

149.1

DEPARTMENT OF SOCIAL WELFARE

REVIEW OF THE ALLEGED 41% RATE OF WELFARE
FRAUD IN THE AID TO FAMILIES WITH
DEPENDENT CHILDREN PROGRAM

OCTOBER 1 TO DECEMBER 31, 1971

Joint Legislative Audit Committee

GOVERNMENT CODE: SECTIONS 10500-10504

California Legislature

ASSEMBLYMEN

CHAIRMAN
VINCENT THOMAS
SIXTY-EIGHTH DISTRICT
MIKE CULLEN
FORTY-FOURTH DISTRICT
RAY E. JOHNSON
FOURTH DISTRICT

SENATORS

VICE CHAIRMAN
WILLIAM E. COOMBS
TWENTIETH DISTRICT
GEORGE DEUKMEJIAN
THIRTY-SEVENTH DISTRICT
GEORGE N. ZENOVICH
SIXTEENTH DISTRICT

VINCENT THOMAS
CHAIRMAN

ROOM 4126, STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814
(916) 445-7906

WALTER J. QUINN, C.P.A., COORDINATOR
(916) 445-1890

BILL PETTITE, CONSULTANT
(916) 445-7906

EVE OSTOJA, COMMITTEE SECRETARY
(916) 445-7908

Honorable Willie L. Brown, Jr.
Assembly Ways and Means Committee
State Capitol, Room 319
Sacramento, California 95814

Dear Willie:

Enclosed is a preliminary report prepared in response to your request of November 10, 1972, for information concerning the allegation made by the State Department of Social Welfare that there was a 41 percent rate of "apparent fraud" in the Aid to Families with Dependent Children Program.

The preliminary report states that the computation of "apparent fraud" was based solely on the discrepancy between the amount of reported earnings obtained from HRD and the amount of earnings as shown in the recipients' case files. The cases classified as "apparent fraud" by SDSW did not take into consideration the element of recipient intent which is an important part of the definition of fraud as stated in the department's Manual of Policies and Procedures.

The method of selecting items for review was not representative of the total caseload as indicated by SDSW, therefore, the statement "that the rate of fraud is approximately the same" in the remaining cases is an unsubstantiated conclusion.

By using SDSW's definition of "apparent fraud", Sacramento County's rate of "apparent fraud" was reported by SDSW as 29.9 percent. The results of the county's investigations have disclosed that only 12.7 percent to a possible maximum of 16.3 percent of the cases classified by SDSW as "apparent fraud" will result in the filing of a criminal complaint or civil action to recover the overpayment.

Honorable Willie L. Brown, Jr.

Page 2

The Sacramento County Welfare Department indicated that the Earnings Clearance System provides them with a good tool to verify recipients' income but that without investigating each case where a discrepancy is indicated, a finding that fraud has been committed is a premature conclusion.

Sincerely,

A handwritten signature in cursive script, appearing to read "Vince".

VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
FINDINGS	4
SDSW's Computation of "Apparent Fraud"	4
Limitation of Results Obtained from Cases Selected for Review	5
Sacramento County Results	7
APPENDIX	
A United Press International News Article of October 9, 1971	13
B October 27, 1972, Request by Legislative Analyst for Information Concerning the Alleged 41 Percent Rate of "Apparent Fraud"	15
C November 17, 1972, SDSW's Response to Legislative Analyst's October 27, 1972 Request	16
D November 17, 1972, SDSW's News Release	26
E Results of June 1969 Recipient Fraud Incidence Study	27

INTRODUCTION

In an October 9, 1972 United Press International news article and later in a November 17, 1972 letter to the Legislative Analyst, the State Department of Social Welfare (SDSW) reported a 41 percent rate of "apparent fraud" in the Aid to Families with Dependent Children Programs for the quarter ended December 31, 1971.

The following is quoted from the November 17, 1972 letter to the Legislative Analyst:

"The 41 percent is a ratio of apparent fraud relating to the ECS sample of AFDC recipients receiving aid grants during October-December 1971 whose total earnings were not reported to county welfare departments.

