

**REPORT OF THE
VIRGINIA DEPARTMENT OF SOCIAL SERVICES**

WELFARE FRAUD STUDY

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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COMMONWEALTH of VIRGINIA

Office of the Governor

George Allen
Governor

Robert C. Metcalf
Secretary of Health and Human Resources

November 14, 1997

TO: The Honorable George Allen

and

The General Assembly of Virginia

The report contained herein is pursuant to Senate Joint Resolution 356 as approved by the 1997 General Assembly.

As required by Senate Joint Resolution 356, the Virginia Department of Social Services, at the request of the Secretary of Health and Human Services, conducted a study on welfare fraud. This report provides a description of the Department of Social Services' current fraud control program, key findings of the welfare fraud study, and recommendations for a strengthened and expanded program.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Robert C. Metcalf".

Robert C. Metcalf

WELFARE FRAUD STUDY

Executive Summary

This study was mandated by Senate Joint Resolution 356 which stated, “[t]he Secretary shall also study specific topics referred to it by the 1997 Session of the General Assembly, including Senate Joint Resolution No. 346 on welfare fraud.”

The Virginia Department of Social Services has oversight responsibility for all public assistance programs in the Commonwealth. Title I, § 402(a)(6) of the Personal Responsibility and Work Reconciliation Act of 1996, requires states to establish and enforce standards and procedures to ensure against program fraud and abuse. 7CFR273.16 of the Code of Federal Regulations places responsibility on the State agency to investigate cases of alleged intentional program violation, and to ensure that cases which have sufficient evidence to substantiate the commission of an intentional program violation are referred for disposition, either through an administrative disqualification hearing or in a court of appropriate jurisdiction.

Local departments of social services are responsible for identifying instances of fraud and taking appropriate steps for prosecution. §63.1-58.2 of the *Code of Virginia* gives **authority** to, but does not **require**, local boards of social services to establish fraud prevention and investigation units. The Commonwealth’s public assistance programs are state supervised and locally administered. Because the *Code of Virginia* does not require local boards to operate a fraud investigations program, the Department of Social Services is unable to enforce any standards for local fraud investigations activity.

This report provides an overview of the Department of Social Services’ fraud control and collections program, and highlights the key findings from a study of this program.

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WELFARE FRAUD STUDY

Introduction

The 1997 General Assembly passed Senate Joint Resolution 356 (SJR 356) which requested the Secretary of Health and Human Resources to conduct a study on welfare fraud. (See Appendix I for a copy of the resolution.) SJR 356 requires the Secretary to submit his initial report and recommendations to the Governor by November 15, 1997, and to the 1998 General Assembly. The Secretary must also submit subsequent findings and final recommendations to the Governor and the 1999 General Assembly by November 15, 1998.

This report provides a description of the Department of Social Services' current fraud control program, key findings of the welfare fraud study, and recommendations for a strengthened and expanded program.

Background

The Virginia Department of Social Services (VDSS) has oversight responsibility for all public assistance programs in the state to ensure that benefits and services go only to qualified recipients, in the correct amounts. The federal government, as well as the Governor, the Secretary of Health and Human Resources, and the taxpayers of Virginia, hold the Department of Social Services accountable for program integrity and any related misspending.

Fraud occurs when applicants or recipients intentionally withhold information, or provide false or incomplete information in order to obtain benefits and services. To control fraud, VDSS sets policy and provides resources, training, and assistance to 122 local departments of social services.

Local departments are responsible for identifying instances of fraud, taking appropriate steps for prosecution, and collecting fraudulent payments from recipients. Agencies must also identify intentional program violations which may be referred for an administrative disqualification hearing.

The 1991 Food Stamp lawsuit, Robertson v. Jackson, and resulting federal court order requiring timely processing of applications resulted in a shifting of scarce resources from program integrity efforts to meeting court-mandated time frames. Fraud control and collections have received much less attention, enabling certain clients to commit fraud without fear of prosecution or being required to repay benefits erroneously received.

Recent Initiatives

In the past two years, VDSS has implemented several initiatives to improve program integrity, including:

- **Enhanced Fraud Control and Collections (EFCC) program, which provides a monetary incentive for local agencies to pursue fraud and collections more aggressively.**
- **Food Stamp Claim Tracking system, to improve collection of Food Stamp debts.**
- **Tax refund intercept programs (federal and state), which divert tax refunds to cover delinquent debts established as a result of overpayments in the Food Stamp program.**
- **Expansion of computer matches with other agencies and border states to identify potential client fraud.**
- **Implementation of special corrective action in agencies with the highest error rates for Food Stamps.**

Although SJR 356 mandated this study, VDSS had already begun a study to increase its knowledge of fraud, errors, and collections, and to develop a comprehensive approach for improving program integrity in the Temporary Assistance for Needy Families (TANF) and Food Stamp programs. A copy of the full fraud study is available from the Department of Social Services' Bureau of Fraud and Special Investigations upon request.

