevention of ongoing investigative costs, other services not provided, quality control sanctions not imposed, collections costs not incurred, and in judicial, prison and probation systems costs not incurred.

While we recognize estimating these savings can be difficult, these amounts are substantial and reflect a more complete picture of the cost-effectiveness of fraud prevention and detection.

Finding 2: Cost Effectiveness of the AFDC Fraud Programs is Difficult to Calculate with Precision

We reviewed the performance of seven of the 58 counties and are reporting results of six of those counties. During our review, we noted errors in counties' accumulation of fraud activity, instances where the key statistical reports were not prepared in accordance with the department's instructions, inadequate instructions from the department regarding the preparation of the key statistical reports, and the use of outdated information for calculation of the average length on aid. In four of the seven counties reviewed, we found errors in the preparation of the Fraud Investigation Activity Report. For three of the four counties, the errors could be quantified and the cost effectiveness calculation was adjusted as appropriate. In one county (San Bernardino), the error was not quantifiable; therefore, the county is excluded from the cost effectiveness analysis presented in Chapter 1. Although the cost effectiveness of the AFDC Fraud Programs is not possible to calculate with precision, variances in the factors used in the calculation, would not likely affect the overall conclusions about the programs' cost effectiveness.

CDSS Comments:

We agree these are difficult calculations, particularly when elements noted in Finding 1 are not considered. While the responses from county agencies may vary, we concur and have already taken steps to ensure that the fraud program management data reporting system will be updated and more closely monitored.

Finding 3: The Department of Social Services Should Improve Management and Oversight on the AFDC Fraud Programs

Although the AFDC Fraud Programs appear to be cost effective, significant improvement could be realized with improved management and oversight by the department. The department collects substantial information, but does not perform sufficient review of the data to identify inconsistent and erroneous data and provide feedback to the counties. The department could improve the quality and consistency of the data by providing thorough written instructions to include data retention requirements, formal training classes, desk review of submitted reports, field audits of supporting documentation, and continual feedback to the counties. The department pays the costs for most counties to utilize the statewide computerized matching system. Two of the seven counties [Merced and Mendocino] in our review were receiving enhanced funding, but not utilizing the statewide matching system. Since the county data is frequently incorrect and inconsistent, the department cannot precisely calculate the cost effectiveness of its various fraud activities and programs and cannot establish reliable performance measures.

CDSS Comments:

We disagree with the implication that the department has not taken a strong management role in directing the welfare fraud program. First, the department has developed a comprehensive plan to revamp and strengthen the integrity of welfare programs in California. This plan was developed in conjunction with county fraud organizations. In addition, the CDSS Fraud Bureau commits a high percentage of its available resources to county oversight activities. As examples, in the last few months we have conducted an operation improvement review in Alameda County that resulted in a complete overhaul of a failing fraud operation; we have conducted another operation improvement review in Kings County where a major overhaul of its program was not necessary but important technical assistance was provided. In addition, we have conducted at least a dozen training sessions and have responded to hundreds of technical inquiries made by the counties regarding the operation of their fraud programs. We also are conducting our own internal "cost effectiveness" rankings with the goal of identifying and correcting county programs operating at lower levels of performance. Therefore, we believe this finding should be more narrowly defined to clarify that the oversight issues addressed are associated with data reporting.

As noted in our response to finding 2, we are in substantial agreement with the audit team relating to statistical reports. The department has already initiated actions to improve the quality of its fraud program management data reporting system including many of the steps noted in this finding; i.e., review of problems with the main statistical report, modifications and revisions to the report, written instructions along with formal training to the counties, desk reviews of submitted reports, and random audits of supporting documentation. (See response to Recommendation 1 below for specific details.)

With respect to the two counties not utilizing the statewide matching system, Merced County has implemented an IEVS unit of highly trained staff to process the results of the statewide computerized matching system in Fiscal Year 1994-95 after the audit period. It is our understanding the unit is fully operational and performing at an acceptable level. Nonetheless, we plan an onsite review within this fiscal year. Mendocino County's plan for enhanced funding was approved but the county has not time-studied to IEVS; therefore, funds have not been dispersed. We will be working closely with Mendocino County on this item. Please see our response to Recommendation 9.