AFDC recipients are required by law to report all earnings monthly to their county welfare department. ECS turns up any discrepancies between earnings shown on HRD records and those shown on Welfare Department records. Where such discrepancies are in a significant amount and cannot be explained by a review of files, the case is considered apparent fraud and referred for investigation." (See Appendix C on page 16 for the full text of this letter.)

The Earnings Clearance System (ECS), mentioned in the quotation above, is a computerized system by which SDSW can obtain the earnings of welfare recipients that are reported to the Department of Human Resources Development (HRD) on a quarterly basis. SDSW maintains a computer file of all persons receiving aid called the Master Persons File (MPF). The MPF contains data concerning persons eligible for welfare in the state. By matching social security numbers from the MPF with social security numbers in HRD's earnings file, the Earnings Clearance System selects the earnings of recipients as reported by employers to

HRD for later comparison with information contained in the recipient's case file in county welfare departments. Welfare recipients are required by law to report their earnings monthly to their respective county welfare department.

The Earnings Clearance System was proposed in SDSW's 1970-71 budget after an independent study conducted under the direction of Ernst and Ernst, Certified Public Accountants. The study report stated that "based on an unbiased random sample of families receiving aid in June 1969, the study revealed fraudulent receipt of aid in 15.75 percent of the cases". In 8.74 percent of the cases, it was determined that the fraud was due to the recipient not reporting income to the county welfare department as required. The 8.74 percent rate of fraud due to improper reporting of income as shown in the June 1969 Recipient Fraud Incidence Study, contrasts sharply with the alleged 41 percent rate of "apparent fraud" as reported by SDSW for the last quarter of 1971.

The following table shows a breakdown of the type of fraud and percentage of occurrence as reported by the June 1969 study:

Table 1

Cases Determined to Contain Fraud:	
Unreported Income	8.74%
Unreported Man Assuming Role of Spouse*	4.21
Other	<u>2.80</u>
Total Cases Determined to Contain Fraud	<u>15.75%</u>

*"Due to a November 1972 judicial decision, an unreported man assuming the role of spouse is no longer of itself sufficient to sustain fraud." (See Appendix E, page 28 of this report for a more detailed breakdown of the 15.75 percent overall fraud rate.)

Initially, SDSW was restrained from using the ECS by a temporary restraining order issued by the Superior Court of the State of California. In August 1972, a peremptory writ of mandate was issued by the Court of Appeals for the Third Appellate District commanding the Superior Court to set aside its temporary restraining order. This action allowed SDSW to initiate the ECS for the October, November, and December quarter of 1971 on a statewide basis.

SDSW requested county welfare departments to compare the earnings recorded in the recipients' case files with the HRD reported earnings. If discrepancies were found in the earnings records, the county welfare department was requested to:

- Compute any overpayments
- Report the findings to SDSW, and
- Refer the case to a special investigation unit or to the District Attorney's Investigations Bureau for an investigation to determine if evidence of fraudulent activity existed.

FINDINGS

SDSW'S COMPUTATION OF "APPARENT FRAUD"

Based on the findings reported by the county welfare departments, but before any determination by the counties' investigative units of fraudulent activity, SDSW computed a 41 percent rate of "apparent fraud" as follows:

Table 2

State Department of Social Welfare
Computation of Statewide Rate of Apparent Fraud
For the Quarter Ended December 31, 1971

Average number of persons on AFDC during the quarter	<u>1,512,000</u>	
AFDC recipients for whom HRD reported earnings	<u>118,756</u>	
Recipients receiving AFDC grants with earnings in the upper ten percentile in their county and eligible for aid all three months of the quarter	7,999	100.0%
Number of recipients with earnings discrepancies of more than \$100 in the quarter reported by SDSW to the Joint Legislative Budget Committee on November 17, 1972	<u>3,311</u>	<u>41.3%</u>

The term "earnings discrepancies" used above is the difference between HRD's reported earnings and the earnings recorded in the recipients' case files at the county welfare departments. As shown above, 3,311 of the 7,999 or 41.3 percent of the cases reviewed by the county welfare department showed discrepancies of \$100 or more for the quarter.