Key Findings

- **Almost 9% of Aid to Families with Dependent Children /Temporary Assistance to Needy Families (AFDC/TANF) and Food Stamp benefits paid out in FY 1996 were overpayments (\$56.6 million). As Virginia's error rate increased in the Food Stamp program, the state encountered federal financial sanctions.**
- **At least 26% of payment errors were due to fraud and much of an additional 44% attributed to "inadvertent" client error was also probably due to fraud.**
- **In the Food Stamp program, Virginia collects only about 5% of overpayments, well short of the federal standard of 25%.**
- **With child day care payments soon reaching \$100 million, there is a great opportunity for fraud in this program. VDSS and local agencies must begin to identify areas of vulnerability and to put protective measures in place.**

- Local agencies give limited and inconsistent attention to fraud control and collections. Over a three year period, 29 agencies did not have a single AFDC/TANF or Food Stamp fraud referral. Some agencies with a full-time dedicated fraud worker did not have a single referral.
- Local agencies have a large and growing backlog of fraud referrals, over 40% of which have not been investigated.
- Automated systems for fraud control and collections are inadequate to nonexistent.
- Under the block grant for welfare reform, each misspent dollar in AFDC/TANF is a total loss to the state and reduces available funds for eligible individuals.

The Department has developed many recommendations internally to improve fraud control and collections that require action from most organizational units within VDSS and local agencies. Recommendations also call for new collaborative efforts at the state level with the Department of Medical Assistance Services (DMAS) and others.

Commitment to Program Integrity

Commitment to program integrity by VDSS' top management is pivotal to effective fraud control and collections. Without such commitment, the press of other business will crowd out attention to program integrity.

VDSS' leadership should incorporate fraud control into the vision, planning, and operations at the state and local levels. Improvement in program integrity will require investment in automated systems, design of improved procedures, training, and personnel. To reduce the great variation in performance among local agencies, VDSS' leadership must communicate the importance of fraud and collections, establish program requirements, and hold localities accountable for performance.

Strengthen Policy

All departmental programs should have policies and procedures that address potential vendor and client fraud. The Central Office Bureau of Fraud and Special Investigations, in conjunction with the Department's program policy units, should establish fraud policy and procedures to be used in program policy manuals. This policy should include definitions of fraud, required actions to prevent and identify fraud, penalties and administrative reporting.

The Bureau of Fraud and Special Investigations, with assistance from the Divisions of Financial Management and Operations, should also provide local agencies with a comprehensive policy manual on fraud control and collections. The manual should

address fraud prevention, detection, investigations, prosecution and disqualification processes, and reporting. It should also include tools and guidelines on identification, collection, and recording of overpayments.

Finally, Operations should review unduly complex or inconsistent policies across programs that increase worker errors and client reporting problems. Where these exist, operational units should take action to align and simplify policies (particularly in Food Stamps and AFDC/TANF) to reduce the possibility of payment errors.

Expand Efforts to Other Programs

Both VDSS and local departments of social services focus almost all fraud control efforts on recipients of AFDC/TANF and Food Stamps. However, client and vendor fraud can occur in many programs, and VDSS should evaluate expanding the local agencies' fraud control responsibility to include investigating potential fraud in all benefit program and service program cases. Two critical areas which should be given attention are Medicaid and child day care.

VDSS should write into policy, and incorporate into its fraud training, increased emphasis on identification and referral to DMAS of all suspected cases of Medicaid fraud. In 1996, Medicaid payments totaled \$1.79 billion. A variety of factors, including growth in Medicaid caseloads, limited resources, high expenditures, and potential for client fraud, warrant pursuit of all opportunities to identify and deter both client and vendor fraud.

With expenditures likely to approach \$100 million and a high potential for fraud, the Child Day Care program should have clear, comprehensive policy and procedures on both client and vendor fraud and collection of payments. The Office of the Inspector General should test the existence of client and vendor fraud in this program and determine the cost-effectiveness of alternative fraud control methods for child day care, including privatization.