Part II: Recommendations

Recommendation 1:

The department should revise the DPA 266 instructions to clarify how the counties should complete the form and specific details regarding the supporting documentation to be retained. The instructions should require the counties to distinguish between dispositions resulting in termination of aid and those resulting in a reduction in benefits and to distinguish between discontinuances of AFDC and homeless assistance cases. The guidance for the supporting documentation should indicate that case file listings are an integral component of the documentation. The department should develop an ongoing desk review program of the DPA 266 of consistency and reasonableness and provide timely feedback to the counties when errors are noted.

CDSS Comments:

The Information Services Bureau (ISB) will review the current DPA 266 instructions with a work group composed of staff from the Fraud Bureau and the counties. The target date for the completion of the review is October 1995. By the end of the calendar year, revisions and clarification of data reported on the DPA 266 will be transmitted to all counties through the All County Letter process. Following the release of these instructions, ISB and Fraud will provide training to ensure accurate reporting. ISB and Fraud Bureau staff will visit those counties identified in the state audit as having DPA 266 reporting problems within the next three months. ISB is currently performing desk reviews of the DPA 266, beginning with the SFY 93-94 data, and will inform the counties of detected errors.

Recommendation 2:

The department should develop performance measures and benchmarks to help evaluate the effectiveness of the various fraud programs, techniques and investigators. For example, the Riverside County early fraud program appears to be ten times more cost effective than the other counties in our review, as discussed in Chapter 1. Performance measures would help the department to identify similar successful counties' programs and techniques and make timely and meaningful recommendations to the other counties.

CDSS Comments:

We are in substantial agreement. The department is in the process of developing a fraud performance model, which is a part of the fraud improved performance premise in the proposed budget for 1995-96.

Recommendation 3:

The department should update the 17 month convention used as the average amount of time a recipient stays on aid. This convention should be recalculated on a regular basis.

CDSS Comments:

The Legislative Analyst's Office (LAO) report containing the 17 month convention was the most current longitudinal data available when the average length of time on aid was computed. Our Research Branch is accumulating data which we will use for more frequent updates but at this time their base of data is not yet adequate for this function. We will continue to assess current data as it becomes available and will adjust the "time on aid" convention when a reliable alternative becomes available. Although Los Angeles County has calculated a time on aid for their county of 32 months, the methodology used for that calculation is not comparable to the methodology used by this department and we do not consider it to be a reasonable substitute for the LAO longitudinal data.

Recommendation 4:

The department should develop a methodology for calculating recidivism. Once the calculation is complete, the department should correct the gross cost avoidance calculated each year to reflect the fact that some denied applicants are subsequently approved for benefits. Additionally, the department should annually update this calculation to provide maximum confidence in its cost avoidance results.

CDSS Comments:

The department is working to develop reliable statistical information on recidivism which can be used in estimating cost benefits to the fraud program. We will incorporate this factor into our estimates once a dependable standard is established.

Recommendation 5:

The department should revise its Statistical Reports Handbook section 26-090 to increase its record retention policy to comply with federal requirements. The revised retention policy should be thoroughly communicated to the counties.

CDSS Comments:

The CDSS, ISB will revise its existing record retention policy in section 26-090 of the Statistical Reports Handbook to comply with federal grant requirements. An All County Letter will be issued to the counties advising them to retain their statistical summary reports and supporting documentation for three years following the date of submission to CDSS.

Recommendation 6:

The department should implement procedures to ensure that the counties are fully utilizing IEVS as required by federal law. The department should specifically focus on the compliance of the 45 counties that are receiving enhanced funding. The department should promptly follow up on the counties that are not fully utilizing IEVS.

CDSS Comments:

A plan for review of the top 20 counties was developed prior to the audit and numerous reviews have been completed. We are focusing on these counties because they represent approximately 90 percent of the AFDC caseload. Based on the findings from these reviews, appropriate correction actions will be taken. The Fraud Bureau will be monitoring the counties to ensure the corrective actions are implemented.

Recommendation 7:

San Bernardino County should report denials and discontinuances on the DPA 266 based on the ultimate case resolution as required by the department Statistical Reports Handbook instead of investigative recommendations. Additionally, they should refrain from including cases closed prior to the commencement of an investigation as a discontinuance on the DPA 266.

