

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

WELFARE FRAUD STUDY

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



SENATE DOCUMENT NO. 11

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COMMONWEALTH of VIRGINIA

Office of the Governor

James S. Gilmore, III
Governor

Claude A. Allen
Secretary of Health and Human Resources

December 11, 1998

TO: The Honorable James S. Gilmore, III

and

The General Assembly

The report contained herein is pursuant to the 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 two-year study on welfare fraud. In this second report, findings on current activity and final recommendations on the department's welfare fraud control and overpayment recovery efforts are presented.

Very truly yours,

A handwritten signature in cursive script that reads "Claude A. Allen".

Claude A. Allen

WELFARE FRAUD STUDY

Executive Summary

A 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.*" Senate Joint Resolution 356 required the Secretary to submit initial findings and recommendations to the Governor and the 1998 Session of the General Assembly by November 15, 1997. An initial report was completed and submitted on November 14, 1997. Senate Joint Resolution 356 also required the Secretary to submit subsequent findings and recommendations to the Governor and the 1999 Session of the General Assembly by November 15, 1998. This report represents the Secretary's subsequent findings and recommendations.

The Virginia Department of Social Services (VDSS) has oversight responsibility for all public assistance programs it administers to ensure that benefits and services go only to *qualified* recipients, in the *correct* amounts. The federal government holds the state accountable for program integrity and any related misspending.

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

It is the responsibility of local departments of social services to identify instances of fraud, take appropriate steps for either prosecution or administrative action, and recover fraudulent payments from recipients. Agencies must also identify other overpayment errors and seek reimbursement from recipients.

The 1998 General Assembly passed legislation which amended §63.1-58.2 of the *Code of Virginia* to mandate a statewide fraud control program. Prior to this legislation, local boards of social services were given statutory authority, but were not required, to establish fraud prevention and investigation units. The State Board of Social Services has promulgated regulations establishing the fraud control program policy and VDSS has established fraud control program procedures and staffing requirements.

This report provides an overview of VDSS' commitment to and current practices in the prevention, detection and investigation of welfare fraud, and the recovery of public assistance overpayments which result from the commission of fraud.

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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.) The resolution required the Secretary's initial report and recommendations be submitted to the Governor and General Assembly in November, 1997 and a subsequent report of findings and final recommendations be submitted by November 15, 1998.

The initial report provided the Department of Social Services' (VDSS) recent initiatives in welfare fraud control and overpayment recovery, noted key findings in VDSS' fraud control and collections program, and presented recommendations for improvements.

This report presents the subsequent findings on current activity and final recommendations on VDSS' welfare fraud control and overpayment recovery efforts. It reiterates the issues and recommendations identified in the initial report and describes the department's initiatives in addressing these issues.

Commitment to Program Integrity

The foremost recommendation was that VDSS' top management commit to program integrity. This commitment would translate into the establishment of a statewide mandated fraud control program, enhancements in automated systems, policy statements, and increased staffing, as well as fraud control program enhancements at the state level. The commitment of the VDSS top management to program integrity is exemplified in the description of agency initiatives identified in this study.

Top management's commitment to program integrity recently was demonstrated by providing technical support assistance in the establishment of the Fraud Reduction/Elimination Effort (Fraud FREE) Program. Fraud FREE is VDSS' first statewide welfare fraud control and collections program. During the 1998 General Assembly, Senator Martin Williams (R-Newport News), was successful in passing Senate Bill 192, amending §63.1-58.2 of the *Code of Virginia*, mandating a statewide fraud control program. Prior to this legislation §63.1-58.2 authorized, but did not mandate, local boards of social services to establish fraud prevention and investigation units.

In addition to mandating a statewide fraud control and prevention program, §63.1-58.2 provides for a non-reverting fund, to be known as the Fraud Recovery Special Fund, to be established on the books of the State Comptroller. All overpayment monies collected or recovered by local agencies related to federal assistance programs will be credited to the fund. Monies in the fund are to be used solely for the purpose of funding state and local fraud control programs.

