

Executive Summary

Computer-Aided Techniques against Public Assistance Fraud: A Case Study of the Aid to Families with Dependent Children (AFDC) Program

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ACQUISITION

EXECUTIVE SUMMARY

A. Introduction

A major problem in the administration of public assistance programs is fraud by recipients. A number of strategies have been implemented to curtail recipient fraud and maintain program integrity. Primary among these strategies are computer-aided, anti-fraud techniques. This report examines the use of these techniques in the Aid to Families with Dependent Children (AFDC) program.

Information presented in this report represents a synthesis of a review of pertinent literature, discussions with federal officials, telephone inquiries with AFDC staff, data processing personnel, fraud investigators and prosecutors in 19 states, and site visits to six of those states. Based on an analysis of current information about the nature and extent of fraud in the AFDC program and of the experience in using computer-aided techniques to curtail recipient fraud, a number of conclusions appear relevant.

B. AFDC Program Overview

The AFDC program is the nation's largest income maintenance program for the needy, serving approximately 11 million recipients at an annual cost of about 11 billion dollars. It provides cash assistance to needy families with dependent children. While there is a substantial degree of federal involvement in the program, the states have primary responsibility for operating the program and maintaining its integrity.

There are two distinct types of approaches used by the states in operating the program: (1) state supervised programs; and (2) state administered programs. In state supervised programs, local welfare offices have substantial latitude in establishing policies and procedures

used to operate the program. By contrast, in state administered programs, satellite units typically operate the program under relatively uniform procedures set by the parent state agency.

Application for AFDC benefits, client reporting, and periodic redetermination of eligibility are the key operational components of the program. The application process is designed to establish whether the applicants qualify for assistance according to federal and state standards with regard to need and financial resources. While there are differences among states in terms of their application process, there are a number of basic factors that are typically examined in determining eligibility and the amount of cash benefits. These factors concern: (1) property resources; (2) income resources; and (3) basic needs. In addition to providing this information during a face-to-face interview with the intake/eligibility worker, the applicant must submit supporting documentation and sign the application form attesting to the veracity of the information under penalty of perjury. States, in turn, must verify the information provided by the applicant. While verification procedures vary among states, the process may include home visits and third party contacts.

States differ with regard to the procedures used for client reporting. Some states periodically send all AFDC recipients change of status forms that must be completed and returned, while other states merely require a response if a change in status has occurred.

Redetermination is required at least every six months. Like other processes in the administration of the AFDC program, redetermination differs among the states with respect to the extent of information reviewed, the kinds of documentation required, and the methods of verification used. Redetermination in some states is as thorough as the initial application process; in other states it only involves the examination of specific eligibility factors.

Although information concerning the nature and extent of fraud in the AFDC program is generally inadequate, available data indicate that the dollar loss due to fraudulent claims could be substantial. HEW's statistics on fraud and official Quality Control results suggest that 3 to 13 percent of all AFDC cases are involved in some form of fraudulent claims. This is equivalent to approximately 350,000 to 455,000 AFDC cases obtaining about \$600 million in public funds illegally.

AFDC program fraud is typically viewed as a recipient perpetrated offense accomplished through intentional misrepresentation of application information to obtain program benefits. By most accounts, the misrepresentation of facts concerning income by recipients is the most prevalent type of fraud. Other types of recipient fraud--notably obtaining duplicate AFDC benefits in the same or more than one jurisdiction, misrepresentation of family composition or status, or obtaining AFDC payments by falsely reporting the loss or theft of the original benefit payment--are less common.

C. Findings

The Use and Types of Computer-aided Techniques. Computer-aided techniques constitute one approach used to curtail AFDC recipient fraud, among many other activities conducted by AFDC agencies which contribute to fraud prevention and detection, e.g., case management procedures employed during the AFDC eligibility and redetermination processes, the use of fraud "hot lines," and publicity campaigns about detection methods and successful prosecutions.