CDSS Comments:

We will be working closely with San Bernardino County to resolve these discrepancies.

Recommendation 8:

Mendocino County should either revise and implement its early fraud prevention and detection plan or withdraw the plan.

CDSS Comments:

We will be working closely with Mendocino to implement this recommendation.

Recommendation 9:

Mendocino and Merced Counties should establish IEVS units to ensure that IEVS matches are utilized in a timely manner and in accordance with federal mandates.

CDSS Response:

Merced has implemented such a unit in Fiscal Year 1994/95, after the audit period. It is our understanding that the Merced unit is at full operation and performing at an acceptable level. The department will be working closely with Mendocino in establishing an IEVS unit in that county. (See comments under finding 3.)

EDDY S. TANAKA
DIRECTOR

COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC SOCIAL SERVICES

12860 CROSSROADS PARKWAY SOUTH, CITY OF INDUSTRY, CALIFORNIA 91746
TELEPHONE: (310) 908-8400

March 20, 1995

Kurt R. Sjoberg, State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

REPORT ON THE COST-EFFECTIVENESS OF AFDC FRAUD DETECTION PROGRAMS PREPARED BY DELOITTE & TOUCHE, LLP

Enclosed you will find Los Angeles County's response to the above stated draft report issued on March 13, 1995. We appreciate the opportunity to comment on the draft findings.

For your information, also enclosed is a copy of a March 16, 1995 memo from Jeannette Garcia of Deloitte & Touche to Lowquilla Grenier of DPSS Welfare Fraud, which outlines their methodology and assumptions used to determine the alleged double counted cost avoidance of Early Action discontinuances and continuing cases.

Should there be any questions on this material, your staff may contact Tony Vargas, Chief of Bureau of Special Operations Division I at (310) 908-8515.

Very truly yours,

EDDY S. TANAKA, DIRECTOR

EST:sd

Enclosure

LOS ANGELES COUNTY RESPONSE TO CDSS/DELOITTE & TOUCHE (D&T) - AFDC FRAUD PROGRAM COST EFFECTIVENESS AUDIT DRAFT REPORT (03/95)

CHAPTER 1
FOURTH PAGE, **FRAUDULENT AFDC COSTS AVOIDED PER DOLLAR INVESTED IN PREVENTION AND DETECTION/EARLY FRAUD**, FIRST PARAGRAPH

Issue: Los Angeles County totalled the most net benefit of the fraud program (per Table I) but had the lowest return per dollar invested (per Table II). The reason given was that Los Angeles County's operating and supporting staff costs are 10-15% higher than the average of other counties.

Response: We would like to add that, indeed, there are valid reasons for wide disparity in overhead costs among counties. In Los Angeles County, particularly, chronic understaffing has resulted in overhead costs being spread among fewer staff. If Los Angeles County were fully staffed, the ratio of overhead costs would probably be more in line with other counties.

CHAPTER 2
SECOND PAGE, **DENIALS AND DISCONTINUANCES**, FIRST BULLET

Issue: Los Angeles County for the period March 1992 through February 1994 double counted approximately 4,000 investigations resulting in a $40,700,000 overstatement of fraudulent AFDC costs avoided. We excluded this amount from our cost effectiveness calculations.

Response: We disagree with this conclusion. We complete the DPA 266, "Fraud Investigation Activity Report", using the existing written instructions from CDSS which do not include complete information or complete instructions about cost avoidance for investigations that result in a finding of fraud overpayments. From our standpoint, Los Angeles County believes the D&T reviewers assumed all 4,000 investigation requests were reported in categories that are counted towards cost avoidance. The following are D&T's incorrect assumptions:

> That all 4,000 Early Action Discontinuances resulted in referrals for ongoing field investigations; and
>
> That all 4,000 ongoing field investigations generated by an Early Action investigation resulted in a positive fraud finding.

* The Bureau of State Audits modified the text of the final report to address Los Angeles County's concerns.

In retracking the Investigation Caseload, Section II of the DPA 266, D&T assumed that all 4,000 Early Action cases had been included in the Early Fraud Discontinuance category, Section II.9.b of the DPA 266, and then transmitted for further ongoing field investigation via a PA 140. This assumption is incorrect as an Early Action discontinuance does not always result in a referral for an ongoing field investigation.