The SDSW definition of fraud which is contained in Section 20-003 of the Manual of Policies and Procedures stresses that the recipient must demonstrate an intent to commit fraud:

"Fraud by applicants for or recipients of public assistance exists when the applicant or recipient has:

- Knowingly and with intent to deceive or defraud made a false statement or representation to obtain aid, obtain a continuance or increase of aid, or avoid a reduction of aid.
- Knowingly and with intent to defraud failed to disclose a fact which, if disclosed, could have resulted in denial, reduction, or discontinuance of aid.
- Accepted aid knowing he is not entitled thereto, or accepted any amount of aid knowing it is greater than the amount to which he is entitled.
- For the purpose of obtaining, continuing, or avoiding a reduction or denial of aid, made statements which he did not know to be true with reckless disregard of the truth."

The "apparent fraud" rate as determined by SDSW did not take into consideration the elements of fraud as defined in the department's Manual of Policies and Procedures. The 41 percent "apparent fraud" rate was based solely on the discrepancy between the amount reported by HRD and the amount indicated in the recipient's case file, but before the counties' investigation units determined the reasons for the discrepancies.

LIMITATION OF RESULTS OBTAINED
FROM CASES SELECTED FOR REVIEW

The method used for selecting cases for review by SDSW concentrated on the recipient wage earners with relative high levels of income. The criteria established by SDSW was as follows:

- Recipients had to have earnings in the upper ten percentile or in excess of \$1,600 in the county where they received aid.
- Recipients were to be eligible for aid during all three months of the quarter.

If the recipients met these criteria, rather than being representative of the total caseload, they were representative of a unique sub-population of the caseload.

The unique characteristic of the group selected by SDSW was that they were employed at relatively high earnings. This characteristic set these recipients as a group apart from other groups of recipients. Therefore, conclusions reached about the upper ten percentile would be limited to this group and could not be assumed to be representative of any other group of wage earners.

SDSW stated that the items used in obtaining the 41 percent rate of "apparent fraud" were from a "sample".

"The 41 percent is a ratio of apparent fraud relating the ECS sample of AFDC recipients receiving aid grants..."
(Emphasis added)

A sample by definition is a representative portion of the total.

SDSW stated that the results obtained from the top ten percentile could be applied to the items which were not examined and that the examination of the remaining group would result in approximately the same rate (41%) of occurrence.

"Although only the discrepancies of the top 10 percent of wage earners were reported,...a preliminary indication shows the apparent fraud rate is approximately the same in the remaining 90 percent." (Emphasis added - See Appendix A page 14 for the full text of the newspaper article in which this statement appeared.)

"State Social Welfare Director Robert B. Carleson expressed surprise that the rate of apparent fraud is so high and said it may represent only the 'tip of the iceberg'." (Emphasis added - See Appendix A page 13 for the full text of the newspaper article in which this statement appeared.)

The criteria which was used by SDSW in selection of items examined (income in upper 10 percent and on aid in all three months) prohibits the results obtained from that group from being representative of the total population.

The statement made by SDSW that "the apparent fraud rate is approximately the same in the remaining 90 percent" is an unsubstantiated conclusion. Any statements derived from the information about the ten percentile group should be limited to that group.

SACRAMENTO COUNTY RESULTS

SDSW reported that the "rate of apparent fraud" in Sacramento was 29.9 percent. This rate was obtained by dividing 115, the number of cases of "apparent fraud" determined by SDSW, by 384, the number of cases referred to the county welfare department from the HRD report of recipient earnings.

The investigation by Sacramento County Welfare Department was not complete as of January 22, 1973. Fourteen of the referred cases were not completed because out-of-county and state employers had not replied to the county's request for information needed for the investigation. To complete an investigation

the county needs a verification of employment and the recipient's earnings by months. The county has completed the investigation of 101 of the 115 cases referred to it by SDSW as "apparent fraud". Of these 101 cases, 19 have been referred to the District Attorney for the filing of criminal complaints and 30 cases have been disposed of by civil action requiring restitution of the overpayment from the recipient. The remaining 52 cases were determined to have no fraud involvement or there was insufficient evidence available to determine fraud.