Computer-aided techniques usually identify a significant volume of cases of potential fraud which need to be reviewed, investigated, and if appropriate, prosecuted. Few cases suspected of fraud, whether by computer-aided techniques or other anti-fraud activities, are subject to the full weight of criminal sanction due to a number of organizational

problems such as: insufficient agency commitment to rigorously deal with fraud; inadequate manpower to investigate leads; the low priority given to the prosecution of AFDC fraud cases by prosecutors; and lack of coordination between AFDC caseworkers, fraud investigators and prosecutors. Three general types of computer-aided techniques have been used by AFDC agencies:

- (1) matching,
- (2) selective case action, and
- (3) selective case screening techniques.

By far, computer-aided matching techniques are the most prevalent and most routinely used. The anti-fraud application of selective case action techniques and selective case screening techniques has been very limited thus far. Selective case action techniques, in particular, appear to be used primarily in the detection and management of AFDC error as opposed to being applied directly to the curtailment of fraud.

Matching techniques are used in three different ways:

- Wage Matching including Employment Security, Summary Earning Records, and Payroll Matching
- Jurisdictional Matching including inter- and intra-state matching, and
- Benefit Matching including Unemployment Compensation and BENDEX matching.

Wage and Benefit Matching focus on the detection of unreported income, while Jurisdictional Matching concentrates on identifying potential cases of duplicate benefit payments. Wage Matching is the most frequently used technique; this is consistent with the common belief that recipient misrepresentation of earned income is the single

most prevalent type of fraud in the AFDC program. The basic logic underlying all computer-aided matching techniques is similar:

- a listing of an AFDC caseload for a specified time frame is constructed from state (or county) welfare files
- wage data or another AFDC caseload file for the same time frame is obtained from the appropriate source
- the two data bases are matched on the basis of common identifiers
- reports are generated when a match occurs, and
- the match reports are sent to local welfare agencies for manual validation and the initiation of case reviews.

Major differences among matching techniques involve:

- the source of the comparison data base used in the matching effort
- the quality, specificity and timeliness of the comparison data bases
- the type of data elements used to match the AFDC data base with the comparison data base
- the frequency with which the matching effort is performed, and
- the operational procedures associated with processing the match and initiating anti-fraud activities based on reports generated from the matching effort.

Unlike matching techniques which compare data from two or more sources to detect potential inconsistency, selective case action and selective case screening techniques are designed to cull out individual AFDC cases with specific factors thought likely to be indicative of error or fraud. The primary distinction between them is the method used to identify cases for further examination. Selective case action is based on developing an empirically-based, error-prone profile and systematically applying this profile to the AFDC caseload. Cases fitting the profile are singled out for special review

by welfare agency staff. By contrast, case screening is designed to identify cases possessing one or more particular characteristic(s) selected by persons conducting the screening.

Table 1 presents the characteristic of each technique in terms of: (1) the data bases used to perform the match; (2) the primary focus of the match; (3) the frequency with which the match is typically conducted; and (4) the users among the group of states contacted by MITRE.

Effectiveness of Computer-aided Techniques. Hard evidence on effectiveness is lacking despite the publicity they have received. These techniques, in and of themselves, play only a supporting role in the prevention and detection of fraud in AFDC. It is conceivable that publicity about the use of computer matching techniques and the successful prosecution of a few notorious cases identified by these techniques have a deterrent effect upon some welfare recipients who might otherwise consider defrauding the AFDC program. Detection of fraud based on computer-generated leads is highly dependent on the availability of staff at local welfare agencies to conduct case reviews and on their capability to collect evidence to establish fraudulent intent effectively.

No formal assessment of the anti-fraud power of various computer-aided techniques has been performed thus far. Because of this, very little can be stated about their cost and effectiveness. What information does exist raises some questions about the utility and cost of the techniques as they are currently employed. Available information about matching techniques, in particular, suggest that these techniques often uncover a relatively small number of cases in which fraud may be actually present. The "hit ratio" is generally low, i.e., a large number of raw matches must be reviewed to turn up a minimal number of cases appropriate for prosecution. Some assessments have examined computer-matching techniques in terms of their impact on uncovering