Of these 4,000 referrals, only 700 resulted in an overpayment and were reported in the category of "Restitution Closure", Section II.9.e. of the DPA 266. We understand from CDSS that cases reported in this category are also used in some way to compute cost avoidance, although the State's instructions only speak to overpayments. Furthermore, it cannot be assumed that the entire 700 cases had been discontinued as a result of the Early Action investigation.

Of the remainder, 500 were reported on the DPA 266 in Section II.6 as "Pending" and 2,800 were reported in Section II.9.g under "Allegation Unsubstantiated/Insufficient Evidence". Neither of these figures would have been included in the State's cost avoidance calculation, although D&T assumed they had been included.

Los Angeles County randomly sampled 70 (10%) of the 700 Early Action (EA) cases with fraud overpayments, and 21, or 30%, of the 70 cases had been discontinued as a result of the EA investigation. This equates to 210, or 30%, of the 700 fraud overpayment cases generated by the EA program, and using the State's formula, this computes to $2.1 million of potential double-counting.

It should be noted that Los Angeles County received approximately 21,000 EA referrals from 3/92 through 2/94. Based on the above ratio, this equates to approximately 1% of the total EA referrals that may be considered double-counted. Therefore, the finding of a $40,700,000 overstatement is grossly inaccurate.

CHAPTER 3
THIRD PAGE, **THE DEPARTMENT SHOULD ENSURE CONSISTENT RECORD RETENTION**, SECOND AND THIRD PARAGRAPHS

Issue: None of the seven counties in the review retained records for statistics supporting amounts reported on the DPA 266 for the three years required by federal guidelines.

Response: Although this finding and the subsequent recommendations are directed towards the State, we disagree with the finding. WFP&I is in compliance with State requirements for the retention of records, and will continue to do so. WFP&I provided Deloitte & Touche with Early Fraud records for the period 1/92 through 6/94.

* The Bureau of State Audits modified the text of the final report to address Los Angeles County's concerns.

Regarding the federal requirement to retain records for three years:

- For Early Fraud cases, a manual system (a log) is used and retained for the State mandated period (twelve months). However, a Central Fraud Folder (CFF) is created for each investigation. The CFF is retained at WFP&I and as a consequence, an audit trail exists for all Early Fraud cases within the federal guidelines.

- For Field Investigations, WFP&I has the source documents used to compile the DPA 266 back to 1991, exceeding the federal mandate.

CHAPTER 3
FOURTH PAGE, **RECOMMENDATIONS**, FIRST BULLET

Issue: Statement that the State should update the 17-months used as the average amount of time a recipient stays on aid. The Legislative Analyst's Office in February of 1986 estimated a 17-month average length on aid. The State has been using this 17-month "convention" since 1986 in its calculations of fraud program cost effectiveness. The report also notes that the "convention" should be recalculated on a regular basis.

Response: We are in agreement with the recommendation and suggest that it might be useful to explore case life spans among various counties. If, for example, the Statewide average case life span is less than Los Angeles County's, consideration should be given in using Los Angeles County's calculation since our volume has the greatest weighted impact.

GENERAL COMMENTS

In the absence of adequate supporting documentation to evaluate the methodology for formulating certain conclusions, it is difficult to analyze and validate the figures quoted in the draft report.

Mendocino County Department of Social Services

Alison Glassey, Director

Adult Services
Family & Children's Services
Employment & Family Assistance Services

747 South State Street • PO Box 1060 • Ukiah • California • 95482 • (707) 463-1879 • FAX (707) 463:5404

March 21, 1995

Kurt R. Sjoberg
State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg,

Thank you for your March 13, 1995 letter advising me of the opportunity to review and comment on the draft copy of the report on the Cost-Effectiveness of AFDC Fraud Detection programs, prepared under contract by Deloitte and Touche LLP.

The information regarding Mendocino County is factual as presented. However, it is incomplete without reference to the massive changes in our local financial assistance programs over the past several years. These changes were shared with the interviewers, but seem to have been omitted from the report. While a report is not the place to make excuses, brief statements to add context would be helpful.