Strengthen Policy

To address the recommendation on the need for establishing written policy and procedures for the fraud program, the Office of Inspector General (OIG) has developed a comprehensive manual for local agencies on welfare fraud control and collections. This manual provides policy and procedure information, including fraud prevention, detection, investigations, prosecution, and program disqualification processes and reporting for both the Fraud FREE and Enhanced Fraud Control and Collections (EFCC) Programs. The EFCC Program, a predecessor to the Fraud FREE Program, provides a monetary incentive for local agencies to pursue fraud and collections. Participation in the EFCC program is voluntary, and it operates concurrently with the Fraud FREE Program.

Additionally, both Temporary Assistance for Needy Families (TANF) and Food Stamp program policy manuals contain specific material on fraud and required corrective action. A mid-range objective of the OIG is to ensure policy manuals of all programs administered by VDSS incorporate the prevention, identification, and handling of suspected program waste, fraud, and abuse.

Expand Efforts to Other Programs

Historically, almost all fraud control efforts have been focused on TANF, (formerly the Assistance for Families with Dependent Children (AFDC) Program), and Food Stamps, the two largest assistance programs administered by VDSS. The OIG, cognizant of the necessity to expand fraud control efforts to other areas, has taken the following steps to expand program integrity in other areas.

- Local agencies will be required, under the Fraud FREE and EFCC Programs, to investigate allegations of fraud, waste, and abuse in all public assistance programs. In addition, local agencies will continue to be required to report all allegations and suspicions of fraud, waste, and abuse in the Virginia Medical Assistance (Medicaid) Program.

- The OIG has assisted the Child Day Care Program staff in implementing Day Care Program fraud policy and procedures.
- Fraud prevention and control training for local staff will be provided.
- A Hotline and Investigations Unit, established at the state level, investigates fraud, waste and abuse in all programs administered by VDSS, as directed by the Inspector General.
- The OIG currently is studying fraud program policies and procedures of states currently utilizing EBT to determine best practices. By October 2002, all states currently not utilizing Electronic Benefit Transfer (EBT) will be required by the federal government to implement an EBT system for the Food Stamp Program. Experiences of other states show that although this technology creates new possibilities for both client and vendor fraud, EBT identifies fraud that previously went undetected. The system also requires more complex, centralized investigations to prosecute cases.

Emphasize Prevention and Deterrence

Virginia currently is under sanction by the Food and Nutrition Service (FNS) because the State's Food Stamp Program payment error rate exceeds the national average. In lieu of paying the total sanction amount to U. S. Department of Agriculture, FNS and Virginia have negotiated a plan allowing the State to reinvest a portion of the sanction money on error rate reduction activities. These activities include:

- The implementation of a nine month Front End Fraud Detection Pilot project. Three local agencies which contributed the highest percentage to the statewide payment error rate, were selected to conduct a pilot program that requires specified intake/eligibility units to forward questionable applications to pre-eligibility (front-end) fraud investigators, called Certification Specialists. Certification Specialists investigate the questionable statements and report their findings to the intake/eligibility worker, where the application will be approved or denied, based on the findings.
- Another error rate reduction activity is an effort to raise awareness. This effort includes public service announcements on the radio, and signs placed on the interior and exterior of public transportation buses in

Richmond, Tidewater, Petersburg, and Roanoke.

- Statewide training on pre-eligibility fraud investigation has been conducted that included presentations from representatives from the State of Florida and Middlesex County, New Jersey on their pre-eligibility fraud investigation programs.
- VDSS is evaluating methodologies for providing financial incentive to be earmarked for fraud prevention activity. Pre-eligibility fraud detection activity is a requirement of the state mandated Fraud FREE Program. Recognizing this is a cost avoidance activity,

Tougher and consistently applied penalties could deter fraud if clients were made aware of the consequences. Presently, disqualification penalties among federal assistance programs are not compatible, nor is sentencing of individuals found guilty of welfare fraud by the courts. Local agencies, however, will be required, under both the Fraud FREE and EFCC Programs, to pursue the investigation of all cases of suspected fraud.

Expand Collections

Overpayment identification and recovery has taken on a new impetus with the re-enactment of the amended §63.1-58.2. As previously mentioned, the statute requires the creation of a Fraud Recovery Special Fund (Fund) to receive overpayment monies collected or recovered by local agencies related to Food Stamp, TANF and other benefit programs less any refunds due the federal government. Monies in the fund are to be used solely for the purpose of funding state and local fraud control programs.