TABLE E-1
TYPES OF COMPUTER-AIDED,
ANTI-FRAUD TECHNIQUES

TYPE OF TECHNIQUE	DATA BASES USED	PRIMARY FOCUS	FREQUENCY OF USE (Typical Case)	STATES CONTACTED USING TECHNIQUE
<u>WAGE MATCHES</u>				
EMPLOYMENT SECURITY	State Quarterly Wage Earning Reports & AFDC Caseload	Identify Unreported Earned Income Fraud	Quarterly	Calif., Del., Fla. Iowa, Md., NY., Ore. Ind., Pa., Tenn., Tx. Va., Wash.
SUMMARY EARNINGS	Social Security Adm. Summary Earnings Records & AFDC Caseload	Identify Unreported Earned Income Fraud	Project Basis	Mass., Mich., NJ., NY., Ohio, Pa., Tx. Wash.
PAYROLL	Federal/State/Local Gov't. or Industry Payroll Wages & AFDC Caseload	Identify Unreported Earned Income Fraud	Project Basis	Mass., Mich., NY., Ohio, Pa., Tx., Wash.
<u>JURISDICTIONAL MATCHES</u>				
INTRA-STATE	AFDC Caseloads of Local Jurisdictions within a State	Identify Duplicate AFDC Assistance Fraud	Routine at Application or Project Basis	Calif., Fla., Ind., Iowa, Ma., Md., Mich. NJ., Ore., Pa., Tenn. Tx., Va., Wash.
INTER-STATE	AFDC Caseloads of Two or More States	Identify Duplicate AFDC Assistance Fraud	Project Basis	Calif., Ind., Iowa Ma., Md., Mass., Mich. NJ., Ohio, Ore., Pa., WA*
<u>BENEFIT MATCHES</u>				
UNEMPLOYMENT COMPENSATION	Unemployment Compensation Benefit Roll & AFDC Caseload	Identify Unreported Benefit Income Fraud	Quarterly	Del., Ind., Ky., Ma. Md., Mass., NJ., NY. Ohio, Ore., Pa., Tenn. Va.
BENDEX	Retirement, Survivors and Disability Insurance Benefits & AFDC Caseload	Verification of Reported Benefit Income	Monthly	All States
<u>OTHER MATCHES</u>				
	Varied (State Income Tax, Motor Vehicle, School Attendance, and Other Benefit Program Records) & AFDC Caseload	Identify Unreported Income, Benefits, Assets, and Family Status Fraud	Project Basis	Ky., NJ., NY., Ore., Tx.
<u>SELECTIVE CASE ACTION</u>	AFDC Caseload & Error Prone Profile	Identify Error Prone Cases for Prioritizing Redeterminations and other Specialized Case Actions	Routine	Tx.
<u>SELECTIVE CASE SCREENS</u>	AFDC Caseload & Selective Factors	Identify Groups of Cases for Special Examination for Possible Fraud	Project Basis	Ca., Del., Fla., Ky., Md., Mich., NJ., NY. Ore., Tx., Wash.

*Does not include participation in Project Match

AFDC errors but neglected to follow through to the logical conclusion of evaluating the impact of the techniques on identifying cases of fraud. Nor have there been assessments of the effectiveness of computer-aided matching techniques in fraud detection in comparison to alternative anti-fraud activities such as "hot lines" or specialized eligibility units.

Available cost analyses on computer-aided techniques have a number of deficiencies. They tend to justify the cost of those techniques by overemphasizing their deterrent effect without supportive empirical data. Different assumptions are used to estimate cost savings for various techniques. For example, one assessment may be based on the amount of AFDC benefits recovered from cases identified by matching techniques, while another assessment may estimate total savings realized over the standard "life" of a case. Finally, cost estimates on the use of computer-aided techniques focus on computer processing costs without accounting for the cost of extensive manpower expenditures necessary to review computer match reports and filter out invalid matches.

Problems Related to the Use of Computer-aided Techniques. Computer technology is not the limiting factor to the use or future growth of computer-aided techniques. The effective use of these techniques is influenced by:

- the sufficiency of the data bases used
- the adequacy of the administrative and managerial support
- reliable information concerning the costs and effectiveness of various techniques, and
- any restriction emanating from privacy considerations.