My requested edits are as follows:
***Chapter 1*/Fraudulent AFDC Costs Avoided Per Dollar Invested In Prevention and Detection/*Continuing Fraud*/**3rd paragraph:

> Mendocino County had a substantially lower return per dollar spent on continuing fraud than the other five counties. Based on interviews and observations, in our opinion, there was limited ~~and ineffective~~ communication between eligibility workers and fraud investigators. Mendocino County does not have an established IEVS unit like most other counties. IEVS reports ~~are~~ *have* not *been* utilized ~~on a timely basis~~ and eligibility workers ~~rarely~~ *do not* match such reports with AFDC case documentation. Therefore the County has *had* less probability of detecting continuing fraud. *This situation is an outcome of three years of understaffing combined with staff furloughs, which required channeling available resources solely into compliance with core program eligibility regulations. Mendocino County is currently converting to SAWS as the fourth Interim SAWS pilot county in the state. The fraud investigation program, including IEVS, is being restructured and fully automated effective July 1, 1995.* *

* The Bureau of State Audits modified the text of the final report to address some of Mendocino County's concerns.

Chapter 1/**Average Percentage of Fraudulent AFDC Cases Detected/4th** paragraph:

Mendocino County's .6% denial rate in early fraud results from the County ~~placing a low~~ *being unable to place higher* priority on the early fraud program, *due to staffing problems*. Based on Mendocino County's early fraud plan submitted to the department in 1991, the County was expected to refer approximately 10% of applications to the early fraud unit. It referred only 2%, 3% and 4% of its applications to the early fraud unit in 1994, 1993 and 1992, respectively. Even though Mendocino County's performance is well below its submitted plan, it is generating modest cost avoidance as shown in Table I.

Chapter 3/Last 2 paragraphs:

Mendocino County should either revise and implement its early fraud prevention and detection plan or withdraw the plan. *Mendocino County has developed a restructuring plan for the entire fraud investigation program, from early fraud prevention and detection, to investigation and prosecution. It will be implemented at the completion of SAWS conversion in May 1995 and will be effective July 1, 1995.*

Mendocino and Merced Counties should establish IEVS units to ensure that IEVS matches are utilized in a timely manner and in accordance with federal mandates. *Mendocino County's restructuring includes full implementation of the IEVS function as part of a comprehensive and automated fraud investigation program.*

Mendocino County participated in this study in good faith, recognizing that our local fraud program has not been as strong as it needs to be, due to severe understaffing in the department over the past several years and due to a current preoccupation with conversion to SAWS. We are now in an excellent position to do what we are doing - restructuring the entire fraud investigation program in Mendocino County.

I would appreciate acknowledgement of the pressures and changes which we have faced and the restructuring which we are implementing, along with documentation of the weak outcomes of the past three years. If you have any questions or need additional information, please contact Steve Prochter, Deputy Director, at 707-463-7732. Thank you for your consideration.

Sincerely,

Alison Glassey

Alison Glassey
Director

MERCED COUNTY 1855

HUMAN SERVICES AGENCY

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Eligibility Services
Social Services
Administrative Services
Project Planning
Refugee Services
Public Conservator

JOHN CULLEN
Director

March 15, 1995

Mr. Kurt R. Sjoberg
State Auditor
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Kurt R. Sjoberg:

This letter is in response to the Deliotte and Touche Fraud Program Report.

We would appreciate adding the following comments in Chapter 3, subheading The Department should ensure that fully utilizing IEVS regarding Merced County's utilization of the IEVS Program "During the last three months of this report period Merced County had minimal staff due to medical leaves of absence. Effective January 1995 Merced IEVS Programs became fully staffed and operational."

In chapter 3, regarding your recommendation that "Merced County should establish an IEVS Unit to ensure that IEVS matches are utilized in a timely manner and in accordance with Federal mandates"; Merced County has always had an IEVS Unit with the exception of a brief periods as indicated above. *

Thanks for the opportunity to include our comments.

Sincerely,

John B. Cullen
Director

JBC:GDO:JLM\kurtsjob.gdo

* The Bureau of State Audits modified the text of the final report to address some of Merced County's concerns.