Specified for such funding are the Fraud FREE and EFCC Programs at the local level, and fraud prevention, and detection initiatives at the state level. Start-up funding for fraud programs has been provided from state general funds for the first year, while funding for succeeding years will come from overpayment collections and recoveries. Reimbursement to local agencies for program operational costs will be predicated on performance. It is important, therefore, that local agencies maximize their overpayment identification and recovery efforts.

In addition to recovering overpayments associated with active public assistance

cases through voluntary repayment and mandated grant recoupment, all local agencies currently are participating in the federally mandated Treasury Offset Program to recover delinquent Food Stamp Program debts not recovered through other means. Also, the VDSS is permitting voluntary participation in the state's Set-Off Debt Collection Program, an income tax refund intercept program, but will require statewide participation under the Fraud FREE Program.

To enhance monitoring and tracking of Food Stamp Program claims, the VDSS has created a Food Stamp Claims Tracking System. A user-friendly automated system, it allows local agencies to enter claims on-line, track outstanding balances on claims, print letters advising claimants of overdue balances, and create various management reports. Consideration is being given to expanding the system to include TANF claims. Eventually, the system will be incorporated in the Application Benefit Delivery Automation Project (ADAPT), VDSS' new statewide benefits delivery system. Furthermore, consideration is also being given to entering claims data from other public assistance programs into the automated claims tracking system.

Expand Automated Support

Investment in automated systems is essential for improvement in fraud control. In addition to expanding automated support for claims, the OIG has secured the services of a dedicated systems analysis to develop new systems and expand existing ones to enhance fraud detection, prevention, reporting, local agency monitoring, and statistical analysis.

The automated Fraud Management System (FMS) is currently in development. The initial sub-component of FMS under development and testing is the Front-End Fraud Tracking Sub-System. This initial FMS sub-component permits reporting, tracking, analyzing, and determining cost avoidance pertaining to pre-eligibility fraud (front-end) investigations. This subcomponent subsequently will serve as the basis for a new statewide fraud case reporting and monitoring system.

Computer match programs detect individuals receiving duplicate assistance as well as ineligible individuals. VDSS presently is under agreement with New York State, Maryland, and the District of Columbia to conduct data exchange programs to detect individuals receiving duplicate assistance. In addition, VDSS conducts data exchange programs with the following intrastate agencies:

- Virginia Employment Commission - to detect welfare recipients who have failed to report employment or receipt of unemployment compensation benefits.

- Virginia Department of Corrections - to detect active welfare recipients who are incarcerated in the state's penal system.
- State and local law enforcement agencies - to detect fugitive felons who are welfare recipients.
- State Department of Taxation - to participate in the Set-Off Debt Collection Program to recover outstanding public assistance overpayment claims.

The Department will pursue participation in future inter and intrastate data exchange programs, subject to availability of resources.

Conclusion

The department's Office of Inspector General brings many program integrity functions under one office, providing for greater state coordination and focus on fraud control and collections. Initiatives such as the mandated Fraud FREE Program and the voluntary EFCC Program at the local level, the new Hotline and Investigations Unit, as well as new automated fraud control and collections-related systems at the state level demonstrates VDSS' efforts to give high priority to program integrity.

Recommendations

Upon implementation of the Fraud FREE Program, activation of the automated Fraud Management System, and full staffing of the Hotline and Investigations Unit at the state level, additional efforts should be placed in the following areas:

- Establishment of a statewide hotline to report welfare fraud;
- Continued study of best practices nationwide of EBT and finger imaging technology and utilization in preparation of their implementation in the Commonwealth;
- Expand computer match programs to detect welfare fraud. A match program to consider is with the Public Assistance Reporting Information System (PARIS), a project maintained by the U. S. Department of Health and Human Services. PARIS matches state welfare rolls with Veteran Administration benefits, active and retired military pay files, and interstate welfare rolls. In addition, the VDSS should consider conducting a computer match with state government personnel pay files;
- Implementation of dedicated Front-End Fraud Units in large local agencies; and

- Increased usage of visual displays and public service announcements regarding welfare fraud.

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.