The effectiveness of most existing computer-aided techniques has been adversely affected by the quality of the data used to perform appropriate comparisons. Often the data used to conduct these techniques are outdated, inaccurate, incomplete and of insufficient scope to effectively pinpoint cases in which fraud is highly probable. As a result, excessive manual follow-up efforts are often required to validate large amounts of computer-generated information and to eliminate incorrect matches. Because of the poor quality of data, a relatively small number of those cases initially identified by matching techniques result in referrals for investigation. Similarly, the use of limited matching criteria, namely the SSN, name and date of birth, also appear to lead to the identification of an excessive number of cases that need to be manually reviewed. The use of such criteria is inadequate because recipients with the intent to defraud can easily falsify or misrepresent information so as not to be detected by these criteria. Consequently, currently available computer-aided techniques are quite limited as a means for detecting more sophisticated attempts to defraud the AFDC program.

Inadequate administrative and managerial support also appears to impede the successful use of computer-aided techniques. This inadequate support extends to the availability and sufficiency of EDP resources in welfare agencies, the availability of personnel resources to perform case reviews, and the availability of investigative and prosecutorial manpower to effectively deal with the additional cases generated by computer-aided techniques. Furthermore, formal procedures regarding the use of techniques, including guidelines for coordinating case processing from the time a case is identified by computer to prosecution, are often deficient and sometimes altogether absent. Of particular importance to the proper support of computer-aided techniques is a strong commitment by all those involved, from AFDC eligibility workers to prosecutors, to actively pursue fraud in the

program. This commitment must include adequate funding for the anti-fraud effort. Without this commitment, increased refinement and expansion of computer-aided techniques appears unlikely given the competing demand to reduce administrative costs in the program. At the present time, decision-makers appear unwilling or unable to provide the justification required to make substantial investments in this particular area because there is yet no solid evidence concerning the cost effectiveness of various computer-aided techniques. This is like a "Catch-22" situation: without adequate support, computer-aided, anti-fraud techniques will only be marginally effective; the lack of strong evidence of major impact discourages the commitment of resources.

The impact of privacy on the current use of computer-aided techniques does not appear to be substantial. Most of the commonly used techniques--ES Matching, SER Matching and Project Match Payroll Matching--are now governed and permitted by federal laws and regulations. These laws and regulations include provisions which clearly permit access to the data required for matching as well as provisions which agencies must adhere to so as to protect the confidentiality of individuals identified via computer-matching techniques. Additionally, these techniques are often further regulated with respect to privacy at the state level by a myriad of laws and administrative directives. Two privacy related issues, however, appear to be most relevant given the current state-of-the-art with regard to computer-aided, anti-fraud techniques. The first of these issues deals with the dissemination and processing of data generated during computer matching activities detailing the identity and status of AFDC recipients. Because raw matches do not equate with fraud, agencies need to be extremely careful about initiating case actions or making public allegations on the basis of this information. When this care is not taken, welfare agencies may be inviting charges of harassment and abridgment of due

processes. A second issue is what further restrictions might be placed on agencies concerning access to new sources of data for the matching programs. As new federal and state privacy laws are implemented, welfare agencies may be unable to tap additional data sources such as bank, school and state tax records in order to expand, refine, or develop new matching techniques.

D. Recommendations to LEAA

An assessment of the use of computer-aided techniques to curtail recipient fraud in the AFDC program suggests that LEAA's potential role in this area appears to be very specialized. Prior to initiating any activities in this area, LEAA must determine whether public assistance fraud is a serious enough concern to warrant their involvement given other criminal justice system needs. Upon making an affirmative decision, LEAA could:

- evaluate the effectiveness and costs of various anti-fraud strategies including computer-aided techniques, hot-lines, hopper alerts, and various case maintenance activities
- support analyses designed to increase the "hit ratio" of computer-aided, anti-fraud techniques
- conduct studies concerning the prosecutorial activities with regard to recipient fraud, and
- coordinate law enforcement efforts with HEW activities in those areas which are likely to impact on the criminal justice system.

Initiation of any of these activities would require inter-agency coordination and cooperation at the federal and state/local levels.

END