Finally, the Fraud and Special Investigations Bureau, with the Divisions of Information Systems and Operations, should develop strategies to control new types of abuses which could emerge following VDSS' implementation of an Electronic Benefit Transfer (EBT) system. Experiences of other states show that although this technology reduces some opportunities for fraud, EBT creates new possibilities for both client and vendor fraud, identifies fraud that previously went undetected, and requires more complex, centralized investigations to process fraud.

Emphasize Prevention and Deterrence

Prevention of fraud is more cost effective than detecting it after the fact and then attempting to recover lost funds. Virginia has placed limited emphasis on fraud

prevention, and funding incentives focus on debt recovery rather than prevention. VDSS' current automated systems neither support prevention efforts nor collect data to document related cost avoidance.

VDSS should provide financial incentives to local agencies for fraud prevention. Operations and, with the assistance of Fraud and Special Investigations, should evaluate the feasibility of an intensive front-end prevention project, in one or more localities, that could demonstrate the cost effectiveness of prevention.

Tougher and consistently applied penalties could deter fraud if clients are aware of consequences. Wherever possible, all programs should have an administrative disqualification process and comparable penalties. Local agencies should take action against all recipients who commit fraud and treat them equitably across the state. VDSS should develop a customer education program to inform clients of both fraud penalties and their responsibility for providing accurate information.

Expand Collections

Abundant opportunities exist to make additional improvements in the collection of debt. However, complete implementation is dependent on automation enhancements.

Temporary Assistance Programs should provide local staff training on identifying, calculating, and recording overpayments, and Financial Management should provide training on, and monitor, collection processes. Financial Management should also track all funds from collections to permit full reinvestment for program integrity initiatives.

National welfare reform requires the statewide implementation of the Federal Tax Refund Offset Program (FTROP) for collecting delinquent Food Stamp and TANF debt. Operations and Financial Management should consider a statewide mandate for State Tax Intercept for all programs.

Federal welfare reform changed debt collection policy and has made privatization of Food Stamp collections less cost effective. Financial Management should continue to use the tax refund off-set program to collect delinquent Food Stamp debt and should not privatize AFDC/TANF collections unless federal regulations change to make it cost effective.

Expand Automated Support

Investment in automated systems is essential for improvement in fraud control and collections. The Fraud Bureau should participate regularly in planning for client tracking systems to highlight information requirements related to fraud.

Fraud control and collections need enhanced automated tracking systems for Food Stamps

and AFDC/TANF in order to reduce payment errors. Enhancements such as tracking referrals for an investigation and early identification of overpayments will strengthen program integrity. Information Systems' plans to use verified data to update systems automatically will also augment overall integrity.

The Central Office's Fraud Bureau, with Information Systems, should provide local agencies with case management software for managing their fraud workload and tracking fraud cases, possibly utilizing an existing local system. All fraud investigators should have easy access to personal computers to streamline and support their work.

Any local fraud system should provide Central Office with basic statistical information for planning and oversight functions. The Central Office needs an automated interface to allow expanded and streamlined interstate and interagency case matches. Expansion of these matches would help to identify existing fraud and would allow cost effective referrals to local agencies.

While Virginia's Food Stamps Claims Tracking System is a good first step toward more automated support for collections, Information Systems should develop a single claim tracking and collection system for all programs. Reviews have shown that states that perform well in identifying and collecting overpayments are also the states that have highly capable automated systems to make the work easier, faster, and more accurate.

Provide Other Resources for Program Integrity Efforts

VDSS should ensure that both local agencies and Central Office have resources required to carry out program integrity functions. As an initial step, Operations, Financial Management and the Office of the Inspector General should identify and share best practices of local agencies on staffing and structuring for fraud control and collections.

VDSS should enhance financial incentives to encourage local agencies' fraud control and collections activities. VDSS should reinvest the state portion of all collections, and expand funding previously provided for Enhanced Fraud Control and Collections (EFCC) by the federal pass through for AFDC administrative expenses. If funding permits, VDSS should also provide EFCC agencies with incentives for prevention and consider requiring local participation in this program.

Initial findings are that there should be one dedicated fraud investigator for every 20 eligibility workers. Smaller agencies lack caseloads to warrant specialized fraud staff. Operations and the Office of the Inspector General should design a program to assist these agencies in establishing viable fraud programs and meeting program integrity responsibilities.

Operations and the Central Office's Fraud Bureau should evaluate privatization as a

staffing alternative that could permit localities to offer more intensive investigative efforts, as well as an aggressive fraud prevention program. Privatization may be viable for controlling client fraud in the Medicaid program and areas of expansion.

As fraud control and collections expand to other programs, Human Resource Management should consider the need for a Senior Fraud Investigator position. This should help retain experienced fraud workers and offer a career ladder within this speciality.

VDSS should routinely provide generic training on fraud prevention and detection to all local staff (intake, eligibility, service, and fraud). Expansion of the training should parallel the inclusion of other programs in fraud control and the introduction of changes such as EBT. The Fraud Bureau and Temporary Assistance Programs have initiated training for Food Stamp eligibility workers on detecting errors and potential fraud as one method for reducing Virginia's Food Stamp error rate.

Conclusion

There needs to be a mandate to require local boards of social services to identify and pursue welfare fraud and overpayments in all program areas. This commitment to program integrity is required by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, and conforms with the overall goals of welfare reform by acknowledging that taxpayer dollars should be used to provide correct payments to individuals meeting all program requirements. To this end, the Department of Social Services has committed resources to strengthen fraud and special investigations, and to develop and train fraud policy. In addition, the Department will conduct a pilot program during 1998 to study the cost-savings associated with pre-eligibility investigations of Food Stamp cases identified as error prone. A report of the findings will be made to the Secretary of Health and Human Resources as part of the final report on the pilot program due by September 1, 1998.

APPENDIX I

SENATE JOINT RESOLUTION NO. 356

requesting the Secretary of Health and Human Resources, with the assistance of the Advisory Commission on Welfare Reform, to study methods to ensure the continued success of Virginia Initiative for Employment Not Welfare (VIEW) clients as they work toward self-sufficiency.

Agreed to by the Senate, February 17, 1997

Agreed to by the House of Delegates, February 13, 1997

WHEREAS, quarterly implementation of the Virginia Initiative for Employment Not Welfare (VIEW) began in Culpeper, Fauquier, Madison, Orange, and Rappahannock Counties on July 1, 1995, and in Amherst, Appomattox, Bedford, and Campbell Counties and the Cities of Bedford and Lynchburg on October 1, 1995, and has continued in other regions of the Commonwealth; and

WHEREAS, because of encouraging early results and the requirements of national welfare reform, statewide implementation of the VIEW program has been accelerated and will be complete by October 1, 1997; and

WHEREAS, by the end of the 1996 fiscal year, declines in welfare caseloads had saved \$24 million in state and federal funds and 69 percent of VIEW participants required to be in a work activity had earned \$2.7 million in addition to AFDC benefits; and

WHEREAS, much of the initial success of the VIEW program has been due to the cooperation of local businesses, chambers of commerce, local social services agencies, Private Industry Councils, and church groups that have provided jobs, helped with transportation, and volunteered their time; and

WHEREAS, VIEW participants in the first group of localities to implement the VIEW program will begin to relinquish cash assistance benefits in July of 1997 and one year later these individuals may not be able to rely on previously provided support services such as Medicaid, day care, and transportation; and

WHEREAS, the Commonwealth wants to encourage efforts in cooperation with the private sector to help individuals complete successfully the transition to self-sufficiency, to help families maintain and improve their new independent economic status, and to preserve the vitality of communities; now, therefore; be it

RESOLVED by the Senate, the House of Delegates concurring, That the Secretary of Health and Human Resources, with the assistance of the Advisory Commission on Welfare Reform, be requested to study methods to ensure the continued success of Virginia Initiative for Employment Not Welfare (VIEW) clients as they work toward self-sufficiency. In conducting the study, the Secretary shall consider options for helping working families, with particular attention to those families who live in the first regions to implement the VIEW program. Such options shall include, but not be limited to, expanding employment opportunities, increasing the availability and accessibility of quality child day care and transportation assistance, expanding training and education opportunities, and examining health care availability. The Secretary shall also study specific topics referred to it by the 1997 Session of the General Assembly, including Senate Joint Resolution No. 346 on welfare fraud and Senate Joint Resolution No. 303 on drug testing of recipients of cash assistance to needy families in Virginia.

All agencies of the Commonwealth shall provide assistance to the Secretary of Health and Human Resources for this study, upon request.

The Secretary shall complete his work in time to submit his initial findings and recommendations by November 15, 1997, to the Governor and the 1998 Session of the General Assembly, and his subsequent findings and recommendations by November 15, 1998, to the Governor and the 1999 Session of the General Assembly, as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