COUNTY OF RIVERSIDE

Department of Public Social Services

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Telephone Number: (909) 358-3000 FAX Number: (909) 358-3036

Lawrence E. Townsend, Jr., Director

Dennis J. Boyle, Assistant Director
Administrative Services

Paul A. Rout, Assistant Director
Social Services

Ronald G. Merrill, Deputy Director
Income Maintenance

March 15, 1995

Kurt Sjoberg, State Auditor
Bureau of State Audits
660 J Street, Suite 300
Sacramento, CA 95814

Re: Report on Cost-Effectiveness of AFDC Fraud Detection Programs

Dear Mr. Sjoberg:

The following comments are in reply to your request dated March 13, 1995, for a response to the draft report on Cost-Effectiveness of AFDC Fraud Detection Programs prepared by Deloitte and Touche LLP.

Page 2 of the Introduction contains a statement in the fifth paragraph stating "Overall, the welfare investigator's role is to determine the legality of a public assistance grant, regardless of how the elements of eligibility may be altered, concealed, or misinterpreted." Whereas fraud investigators investigate allegations of altered and concealed information affecting the eligibility of AFDC recipients, their essential role is not one of determining the legality of grants, but rather one of discovering through the investigative process information pertinent to legality. It then becomes the responsibility of eligibility staff to determine the legality of assistance grants, once presented with the information discovered by investigators.

Page 3 of Chapter One contains statements in the final paragraph * indicating that the primary reason for Riverside County's substantially greater dollar return per dollar spent on early fraud is the fact that fraud technicians instead of fraud investigators are used in the investigative process. Whereas the fact that technicians are paid approximately 10 percent less than investigators does contribute to overall cost effectiveness, this is not the primary reason for the substantially greater return. The primary reason is the high volume of preventive fraud investigations and interviews scheduled by investigative staff which is possible because of automated techniques and consistent countywide procedures in effecting fraud prevention. The 10 percent salary differential between technicians and investigators would not of itself be sufficient to cause the greater cost avoidance.

* The Bureau of State Audits modified the text of the final report to address some of Riverside County's concerns.

Finally, the report reflects Riverside County's commitment to vigorous detection, investigation, and prevention of welfare fraud, and to using a progressive, prevention-driven approach to combating this problem in the state of California. This is an accurate assessment.

Yours truly,

Dennis J. Boyle for

Lawrence E. Townsend, Jr., Director
Riverside County Department of Public Social Services

LET:LV:lv

DEPARTMENT OF PUBLIC SOCIAL SERVICES

COUNTY OF SAN BERNARDINO
SOCIAL SERVICES GROUP

FRAUD PREVENTION BUREAU
606 East Mill Street • San Bernardino, CA 92415-0620
Mailing Address: P.O. Box 1409 • San Bernardino, CA 92402

JOHN F. MICHAELSON
Director

March 16, 1995

Mr. Fred Forrer, Special Assistant State Auditor
California State Auditor
Bureau of State Audits
606 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Forrer:

We would like to make the following comments on the findings in the recent audit of the cost effectiveness of AFDC Fraud Detection Programs.

San Bernardino County has always taken considerable pride in its efforts at fraud detection and prevention. Our IEVS program has been recognized by the State for its efficiency and effectiveness, and we believe that the Overpayment Recovery program that we are developing will be among the best in the State.

San Bernardino County believes that the DPA 266 Report data does reflect the results of our fraud investigation activities. We are very disappointed that the draft audit report failed to include any mention of the issues we raised with the audit staff regarding the 266 report data. Because we must work within the constraints of AFDC program regulations, the fact that a Fraud Investigator finds a discrepancy in a case does not always result in the case being denied or discontinued from aid; however, this does not alter the fact that at the time the Fraud Investigator did his investigation the case had a discrepancy that made it potentially ineligible.

Although, we are disappointed that the Audit report failed to address the issues we raised we are, nonetheless, concerned by the findings cited in the Audit report. We will immediately initiate a review of our DPA 266 reporting process and any deficiencies will be corrected. We look forward to working with State Fraud Bureau staff in clarifying the 266 reporting procedures and assuring that all counties report data on the 266 report in a consistent manner.

Yours truly

WILLIAM DEAVER
Fraud & QC Manager

WD:rm

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps