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

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

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ABSTRACT

This report presents an examination of the use of computer-aided techniques to address the problem of fraud in the Aid to Families with Dependent Children (AFDC) public assistance program. The examination consists of:

- summarizing the administration and operation of the AFDC program
- reviewing the nature and extent of fraud in the program, and
- identifying the types of computer-aided techniques used to curtail fraud in the AFDC program, describing the nature and scope of these techniques and assessing their impact.

Report findings are based on a literature survey, interviews with federal officials and site visits to state and local AFDC program staff.

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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. Conclusions reached are thus based on an analysis of (1) current information about the nature and extent of fraud in the AFDC program and (2) present experience in using computer-aided techniques to curtail recipient fraud.

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 administering 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 relative uniform procedures set by the parent state agency (see Chapter 2, pp. 2-1--2-6).

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 (see Chapter 2, pp. 2-7--2-19).

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 (see Chapter 4, pp. 4-13--4-26).

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 (see Chapter 4, pp. 4-1--4-13).

C. Findings and Conclusions

Types and Uses 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. (See Chapter 6 for a summary of various prevention and detection methods, and Chapter 7 for a description of the computer-aided techniques.)

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 identified by computer-aided techniques or other anti-fraud activities, are subject to the full weight of criminal sanction due to a number of organization 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) computer-aided matching

(2) selective case action, and

(3) selective case screening.

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.

Computer-aided matching techniques are used in three different ways:

- Wage Matching including Employment Security, Summary Earnings Records, and Payroll Matching (see Chapter 7, sections 7.2.1 through 7.2.3.2)

- Jurisdictional Matching including inter- and intra-state matching (see Chapter 7, section 7.2.4), and

- Benefit Matching including Unemployment Compensation and BENDEX matching (see Chapter 7, sections 7.2.5 through 7.2.5.2)

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 base

- 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 inconsistencies, "selective case action" and "selective case screening" techniques are designed to isolate individual AFDC cases with specific factors thought likely to be indicative of error or fraud (see Chapter 7, sections 7.3 and 7.4). 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 E-1 presents the charactestics of each technique in terms of: (1) the data bases used; (2) the primary focus; (3) the typical frequency of performance; and (4) the users among the group of states contacted by MITRE.

Effectiveness of Computer-aided Techniques. Hard evidence on the effectiveness of these techniques is lacking. In and of themselves, the techniques 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 may have a deterrent effect upon some welfare recipients who might otherwise consider defrauding the AFDC program. However, 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 (see Chapter 7).

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

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

TYPE OF TECHNIQUE	DATA BASES USED	PRIMARY PURPOSE	PRIMARY FOCUS	FREQUENCY OF USE (Typical Case)	STATES CONTACTED USING TECHNIQUE
WAGE MATCHES					
EMPLOYMENT SECURITY	State Quarterly Wage Earning Reports & AFDC Caseload	Detection/ Prevention	Identify Unreported Earned Income Fraud	Quarterly	Calif., Del., Fla., Iowa, Md., NY., Ore., Ind., Pa., Tenn., Tx., Va.,WA
SUMMARY EARNINGS	Social Security Adm. Summary Earnings Records & AFDC Caseload	Detection	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	Detection	Identify Unreported Earned Income Fraud	Project Basis	Mass., Mich., NY, Ohio., Pa., Tx., Wash.
JURISDICTIONAL MATCHES					
INTRA-STATE	AFDC Caseloads of Local Jurisdictions within a State	Prevention/ Detection	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	Detection	Identify Duplicate AFDC Assistance Fraud	Project Basis	Calif., Ind., Iowa, Ma., Md., Mass., Mich., NJ., Ohio, Ore., Pa., WA*
BENEFIT MATCHES					
UNEMPLOYMENT COMPENSATION	Unemployment Compensation Benefit Roll & AFDC Caseload	Detection/ Prevention	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	Detection	Verification of Reported Benefit Income	Monthly	All States
OTHER MATCHES					
MISCELLANEOUS	Varied (State Income Tax, Motor Vehicle, School Attendance, and Other Benefit Program Records) & AFDC Caseload	Detection	Identify Unreported Income, Benefits, Assets and Family Status Fraud	Project Basis	Ky., NJ., NY., Ore., Tx.
SELECTIVE CASE ACTION	AFDC Caseload & Error Prone Profile	Detection	Identify Error Prone Cases for Prioritizing Redeterminations and other Specialized Case Actions	Routine	Tx.
SELECTIVE CASE SCREENS	AFDC Caseload & Selective Factors	Detection	Identify Groups of Cases for Special Examination for Possible Fraud	Project Basis	Ca., Del., Fla., Ky., Md., Mich., NJ, NY, Ore., Tx., Wash.

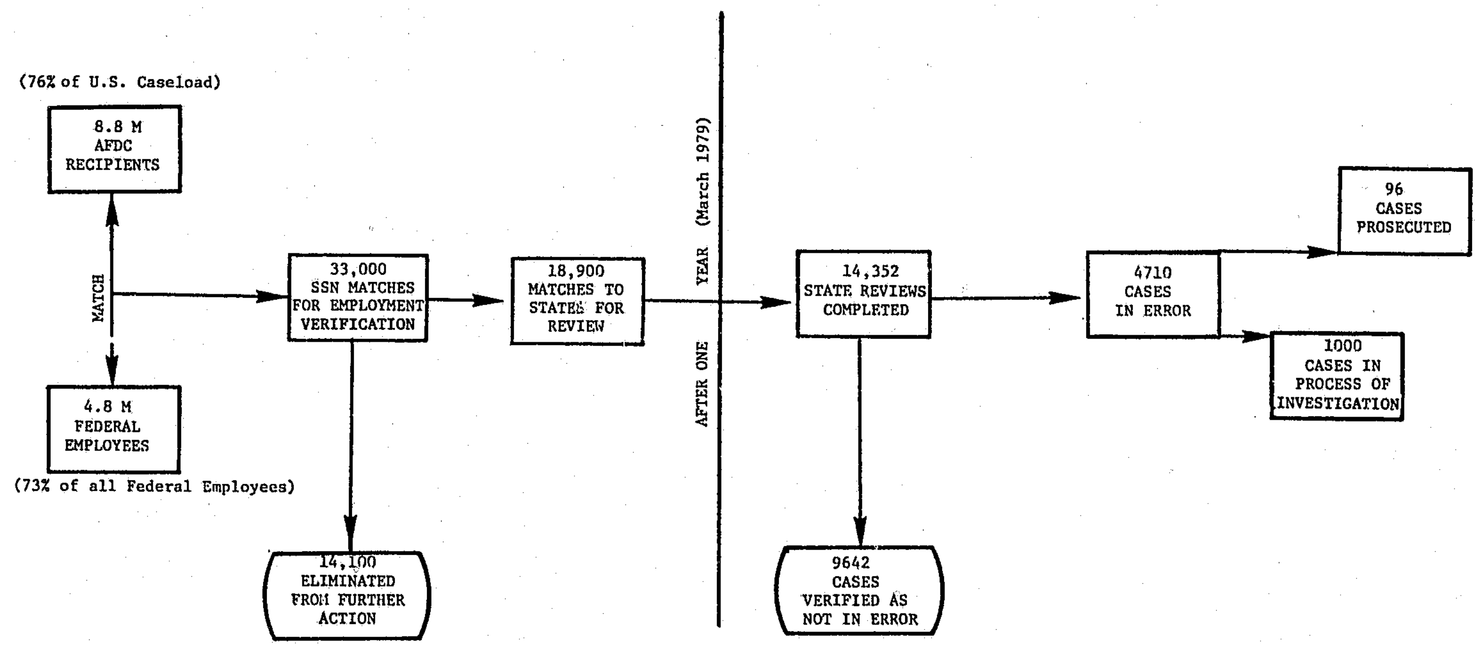
* Does not include participation in Project Match

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. Experience with the federally-sponsored Project Match illustrates this point, cogently depicting the large number of cases which drop out of the case flow during the manual review and investigative processes (see Figure E-1). Of the 33,000 matches initially identified by the computer-aided comparison of AFDC recipients with federal employees, approximately 57 percent (18,900) were validated and forwarded to the appropriate state public assistance agency for intensive manual review. After one year, the states had reviewed 14,352 of these matches, determining that about 33 percent (4,710) involved error or fraud. Of the cases reviewed by the states, less than one percent had been prosecuted and only another seven percent were actively being investigated for possible judicial action.

Some assessments have examined computer-matching techniques in terms of their impact on uncovering 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 of 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 (see Chapter 7).

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:



Source: Department of Health, Education, and Welfare, Office of Inspector General, Annual Report, January 1, 1978 – December 31, 1978, (March 1979), pp. 96-100.
This figure represents the results of the matching of AFDC caseloads for the first 26 states participating in the initial phase of Project Match

FIGURE E-1
PROJECT MATCH RESULTS—PAYROLL MATCHING PHASE

- the sufficiency of the data bases used
- the adequacy of 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. (Once again, see Figure E-1 which depicts the flow of cases for the Federally-sponsored Project Match.) Similarly, the use of limited matching criteria, namely the SSN, name and data 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 (see Chapter 8, pp. 8-1--8-7).

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 (see Chapter 8, sections 8.2 and 8.3).

Privacy problems do not appear to be a substantial constraint on the current use of computer-aided techniques (see Chapter 8.4). 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 with which agencies must comply so as to protect the privacy of individuals identified via computer-matching techniques. Additionally, these techniques are often further regulated--again, with respect to the privacy of individuals and the confidentiality of information--at the state level by myriad laws and administrative directives. Two 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 cannot be equated 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 abridgement of due process. A second issue concerns further restrictions to be placed on agencies regarding 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 for 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. Before initiating major activities in this area, LEAA should determine the priority of public assistance fraud relative to other criminal justice system needs in terms of current resources and commitments (see Chapter 9). Given a policy decision that recipient fraud is an important problem, LEAA could:

- evaluate the fraud-control effectiveness and costs of various anti-fraud strategies including computer-aided techniques, hot-lines, hopper alerts, and various case maintenance activities
- support analytic efforts designed to increase the "hit ratio" of computer-aided, anti-fraud techniques
- conduct studies of prosecutorial activities with regard to recipient fraud, and
- coordinate criminal justice system efforts with HEW activities to achieve maximum impact on recipient fraud reduction.

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

1. BACKGROUND AND METHODOLOGY

1.1 Purpose

This report, conducted under the auspices of the Law Enforcement Assistance Administration by The MITRE Corporation, examines the use of computer-aided techniques to address the problem of fraud in the Aid to Families with Dependent Children (AFDC) public assistance program. This examination identifies the kinds of computer-aided techniques which are currently being used by agencies responsible for curtailing fraud in this program; assesses the nature and scope of these techniques; examines what is known about the impact of these techniques; and details the major problems associated with the use of these techniques.

Some background information about the AFDC program is critical to the understanding of the contribution and inherent limitations of computer-aided techniques. For that reason, an overview of the AFDC program is presented first in order to summarize the major issues related to fraud in the administration of the program, to describe important federal, state and local anti-fraud activities, and to analyze the problem of preventing, detecting, investigating and prosecuting fraud.

The information presented in this report is geared primarily toward a general audience interested in acquiring a basic understanding of the use of computer-aided, anti-fraud techniques for public assistance programs. The content of the report is intended to provide a useful reference for federal, state and local officials, especially program integrity and fraud investigative staff, about the design, implementation, operation, and effectiveness of various computer-aided techniques. In this regard, the report contains a guide to available computer-aided techniques, including reference sources where more detailed and technical information about particular techniques can be located.

Finally, this document provides LEAA officials with a basis for assessing that agency's potential role in supporting efforts to reduce welfare fraud, especially with respect to computer-aided, anti-fraud activities.

1.2 Selection of the AFDC Program as the Study Focus

Initial background research led the authors to the conclusion that to address in practical terms the utility of computer-aided techniques and the problems associated with their use, such techniques should be examined in the context of the specific program in which they were designed to operate. The selection of the AFDC program as the focus of this examination is based on three considerations. First, the AFDC program is the nation's largest and costliest cash assistance program, providing income support for more than 11 million needy people at an annual cost of nearly 11 billion dollars.[1] Error, abuse and fraud within the program are estimated as excessive and the program is frequently cited as an abyss of administrative complexity that invites and perpetuates fraud.[2]

[1] U.S. Congress, House, Subcommittee of the Committee on Government Operations, Hearings, Administration of the AFDC Program, 95th Cong., 1st Sess., (1977), p. 1. Cited hereafter as Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977).

[2] Roark M. Reed, "Welfare Fraud: The Tip of the Iceberg," National Journal of Criminal Defense, Vol. 3, (Spring, 1977), p. 164; See also U.S. Congress, House, Committee on Government Operations, Report by The Congressional Research Service, Administration of the AFDC Program, 95th Cong., 1st Sess., (April 1977). Cited hereafter as Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977).

Second, the AFDC program is intimately related to a variety of other federal and state benefit programs. In many states, AFDC eligibility is a determinant of qualifying for other programs such as food stamps, Medicaid, and various social service benefits. Computer-aided techniques for the prevention and detection of fraud in the AFDC program have ramifications and applications for the prevention and detection of fraud in these related programs. Computer-aided techniques applicable to the AFDC program typically employ similar logic, address similar types of fraud and use similar information as in other recipient-oriented public assistance programs.

Third, pressures from the public, the press, the U.S. Congress and state legislatures for dealing with AFDC fraud, abuse, and error have been intense in the late 1970's. Despite indications of serious abuses in other government benefit programs, the AFDC program appears to have been singled out publicly as the focus of concerns with rampant fraud. The AFDC program is perhaps the one government program most easily identified by Americans when they think or complain about the inadequacies of the welfare system.[3] The program has been characterized frequently by lay persons and experts alike as a government program that "encourages and perpetuates fraud."[4] Many program advocates believe that stringent

[3] Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), p. 2.

[4] See for instance, U.S. Congress, Subcommittee of Fiscal Policy, Joint Economic Committee, Report, Welfare - An Administrative Nightmare; Studies in Public Welfare, 93rd Cong., 1st Session, (1973), Paper No. 5, Part 1; Washington Post, "The Welfare Enigma," (March 8, 1977), pp. C1-C2; and U. S. News and World Report, "Mess in Welfare - The Inside Story," (February 20, 1978), pp. 21-24.

efforts to deal with fraud in the program are necessary to reverse a trend of decreasing community support (e.g., Proposition 13) for the program.

These and similar considerations have provided the impetus to federal and state efforts in applying computer-aided techniques to deal with fraud in the AFDC program. The MITRE literature review and discussions with various officials at the federal level reveal that in recent years state efforts to deal with fraud in government benefit programs (including computer-aided efforts) have been heavily concentrated in the AFDC area. The prevalence of federal and state efforts to reduce fraud in the AFDC program and the concomitant development of computer-aided techniques to assist in these efforts make the program a logical focus for this examination of computer-aided, anti-fraud techniques.

1.3 Study Approach

This study of computer-aided, anti-fraud techniques is exploratory in nature. It represents a new area of research for the LEAA and is a first attempt to examine these techniques from a law enforcement perspective. Previous research concerned with the use of these techniques has been conducted within an information systems perspective or within a framework emphasizing the reduction of agency errors in determining AFDC applicant eligibility and recipient benefits. In contrast, this study focuses on recipient fraud, since it is most frequently addressed by computer-aided methods and has broader law enforcement implications than administrative errors and internal fraud. Further, it is not the purpose of this study to draw a representative sample and generalize to the larger universe, but rather to indicate the nature and extent of use of computer-aided techniques to counter AFDC fraud and abuse.

A four-stage data collection effort was devised in this study. The first stage consisted of a review of the literature related to AFDC fraud and anti-fraud efforts, relying on relevant documents prepared by HEW, reports detailing congressional hearings and articles appearing in newspapers, magazines and professional journals. The second stage supplemented the published sources of information by means of interviews with federal officials involved in the administration of the AFDC program and discussions with staff members of national associations concerned with the problem of welfare fraud. In the third stage telephone inquiries were made with AFDC program staff, data processing personnel, fraud investigators and criminal prosecutors in 19 states. The final step of the data collection effort consisted of site visits to six of the states previously contacted via telephone to explore in greater depth the application of computer-aided, anti-fraud techniques.

The remainder of this section presents more details on the range and position of government officials and officers of national organizations contacted; the development and application of site selection criteria; the states chosen for telephone contacts and site visits; and the methodological limitations of the study.

1.3.1 Contacts with the Federal Government and National Organizations

At HEW a diversity of divisions, bureaus and branches are responsible for AFDC program administration and a variety of anti-fraud related activities. Therefore, contacts were initiated with numerous organizational units within HEW and discussions were subsequently held with representatives of a number of key offices, including the:

- Office of Inspector General (Division of Investigations; HEW Audit Agency; and Division of Health Care and Systems Review)

- Office of General Counsel

- Social Security Administration, Office of Family Assistance (Division of Program Integrity; Systems and Procedures Branch; Division of Management and Support; Division of Policy; and the Welfare Reform Task Force), and

- Social Security Administration, Office of Program Operation (Bureau of Data Processing; Benefit Data Service Branch).

In addition to reviewing HEW's role in the administration of the AFDC program, federal officials were asked to identify exemplary, unique or highly routinized computer-aided, anti-fraud techniques utilized by the states and to suggest appropriate individual contacts at the state level.

Several national-level organizations concerned with curtailing welfare fraud were also contacted, of which the most helpful were the National Welfare Fraud Association (NWFA) and the National District Attorney's Economic Crime Project (ECP). Discussions with members of these organizations centered on the topic of welfare fraud as well as general policy issues related to welfare program administration, integrity and quality control. Representatives of NWFA and ECP were also asked to suggest state and local agencies most advanced in the application of computer technology to detect and prevent AFDC welfare fraud. Additionally, the NWFA solicited its members on behalf of MITRE to locate relevant information for this study.

1.3.2 Contacts with State Agencies

Two general criteria guided the selection of states to be contacted:

- the extent to which the states appear to utilize a variety of computerized techniques in the detection and prevention of fraud, and

- the extent to which the states appear to pursue activities related to the detection, investigation, and prosecution of AFDC fraud.

Four factors were used to estimate the nature and extent to which computer-aided techniques were used by the states. These factors were:

- the degree to which states were known to conduct income matching activities in the administration of their AFDC program

- the fact that a state used error-prone profiling methods in the conduct of its quality control or case management activities

- the extent to which states employed automation in the verification of AFDC eligibility information, and

- the degree to which states appeared to rely on computer-aided detection of any sort to refer significant numbers of cases for fraud investigation.[5]

[5] Literature sources used to make these judgments included: James J. Trainor and Ronald J. Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, Unpublished document for the Department of Health, Education and Welfare, Social Security Administration, Office of Family Assistance, Systems Development Branch, (July 1978); Department of Health, Education and Welfare, Social Security Administration, Office of Management and Administration, AFDC Quality Control-States Corrective Actions Taken from April 1973 through June 1977, OQA Pub. No. 008, (July 1978); and Robert E. Oshel and W. Barry Blandford, AFDC Fraud Control Mail Survey Data Book, General Research Corporation, (October 1976).

When judging the extent to which states appeared to be actively pursuing activities related to the detection, investigation and prosecution of fraud, four additional factors were considered. These were:

- the number of AFDC cases determined to involve a question of fraud
- the number of AFDC cases referred to law enforcement officials for investigation of fraud
- the number of AFDC cases which resulted in the prosecution of fraud, and
- the existence of a statewide fraud investigation unit.[6]

A total of 21 states was selected to be contacted by telephone based on an examination of the eight factors listed above. Generally, states were selected where indications existed that they were above average with respect to these factors. For instance, a state conducting four different income matching activities was considered more favorably than a state conducting one income matching activity. Similarly, states referring large numbers of cases suspected to involve fraud to law enforcement officials were considered more favorably than those referring smaller numbers. In addition to considerations based on the factors associated with the two major selection criteria, state selection also took into account a number of recommendations from knowledgeable persons at HEW. Specifically, some states were given preference because welfare agencies in those states employed persons known to be especially conversant in the topic area or because certain anti-fraud activities were considered to be noteworthy.

[6] The major literature source of information about these factors was, Department of Health, Education and Welfare, Social Security Administration, Office of Research Statistics, Disposition of Public Assistance Cases Involving Questions of Fraud-Fiscal Year 1977, HEW Pub. No. 79-11933, (October 1978).

Table 1-1 lists the 21 states finally selected for telephone contacts, specifies the type of program administration (state supervised or state administered) and denotes the size of the state's 1977 AFDC caseload. As is evident in this table, the sample represents states in all sections of the country. It includes a mixture of large and small states as well as a mixture of AFDC administrative structures (see Chapter 2, Section 2.3). Overall, the 21 states account for over two-thirds of the nation's total AFDC caseload and approximately an equivalent amount of the total program expenditures.

Of the 21 states selected, telephone inquiries to 19 were completed. Two states would not provide any meaningful information in response to our inquiry. Additionally, several persons in the states contacted declined to discuss their activities.

1.3.3 Selection of States for Site Visits

The purpose of these visits was threefold. First, they provided an opportunity to follow up on topics discussed during the telephone contacts. The second purpose of the site visits was to conduct a more in-depth examination of various computer-aided, anti-fraud techniques as applied at both the state and local levels so as to gain a firsthand impression of how the techniques fit into the state's overall anti-fraud strategy. The site visits also afforded an opportunity to discuss future state plans to enhance present systems or to design new computer-aided approaches to prevent and detect AFDC fraud.

Selection of states for site visits was based on the application of three criteria. These criteria were:

TABLE 1-1

STATES SELECTED TO BE CONTACTED BY TELEPHONE

STATE	REGION	AFDC CASELOAD*	
		Cases	Recipients
California (SS) **	West	472,438	1,417,490
Delaware (SA)	Mid-Atlantic	10,677	31,366
Florida (SA)	South	82,553	243,000
Illinois (SA)	Midwest	217,107	715,772
Indiana (SS)	Midwest	53,750	160,377
Iowa (SA)	Midwest	31,342	93,718
Kentucky (SA)	South	65,844	197,361
Maine (SA)	Northeast	19,804	59,593
Maryland (SS)	Mid-Atlantic	72,449	210,106
Massachusetts (SA)	Northeast	122,532	371,814
Michigan (SA)	Midwest	202,690	642,062
New Jersey (SS)	East	138,939	448,963
New York (SS)	East	372,742	1,208,011
Ohio (SS)	Midwest	180,235	542,710
Oregon (SA)	Northwest	42,361	119,719
Pennsylvania (SS)	East	208,078	655,863
Tennessee (SA)	South	61,627	175,516
Texas (SA)	Southwest	96,643	309,180
Utah (SA)	West	12,651	37,153
Virginia (SS)	Mid-Atlantic	59,093	171,272
Washington (SA)	Northwest	48,494	140,106

*Source: James J. Trainor and Robert J. Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, Department of Health, Education and Welfare, Social Security Administration, Office of Family Assistance, (July 1978).

**SA/SS indicates whether state AFDC program is state administered or state supervised.

- findings gained from the telephone inquiries
- receptivity indicated by persons contacted in the state, and
- national-level reputation as indicated by the review of the literature and conversations with HEW staff and representatives of national organizations involved in curtailing welfare fraud.

Applying the criteria to the 19 states which cooperated with the telephone inquiries, a total of six states were selected for site visits. The states chosen and later visited were California, Florida, Maryland, Michigan, Ohio and Washington.

1.3.4 Methodological Limitations

The data collection methods used in this study were driven largely by the need to locate within a limited time period available information about the general use of computer-aided techniques. This study is not intended to produce a comprehensive catalog of the use of computer-aided techniques in the states, nor to assess the operation of any one technique in a particular state. Rather, the report attempts to synthesize the data collected into a general characterization of the nature, extent and use of computer-aided techniques to curtail recipient fraud in the AFDC program. Given this focus, the data collection effort, especially the selection of states for telephone inquiry and site visits and the selection of individuals to contact in particular states, had to be guided by the availability of usable information, rather than scientific sampling or survey procedures.

In interpreting the findings contained in this study, the reader should keep several points in mind. First, the report focuses on recipient fraud rather than employee or vendor fraud in the AFDC program. This focus was chosen because current computer-aided, anti-fraud techniques appear to deal almost exclusively with this type of fraud. Second, the information collected during the course of this study may overly reflect the practices and perceptions of federal- and state-level officials. While some local officials were contacted both by telephone and during site visits, federal and state contacts serve as the major source of information for this report. This is consistent with the fact that the majority of computer-aided, anti-fraud techniques are employed at the state level. Third, a substantial amount of information in this report, particularly that information pertinent to the effects of the identified techniques and the problems associated with their use, relies heavily on the perceptions and opinions of persons interviewed. Because of the method used to select these persons, the findings may or may not reflect the conditions on a nationwide scale. Additionally, there is the question of bias on the part of some interviewees due to the particular nature of their jobs.

1.4 Organization of Document

Chapters Two and Three of this document provide the reader with background on the administration of the AFDC program, covering the origin and intent of the program, the major differences in the organization of state programs, and the typical eligibility, application and redetermination procedures. Four key issues related to the administration of the AFDC program are presented in Chapter Three: (1) the complexity and intergovernmental nature of the AFDC program's rules and regulations; (2) the multi-program responsibilities of those who administer the program; (3) the pressures to check administrative cost in the program; and (4) the nature of the electronic data processing capabilities supporting the program.

The problem of fraud in the AFDC program and federal and state responses to this problem are discussed in Chapters Four through Six. The nature and extent of fraud in the AFDC program is dealt with in Chapter Four. Chapter Five explores the purpose and impact of HEW's Quality Control program, describes the role and activities of HEW's Office of Inspector General, and reviews key legislation regarding the use of the Social Security Number and income data for the establishment of applicant identification and the operation of computer matching efforts. Chapter Six provides an overview of the nature and scope of AFDC program anti-fraud activities utilized by state and local agencies. These activities are described in terms of their relation to the basic functions of prevention, detection, investigation and prosecution of fraud and their general relationship to computer-aided, anti-fraud techniques.

Specific types of computer-aided, anti-fraud techniques and the major problems related to their use are discussed in Chapters Seven and Eight. Specifically, Chapter Seven presents three basic categories of computer-aided techniques: computer-aided matching techniques; selective case action techniques; and selective case screening techniques. Within each category, specific approaches and variations are detailed and compared. Problems affecting computer-aided techniques, especially those related to inadequate data and to insufficient management and administrative support, are explored in Chapter Eight. This chapter also examines the issue of privacy as it affects the utilization of these techniques.

Finally, Chapter Nine offers some suggestions concerning the potential role of LEAA with respect to supporting welfare agency efforts to curtail AFDC fraud, particularly computer-aided ones.

2. AFDC PROGRAM OVERVIEW

2.1 Introduction

The Aid to Families with Dependent Children (AFDC) program is the nation's basic income maintenance program for the needy. In 1976, the AFDC program served over 11 million recipients at a cost of approximately 11 billion dollars.[7] The program's legitimacy, efficiency, and legality have been subjects of continuing public debate.[8] To understand the nature and extent of fraud occurring in the AFDC program and to appreciate the efforts and limitations associated with its prevention, detection, investigation and prosecution, a brief review of the program is presented in this Section.

2.2 Program Origin and Structure

The AFDC program has its origins in the Great Depression of the 1930's and in the Roosevelt Administration's attempts to provide economic support for the children of poor families without taking them from the home.[9] In 1935, Title IV-A of the Social Security Act was passed to establish federally supported state programs of aid to families with dependent children. The AFDC program was an outgrowth of a variety of mothers' pension laws which existed in many states at the time of its creation.[10]

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[7] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), p. 1.

[8] Robert W. Bennett, "Liberty, Equality, and Welfare Reform," Northwestern University Law Review, Vol. 68, No. 1, (1973), pp. 2-3.

[9] Reed, National Journal of Criminal Defense, Vol. 3, (Spring 1977), pp. 163-165.

[10] Leon D. Platky, "Aid to Families with Dependent Children: An Overview," Social Security Bulletin, (October 1977), p. 17.

Today, 43 years later, the AFDC program is authorized under the 1978 Amendments to the Social Security Act. The AFDC program provides for federal grants to help defray state costs of providing financial assistance to needy children who are under age if these children:

> ...live in the home of a parent or specified relative and are deprived of parental support or care because of the death, continued absence - or, if a state elects, the unemployment of a father...

There are essentially fifty-four different AFDC programs (one for each state, one for the District of Columbia, and one for each of three territorial jurisdictions). Despite a substantial degree of federal involvement in the program, AFDC is primarily a state-run program, subject to federal laws and regulations. The states have the major responsibility for initiation, supervising, and maintaining the integrity of the program. The administrative structure of the program is not monolithically imposed by the federal government, but rather is left largely to the discretion of state and, in many cases, local governments. Currently, in 18 states the AFDC program is state supervised but directly administered by local (usually county) governments. In the other states, the program is directly administered by a state agency (for instance, a Department of Public Welfare or Department of Social Service). The extent of federal support for benefit payments, as established by the legislated formula, provides states with between 50 and 77 percent of these costs. Program costs of administration and training incurred by a state are subsidized by the federal government at a rate of 50 percent. State costs for fraud prevention and investigation activities are considered to be administrative costs and

[11] Ibid.

are funded at the 50 percent rate. Program funding not provided by the federal government is the responsibility of the states. In 11 states, state funding of the program is further shared with local jursidictions.[12]

At the federal level, the Office of Family Assistance (OFA) of the Social Security Administration (SSA) under the Department of Health, Education and Welfare (HEW) administers the AFDC program.[13] In general, OFA certifies AFDC funding to the states and assists, monitors and evaluates the conduct of individual state AFDC programs. Much of this responsibility is achieved by reviewing and approving state AFDC plans which, as required under the law, specifically describe how each state will conduct its AFDC program.

State AFDC plans are required partly because states have been given extensive latitude and flexibility in the way they organize and administer their AFDC programs. Within a variety of broad legislative and federal policy constraints, states develop their own rules, regulations and policies relating to how eligibility for program benefits is defined, how the amount of cash assistance is determined, and how the various responsibilities within a state for program administration are organized and supervised. AFDC plans represent the decisions of a state with regard to these broad areas and, as a result, are important to

[12] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 15-17.

[13] Platky, Social Security Bulletin, (October 1977), p. 18.

understanding how a program is uniquely operated in any individual state.[14]

2.3 Organization of State AFDC Programs

The major difference among states in terms of organization is whether a state's AFDC program is state administered or state supervised. The distinction between the two types of administration is important because it is indicative of the degree of program uniformity within a state. The distinction is characterized by:

- the location of the appointing authority for welfare agency personnel
- the extent of local participation in the furnishing of funds for assistance payments and administration
- the location of responsibility for making investigation (about eligibility) and maintaining routine contact with individual recipients and applicants, and
- the extent of local responsibility for decisions pertaining to determining eligibility and the amount of benefits to be received by recipients.[15]

In state administered AFDC programs, local welfare offices are in fact satellite units of a parent state administrative organization. These satellite state units administer the program

[14] The specific requirements of AFDC state plans are detailed in 45 Code of Federal Regulations Parts 204 and 205. Also characteristics of individual state plans are summarized in: Department of Health, Education and Welfare, Social Security Administration, "Characteristics of State Plans for Aid to Families with Dependent Children....," published annually by the U. S. Government Printing Office.

[15] Department of Health, Education and Welfare, Social Security Administration, Characteristics of State Plans for Aid to Families with Dependent Children, 1976 Edition, (Washington: U.S. Government Printing Office, 1977), p. 14.

in the field, usually under relatively uniform procedures and practices established by regional offices and/or the central office of the parent agency.

In state supervised AFDC programs, local welfare offices providing assistance to applicants and recipients are typically county public assistance offices. These county agencies also are responsible for implementing and interpreting federal and state policies regarding AFDC program eligibility and administration. Local agencies in these states typically exercise wide discretion in a number of important administrative and programmatic areas. Thus, in state supervised programs local procedures and practices within the state can differ substantially.

In all states, local welfare offices (county or state agencies) are responsible for the basic program activities with regard to establishing, applying and maintaining eligibility for AFDC benefits. They also process the information and maintain basic records which are essential to the administration of the program and the provision of AFDC benefits. State welfare agencies typically support local offices in areas such as processing data, disbursing checks, conducting quality control activities, providing legal services, and initiating and transmitting changes in federal and state policies. Fraud control activities (which will be addressed in more detail later in this document) are also typically shared by states and localities. Like most other AFDC activities, the actual location of responsibilities with regard to fraud and anti-fraud activities varies considerably from state to state.

State and local agencies which supervise and/or administer AFDC programs also administer or are closely involved with the administration of other public assistance, social service or human resource programs. State AFDC agencies are typically either the same agency, or under the same state umbrella agency, that supervises or administers other programs such as Medicaid, Food Stamps, Child Welfare Services, Title XX Social Services, Child Support Enforcement and other programs of general and emergency assistance. Because of this, local welfare agencies and their staff often have a variety of additional responsibilities concerning these other benefit programs. Many of these responsibilities result from the fact that AFDC recipients usually qualify automatically for benefits under these programs. The organizational link between these programs is important because it makes the administration of the AFDC both complex and time consuming. It is also important because personnel staffing local welfare offices need not only be concerned with the integrity of the AFDC program but must be concerned with the integrity of other programs as well.

2.4 AFDC Eligibility, Application, and Redetermination

Most known AFDC fraud is committed by recipients and involves the misrepresentation of information concerning eligibility for program benefits.[16] Eligibility for the AFDC program is based on the decisions of staff at local welfare agency offices who are responsible for processing information required of program applicants and recipients by law or regulation. Activities related to the gathering and processing of up-to-date eligibility information from applicants and recipients are key to understanding the AFDC program, the kinds of fraud that occur in it, and efforts to prevent or detect fraud in the program. For these reasons, AFDC eligibility factors and the processes of application and redetermination (of eligibility) are discussed below.

[16] Susan B. Schechter and Robert E. Oshel, Options for Reducing Fraud in the AFDC Program, General Research Corporation, (March 1977), p. 14.

2.4.1 AFDC Eligibility Factors

AFDC is a "means tested" categorical program that provides cash assistance (benefits) to needy families with dependent children. Under Section 406(a) of the Social Security Act, a "dependent child" means:

> a needy child who has been deprived of parental support or care by reason of the death, continued absence from the home, or physical or mental incapacity of a parent.

In addition, the child must be living with one or more specified relatives in "a place of residence maintained by" the relative, and be under 18 or 18 to 21 if a student (to be eligible for AFDC).[17]

AFDC assistance is limited to those categorically eligible who are also considered "needy." Need is broadly construed to mean lack of income, resources, or the ability to obtain income or resources to satisfy basic wants.[18] In practice this means that once categorical eligibility is established, an examination of need is conducted by an agency inquiry into factors relating to need and the ability of applicants to satisfy these needs. The Social Security Act and associated federal regulations allow states considerable latitude to set eligibility requirements for determining need for those categorically entitled to AFDC program benefits. By law states have the authority to define standards of

[17] U.S. Congress, Senate, Committee on Finance, The Social Security Act and Related Laws - April 1978 Edition, 95th Cong., 2nd Sess., (April 30, 1978), p. 224. The AFDC program also allows states to consider the unemployment of the father of a child as a legitimate deprivation factor.

[18] Bennett, Northwestern Journal of Criminal Defense, Vol. 68, No. 1, (1973), p. 178.

AFDC need and to make payments to recipients which satisfy less than the standard which is defined.[19]

States differ both in the factors used and the nature of their application when determining AFDC eligibility and the amount of cash benefits provided. In general, however, eligibility for AFDC program benefits involves a comparison of financial resources available to categorically eligible families and a state standard of need for a particular size family unit. Families with countable incomes in excess of the need standard are ineligible for AFDC benefits. In making this comparison the basic factors considered are:

- property resources (i.e., the family's home, real property, cash assets, cash reserves, life insurance)
- income resources (i.e., the family's wages, pensions, support payments, other government benefits), and
- basic needs (i.e. the family's rent, housing, food, utilities, child care, personal and work expenses).

In addition to the basic factors, other factors which may be considered include: (1) the suitability of the home where children will reside; (2) the willingness of a parent to work; and (3) the willingness of a parent to file non-support charges against an absent parent and to cooperate with authorities in attempting to ascertain the whereabouts of the missing parent.

[19] U. S. Department of Health, Education and Welfare, Social Security Administration, Office of Policy, AFDC Standards for Basic Needs - July 1978, (March 1979).

Although a complete analysis of AFDC eligibility factors and how they differ among states is too extensive to detail here, eligibility requirements related to the income of applicants/recipients and their families are particularly important because of their relationship to fraud in the program. A substantial proportion of AFDC recipients receive earned income in addition to program cash benefits. This income is often from employment that is temporary or sporadic in nature. Thus, earned income for many AFDC recipients is an eligibility factor which may fluctuate greatly. The amount of income received by AFDC recipients has a direct impact on the level of a recipient's assistance payment. Misrepresentation by recipients about the amont of earned income appears to be an especially easy way to defraud the program. In fact, experts are unanimous that fraud involving income is the most common abuse known to exist in the program. Consequently, it is not surprising that most of the computer-aided, anti-fraud techniques discussed later in this report deal with this type of fraud.

Consideration of income as a component of AFDC eligibility involves federal and state laws, regulations, and procedures. Federal laws and regulations detail a number of requirements pertaining to income. For instance, federal law specifically allows some portion of income earned by AFDC recipients to be disregarded when calculating AFDC eligibility and benefits. In addition to federal laws and regulations, state and local laws, regulations and local practices also affect consideration of income as an eligibility factor. As a result, states employ different methods for dealing with income, especially with respect to how and when it must be reported for eligibility purposes and the techniques used to account for it in the calculation of AFDC benefits. The full range of federal, state and local requirements must be considered when cases are examined to determine whether income-related fraud has been perpetrated.[20]

2.4.2 Application for AFDC Benefits

Application for AFDC refers to the process by which the initial decision on whether to grant or deny assistance is made. It is an important process to understand because it is a basic component of AFDC operations. It is also important because AFDC application is the principal source of information used by many computer-aided techniques applied to detecting fraud in the program.

The AFDC application process is governed by two basic factors. The first factor is the laws and regulations which must be applied to the process. These directives determine the types of information that must be gathered during the application process.[21] The second factor affecting the AFDC application process has been termed the "philosophy of administration." This refers to how states, and the agencies that comprise the AFDC delivery system in a state, weigh the competing claims of complying with complex administrative regulations and the necessity of responding rapidly and compassionately to those with an expressed need for services. These competing claims can impact on a state's anti-fraud activities because their resolution affects the

[20] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 85-99. These pages provide an excellent description of how income is treated and impacts AFDC eligibility.

[21] Ibid., p. 30.

importance placed by state and local welfare agencies on ensuring the correctness and accuracy of eligibility information provided by applicants for AFDC assistance.[22] Federal law and regulations leave a great deal of discretion to the states with regard to developing administrative procedures in this area. The procedures developed typically reflect the agency's philosophical orientation concerning the relative importance attached to service delivery as opposed to case correctness and accuracy. As a result, there is diversity among states in terms of the amount of information required by applicants; the extent to which supporting documentation is required; and the need to obtain independent verification of the information which is provided.

Federal regulations on the application for AFDC benefits (45 CRF 206) are quite basic, requiring states to provide for:

- a written application signed under penalty of perjury
- procedures to ensure that reports of changes in circumstances affecting the amount of or eligibility for assistance be promptly reported, and
- eligibility established by application be periodically redetermined.

Application forms in use, however, are diverse in both length and complexity. A recent congressional survey indicated that state AFDC applications range from one form with a minimum of four pages and a maximum of 37 pages to 21 forms with between 27 and 40 pages. The number of forms, the amount of information required from an applicant, the extent that supporting documentation is needed at application, and the degree to which information is checked for completeness and accuracy by the welfare

[22] Ibid.

agency varies measurably from state to state and, in some cases, within states.[23] Typically, however, potential recipients provide information and supporting documentation upon application concerning:

- age
- proof of identity
- family composition and relationships
- citizenship
- residence
- Social Security Number
- circumstances concerning the deprivation of parental support relating to the dependent child or children
- school attendance of children
- social and employment needs
- financial resources (income, savings, other benefits, real property), and
- living expenses (shelter, food, employment, medical case, etc.).

Application for AFDC involves more than the submission of the required forms. It involves fact-to-face contact with the intake worker. The intake worker not only provides assistance in completing the necessary application forms but also examines documentation which applicants must provide in support or to verify their claim of eligibility. Supporting documentation could include items such as:

- employment, income and financial records (i.e., pay stubs, savings and bank records)

[23] Ibid., pp. 31-33.

- birth, marriage, death and school attendance certificates, and
- rent, mortgage, utility, and food receipts.

Both the information and the supporting documents are considered by the welfare agency in making a determination of eligibility.

States also vary in the extent to which verification of information to determine eligibility at application goes beyond examining the supporting documentation provided by the applicant. Verification may involve conducting home visits to potential recipients or making third party contact with secondary information sources. These contacts may include letters, calls or computer-based inquiries to employers, banks, schools and other government agencies to obtain independent confirmation of information (or non-information) provided by an applicant. Although most states now employ extensive verification methods, the philosophy attached to verifying eligibility information at application has undergone a significant shift in recent years. During the 1960's, federal initiatives and regulations encouraged welfare agencies to base AFDC eligibility, to as great a degree as possible, on the information volunteered by applicants. Extensive verification of information was discouraged in favor of increasing agency responsiveness to recipients and decreasing the extent of intrusion into their personal lives as a requirement of program participation. By the early 1970s, however, concerns that de-emphasizing verification encouraged fraud and abuse in the AFDC program led to the policy reversal that now characterizes the program--one which encourages independent verification of at least some of the information provided by applicants.[24]

[24] Ibid., p. 30; see also Earl Hokenson, "Evaluation of the Effects of Simplified Eligibility System: The Impact of the Administration's Welfare Reform Legislation on the Determination of Eligibility for Public Assistance Payments," Research and Statistics as a Management Tool, (Washington, D.C.: National Center for Social Statistics, 1971), p.22.

Once AFDC eligibility is established on the basis of the information provided at application, the recipient family becomes part of the AFDC client caseload and starts to receive periodic cash payments. Case records are maintained at local welfare offices on all AFDC families and their members. These records are the keystone for administering the program. They contain all eligibility information provided at application and must be continuously updated to include changes in the status of a family, services and referrals made within the framework of the program, the amount of benefits paid, and other information which may impact a family's eligibility or be necessary for the provision of benefits. Typically, information from these case records is summarized in other files, both at the local welfare office itself and at the state welfare agency. The most common of these condensed records is a master beneficiary record file which is an inventory of basic information about current recipients of the program. This file usually includes information such as name, date of birth, address, date of eligibility and benefit payment amount for each program recipient.

Depending upon the state, AFDC benefit checks are distributed from either the state or local level and may be either mailed directly to recipients or mailed for pick-up at local banks or welfare agencies. There is a great deal of variance among states in the amount of assistance an AFDC recipient's family may receive. Using the HEW's standard for comparison--a family of four without any countable income--AFDC cash payments range from a low of $54 (Puerto Rico) to a high of $546 (Hawaii).[25]

[25] Department of Health, Education and Welfare, AFDC Standards for Basic Needs - July 1978, (July 1978), p. 10.

2.4.3 AFDC Reporting and Redetermination

Eligibility for AFDC assistance, and thus the amount of assistance available to a family, can change substantially over time. Changes in circumstances such as an increase or decrease in income, change in family composition, or change in living expenses may not only affect the amount of the AFDC grant, but may also render a family ineligible for the program. Federal regulations require states to establish procedures for the AFDC program designed to ensure that changes in circumstances related to recipient eligibility are systematically brought to the attention of welfare agencies so that eligibility adjustments can be made. Two processes conducted by welfare agencies are basic to ensuring that eligibility adjustments are made. These processes are: 1) client reporting; and 2) redetermination of eligibility.

2.4.3.1 Reporting

In all states, AFDC recipients are informed at application of their responsibilities to report changes in their status which might affect their eligibility for assistance. There are a number of factors which a state or local welfare agency might require a recipient to report as a condition of continuing eligibility. Typical of factors which must be reported are changes in:

- income
- family composition
- residence
- children's school attendance, and
- participation in work or training programs.

Recipients are first informed of their reporting responsibility when they complete the AFDC application. At this time they are typically asked to sign the application which includes a certification that they will report status changes that might affect their eligibility. Signature of the AFDC application is typically an acknowledgement that the recipient understands that failure to report changes in status may result in criminal penalties.

Actual practices with regard to reporting vary widely among the states. For example, some states systematically mail AFDC recipients a change of status/reporting form periodically (monthly or quarterly). In those states that do utilize periodic reporting forms, some states require that it only be returned to the welfare agency if a change in status has occurred, while others require that the form be returned regardless of any change. Failure to return the form in the latter case is often reason for the agency to terminate or delay payment of AFDC benefits. In practice, reporting procedures in most states usually focus on recipients' income because of the high potential for change and the prevalence of abuse by recipients when reporting this factor.[26] Like the original AFDC application, periodic reporting forms addressing recipients' status changes are usually signed by the recipients. These forms are often critical to the preparation of cases involving fraud. They provide important evidence in the event that changes in factors affecting eligibility were purposely withheld or misrepresented by the recipient suspected of defrauding the program.

[26] Committee on Government Operations, Report by the Congressional Research Service, Administration of the AFDC Program, (April 1977), p. 88.

2.4.3.2 Redetermination

Eligibility for benefits under the AFDC program is not a permanent condition. Regulations require that AFDC eligibility be formally redetermined at least every six months. The intent of these regulations is to insure that AFDC cases are critically and comprehensively reviewed so that cases in error may not continue for long periods of time without detection and adjustment.[27] The redetermination process, like the application process, also differs significantly among the states. For example, redetermination procedures often differ in the extent to which specific information is reviewed, the kinds of documentation required and the extent to and methods by which information is verified. The redetermination procedures in a state may involve practices as complete as the process of initial application or they may involve a simpler process in which only certain facts are checked and reverified.[28]

The frequency with which redetermination of AFDC cases is made also differs among states. Some states follow the minimum federal requirements and conduct redeterminations every six months. Other states perform redetermination more often, especially for certain types of cases. For example, states may require more frequent redeterminations to be conducted for cases in which the father is present in the home or in cases where recipients have

[27] Ibid., pp. 40-41; see also Marc Bendick, Jr., Abe Lavine and Toby H. Campbell, The Anatomy of AFDC Errors, The Urban Institute, (April 1978), pp. 41-51.

[28] Committee on Government Operations, Report by the Congressional Research Service, Administration of the AFDC Program, (April 1977), pp. 40-44; see also Booz, Allen and Hamilton, ADP Requirement Study for the Department of Health, Education, and Welfare's Aid to Families with Dependent Children Program - Final Report, Report No. HEW-SA-78-1, (September 1978). Cited hereafter as AFDC ADP Requirement Study, (September 1978).

earned income because these cases are considered to be more difficult and potentially more likely to involve errors or fraud. A variety of methods are employed by state and local welfare agencies for scheduling redeterminations. Some of these methods involve case profiling techniques. These are described in more detail in Chapters Six and Seven of this report.

Redetermination of AFDC eligibility is considered to be among the most important aspects of AFDC program administration. It is crucial to the maintenance of program integrity, especially with regard to fraud prevention and detection.[29] For the typical AFDC case, redetermination is the only instance in which AFDC eligibility is critically scrutinized by welfare staff after application is made. Unless a case is singled out by other means (i.e., the reporting of status changes, a quality control review, or a tip from another source), redetermination is often the first routine opportunity for an examination of case accuracy and the possible existence of fraud. For example, if an AFDC recipient is defrauding the program, benefit checks for six months are almost assured before there is a high risk of detection via an eligibility review (i.e., redetermination) of a case. If this fraud is undetected during the first scheduled redetermination, the period of fraud extends to a year and the dollar amount of the crime increases accordingly.

Both application and redetermination of AFDC eligibility involve the processing of large amounts of information. Computers are increasingly being used to process and store this information.

[29] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), p. 18.

Computerization also increases the ability of AFDC program staff to examine and further verify some of this information. This contributes substantially to the basic capability required for using the computer as an anti-fraud technique. These uses are the focus of Chapters Six and Seven of this report.

3. ISSUES OF AFDC PROGRAM ADMINISTRATION: THE ENVIRONMENT FOR FRAUD AND ABUSE

In the views of the press, the public, and some government officials, fraud, abuse, and error are rampant in the AFDC program. The program has variously been described as an administrative morass, as a tangled web of complex rules and regulations, and as an entrenched bureaucracy so inefficient that it appears to invite and, indeed, even encourage cheating and fraud.[30]

The ability to conduct anti-fraud activities, including computer-aided techniques, is inextricably bound to the broader issues of program management and administration. The application and use of computer-aided, anti-fraud techniques requires a preliminary understanding of these issues and how they generally affect the detection and prevention of fraud in the program.

Four issues relating to AFDC program administration appear to be most germane to understanding the use and difficulties in applying computer-aided techniques to control fraud. These issues are:

- the complexity of the program's rules and regulations
- the intergovernmental nature of its administration
- the pressures on the program to control increasing administrative costs, and
- the electronic data processing support in the program.

[30] For instance see, U.S. News and World Report, "Mess in Welfare - The Inside Story," pp. 21-24; and Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), especially pp. 299-307 and 355-365.

The following subsections address these four issues and briefly examine their relationship to program integrity and AFDC fraud control efforts.

3.1 The Complexity of AFDC Rules and Regulations

The complexity of rules and regulations is commonly seen as a factor contributing to fraud and abuse in the AFDC program. Criticisms appear to be focused in three main areas: (1) the welter of program rules and regulations makes them difficult to comprehend and apply; (2) the rules and regulations which define the program are constantly changing; and (3) the administration of the program is complicated by responsibilities connected with other related programs.

The rules and regulations governing the AFDC are designed to cover a wide variety of processes including program application, eligibility, income accounting, recipients' rights, and coordination with other related programs and services. These directives are often excessively complex (and many believe unnecessary), placing a great burden on both the program recipients and welfare agency staff. Recipients are required to provide a potpourri of detailed information and supporting documentation to substantiate their need for aid. This may be extremely frustrating to some recipients as the required information may be perceived as irrelevant or as an unwarranted intrusion into their private life. Nevertheless, welfare agency staff must spend a large portion of their time collecting, verifying and maintaining this case information. Appropriate decisions must be made in accordance with rules and regulations often too complex for most to understand and too extensive for their application to be feasible on a case-by-case basis.

Difficulties in understanding and applying a complex set of rules and regulations reduce the staff time available (and also, perhaps, the incentive) to actively become involved in efforts to curtail fraud in the AFDC program.[31] A typical AFDC application form--which merely summarizes some of these rules and regulations--is illustrative of the complexity associated with the program.[32] For example, an application form usually deals with items such as:

- the specific conditions which constitute "absence of a parent" or "unemployment of a father"
- the definition of income of an AFDC family unit as it pertains to children and residing relatives
- the accounting of earned income, the tax rate on this income, and the method of disregarding certain types of income when computing the AFDC benefit amount
- the exemptions and accounting of unearned income for the purposes of determining eligibility for the program, and
- the allowances provided by the program for a variety of living expenses such as rent, transportation, child care, and personal expenses.

For each of these items (and there are many more than those listed above), there are voluminous pages of rules, regulations, guidelines, program directives and other instructions covering specific circumstances and administrative requirements of the program.[33]

[31] Bendeck, et al., The Anatomy of AFDC Errors, (April 1978), pp. 79-96

[32] Ibid., This document points out that in 1975 an AFDC application in the State of Alaska required 21 forms totaling 40 pages; the average state's application form required 5 forms and 13 pages.

[33] For instance, implementation of one AFDC welfare initiative which began as a four-page law resulted in 70 pages of federal regulations and 1200 pages of state-level instructions. See U.S. News and World Report, "Mess in Welfare - The Inside Story," (February 20, 1978), p. 22.

The complexity of AFDC rules and regulations is further aggravated by frequent modifications and changes as policies governing the program are continually being revised by the Congress by HEW, by state legislatures and state and local welfare agencies. These changes, especially in large urban areas where AFDC caseloads are sizable, can and have resulted in confusion and inefficiencies on the part of welfare agency staff.[34] One typical complaint about federal changes was aptly expressed during recent congressional testimony:

> The state or local administration is trying to balance the interests of the Congress, the Federal Government, the State legislature and the clients...
>
> To accomplish this feat would be difficult enough if the AFDC program remained constant, but the swiftness and frequency of changes in Federal regulations make it nearly impossible to administer.[35]

Two examples illustrate how changes in AFDC rules and regulations impacted on program administration. In the early 1970's (See Section 2.4.2), federal and state policies abolished the declaration method of verifying eligibility. As a result, welfare agencies had to quickly make extensive programmatic shifts involving the administration of the program. Not only were new procedures (i.e., home visits, collateral checks with employers) necessary to independently verify applicant and recipient eligibility information, but basic organizational changes were also necessary to devote more time and resources to the AFDC application process. Over the past 10 years, implementation of these new

[34]Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), pp. 355-365 and 449-454.

[35]Ibid., pp. 451-452.

policies has placed increased demands on frontline welfare agency staff and created confusion regarding verification practices in the face of a growing AFDC population.[36]

Likewise, recent changes in AFDC regulations dealing with the treatment of client income exemplify how a seemingly small change regarding an eligibility factor can complicate program administration. Because these new regulations allowed recipients to have some income without penalty, welfare agencies had to reassess the eligibility status of their entire caseload, develop new outreach methods to seek out large numbers of newly eligible persons, and revise, implement, and monitor new procedures and accounting schemes directed at operating the program according to the new regulations. The repercussions of these changes, like those resulting from the policy changes concerning the verification of eligibility information, continue to complicate AFDC administration and detract from efforts to improve the integrity of the program.[37] The problems described above are magnified by the fact that the same persons and agencies who operate the AFDC program are also directly involved in the administration and coordination of other social services, welfare and benefit programs which likewise are subject to frequent changes in rules and regulations.

AFDC program eligibility usually qualifies recipients for a variety of other benefits and services; Medicaid; food stamps;

[36]Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 42-43.

[37]Ibid.; also see Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), pp. 198-202, 215-228.

training and employment services; and other social services such as child care or homemaker services. The problem of serving a client entitled to multiple benefits was aptly stated by one State Welfare Commissioner:

> ...there may be different Committees of Congress and different departments setting laws and policy at the Federal level, but at the State and local level it all has to come together. Not only must the rules for AFDC (including WIN and child support) be absorbed, but so must those for Medicaid, food stamps and social services. If local offices are to be fully responsive to the needs of their clients, they must also be knowledgeable about other programs--housing, employment, legal services, special nutrition programs, and so forth. This is a heavy burden to bear. States may try to simplify and coordinate their administration, but there is a limit to what can reasonably be expected to be done under Federal law and regulations. Food stamp and AFDC benefits for the same family may, for example, be based on different amounts and kinds of income and on income received in different months. Work registration requirements may also be different. No amount of streamlining of application forms can do much to simplify this situation.[38]

Differences between the AFDC and Food Stamp programs illustrate some of the difficulties: (1) certain sources of income may be counted in determining the benefit level for one program, but be disregarded in the other; (2) training-related expenses may be deductible when calculating benefits for one program, but only partially or not at all in the other programs; (3) some comparatively high-income AFDC family households may receive food stamps automatically,while some non-AFDC applicants cannot

[38] Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), pp. 348-349.

qualify for food stamps despite lower income.[39] The situation in the State of Michigan is quite typical:

> When a person comes into a Michigan social service office to apply for assistance, if they are eligible for AFDC, they are eligible for food stamps; they are eligible for Medicaid; and they are probably eligible for housing subsidies--four different programs with four different sets of requirements and four different criteria for eligibility.
>
> A worker dealing with that particular client has to fill out four different forms and figure budgets according to four different sets of regulations, et cetera. It quadruples the activity, and it probably increases the probability of error by 16 times.[40]

The complexity of AFDC rules and regulations, the confusion caused by frequent changes in these rules and regulations, and the multi-program responsibility of those who administer the program are exacerbated by two factors. First, in the last two decades, AFDC caseloads have grown substantially. Individual caseloads in excess of 200 cases are not unusual in many parts of the country, although 60 is considered a maximum number if reasonable efficiency is to be assured.[41] Caseworkers frequently have little time to spend with any one case and often case maintenance activities are delayed. At the same time, it has been suggested that unionization of welfare workers has restricted the flexibility of many agencies to adjust assignments and implement needed organizational changes. Second, welfare staff, who screen applications and determine eligibility and benefit levels, are frequently inexperienced. Additionally, critics believe that many welfare staff are inadequately trained to effectively perform their duties.

[39] Ibid., p. 414.

[40] Ibid., p. 351.

[41] Gilbert Y. Steiner, The State of Welfare, The Brookings Institute, Washington, D.C., 1971, p. 37.

Salaries for these workers are relatively low and employee turnover is high. Furthermore, supervision of welfare employees in some agencies is often characterized as ineffective because of antiquated promotion practices and fragmented lines of authority.[42] Yet, welfare caseworkers are expected to offer more and more informed assistance to people in need. While urged to show compassion to recipients, these workers are also expected to guard the public interest by adhering to the program's administrative requirements as a front-line defense against mistakes and fraud. It is frequently suggested that these competing demands only invite program abuses including fraud.[43] For example, welfare workers, frustrated by the demands of the job, may choose to ignore or shortcut administrative requirements in an effort to provide a quick and compassionate response when confronted by an applicant or recipient in great need. Other welfare workers may openly appear to applicants to be lax, inconsistent or incapable of doing their job. Situations such as these are thought to exacerbate a growing public perception that the

[42] A number of sources provide useful detail concerning these and other related problems. See Bendeck, et al., The Anatomy of AFDC Errors, (April 1978), pp. 63-75; Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 34-35; Gilbert Y. Steiner, The State of Welfare, The Brookings Institute, Washington, D.C., 1971; and Committee on Government Operations, Congressional Research Service, Administration of the AFDC Program, (April 1977), pp. 1-54.

[43] There is also a prevalent concern by many welfare critics that current rules and regulations provide an incentive in and of themselves to the commission of recipient fraud. Specifically, some suggest that AFDC rules particularly encourage fathers in poor families to feign desertion so that their families are cared for better. Similar concerns are also voiced regarding program incentives that encourage recipients not to report relatively small and fluctuating amounts of income and discourage recipients from actively seeking gainful employment. See for instance: Mildred Keen, "Determinants of the Work Welfare Choice," Social Service Review, Vol. 46, No. 4, (December 1972), pp. 539-566.

program provides a good opportunity for recipients to commit fraud with little likelihood of detection.[44]

The complex and conflicting demands placed on welfare workers by the AFDC program limit their time to look for fraud in the program. Because of existing conditions, welfare workers frequently do not have the time (or the expertise) to provide the routine, much less the special attention needed to detect fraud. They are particularly limited (as will be discussed in Chapter 7) in the time they can devote to supporting other agency efforts such as computer-aided techniques specifically designed to curtail fraud in the program.

Finally, the incentive to undertake unusual efforts to deal with fraud by welfare staff often is not especially strong. This appears to be especially true when agencies or workers are guided by a philosophy emphasizing administrative conformity and responsiveness and compassion toward clients over concerns for program integrity.[45]

Many critics and experts agree that simplifying welfare rules and regulations (usually in concert with complete welfare reform) and better coordination of the AFDC program with other programs are necessary steps toward making significant improvements

[44] U.S. News and World Report, "Mess in Welfare - The Inside Story," (February 20, 1978), pp. 21-24.

[45] Committee on Government Operations, Congressional Research Service, Administration of the AFDC Program, (April 1977), pp. 44-53, 252-263; and Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), pp. 198-202, 215-228, 317-320.

in AFDC program integrity.[46] To date, there have been some attempts at both the federal and state levels to make AFDC administration simpler. Reforms include the consolidation of eligibility factors, the separation of income maintenance and social services, the use of new accounting schemes, the introduction of flat grants for certain categories of AFDC recipients, and improvement of coordination between the AFDC and the Food Stamp programs.

3.2 The Intergovernmental Nature of the AFDC Program

Administration of the AFDC program is characterized by a patchwork of shared responsibilities among federal, state, and local governments. Fragmentation of responsibilities in the AFDC program presents difficulties in a number of areas affecting fraud prevention and detection. Some studies strongly suggest that fragmented administrative responsibilities at multiple levels of government may affect the integrity of the program. More specifically, one study finds that states in which state and local governments substantially share program authority and responsibilities experience higher rates (9 percent higher) of AFDC error than do states which consolidate the majority of program activity at the state level.[47]

Shared responsibilities for program administration may also impede the ability of welfare agencies to maximize "economies of scale" in the AFDC program. For example, the more localized program administration is in a state, the more likely that functions will be duplicated among jurisdictions within that

[46] Bendeck, et al., The Anatomy of AFDC Errors, (April 1978), pp. 113-116.

[47] Ibid., pp. 114-115; also Mary Hollis and John A. Yankey, "Welfare Administration: State or Local?" Public Welfare, Vol. 35, (Fall 1977), pp. 29-35.

state. This duplication can extend to many activities related to detecting and preventing fraud in the program such as training welfare workers, maintaining welfare fraud units and maintaining computer-based record systems. Centralization of administration, by contrast, appears to have distinct managerial, if not substantive, advantages in many areas of program administration. In regard to fraud prevention, for example, a uniform and centrally operated AFDC information system allows welfare workers in local offices to more easily screen applicants to determine whether they are currently receiving benefits in other jurisdictions within the state (i.e., duplicate aid cases).

Shared responsibilities also create problems of accountability, especially for the effective conduct of activities related to fraud control. Questions such as who is responsible for fraud investigation, who pays for it, who keeps and maintains particular types of case information, and who reports to whom, are often difficult to resolve in a program environment where many layers of government--each with its own interests and philosophies--are involved. Inactivity, resistance to change and lack of individual responsibility or clear accountability are often characteristic of this environment.[48]

3.3 Pressures to Control Administrative Program Costs

The cost of administering the AFDC program is shared equally between the federal and state/local governments. All expenses of the program which are not benefit payments to recipients are considered administrative costs. These include, for example, the cost of personnel, training, staff supervision, policy and procedure development, supplies, overhead and the like. The cost of development, installation and operation of computer

[48] Ibid.

systems for the program, the staffing and conduct of welfare fraud prevention, detection and investigation activities, and the conduct of quality control activities are also considered as administrative expenses.

The cost of administering the AFDC program has increased rapidly and has been criticized by many as being excessive. AFDC administrative costs increased by 86 percent from 1973 to 1976. By comparison, the increase in benefit payments to recipients was 39 percent. Furthermore, the increase of 86 percent (which equated to almost one-half billion dollars) cannot be attributed to either an increase in caseload or inflation.[49] In 1976, the overall cost for administering AFDC accounted for 11 percent of the total program expenses.

Obvious and largely unexplainable differences in administrative costs among state AFDC programs have also drawn serious criticisms from government agencies responsible for the financial support of the program. The Congressional Research Service found a number of perplexing questions when they examined and compared the 1975 administrative costs of California's and New York's AFDC program. For example, California's AFDC population was 24 percent higher than New York's and California had twice as many AFDC applications to process as New York; yet California operated its program with about 8,000 fewer staff than New York, and California's administrative costs were 55 million dollars less than New York's.[50] Because of inadequate reporting

[49]Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), p. 26.

[50]Ibid., pp. 126-141.

procedures and differing cost allocation methods, the reasons for these differences could not be ascertained.[51] These differences tend to support general skepticism among some AFDC critics about needs and cost associated with conducting many aspects of the program.

Because of the perception that the administrative costs have been excessive and out of control, agencies that administer state AFDC programs have been under some pressure to improve administrative practices in their programs. In an effort to reduce these costs, numerous types of activities have been considered and implemented by states. These include:

- updating and rewriting policy and procedure manuals to make them clearer and easier to use
- streamlining the processing of applications and the delivery of benefits
- conducting management studies to identify problem areas and reduce improper program expenditures
- developing and installing new computer systems or enhancing capabilities of existing systems
- reorganizing to reduce errors and improve efficiency, and
- carrying out various anti-fraud activities.[52]

[51]The difficulties in assessing administrative cost differences in federal assistance programs are addressed in detail in Comptroller General of the United States, Report to the Congress, The Federal Government Should but Doesn't Know the Cost of Administering Its Assistance Programs, GAO Report GGD-77-87, (February 14, 1978).

[52]Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 26-27.

From all of these activities, questions continue to surface regarding whether changes actually reduce costs. The burden of proof is often on the implementing agency to demonstrate that activities undertaken as improvements do in fact represent savings rather than increases in the absolute cost of operating the program. In many states, welfare agency decision-makers are reluctant to ask for additional funds from state and federal sources to improve administrative practices without some clear indication of their cost-saving potential. This type of pressure extends to efforts to develop or expand existing anti-fraud activities. The congressional testimony of a state welfare director provides a clear example of how cost-effectiveness considerations can impact on decisions concerning anti-fraud improvements:

> ...in the effort to minimize fraud, legislative and administrative bodies establish a host of regulations and requirements, all of which substantially increase costs. Some must look at cost/benefit ratios.... In Michigan, we could virtually eliminate fraud if we substantially increased staff. Doubling my staff would cut fraud by 50-75 percent. Doubling my staff would cost about $180 million. If fraud today is 5 percent (and I believe it's less), it runs about $100 million at the maximum. Thus, to save $50-$70 million, we might well spend two or three times as much.[53]

Similar considerations will impact on decisions to conduct, support and expand computer-aided, anti-fraud techniques.

3.4 Electronic Data Processing Support

Electronic Data Processing (EDP) has emerged as an essential management tool for states and localities administering the AFDC program. These jurisdictions have found EDP to be essential because the AFDC program is large and complex, because it serves a shifting population, and because factors impacting the eligibility status of the individuals comprising this population frequently change.[54]

Although the use of EDP varies among states and within states, there are three basic types of applications. These applications are: (1) direct administration; (2) program management; and (3) cross-checking of program data. Direct administration involves the use of automated systems for writing and distributing benefit checks, calculating eligibility benefits, maintaining and monitoring case maintenance schedules and activities, and indexing cases for fiscal accountability. Program management functions supported by EDP capabilities include timely access to the program's data base for eligibility and programmatic decision-making, budgeting, and evaluation. Cross-checking involves the ability to rapidly compare information in AFDC files with information from other programs or other jurisdictions (frequently referred to as "matching"). This cross-checking is used to maintain accurate and complete case records and to identify potential cases of fraud in the program. As such, EDP capabilities in this area are basic to the conduct of most computer-aided, anti-fraud techniques discussed in this report (Chapter 7).

Some states or localities may use the features available for cross-checking to verify income and the net worth of an individual or to determine what other benefits he may be receiving. After verification has been completed, eligibility for

[53] Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), p. 364.

[54] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 144.

the AFDC program is usually determined manually by a caseworker, possibly with EDP support in making this determination. (The eligibility regulations for AFDC can now be programmed on a computer, enabling automated determination of whether an individual meets the eligibility criteria.) If the individual meets those criteria, the benefit amount is computed by caseworkers, or in some instances by the computer, and a pay schedule is established. The client's case file is then stored in the computer until it is needed again for redetermination or when changes must be recorded. The computer can also be used to generate a report to remind the caseworker when the client's file is due for its semi-annual redetermination or review. At various intervals, management information can be requested from the computer to evaluate how clients are using the AFDC program and to assess agency performance.

Two recent surveys of state AFDC agencies provide some indication of the level and basic trends with regard to computer capability.[55] In general, and considering the potential for the use of computers in the program, these surveys rated the EDP capabilities in the AFDC program as low. Automated payment files and central or master recipient files were reported as the most common EDP applications in the program. Other uses of EDP were reported to be less frequent and usually spin-offs of the payment and master recipient applications in a particular state.

Significant differences exist in the EDP capability among the states and localities. Some states have or are developing large-scale integrated information systems to deal with all

[55]Ibid., pp. 146-153; and Booz, Allen and Hamilton, ADP Requirement Study, (September 1978), p. 16. Both these documents provide extensive survey materials about EDP activities among the states.

welfare activities conducted by the state. These integrated systems store all the client information supplied by an individual as part of a master data base. This is in contrast to other states where systems are fragmented within the state and information is stored in several locations. Some states' AFDC information systems have an extensive number of program applications running, while others are limited to the more basic functions such as providing a listing of all recipients or the printing of checks. Differences such as these are even greater among local welfare agencies. While the larger agencies usually have some EDP capability, many middle-size and small welfare agencies are essentially manual operations.[56]

Current indications are that the most recent EDP developments are in areas which focus on program responsiveness, e.g., in areas which allow case records to be updated more promptly, benefit checks to be calculated more routinely, and checks to be distributed more efficiently.[57]

Many states are currently involved in the development of new EDP capabilities or the enhancement of existing EDP capabilities to support their AFDC program. However, funding constraints may limit their progress. While the federal government provides matching funds of 50 percent for the development and operation of EDP in the AFDC program, some states have difficulty in financing the other half of the cost. Increased fiscal constraints such as Proposition 13-like initiatives, pressure to

[56]Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 146-155.

[57]Ibid., p. 147.

check administrative costs, and negative program perceptions are particularly onerous when states consider the commitment of funds to support new and/or existing EDP capabilities.

Many AFDC program administrators have advocated a higher level of federal financial assistance to automation in the program, comparable to that of the Medicaid program. In Medicaid, the federal government provides 90 percent of the program's cost for computer system development and 75 percent of the costs for system operations.[58]

There are other impediments to the development and expansion of EDP applications in the AFDC program, however. These impediments include the lack of expertise to design and operate systems, the resistance to change and absence of individual initiative within welfare agencies, the uncertainties about major changes (i.e., welfare reforms) in the program, and the difficulties inherent in making system changes while maintaining day-to-day program operations.[59]

The relationship between EDP and computer-aided, anti-fraud techniques is obvious. The more extensive the EDP applications in a state, the more potential there is both to develop and use computer-aided techniques in that state. Narrowly focused and overtaxed EDP systems are likely to limit the extent to which agencies can use these systems for conducting anti-fraud functions. Additionally, use of EDP techniques is seen as necessary to effectively conduct all types of anti-fraud activities. Because of this, some believe

58 Ibid., p. 149.

59 Ibid.

major policy initiatives in the area of computerization to support AFDC program administration would be the single most important step the federal government could take to improve fraud control.[60]

60 Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 8-9.

4. THE NATURE AND EXTENT OF FRAUD IN THE AFDC PROGRAM

To a large extent, understanding the uses of computer-aided, anti-fraud techniques in the AFDC program requires some basic knowledge about the nature and extent of fraud in the program. This chapter examines AFDC fraud from several perspectives to provide the reader with that knowledge. These perspectives include:

- a general definition of what constitutes AFDC fraud
- a description of the common types of fraud occurring in the AFDC program, and
- an examination of what is known about the extent of fraud in the AFDC program.

4.1 AFDC Fraud - A General Definition

AFDC program fraud can be classified as a white-collar crime, because like other crimes in this category it is:

> ...an illegal act or series of illegal acts committed by nonphysical means and by concealment or guile, to obtain money or property, or to obtain business or personal advantage.[61]

It can also be argued that AFDC fraud is not a white-collar crime, as the traditional definition of white-collar crime refers to crimes committed by a person of "respectability" and high social

[61] Herbert Edelhertz, et al., The Investigation of White-Collar Crime, U.S. Department of Justice, Law Enforcement Assistance Administration, (U.S. Government Printing Office, April 1977), pp. 4-7.

status in the course of his occupation.[62] Most AFDC fraud involves acts committed by recipients who are needy and/or typically from lower social strata. Edelhertz, in his work for the Law Enforcement Assistance Administration, has not only demonstrated the impracticability of this traditional definition, but he has also concluded that "white-collar" crime is a poor descriptive term. The very term tends to misplace the focus of attention on the character, occupation, education level, or social status of suspects, rather than focus attention on the nature and character of the illegal act.

By federal regulation, fraud within the AFDC program is a matter of state law. Because of this, there is no precise statutory definition of AFDC fraud which applies uniformly from state to state. State laws pertaining to offenses connected with AFDC fraud range from statutes specific to the AFDC program or welfare fraud to other more general criminal, fraud-related statutes. These latter statutes may include charges such as theft, false application, or perjury and are applicable to fraud regardless of the program, institution or persons involved.

In the more abstract sense, the term "AFDC fraud" (used interchangeably throughout this report with "welfare fraud") is defined as a crime which involves the gaining of something of

62 Ibid. The most well known advocate of this definition is Edwin H. Sutherland in his White-Collar Crime, (New York: Dryden Press, 1949), p. 9. Regarding Sutherland's definition, Edelhertz says, "If it were to be accepted literally, embezzlement by a bank president would be 'white-collar crime,' but embezzlement by a low-paid bank clerk would not be; or an organized-crime figure running a bankruptcy scam could not be labeled as committing a white-collar crime because he did not have 'respectability and high social status'."

value from the program as the result of misrepresentation, deceit, or theft. Because AFDC is a government benefit program which provides cash payments to recipients, AFDC fraud is typically defined by state statutes and viewed by practitioners as the gaining by recipients of program benefits and payments to which they are not entitled, either in whole or in part.[63] Further, AFDC fraud is usually defined in terms of recipients gaining program benefit payments through intentionally providing false information or withholding complete and/or correct information regarding their eligibility.

Fraud in the AFDC program is typically viewed as a recipient-related problem. This viewpoint reflects the recipient orientation of the program, the fact that fraud discovered in the program is predominantly a recipient phenomenon, and the fact that information about other types of fraud in the program is basically nonexistent. It should be noted, however, that AFDC fraud has been committed by employees of the welfare agencies who administer the program and, to a lesser extent, by vendors who provide support to the program under a variety of contractual relationships.[64] With the exception of Section 4.2.2 in this Chapter which briefly describes some common types of AFDC employee fraud, the remainder of this document focuses on AFDC recipient fraud. This focus is not intended to minimize the seriousness of fraud by groups other than recipients of the

63 Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), p. 4; and Roark M. Reed, National Journal of Criminal Defense, Vol. 3, (Spring 1977), pp. 163-168.

64 Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 4-5; also Oshel and Blandford, AFDC Fraud Control Mail Survey Data Book, (October 1976), p. 48.

program. Rather, the focus is consistent with the dominant recipient orientation of all the computer-aided, anti-fraud techniques identified during this study. Unless otherwise specified, all references to AFDC or welfare fraud in this report deal with fraud committed by recipients of the program.

Key to any definition of AFDC fraud is <u>intent</u>. Suspected fraudulent behavior, by either recipients or employees, becomes fraud in strict legal terms when a court of law decides that the person accused of a fraudulent act has intentionally engaged in that act to receive program funds or benefits to which there is no entitlement. The central nature of the concept of intent in state definitions of AFDC fraud is best illustrated by state welfare fraud regulations. For example, regulations in one state indicate that fraud exists "when an individual has knowingly and with intent to defraud":

- made false representation by words or conduct to continue or increase aid, or avoid a reduction in aid
- concealed or failed to disclose a fact which if disclosed could have resulted in denial, reduction, or discontinuance of aid
- accepted aid knowing that he or she is not entitled to it or accepted any amount knowing it is greater than the amount for which he or she is eligible
- for the purpose of obtaining, continuing or avoiding a reduction or denial of aid, made statements which the recipient knew not to be true, and
- aided anyone in any of the above.[65]

[65]Richard B. Peterson, "Fraud Investigative Unit Organization", <u>The Prosecutor</u>, Vol. 12, No. 3, (May-June, 1977), p. 176.

Assessing the existence of AFDC fraud often involves determining whether changes in eligibility information have been reported correctly after initial eligibility is established. Intentional failure to disclose facts necessary for a correct determination of eligibility is considered to be fraud. States typically recognize extenuating circumstances in which reporting of this information is beyond a recipient's control; there would be no intent to defraud when there is convincing evidence that:

- the recipient was too ill or too disturbed to understand his/her responsibility to report changes in circumstances, or
- the recipient was senile or otherwise limited mentally, or had difficulty understanding instructions, which prevented the assumption of the responsibility to report (or report correctly).[66]

Circumstances which are not beyond a recipient's control and which constitute AFDC fraud include:

- a deliberate misstatement (oral or written) made by a recipient in response to oral or written questions from the welfare department concerning income, resources, or any other circumstances which may affect the amount of payment
- a deliberate failure by the recipient to report changes in income, resources or other circumstances which may affect the amount of payment, if the county welfare department has clearly notified the recipient of an obligation to report such changes, and

[66]State of Ohio, Department of Public Welfare, <u>Public Assistance Manual</u>, (October, 1978), MTL. No. 20.

- a deliberate failure by the recipient to report a payment which the recipient knew represented erroneous overpayment, or to notify the welfare department of receipt of a check which exceeded his prior check and exceeded the amount to which the recipient was entitled.[67]

A court must decide, on the basis of available evidence, whether the recipient acted willfully and with the intent to defraud the program. Some confusion about the criminal nature of AFDC fraud often reflects the variety of non- or extra-legal remedies associated with suspected fraudulent activities in the program. What is called AFDC fraud is often never "proven" in a court of law. Fraudulent activities may be dealt with by administrative actions (termination of eligibility, voluntary restitution, etc.), by civil litigation where intent is not a primary concern, or by ignoring the matter. Descriptions of AFDC fraud often do not distinguish between cases of proven AFDC fraud and cases where facts are alleged but are never contested in court.

As previously mentioned, many states have specific welfare fraud statutes for prosecuting suspected cases of AFDC recipient fraud. Despite the existence of specific statutes, AFDC fraud is often prosecuted under numerous other state and local statutes. Typical charges used to prosecute AFDC fraud include mail fraud, false application, larceny by trick, false pretense, theft, perjury and conspiracy.

There are several reasons why prosecutors prefer to use these more general criminal statutes to prosecute AFDC recipient fraud rather than the more specific welfare fraud statutes.

[67] Ibid.

These alternate charges often present fewer legal problems and carry more relevant sentences for offenders suspected of fraud.[68] For instance, welfare fraud statutes in some states classify recipient fraud as a misdemeanor. Prosecutors and welfare officials in these states may prefer to prosecute under existing theft statutes because, as a felony, they carry stiffer penalties. These penalties also allow more leeway for obtaining guilty pleas as a result of a plea to a lesser charge. The relatively short statute of limitations associated with welfare fraud is another reason these other charges may be used to prosecute AFDC fraud.

4.2 Common Types of AFDC Fraud

The types of fraud theoretically possible in the AFDC program are extensive. The wide variety of factors which affect the determination of eligibility and calculation of benefits, in concert with complex administrative procedures, provide many opportunities for defrauding the program. A national-level profile detailing the nature of fraud in the program, unfortunately, is nonexistent. Therefore, most of what is known about the nature of AFDC fraud is based on descriptive accounts of AFDC agency personnel, especially those responsible for investigating suspected cases of fraud.

A description of the nature of AFDC fraud should be preceded by a few notes of caution. First, as previously mentioned in Section 4.1, above, most descriptions of AFDC fraud do not discriminate between cases of suspected fraud as determined by agency case workers and investigators, and cases of fraud proven

[68] Ellen J. Chestnutt, "Legal Considerations in Handling Welfare Fraud," The Prosecutor, Vol. 12, No. 3, (May-June, 1977), p. 169.

in a court of law. A strong relationship, however, between these two classifications is usually assumed. Second, current knowledge about the nature of AFDC fraud is sometimes criticized because existing detection methods may bias the availability of information. Some analysts of the AFDC program suggest that detection efforts have focused on the types of fraud most easily detected (such as unreported earned income), thereby ensuring their predominance in discussions of AFDC fraud.[69]

Finally, it has also been suggested that some types of fraud in the AFDC program exist only to the extent that certain conditions are technically defined as fraud by the regulations of the program. While these types of fraud may involve intent by recipients, they may not represent a major or a malicious attempt to benefit illegally from the program. For instance, situations relating to a recipient's failure to properly register for the Work Incentive Program (WIN), to properly report information about the absence of the father in the home, or to properly report other information about particular factors idiosyncratic to the program's regulations may constitute fraud in a strictly legal and technical sense. Such activities, however, may not substantially affect eligibility or the level of cash payment to which a recipient is entitled. These incidences of fraud are considered by some experts to be artificial creations of the program and should be distinguished from "real" fraud in the program.[70]

[69] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 252-262.

[70] Ibid., pp. 255-258.

4.2.1 Types of Recipient Fraud

By all accounts the most prevalent type of fraud in the AFDC program involves misrepresentation of information concerning the income of recipients or the income of their families.[71] This type of fraud exists when AFDC recipients (or applicants) intentionally establish eligibility by:

- indicating that they have no income when they actually have income
- understating the amount of their income, or
- not reporting a change in income which negatively affects their eligibility after qualifying for assistance.

The sources of income involved in this type of fraud can differ. While indications are that a substantial portion of this type of fraud involves income from employment, other sources of income can also be involved. These sources include old age and disability pensions, child support payments, veterans' benefits or unemployment compensation awards. AFDC fraud involving under-reporting or non-reporting of income can result in the loss of substantial amounts of public funds. A recent national survey indicated that this type of fraud often involves amounts exceeding five hundred dollars per case.[72]

[71] Comptroller General of the United States, Report to the Congress, Legislation Needed to Improve Programs for Reducing Erroneous Welfare Payments, HRD-76-164, (August 1, 1977), pp. 16-24; Bendeck, et al., The Anatomy of AFDC Errors, (1978), pp. 19-41; and James Bopp, Jr., "Prosecution of Welfare Recipient Fraud," The Prosecutor, Vol. 13, No. 2, (November-December 1977), p. 120.

[72] Oshel and Blandford, AFDC Fraud Control Mail Survey Data Book, (June 1977), pp. 32-35.

There is little information regarding the type and frequency of other types of fraud in the AFDC program. Certain types of AFDC recipient fraud, because they are discussed more frequently than others in the literature, appear to be common in the program. These frauds involve misrepresentation by AFDC applicants or recipients concerning key determinants of AFDC eligibility such as:

- the composition of families--especially in regard to the status of AFDC fathers
- the school and residence status of children
- the immigration or citizenship status of family members, and
- the existence of financial assets such as savings and disposable personal property.

Other types of AFDC fraud, unlike those above, do not relate to specific program eligibility factors. These frauds involve misrepresentation by recipients (or applicants) in order to receive AFDC benefits:

- through creating a totally fictitious case (or cases)
- by establishing eligibility simultaneously in more than one jurisdiction
- through establishing multiple cases in the same jurisdiction, and
- by falsely reporting the loss or theft of original AFDC benefit payments.

These types of frauds are viewed as being more sophisticated, more complex, and more organized than frauds involving persons who misrepresent information about one or more specific eligibility factor. Indications are that these more complex frauds

occur relatively infrequently. However, when they do occur they often involve dollar amounts far exceeding those frauds connected with specific eligibility factors. Not surprisingly, these more complex and sophisticated types of frauds are the most difficult cases to detect.[73]

4.2.2 AFDC Employee Fraud

Information about the types of AFDC employee fraud is even more limited than that concerning recipient fraud. Welfare agency employees can commit and have committed fraud in conjunction with their role in the administration of the AFDC program. Employee fraud has usually involved large amounts of funds which were stolen over a period of time.[74]

Three categories of fraud are commonly associated with AFDC employees. The first category involves aiding and abetting recipients to illegally qualify for or increase the amount of their AFDC benefits. These frauds may involve collusion among recipients and employees and may also involve kickbacks or bribes. AFDC employees may assist recipients in falsifying certain kinds of eligibility information to fraudulently obtain benefits or they may even initiate such activities, either for their own benefit or for the benefit of the recipients. For

[73] Ibid.; also see Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 4-14.

[74] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), p. 32. It should also be noted that it is not uncommon for welfare agency employees to be AFDC recipients. Fraud committed by these employees with regard to misrepresentation of eligibility information and other types of fraud not a direct result of their access to agency data is usually considered recipient fraud.

CONTINUED

example, an AFDC caseworker might intentionally advise particular recipients to misrepresent information about their income or family composition so that they might receive assistance to which they were otherwise not entitled. This type of encouragement, whether done by the caseworker for personal profit or for altruistic reasons, is considered to be fraud. Similarly, the extortion of funds from recipients by AFDC employees for processing benefit claims is another fraud of this type.

A second category of employee fraud involves falsifying program records. Employees privy to files have created fictitious AFDC cases, doctoring payment records for their own benefit by altering both manual and computer-based records. Perhaps the most frequently discussed example of this type involves cases of fraud where welfare agency employees deliberately fail to terminate AFDC cases when recipients leave the welfare roll. These employees then change the addresses to which the AFDC payments are sent, continue the eligibility status of these cases, and pick up the checks for their personal use.

A third type of employee fraud commonly discussed relates to the improper use or theft of AFDC benefit checks. For instance, a welfare employee may negotiate AFDC checks which are unclaimed and returned to the welfare agency. Similarly, a welfare agency employee with access and knowledge of the AFDC payment record system may alter files to create "dummy" checks for their use or use by others.

Computer-aided techniques are not commonly designed or used for the curtailment of AFDC employee fraud. However, when such techniques are used to prevent and detect

recipient fraud, the discovery of illegal activities by agency employees can be an important by-product. More typically, employee fraud is addressed by agencies through improvements in case assignment practices, computer security, supervision, and case and program auditing activities.[75]

4.3 The Extent of Fraud in the AFDC Program

There is a basic lack of information about the extent of fraud in the AFDC program.[76] Two sources provide the data most commonly used to estimate the extent of AFDC fraud. The first and most direct source is HEW's annual compilation of state reports concerning the disposition of AFDC cases involving questions of fraud.[77] Other information about the extent of AFDC fraud comes from a variety of articles, case studies and one-time surveys. This second source rarely includes empirically-based studies and most of the material is usually quite speculative in nature.

4.3.1 HEW Fraud Statistics

Data concerning the extent of AFDC fraud reported to HEW by states is presented in Table 4-1. Though currently the best data available for the period 1974-1977 about the extent of AFDC fraud nationally, they have several known limitations.

[75] Ibid., pp. 32-33.

[76] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), p. 255.

[77] Department of Health, Education and Welfare, Disposition of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978).

TABLE 4-1

DISPOSITION OF AFDC CASES
INVOLVING QUESTIONS OF FRAUD

		1974	1975	1976	1977
Row I	Estimated number of different AFDC cases open for assistance	4,110,000	4,480,000	4,765,000	4,886,000
Row II	Total AFDC cases disposed of in which there was a question of fraud	110,597	144,306	166,342	183,190
	(Percent of cases open for assistance)	(2.7)	(3.2)	(3.5)	(3.7)
	(a) - facts sufficient to support the allegation of fraud	63,699	80,974	86,842	106,687
	(Percent of cases open for assistance)	(1.5)	(1.8)	(1.8)	(2.2)
	(b) - facts insufficient to support the allegation of fraud	46,898	63,332	79,500	76,503
	(Percent of cases open for assistance)	(1.1)	(1.4)	(1.7)	(1.6)
Row III	Cases disposed of in which the facts were deemed sufficient to support the allegation of fraud	63,699	80,974	86,842	106,687
	(a) - referred to law enforcement agencies	29,542	39,651	40,721	43,611
	(Percent of cases with sufficient facts)	(46.4)	(49)	(46.9)	(40.9)
	(b) - not referred to law enforcement agencies	34,157	41,323	46,121	63,076
	(Percent of cases with sufficient facts)	(53.6)	(51)	(53.1)	(59.1)

Source: Department of Health, Education and Welfare, Social Security Administration, Office of Research and Statistics, Disposition of Public Assistance Cases Involving Questions of Fraud-Fiscal Year 1977, HEW Pub. No. 79-11933, October 1978.

These limitations include the focus on case dispositions, duplicate counting of cases, varying state definitions used to categorize fraud, different reporting procedures, and incomplete reporting of information by the states. Furthermore, the data do not present the dollar amount associated with cases of reported fraud nor do they present a breakdown of the different types of fraudulent activities.[78]

Limitations aside, however, the HEW data provided in Table 4-1 allows a "lower bounds" estimate of the extent of fraud in state AFDC programs. Table 4-1, (Row II), indicates that between 1974 and 1977 the annual percentage of AFDC cases disposed of in the states which involved a question of fraud ranged from 2.7 percent (1974) to 3.7 percent (1977) of the total number of different AFDC cases open during that year. This statistic is the one most commonly used in discussions concerning the extent of fraud in the program. During these years, states reported examining an average of over 150,000 cases of suspected fraud a year. Of these, more than half were found (by welfare agency staff and/or fraud investigators) to be supported by facts deemed sufficient to support an allegation of fraud (Table 4-1, Row II [a]). These cases represented between 1.5 percent and 2.2 percent of the annual AFDC caseload.

Row III of Table 4-1 indicates the method of disposition for the cohort of cases with facts sufficient to allege fraud. Over the four years represented in this Table, between 40.9 percent (1977) and 49 percent (1975) (Row III-a) of these cases

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[78] Ibid., pp. 1-6; also Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 252-262. Both these documents address the limitations of this data in more detail than is provided in this report.

were referred to state and local law enforcement agencies (primarily prosecutors) responsible for making decisions relative to the initiation of formal prosecution. For these years, fraud referrals to law enforcement agencies averaged about 38,000 cases per year. Compared to the total number of AFDC cases, these fraud referrals represented less than 1 percent of the AFDC case population each year. The remaining cases suspected of fraud (Row III-b) (those not referred to law enforcement by welfare agencies) were dealt with via a variety of administrative options open to welfare agencies. These options include voluntary restitution by recipients, adjustment of benefit payments or termination of the suspected case. It should also be noted that the substantial increase from 1976 to 1977 in the number of cases in which the facts were deemed sufficient to support the allegation of fraud (Row III a and b) was accompanied by a corresponding decrease in the percentage of referrals to law enforcement agencies. This diminished reliance upon law enforcement agencies might suggest that many of the cases involved relatively small amounts of money; therefore, they were at the bottom of the prosecutor's priorities and much more amenable to administrative action.

There is no accurate information regarding the proportion of cases referred to law enforcement agencies which result in prosecutions. Reports by state welfare agencies, however, place the volume of prosecutions for AFDC fraud from approximately 13,000 (1974) to 20,000 (1977) cases during the four year period presented in Table 4-1. It should be noted that these prosecution-related data are not part of the yearly cohorts represented

in Table 4-1, since AFDC cases are often detected and investigated and prosecuted in different years.[79]

Questions remain as to which of the available categories of data from Table 4-1 best measures the real extent of fraud in the program and to what extent these data underestimate the actual amount of AFDC fraud at any one point of time. The need for more systematic and detailed information about both the nature and extent of fraud has been clearly recognized by both HEW and AFDC experts alike:

> The basic lack of information on the extent and character of fraud in the AFDC program and a similar lack of information on the degree to which fraudulent actions are pursued and redress sought pose the first and most obvious obstacles in dealing with questions of AFDC fraud.[80]

4.3.2 Other Data on the Extent of AFDC Fraud

A few sources, other than the HEW data, also provide an indication of the extent of fraud in the AFDC program nationwide and in the various states and localities. These estimates often differ in magnitude from official HEW statistics. For example, in contrast to official statistics which estimate fraud at relatively low levels, a U.S. Commissioner of Welfare in 1975 estimated the level of AFDC fraud to fall between 15 percent and

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[79] Department of Health, Education and Welfare, Disposition of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978), pp. 5-6.

[80] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), p. 262.

30 percent of the total caseload.[81] Similarly, two survey studies of fraud in the California AFDC program, one in 1969 and the other in 1971, indicated fraudulent cases comprised between 12 and 15.8 percent of that state's AFDC caseload.[82] The 1969 study also indicated that fraudulent AFDC payments comprised some 7 percent of the total amount of the state's AFDC payments. Finally, numerous newspaper and media accounts, though not empirically based, allege that welfare programs in general, and the AFDC program in particular, are fraught with incidences of fraud and abuse costing taxpayers millions of dollars.[83]

4.4 Fraud Vis-a-Vis Error in the AFDC Program

Perhaps because data about the extent of fraud in the AFDC are scarce, information derived from HEW's federally mandated Quality Control (QC) program is often used as an alternative data source. Those who use the QC data in this manner commonly make the point that fraudulent cases in the AFDC program can be

[81] Dick Risley, "Why be Concerned by Welfare Expansion," The Prosecutor, Vol. 12, No. 3, (May-June 1977), pp. 173-174.

[82] Ibid.

[83] See for instance, U.S. News and World Report, "Mess in Welfare - The Inside Story", (Feb. 20, 1978), pp. 21-24; The Washington Post, "The Welfare Enigma", (March 8, 1977), pp. C1-C2; and The National Journal, "Cracking Down on Fraud, Abuse, and Error", (January 20, 1979), pp. 96-99.

considered to be a subset of cases which are in error.[84] That is to say, most fraudulent AFDC activities are first detected as case errors. A case in error, once detected, may or may not be categorized as a suspected case of fraud. Such a categorization involves a variety of legal and subjective judgments regarding the circumstance of a particular error, the reason it occurred, and the perceived intent of the individual(s) who caused it. For this reason error rates, when employed to assess the extent of fraud, must be used with caution. Many AFDC errors are honest or unintentional mistakes which are made in the context of administering a complex program.

The HEW Quality Control program (See Section 5.1 below) provides estimates of errors in the AFDC caseload. These estimates are derived from a nationwide sample, statistically selected from all states and intensively reviewed by both state and federal QC officials. Results are compiled for six-month reporting periods.[85]

While AFDC error rates provide a variety of information about the characteristics of error, the most pertinent information with respect to fraud in the program relates to four areas:

[84] Department of Health, Education and Welfare, Office of Inspector General, Annual Report - April 1, 1977 - December 31, 1977, (March 31, 1978), pp. 43-48, 91; and Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 251-253.

[85] See Comptroller General, Legislation Needed to Improve Programs for Reducing Erroneous Welfare Payments, (August 1, 1977), pp. 16-27, for a more detailed description of AFDC errors, QC sampling methodology, and state breakdowns.

- the source of the error--whether errors were made by clients (recipients/applicants) or the welfare agency administering the program
- the cause of the error (what did not occur that should have)
- the result of the error in terms of the payment of benefits, and
- the program areas (e.g. eligibility factors) to which the errors relate.

From the QC reviews, both national and individual state caseload error rates are calculated and analyzed in a variety of ways, primarily to allow states to assess problems of program integrity and implement corrective actions. The caseload error rate represents the proportion of the quality control sample that is found to be in error and provides another basis for estimating the nature and extent of fraud in the AFDC program. Tables 4-2 and 4-3 and Figure 4-1 present a summary of data from recent quality control reviews.[86] Table 4-2 shows a breakdown of the national AFDC case error rate by sources and causes of these errors. Summarizing data from the review and analysis of two recent QC samples, Table 4-2 indicates that 27.8 percent of those cases comprising the AFDC caseload at the time of these reviews were in error. With the AFDC caseload during these periods approximating 3.5 million families,[87] this error rate suggests

[86] Data summarized in these tables represents cases reviewed from the July-December 1975 and January-June 1976 QC reporting periods.

[87] U.S. Department of Health, Education and Welfare, Social Security Administration, Aid to Families with Dependent Children - 1975 Recipient Characteristics Study, HEW Pub. No. (SSA) 77-11777, (September 1977), pp. 6-7.

that about 973,000 cases were receiving benefits based on erroneous information or calculations. The percentage of cases in error in individual states during this period ranged from 5.7 to 40.7 percent.[88]

Further examination of the national case error rate presented in Table 4-2 indicates that errors are evenly attributed to agency (13.9 percent) and client (13.9 percent) sources. Most agency errors (9.05 percent) are employee related, resulting from welfare staff's failures to take suitable action on cases to ensure compliance with appropriate local, state and federal rules and regulations. Client errors are predominantly (12.1 percent) the result of recipients failing to report information critical to maintaining their eligibility and determining the correct level of assistance to be paid. Indications are that this general pattern of error has been fairly consistent over time.[89]

Table 4-3 indicates the results of AFDC case errors in terms of their effect on benefit payments for all QC reporting periods from April 1973 through December 1976.[90] These data provide a general indication of the extent to which identified case errors resulted in payments to ineligible cases, overpayments to eligible cases, and underpayments to eligible cases.[91]

[88] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), p. 221.

[89] Ibid., pp. 222-223.

[90] Ibid.

[91] To be considered an error the amount in question in the AFDC QC program must exceed five dollars.

TABLE 4-2

SOURCES AND CAUSES OF THE
AFDC CASE ERROR RATE

Total Case Error Rate	27.8*
Agency Error	13.9
• wrong or incorrect policy applied	3.85
• computational	1.0
• failure to take appropriate action	9.05
Client Error	13.9
• information not reported	12.1
• information not correct/complete	1.8

*Data combined from July/Dec. 1975 and Jan./June 1976 National Quality Control Samples as provided in: U.S. Congress, House, Committee on Government Operations, Report by the Congressional Research Service, Administration of the AFDC Program, 95th Cong., 1st. Sess., (April 1977), pp. 211-237;and Comptroller General of the United States, Report to the Congress, Legislation Needed to Improve Programs for Reducing Erroneous Welfare Payments, HRD-76-164, (August 1, 1977), pp. 16-27.

TABLE 4-3

SUMMARIZED RESULTS OF CASE
ERROR RATES IN TERMS OF BENEFIT PAYMENTS

	Average All QC Periods From April 1973 Through December 1976
Total Case Error Rate	34.3
• payment to ineligible cases	8.1
• overpayment to eligible cases	18.6
• underpayment to eligible cases	7.6
Payment Error Rate	13.9%

Sources: U.S. Congress, House, Committee on Government Operations, Report by the Congressional Research Service, Administration of the AFDC Program, 95th Cong., 1st Sess., (April 1977), pp. 212-221; and Comptroller General of the United States, Report to the Congress, Legislation Needed to Improve Programs for Reducing Erroneous Welfare Payments, HRD-76-164, (August 1, 1977), pp. 16-27.

As Table 4-3 shows, the majority of AFDC case errors result in either overpayments to eligible cases (18.6 percent) or payments to ineligible cases (8.1 percent). These two categories combined account for approximately 75 percent of all AFDC errors. All of these case errors translate into a payment error rate of 13.9 percent. In other words, $13.90 of every hundred dollars spent for AFDC benefit payments are erroneous expenditures. Because AFDC fraud also typically involves either payments to ineligible cases or overpayments to eligible cases, some portion of these two categories of error is likely to involve fraud.

From another perspective, Figure 4-1 shows the composition of AFDC errors in terms of program areas. It characterizes each case error on the basis of the type of error in the case and its relation to specific program rules. Averaging data from three different QC reporting periods, Figure 4-1 shows that nearly half (48.6 percent) of the cases in error were attributable to agency and client mistakes related to the determination of income. Further examination reveals that over half these errors can be traced specifically to the failure by recipients to properly report the correct amount of earned income.[92] This supports other information indicating that unreported or underreported earned income by recipients is the most frequent type of AFDC fraud.

[92] Comptroller General, Legislation Needed to Improve Programs for Reducing Erroneous Welfare Payments, (August 1, 1977), pp. 21-23.

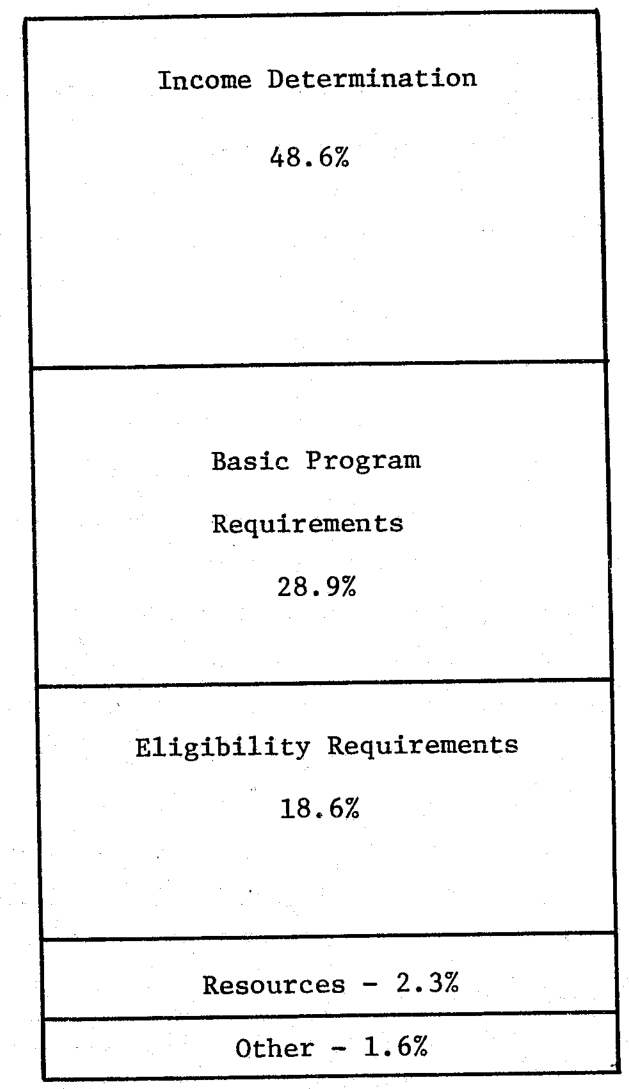

FIGURE 4-1
BASIC PROGRAM AREA COMPOSITION OF AFDC CASE ERRORS

Sources: Adapted from U. S. Congress, House, Committee on Government Operations, Report by the Congressional Research Service, Administration of the AFDC Program, 95th Cong., 1st Sess., (April 1977), pp. 211-237; and Comptroller General of the United States, Report ot the Congress, Legislation Needed to Improve Programs for Reducing Erroneous Welfare Payments, HRD-76-164, (August 1, 1977), pp. 16-27.

After those related to income, errors related to "basic program requirements" (28.9 percent) and to determining eligibility for program participation (18.6 percent) are the most prevalent types of AFDC case errors. Many of these errors are technical in nature and not likely to involve large dollar amounts. The extent to which fraud might be involved in such cases is unknown.

Any estimate of the nature and extent of fraud from the information summarized above is, of course, speculative. One cannot, for obvious reasons, equate all AFDC errors with fraud. It is also entirely possible (and often suggested) that quality control activities may fail to detect as in error those cases involving more subtle means of deception. Taking into account the limitations of the QC data, it appears that AFDC fraud is potentially more extensive than the 2.7 to 3.7 percent (Section 4.3.1) estimated from state reports concerning the disposition of fraudulent cases. On the other hand, the QC data tends to show that fraud in the program might not be as extensive as some critics of the program might suggest. Experts who have examined the QC data in some detail have estimated that between 10 and 13 percent of the AFDC caseload is likely to be fraudulent.[93] They further suggest that from 5 to 6 percent of all AFDC recipient payments are disbursed to these cases.[94] When translated

[93] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 227.

[94] Ibid., p. 257.

to cases and payments, these estimates imply that between 350,000 and 455,000 AFDC cases obtain as much as 600 million dollars fraudulently.[95] In comparison, HEW estimates in terms of dollar losses resulting from fraud are more conservative, indicating annual losses due to fraud at approximately 145 million dollars.[96]

In sum, available data about fraud and error in the program suggest that official estimates could be understating the extent of the problem. Estimates from various sources point to the possibility that fraud in the AFDC program is of considerable magnitude, extends to large numbers of cases, and involves substantial dollar amounts. At the same time, it is important to note that the costs of mismanagement and agency error in the program, recently estimated to be about one-half billion dollars, may exceed losses due to fraud. This suggests that anti-fraud efforts must be considered in conjunction with other efforts such as quality control to improve the administration of the program.

[95] Ibid. This estimate is made by applying the lower bound QC estimates to 3.5 million AFDC cases and 10 billion dollars of AFDC benefit payments.

[96] Department of Health, Education and Welfare, Office of Inspector General, Annual Report - April 1, 1977 - December 31, 1977, (March 31, 1978), p. 91.

5. FEDERAL INITIATIVES IN THE CONTROL OF AFDC FRAUD

Federal legislation and regulations require the states to conduct anti-fraud activities in their AFDC programs.[97] In 1975, Congress defined the federal role in dealing with AFDC fraud as being limited to:

- the provision of technical assistance to the states (via consultation and the issuance of technical reports)
- the operation of the AFDC Quality Control Program, and
- the referral of incidents of fraud discovered during federal audits to state AFDC agencies.[98]

Federal support and policy direction have increase substantially over the past several years, although anti-fraud activities remain largely the responsibility of the states. The federal government has expanded its role with regard to AFDC fraud by undertaking several initiatives designed to minimize fraud and improve program integrity. This chapter deals with those aspects of the federal initiatives which appear to be most important to computer-aided, anti-fraud techniques. These are:

- the operation of the Federal AFDC Quality Control program
- the establishment of HEW's Inspector General's Office, and
- the passage of legislation regarding the use of the Social Security Number and income data in the AFDC program.

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[97] 45 Code of Federal Regulations, Part 235.110.

[98] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 25-253.

Additionally, this chapter briefly summarizes the role of the National Welfare Fraud Association because of this association's activities in fostering communications between the federal government and state and local practitioners who work in AFDC fraud control.

5.1 The AFDC Quality Control Program

The HEW-sponsored Quality Control program is perhaps the most significant federal effort designed to improve AFDC program integrity. While Quality Control efforts are aimed at measuring, identifying and correcting errors, these efforts are also important in terms of both federal and state anti-fraud activities. First, errors detected via Quality Control activities are a salient source of information about the extent and nature of fraud in the AFDC program (see Chapter 4). Second, many program improvements spurred by Quality Control findings have been directed at preventing and detecting fraud. Some of these improvements have involved the development and use of computer-aided techniques.

5.1.1 AFDC Quality Control: Historical Development

Formal quality control activities were first adopted for use in public assistance programs in 1952.[99] These activities consisted of a periodic HEW review of a sample of cases to determine the computational accuracy of the manual records maintained for public assistance cases.

During the early 1960's, Congress responded to reports of wide-spread abuse in the AFDC program and mandated a full investigation into the recipient eligibility determination process.

[99] Ibid., pp. 202-251.

HEW, in turn, developed a revised Quality Control system for all federally supported public assistance programs. This system, implemented in 1964, consisted of both paper record reviews and field investigations of a sample of cases from all states. An assessment initiated in 1968 concluded that existing Quality Control activities were not adequately controlling errors related to eligibility determination and benefit calculation. The primary weakness identified during this assessment was that case reviews failed to evaluate the accuracy of the information provided to determine eligibility and to compute benefits.

In 1970, HEW once again revised its QC system for all federally supported public assistance programs. In addition to checking for computational correctness, the revised approach required that the information used to determine recipient eligibility be verified through field investigations. Another change was the technique used for selecting a sample of cases for quality control reviews. The revised technique required that a statistically valid random sample of the public assistance caseload be examined to determine error rates and identify three types of errors: eligibility/ineligibility errors; overpayment errors; and underpayment errors.

The present Quality Control program for the AFDC program was established in 1973, with essentially the same features as the 1970 program.[100] The most significant change is the inclusion of "fiscal sanctions" in the 1973 program if a state's error rate exceeded a predetermined level.

[100] Since by the time the 1973 regulations were issued, the adult welfare programs (Old Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled) had been federalized by Supplemental Security Income (SSI) legislation, only AFDC was covered in the 1973 Quality Control regulations, though a similar "quality assurance" system was planned for the SSI program.

5.1.2 The Current AFDC Quality Control Program

The current AFDC Quality Control program is comprised of three components:

- the measurement and description of error made in the administration of the AFDC program based on a review of a statistically valid random sample of states' AFDC caseloads.
- the pursuit of corrective actions by states to eliminate errors identified by quality control activities, and
- the imposition of fiscal sanctions on the states for exceeding federal standards of acceptable error levels.

The individual states are responsible for the day-to-day operations of the QC program. State QC staff draw the sample of cases, review these cases, compile error statistics, report to HEW regional staff, and analyze QC findings to aid in the development of corrective actions. At the federal level, QC staff at HEW regional offices are responsible for monitoring state QC activities and for providing technical assistance, expecially statistical applications such as sampling. Federal staff also assist states in making decisions about errors in specific cases brought to their attention. Finally, HEW's QC staff in the Office of Family Assistance develop national policies for conducting the various quality control activities and publish findings on eligibility determination and payment error rates.

5.1.2.1 Measurement of AFDC Error. The key function of the AFDC QC program is measuring the extent of error present in the states' caseloads. The measurement of error is performed every six months (reporting period) via a nationwide review of approximately 45,000 cases. HEW assigns each state a specified number of cases so as to produce statistically valid results for that state. One-sixth of the sample is selected and reviewed each month. The review entails three steps:

- a review of the case records maintained by the welfare agency
- at least one personal interview (field investigation) with the AFDC recipient, and
- an independent verification of all elements related to eligibility and payment status.

In reviewing each case, state QC personnel are required to determine whether information gathered during the QC review supports the welfare agency's determination of eligibility and calculation of benefits. A case is counted as an error if any eligibility decision or payment amount made by the welfare agency conflicts with the QC finding.[101]

Once analyzed, QC findings are summarized and reported to HEW. Cases found to be in error are referred to the appropriate agency for remedial action. This could include a redetermination of eligibility, an adjustment in the benefit payment, or the initiation of a preliminary investigation for fraud.

[101]There are three exceptions: (1) payments that are in error by less than $5.00 per month; (2) cases in the appeal process with payment continuing pending a decision; and (3) recent agency errors for which there has been an insufficient time to make adjustments.

Error rates reported by the states (raw error rates) are reviewed and adjusted by Federal QC staff before they are finally published. This is accomplished by selecting a small random sample of each state's sample of cases and re-analyzing the findings. If discrepancies are identified, federal and state staff confer to resolve them. Under the current QC program, HEW-published error rates are essentially averages between the error rates found in the federal reviews and the 'raw' state-reported error rates.

5.1.2.2 Corrective Actions. Once states have compiled their QC data and analyzed their error rates, they are required to develop a plan for improving administration in problem areas. This plan must be formally submitted to HEW. Depending on the nature and extent of errors found during quality control activities, different types of corrective action may be initiated. These include:

- training staff to use new equipment, procedures or rules, or to better acquaint them with the existing program
- addition, expansion or modification of computer capabilities
- revision of manuals describing existing program procedures and revision of application and re-determination forms
- revision of verification procedures
- revision of reporting requirements for clients (such as monthly income reporting)
- improvement of the flow of available information to the staff (for example, reports presenting the results of computer-aided matching activities), and

- structural changes in the make-up of a flat grant or consolidated standards for determining benefits.[102]

To illustrate, an analysis of QC data might indicate that unreported earned income is a significant problem with respect to error and possibly fraud in the caseload. As a corrective action, a state may consider developing a computer-aided technique to detect cases involving unreported income. The Employment Security Matching technique, described in Chapter 7 below, is a specific example of a corrective action a state might select to address this type of problem. Finally, corrective actions may also consist of modifying state rules and regulations in order to re-define particular situations so that they are no longer considered errors.

5.1.2.3 Imposition of Fiscal Sanctions. Under the current Quality Control program, states would lose a portion of their federal support if error rates indicated that ineligible cases exceeded 3 percent of the caseload or cases of overpayment exceeded 5 percent of the caseload. The fiscal sanctions have yet to be implemented; their legality was challenged by a number of states in a federal suit commonly referred to as Maryland v. Mathews.[103] The Court decided that the regulations concerning the tolerance levels and the associated fiscal sanctions were arbitrary, capricious, and an abuse of discretion.

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[102] Department of Health, Education and Welfare, Social Security Administration, Office of Management and Administration, AFDC Quality Control - State Corrective Actions Taken from April 1973 through June 1977, OQA Pub. NO. 008, (July 1978).

[103] This suit is described in detail in: U.S. Congress, House Subcommittee on Oversight of the Committee on Ways and Means, HEW Efforts to Reduce Errors in Welfare Programs (AFDC and SSI), 94th Congress, 2nd Session, (April 29 and May 3, 1976), pp. 108-121.

As of June 1977, HEW was considering the establishment of new tolerance levels and procedures for making them an acceptable component of the Quality Control program. However, objections by the states to any type of fiscal sanctions have apparently impeded new efforts in this area.

5.1.3 Quality Control: Controversial Issues

In addition to the debate surrounding tolerance levels, four other controversial issues have surfaced: the cost-effectiveness of quality control activities; the accuracy and use of the error rate calculations; the appropriateness of comparing state error rates against any national standard; and the speed with which states coordinate QC activities with anti-fraud activities.

Estimates by HEW have, in the past, suggested that the benefits of the Quality Control program were many times greater than the cost. These estimates are commonly disputed on several grounds:

- savings attributed to quality control activities were not based on valid statistical projections
- calculation of savings did not take into account the cost of administering the quality control program and instituting corrective actions, and
- savings related to the quality control program were based on the false assumption that a reduction of a state's case error rate equated to a proportionate reduction in benefit-dollar savings.

Several points have been raised concerning the accuracy and use of the error rate calculations derived from the Quality

Control activities.[104] The use of random sampling to select cases for QC review is seen by some as being an inappropriate statistical technique on which to determine error rates. A simple random sample, particularly in states with a high concentration of AFDC recipients in large urban areas, may tend to under-represent cases in densely populated jurisdictions where case error is more likely to be prevalent.[105]

As with other statistical indicators, AFDC case error rates are subject to random variation; therefore, comparisons of changes in these error rates should be statistically tested to determine if they are significant. In the past these tests have not been used, thus calling into question any conclusions based on differences in case error rates from one QC measurement frame to the next.

Another criticism concerns the use of changes in case error rates as a major indicator of program improvement. Since the primary objective of the Quality Control program is to reduce erroneous payments, some critics contend that changes in the proportion of payments in error (payment error rate) is a more appropriate indicator than cases in error (case error rate). A

[104] Ibid., pp. 61-118; and Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 246-249.

[105] Some states have begun to use other sampling techniques including stratified random sampling. See for instance, Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), p. 17.

decrease in case error rates may be accompanied by little or no change in dollar savings.[106]

Third, in the view of some experts and state welfare officials, the use of a standard nationwide error tolerance level for all states is inappropriate. Standardized error tolerance rates fail to take into account important differences among states in their ability to control error. For example, heavily populated jurisdictions typically have a more difficult time controlling errors than rural areas due to the pressures of comparatively larger caseloads. The differences among states in defining what is an error further renders standard tolerance rates inappropriate. Similarly, differences in baseline error rates among states also militate against the use of standard rates.

Finally, it appears that many states have been slow to realize the potential of their quality control activities in terms of efforts to control fraud. Often, quality control activities are viewed by states as another independent federal requirement.[107] It has been suggested that quality control reviews by state personnel could be further structured to provide leads for fraud investigators. Quality control data could also be further analyzed or used to prioritize the redetermination of cases on the basis of either the likelihood of error or fraud.[108]

[106] This is because case error rates include underpayments and relatively small overpayments. Further, the additive effect of correcting cases involving underpayments may cancel out some of the savings realized by eliminating overpayments.

[107] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 15-18.

[108] Ibid.

5.2 HEW's Office of Inspector General

Until recently, organizational responsibilities for controlling fraud and abuse in HEW's public assistance programs were scattered throughout the Department. Typically, these units were situated within the same program bureaus they were charged to investigate. This organizational structure presented an inherent conflict between program managers and program investigators, often counter-productive and sometimes embarrassing.[109] Further, the fragmentation of activities designed to maintain program integrity resulted in duplicative functions and inefficiencies in preventing and detecting fraud and abuse.

In an attempt to correct this problem, the United States Congress passed legislation in 1977 to consolidate HEW program integrity activities by establishing the Office of Inspector General (OIG) within the Department. This new office is given overall authority, responsibility and resources needed to develop methods and conduct audits for the identification and investigation of fraud and abuse in HEW's public assistance programs.[110] Under Public Law 94-504, the OIG is also assigned

[109] U.S. Congress, House, Committee on Government Operations, Tenth Report, Department of Health, Education and Welfare (Prevention and Detection of Fraud and Program Abuse), 94th Congress, 2nd Session, (January 26, 1976).

[110] See Public Law 94-504, "In order to create an independent and objective unit--(1) to conduct and supervise audits and investigations relating to programs and operations of the Department of Health, Education and Welfare; (2) to provide leadership and coordination and recommend policies for activities designed (A) to promote economy and efficiency in the administration of, and (B) to prevent and detect fraud and abuse in such programs and operations; and (3) to provide a means for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action; there is hereby established in the Department of Health, Education and Welfare an Office of Inspector General."

the responsibilities of coordinating HEW legislative activities in the area of fraud and abuse, providing Congress with reports estimating the nature and extent of fraud and abuse in all HEW public assistance programs, and recommending actions to improve the administration and economy of HEW and its programs.[111]

In a relatively short time, the Office of Inspector General has planned and implemented a number of major and highly visible initiatives designed to prevent and detect fraud and abuse in HEW public assistance programs. Several of these efforts have involved the use of computer-aided techniques. Key among the major computer-aided initiatives undertaken thus far are:[112]

- the match of federal military and civilian payrolls against state AFDC rolls (see Section 7.2.3.1), and
- the comparison of state AFDC rolls against each other (see Section 7.2.3.1).

The purpose of the former project was to identify federal employees who were also receiving AFDC assistance, and the intent of the second effort was to detect cases of duplicate aid. Presently, the OIG is continuing to conduct matching efforts in the AFDC program utilizing caseload data provided by the states. It is working closely with the Social Security Administration, particularly the Office of Family Assistance, to develop and coordinate anti-fraud initiatives.[113] Two of these initiatives are particularly

[111] Thomas D. Morris, "The HEW Inspector General's First Year - And A Look Ahead," The Prosecutor, Vol. 13, No. 6, (July-August 1978), pp. 413-415.

[112] Department of Health, Education and Welfare, Office of Inspector General, Annual Report - January 1, 1978 - December 31, 1978, (March 31, 1979), p. 96.

[113] Ibid., pp. 96-97.

noteworthy. First, a Welfare Management Institute was established by SSA to:

- identify innovative State practices which result in the improvement of program management, and
- disseminate information about those and other improvements to the States.[114]

Second, the feasibility of a National Recipient System is being tested as a pilot project. This system would formalize interstate matching of AFDC caseloads at the federal level. It would also provide a centralized capability to match AFDC caseloads with other federal sources of information such as payroll data and other benefit programs. Most important, the OIG has for the first time provided a national focus for addressing the problems of fraud in public assistance programs and for coordinating government efforts at all levels to curtail its occurrence.

5.3 Legislation Regarding the Use of the Social Security Number and Income Data in the AFDC Program

The Quality Control program and independent studies suggest that underreported or unreported income is a considerable source of AFDC error, accounting for 25 percent or perhaps more of all case errors.[115] It has been estimated that these errors may result in the loss of $300 million or more annually to the government.[116] In response to the problem of accounting for earned income of

[114] Ibid.

[115] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), pp. 1-6.

[116] Ibid., p. 5.

recipients in the AFDC program, legislative actions have been undertaken in two areas. The first establishes the Social Security Number (SSN) as a basic identifier for AFDC recipients. This allows AFDC files to be easily compared with other independent data banks containing information regarding the earned income of AFDC recipients. The second requires state welfare agencies to use wage information contained in State Employment Security files or Social Security Administration records to aid in determining AFDC eligibility and payment amount.

5.3.1 The Use of the Social Security Number

The Social Security Number is the most important data element in current efforts to identify error and fraud in the AFDC program. Virtually all efforts to match AFDC files with other records use the SSN as the comparison key.

Since 1972, the enactment of two federal laws have clearly established the SSN as a major identifying element for AFDC recipients. Public Law 92-603, enacted in 1972 to amend the Social Security Act, required states to obtain the SSN of AFDC applicants, to verify its accuracy with the Social Security Administration, and to record it in the case file. In an instance where there was no SSN, this law mandated that the welfare agency assist the applicant in obtaining a SSN. The law also charged welfare agencies with checking at redetermination time that each recipient's SSN was in fact properly verified with the Social Security Administration. The issuance of a SSN, under this law, was not to be a reason for delaying assistance to eligible recipients.[117]

[117] Ibid., p. 15.

Public Law 93-647, enacted in 1974 to amend the Social Security Act, further emphasized the need to record the SSN of every AFDC recipient. This law strengthened the previous amendment by requiring that applicants furnish to state welfare agencies a SSN as a condition of eligibility. Furthermore, it promoted a more active use of the SSN in the process of eligibility determination by requiring that state agencies use the SSN as an accounting mechanism in the administration of the program.[118]

Since 1974, the Social Security Administration has issued several instructions amplifying the application of the laws described above. Essentially, these instructions detail how the SSN is to be recorded in a case record and how the SSN is to be verified with the Social Security Administration. Further, these instructions also state that failure to properly obtain, use or record the SSN would be considered an error in the AFDC Quality Control program.[119]

Despite the requirements concerning the use of the SSN in the AFDC program, implementation has been slow and incomplete. A study conducted for the Office of Family Assistance and the Office of the Inspector General recently suggested that SSNs are not always recorded in case files, validated with the Social

[118] Ibid., p. 16.

[119] Ibid., p. 20. In May 1978 the Social Security Administration tightened the requirements for obtaining a SSN. These new requirements are expected to make it more difficult to obtain duplicate SSNs and thus should reduce the likelihood of AFDC applicants/recipients receiving benefits via two or more SSNs obtained by establishing bogus identities. Previous to this time, validation of a SSN essentially entailed confirming that the number had been issued under the name presented by an AFDC applicant/recipient. This validation process did not rule out the possibility that an individual may have obtained SSNs under two or more separate identities. For a fuller explanation see: Department of Health, Education and Welfare, Office of Inspector General, Annual Report - January 1, 1978-December 31, 1978, (March 31, 1979), p. Appendix K, p. 3.

Security Administration or accessible in automated files.[120] In terms of anti-fraud activities, these findings are important because of their impact on states' ability to conduct computer matching techniques. To fully benefit from the use of computer matching techniques, it is critical that states maintain an automated AFDC case file containing valid SSNs for every AFDC recipient.

5.3.2 Access to Wage Record Information

Over the past 10 years, states have begun to use centralized sources of information about wages to deal with the problems of AFDC recipients underreporting or failing to report earned income. Two predominant sources of information have been used by states to obtain information about the wages earned by AFDC recipients: (1) the quarterly earnings reports submitted to state Employment Security agencies by most employers for the purpose of computing Unemployment Insurance benefits; and (2) the quarterly Summary Earnings Records maintained by the Social Security Administration in administering the Federal Old Age, Survivors and Disability Program (known to most as "Social Security").

States and some localities employ computer-aided techniques to match their AFDC recipient caseload with the centralized sources of wage information mentioned above. The purpose of this matching is to verify wage information (or discover earnings not reported) provided by applicants/recipients to establish and maintain eligibility. Wage matching, as described in Chapter Seven of this report, is the most common computer-aided, anti-fraud technique currently used in the AFDC program.

[120] Ibid., pp. 56-68.

The source of wage data which states have used is directly related to the method states employ to operate their Unemployment Insurance programs. States are divided into two types in this regard: (1) wage reporting states; and (2) wage requesting states. There are 40 wage reporting states (this includes the District of Columbia and Puerto Rico). These states require employers to provide wage information to an agency which administers the state Unemployment Insurance program.

There are 12 wage requesting states.[121] These states do not require employers to report wage earnings to a state Employment Security agency. Instead, when an individual files for Unemployment Insurance benefits, the state Employment Security agency must request wage information directly from the employer prior to calculating benefits. Consequently, in these states there is no comprehensive wage information data base available for use by the AFDC program for matching wage information with AFDC records.[122] As an alternative, these states have used the Social Security Administration's Summary Earnings Records.

Computer-aided matching of earned income data supplied by either state Employment Security agencies or by SSA with AFDC caseload files has increased steadily as states recognized the potential value of the practice and as the Federal government increasingly encourages states to address the problem of AFDC fraud and abuse. In December 1977, the use of wage data, which was previously conducted voluntarily as a state initiative, was

[121] Although fewer in number of states, wage requesting states include some of the more populous states with large AFDC caseloads.

[122] State income tax information is typically not available or timely enough for use in AFDC wage matching efforts.

formally mandated by an amendment to the Social Security Act (Public Law 95-216). This amendment (and the subsequent regulations that implemented it) requires state welfare agencies, as of October 1, 1979, to "request and use wage information about current applicants and recipients available from the Social Security Administration and from agencies administering state unemployment compensation laws."[123] To implement this requirement, the amendment directs:

- AFDC agencies to maintain an automated file of applicants'/recipients' names and SSNs
- states to develop safeguards for the privacy and security of the wage information
- state AFDC agencies to maintain basic statistical information about the results of using wage data (i.e., changes in eligibility, changes in benefit payments), and
- state welfare agencies not to deny, delay or discontinue AFDC assistance pending the receipt of wage data.

Finally, to overcome potential privacy challenges, PL. 95-216 formally amended both the Social Security Act (Section 411) and the Federal Unemployment Tax Act (Section 3304 (a) (16)) to permit access by state welfare agencies to federal Summary Earnings Records and to wage data maintained by state Employment Security agencies.

The expected impact of the wage data amendment is that it will make computer-aided matching of AFDC and wage data a routine

[123] "Aid to Families with Dependent Children - HEW/SSA Proposes Rules Concerning Access to Wage Record Information," The Federal Register, Vol. 44, No. 8, (January 11, 1979), pp. 2404-2408.

process. There is some doubt, however, that the full impact of this legislation will be realized, especially in wage requesting states. This is because the timing of the legislation coincided with a significant change in the Social Security Administration's maintenance of Summary Earnings Records. The dilemma brought about by this change has been described as follows:

> States which for years have been denied access to the relatively timely quarterly earnings data previously maintained on the SER will now be required to access the data which will no longer be timely because the file is now updated on an annual basis.[124]

Some states apparently have recognized that the new method of compiling SSA's Summary Earnings Records will drastically limit the utility of the data in terms of matching it with an AFDC caseload. There have been two noticeable responses by states to this situation. First, there has been a flurry of wage matching activities by wage requesting states using the last quarterly Summary Earnings Records preceding the change to an annual compilation. Second, and perhaps most important, SSA's changes have apparently provided some impetus to wage requesting states to develop a wage reporting system themselves (New York and Wyoming are two examples).[125]

5.4 The National Welfare Fraud Association

Although not a federal initiative, the formation and continuing effort of the National Welfare Fraud Association (NWFA)

[124] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 39.

[125] Ibid., pp. 47-49.

plays a substantial role with respect to federal and state activities dealing with fraud. Created in 1972, NWFA represents primarily investigators, but also includes AFDC program staff, local prosecutors, probation department staff, state and local police, and federal officials who are involved in activities to curtail recipient fraud in public assistance programs. As a national association with about 800 members, NWFA appears to be growing as an important interest group for developing positions reflecting the concerns of its membership with regard to the control of public assistance fraud and communicating these positions to HEW and Congress. The organization performs a variety of tasks designed to shape federal initiatives in the area of AFDC fraud and efforts to control it. For example, it has influenced the federal government to implement a statute to require states to use wage data to assist in determining AFDC eligibility and payment amount.

In the past, NWFA has focused its attentions on promoting a number of policy changes at the federal level. For example, NWFA strongly supported the creation of HEW's Office of Inspector General as a focal point to "coordinate investigative activity in developing an effective fraud prevention and deterrence posture."[126] NWFA has promoted and continues to support other measures to improve anti-fraud efforts. These measures include:

- establishing a National Recipient Index
- standardizing the reporting of fraud statistics and compilation at the national level
- improving the training of fraud investigative personnel through increased support by HEW

[126] Dorothy M. Forney, "The Founding of the National Welfare Fraud Association," The Prosecutor, Vol. 12, No. 3, (November-December 1972), p. 171.

- reviewing HEW regulations impacting fraud on a periodic basis, and
- increasing federal funding by HEW for AFDC administrative efforts related to the control of fraud.

In addition to promoting federal-level initiatives, NWFA conducts a number of activities directed toward assisting states and localities to control welfare fraud. Key among these activities are the sponsoring of regional workshops and training programs. These regional workshops and training programs are intended to function as a clearinghouse to facilitate the exchange of information among states and agencies concerning their activities in the area of fraud. In performing these activities, many practitioners feel that the NWFA can be an important resource to foster the exchange of information concerning the use and improvement of computer-aided, anti-fraud techniques.

6. STATE ANTI-FRAUD ACTIVITIES IN THE AFDC PROGRAM

6.1 Introduction

States have the primary responsibility for preventing and controlling fraud in the AFDC program. It is important to be aware of the full range of state anti-fraud activities so as to fully comprehend the contribution of computer-aided techniques and to appreciate the problems associated with their use. Anti-fraud efforts vary extensively among states in terms of the types of activities performed, the emphasis placed on these activities and the corresponding support provided by management, and the organizational locus of specific activities.[127]

State anti-fraud activities can be grouped into four basic types of functions: prevention, detection, investigation, and prosecution. This section provides an overview of typical activities performed by state and local agencies to control fraud in the AFDC program in relation to one of the four basic anti-fraud functions and specifies, in a general sense, how computer-aided techniques fit into these anti-fraud activities.

6.2 Prevention Activities

Prevention activities are directed at discouraging applicants from initiating fraudulent claims for benefits. These activities are primarily associated with the front-end processes of AFDC

[127] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), particularly the nine state "Best Practices" reports.

administration and are directed toward deterring the commission of fraud. By and large, prevention of AFDC fraud depends upon the vigilance, skill and training of individual caseworkers. Their role in determining who is eligible for benefits and their screening of relevant eligibility information makes them key to the prevention of recipient fraud. In general, current prevention activities are oriented toward discouraging the more common attempts to defraud the program.

Welfare agencies' activities designed with fraud prevention specifically in mind include:

- warnings, both verbal and written, provided to applicants concerning their responsibilities relative to the program and the penalties for committing fraud
- public relations programs conducted to emphasize the seriousness of welfare fraud and the existence of detection mechanisms, and
- screening of AFDC applicants to identify the receipt of multiple benefits in AFDC or other related programs.

Other activities conducted by welfare agencies, although primarily oriented to case management and administration, also serve a preventive function in the AFDC program, e.g., eligibility information validation, case assignment and supervision. In these instances, prevention of AFDC fraud is usually considered a by-product of good management controls and practices.

6.2.1 Prevention Activities with a Distinct Anti-Fraud Focus

Efforts to prevent AFDC recipient fraud are initiated at the time of application for assistance. As previously discussed,

applicants in all states are required to complete an application form. These forms invariably contain a statement delineating applicant and recipient responsibilities relative to participation in the program. While details differ among states, they essentially require that recipients report any change in status which directly affects their eligibility, such as changes in: address, family composition, income, school attendance, and personal property.

Before being certified as eligible for benefits, all applicants must sign a declaration on the application form certifying that they understand these responsibilities. Usually, as part of this declaration, the application contains a written warning that misrepresentation or concealment of facts used to determine eligibility can subject the applicant to criminal prosecution. Some forms make specific reference to fraud while others are less specific, mentioning the possibility of criminal penalties.

At the same time as the declaration regarding fraud is signed, welfare staff in many agencies provide other written materials to applicants which expand upon warnings contained in the declarations and often explain how fraud is detected and investigated by the agency as well as the possible criminal penalties that could result. In some agencies, both applicants and staff are required to sign the warnings on the application form. The primary purpose of the signed declaration is to establish intent in the investigation and prosecution of fraud. Without these signed declarations it is generally considered impossible to prosecute welfare fraud cases.

Publicity about anti-fraud activities is considered in most states to be an integral element in the prevention of AFDC recipient fraud. State and local welfare agencies use the media to publicize information about:

- the seriousness of welfare fraud with respect to the AFDC program
- the penalties for committing welfare fraud, and
- activities related to the detection, investigation and prosecution of fraud.

Often the use of computer-aided, anti-fraud techniques are emphasized during publicity campaigns. This usually occurs when a technique is first initiated, when a group of potentially fraudulent cases is identified, or when numerous cases are prosecuted. Particularly noteworthy is that more than a few welfare administrators and investigators believe that publicity concerning computer-aided techniques has a greater impact on fraud than the use of the techniques themselves. It is also generally assumed that a vigorous publicity campaign will encourage members of the community to report to both welfare and law enforcement agencies persons whom they suspect are committing welfare fraud.[128]

The screening of applicants during the eligibility determination process is another action commonly used in the AFDC program to prevent fraud. In a number of states and localities applicants are screened (or cleared) to ensure that obvious inconsistencies do not exist in the information provided to determine eligibility. The two most common types of discrepancies searched for during front-end screening activities are: (1) the presence

[128] Commonwealth of Virginia, Department of Welfare, Fraud Procedural Handbook, (August 1978), Chapter F, p. 5.

of the applicant on the local jurisdiction's or the state's caseload; and (2) the existence of unreported or underreported income.

Front-end screening can be performed manually (telephone or paper transactions) or by computer. Data bases maintained by both the welfare agency and other agencies may be used to conduct screening activities. Agencies which commonly permit data access to welfare departments for screening of AFDC applicants are the Social Security Administration, state employment security agencies, and the Veterans Administration. While there is an absence of data accurately detailing the contribution of computers to screening, it seems clear that computers are considered useful in some states.[129] The screening of applicants using manual techniques is more prevalent, occurring in about two-thirds of the states, while computer-aided screening is presently operational in about one-half of all states.[130]

The extent to which computers contribute to front-end screening in the prevention of fraud is highly dependent on the electronic data processing capabilities of welfare agencies. On-line computer access and the existence of a centralized, up-to-date AFDC data base are prerequisites to the effective use of computers as part of a fraud prevention strategy. The use of computers for front-end screening increases the likelihood that fraudulent applications will be detected before the payment of substantial benefit amounts is made. Public knowledge that welfare agencies conduct front-end screening will deter at least some AFDC applicants from initiating illegitimate claims of eligibility.

[129] Booz, Allen and Hamilton, AFDC ADP Requirement Study, (September 1978), p. 7; and Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), pp. 12-13.

[130] Specific techniques are described in detail in Chapter Seven below.

6.2.2 Prevention Activities: A By-Product of Case Management

There are a number of case management activities that have fraud prevention aspects, e.g., the validation of eligibility information at application and case assignment.

Validation of eligibility information serves a fraud prevention role because applicants are made aware that information they provide to welfare staff will be checked to determine its accuracy. There are three methods used to validate eligibility: (1) review of applicant information by welfare staff; (2) home visits; and (3) verification with third party sources.

Documentation required from an AFDC applicant can be extensive. Although there are major differences in documentation required among states, typical are social security card, pay records and veteran benefit records. A more complete list of the types of documents that might be required are shown in Table 6-1.

Many welfare agencies require welfare staff to conduct home visits as part of the verification process. It is assumed that home visits will deter some potential applicants from providing false information concerning their living conditions and family composition. Visits may, in some states, be conducted for all applicants, while in other states a decision to conduct a home visit is made either for particularly complex cases or in cases where the agency suspects fraudulent application.[131]

[131] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), p. 39.

TABLE 6-1

TYPES OF DOCUMENTS REQUIRED FOR AFDC APPLICATION

DOCUMENTATION REQUIRED	
Identification and Citizenship or Immigration Status	**Income and Assets**
Social Security Card	Current Pay Checks, Award Letter or Last Check From:
Driver's License	Social Security
Passport	Veteran's Benefits
Immigration Papers	Retirement Fund
Age of Family Members	Unemployment Compensation
Birth Certificates	Deeds to Property
Military Identification	Savings Account Passbook
Marital Status	Checking Account Bank Statement
Marriage Certificate	Stock and/or Bond Certificates
Divorce Papers	Automobile Registration and Title
Death Certificate	Life Insurance Policy
Children's Status in School	Food Stamp Authorizations
School Registration Papers	
	Employment Status
	WIN Registration
	Registration with State Employment Office
	Doctor's Statement Verifying Inability to Work or Pregnancy

Source: Robert E. Oshel and W. Barry Blandford, AFDC Fraud Control Mail Survey Data Book, The General Research Corporation, (June 1977), p. 10.

Verification of eligibility data with third party sources encompasses contacts with federal, state or local agencies and with private organizations (for example, the Social Security Administration, the Veterans Administration, the state employment agency, other state or local welfare offices, and local banks).[132]

The extent of third-party verification varies among states. In some cases, contacts with certain selected agencies, especially the Social Security Administration and the State Employment Office, are routine. In other instances the eligibility worker may track down all relevant sources when an error is likely or when the applicant is suspected of providing false information. As with other preventive activities, verification may be conducted manually or with the assistance of computers.

Certain case assignment and administrative structures have also been cited as having distinct preventive aspects.[133] The most important of these appears to be job specialization (by unit or by function), especially with regard to validating eligibility information or providing special attention to difficult or suspicious case applications. In some states, special units are composed of experienced and/or trained eligibility workers who have major responsibility to verify eligibility information and review problem cases at application. Some state officials indicated that these specialized intake units serve a preventive function, because applicants are less likely to falsify information if these data are subjected to more intense scrutiny than

[132] Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), p. 12.

[133] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 34-44.

normally provided by intake staff working in more traditional organizational settings.

6.3 AFDC Fraud Detection

Fraud detection activities in the AFDC program are concerned with identifying persons who are receiving benefits to which they are not entitled. The possibility of fraud can be raised in a variety of ways ranging from irregularities spotted by caseworkers to the flagging of particular cases by computer-aided techniques. Once a case is tagged, information about the case is gathered and intensively reviewed to determine whether and to what extent the case is in error. Errors discovered may be attributed to mistakes made by the agency, to unintentional misrepresentation by recipients, or to other unique circumstances. The purpose of this review is to screen out cases where there is no obvious intent to defraud the program. Cases involving error, but not fraud, are typically handled through the administrative structure of the welfare agency.

After cases containing obvious errors are screened out, caseworkers must determine whether or not to refer the remaining AFDC cases for formal fraud investigation. These decisions are not as automatic as it may seem. Not all cases in which fraud is suspected are referred for investigation. Administrative disposition is preferred, for instance, when cases involve small dollar amounts, reimbursement is volunteered or there are special hardships.[134]

[134] Department of Health, Education and Welfare, Disposition of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978), p. 8.

The way responsibility for performing AFDC fraud detection activities is assigned varies among states and localities. AFDC caseworkers and their supervisors most often bear this responsibility as part of their routine case maintenance activities. However, significant involvement by specialized detection and investigation units is evident in a number of states. For instance, some welfare agencies maintain special units within their eligibility determination section to examine cases in which questions of improprieties are raised. Other welfare agencies may have units that deal primarily with calculating the amount of overpayment for cases found to be in error. Some states have given investigative units significant case review responsibilities for the entire AFDC caseload, in addition to their investigative duties connected with individual cases. The primary purpose underlying the creation of specialized anti-fraud units apparently has been to relieve caseworkers of some of the burden associated with fraud detection so as to allow them more time for case maintenance activities.

Fraud detection activities in the AFDC program can be categorized into two groups. The first group involves the review of all cases via standard case maintenance activities in which caseworkers have the opportunity to identify inconsistencies in case information that might be an indication of error or fraud. Key among these activities are redetermination, quality control reviews, recipient reporting requirements, and coordination with other related public assistance programs.

The second group involves fraud detection activities which are conducted independently of routine case maintenance. These activities, more directly focused on identifying cases suspected of recipient fraud and error, include: (1) establishing and publicizing fraud "hot

lines"; (2) implementing a "hopper" detection alert system; and (3) developing and using computer-aided matching techniques.

The following two subsections present a description of each of these detection-oriented activities and, where appropriate, discuss their relationship to computer-aided, anti-fraud techniques.

6.3.1 Fraud Control Via Case Maintenance Activities

By most accounts, routine case maintenance activities provide the most important source of AFDC case referrals to fraud investigations. Instances likely to involve fraud are often detected through good casework.[135] Caseworkers in eligibility units, redetermination units and quality control units are key to maintaining AFDC program integrity. They single out the majority of the cases eventually referred to special investigative units for determining whether cases contain prosecutable fraud.

Perhaps the most important case maintenance activity with respect to the detection of fraud is redetermination. Federal regulations require that states perform periodic redeterminations of every case to ascertain if there have been any changes in eligibility status or any errors in previous eligibility determinations or benefit calculations. According to the regulations, each case must be re-examined every six months, at a minimum; the order in which cases are scheduled for redetermination is left up to the discretion of the individual states. Some states maintain the semi-annual review cycle for their entire caseload. Other states

[135] Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), p. 12.

prioritize cases for more frequent redetermination or for examination early in the six-month review cycle, according to specific characteristics such as unemployed father, physical but not legal separation, history of employment or employability, and recent death or disability. Representatives from these states believe that cases exhibiting these traits are most prone to error or fraud.[136]

Computers are often used to support the redetermination scheduling process. Because of the large number of cases and variables associated with each case, it is difficult, if not impossible, to rely entirely on manual procedures to profile a state's entire caseload, identify error-prone cases, and schedule those cases for priority redetermination. The use of computers greatly simplifies this complex process. In some states, use of computers is limited to merely notifying caseworkers that certain cases are due for redetermination. Computers perform a broad range of redetermination functions in some states including profiling cases, identifying those cases exhibiting error-prone characteristics and prioritizing such cases for more frequent redeterminations.[137]

The literature suggests a strong relationship between redetermination efficiency and fraud detection. Not only do studies indicate that fraud is often first detected at redetermination, but they also indicate that AFDC recipients often perceive that it is easier to defraud the AFDC program and escape detection during application than it is at redetermination. Practitioners

[136] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), p. 19.

[137] Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), pp. 18-20; and Booz, Allen and Hamilton, AFDC ADP Requirement Study, (September 1978), pp. 8-9.

have suggested, for example, that it is not uncommon for AFDC recipients suspected of defrauding the program to voluntarily terminate their cases prior to redetermination but subsequently re-apply a month or two later. Furthermore, these same studies indicate that the ability of welfare agencies to conduct redetermination as scheduled is associated with AFDC error rates. More specifically, it has been found that:

> in the first half of 1976, the 15 states with the lowest backlog of redeterminations had case error rates that were less than half those in the 15 states with the highest backlog.[138]

These findings are especially pertinent if it is assumed that the amount of error in an AFDC caseload is an indication of the amount of fraud in the same caseload.

A second case maintenance activity that may result in the detection of AFDC fraud is the Quality Control (QC) program which (as described previously in Section 5.1) requires all states and localities to draw a sample of AFDC cases semi-annually and to review these cases in order to measure, identify and correct errors associated with eligibility status and amount of benefit payments. Computers are often used to draw the sample of cases to be reviewed.[139] In examining the QC samples, welfare agency staff may identify a case which warrants a closer examination for the possibility of fraud.

[138] Bendeck, et. al., The Anatomy of AFDC Errors, (April 1978), pp. 42-44.

[139] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 158-161.

Data from the QC sample can also be analyzed to identify the most error- or fraud-prone types of cases in the AFDC caseload. Computers, of course, greatly facilitate the manipulation and quantitative analysis of a large body of case data. The analysis of QC data may indicate that certain types of cases consistently exhibit irregularities. To address these irregularities, AFDC program management may decide that these types of cases should be redetermined more frequently, receive home visits, or be required to provide more supporting documentation than other cases in the caseload.

Recipient reporting constitutes another case maintenance activity commonly associated with the detection of AFDC recipient fraud. The methods used to facilitate recipients to report changes in their eligibility status vary among states. Some states have implemented formal procedures where reporting forms are sent to all recipients on a monthly basis. The recipients, in turn, must complete and return these forms as a requirement of continued AFDC benefits. Other states require recipients to complete and return the reporting form only in the event that a change in status has occurred. In still other states formal mechanisms are absent and the burden is placed entirely upon the recipient to report any status changes in person to a local AFDC eligibility worker.[140]

Where formal mechanisms are used to report changes in eligibility status, recipient failure to return these forms often raises the suspicion that something is wrong. Among a variety of administrative actions available (i.e., delaying or terminating the benefits), caseworkers may initiate a case review leading to a follow-up investigation.

[140] Ibid., pp. 107-109.

Inter-program coordination activities are another method by which AFDC recipient fraud may be detected. Typically, AFDC recipients are enrolled in a variety of public benefit and service programs. The staff of these other programs, because of their relationship to AFDC recipients, may be in a good position to detect factors which may raise suspicions about the legitimacy of the recipients' AFDC eligibility. To the extent that staff from these programs share information with AFDC staff, leads regarding potential fraud may be generated.

The Child Support program, operational in every state, provides a potentially valuable resource in the area of fraud detection.[141] Child Support staff, particularly investigators involved in determining the status and location of absent fathers, are a logical source of information about the composition of an AFDC family. For instance, a child support investigation concerning a non-supportive, missing father may discover information that suggests that the father may, in fact, still be residing with the family and surreptitiously providing financial support. Similarly, other information collected during a child support investigation might contradict information given to an AFDC eligibility worker at application about family size, age of children and residence of an AFDC family.

[141] Ibid., pp. 17-18. Title IV-D of the Social Security Act requires each state to establish a single agency with the task of finding absent parents and collecting child support payments from them. AFDC eligibility requires recipients in need due to the non-support of a parent to partake of the Child Support program. A major component of the Child Support program is a computerized search of state and federal data files to locate missing parents.

Social workers, who often provide AFDC families with supportive services, are also in a position to share information with AFDC staff relevant to fraud detection activities.[142] In serving AFDC families in the homes, social workers may observe situations which are inconsistent with recipient-reported eligibility information and may indicate the potential of fraud.

6.3.2 Detection-Specific Anti-Fraud Activities

AFDC agencies appear to be moving toward more distinct fraud detection activities which stand apart from routine case maintenance. Three types of activities with this focus appear to be predominant in the AFDC program. These activities are:

- welfare fraud hot lines
- special detection alert, and
- computer-matching and screening.

Special telephone numbers (i.e., hot lines) have been set up in state and local welfare agencies as a means for detecting AFDC fraud. Upon setting up a "hot line," the special telephone number and its fraud detection purpose are publicized. This publicity encourages persons in the community to report on recipients suspected of defrauding the welfare program. Cases identified via the "hot line" are selectively reviewed by agencies

[142] Since 1974 and the passage of Title XX of the Social Security Act, the delivery of social services in public welfare agencies has been separated from income maintenance responsibilities (AFDC). See Irving Pelevan and Alan E. Cross, "The Effects of Separation of Services and Income Maintenance on AFDC Recipients," Social Service Review, Vol. 51, (Sept. 1977), pp. 389-406.

to determine whether complaints or leads offered by informers have any factual basis. Reportedly, complaints received in this manner are a rich source for detecting fraudulent cases.[143]

A second fraud-specific detection activity involves the dissemination of information throughout a jurisdiction (usually a state or large urban area) regarding individuals who are suspected either of having defrauded or shown intent of defrauding the program. Investigative units rather than caseworkers usually perform this dissemination activity. A notable example is the California "Hopper Alert System." When AFDC recipients are discovered in attempts to establish eligibility in more than one jurisdiction concurrently (hoppers), the state fraud investigative unit, acting usually on a tip from a county welfare agency, gathers available information on the recipient and distributes it as an alert (i.e., similar to a "wanted poster") to other welfare offices within the state.[144] In this fashion, county welfare staff: (1) can determine if the same recipient is currently on their caseload; or (2) can be alert to detect attempts by the "hopper" suspect to establish eligibility at their office.

A third fraud-specific detection activity involves computer-aided, anti-fraud techniques that have been used with increasing frequency and popularity by both state and local welfare agencies. Most states indicate that, next to routine case maintenance activities (those discussed in Section 6.3.1 above), computer-aided techniques are currently the most productive source for identifying

[143] Oshel and Blandford, AFDC Fraud Control Mail Survey Data Book, (June 1977), p. 12.

[144] U.S. Department of Health, Education and Welfare, How They Do It - Fraud Control, California and New York, (June 1975), p. 17.

cases which eventuate in full-fledged fraud investigations.[145] These techniques assist in the detection of fraud by systematically culling out active AFDC cases that need to be examined more closely for possible error or fraud. It should be clearly understood that these techniques, like the other activities previously described in this section, do not actually detect fraud. Rather, their purpose is to provide a quick means for examining a large number of cases and identifying a subpopulation with a high probability for fraud or error.

Computer-aided matching is the predominant technique used to assist in the detection of fraud in the AFDC program. Virtually every state conducts some form of computer matching. The essence of this technique is that it cross-checks or matches information about recipients comprising an entire AFDC caseload with a similar or an independent data base containing comparable data elements. Differences among these matching activities concern the scope, source, and quality of the data bases used to conduct the matching, the basis on which information is matched, and the management support provided in terms of screening, prioritizing, and utilizing identified matches as an aid to fraud detection. The most common computer matching activities are directed toward detecting under-reported or unreported incomes. Among the data bases commonly used for this purpose are:

- state employment agencies' wage data
- Social Security Administration's Summary Earnings data and benefit data (BENDEX)

[145] Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 254-255; and Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), p. 34.

- Unemployment Compensation Benefit data, and
- payroll data from state and local governments.

Other computer matching activities attempt to detect AFDC cases receiving benefit payments in more than one jurisdiction (intra or interstate) or receiving duplicate AFDC payment in the same jurisdiction. The type of data base used for this type of match is either another state's or jurisdiction's AFDC caseload for inter-jurisdictional multiple filing, or an AFDC caseload file cross-checked against itself in an intra-jurisdictional match.

In addition to income and jurisdictional matching activities, there have been some isolated instances where computer-aided matchings are performed on AFDC caseloads against motor vehicle records, state university enrollment records, and marriage and death certificates.

Selective case action and selective case screening represent another type of computer-aided fraud detection activity. Like computer matching, these techniques may be used to systematically extract AFDC cases from an AFDC caseload. Both these techniques are used to identify particular categories of AFDC cases believed more likely to contain error or fraud.

Selective case action and selective case screening techniques differ from one another primarily in the method of case identification. Selective case action typically involves the profiling of cases historically found to have been in error. This profiling entails some form of statistical analysis which attempts to establish the relationship between caseload factors (i.e., father in home, presence of earned income, number of children, etc.) and the existence of error in a case. Based on the profile(s) developed, cases may receive special consideration in a number of ways including being subject to intensive scrutiny for possible fraud. Despite this direct anti-fraud application, this technique appears to be most commonly used to address AFDC error rather than fraud.[146]

Selective case screening also involves the selection of cases from an entire AFDC caseload. In contrast to selective case action techniques, case screening does not rely on statistical analysis or the profiling of cases. Rather, case screening picks out certain cases for review from the AFDC caseload on the basis of perceptions, intuition or special studies which suggest certain cases to be troublesome. For instance, a case screen might involve an examination of all AFDC cases having an identical address or an examination of all cases having reported two or more stolen or lost checks. In short, almost any factor contained in an automated data base may be used as a basis for systematically selecting cases for examination. This technique is occasionally used by welfare agency staff and fraud investigators for initiating special anti-fraud crackdowns focusing on particular types of AFDC cases.

Specific types of computer-aided techniques and the problems related to the conduct of these activities will be discussed in further detail in Chapters Seven and Eight below.

[146] Texas State Department of Public Welfare, The Automated Eligibility Redetermination System/Error Prone Profile Project, (September 1976); and Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), p. 20.

6.4 Investigation of AFDC Fraud

AFDC cases containing discrepancies of a fraudulent nature are typically referred to investigative units. These units determine whether enough evidence exists to establish an intent to defraud the AFDC program, and whether cases exhibiting intent to defraud should be referred to the district attorney for prosecution.

The nature and extent of fraud investigation is affected by a number of general factors:

- the organizational locus of fraud investigation units
- the kinds of evidence needed to prove AFDC fraud
- the law enforcement status and responsibilities of AFDC fraud investigators
- the necessary training for fraud investigators, and
- the process and decision rules relating to the referral of fraud cases for prosecution.

There are two additional points with regard to AFDC fraud investigation that appear to have a particular impact on the use of computer-aided techniques:

- the involvement of fraud investigative units with the design and/or use of computer-aided techniques, and
- the management of investigative caseloads, especially cases identified via computer-aided techniques.

These two points will be discussed in detail in Section 6.4.2 below.

6.4.1 General Factors Related to AFDC Fraud Investigation

The organizational locus of fraud investigative units can be categorized into three groups. In some states, AFDC fraud investigation is the responsibility of the local jurisdiction. Depending primarily on the size of the local jurisdiction, investigations may be conducted by:

- an investigative unit within the welfare agency
- a designated agency caseworker(s), and/or
- investigative staff of a local police department or prosecutor's office.

In other states, AFDC fraud investigation is the responsibility of a statewide investigative unit, either centralized or regionalized. Typically, state investigative units are a division or bureau of the state welfare agency. In other instances, the investigative function is located in a partially independent branch of the state welfare agency; for example, in the agency's Inspector General's office as in Michigan and New York, or in a totally independent agency such as the Bureau of Welfare Audit in Massachusetts and the State Auditor's Office in Florida.

A third organizational category combines state and local involvement in fraud investigation. For instance, some states have state investigators assigned to large local jurisdictions, while small jurisdictions must perform their own investigations. Many states provide state assistance for certain types of investigations or particularly difficult cases such as those involving duplicate assistance AFDC payments in multiple states or between jurisdictions in a state.[147]

[147]Reed, National Journal of Criminal Defense, Vol. 3, (Spring 1977), pp. 166-167.

Evidentiary requirements to prove the existence of fraud may differ somewhat for particular types of AFDC fraud. Typical evidential materials might include:

- the AFDC application and any supporting documentation
- cancelled welfare checks
- payroll information
- court records
- rent receipts, and
- notarized statements of witnesses and eligibility workers.

Evidence to establish fraud in an AFDC case may be developed in many ways, including document reviews, witness and recipient interviews, handwriting analysis, and the collection of other evidentiary material through contacts with employers and public or private agencies. Subpoena powers of the AFDC investigative unit or of other law enforcement agencies are often used in the evidence gathering process.[148] In carrying out their responsibilities, AFDC fraud investigative units necessarily work closely with welfare agency caseworkers and prosecutors. Specific practices and procedures in this regard are known to vary extensively both within and among states. However, coordination of

[148]See for instance, Commonwealth of Virginia, Department of Welfare, Fraud Procedural Handbook, (August 1978), Chapter D.

investigative activities is often difficult. Conflicting philosophies and organizational goals among AFDC caseworkers, investigators, and prosecutors (e.g., timely delivery of services versus program integrity) may impede AFDC fraud investigation.[149]

Developing the evidence necessary to prove AFDC fraud generally requires traditional types of law enforcement investigation. However, AFDC fraud investigation may differ in a number of ways across jurisdictions with respect to the authority and ability of an investigative unit in conducting evidence gathering functions. Units are known to differ in their authority to issue subpoenas, to access files, to confiscate property in preparing a case, and in the procedures followed to inform recipients that they are the subject of an investigation. There are differences in terms of authority to make arrests, the practice of informing suspects of their rights (i.e., Miranda warnings) and the status of AFDC fraud investigators as sworn law enforcement officers.[150]

Effective investigation of AFDC fraud requires investigators to be well versed in both law enforcement practices and in the specific rules and regulations of the AFDC and associated benefit

[149] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 40-41; and Peterson, The Prosecutor, Vol. 12, No. 3, (May-June 1977), pp. 176-177. Also see Edelhertz, et. al., The Investigation of White-Collar Crime - A Manual for Law Enforcement Agencies, (April 1977), Chapter II, for an excellent discussion of the issues inherent in the organizational locus of investigative units.

[150] Oshel and Blandford, AFDC Fraud Control Mail Survey Book, (June 1977), pp. 35-36.

programs.[151] Because of this, investigative units are typically comprised of personnel with experience in law enforcement, social work and AFDC program operations. The mix of personnel in any unit appears to be somewhat idiosyncratic, often depending on the investigative unit's scope of responsibility. For example, in some states, investigative personnel are responsible for all phases of case preparation, including those case review activities previously described with regard to detection activities (see Section 6.3 above). In other states, investigative units rely more heavily on case workers as an investigative resource to identify and document case irregularities and to deal with recipients once fraud is suspected.

Prosecution of AFDC cases can be seriously impaired if the investigative work has been conducted by personnel not well versed in law enforcement skills (knowing rules of evidence, interviewing witnesses, etc.) and in the rules, regulations and operation of the AFDC program. Consequently, most experts believe that specialized training for investigators is a critical component to improving the effectiveness of AFDC anti-fraud activities.[152]

Investigative units often have the responsibility of deciding whether or not to forward cases of suspected fraud to prosecutors. Referral of all AFDC fraud cases for prosecution is usually considered to be unrealistic and unproductive. The volume of cases

[151] Ibid., p. 36.

[152] See for instance, Dick Risley, "Why be Concerned by Welfare Expansion," The Prosecutor, Vol. 12, No. 3, (April-May 1977), pp. 173-177; and, Eugene M. Fife III, "Evaluating the Welfare Fraud Case: When to Prosecute," The Prosecutor, Vol. 13, No. 6, (July-August 1977), pp. 35-36.

in which fraud is suspected, the priorities assigned to such cases by local prosecutors, the nature of some cases with respect to hardship for family members, and the dollar amount involved are factors taken into consideration when referral decisions are made.[153] Based on MITRE's contacts in the states, it appears that most investigative units rely on informal relationships with prosecutors and on previous practices with regard to these referral decisions.

Investigative units also have administrative options for dealing with cases in which fraud is suspected. Typically, investigative units alone, or in conjunction with the AFDC eligibility staff of welfare agencies, can initiate administrative actions to either recover or stop fraudulently obtained benefits. This can be done by removing a recipient from the caseload, by negotiating an agreement of restitution, or by adjusting a recipient's assistance payment to recoup lost funds.[154] National statistics indicate that over half of all cases in which an investigation supports the allegation of fraud are disposed in an administrative manner. States vary extensively in this regard, however. In 1977, some states reported that almost all cases of fraud were dealt with through a formal referral to prosecutors. Other states reportedly disposed of over 90 percent of all fraud

[153] Department of Health, Education and Welfare, Disposition of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978), pp. 4-8.

[154] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 22-25. This document also discusses the numerous problems associated with administrative redress with regard to AFDC fraud.

cases administratively.[155] It should be noted that a finding of fraud (even if prosecuted) does not automatically disqualify recipients from continuing to receive benefits. That is, these recipients may still meet eligibility requirements. Additionally, state laws and local practices limit the actions agencies may take with regard to administrative options. For instance, some states have AFDC regulations governing the size and the conditions of grant reductions in cases where administrative actions are taken. Some states actually prohibit grant reduction as a means of recouping fraudulent AFDC overpayments.

Finally, recipients notified of an adverse administrative act, such as a grant reduction or termination resulting from a fraud investigation, have (under federal regulations) the option to request a fair hearing.[156] Such a hearing is held to determine the appropriateness of the adverse action. The hearing is not directed toward determining whether fraud has occurred, although the evidence presented may be similar to that used to support prosecution or administrative actions involving fraud. During the fair hearing process, all administrative actions are held in abeyance.

[155] Department of Health, Education and Welfare, Disposition of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978), p. 8. These figures should be viewed with caution because of known inconsistencies between states with regard to definitions concerning responses to fraud.

[156] For an analysis of the AFDC Fair Hearing process see, Committee on Government Operations, Congressional Research Service Report, Administration of the AFDC Program, (April 1977), pp. 164-201.

6.4.2 Investigation and Computer-Aided Techniques

Two points are worth noting with respect to the investigation of AFDC fraud and the use of computer-aided techniques. The first is the extent to which investigative units are directly involved in the actual design and use of these techniques. Of the 19 states contacted by MITRE during its telephone survey and site visits, state-level fraud investigative units in four states indicated significant involvement in the design and operation of at least some computer-aided techniques. By comparison, in the remaining states these techniques were designed and operated by program management and the data processing staff. It appears that the closer the involvement between investigative staff and computer-aided techniques, the greater the tendency to perceive these techniques as an active component of the fraud detection process. Although the MITRE focus was on the use of techniques at the state level, state officials suggested that this relationship was also true for county-administered programs where counties have fraud investigation units and computer techniques are designed and operated locally.

In general, it was suggested that investigator involvement ensures better utilization of case data generated from computer-aided efforts. Such involvement is especially important with respect to screening and prioritizing cases identified by computer techniques; otherwise, local welfare agencies may be reluctant to manually review these cases for possible fraud. When investigative units have significant responsibility for computer-aided techniques, formal procedures for acting on computer selected cases and reporting the results of case reviews are more likely.

Where computer-aided techniques are the province of program management units (administrative staff), their use for detecting fraud may not be maximized. Program management units may not have the same strong incentive to promote fraud detection using computer-generated information as investigative units. If this is the case, computer-matching and screening leads may not be used by case and eligibility workers, either in a timely fashion, or at all. Additionally, it appears that the extent to which these techniques contribute to fraud detection is less likely to be known when the design and operation of computer-aided techniques is not closely coordinated with investigative units. Under these conditions, refinements to techniques which might enhance their utility to fraud detection may be more difficult to achieve.

Intensive reviews of AFDC cases singled out by computer-aided techniques have a great potential in terms of producing more cases for formal investigation.[157] For the most part, however, investigative units appear to be excessively burdened already by caseloads generated by other fraud detection techniques. In fact, many officials suggested that increased use of computer techniques tends to exacerbate some of the problems investigative units are now facing with regard to the management of their AFDC fraud caseloads. Among these problems are:

- coordinating investigations with local welfare staff
- managing and tracking case status and related evidence
- investigating cases in a timely manner to reduce the loss of additional fraudulent benefit payments, and
- enhancing the prosecutability of cases (i.e., time limitations, witness availability, etc.).

[157] Department of Health, Education and Welfare, Disposition of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978), pp. 5-6.

With respect to these problems, AFDC fraud investigators frequently indicated that computer support for managing the investigative caseload will be needed to effectively deal with the increases in suspected fraud cases generated by computer-aided detection techniques.

6.5 Prosecution

Prosecution of AFDC fraud entails determining the legal sufficiency of evidence provided by fraud investigators, evaluating the merits of initiating formal legal proceedings, and disposing of cases through adjudication. With some exceptions (i.e., cases resulting from Project Match involving federal employees, and some large cases involving duplicate benefit payments in multiple states), AFDC fraud is prosecuted under state law by local prosecutors. Prosecutors have the option of dealing with AFDC fraud as either a felony or misdemeanor. Additionally, they may prosecute under general (i.e., thief, larceny) or specific welfare fraud statutes. Practices concerning prosecution of AFDC fraud are known to vary extensively, depending upon preferences and policies of local prosecutors. Prosecutors typically are not extensively involved in preparing AFDC cases. Rather, they depend, for the most part, on welfare fraud investigators to prepare cases and provide the necessary documentation and evidence for prosecution.[158]

[158] James Bopp, Jr., "Prosecution of Welfare Fraud," The Prosecutor, Vol. 13, No. 2, (November-December 1977), pp. 119-120; and Eugene M. Fife, "Evaluating the Welfare Fraud Case--When to Prosecute," The Prosecutor, Vol. 13, No. 6, (July-August 1978), pp. 415-417.

A common complaint of welfare agencies, and especially fraud investigators, is that AFDC fraud is not vigorously prosecuted.[159] At the same time, mounting political and social pressures are being exerted to prosecute more AFDC cases involving fraud. Consequently, welfare agencies and fraud investigators are responding, or are being asked to respond, to these pressures by increasing their fraud prevention, detection and investigation activities. The development and utilization of computer-aided techniques, especially detection-oriented techniques, represents a major initiative in response to these pressures. Inevitably, the use of computer-aided techniques, as well as any new or increased initiatives by welfare agencies to deal with fraud, should lead to a larger number of cases for prosecution. In turn, this increase is likely to fuel the demands that prosecutors pay greater attention to welfare fraud. Indeed, there are some indications that prosecutors are beginning to do this, since they have, either alone or in conjunction with grand juries, initiated fraud prosecution efforts somewhat independent of state or local welfare agencies. For instance, in Cook County, Illinois, the State's Attorney established a Welfare Fraud Task Force, as part of the Special Prosecutions Bureau, to investigate AFDC cases in which fraud was suspected.[160] Similarly, in Philadelphia, Pennsylvania, the U.S. Attorney's Office, acting on behalf of a

[159] Bopp, The Prosecutor, Vol. 13, No. 2, (November-December 1977), p. 120. National-level data suggests that formal prosecution is initiated in approximately 22 percent of all cases in which investigators find facts sufficient to make an allegation of fraud. No figure is available regarding the results of these prosecutions. See Department of Health, Education and Welfare, Dispositions of Public Assistance Cases Involving Questions of Fraud - Fiscal Year 1977, (October 1978), p. 9.

[160] William P. Pendergast and James G. Piper, "Welfare Fraud Prosecution: The Cook County, Illinois Experience," The Prosecutor, Vol. 13, No. 6, (July-August 1978), p. 199.

special grand jury, ordered a computer-aided match of the city's AFDC caseload with a roster of all city employees. This action was taken in response to public allegations that numerous city employees were illegally receiving AFDC benefits.[161]

The increased volume of AFDC fraud cases resulting immediately from growing anti-fraud initiatives, particularly computer-aided matching techniques, has underlined the significance of some of the difficulties confronting AFDC fraud prosecutions. One notable problem appears to be related to the absence of effective coordination among prosecutors, fraud investigators and welfare staff. As stated previously, prosecutors are extremely dependent upon investigators and welfare caseworkers in a number of ways. To effectively prosecute AFDC fraud, welfare staff must provide prosecutors with agency documents and relevant evidence in a timely fashion and in an appropriate form for adjudication. Prosecutors are also typically dependent on agency expertise concerning AFDC program rules and regulations as well as specifics regarding the amount of benefit payments in question. Caseworker testimony needs to be organized and coordinated, since many welfare fraud cases are decided upon the credibility of agency witnesses.[162]

A shortage of prosecutors with a thorough understanding of welfare fraud is another problem confronting AFDC fraud prosecutions. Typical welfare fraud cases are considered to be complex (because of intricate and often changing rules and regulations) and difficult to prove. Further, the rapid turnover of prosecutors often inhibits the

[161]Telephone conversation with staff of the Pennsylvania Department of Welfare and Philadelphia's District Attorney's Office, April 28, 1979.

[162]Fife, The Prosecutor, Vol. 13, No. 6, (July-August 1978), p. 414; and Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 41-48.

development and accumulation of the necessary expertise considered prerequisite to AFDC prosecution.

A final difficulty associated with AFDC fraud prosecution has been the relative low priority typically given to cases of recipient fraud. Certainly the problems of coordination and of prosecutorial manpower and expertise have contributed to this difficulty. Additionally, welfare fraud cases are not often considered as serious as other crimes and are frequently treated differently than other types of criminal fraud.[163] There appear to be a number of reasons for this position. One reason commonly suggested is the perception that welfare recipients should not be prosecuted because they are needy and because the fraud they commit (i.e., most AFDC fraud) is instigated by this need. Another reason suggested is that formal prosecution is often seen as a waste of time and resources, and therefore, less appropriate than administrative redress. Judges are thought to be reluctant to impose jail sentences because of the deleterious impact on the children of AFDC mothers and the absence of other appropriate sentencing alternatives. Similarly, restitution, especially when large sums of money are involved, is difficult to achieve or enforce.[164]

As the pressures to deal with AFDC fraud mount, prosecutors will necessarily have to address the problems cited above. Coordination with welfare agency staff and fraud investigators must be increased. Prosecutorial expertise, likewise, may need to be improved. At the same time, a greater consensus will have to be developed with respect to the seriousness of AFDC recipient

[163]Bopp, The Prosecutor, Vol. 13, No. 6, (November-December 1977), p. 119.

[164]Ibid., and Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), p. 5.

fraud in comparison to other offenses, the circumstances mandating that cases be prosecuted, and the type of criminal (or civil) sanctions which are appropriate. Resolution of these problems appears to be necessary in the long term in order to maintain the incentive of welfare agencies to improve the management of their caseloads with respect to fraud and abuse. Only then will it be possible to maximize the effective use of computer-aided techniques as a tool for dealing with fraud in the AFDC program.

7. COMPUTER-AIDED ANTI-FRAUD TECHNIQUES

7.1 Overview and Summary

Computer-aided techniques were briefly examined in Chapter Six in terms of the prevention, detection, investigation and prosecution of AFDC recipient fraud. This chapter is devoted to describing, in some detail, the major types of computer-aided techniques found to be utilized in the AFDC program.

Computer-aided techniques currently used in the AFDC program may be grouped into two main categories. One category consists of computer-aided matching techniques that compare AFDC caseloads with other independent data bases for the general purpose of identifying recipients (or applicants) who have incorrectly reported eligibility information. Selective case action and selective case screening activities comprise the second category of computer-aided techniques designed to examine an AFDC caseload for specific factors likely to indicate error or fraud. The primary distinction between the two categories is the method used to identify cases for closer examination. Matching techniques involve the comparison of two or more data bases using an identifying element (i.e., SSN, name, date of birth or combination) common to each data base. When a match is identified, it suggests the need to examine the case more closely for possible discrepancies between AFDC eligibility information provided by recipients and similar information about these recipients contained in other data bases. By contrast, selective case action and selective case screening techniques involve an internal examination of a single data base (i.e., a jurisdiction's AFDC recipient data base). AFDC cases containing specific characteristics are systematically singled out for closer examination. Unlike cases identified via matching techniques where the focus is on a particular eligibility factor (i.e., income), selective case action and case screening techniques typically pursue a comprehensive review of identified cases.

Computer-aided matching techniques may be further classified according to the type of data base used in the comparison with AFDC caseload data:

- Wage Matches
  -employment security wage data
  -summary earnings wage data
  -payroll wage data
- Jurisdictional Matches
  -intra-state
  -inter-state
- Benefit Matches
  -unemployment compensation
  -Bendex

Table 7-1 provides an overview of each of the matching techniques cited above. This table shows: (a) the data bases used; (b) the primary purpose of the match in terms of prevention or detection; (c) the key eligibility factors examined during the match; (d) the frequency of the match as it is typically conducted; and (e) states using matching techniques (among the group contacted by MITRE).

When matching is performed on a case-by-case basis at application time (pre-payment), its orientation is primarily preventive. By contrast, detection is the prime objective when matching is conducted on a periodic basis (post-payment). Detection was the most prevalent objective in the states contacted by MITRE.

Computer-aided matching techniques typically target the most common and easily detected types of AFDC fraud. Most are designed to identify cases where applicants/recipients have failed to properly report earned income, other benefits (e.g., food

TABLE 7-1

TYPES OF COMPUTER-AIDED, ANTI-FRAUD TECHNIQUES

TYPE OF TECHNIQUE	DATA BASES USED	PRIMARY PURPOSE	PRIMARY FOCUS	FREQUENCY OF USE (Typical Case)	STATES CONTACTED USING TECHNIQUE
WAGE MATCHES					
EMPLOYMENT SECURITY	State Quarterly Wage Earning Reports & AFDC Caseload	Detection/Prevention	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	Detection	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	Detection	Identify Unreported Earned Income Fraud	Project Basis	Mass., Mich., NY., Ohio, Pa., Tx., Wash.
JURISDICTIONAL MATCHES					
INTRA-STATE	AFDC Caseloads of Local Jurisdictions within a State	Prevention/Detection	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	Detection	Identify Duplicate AFDC Assistance Fraud	Project Basis	Calif., Ind., Iowa Ma.,Md.,Mass.,Mich. NJ, Ohio, Ore.,Pa.,WA*
BENEFIT MATCHES					
UNEMPLOYMENT COMPENSATION	Unemployment Compensation Benefit Roll & AFDC Caseload	Detection/Prevention	Identify Unreported Bene[illegible] 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	Detection	Verification of Reported Benefit Income	Monthly	All States
OTHER MATCHES					
MISCELLANEOUS	Varied (State Income Tax, Motor Vehicle, School Attendance, and Other Benefit Program Records) & AFDC Caseload	Detection	Identify Unreported Income, Benefits, Assets, and Family Status Fraud	Project Basis	Ky., NJ., NY., Ore., Tx.
SELECTIVE CASE ACTION	AFDC Caseload & Error Prone Profile	Detection	Identify Error Prone Cases for Prioritizing Redeterminations and other Specialized Case Actions	Routine	Tx.
SELECTIVE CASE SCREENS	AFDC Caseload & Selective Factors	Detection	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 stamps, unemployment benefits, social security benefits), or assets (e.g., motor vehicles). Other frequently used matching techniques concentrate on identifying cases which involve duplicate assistance.

Computer-aided matching techniques are employed with different degrees of frequency. A few are routinely used for all applicants. Other matching programs are conducted routinely and periodically. Still other matching efforts are performed on an ad hoc or project basis.

Table 7-1 also summarizes the key characteristics of selective case action and case screening techniques. The selective case action technique is predicated on developing an empirically-based profile of error-prone cases and systematically applying this profile to an AFDC data base. Cases fitting the error-prone profile(s) are singled out by the computer to receive some form of special attention by the welfare agencies. By contrast, screening activities involve the identification of AFDC cases possessing a particular characteristic(s) thought to be related to error or fraud. The selection of characteristics for screening is typically based on the intuition of experienced caseworkers or investigators. As shown in Table 7-1, selective case action techniques are generally used to assist in the detection of error, while selective case screening techniques are more commonly employed as a method to detect fraud.

The intended use of various computer-aided techniques in a given state is influenced by the organizational locus for planning, operating and monitoring computer-aided, anti-fraud techniques. In five of the 19 states contacted by MITRE, computer matching and selective case action/screening are the

responsibility of the organizational unit charged with conducting fraud investigations.[165] In these states, the computer techniques appear to be used primarily to detect fraud--a natural outgrowth of the unit's mission. In the other 14 states, sections of the welfare agency other than the investigative unit are assigned the task of applying computer-aided techniques. In some of these states, the techniques are more apt to be seen as a way to provide caseworkers with supplemental information so that they can monitor the accuracy of their caseload. As a result, the investigative unit, if there is one, has not been vested with the responsibility to use information generated from computer techniques to initiate fraud investigations. In these situations, caseworkers have little incentive to use computer-generated data to actively pursue suspected cases of fraud. Thus, although the techniques are essentially the same, there appear to be some major differences among the states in terms of how the techniques are perceived, and it is reasonable to believe that these perceptions affect the nature and extent to which computer-aided techniques are used as a method to detect fraud.

The sections below provide more detailed description of the various techniques.

7.2 Computer-Aided Matching Techniques

7.2.1 Employment Security Wage Matching

Employment Security wage matching (hereafter ES Matching) is the most prevalent technique used by state (and local) welfare agencies to assist in the detection of AFDC fraud. A recent survey by the Office of Family Assistance indicated that 33 states are using this technique.[166] It is not unexpected that 13 of

[165] California, Florida, Michigan, New Jersey, and Washington State

[166] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), Attachment 2.

the 19 states contacted by MITRE reported using ES Matching. This is a post-AFDC payment matching operation comparing recipients of an AFDC caseload against the wage files maintained by a state Employment Security agency (i.e., the single agency that administers a state's Unemployment Insurance program).[167] ES Matching helps identify AFDC recipients underreporting or failing to report income.[168] In essence, ES Matching provides an independent means for verifying information provided by recipients about earned income so as to ensure the correctness of AFDC benefit payments. ES Matching may also lead to the discovery of earned income which recipients have failed to report. It is typically performed at the state level on a quarterly basis. There are five basic steps in conducting an ES match:[169]

- wage information concerning individuals is obtained periodically from a state Employment Security Agency
- a master list of AFDC cases that were open in the same period as the wage reporting period is constructed from state (or county) welfare files
- the wage information and the AFDC caseload listing are matched on the basis of a common identifier(s)

[167] That is, the match is designed to deal with individuals after they become AFDC recipients. A few states, because of direct on-line computer access to ES wage data, conduct this technique on a case-by-case basis prior to the determination of eligibility. These states also conduct ES Matching on a quarterly post-payment basis.

[168] U.S. Department of Health, Education and Welfare, Social Rehabilitation Service, Office of State Systems Operations, IDEX-Interjurisdictional Data Exchange Systems, SRS-76-06009, (1976), pp. 3-6. Hereafter cited as IDEX.

[169] Ibid., and U.S. Department of Health, Education, and Welfare, How They Do It - Fraud Control, California and New York, (June 1975). Both documents provide computer software instructions for conducting this and other matching techniques.

- case identification and supporting data are generated when there is a match between the AFDC and wage records information, and
- match reports are forwarded to local welfare agencies to initiate case reviews and to institute appropriate actions.

ES Matching can only be conducted when a state maintains a central wage data base as part of its unemployment compensation program. Forty states require employers to submit quarterly earnings data on all their employees to a state agency which calculates and administers unemployment compensation benefits.[170] Some categories of employees, however, do not have their wages reported because they are not covered by state or federal laws; these include:

- agricultural workers
- domestics
- unpaid family workers
- employees of selected non-profit organizations
- federal, state and local government employees
- military personnel
- the self-employed, and
- employees of firms under a certain size which are excluded under state law.

Despite these exceptions, national statistics indicate that 67 percent of the U.S. work force is covered under state unemployment

[170] In the other 10 states, employers are required to submit employee earnings data only at the time when an ex-employee files for unemployment benefits.

compensation programs and a large proportion of this work force resides in states requiring quarterly wage data to be collected.[171]

Wage files maintained by state Employment Security agencies are similar in many respects:

- they are updated quarterly
- they contain historical wage data for a number of quarters (usually four to six) listed by both the employee and employer, and
- there is a time lag (from one to two quarters) required to post all quarterly earnings to the wage file.[172]

Data contained in the ES wage files about individual wage earners typically include:

- Social Security number
- name(often truncated to a limited number of characters)
- employer's state account numbers, and
- gross earned income for a series of reporting quarters.

The wage data files described above must be made available to a state welfare agency as a first step in conducting ES Matching. State welfare agencies are provided access to this data by state statutes or by an agreement, formal or informal, between state agencies.

171 U.S. Department of Health, Education and Welfare, IDEX, (1976), pp. 14-16.

172 Ibid. See also New York State Department of Social Services, CINTRAK/Wage Reporting Systems, Administrative Directive 79 ADM-1, (January 1979); and State of California, Health and Welfare Agency, Department of Benefit Payments, Earnings Clearance System (ECS) Training Module, Internal Publication, (February 1977).

Development of an AFDC recipient listing to match against the wage file is the second step of ES Matching. This may be the entire state-level data base containing information on AFDC recipients or a condensed version of that data base. These recipient data bases vary among states in terms of the completeness and the scope of the information they contain regarding AFDC recipients. Many states have some type of AFDC recipient or benefit information system that can be employed to create a listing of recipients. A few states must rely on periodic listings of recipients provided by local agencies. In at least one state, a state-level Medicaid eligibility history file is used to develop the AFDC recipient file to be employed in the ES match.[173] An AFDC recipient listing might include:

- all AFDC recipients (including children) maintained on a case
- only AFDC recipients who are categorized as heads of household, and
- AFDC heads of household and other recipients over a particular age.

Additionally, the AFDC listing may include only recipients with a recorded SSN or cases with an SSN validated by the Social Security Administration.[174] The listing of cases to be matched may also be restricted to recipients from certain jurisdictions in a state or to cases due for eligibility redetermination.

173 State of California, Earnings Clearance System (ECS) Training Module, (February 1977), p. 2.

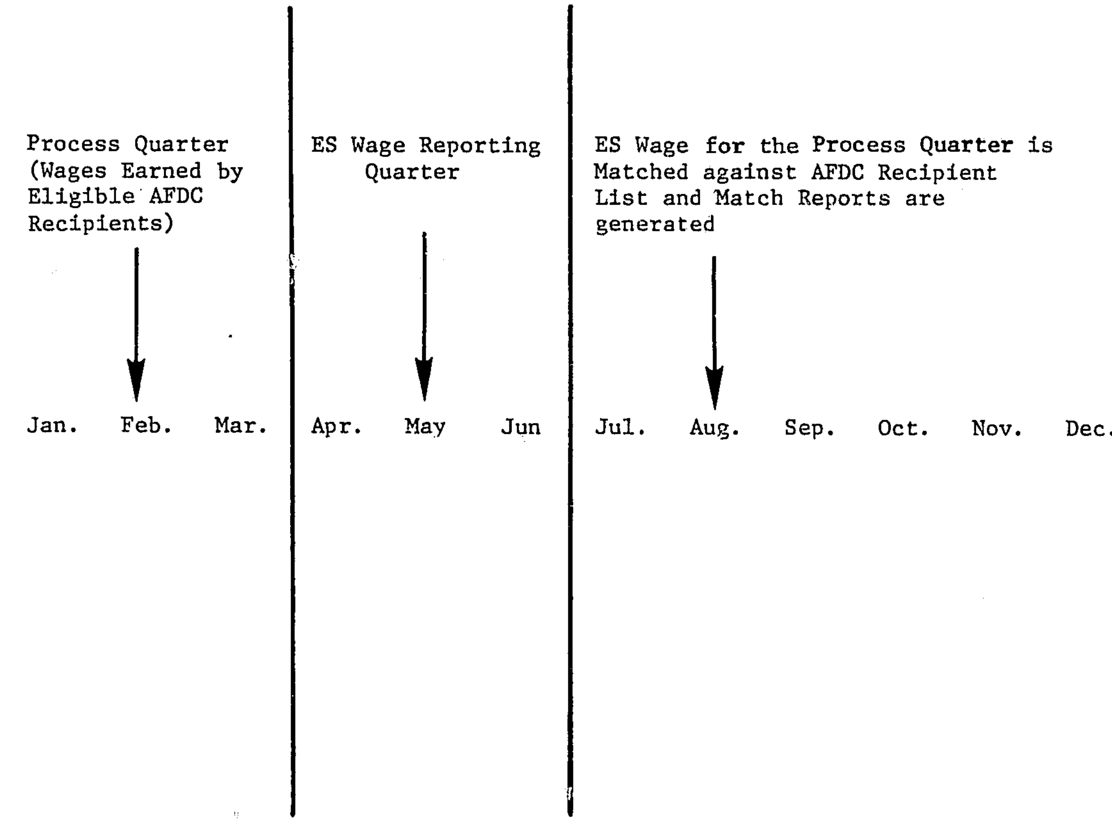
174 A number of states conducting ES Matching have incorporated automated processing steps to systematically identify erroneous or missing SSNs as a function of developing an AFDC listing for matching purposes.

The AFDC recipient listing in many states is edited to include only recipients known to be eligible and receiving benefits during the most recent quarters for which wage data are contained in the ES wage files. This increases the probability (although it does not ensure it) that recipients who are identified by a match were at least earning income and collecting AFDC benefits during the same time period. If the eligibility period of recipients is not specified on the automated data base, matching results will require careful manual examination to determine whether recipients were receiving AFDC benefits and income concurrently.[175] Figure 7-1 depicts the timing of ES Matching as it is typically employed in the states. As shown in this Figure, the matching process occurs approximately 4 months after the submission of employee wage information by employers.

The matching operation is usually conducted either by the welfare agency or by the Employment Security agency of the state, depending upon the specific arrangements in a state and their computer capabilities. The limited number of personal identifiers contained in ES wage files usually restricts the matching operation to a simple comparison on the basis of Social Security Number (SSN). When the same SSN is contained in both files, a "raw match" is identified by the computer. If individual identification data on both files permit, matching may be conducted on the basis of additional criteria--usually a combination of name, birth date, or sex.[176]

[175] Some states only maintain a recipient listing of the active AFDC caseload for the current month. Historical information about periods of eligibility for recipients in these states can only be determined by examining the case records maintained by local welfare offices.

[176] U.S. Department of Health, Education and Welfare, IDEX, (1976), p. 19.



Source: Adapted from New York State, Department of Social Services, Administrative Directive 79 ADM-1, CINTRAK/Wage Reporting System, (January 1979).

FIGURE 7-1
TIMING OF A TYPICAL AFDC ES MATCH

When a "raw match" occurs, available information about the matched individual contained in the AFDC and wage files is extracted and match reports are prepared. The information about "matched" AFDC recipients provided in these reports may differ from jurisdiction to jurisdiction, depending on the information contained in their automated data bases. States with relatively comprehensive AFDC data bases are able to provide more information about AFDC recipients identified by a match, e.g., eligibility status, the amount of earned income reported to the welfare agency by recipients and name of previous or current employers. States with more limited data bases may only provide the name and AFDC case number of a matched recipient.

Figures 7-2 and 7-3 show some sample forms generated by various ES Matching techniques. Both of these forms contain employer-related information required to address the problem of recipient fraud with respect to unreported income. Additionally, the match report in Figure 7-3 has two features worth noting. First, the report indicates a matched recipient's AFDC eligibility status for the months that income was reported to the Employment Security agency. Second, this report offers an income cutoff feature, i.e., local welfare agencies would receive match reports only when earned income exceeds a certain amount. The income cutoff level is usually dictated by local welfare office policy not to examine matches involving relatively small amounts of earned income. Overpayment due to small amounts of unreported earned income may not justify the cost of verifying, adjusting and collecting the overpaid amount.[177]

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[177] State of California, Health and Welfare Agency, Department of Benefit Payments, Earnings Clearance System Review, Project #75-6, (September 1976), p. 3.

RESOURCE REPORT

Issued 1/15/79

CLIENT IDENTIFICATION

Client Name	Category	Case Number Suffix	Case Control Code	Code	District Code
JANE M. DOE	ADC	1234567	M16	64	01

Social Security Number	Date of Birth	Sex	Last Cintrak Update	Match Criteria
987-65-4321	03/08/47	F	12/25/78	SSN + SURNAME

RESOURCE INFORMATION

THIS INFORMATION WAS REPORTED BY EMPLOYERS

EMPLOYEE NAME	JUL-SEPT 1978 GROSS WAGES	EMPLOYER NAME AND ADDRESS
JANE DOE	$ 1,250	ABC SUPERMARKETS 123 DEKALB AVENUE ALBANY, NY 12201
JANE DOE	$ 345	AL & MARY'S MARKET 238 CELESTIAL WAY LATHAM, NY 12450

Source: Adapted from New York State, Department of Social Services, CINTRAK/Wage Reporting System, 79-ADM-1, (January 1979).

FIGURE 7-2
SAMPLE REPORT GENERATED FROM ES MATCHING TECHNIQUE

PROCESS QUARTER October - December 1976

COUNTY OF Santa Cruz

1. CASE IDENTIFICATION CO.	AID	CASE NO.	FBU	PER.	2. RECIPIENT NAME	3. DATE OF BIRTH MO.	DAY	YR.	4. SEX	5. S/S ACCOUNT NO.	6. CO.USE
44	35	068591	0	02	John Doe	11	27	44	M	454-96-0172	EN10

7. WELFARE ELIGIBILITY MO.1	MO.2	MO.3	8.	9.
Yes	Yes	Yes	COUNTY MINIMUM $1	October-December $450.00

10. EMPLOYER

NAME AND ADDRESS	EDD ACCT. NO.	EMPLOYEE NAME	AMOUNT
General Electronics 916 The Alameda Santa Cruz, CA	413901	John Doe	$450.00

11. PRIOR QUARTERS EARNINGS

FIRST PRIOR	July-September 1976	0	THIRD PRIOR	January-March 1976	0
SECOND PRIOR	April-June 1976	0	FOURTH PRIOR	October-December 1975	$950

Source: State of California, Earnings Clearance System Training Module-Aid to Families with Dependent Children, (February 1977).

FIGURE 7-3
SAMPLE REPORT GENERATED FROM ES MATCHING TECHNIQUE

An ES match report merely indicates the possible misreporting of earned income by an AFDC recipient: a "raw" match cannot be equated with misreporting of income, and certainly does not denote fraud. The computer-generated "raw" matches must be manually verified by welfare staff and/or fraud investigative personnel. As shown in Figure 7-4, there are six basic steps involved in this manual verification. It is important to note that these steps are essentially the same for all wage matching techniques involving the identification of unreported wages or benefits. These steps are described here because ES Matches constitute the most prevalent and comprehensively documented computer matching technique.

The first step in the manual processing of ES Match reports is the distribution of the reports to local welfare agencies. State welfare agencies typically sort raw match reports according to the local welfare agency serving the recipient(s) identified in the match. In some cases, matched reports are prioritized by state officials before distribution, usually on the basis of the amount of earned income indicated by the ES file. Prior to distributing matched reports to local welfare agencies, some states place this information in a central file for subsequent monitoring of actions taken at the local level. Other states merely distribute the reports as a management service for local agencies and do not maintain a central file.

CONTINUED

STEP 1	MATCH REPORTS PROVIDED TO LOCAL WELFARE AGENCY
STEP 2	ADDITIONAL PROCESSING AND SCREENING OF MATCHES CONDUCTED BY LOCAL AGENCY
STEP 3	IDENTIFICATION OF MATCHED RECIPIENT VALIDATED BY COMPARISON WITH CASE FILE
STEP 4	WAGE DATA FROM ES FILE COMPARED TO WAGE AMOUNTS REPORTED BY CLIENT
STEP 5	DISCREPANCIES IN INCOME IDENTIFIED IN STEP 4 VERIFIED BY COLLATERAL CONTACTS WITH RECIPIENT AND EMPLOYER
STEP 6	FRAUD REFERRAL OR OTHER CASE ACTION DECIDED

FIGURE 7-4
STEPS FOR MANUALLY PROCESSING ES MATCH REPORT

In the second step, local welfare agency staff screen the raw matches prior to performing an in-depth manual review of the case records. Some local welfare agencies may use EDP capabilities to assist case screening, especially the larger agencies with advanced automated information systems. For instance, after receiving raw match reports, local welfare agencies may supplement this information with data from their own AFDC data base. This is useful since the information extracted from the local data base (usually data about eligibility periods and reported income) may allow welfare staff to eliminate some matches without conducting a manual check of a case record. For example, automated comparisons of raw match reports with local AFDC recipient files may show that the recipient either reported the earned income indicated by the match, or did not receive AFDC benefits at the time he had earned income. Additionally, some local agencies use their automated capabilities to prioritize raw matches and to assign cases to specific workers for manual review.

The third step involved in the ES Match process is the validation of recipient identification data contained in the raw match report through comparison with the data recorded in the manual case record. It is possible that recipients singled out by an ES Match may be incorrectly identified because of data processing mistakes or erroneously reported (or recorded) SSNs.[178] Where obvious mistakes such as these are evident, cases may be eliminated from any further review. When inconsistencies related to identification are not so apparent, an investigation may have to be initiated to establish that the person identified by a match is the same individual described in the manual AFDC case file.[179]

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[178] Ibid., pp. 31-33.

[179] Ibid.

A detailed month-by-month examination of a matched recipient's eligibility information in the AFDC case file is the fourth step in processing an ES Match, because an individual may have earned income during a period when he/she was not an AFDC recipient. This examination is conducted to establish:

- whether the matched recipient received AFDC benefits and earned income during the same period
- whether a discrepancy exists between the amount of income reported by a matched recipient to the welfare agency and the amount of earned income indicated by the match report, and
- whether discrepancies in income appear to be the result of agency or client error.

The case record of a matched recipient is examined to compare the earned income reported by the recipient to the local welfare agency with the quarterly wage data indicated by the ES Match and to identify discrepancies between the two information sources.

The income comparison must also take into consideration differences in the methods used to report income to state Employment Security agencies and to welfare agencies. For instance, employers usually report income to an Employment Security agency based on the date the income was earned, while recipients typically report income to a welfare agency according to the date the income was received. For instance, in California:

> Recipients report income to the county welfare department on a monthly basis by date received. Employers report quarterly to EDD, usually by dates the wages were earned. A check received by a recipient January 2 and reported on the January WR 7 to the county welfare department may be considered December earnings by the employer and reported

> to EDD in the fourth quarter. Without looking at the January and September WR 7s, the eligibility worker may act on a false discrepancy in this case.[180]

The AFDC case records must also be reviewed to determine if apparent income discrepancies were the result of administrative errors by the welfare agency. It is possible that an apparent discrepancy in income may be the result of an AFDC caseworker failing to correctly record income information reported by the recipient.

The fifth step in the manual processing of an ES Match entails the verification of income discrepancies identified during Step 4. Both the recipients and their employer(s), as identified by the match report and the AFDC case record, are contacted. Employers are asked to verify that the recipient identified by the match was employed during the period indicated. This verification is also necessary to obtain a more detailed account of income earned by the recipient so that the welfare agency can properly document discrepancies and accurately calculate the amount of AFDC benefit overpayments that resulted from such discrepancies. After the employer has verified the earned income information, the welfare agency may confront the recipient, either by mail or in person, to discuss the income discrepancy. State and local practices dictate the how, who, and when of this confrontation. For example, in some states where caseworkers are primarily involved with processing ES Match reports, a referral to a formal investigative unit may be required prior to contacting any recipients about verified match results. In other states, caseworkers are encouraged to confront recipients with

[180] Ibid., p. 9. "EDD" is the state Employment Security Agency and "WR-7" is the form used by AFDC recipients to report earnings to local welfare agencies.

verified match results as early as possible in an attempt to facilitate voluntary grant adjustments, restitution, or case terminations.[181]

In the final step, a decision is made concerning the initiation of a formal investigation of the recipient for AFDC fraud. Although this decision is often considered part of the matching process, it is an independent decision made only after the manual AFDC case record has been examined by welfare agency staff. The factors entering into this decision are the same factors as those considered in any other case of AFDC fraud detected by other means such as hopper alert, hot-lines, or caseworker referrals.

Few states apparently require the results of ES Matches to be systematically compiled on a state-wide basis.[182] Consequently, in most states statistics regarding AFDC fraud (or error) do not distinguish between ES Match-initiated case actions and fraud investigations from other means of detection. There are some exceptions, however. An ES Matching system recently implemented in New York State has an automated status reporting component. This component requires that all case actions and fraud referrals resulting from an ES Match be reported to the state welfare agency unit charged with conducting the matching operation. The results are reported on a standard form (shown in Figure 7-5).

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[181] See State of New York, CENTRAK/Wage Reporting System, (January 1979), Attachment V through IX for examples of forms for handling contacts with recipients and employers.

[182] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), pp. 30-33.

INSTRUCTIONS	LOCAL DISTRICT RESPONSE (Welfare Agency)
CONTACT: PROGRAM OPERATIONS BUREAU REF: 79 ADM-1 PROCEDURE: 1. REVIEW CASE RECORD. 2. IF NO ACTION REQUIRED, COMPLETE SECTION A, AND GO TO STEP 5. 3. IF ACTION REQUIRED, CONTACT CLIENT AND, IF NECESSARY, CLIENT'S EMPLOYER. COMPLETE SECTION D REGARDLESS OF PENDING FAIR HEARING AND GO TO STEP 4. 4. IF OTHER ACTIONS ARE KNOWN TO HAVE BEEN TAKEN, COMPLETE SECTION C AND GO TO STEP 5. 5. COPY ALL RESPONSES FROM LEFT SIDE TO RIGHT SIDE, SIGN AND SEND TO ADDRESS AT TOP.	A. NO ACTION TAKEN (check one reason) ____ 1. Case closed prior to review (check and enter date closed). Month / Year ____ 2. Income or resource prior to case opening. ____ 3. Individual not a case member. ____ 4. Client and resource individual not the same person. ____ 5. Current budget is correct. B. BUDGET ACTION TAKEN 1. Check action taken as a result of review and complete item B-2. ____ a. Case closed-Client failed to report. ____ b. Case closed-Categorically or financially ineligible ____ c. Case rebudgeted. 2. Enter monthly grant. Previous $ / Revised $ 3. If recoupment initiated, enter total amount. Total to be Recouped $ C. ADDITIONAL ACTION TAKEN (Check if known) ____ 1. Case referred for investigation of possible fraud. ____ 2. Third party health insurance identified. Signature of Preparer X / Date

Source: Adapted from New York State, Department of Social Services, CINTRAK/Wage Reporting System, 79-ADM-1, (January 1979), Attachment I.

FIGURE 7-5
FORM USED TO REPORT THE RESULTS OF ES MATCHES FOR NEW YORK STATE

State personnel that routinely employ the ES Matching technique claim that it is effective and cost beneficial.[183] Unfortunately, actual statistics on the costs and effectiveness of ES Matching efforts appear to be very limited. An assessment of the ES Match (or any other matching technique) might require information such as:

- the number of "raw" matches (sometimes referred to as "hits")
- the number of matches verified to be valid after case review by local welfare staff
- the number of matches in which income discrepancies were found
- the number of matches leading to administrative case actions such as grant adjustments, restitution or case terminations
- the number of matches leading to the referral of cases for investigation and/or prosecution for fraud
- the costs of conducting the matching operation including the costs of both data processing and the manual activities necessary to use the information at the local level
- the amount of overpayment assessed
- the cost of recovering overpayment, and
- the actual amount recovered.

Some limited information about the cost and effectiveness of ES Matching is available. One state claimed that ES Matching conducted during a one year period saved 1.7 million dollars. ES Matches in this state resulted in the termination of 711 cases and the reduction of AFDC benefit payments in 477 cases.

[183]Ibid., p. 36.

The head of the fraud investigation unit in this state estimated that ES Matching identified approximately 10 percent of all cases in the state referred for fraud investigation. Of the cases initially identified by the ES Matching technique, 2,432 cases were referred to prosecutors.[184] Another state, reporting the results of one year of ES Matching, indicated that a cost savings of 4 million dollars was achieved via administrative actions.[185] In a third state, MITRE learned that leads initiated by ES Matching over a five-year period resulted in a cost savings of 8 million dollars and the referral of 8,000 cases of suspected fraud to prosecutors.

Other data concerning ES Matching focus on the accuracy of the technique, that is, the percent of cases identified by the ES Match that actually contain an income discrepancy when verified via a manual case review. In this regard, one state reported that only 2 percent of the 16,000 "raw" matches led to the discovery of income discrepancies.[186] In another state, however, an internal audit of ES Matching revealed income discrepancies in approximately 40 percent of the "raw" hits. Comparisons between states are not very meaningful because of the differences previously discussed concerning the processing of ES Match information.

Despite the lack of comprehensive and comparable data about the effectiveness and costs of ES Matching, this technique is unquestionably viewed as the most important computer-aided, anti-fraud technique by those states that use it. Officials in many

[184]Ibid., p. 32.

[185]Ibid., pp. 32-33.

[186]Department of Health, Education and Welfare, <u>How They Do It - Wage Clearance Systems: Colorado and Oklahoma</u>, (1975), p. 12.

states believe that ES Matching plays a crucial role in deterring AFDC recipients from misreporting earned income. In the absence of solid empirical data concerning the role of ES Matching in the detection of fraud, perceptions about its deterrent effects are commonly used to fill the evidence vacuum and justify the cost of conducting ES Matching.

7.2.2 Summary Earnings Record Matching

A number of states have conducted matches between their AFDC caseloads and the wage information contained in the Social Security Administration's (SSA) Summary Earnings Records (hereafter SER Matching). Unlike ES Matching, which in most states is conducted on a quarterly basis, for the most part SER Matching has been a one-time effort. According to HEW's Office of Family Assistance, 9 states have used this type of matching.[187] As shown in Table 7-1 above, five of the nineteen states contacted by MITRE are using this technique.

The logic underlying the SER Matching technique is the same as that underlying ES Matching: to uncover underreported or unreported income received by AFDC recipients. The major difference is that ES Matching utilizes centralized wage information maintained by the states, while SER Matching compares AFDC recipient caseloads with wage data maintained by the Social Security Administration.

SER Matching was first attempted unsuccessfully by New York State around 1974. New York and other states were unable

[187] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 41. HEW has reported that 13 states are currently considering the use of SER Matching.

to gain permission to compare their AFDC records with the Social Security Administration's SER wage files until 1976.[188] Difficulty in obtaining these records was due to privacy considerations. Subsequently, access to SER wage files was granted and is now ensured by federal legislation (P.L. 95-216) which requires states to request SSA wage data to conduct matching (See Section 8.4, below).

There are two major reasons why states perform SER Matching. Perhaps most important is that a number of large states do not maintain centralized wage records themselves in connection with the state Unemployment Compensation program. Employment Security agencies in these states (known as wage requesting states) only request wage data from employers when an individual applies for unemployment compensation benefits. Thus, in order to conduct an income match, these states must seek wage data elsewhere--namely, from the SSA. A second reason is that SSA's SER records are more comprehensive than state Employment Security wage data in accounting for the number of employers.

Figure 7-6 shows the basic steps involved in performing SER Matching. These steps are similar to those used in ES Matching, but there are also several important differences. The most obvious difference is that the data processing operation for SER Matching is conducted by the SSA through a cost reimbursement agreement.[189] The second difference is that, in conducting SER Matching, states provide SSA with only the SSNs of all the AFDC recipients for a designated time period. States may submit all recorded SSNs or

[188] Committee on Government Operations, Hearings, Administration of the AFDC Program, (1977), pp. 159-190.

[189] Ohio Department of Public Welfare, SSA Computer Match List Project Memoranda, (April-July 1978).

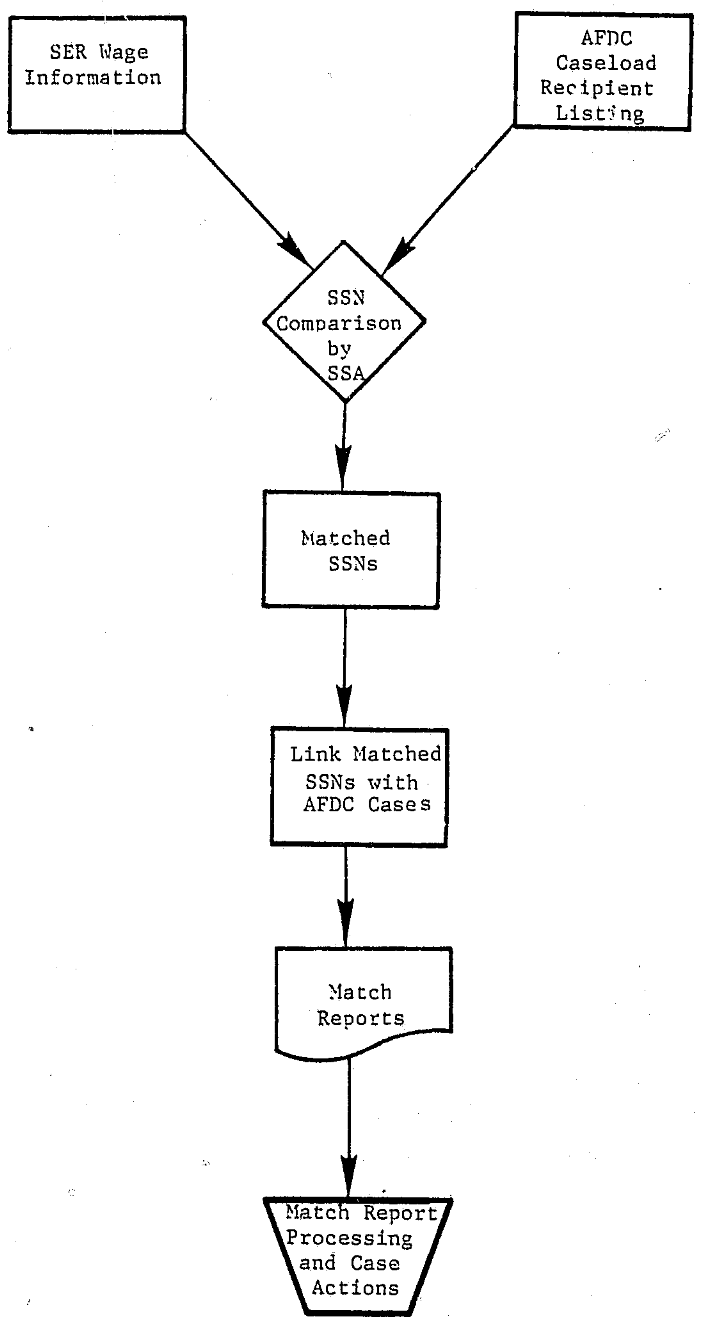

FIGURE 7-6
BASIC STEPS INVOLVED IN CONDUCTING A SUMMARY EARNINGS RECORD MATCH

only those SSNs which have been validated by the SSA. (A validated SSN is one that has been submitted to the SSA for confirmation of its existence and association with a specific name.) The SSA compares the SSN listing received from a state with its SER data base for a specified number of reporting quarters (usually one or two). States may try to anticipate the time lag between employer reporting to the SSA and the posting of SER data to automated files by coordinating the AFDC recipient listing with the corresponding SER data base. For example, Ohio recently conducted SER Matching by providing the SSA with a listing of AFDC recipients from their January 1978 monthly file. This listing was compared with SER wage information concerning earned income for the January through June 1977 period.[190] Anticipation of the time lag involved in reporting and posting of income increases the probability that any resulting matches are within the proper time frames.

After the Social Security Administration compares the SSNs contained in the AFDC and SER data bases, reports of SSNs common to both data bases are returned to the states. Each match is accompanied by the employer's name and address and the employee's earnings as reported to the SSA. State welfare agencies take the matches identified by SSA and attempt to link these matches to recipients in their caseload. In Ohio, for instance, attempts are made to link matched SSNs with a number of elements in the state's automated AFDC data base, primarily, the AFDC case number, recipient's name, address, date of birth, recipient number, sex, and benefit amount.[191] The greater the scope of recipient-related information contained in a state's automated AFDC data base, the

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[190] Ibid.

[191] Ibid.

higher the potential to screen out obvious bad matches prior to manual review of cases at the local level. Steps taken by local agencies to process SER Match reports are the same as those described for ES Matching in Section 7.2.1, above.

Because it relies entirely on the SSN as the matching element, SER Matching is dependent on the accuracy of the SSNs contained in a state's AFDC data base. If an incorrect SSN is provided to SSA, the information received from SSA will be for a wage earner other than the AFDC recipient. For this reason, it is important that the SER Match reports be cross-checked closely with manual case records to assure the validity of the match. The processing of SER matches, therefore, emphasizes the importance of manual case review to establish a valid match.

Evidence on the cost and effectiveness of SER Matching activities is limited. One national assessment suggests that SER Matching will have a significant impact on error and fraud detection. This assessment is based, in part, on New York City's experience with SER Matching. The data show that the New York effort has, thus far, resulted in the termination of 1,578 cases. Since the case records for all matches had not been reviewed at the time of the assessment, additional case terminations were anticipated. Overall, New York City projects a cost savings of 9.6 million dollars as a result of its SER Matching effort.[192]

Of the states contacted by MITRE, only Ohio provided documentation regarding the observed outcome of their SER Matching effort. Figure 7-7 depicts the results of Ohio's initial SER Match, performed in 1978. As the Figure shows, the comparison of the SSNs

[192] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 42.

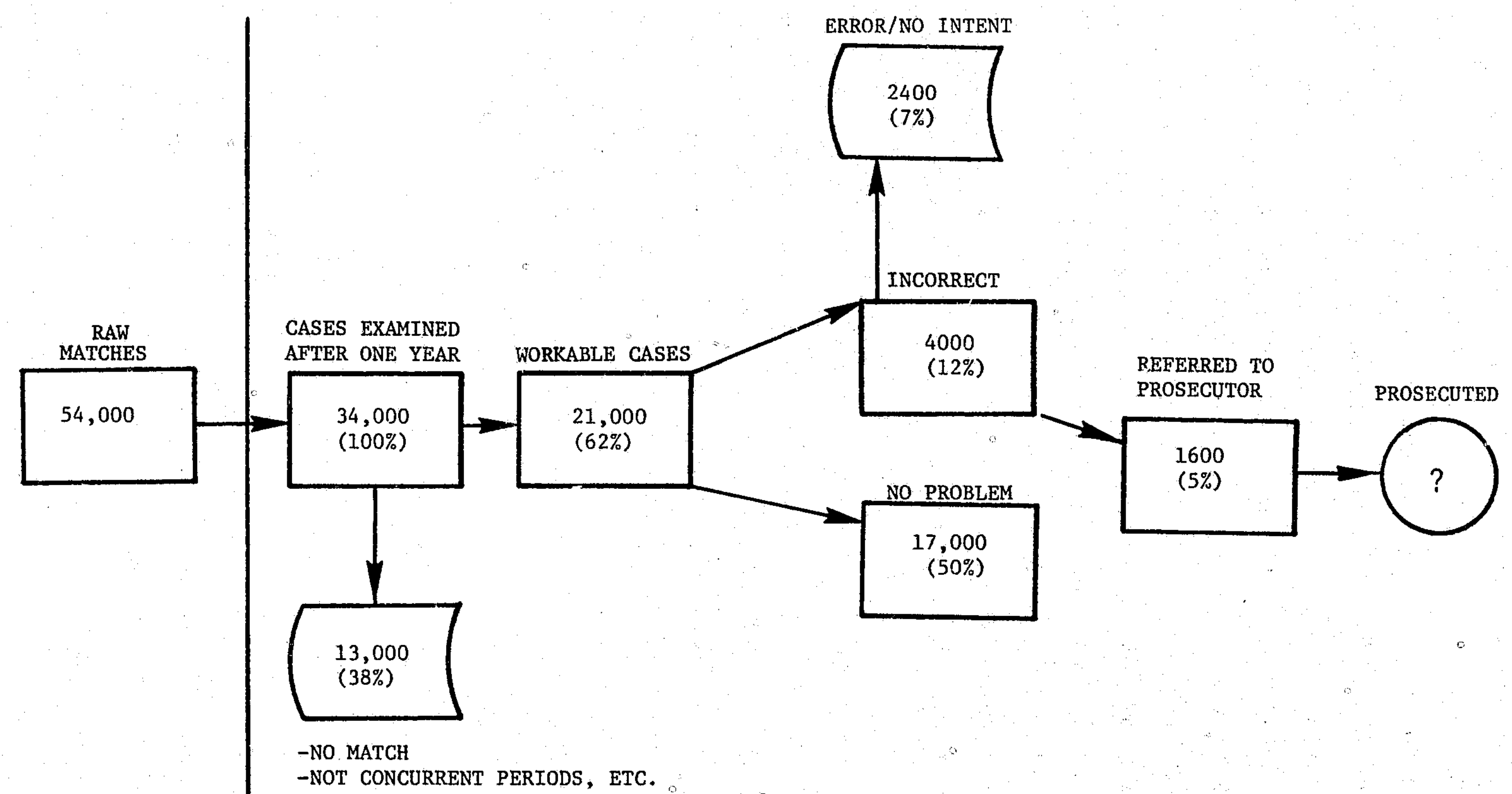


FIGURE 7-7
SER MATCHING RESULTS: THE OHIO EXPERIENCE

from the AFDC base with those in the SER file produced approximately 54,000 raw matches.[193] After one year, AFDC cases associated with 34,000 of these matches had been reviewed by state and local AFDC staff. Of these, 13,000 matches were found to be either incorrect matches or correct matches involving non-concurrent periods of employment and AFDC eligibility. The other 21,000 warranted further examination by case workers or investigators for possible error or fraud. Upon examination at the local level, approximately 17,000 matches were determined to be free of error. Errors in AFDC benefit payments were found in the remaining 4,000. Through investigative efforts, 2,400 of these 4,000 cases were determined to lack any intent to defraud the AFDC program. Because intent could not be ruled out by investigators in the other 1,600, these cases were referred to local prosecutors. Unfortunately, as indicated by the question mark in the Figure, the number of prosecutions resulting from leads initiated by SER Matching are not known. The cases referred to prosecution during the year were estimated to involve 2.1 million dollars in excess (fraudulent) AFDC benefit payments. No information was available concerning the actual cost of conducting the SER Matching or the relative contribution of this technique compared with other means of detecting AFDC fraud.

7.2.3 Payroll Matching

Payroll Matching efforts involve the direct comparison of an AFDC recipient caseload with a listing of individuals on the payroll of a specific organization(s). The purpose of Payroll Matching is the same as other income matching techniques--to identify AFDC recipients who may be receiving earned income and

[193] Numbers are rounded throughout this description for facilitating the example.

incorrectly reporting it to welfare agencies. The basic steps involved in conducting a payroll matching effort are the same as those for the ES and SER matching techniques discussed in the two previous sections. (Figures 7-8 and 7-10 depict the steps involved in two specific Payroll Matching operations--Project Match and Corporate Payroll Matching conducted in Michigan.)

The key difference between Payroll Matching and both ES and SER Matching involves the data sources used to make comparisons with an AFDC caseload. There are three important differences in this regard. First, Payroll Matching utilizes wage data obtained directly from employers, rather than relying on secondary sources of information such as those maintained by the Social Security Administration and state Employment Security agencies. Payroll Matching is typically restricted to organizations employing large numbers of people, for example, federal and state agencies and large private employers.

The second important difference concerns the aggregation of the wage data used for matching. Payroll information is typically recorded by employers on a weekly, biweekly or monthly basis. This corresponds closely with the time frame used by most welfare agencies to record earned income report by recipients.

A third difference concerns the timeliness of earned income data. Since payroll information is usually posted to an automated data base contemporaneously, it provides the most up-to-date wage data for matching against a current AFDC file.

Payroll Matching efforts of several kinds are conducted; the three most prominent types appear to be:

- matching AFDC recipients with employee payroll records of state and local governments

- matching AFDC recipients with the federal payroll records of both civilian and military employees (referred to as Project Match), and

- matching AFDC recipients with the payroll records of large corporate employers.

In recent years, a number of states (and jurisdictions in some states) have compared their AFDC caseload with government payroll information, while others have restricted the matching of AFDC caseloads to payroll data for employees of state or local welfare agencies. HEW's Office of Family Assistance has indicated that at least 24 states have conducted this type of Payroll Matching.[194] Seven of the 19 states contacted by MITRE also reported conducting this kind of effort. Anti-fraud efforts focusing on matching AFDC caseloads with state or local public employees are usually conducted on a project basis. There is no apparent pattern associated with the frequency with which payroll matching of this kind is performed. In addition to assisting in the development of leads about suspected cases of fraud, state and local government Payroll Matches are intended to emphasize government integrity and commitment to "clean its own shop" prior to conducting more widespread anti-fraud efforts among the general population. Since these matching efforts are typically ad hoc, formal documentation and assessments of these efforts are not available. Persons involved in Payroll Matching efforts focusing on government employees generally feel that these Matches had a positive impact. They believe that Payroll Matching has assisted

[194] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), Appendix A.

state and local governments both in deterring AFDC fraud and in building public confidence in the integrity of the AFDC program.

7.2.3.1 Project Match

Project Match, an HEW effort to compare state AFDC recipient listings with federal government employee payroll records, is perhaps the most notable example of Payroll Matching. Because of its national scope and because it involved every state welfare agency, Project Match has probably received more attention and publicity than any other computer-aided, anti-fraud effort used in the public assistance area.

Project Match was initiated in 1977 under an agreement among HEW, the Civil Service Commission and the Department of Defense. This agreement permitted HEW to use the central personnel data files of the Civil Service Commission and the active duty personnel files of the Department of Defense for the purpose of making comparisons with state AFDC caseloads. One impetus for this comparison was that data sources used in state and local income matching efforts (ES and SER Matching) do not contain information about federal employees. The agreement also specified that computer processing associated with the matching of the files would be conducted under the auspices of HEW's Inspector General's Office (see Section 5.2).[195]

Project Match has two phases. The first phase, discussed below, is a payroll matching effort. This phase involves the compilation of state AFDC recipient listings by HEW and the

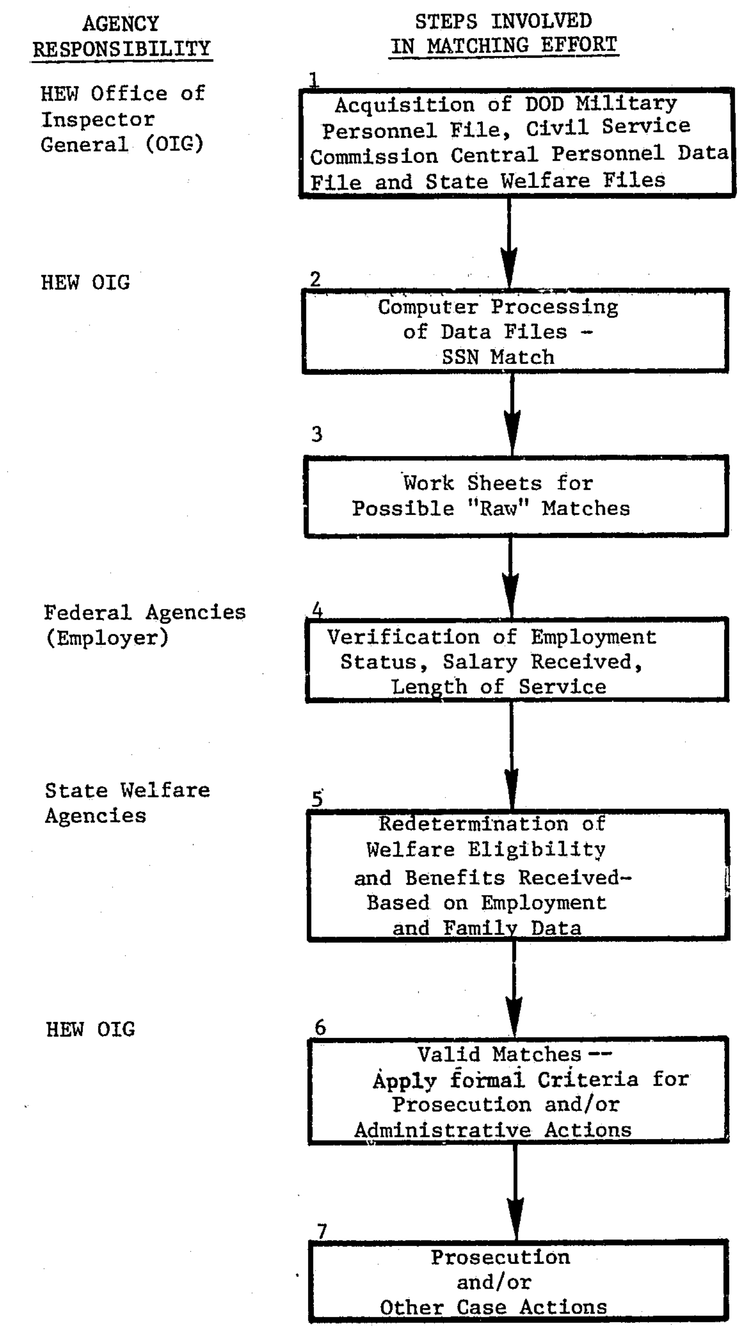
[195] Department of Health, Education and Welfare, Project Match Operating Plan, (December 1977).

comparison of these listings with federal personnel/payroll files. The second phase is an interjurisdictional matching effort. It involves the comparison of state AFDC recipient listings with one another to identify AFDC recipients who may have been receiving benefits in two or more jurisdictions.

Figure 7-8 presents the key steps involved in the payroll matching phase of Project Match.[196] Project Match, as described by HEW, consists of 6 steps plus prosecutions as appropriate. These steps are:

- acquisition of state AFDC recipient data files containing a roster of recipients to be matched and the acquisition of employee files from the Civil Service Commission and the Department of Defense
- automated matching of the state AFDC recipient and federal employee files, on the basis of common SSNs
- generation of work sheets for matched SSNs, providing the address, federal agency, birth date, and pay grade information contained in the federal employee file
- compilation of work sheets and distribution of them to appropriate federal agencies for verification of employment information (Work sheets are supplemented by the federal agency with the date of employment, date of termination if applicable, W-2 earnings since 1974, earnings for the current year, address for each year, date of birth, and sex.)
- distribution of verified work sheets to the appropriate state for manual case record review and verification of match information (State-level reviews are done in a manner parallel to the procedures described for ES and SER Matching), and
- referral of cases suspected of fraud back to HEW for decisions concerning prosecution and/or possible administrative action.

[196] This phase of Project Match was conducted in two steps. Each involves approximately half the steps.



Source: Department of Health, Education and Welfare, Project Match Operating Plan, (December 1977).

FIGURE 7-8
PROJECT MATCH SYSTEM FLOW CHART

There are two primary differences between Project Match and other income matching efforts. First, the computer matching operation is performed at the federal level by HEW. Second, and perhaps most important, HEW and the Department of Justice work together to make decisions about further case actions regarding investigation and prosecution of fraud. If a decision is made to pursue a particular case for fraud, the case is (theoretically) referred to an appropriate U.S. Attorney who is then responsible for ensuring that the case is properly investigated. In fact, however, investigations of Project Match cases are still conducted by state and local investigators with the U.S. Attorneys responsible for coordinating, monitoring and assisting in decisions concerning the administrative removal of recipients from the AFDC caseload or the reduction of recipients' AFDC benefits. Although state and local welfare agencies may make their own prosecutorial decisions, the federal government established formal criteria for the criminal prosecution of Project Match cases. For prosecution to be initiated, three criteria must be met:

- the recipient must be determined to be totally ineligible for benefits
- the amount of benefit loss must be in excess of $2,000 in one year, and
- the annual salary of the recipient must be in excess of $10,000.[197]

While a formal and comprehensive assessment of Project Match has not been conducted, some data are available concerning the results of the initial matching effort involving the comparison of AFDC recipient listings for 26 states with federal payroll

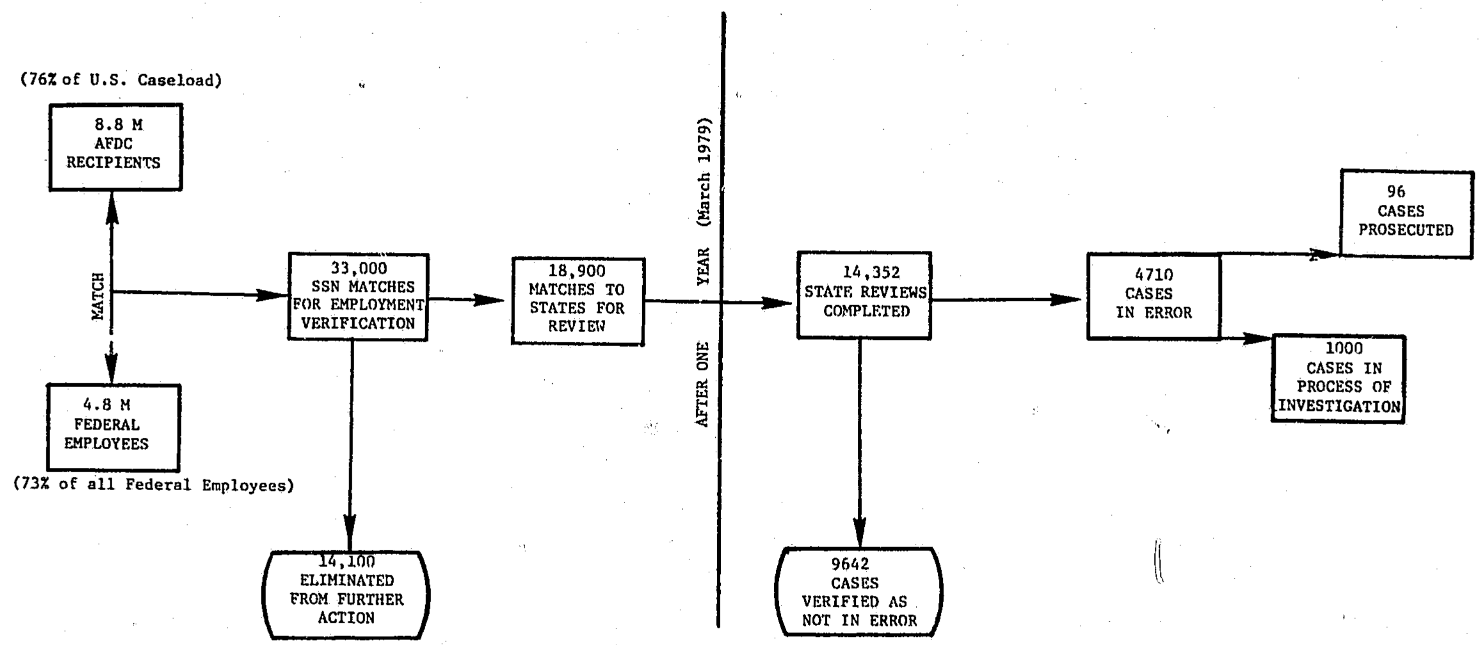
[197] Department of Health, Education and Welfare, Project Match Operating Plan, (December 1977).

records. This matching effort represented the comparison of 76 percent of the nation's AFDC recipients with 73 percent of all federal employees. Figure 7-9 presents the available data regarding the flow of cases identified by this matching effort. As the figure shows, the Project Match comparison yielded 33,000 raw matches which were forwarded to appropriate federal agencies for further verification of employment and for supplemental information concerning employee(s) wages. After HEW reviewed this information, 14,100 cases were eliminated from further processing because the matches were either invalid, involved relatively small sums of money, or the individuals identified by the match were no longer employed by the federal government.[198] The remaining 18,900 matches were sent to the appropriate state welfare agency for manual review of case records. Results after one year, as reported by HEW, were as follows:

- 14,353 cases were manually reviewed by the states
- 4710 of these cases were found to contain errors regarding eligibility determination
- 1000 of the 4710 erroneous cases were under active investigation for fraud, and
- 96 cases were prosecuted for AFDC fraud.

HEW found the payroll matching phase of Project Match to be cost beneficial in that the potential recovery of AFDC benefits plus the savings resulting from case closing and benefit reductions were estimated to substantially exceed the cost of federal matching activities. Additionally, HEW officials believed that the deterrent effect of prosecutions and the publicity associated with

[198] Office of Inspector General, Annual Report - January 1, 1978 - December 31, 1978, (March 31, 1979), p. 78.



Source: Department of Health, Education, and Welfare, Office of Inspector General, Annual Report, January 1, 1978 - December 31, 1978, (March 1979), pp. 96-100.
This figure represents the results of the matching of AFDC caseloads for the first 26 states participating in the initial phase of Project Match

FIGURE 7-9
PROJECT MATCH RESULTS—PAYROLL MATCHING PHASE

the project further contributed to its effectiveness.[199] State AFDC officials have not expressed either agreement or disagreement with these conclusions.

7.2.3.2 Corporate Payroll Matching--Michigan

Corporate payroll matching represents still another variant of income matching used to assist in the detection of error and fraud in the AFDC program. Thus far, only a few states (Illinois, Michigan, and New York) have experimented with this type of matching technique.[200] The Michigan experience is generally considered the most comprehensive and best known effort of this type. Two factors appear to make corporate payroll matching as conducted in Michigan particularly noteworthy. First, because of the concentration of a large number of automobile industry employees and the absence of a state wage reporting system in Michigan, corporate payroll matching is the predominate computer-aided AFDC matching technique used by the state. Second, Michigan's corporate payroll matching is one of the few computer-aided efforts to use multiple criteria to compare data files and to prioritize matches for case review.

The basic steps involved in the corporate payroll match, as conducted in Michigan, are presented in Figure 7-10. The match process is accomplished on a project basis and is initiated with the automated compilation of the AFDC recipients' Social Security Numbers by the state welfare agency. A computer tape

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[199] Ibid., p. 100.

[200] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July, 1978), Appendix A.

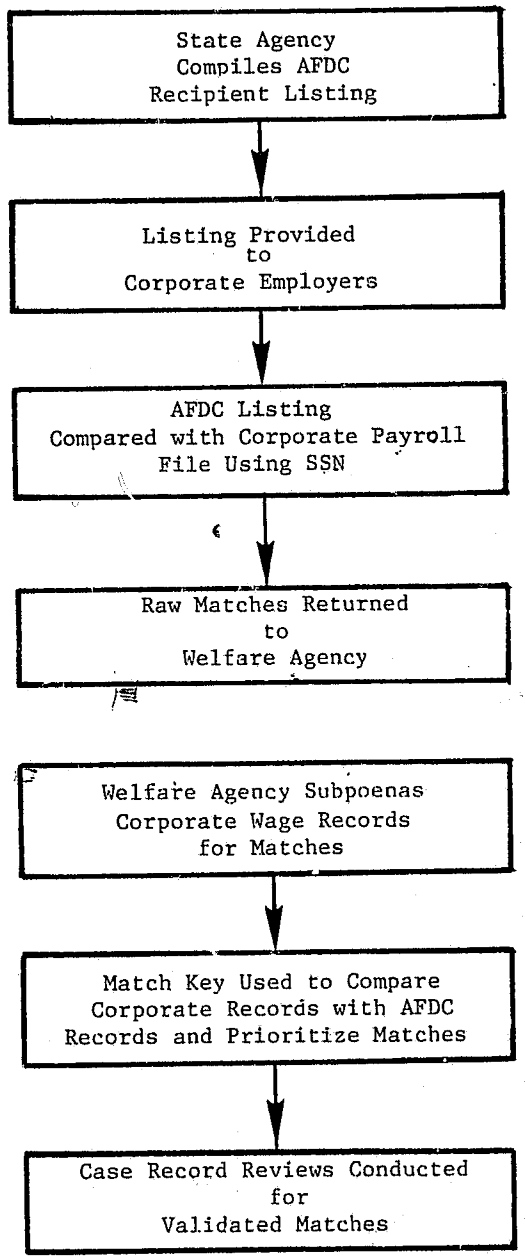

FIGURE 7-10
STEPS INVOLVED IN CORPORATE PAYROLL MATCHING
(THE MICHIGAN EXPERIENCE)

of the recipients' Social Security Numbers is then provided to corporate employers.[201] (This computer tape only contains recipients' SSNs; it does not contain any other identifying information about the recipients such as names, addresses and so on.) The corporations, in turn, compare the AFDC listing with the SSNs contained in their payroll file for a specific date. (For instance, active AFDC recipients as of July 1, 1978 would be matched with a corporation's July 1978 payroll file.) Raw matches (common SSNs contained in both files) are identified, compiled, and returned in the form of a paper printout to the state welfare agency. The welfare agency then links the matched SSNs with the corresponding AFDC recipient case file. The state welfare agency then subpoenas from each corporate employer further information concerning the name, date of birth, sex, address and two years of detailed wage data for each matched recipient.

The state's ability to obtain payroll data via this process is based directly on a 1976 provision of the Michigan Code which requires employers and financial institutions to furnish wage data and other information when requested to the Michigan state welfare agency for the administration of the AFDC program.[202] Corporations participating in this matching effort compile the requested information, record it on a computer tape and submit it to the state welfare agency. Personal identification information provided by employers for each matched case is then compared

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[201] During the first iteration of this process in Michigan, conducted during 1977-78, tapes containing AFDC recipients' Social Security Numbers were sent to General Motors, Ford, Chrysler, Michigan Bell and Detroit Edison.

[202] Trainor and Lentz, <u>A Report on the Use of Income Data in the Administration of the AFDC Program</u>, (July 1978), p. 44.

by computer with similar information extracted from state AFDC recipient case files. Based upon the number of recipient identification elements common to both the AFDC and corporate files, a priority rating is calculated. The priority rating is used by local investigators and welfare staff to guide them in the allocation of resources for case review and investigative activities. Status codes are assigned to each of the comparison elements, for example, name (including SOUNDEX match), date of birth and sex. (SOUNDEX is a computerized name-comparison program that identifies similar sounding names and checks for the juxtaposition of letters, names and initials which might refer to the same individual.) To illustrate, the assignment of a status code for a comparison of name in both files might be as follows:[203]

Status Code		Extent of Match
0	=	No match on name
1	=	Last and first names match
2	=	Last names match
3	=	First four positions of last name match

Status codes for each comparison criterion are then compiled, permitting an overall prioritization of the matches. Finally, the prioritized listing of matches is turned over to investigators. The investigators, in concert with welfare staff, conduct manual case record reviews and decide about agency error and recipient fraud in the same manner previously described for other types of matching techniques.

[203] Michigan Department of Social Services, Eligibility Review Project Procedures, (Internal Department Document), (1978), p. 45.

Once again, little evidence is available to assess the effectiveness of this particular matching technique. Representatives from the Michigan Department of Social Services believe that corporate payroll matching has provided them with a valuable mechanism for identifying and correcting agency errors due to misreporting of income and for reducing AFDC recipient fraud. During the first iteration of their corporate payroll matching effort, 5,400 raw matches were produced. Subpoenas were subsequently issued to obtain the full data files for 3,300 individuals. Additional process and outcome data are not, as yet, available. By contrast, New York City has reported that its efforts were excessively costly and time consuming in terms of any potential benefits.[204]

7.2.4 Jurisdictional Matching

Jurisdictional Matching techniques involve the comparison of AFDC caseload recipient listings with one another or internally in an attempt to detect individuals who may be receiving duplicate AFDC benefits. There are two basic variations of jurisdictional matches conducted by state and local welfare agencies:

- interstate - matching of AFDC files among two or more states, and
- intrastate - matching of AFDC files among jurisdictions or within one jurisdiction in a state.

Interstate Jurisdictional Matching is performed on a post-payment basis only. That is, the match compares the active recipient caseloads of two or more states. Intrastate Jurisdictional Matching is performed both on a post-payment basis and on a prepayment

[204] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 45.

basis. When used on a prepayment basis, Intrastate Jurisdictional Matching is conducted as part of the application clearance process to prevent applicants from establishing more than one AFDC case at a time. Case or eligibility workers are typically responsible for performing these pre-application matches as part of the routine case information verification activities.

When Jurisdictional Matching of either type is performed on a post-payment basis, its primary purpose is to detect recipients who are receiving duplicate benefit payments. Post-payment intrajurisdictional matching is often used by states and local welfare agencies that lack the on-line automated capabilities required to ascertain on a case-by-case basis at application whether individuals are already receiving benefits in a given jurisdiction. Many states also used this type of matching in addition to automated screening of potential recipients at application. There appear to be two reasons for using post-payment intrastate jurisdictional matching. First, this type of matching assists in the detection of recipients who may be receiving duplicate benefits but who, for a number of reasons, were not cleared at application by on-line automated processing. Second, post-payment intrajurisdictional matches guard against applicants who might apply simultaneously (e.g., the same day) for AFDC benefits at a number of agencies. In such instances, data files routinely used in automated clearance systems may not be updated rapidly enough to detect the establishment of duplicate cases.

Typically, post-payment jurisdictional matches are performed on a project basis, although in a few instances these matches are being performed periodically. For example, the Duplicate Aid Detection System (DADS) operating in California is an intrajurisdictional matching effort that is performed every six months.

The extent to which different types of jurisdictional matches are employed nationally is unknown. While not representative, 12 of the 19 states contacted by MITRE had conducted interstate jurisdictional matches. Intrastate matching, either computer-aided clearances performed at application and/or post-payment matches between the AFDC caseload of two or more jurisdictions in a state, had been conducted by 14 of the 19 states.[205] Pre-payment intrastate jurisdictional matching systems will not be addressed in further detail, because this type of matching is considered by most AFDC practitioners as an administrative case maintenance function rather than an anti-fraud activity. The remaining part of this section deals exclusively with post-payment jurisdictional matching efforts.

Figure 7-11 shows that the first step in post-payment matching involves obtaining the AFDC recipient data files from the jurisdictions participating in the match. In the case of intrastate matching, states merely make internal comparisons of active AFDC recipients using the state welfare agency's centralized data base, so as to identify individuals receiving duplicate benefit payments either within one county or in more than one county within the state.

When states decide to conduct interstate matching, a data exchange must be negotiated among the participating states. Agreement must be achieved among states concerning:

- the type of data to be exchanged (e.g., all recipients, heads of household, only recipients from bordering jurisdictions)

[205] This study did not examine the extent to which local jurisdictions within states internally monitored their own AFDC recipient files to assist in the identification of cases of duplicate assistance.

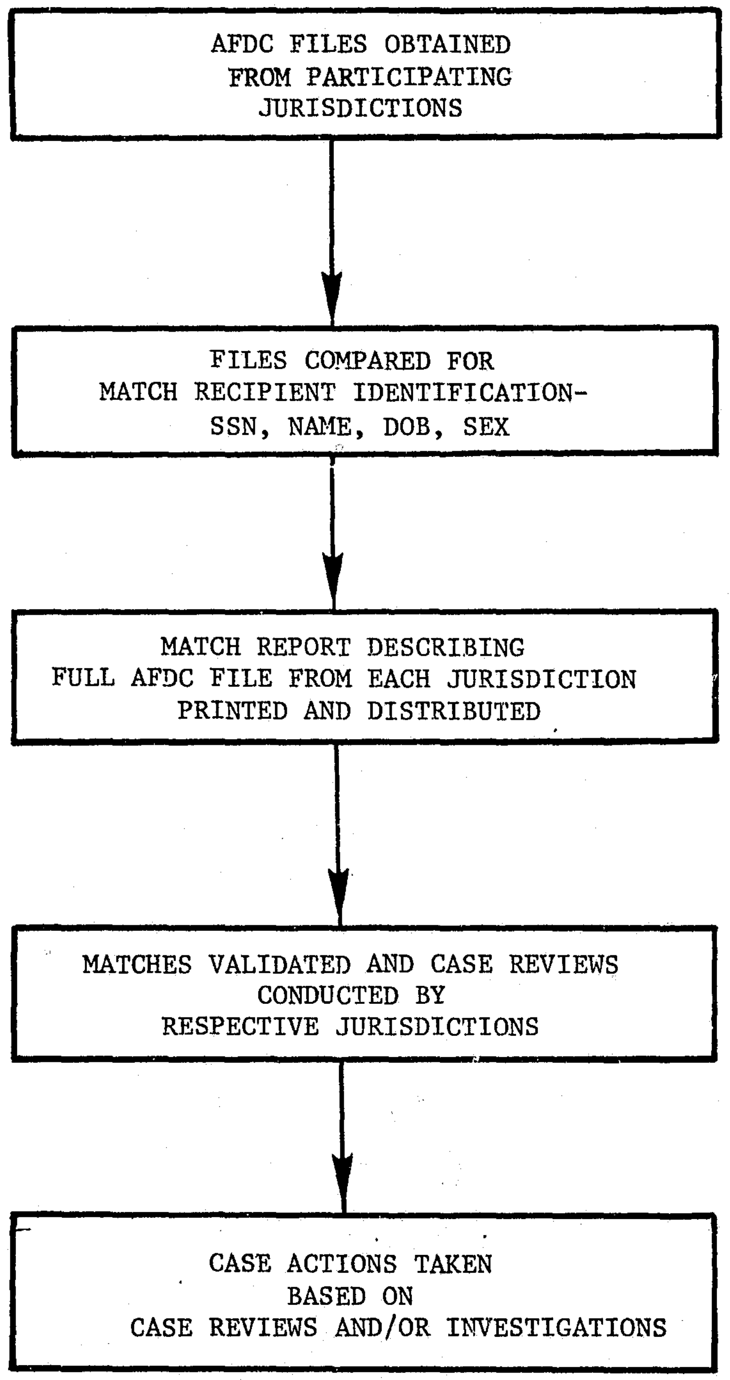

FIGURE 7-11
BASIC STEPS FOR JURISDICTIONAL MATCHING

- the format and methods (tape, cards etc.) for exchanging recipient data[206]
- the state agency that will conduct the computerized matching of the data
- the distribution of costs associated with the match, and
- the method of coordinating all problems resulting from matching activities.[207]

Both intra- and inter-jurisdictional matches rely on the SSN to make the initial identification of recipients who may be receiving duplicate benefits. In a few instances, other recipient identifiers such as name, date of birth and sex have been used to supplement the SSN in matching.

After completing the comparison of files, a jurisdictional match report is generated which commonly shows the match element (e.g., SSN) and provides whatever data exists corresponding to that individual in the files. Figure 7-12 is a sample jurisdictional match report. It indicates that the SSN (345-678-910) was found on the May 1979 caseload of both states A and B and

[206] HEW's model "IDEX" system provides a detailed account of the technical programming requirements for conducting jurisdictional matching. This system also provides specifications for combining interjurisdictional matching with wage data matching using wage data from one state and matching it to recipient data from another state. See: U.S. Department of Health, Education and Welfare, IDEX, (1976).

[207] The federal government has also been involved in the exchange of state AFDC recipient data to conduct interstate jurisdictional matching. Specifically, Project Match's second phase (see Section 7.1.3.1) represents the most extensive interstate jurisdictional match ever coordinated. While most matching of this type is conducted at the state level and involves the comparison of AFDC caseloads of two or three states, Project Match's jurisdictional component involved the comparison of recipients' files from all 50 states participating in the Project's Payroll Matching effort.

STATE	CITY/ COUNTY	LO	WORKER	CASE NO	MATCH CRITERIA	SOC SEC NO	DATE WEL PAID	PAYMENT AMT	RECIPIENT NAME & ADDRESS
A					345678910	345-678-910	05/04/79	185.24	John R. Doe 5422 North Court Suite 987 State A
B					345678910	345-678-910	05/04/79	185.24	Frank Q. Doe 5422 Lilly Lake Apt. 900 State B

FIGURE 7-12
SAMPLE INTERJURISDICTIONAL MATCH REPORT: MATCH OF STATE "A" WELFARE RECORDS VS. STATE "B" WELFARE RECORDS

also presents the information associated with that SSN as contained in each of the state's files, including:

- the states paying benefits
- the location (city/county) of the local welfare offices where the pertinent case records are maintained
- the caseworkers assigned to the identified case
- the AFDC case numbers
- the criteria used to perform the match
- the SSN associated with the particular case (this could be different if match criteria other than SSN are used)
- the date AFDC benefits were paid, and
- the names and residences recorded for the recipient.

For each match, reports are distributed to as many jurisdictions as appropriate. If the match indicated a common SSN for recipients in four jurisdictions within a single state (as in the case of an intra-state match), each of the four jurisdictions would receive a copy of the report.

After receiving match reports, local agencies must verify the accuracy of the match information, ensuring that recipients have been properly identified by the match. Once the validity of the match has been established by at least two jurisdictions, case reviews must be performed by caseworkers and/or fraud investigators to determine whether welfare offices involved in the match were concurrently paying AFDC benefits to the same recipient.

Conducting case reviews for jurisdictional matches is inherently complicated by the involvement of multiple jurisdictions, especially when they are in different states. Case reviewers must coordinate both the exchange of relevant data and the allocation of responsibility to carry out investigative activities. Beyond confirming that the recipients identified by the match are the same, it must be determined whether benefits were paid to the recipients by two or more jurisdictions concurrently. When a recipient relocates, terminating AFDC eligibility in one jurisdiction and establishing it in another, welfare agencies may not post this information in their automated data base in a timely fashion (or at all). Delays in posting eligibility termination status may give the appearance (in that a match is indicated) that a recipient is receiving benefits in more than one jurisdiction when, in fact, this is not the case.

With regard to investigative responsibilities, participating jurisdictions must decide which one is in the best position to take the lead role in investigating a case of duplicate assistance. Typically, the jurisdiction where a recipient resides at the time of the investigation is the key criterion for making this decision.

The final step involved with jurisdictional matching does not differ from other types of matching efforts. Case reviews and/or investigations of validated matches may result in administrative case actions, criminal charges of fraud or both.

None of the states contacted by MITRE could provide any detailed information on the cost and effectiveness associated with jurisdictional matching activities. In general, practitioners in most states appear to feel that jurisdictional matching efforts have been of minimal value with respect to the detection of

fraud.[208] States tend to feel that these matches have limited value because interstate jurisdictional duplication of benefits is not widespread.[209] On the other hand, HEW officials, based on the experience of Project Match, hold a different view. Project Match's comparison of 26 state AFDC data files resulted in 9,000 raw matches involving approximately 18,000 individuals. Because of this initial outcome, HEW officials believe that duplicate benefit payments are more prevalent than states assume.[210] The main issue is how many of these matches will turn out to be unfounded matches upon case review. The experience in one large state was that approximately 80 percent of all computer-aided matches are inaccurate or unfounded in terms of possible duplicate aid. Furthermore, some welfare officials in that state questioned the efficiency of jurisdictional matching techniques as currently designed, because the typical offender does not use the same SSN, name, or address to establish multiple AFDC cases. Consequently, they believe that most cases involving duplicate aid cannot be detected by existing computer-aided techniques.

7.2.5 Matching with other Benefit Programs

AFDC recipient caseloads are occasionally matched with the recipient caseloads of other benefit programs (Benefit Matching). By making these comparisons, Benefit Matching attempts to detect individuals who may be receiving assistance from other government

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208 Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 62.

209 Ibid.

210 Ibid. Also see Office of Inspector General, Annual Report - January 1, 1978 - December 31, 1978, (March 31, 1979), pp. 100-101.

programs but not reporting (or underreporting) this assistance income when applying for AFDC benefits. As a detection-oriented technique, the logic underlying Benefit Matching is the same as that used for wage matching techniques.

Literature sources and MITRE's contacts with the states revealed that recipient and benefit data from several federal and state programs have been used to match against AFDC caseloads. These benefit programs include:

- Food Stamps
- Comprehensive Employment Training Act (CETA)
- Medicaid
- Veteran's Benefits
- Workmen's Compensation
- Unemployment Compensation (UC)
- Federal Supplementary Social Insurance (SSI), and
- Federal Retirement, Survivor and Disability Insurance (RSDI), (SSA, Title II).[211]

AFDC matching with data from these programs has been conducted on both a pre-payment and post-payment basis. For instance, matches which compare AFDC caseloads with state-administered Food Stamp, Medicaid, and UC program data are conducted in some states as an integral part of an on-line, computer-aided clearance system for screening new AFDC applicants. Some state welfare agencies, which maintain integrated automated data files for multiple public assistance programs, screen new AFDC applicants (at the same time they screen applicants for duplicate assistance) against these

[211]Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), Attachment II.

integrated files as both an information verification process and as a fraud prevention strategy. Additionally, some states conduct post-payment matching using data from these other assistance programs. (This post-payment benefit matching is essentially the same as the post-payment income matching techniques previously described).

State welfare agency officials contacted by MITRE suggested that two types of benefit matching techniques have substantial anti-fraud potential. One of these techniques involves the comparison of AFDC caseloads with state Unemployment Compensation (UC) recipient files. The other technique, referred to as BENDEX, consists of routine data exchange between state welfare agencies and the Social Security Administration. It compares state AFDC caseloads with individuals who are receiving Retirement, Survivors, and Disability Insurance (RSDI) from the Social Security Administration. AFDC matches conducted with other benefit programs (e.g., veterans, workmen's compensation) have primarily been experimental and are not addressed any further in this report. Because of their potential importance to anti-fraud activities, both UC matching and BENDEX are discussed in more detail below.

7.2.5.1 Unemployment Compensation Program Matching

Comparison of AFDC recipient files with Unemployment Compensation benefit files is the most common computer-aided matching technique used by the states. Federal sources report forty-two states as having conducted matching of this sort.[212] Thirteen of the 19 states contacted by MITRE indicated that they use UC Matching as a computer-aided, anti-fraud technique. The purpose

[212]Ibid.

of UC Matching is to assist in the identification of AFDC recipients who are receiving unemployment benefits but who are not correctly reporting this information as a condition of AFDC eligibility.

UC Matching efforts do not differ significantly from ES Matching efforts. In fact, in many states UC Matching is an extension of the state's ES Matching process.[213] When state Employment Security agencies provide state welfare agencies with quarterly wage information for ES Matching, they also typically transfer data concerning recipients of UC benefits. During the ES Matching process, the AFDC caseload file is also compared (using the same match criteria, usually SSN) to the UC benefit file maintained by the state. In these instances, ES Match reports (such as those shown in Section 7.2.1) show the common occurrence of an SSN (or other match criteria) in both the AFDC and UC files as well as in the AFDC and wage files. If a UC match occurs when a comparison of the data files is made, the match report generated typically provides the name, address, Social Security Number and a historical account of the monthly or weekly amount of UC benefits paid to the individual corresponding to the matching element.

UC Matching is also conducted in some states as an independent matching effort. This is especially the case in wage requesting states where ES Matching is not conducted. These states can reap an additional benefit from UC Matching. In addition to providing a means of comparison between AFDC and UC benefit files, UC Matching conducted in these states may provide state welfare agencies with historical wage information. Although UC benefit records are for a limited population, they are usually much more

[213]U.S. Department of Health, Education and Welfare, IDEX, (1976).

current than the wage data used to conduct ES Matching. This historical wage data for UC recipients may be a useful source of information concerning earned income not reported by AFDC program recipients. Because the matching focuses specifically on UC benefits, case reviews conducted by welfare staff and/or investigators are oriented to ensuring that UC benefits indicated by the match report are accurately reflected in recipients' AFDC benefit calculations.[214] This may involve further inquiries to state Employment Security agencies and individual employers to ensure the accuracy and expand upon the information contained in the match report.

One federal assessment of the effectiveness and/or utility of UC Matching indicated that UC Matching "serves as a valuable source of data to welfare agencies in the performance of the agency's determination and redetermination of eligibility for welfare benefits."[215] This assessment does not include any finding concerning the contribution of UC Matching to preventing and detecting fraud in the AFDC program. Another study, conducted in California, addressed the cost/benefit utility of expanding ES Matching efforts to include UC Benefit Matching. This study concluded that incorporating a UC Matching component into the existing ES Matching system would be "cost beneficial and would be well received by county welfare departments."[216] However, this study did not directly address the anti-fraud potential of UC Matching.

[214]Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 55.

[215]Ibid.

[216]State of California, Earnings Clearance System Review Project #75-6, (September 1976), pp. 18-19.

7.2.5.2 Beneficiary Data Exchange System (BENDEX)

The Beneficiary Data Exchange System (BENDEX) was designed to provide state welfare agencies with current payment information on Title II Social Security benefits--Retirement, Survivors, and Disability Insurance (RSDI).[217] As a data exchange system, the primary objective of BENDEX is to allow state welfare agencies to maximize the use of data maintained by the SSA in a timely and cost effective manner.

Like several other computer-aided techniques developed to improve the integrity of the AFDC program, BENDEX addresses the twin problems of unreported and underreported benefits received by AFDC applicants. To counter these problems, BENDEX is designed both to prevent AFDC applicants from concealing receipt of RSDI benefits and to detect AFDC recipients who fail to report changes in the status of their RSDI benefits. BENDEX provides each state participating in this data exchange with a monthly statement of all AFDC applicants receiving RSDI benefits. This statement is updated monthly with automatic notification of any change in the status of RSDI benefits paid to AFDC recipients.

A recent survey showed that BENDEX is being utilized by 33 states and the District of Columbia. These jurisdictions handle 58 percent of the nationwide AFDC caseload and account for 56 percent of the AFDC benefit payments. The remaining 17 states have, thus far, chosen not to implement BENDEX.[218] All 19 states contacted by MITRE indicated some participation in the BENDEX program.

[217] U.S. Department of Health, Education and Welfare, BENDEX--Beneficiary Data Exchange: A Model System, (January, 1976).

[218] Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 52.

Flexibility has been a key concept underlying the development of BENDEX. As originally conceived, BENDEX was designed so that it could function independently or in conjunction with other state-operated computer systems. In order to accommodate other computer-aided systems integral to the AFDC program, states have taken the basic BENDEX model and modified it to their own, somewhat unique, specifications. Despite variations among the states, major common characteristics can be discerned in the form of a model process.

The model BENDEX process, consisting of four basic steps, is presented in Figure 7-13.[219] The first step revolves around the data input function. During the screening of applicants, AFDC eligibility workers at local offices routinely collect information from applicants regarding RSDI benefits. When appropriate, the amount of RSDI benefits the applicant receives and his/her claim number are recorded. If the worker believes that the applicant may be receiving RSDI benefits but not reporting this fact, the worker need only record the applicant's SSN. In some states the SSN is recorded pro forma for all AFDC applicants for use in the BENDEX system. This information is sent to a state welfare agency or data processing center where it is edited and compiled to create two data files: (1) the BENDEX Cross Reference File; and (2) the BENDEX State File. Both these files contain Social Security benefit data (provided by AFDC applicants during the eligibility determination process and by the SSA from previous BENDEX matches) and personal identification data. These data are needed to aid the information exchange between the state and the local welfare agency offices at one end of the process, and

[219] See U.S. Department of Health, Education and Welfare, BENDEX--A Model System, (January 1976), for specific guidelines and requirements for the design and operation of BENDEX.

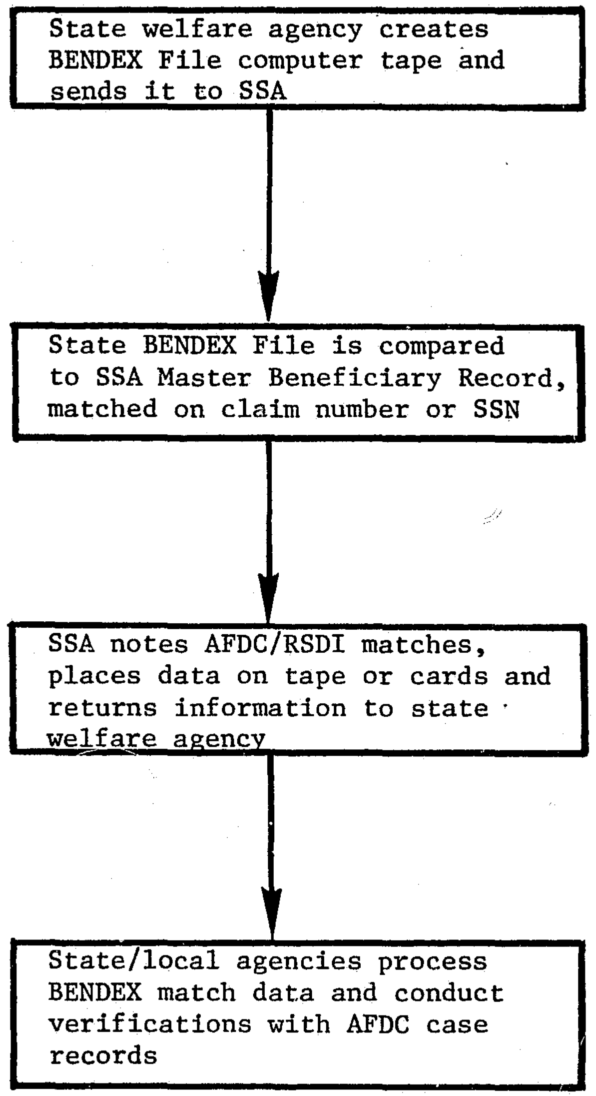

FIGURE 7-13
STEPS INTEGRAL TO BENDEX

the state and SSA at the other end. Data supplied by the local welfare agency offices are used to update the BENDEX Cross Reference file on a monthly basis. A subset of this data is copied to the BENDEX State file and sent to the SSA for comparison with current Social Security Title II benefit records.

The second step of the BENDEX process focuses on matching the State BENDEX file(s) with the SSA Master Beneficiary Record (MBR). The SSA is scheduled to receive the State BENDEX files by the 25th of each month. Upon receipt, computer edits are run on the state files to check for proper tape labels and state codes. Then, the state files are merged and subject to a second edit involving a screen for erroneous claim numbers, SSNs, communication codes and category codes. Finally, the State BENDEX files are matched against the Social Security Administration's MBR file, using Title II beneficiary claim numbers and/or Social Security Numbers. This comparison is usually conducted on or before the 6th of the following month.

The match data is compiled into "reports" and disseminated to the states. The output denotes the RSDI benefit payments authorized to each AFDC recipient during the prior month and the current payment status. This information is provided for applicants who initially reported receiving RSDI benefits to AFDC eligibility workers as well as for any other applicants that AFDC eligibility workers, for whatever reason, have placed on the BENDEX State file. Additionally, the SSA gives states other information concerning supplemental Medical Insurance Entitlement, verification of the SSN when the RSDI claim number is unknown, and verification of date of birth. Placed on either tape or cards, the output is usually sent to the states participating in BENDEX on or before the 10th of the month. The SSA maintains a federal

BENDEX data file on AFDC recipients and issues a notification to the state whenever a change in the RSDI benefits occurs for these recipients. In the past, AFDC applicants cleared via BENDEX as not receiving RSDI benefits were purged automatically from these files. Recent BENDEX modifications now ensure that records concerning such individuals are maintained in these files, and if RSDI benefits are subsequently paid to any of these individuals, states will be notified. This process will continue automatically until the record is either excised from the BENDEX file by the state or deleted from SSA's active records.

The SSA sends the BENDEX File containing pertinent RSDI benefit information on matched individuals to each state participating in the information exchange program. The state uses the SSA BENDEX File to update its own BENDEX Cross Reference File and to generate reports for use by local welfare agencies. In turn, case workers assess the data and determine the need for any case action such as reviewing a case record, interviewing an AFDC recipient, preparing a case action notice or modifying recipient payment or eligibility status. These activities may then lead to a determination that a case should be investigated for possible fraud.

A review of BENDEX conducted in 1978[220] concluded that only 16 states and the District of Columbia were frequent users of BENDEX. These jurisdictions represent 32 percent of the national AFDC caseload as well as 32 percent of the program's cost. A second group of 17 states, accounting for 26 percent of the nation's caseload and 24 percent of the expenditures, do not fully utilize the BENDEX data. BENDEX is not being used at all by the remaining 17 states, which contribute 42 percent of

220 Trainor and Lentz, A Report on the Use of Income Data in the Administration of the AFDC Program, (July 1978), p. 52.

the AFDC caseload and account for 44 percent of the program's costs. There is an absence of information concerning the effectiveness of BENDEX as an anti-fraud strategy. State and local AFDC staff interviewed by MITRE generally believe that BENDEX, as it is currently used, provides little assistance in the way of preventing and reducing AFDC recipient fraud. Federal officials suggest, however, that more vigorous use of BENDEX data can aid in the detection of error and fraud in the AFDC program.[221]

7.2.6 Other Matching Activities

Several other computer-aided matching efforts were reported in the literature and/or were identified during MITRE's state contacts. Most of these matching efforts have been conducted experimentally, were unique to a few states, and were generally not a major component of any state's AFDC anti-fraud strategy. These matching activities included the comparison of AFDC recipient files with:

- bank records
- state income tax records
- public death and marriage records
- motor vehicle records
- elementary and secondary school records, and
- state university enrollment records.

As with most other computer-aided matching techniques, the SSN was used as the primary comparison criterion.

221 Ibid.

Matching of AFDC recipients with bank records on an experimental basis has been conducted in New York City. The purpose of this type of match is to identify AFDC recipients who have not reported substantial financial assets correctly (or at all) when applying for or receiving AFDC benefits. During this match, New York City found 8,000 AFDC recipients with assets.[222] At last report, these matches had yet to be verified through manual case review. Indications are that many assets identifed by the match were properly reported or, if not reported, were amounts so small that they would not affect AFDC eligibility.

In the absence of centralized wage data at the state level, at least one state has experimented with matching AFDC recipient files with state income tax files to assist in the detection of underreported or unreported income. Findings suggest that state income tax matches have not been particularly useful.[223] Their utility is limited because income data contained in state tax records is collected annually and is not posted to automated data bases in a timely fashion. Moreover, state income tax data are usually confidential and the authority to use this data in AFDC matching efforts appears questionable unless specifically allowed by state statute.

One state contacted by MITRE said that a jurisdiction within that state had conducted matching between AFDC recipient files and death and marriage certificate records. The purpose of this type of match is to identify those recipients who may have misrepresented their identity or family composition to illegally obtain benefits. For instance, a recipient may use the SSN and name of someone known to be dead in order to falsely establish a

[222]Ibid., pp. 59-60.

[223]Ibid., p. 43.

bogus family member. Similarly, a recipient may also use a dead person's identity to apply for duplicate assistance benefits. Matching recipients against death records may reveal instances where these types of activities occur. The purpose of matching AFDC recipients against marriage records is to detect AFDC recipients who remarry while receiving AFDC benefits. The continued or expanded use of marriage and death record matching, by most accounts, appears to be in doubt. In many states, death and marriage records often are not automated, do not contain SSNs, are not complete, and are not centralized.

A number of states have conducted matching between AFDC recipients and motor vehicle records. Case workers and investigators review match reports to identify unusually expensive automobiles, vans, and pleasure boats as possible indicators that recipients may have misrepresented facts about their assets or their need for assistance in general. Data concerning the success or feasibility of conducting motor vehicle matching are not available.

A few states have experimented with the matching of AFDC recipients and school records. Two states are known to have conducted matching with elementary and secondary school data[224] to obtain supportive verification that dependent children in fact exist and live in the locale claimed by the AFDC head of household. When the SSNs of AFDC children do not exist in appropriate school records, caseworkers or investigators may consider the appropriateness of taking a closer examination of the case for error or fraud.

[224]Ibid., p. 61.

One state contacted by MITRE had also conducted an AFDC match with the enrollment records of the state university system. The primary purpose of this type of match is to verify the college attendance of AFDC-dependent family members 18 years of age or older. College students who are AFDC family members may have their school expenses and any earned income discounted in the determination of the AFDC family's benefit payments. Thus, matching these college-age dependents with university attendance records guards against the AFDC head of household misrepresenting the status of these individuals to obtain illicit AFDC benefits. This type of matching may also identify student-aged family members who have dropped out of college without reporting this change of status.

The utility of matching AFDC and school records has not been assessed. The federal government appears to believe that this type of matching has more potential than currently realized. This is because school records are becoming increasingly automated and more accessible.[225] However, a number of state officials have questioned the legality of using these records for matching in their states, due to privacy restrictions.

7.3 Selective Case Action Techniques

Computer-aided selective case action is mentioned both in the literature and by some practitioners as another technique for improving the integrity of the AFDC program. This technique, as currently designed, focuses on detecting and preventing errors in AFDC cases. There is some indication that this technique may be similarly used to detect and prevent AFDC recipient fraud. Development and application of AFDC selective case actions,

[225] Ibid., p. 61.

primarily to address error, have been conducted as a federally-funded demonstration project in several states including West Virginia, South Carolina, Texas and the District of Columbia. Of the 19 state welfare agencies contacted by MITRE, however, none currently uses the selective case action technique to directly address fraud in the program.[226] Despite the apparent minimal usage of selective case action as a computer-aided, anti-fraud technique, its potential value as an anti-fraud strategy warrants examination.

The selective case action technique involves the development of a statistical profile based on historical data regarding erroneous AFDC cases. This profile is, in turn, applied to an existing AFDC caseload as a basis for predicting cases most likely to contain errors. This information is then used to initiate special actions for those cases identified as error-prone or to prioritize cases in scheduling routine case action activities. Underlying the concept of the selective case action technique is the assumption that this is an effective means for allocating existing case management/case worker resources in order to reduce error.

Experience with the use of selective case action in several states--West Virginia, South Carolina, Texas and the District of Columbia--is well documented.[227] The specific approaches

[226] Only one state --Texas--contacted by MITRE during the telephone inquiries and site visits had actually used the selective case action technique.

[227] For instance see: Texas State Department of Public Welfare, The Automated Eligibility Redetermination System/Error-Prone Profile Project Workshop Proceedings, September 27-29, 1976, (1977); Comptroller General of the United States, Welfare Payments Reduced: An Improved Method for Detecting Erroneous Welfare Payments, GGD-78-107, (February 5, 1979); and West Virginia Department of Welfare, Selective Case Action System, (Undated internal document).

implemented vary somewhat among these states in terms of the data used to develop error-prone profiles, the statistical analysis performed to analyze and categorize error cases, and the subsequent case actions initiated when AFDC cases are determined to fit the established profiles. Despite difference in approaches, there are a number of steps that appear to be common to the development and implementation of all computer-aided, selective case action techniques.

Figure 7-14 shows the basic steps involved in setting up and utilizing a selective case action system. The first step deals with the collection of pertinent data needed to develop error-prone profiles. To begin with, case characteristics thought to affect AFDC errors and the types of AFDC errors to be analyzed have to be selected. In order to meet statistical analysis requirements, data for the selected variables must be available for the entire caseload. Other considerations related to data collection include the accessibility of the information, the cost of gathering it and the cost of transforming it into a shape amenable to analysis. Quality Control data, routinely collected every six months and, in some states, placed in automated files, provides the best source of information detailing recipient error in the AFDC program. Data maintained in state master data files are usually the primary source for information describing case characteristics. In most of the states experimenting with selective case action techniques, an automated AFDC master beneficiary file exists, greatly enhancing the accessibility of the data while, at the same time, minimizing the cost involved in collecting the information and formating it into the shape required for subsequent analysis. In situations where state master case records are incomplete or absent, manual case files maintained by local welfare offices are used to obtain the required case

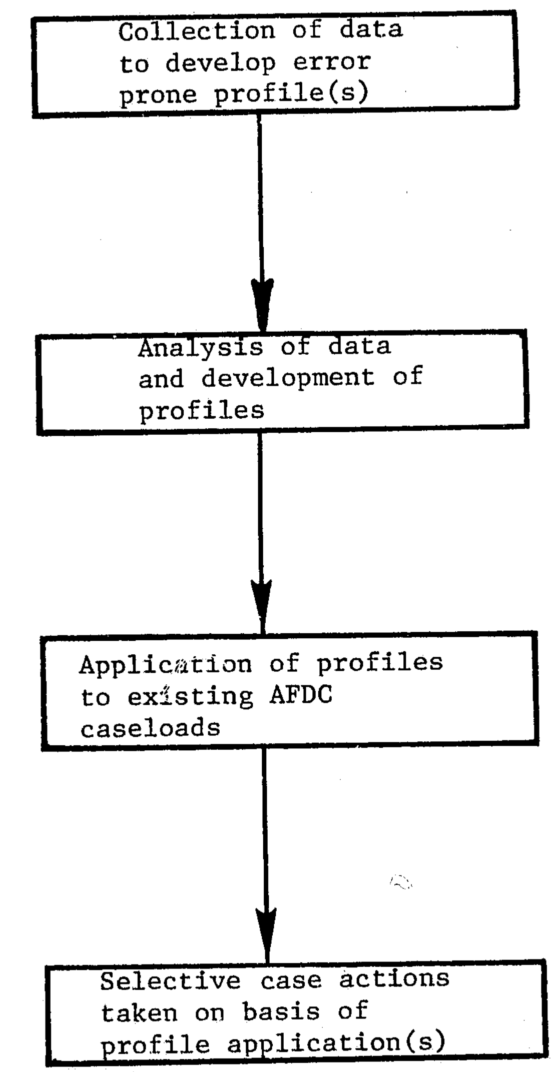

FIGURE 7-14
KEY STEPS FOR USING SELECTIVE CASE ACTION TECHNIQUES

characteristic information. Use of individual case records, while probably more time consuming and more costly than using an automated state master file, may be necessary in order to collect all of the case characteristic data needed for analysis.

Analysis of Quality Control data and development of error-prone profiles is the focus of the second step. Prior to any analysis, a decision concerning the use of the profiles must be made. For example, a series of profiles may be produced, based on:

- an analysis of errors which have occurred during the application process, providing a basis for selective verification of eligibility information

- an analysis of errors which have occurred in the redetermination process, providing a basis for selective verification in the redetermination of eligibility and the recalculation of benefits

- an analysis of all agency errors which were identified during the most recent QC review period, providing a basis for selective case record reviews where there is a higher than normal probability of agency error

- an analysis of client errors excluding misrepresentation cases, providing a basis for selective mail-out requests for information between redeterminations, and

- an analysis of cases in which the QC reviewer concluded that there was intentional misrepresentation of facts by the recipient, providing a basis for special review of cases where there is a higher than normal probability that the recipient intentionally provided false information during eligibility determination.[228]

[228]West Virginia Department of Public Welfare, Selective Case Action Systems, p. 11.

It should be noted that the analysis of case characteristics associated with intentional errors may be considered to be a direct anti-fraud application. With the exception of West Virginia, which reportedly uses selective case action as a means for initiating intensive case reviews for possible fraud, the profiles which have been developed to date have apparently dealt with a general analysis of erroneous cases to aid in the prioritization of redeterminations.[229]

The statistical methods used by Texas, South Carolina and the District of Columbia to develop the error-prone profiles comprised two phases.[230] The first phase consisted of an examination of the frequency distribution of specific variables and selection of the best form of these variables for further analysis. Discriminant analysis, which was the crux of the second phase, assigned individuals to two (or more) groups on the basis of their scores on a test or on inherent characteristics. The analysis concentrated on distinguishing between error-prone and non-error-prone cases. Alternatively, error-proneness can be measured in terms of conditional probability as was done in West Virginia.[231] In both discriminant analysis and conditional probability analysis, use of computers and statistical packages such as SPSS greatly facilitated the complex analysis process. Once the profiles were developed, they were tested on another data base in order to determine

[229]Ibid.

[230]See Texas State Department of Welfare, The Automated Eligibility Redetermination System/Error-Prone Profile Project Workshop Proceedings, September 27-29, 1976, (1977), pp. 23-33, for a discussion of the specific steps comprising each project's methodology.

[231]Ibid., pp. 87-109.

their validity and make sure that the formulas used had the capability to select erroneous cases from the entire caseload.[232] Since conditions may change, the formulas produced by the statistical analysis must be periodically re-examined and, if necessary, updated to ensure their continued usefulness to identify AFDC cases with high potential for error.

The third step in the use of a selective case action technique involves the application of error-prone profiles to existing AFDC caseloads. Typically, each case in the state's AFDC caseload is assessed in terms of the previously developed error-prone profiles. This operation is usually a computer-based process and is the major reason selective case action is considered a computer-aided technique. The application of the profile produces scores for each case, distinguishes whether or not the case is error-prone, and predicts the type of error (i.e., error occurring during application, error occurring during redetermination, agency error, unintentional client error, or error due to client intentional misrepresentation) which may occur. Computer-generated reports will advise case/eligibility workers to initiate such specific case actions as the welfare agency has prescribed for a particular type of error. To illustrate, the analysis may generate a redetermination schedule starting with cases that have the highest error-prone probability and, depending upon the sophistication of the analysis, it might even be feasible to identify the most likely problem area for each case (i.e., unreported income, father living in the home, children 16 to 18 years old). This can greatly assist the caseworker and improve productivity by focusing the case review on specific factors (i.e. locating income sources, making home visits to verify children in home) most likely to be in error.

232 Comptroller General, Welfare Payments Reduced: An Improved Method for Detecting Erroneous Welfare Payments, (1977), p. 9.

Initiation of case actions, the fourth step in the use of error-prone profiles, is guided by managerial and procedural directives set up by individual agencies. These directives detail how particular types of welfare agency staff should respond to the information provided by the computer-generated selective case action reports. For instance, if the selective case action technique were designed to focus on redeterminations, the instructions would deal with the interpretation of the computer-generated reports and how the information presented in the reports should be used by caseworkers to schedule, prioritize, and conduct redeterminations. Similarly, if the system were designed to identify error-prone cases for intensive review outside the routine redetermination process, the directives would provide instructions concerning the types of eligibility factors that should be closely examined and the methods that should be employed given certain types of errors. This might include requesting involvement of specialized units or fraud investigators at a particular stage of a case review.

Most selective case action techniques have been oriented toward detecting errors in AFDC cases, with little or no direct emphasis on detecting possible fraud. Therefore, existing assessments of the effectiveness of selective case action techniques examine the capability of error-prone profiles to predict error and the subsequent impact on overall agency error rates. An assessment of the Automated Eligibility Redetermination System/Error-Prone Profile project in Texas concluded that the cases identified as error-prone were found to have substantially more errors upon case review than the remaining cases. Further, cases noted as error-prone were approximately twice as likely to result in a change in the grant amount as cases not flagged by the technique.[233] Despite these findings, the Texas Department of Welfare has discontinued the use of selective case action efforts. Two reasons for this decision have been given by state welfare officials. First, the state welfare agency lacked sufficient automated capabilities to fully implement the system on a statewide basis. Second, there were some indications that the use of selective case action adversely affected case workers' morale because they felt that the technique denied them the opportunity to use their experience and exercise their judgment in initiating case review activities.

A Congressionally-sponsored assessment of a selective case action demonstration project in the District of Columbia has also been conducted.[234] This assessment concluded that three error-prone profiles, developed for prioritizing redeterminations during the project, were more effective in discovering case errors than traditional scheduling methods. Additionally, the project evaluation found that errors uncovered through the use of the profiles involved larger dollar amounts than those discovered by the previous redetermination scheduling system. However, after using the system for one year, little discernible change was in fact actually detected in case error rates.

An assessment of the Selective Case Action project in South Carolina produced results similar to those found for both the Texas and District of Columbia projects. The South Carolina

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[233] Texas State Department of Public Welfare, Analysis and Advanced Systems Planning Division, AERS/EPP Project - Final Report, (June 30, 1977), Appendix C.

[234] Comptroller General, Welfare Payments Reduced: An Improved Method for Detecting Erroneous Welfare Payments, (1977), p. 9.

error-prone profiles were twice as likely to identify cases in error than reviews conducted using random selection procedures.[235]

Although it appears that a formal assessment of the West Virginia effort has not been performed, available documentation suggests that the extensive (in comparison to other efforts) selective case action effort conducted there has been more effective than the case management approaches traditionally used to identify and deal with cases in error. After using the selective case action technique for over two years, the state welfare agency estimated that the technique not only substantially reduced the number of erroneous AFDC cases, but also led to a reduction in the error rate due to misrepresentation (possible fraud) from 5 percent to 3.5 percent.[236]

7.4 Selective Case Screens

Eight of the 19 states contacted by MITRE reported occasionally using this technique as part of their overall anti-fraud strategy. In most instances, however, selective case screening was considered to be a secondary means for developing leads about AFDC fraud. Selective case screens involve the identification of a particular group of AFDC cases which are singled out for special examination and/or investigation by caseworkers or fraud investigators. This technique consists of a computer-aided edit of an AFDC data file to identify a subset of AFDC cases exhibiting a certain characteristic(s). Conducted on a post-payment basis, selective case screens are typically used to

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[235] Texas State Department of Welfare, The Automated Eligibility Redetermination System/Error-Prone Profile Project Workshop Proceedings, September 27-29, 1976, (1977), pp. 78-86.

[236] Ibid., pp. 87-109.

detect cases in which the probability of error or fraud is considered to be high.

The concept underlying selective case screening is similar to that underlying the selective case action technique. However, the two techniques differ in some key respects. One important difference is the method by which groups of AFDC cases are selected from the AFDC caseload for special attention. Selective screening does not employ statistical methods to predict which cases should be examined. Rather, cases are typically selected a priori from the AFDC caseload on the basis of policy decisions made by welfare staff and/or fraud investigators. These decisions incorporate the actual experiences and perceptions of these staff with regard to the kinds of cases or situations they believe most likely to contain fraud or error. For instance, a common type of computer-aided screen involves the use of addresses as a basis for selecting AFDC cases for review. Based on the belief that the potential for fraud is higher than usual when more than one AFDC check is mailed to a single address, some states have conducted a computer edit of the welfare agency's AFDC data file to identify addresses where several benefit checks are being mailed concurrently. Addresses of cases identified by this type of selective screen are examined to determine their accuracy and legitimacy. An examination of the type of dwelling and the cases connected with these addresses may provide a case worker or fraud investigator with an early indication of fraud involving duplicate assistance payments.

The criteria used in selecting cases for examination can be as extensive as the number of information items comprising each AFDC case record. Screens based on address information appear to be particularly common, as some experts contend that changes

in address are the best single indicator of possible fraud in AFDC cases:

> an address change may signal a change in circumstances representing increased or decreased income, a change in family size requiring more or less space, or a truly fraudulent activity such as leaving the jurisdiction by establishing a mail drop. ... Fraud can occur, too, when a recipient notifies a caseworker of case termination, but the caseworker merely changes the address instead of terminating the case.[237]

Other types of selection criteria reported to MITRE include those identifying cases:

- where the address reported is a post office box number
- where recipients have reported multiple instances of lost or stolen AFDC checks
- where college age children are members of the AFDC family, and
- where the father both resides in the home and earns income.

Operationally, computer-aided AFDC case screens are more likely to be used to selectively identify cases for special examination over and above routine case management and for distinctly anti-fraud purposes. Screens are usually employed as an agency response to a specific problem regarding case error or fraud, either identified by quality control review or as a result of charges of AFDC abuses by the public or by a legislative

[237] Schechter and Oshel, Options for Reducing Fraud in the AFDC Program, (March 1977), pp. 38-39.

body. Fraud investigative units may also be responsible for initiating screens based on factors they have identified as important leads.

Case reviews focus on examining eligibility factors associated with the criteria used in a particular screen. For example, case reviews resulting from an address screen would focus on examining the accuracy and legitimacy of the address; similarly, a screen based on lost or stolen AFDC checks would be accompanied by reviews of the circumstances surrounding these events.

Screening activities appear to be conducted less frequently and more informally than matching activities. The availability of case workers and investigative resources and the degree of reliance on matching techniques appear to influence an agency's decision of whether or not to conduct screening activities. No data were found concerning the utility of screens. Further, practitioners do not view screening to be a particularly effective means for detecting fraud when compared to the use of computer-aided matching techniques. This apparently accounts for the infrequent use of this technique, which nonetheless appears to present several advantages: notably the incorporation of case-worker experience and institutional wisdom into the process of selecting variables for screening.

8. PROBLEMS RELATED TO THE USE OF COMPUTER-AIDED TECHNIQUES

Problems specific to computer-aided techniques fall into four broad categories:

- the sufficiency of the data bases used by the techniques (Data Problems)
- the adequacy of the support given to the use of the techniques (Support Problems)
- the lack of information concerning the anti-fraud impact of various techniques (Assessment Problems), and
- the restrictions placed upon the use of techniques and associated data by privacy considerations (Privacy Problems).

The discussions of the data, support, assessment and privacy problems below relate primarily to AFDC computer-aided <u>matching</u> efforts, mainly because of their predominance in computer-aided, anti-fraud efforts in the AFDC program. Federal and state officials also tend to concentrate on the problems associated with matching techniques. Actual operational experiences regarding selective case action and case screening techniques were either too infrequent, too informal, or too idiosyncratic (i.e., too specific to a state) to draw any meaningful conclusions about problems associated with their general use.

8.1 Data Problems

Many of the problems related to the conduct of computer-aided, anti-fraud techniques may be attributed to the nature and scope of the data used. Persons involved in the design and use of computer-aided techniques noted three types of data-related problems that appear to impede the effective use of these techniques to prevent and detect fraud. These three problems concern:

- the quality of data used to perform computer-aided matching techniques
- the adequacy of comparison criteria used to conduct matching techniques, and
- the quality and specificity of information generated via computer-aided matching techniques.

8.1.1 Data Quality

The data used to perform the various types of computer-aided, anti-fraud matching techniques are often criticized as being outdated, inaccurate, incomplete, and insufficient in scope. As indicated in the previous chapter, the most prevalent types of income matching rely on wage data that are typically several months to over a year old before they are available in automated form for matching. Individuals may commit fraud for long periods of time before being detected by matching programs using dated wage information. Further, due to this time lag, individuals identified via matches who may have been defrauding the program may no longer be receiving benefits; some because they have left the area and others because their case was terminated. Given the workload and priorities in most state and local agencies, it is unlikely that these terminated cases, even though identified by computer-aided techniques, would be pursued further.

Complaints about both the AFDC data files and other data files used to conduct computer-matching suggest that inaccuracies and missing information in these files result in exceedingly high

numbers of invalid matched cases. Each match must be reviewed by caseworkers or investigators in order to determine the validity of the match. A high percentage of invalid matches resulting from inaccurate or incomplete data can consume valuable staff time and reduce productivity. For example, delays in posting case records for new recipients and removing old cases from data files can result in many matches which would not occur if the files accurately reflected current eligibility status. Similarly, inaccurately recorded SSNs, or the improper use of the same SSN for a mother and all her children, can result in matches which are invalid. At the same time, inaccurate information in the data files used to conduct matches with AFDC files can also diminish the utility of matching efforts. For instance, inaccurate data in the employment earnings file, maintained by a state employment security agency or by the SSA, can result in many hours of perhaps avoidable casework at the local level. A misreported earnings statement could lead welfare agencies to believe a discrepancy exists between income reported for AFDC eligibility and actual earned income when, in fact, no discrepancy exists. A misreported or missing employer address for a matched recipient could result in caseworkers spending scarce time to determine the correct address so a match report can be further processed.

Data files of limited scope (i.e., files containing minimal information about recipients, their earnings and their AFDC elibility) also restrict the utility of computer-aided matching techniques. Matches produced from such data files provide little information needed by welfare agencies to discriminate and/or prioritize their review activities.

The problems of data quality substantially restrict the utility and further growth of computer-aided techniques in three ways. First, a number of state and local officials criticize computer-aided, anti-fraud techniques because the accuracy of all matches must be confirmed by independent manual checks.

Second, many practitioners believe that computer-aided matching techniques result in inordinate amounts of valuable staff time being misspent checking on matches which may have been avoidable given more accurate data and more comprehensive data bases. Some practitioners contend that more timely, accurate and comprehensive data would allow computer-aided, front-end screening to eliminate many unfounded matches prior to initiating manual case review procedures.

The third problem caused by poor data quality is the negative effect it has on the proportion of workable fraud cases identified. Many of the fraud investigative personnel contacted by MITRE contend that poor data quality has negated much of the utility of current techniques. The matching efforts depicted in Figures 7-7 and 7-9 above indicate that the number of suspected fraud cases uncovered can be relatively small in proportion to the number of cases initially identified by matching efforts. More timely, accurate and comprehensive data available for matching could improve the perceived utility of existing techniques by reducing the number of matches found to be invalid or inaccurate after time-consuming manual case reviews.

8.1.2 The Adequacy of Matching Criteria

The adequacy of the criteria used to compare AFDC files against other data files is often mentioned as limiting the utility of computer-aided matching techniques. Existing techniques are often criticized because they frequently depend on the matching of data that are susceptible to error, easily falsified by recipients and subject to inaccurate recording. Almost always, the comparison of data files relies primarily on Social Security Number and, secondarily, on name, date of birth, and sex. When these types of data are inaccurately recorded in data files (for whatever reasons), the effectiveness of matching techniques is diminished.

The use of the Social Security Number for matching appears to present a particularly significant problem. Although the SSN is the most commonly used of matching criteria, and in many cases the sole criterion, it is known to be easily falsified by recipients and commonly misrepresented to welfare workers. Many agencies do not or cannot adequately validate SSNs to ensure that the number provided at application is that of the AFDC recipient requesting assistance. The nine-digit SSN also lends itself to transposition of numbers when recorded by eligibility workers at intake and when posted to automated files. When this occurs, the SSN is no longer a viable matching key for that particular recipient. Because of the time and resources involved, it is not feasible for welfare agencies to recheck large numbers of SSNs for recording errors prior to conducting computer-matching.

Other matching criteria which have been employed such as name, date of birth, and sex (in combination with SSN) present similar problems. Names, for instance, are easily denatured by simple changes in spelling or by using distinct aliases.

Fraud investigators contend that the use of most matching criteria is of minimal value with respect to detecting more sophisticated (and presumably more serious) attempts by recipients to defraud the AFDC program. This is because these types of offenders apparently know that they can escape detection by establishing one or more false identities, with the use of different SSNs, names, dates of birth and other supporting identification such as drivers' licenses and birth certificates. It is extremely difficult for computer-aided matching techniques to associate these apparently valid multiple identities. In this regard, matching techniques are often criticized for directing investigative attention and resources to large numbers of less sophisticated cases, involving relatively small dollar amounts per case.

8.1.3 The Quantity of Information Generated Via Computer-Aided Techniques

Another common problem regarding most computer-aided techniques relates to the large volume of matches produced. The matches generated by these techniques must be verified for accuracy by staff in local welfare offices and, if found to be accurate, manual case reviews must be conducted. This problem is exacerbated in many instances when multiple matching activities are conducted in a state, thereby increasing the demands on local caseworkers and investigative staff. Practitioners typically voice two complaints in this regard. First, existing computer-aided techniques lack the needed specificity to eliminate poor matches prior to initiating manual case

reviews. This criticism relates directly to problems previously mentioned concerning the quality and scope of data used for most matching techniques. An excessive amount of time must be devoted to manually verifying information and checking records to reap the full utility of most computer-generated information. Local welfare agencies often feel that the number of cases of serious error or fraud uncovered by processing computer-generated information is too small to justify the necessary allocation of staff resources. This combination of low yield and large amounts of time and staff resources required to process computer-generated information results in an unfavorable cost/benefit ratio for most techniques. To improve this situation, some practitioners feel that computer-aided matching techniques must be refined to be more selective in identifying cases for local review. For example, selectivity might be enhanced by automatically comparing periods of AFDC eligibility in AFDC files with periods of earned income in wage data files to better determine if a match truly represents a case of unreported income.

State and local officials also suggest that the voluminous reports produced by multiple matching activities and selective case screens should be centrally consolidated before they are forwarded to local agencies for processing. For instance, information from BENDEX, ES matching, and address screening could be combined into a consolidated computer-generated report. This would reduce duplicative information verification and case reviews at the local level. Some states (e.g., Pennsylvania, New York) have begun to consider this approach in connection with the development of new AFDC management information systems.

8.2 Support Problems

It should be clear from the previous examination of the various computer-aided techniques that their success, to a large extent, depends on the support provided to them by agency management. The utility of these techniques to uncover error or fraud is only realized when identified cases are followed up by caseworkers and investigative staff. The most frequently mentioned support problems involve:

- insufficient electronic data processing (EDP) capabilities
- lack of personnel resources required to support matching activities, and
- absence of formal procedures related to the use of the techniques.

8.2.1 Insufficient EDP Capability

As indicated earlier in Section 3.4, insufficient EDP support is endemic to the administration of the entire AFDC program. This overall problem particularly hampers the current use of computer-aided techniques and impedes efforts to enhance current systems so that they can better assist state and local welfare agencies in dealing with recipient fraud.

Necessary information concerning AFDC recipients is often not automated so as to allow additional computer-based processing to reduce the number of spurious matches while improving the ability of these techniques to identify cases with a high probability of fraud.

Computer-aided, anti-fraud techniques also directly compete with other automated agency operations for limited electronic data processing equipment and time. The competition appears to limit both the adoption of new techniques and the improvement of existing techniques. For example, many welfare departments, concerned primarily with providing services to clients in a timely fashion, have computerized many facets of their operation including client status files and check delivery systems. At the same time, at least some welfare fraud investigative units are attempting to secure funds to support the development and implementation of a case tracking system designed to monitor the results of matching activities and the progress of AFDC fraud investigations. Confronted with competing requests for scarce EDP resources, AFDC administrators have had to make some hard choices regarding where the greatest need exists. Providing additional EDP support to enhance computer-aided, anti-fraud techniques would require difficult trade-offs between improving service delivery vs. increasing program integrity. Acquisition of more electronic data processing equipment or computer time is a possible option, but in the present climate of fiscal belt tightening, new funding is hard to find.

8.2.2 Lack of Personnel Resources

Computer-aided matching techniques typically identify a substantial number of suspect AFDC cases. Each case earmarked by the computer must be examined in-depth to determine whether the match is valid and, if so, whether a full-fledged fraud investigation is warranted. The large number of cases to be reviewed frequently outstrips the available staff resources, creating a serious work backlog. This backlog, in turn, generates a ripple effect, first engulfing case/eligibility workers, later impacting on fraud investigators, and finally affecting prosecutors.

Discussions with various state and local welfare officials, fraud investigators, and prosecutors indicated that there exists a substantial need to commit greater personnel support to improve the utility of computer-aided, anti-fraud techniques. Many welfare agencies would need to upgrade their data processing staff in any effort to enhance existing techniques or develop new ones. Bolstering data processing staff may also, in the longer term, lessen pressures on local caseworkers and investigators. More sophisticated matching techniques will result in better quality matches and more efficient use of the match information at the local level.

In some agencies, information provided by computer-aided techniques is either not used or is used in a limited way in fraud investigations; matching is viewed more as a management aid to administratively control AFDC benefit over-payments. Incentive for caseworkers to look for fraud in cases identified by computer matching may be low because of the apparently prevailing staff belief that matching techniques are a relatively low-payoff means for pinpointing fraudulent cases. However, computer matches and selective screens are more effective as anti-fraud strategies when welfare agency staff are energetic in using them, and staff are most likely to be energetic when they view welfare fraud as a serious offense. Thus, when such a view exists, the agency, in turn, is more likely to provide strong personnel support to ensure that computer-generated leads are vigorously pursued by local welfare staff to assist the detection of AFDC fraud. This is apparently why a number of agencies believe that

fraud investigative units should be responsible for developing and applying their own computer-aided techniques.

Shortages of investigative staff have hindered the use and continued growth of computer-aided techniques in some instances. A number of state and local investigative units are reporting serious difficulties in allocating sufficient staff time to attend to cases of suspected fraud flagged by these techniques. These units have excess workloads prior to the use of computer-aided techniques. Additionally, some investigators tend to view the cases uncovered via computer-aided techniques to be generally less serious than those uncovered via other methods. Because of this situation, investigators feel that the use of computer-aided techniques must be coordinated with and take into account the availability of investigative resources. It also appears that the implementation of new computer-aided techniques will be slowed until investigative resources are either increased significantly or until it is demonstrated to investigators that these new techniques have substantially higher payoffs than methods presently being used.

The use of computer-aided techniques, because they increase the volume of cases to be investigated, also have the potential to increase the number of cases to be prosecuted. In many jurisdictions, prosecutors are not inclined to undertake the criminal processing of a large number of AFDC fraud cases in the face of a mounting caseload of violent or serious property crimes. When prosecutors continue to limit the filing of AFDC fraud charges, welfare agencies tend to question the practicality of seeking criminal sanctions against fraud. Computer-aided techniques would aggravate rather than alleviate this situation.

8.2.3 Absence of Formal Procedures

Some jurisdictions have developed formal procedures for coordinating case processing from the time a case is identified by the computer through the decision to prosecute. In a number of jurisdictions, however, such procedures are lacking. There are no clear instructions concerning the verification of computer-generated reports. Caseworkers don't know how they are to use the information provided by computer-aided matching, or how they are to prioritize the identified cases in order to efficiently conduct case reviews. Efficient use of this computer-generated information requires detailed instructions concerning courses of action to be taken when certain difficulties arise during case reviews. For instance, caseworkers should be instructed on how to deal with a case when the manual record contains a name different than that indicated on the match report. Similarly, formal procedures are clearly needed to coordinate matching operations and investigations involving two or more jurisdictions.

At another level, procedures are also seen as critical in encouraging, across different organizational elements, the coordination necessary to make effective use of the results of computer-aided techniques. Specifically, investigators need to clearly communicate to caseworkers what criteria to apply in referring cases for formal investigation. In turn, investigators and prosecutors need to mutually agree upon guidelines for channeling fraud cases into the criminal justice system. Periodic reviews of formal policies and guidelines are necessary to ensure the smooth functioning of an agency's computer-aided, anti-fraud efforts.

8.3 Assessment Problems

Commitment to the use and expansion of computer-aided, anti-fraud techniques appears to be impeded by the lack of information regarding their effectivenss and cost, particularly in comparison to other methods of preventing and detecting AFDC recipient fraud. Presently, the utility of these techniques is uncertain in a number of ways. Some assessments tend to focus on computer expenses and ignore related case processing and investigative cost. Many state and local welfare officials believe that this approach grossly underestimates the true cost of using computer-aided techniques. Other assessments emphasize the amount of error detected through the review of cases identified by these techniques, rather than the number of fraudulent cases uncovered. Still other assessments are based on subjective judgements concerning the deterrent value of publicity surrounding the use of these techniques and the successful prosecution of a few cases identified via these techniques. Inadequate evaluative information prevents welfare officials from making a strong case for the commitment of additional funds both for supporting existing techniques and for developing new ones.

8.4 Privacy Problems

Computerized matching of AFDC recipient files with other data bases brings into focus the tension between the maintenance of program integrity and the protection of the rights of recipients.[238] Proponents of matching programs contend that

[238] "OMB: Privacy Act of 1974 - Supplemental Guidance for Matching Programs," The Federal Register, Vol. 44, No. 76, (April 18, 1979), pp. 23138-23142.

these programs are essential to preserving the integrity of public assistance programs by preventing and detecting fraud and abuse. They also maintain that computerized matching efforts will result in substantial savings of total AFDC program expenditures. Critics question the efficacy of matching programs on several grounds. First, it is argued that matching programs, by their very nature, are intrusive and therefore pose a threat to personal privacy. Second, they express reservations as to whether the perceived benefits of matching programs are sufficient to outweigh either privacy considerations or the costs involved in conducting a matching effort. Finally, critics fear that the due process rights of individuals targeted by the match program may be violated.

This conflict poses a number of problems with respect to the design and utilization of computerized match programs. Key among these problems are:

- Under what circumstances is the operation of a match program justified?
- What are the permissible parameters of a match program?
  - -Who will conduct the match?
  - -Which data files will be compared?
  - -What is the relationship between the data used for the match and the purposes for which the information was originally gathered?
  - -How long will the matching program last?
- What will be done with the records when the match is completed?
- What procedural steps will be instituted to verify raw matches and to ensure the personal rights of individuals?

Recognizing these problems and the corresponding obligation to achieve a balance between sustaining the integrity of public assistance programs and protecting the personal privacy of individuals, the federal government has promulgated two sets of regulations governing the operation of computerized matching programs involving AFDC files. One set of regulations, prepared by the Office of Management and Budget (OMB), concerns the conduct of computerized matching programs by federal agencies.[239] The second set of regulations, developed by HEW, mandates that state AFDC agencies use wage information maintained by the Social Security Administration and by state Employment Security agencies to determine public assistance eligibility and benefits.[240] Both sets of regulations are important in that they apply to the major computer-aided techniques (ES and SER Matching and Project Match) currently conducted by the federal government and the states. Additionally, these regulations are likely to set a precedent regarding personal privacy rights with respect to the development of new computer-aided, anti-fraud techniques. Both sets of regulations are discussed in the sections below. Emphasis is given to the OMB regulations, since they are broader in scope and more directly concerned with the issue of personal privacy.

8.4.1 OMB Regulations Concerning Computerized Matching Programs

The regulations governing the computerized matching of individuals' records, issued by the Office of Management and

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239 Ibid.

240 "Aid To Families with Dependent Children - HEW/SSA Proposes Rules Concerning Access to Wage Record Information," The Federal Register, Vol. 44, No. 8, (January 11, 1979), pp. 2404-2407.

Budget effective March 30, 1979, are a supplement to the 1974 Privacy Act. The OMB guidelines apply to all agencies covered by the Privacy Act of 1974 and to all computerized matching programs conducted by federal agencies. Additionally, these regulations apply to the disclosure of any records maintained by a federal agency for use in a computerized matching program, whether conducted by another federal agency or by a non-federal agency.

The OMB regulations consist of five major components. These components are:

- definitions of key terms
- contents of a feasibility report justifying the proposed matching technique and describing its parameters
- requirements regarding the operation of the matching techniques
- requirements concerning the termination of the program and the disposal of records, and
- guidelines for source agencies (which provide the comparison data bases) invited to participate in the matching program.

The components cover the development and operation of computerized matching programs and describe the use and disclosure of personal records maintained in automated data bases.[241]

Definitions of key terms provide a frame of reference for persons involved in the design and utilization of matching programs;

[241] The Federal Register, Vol. 44, No. 76, (April 18, 1979), pp. 23138-23142.

included among the terms defined are "personal records," "matching program," "matching source," and "hit."

The second component specifies the table of contents of a required feasibility report to be prepared by the agency proposing to conduct the match. This report must be submitted to the Director of OMB, the Speaker of the House of Representatives and the President of the Senate 60 days prior to inaugurating matching activities. The threshold criterion to be addressed in the feasibility report deals with the costs and benefits of conducting a matching program. "A matching program should be undertaken only if a demonstrable financial benefit can be realized that significantly outweighs the costs of the match and any potential harm to individuals that could be caused by the matching program."[242] According to the OMB regulations, a cost-benefit analysis should, at a minimum, include:[243]

- estimates of losses due to fraud, abuse and error
- estimates of the number of recipients receiving benefits who are ineligible
- estimates of the amount that could be recovered or saved by identifying ineligible recipients and terminating improper payments
- estimates of the potential savings that could be realized through the deterrence of ineligible applicants

[242] Ibid., p. 23139.

[243] Ibid.

- estimates of the costs of conducting a match
- estimates of the costs of following-up on "hits"
- assessments of the extent matching may discourage individuals from exercising their rights, and
- analyses of alternative methods for limiting fraud and abuse.

However, it should be noted that the frailties of a cost/benefit analysis of this type are, of course, well known. Estimates of both costs and benefits are very difficult to accurately define and quantify to permit a valid analysis. Additionally, estimates may easily be subject to manipulation for a variety of reasons, including self-interest and political pressure.

The feasibility report must also present a comprehensive description of the proposed matching program. This description should include:[244]

- the starting and estimated completion dates of the program
- a description of the personal records to be matched
- the source(s) from which records will be obtained and a copy of the routine use or description of any other authority by which records will be disclosed
- the procedures to be followed, both in the actual matching, and in following-up on "hits"
- a discussion of how individuals' privacy and other rights will be protected, for example, limitations on the amount of information maintained, or on improper access to records

[244] Ibid., p. 23140.

- the safeguards to be applied in the design and operation of the matching program to protect against unauthorized access or disclosure of personal records, consistent with the requirements of OMB circular No. A-71, Transmittal Memorandum No. 1 dated July 27, 1978
- the kinds of records which will be disclosed as a result of the match and those individuals to whom records will be disclosed, including the basis for any routine uses
- the plans for disposal of records developed in connection with the conduct of the matching programs, including the records on "hits" and any additional information maintained on the "hits", and
- an identification of all federal and non-federal organizations (including contractors) involved in performing the match and the roles to be performed by each organization.

Relative to operating requirements, the regulations discourage the use of outside contractors to perform the matching activities. The matching agency is encouraged to provide the source agency (which maintains the comparison data file) with a copy of the feasibility report which presents the cost-benefit analysis and outlines the plans for the matching program. Procedures must be set forth concerning a transfer (or disclosure) of data files from the source agency to the agency conducting the matching activities. Routine use, defined in terms of how the disclosure is compatible with the purpose for which the information was originally gathered, is cited by OMB as the primary justification for permitting release of personal data by source agencies. Other legal statutes allowing disclosure, such as the Freedom of Information Act, are also noted as a permissible basis for the transfer of data files containing personal information. In any case, release of personal information must be preceded by a notice in the Federal Register outlining conditions of the disclosure.

The regulations mandate that personal records contained in comparison data bases be destroyed or returned to the source agency within six months. Similarly, information related to "hits" should be destroyed within this time frame, unless the data are part of on-going law enforcement or administrative activities consistent with the purpose of the matching program. Finally, the matching agency should notify OMB in writing regarding the completion of matching activities and the disposition of data files and associated personal information.

The last major component of the regulations deals with the role and obligations of source agencies participating in anti-fraud matching programs. General procedures are presented to provide the source agency with guidelines concerning decisions to participate in matching programs and the conditions permitting the transfer of data files containing personal records.

8.4.2 HEW Regulations Concerning Wage Record Matching Programs

The HEW regulations regarding the use of wage data in the AFDC program are contained in Section 411 of Public Law 95-216. Enacted in December 1977 and taking effect on October 1, 1978, these regulations mandate state welfare agencies to use the information contained in Social Security Administration records or State Employment Security files to assist in determining AFDC eligibility and payment amounts. At the same time, these regulations are intended to provide guidelines to the states concerning the use of computer-aided, income matching techniques designed to reduce error rates and to curtail fraud and abuse in the AFDC program. The use of the Social Security Number as the key element for conducting matching activities is encouraged; moreover, the regulations permit the use of wage data obtained via matching activities as evidence in any investigation or

prosecution of recipients suspected of fraudulently obtaining AFDC benefits.[245]

Specific guidelines are included in the HEW regulations governing the operation of wage-related matching efforts and the disclosure of personal data. Among the key areas addressed by the HEW regulations are:[246]

- definition of wage information
- access to wage information maintained by agencies administering state unemployment compensation laws and by the Social Security Administration
- maintenance of an automated file to facilitate requests for wage information
- access to wage information with regard to specific agreements between the state agency and the agency furnishing the information, and
- reports and maintenance of records.

The HEW regulations, like the OMB regulations discussed in Section 8.4.1 above, deal with the procedural aspects of the conduct of wage-related matching programs and address the issue of personal privacy. Access to and dissemination of the information contained in the data files used in the matching program is to be restricted and determined on a "need to know" and "right to know" basis. The data are to be stored in a place

[245] The Federal Register, Vol. 44, No. 8, (January 11, 1979), pp. 2404-2407; also see, James J. Trainor and Ronald J. Lentz, Use of Income Data in the Administration of the AFDC Program, DHEW, July 1978, pp. 10-21.

[246] The Federal Register, Vol. 44, No. 8, (January 11, 1979), pp. 2400-2407.

physically secure from access by unauthorized personnel. Finally, keywords, passwords and other safeguards are to be used to prevent unauthorized persons from accessing the automated files.

8.4.3 Scope of Federal Regulations and Related Privacy Problems

The OMB and HEW regulations described above have, to some extent, clarified many of the privacy concerns arising in the development and operation of computer-aided, anti-fraud matching techniques. First, and perhaps most important, these regulations provide guidelines to protect individual privacy with respect to the use of computer-aided matching techniques to curtail fraud in the AFDC program. Previously, some critics have argued that computer matching represented an unwarranted invasion of AFDC recipients' privacy. The regulations, however, tend to confirm that matching is an integral aspect of AFDC administration. Second, the regulations clearly permit the use of individual SSNs for conducting comparisons between AFDC files and other wage data bases. Third, both regulations explicitly address the need to protect and control the use of information produced by computer-aided matching techniques. By addressing these needs, the regulations recognize that "raw hits" generated by computer matching can be extremely damaging to individuals, particularly when disseminated to those who are ignorant of their significance. As previously noted, "raw hits" cannot be equated with fraud. Therefore, this information must be carefully controlled to guard against abridgments of privacy and due process.

While HEW regulations governing access to wage record information and OMB regulations concerning the operation of matching programs are extensive in coverage, they are less than absolute. They do not apply to a number of the more unique matching activities conducted by state AFDC agencies such as those

involving bank records, state income tax rolls or school rosters. Typically, access to these data bases is governed by a variety of state privacy laws and regulations and by AFDC directives. As may be expected, differences exist among the states with regard to the legality of accessing such data bases by welfare agencies. Michigan, for example, has enacted a law specifically permitting the state AFDC agency to access records of private employers in order to conduct payroll matching. Other states use informal agreements to obtain access to outside data bases for matching purposes. The permissibility of this access is of course open to challenge in the courts.

It is too early to determine the impact of the regulations promulgated by HEW and OMB on the use of computer-aided matching techniques, especially in relation to the protection of personal privacy. State officials (contacted by MITRE), who are currently involved in computerized matching programs, generally contend that problems related to privacy considerations appear to be minimal. They indicate that the HEW regulations regarding income matching have helped alleviate earlier privacy-related concerns such as those dealing with conditions permitting access to outside data bases, procedures governing the conduct of the matching process, and measures controlling access to data files. However, they also confirm that the federal regulations may inhibit the conduct of the other state-level computer matching efforts, such as those involving school or bank records. The cost involved in conducting federally-mandated income matching with Social Security Administration or state Employment Security agency data may limit the amount of funds available for performing other types of matching activities.

A recent matching program performed in Massachusetts highlights problems related to the confidentiality of welfare records, the dissemination of information generated by matching activities, and due process. In this particular instance, the state government alleged publicly that all AFDC recipients identified by the matching effort were fraudulently receiving public assistance. These AFDC recipients were summoned to report to the appropriate welfare offices to undergo a case eligibility review. The accusation and the actions of the state AFDC agency triggered strong reactions by welfare recipients and their representatives who charged the Massachusetts Welfare Department with harassment, accused the state government of violating state and federal due process laws, and instituted a law suit to stop the state's investigation. The Massachusetts Law Institute (a public interest legal group) pointed out that a match does not equate with fraud, but merely suggests the need for case review. A raw match must be verified before the case can be directed toward possible criminal proceedings or administrative action.[247]

It is important to note that state and local operating agencies, confronted by complex and frequently changing regulations, may sometimes fail to translate federal or state policies--such as those intended to restrict access to data files used in matching activities--into practice. As a consequence, the privacy of individuals may be violated, however unintentionally, and the risk becomes higher as a greater variety of data bases are used for matching across states and among different

[247] Tom Riley, "King: 14,468 Welfare Cheats," Boston Herald American, March 10, 1979, p. 1; also see, Walter V. Robinson, "State Sued on Welfare Probe," Boston Globe, March 28, 1979, p. 23.

benefit programs. To resolve this problem, the Privacy Commission has offered a number of recommendations:[248]

- each state should develop and adopt a statute mandating certain minimum record-keeping requirements and detailing privacy and confidentiality policies
- each state should develop collateral data verification procedures within boundaries prescribed by federal guidelines, and
- AFDC applicants/clients should be told about data collection practices and informed about any matching efforts.

The receptivity of states toward implementing the Commission's recommendations is uncertain at this time. Personal privacy considerations are important in the design and operation of computerized AFDC matching programs, as are the needs to improve program integrity. A delicate balance must be preserved between these two requirements.

[248] Privacy Protection Study Commission, Personal Privacy in an Information Society, (U.S. Government Printing Office: July 1977), Chapter 11.

9. THE POTENTIAL ROLE OF LEAA

Primary responsibility for administration and fraud control in the AFDC program rests with HEW (especially the newly created Office of Inspector General) and state and local welfare departments. It appears that the LEAA, in its general law enforcement role, could contribute usefully to such administration and control with respect to the operation of computer-aided, anti-fraud techniques in a number of ways.

To begin with, LEAA could help develop a clear-cut law enforcement policy position concerning the seriousness of AFDC recipient fraud at federal and state levels. Such a position would need to emerge, however, from a general review of crime control policy, involving an examination of the welfare fraud priority in relation to other types of crimes that are targeted by current activities. New initiatives in this area by LEAA could be considered inappropriate on several grounds: the nonviolent nature of the crime; the social characteristics of the problem (AFDC recipient fraud is seen by some as an inevitable reflection of the ills of a capitalist economy); the shrinking LEAA budget; and the recent resurgence of street crime. If, however, a policy decision is reached that public assis[illegible]d (and AFDC fraud in particular) is serious enough to warrant intensified federal involvement, then the LEAA, in conjunction with HEW, should:

- evaluate the fraud-control effectiveness and costs of various anti-fraud strategies including computer-aided techniques, hot-lines, hopper alerts, and various case maintenance activities
- support analytic efforts designed to increase the "hit ratio" of computer-aided techniques
- conduct studies of prosecutorial activities with regard to recipient fraud, and

• coordinate criminal justice system efforts with those of HEW so as to achieve maximum impact on recipient-fraud reduction.

9.1 Evaluation of the Effectiveness and Costs of Anti-Fraud Strategies

A number of strategies are being employed to curtail recipient fraud in the AFDC program. For example, some states emphasize the use of various computer-aided matching techniques to detect recipients who intentionally underreport or fail to report earned income. Other states feel that detection-oriented actions stop some on-going fraud, but only after the loss of substantial public funds. Hence, they tend to rely on preventive measures such as hopper alerts and front-end screens, often in combination with computer-aided matching efforts.

Little information is available regarding the effectiveness and costs of specific anti-fraud strategies. Further, those evaluative data which exist are largely beset by methodological problems, limiting the utility of the data and rendering comparisons among strategies meaningless. Rigorous evaluations of specific anti-fraud activities, combinations of activities, or overall agency approaches can provide decision-makers with reliable information in addressing a number of issues such as the comparative effectiveness of various anti-fraud techniques, the appropriate level of support resources, as well as the need to either modify present activities or develop new approaches to curtailing recipient fraud.

9.2 Support Analytic Efforts Directed Toward Improving the "Hit Ratio" of Computer-Aided Techniques

Examination of current computer-aided, anti-fraud matching efforts reveals a low "hit ratio" in proportion to the number of

suspicious cases initially identified by the techniques. The accuracy of each match must be confirmed by local case workers through independent, time consuming manual case reviews. Practitioners contend that better data bases, containing more accurate, comprehensive and timely information, would improve the utility of the computer-aided techniques by eliminating many invalid matches prior to the initiation of manual review procedures.

To improve the performance of computer matching techniques (for example, the "hit ratio"), more analyses are needed. This might involve the determination of the following:

• which information items have the greatest impact on eligibility and benefit decisions

• which types of information are most frequently misrepresented during application

• what types of review procedures are necessary to check the validity of the matches, and

• which data bases have the greatest payoff potential.

Analyses of these types should take into account the need for increasing the coordination among welfare agency staff, fraud investigators, and prosecutors. New case management approaches, case screening procedures and statistical analysis methods should be explored within a unified context.

9.3 Conduct Studies of Prosecutorial Activities Concerning Recipient Fraud

Welfare agency staff, especially fraud investigators, frequently complain that AFDC fraud is not vigorously prosecuted. In this regard, several problems appear paramount. Welfare fraud

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is typically viewed by prosecutors as less serious than other more violent types of criminal activities. Coordination between prosecutors and fraud investigators/welfare staff, needed for competent case preparation, is often weak. To effectively prosecute AFDC fraud, welfare staff must provide prosecutors with agency documents and relevant evidence in a timely fashion and in an appropriate form for adjudication. Prosecutors are also typically dependent on agency expertise concerning AFDC program rules and regulations as well as specifics regarding the amount of benefit payments in question, and evidence such as the signed declaration on the application form needed to establish intent in the investigation and prosecution of fraud. Caseworker testimony needs to be organized and coordinated, since many welfare fraud cases are decided upon the credibility of agency witnesses. Present reliance upon informal relationships between the investigative units and prosecutors need to be better coordinated and formalized. Additionally, a high turnover of prosecutors, in conjunction with the complex and frequently changing AFDC program regulations, hinders the development of expertise considered prerequisite to successfully prosecuting recipient fraud.

To alleviate these difficulties, LEAA could conduct research concerning prosecutorial activities with regard to recipient fraud. This type of study could start with an empirical assessment of current practices regarding the types of AFDC fraud cases typically accepted for prosecution and the judicial outcomes associated with these cases. Based on this information, alternative prosecutorial screening criteria could be developed and sentencing alternatives examined. These screening criteria and sentencing alternatives could, in turn, help welfare agencies using computer-aided techniques to further refine these techniques and to focus agency investigative resources on cases most likely to result in criminal prosecution.

9.4 Coordinate Criminal Justice System Efforts with HEW Activities to Achieve Maximum Fraud-Control Impact

Utilization of computer-aided techniques to curtail recipient fraud in the AFDC program involves the distinct provinces of both social service and law enforcement agencies. Absence of effective coordination between the two groups has resulted in frustration for both groups and diminished the potential fraud-control impact of these computer techniques. Training of welfare investigators often does not keep pace with either the constantly changing program regulations or the influx of new investigators, thus adversely affecting the preparation of cases sent to the prosecutor's office. Concomitantly, prosecutors have frequently rejected cases identified by matching techniques on several grounds, including lack of sufficient evidence and the low priority assigned to many types of welfare fraud.

In response to these inter-agency difficulties, LEAA could coordinate law enforcement efforts with HEW activities in those areas which are likely to impact the criminal justice system. Particularly appropriate in this area are those HEW activities related to training fraud investigators, establishing criteria for referring fraud cases to law enforcement agencies, maintaining statistics on fraud prosecutions and the planning of large scale, deterrence-oriented, anti-fraud projects such as Project Match where successful prosecution is an important element.

APPENDIX A

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