Based on the number of investigations completed so far (101 out of 115), only 49 or 12.7 percent of the cases referred to Sacramento County Welfare Department by SDSW have resulted in either the filing of criminal complaints or civil actions to recover the overpayments.

Even if the remaining 14 cases which have not been completed were to be resolved by criminal complaint or civil action, this would bring the total resolved in this manner to 63 out of 384 cases or 16.3 percent as contrasted to the 29.9 percent "apparent fraud" rate reported by SDSW. An investigator for the county has indicated that there is no reason to believe the 14 remaining cases will all be resolved by criminal complaint or civil action. It was his opinion that the rate of occurrence should be approximately the same in the 14 cases as it was in the completed cases.

The following is a table showing the "apparent fraud" rate as determined by SDSW from the cases referred to the Sacramento County Welfare Department for comparison of earnings as shown in the recipients' case files with HRD reported earnings.

Table 3

		<u>Percentage</u>
Number of recipients reported by HRD having earnings in the upper ten percentile and eligible for aid all three months in the quarter	<u>384</u>	<u>100.0%</u>
Number of recipients with earning discrepancies of more than \$100 in the quarter reported by SDSW to the Legislative Analyst on November 17, 1972	105	27.3%
Number of recipients with earning discrepancies reported by the County Welfare Department after November 17, 1972	<u>10</u>	<u>2.6%</u>
Total number of recipients with earning discrepancies	<u>115</u>	<u>29.9%</u>

As stated, the Sacramento County Welfare Department had completed the investigation of 101 of the 115 cases referred to the investigation unit. We have reviewed 64 of the 101 completed cases; the remaining cases were being processed by the county and were not available in the investigator's office at the time of our review.

The following table shows the county's classification of closed cases and the number of cases we have reviewed in each of these classifications:

Table 4

<u>Classification of Cases</u>	<u>Investigation Completed by County</u>	<u>Reviewed by Auditor General</u>
No Fraud	42	33
Insufficient evidence available to determine fraud	10	6
Referred to civil unit for restitution of overpayment	30	17
Referred to the District Attorney for filing of criminal complaints	<u>19</u>	<u>8</u>
Total cases closed and reviewed	101	<u>64</u>
Currently under investigation	<u>14</u>	
Total cases referred for investigation	<u>115</u>	

The Sacramento County Welfare Department indicated that the Earnings Clearance System (ECS) provides them with a good tool to verify recipients' income but that without investigating each case where a discrepancy is indicated, a finding that fraud has been committed is a premature conclusion.

Of the 33 case files we reviewed, which were classified by the county as "no fraud", it had been determined by the county upon further investigation that income was reported properly in 17 cases; nine cases had county administrative errors or the HRD earnings data was incorrect; and in four cases the income was reported for persons not on aid, such as a non-needy relative. The remaining three cases were resolved for the following reasons:

- Recipient had not cashed the warrants
- Review resulted in an underpayment
- Overpayment was discovered and returned before ECS was started.

The reasons the county classified six cases as "insufficient evidence existed for determining fraud" was that upon further investigation, it was determined that the earnings were properly reported in two cases; the remaining had the following reasons:

- County administrative error
- Understatement of income with no intent to commit fraud
- Wage earner was not on aid.

We were told by a Deputy District Attorney for Sacramento County that some cases are handled as civil actions rather than as criminal complaints because of the following conditions:

- Mistake by the recipient
- Recipients' lack of understanding of reporting responsibilities
- Unavailability of evidence
- Expiration of the statute of limitations.

As a rule of thumb, the District Attorney will recommend the filing of a misdemeanor where overpayment is less than \$400 and there are no aggravating complaints against the recipient.

Table 5


Cases Resolved by Civil Action

Recipient reported the income; an administrative error was made, or a change in regulations caused an overpayment.	5
Amount of the overpayment was too small to justify the filing of a criminal complaint; recipient agreed to restitution, and there were no aggravating circumstances relative to this offense.	4
Recipient does not speak English; unable to determine if recipient understands reporting responsibilities	2
Recipient failed to report increase in wages, Christmas bonus or vacation pay; no evidence of intent to commit fraud.	5
Unable to determine if recipient understood responsibilities at the time she applied for aid due to emotional problems.	<u>1</u>
Total	<u>17</u>

Office of the Auditor General

In all eight of the case files we examined where the District Attorney had recommended filing of criminal complaints, Section 11483 of the Welfare and Institutions Code was cited as the alleged offense. Section 11483 deals with obtaining aid by fraudulent activity and the corresponding punishment. In addition to Section 11483, the following sections of the Welfare and Institutions Code were cited in various cases: Section 11054, 11265, and 11482, as well as, Penal Code Sections 118, 132, and 484.

It is too early to know what degree of success the District Attorney will have in the prosecution of these cases.


Walter J. Quinn
Acting Deputy Auditor General

February 2, 1973

Staff:
John E. Finnstrom
Robert M. Neves

STATE REPORTS APPARENT FRAUD RATE
OF 41% IN DEPENDENT CHILD AID PROGRAM

By Carl Ingram
United Press International

Reagan administration officials report their controversial new doublecheck of welfare recipient earnings discloses a 41 per cent rate of apparent fraud in the needy children's program.

The figure was based on a check of the top 10 per cent of wage earners who received Aid to Families with Dependent Children (AFDC) last October, November and December -- a total of 8,788 cases.

The cases were checked through the computerized earnings Clearance System which cross-checks a recipient's report of his pay against unemployment compensation records filed by his employer.

State Social Welfare Director Robert B. Carleson expressed surprise that the rate of apparent fraud is so high and said it may represent only the "tip of the iceberg."

Of the 8,788 cases checked, 3,709 -- or 41 per cent -- were found to have been paid excessive grants averaging about \$490 per case in the three-month period, he said. Overpayments statewide totaled \$1.8 million.

The full caseload ranged from 449,835 families in October to 437,231 in December.

The state agency last year directed county welfare departments to examine their records and take appropriate action in cases where there was a significant discrepancy between what the recipient said he earned and what his employer's records showed.

Significant discrepancies were defined by Carleson as about \$100 of unreported earnings.

The Golden Gate Welfare Rights Organization blocked implementation of the earnings clearance system for months in the courts and only now have the first statewide results been processed -- and those partially.

Golden Gate contended that the process, a key feature of Gov. Ronald Reagan's welfare reform program, violates both federal law and a recipient's right to privacy. The State Supreme Court last week gave the administration the final go-ahead to proceed.

Under the system, when state welfare workers find a significant discrepancy the county welfare department is alerted.

The county examines its records and where overpayments were made, the case is turned over to welfare fraud investigators or the district attorney.

The recipient's grant could be cut back or terminated and civil recovery or criminal court action could be started.

Carleson declined to make public a county-by-county breakdown of figures on grounds that the information is not complete. He also said there are no figures available yet on the number of fraud prosecutions or convictions because they are being handled at the county level.

Although only the discrepancies of the top 10 per cent of wage earners were reported, Carleson said a preliminary indication shows the apparent fraud rate is approximately the same in the remaining 90 per cent.

Hard to Pinpoint

Richard Peterson and Dave Todd, heads of the system, said it is not known where the apparent fraud originates.

"Fraud could be on the part of someone other than the recipient," Peterson said. "We haven't gone over all the cases but they're being investigated."

Carleson said the figures perhaps show only the "tip of the iceberg" because only wage earners with social security numbers recorded on the department's master list of recipients were examined.

Counties now must report the social security numbers of all recipients but as of last October, November and December only 25 per cent of the social security numbers were known to his department.

As more and more numbers are added to the list, the computer check will be expanded to cover additional recipients.

Carleson said as the system is "refined" he hopes the time lag in discovering discrepancies will be reduced.

Most county welfare directors have been cooperative in launching the double-check process, he said.

The Sacramento Bee, October 9, 1972.

CHAIRMAN
STEPHEN P. TEALE
THIRD DISTRICT

VICE CHAIRMAN
FRANK LANFERNAN
FORTY-SEVENTH DISTRICT

Joint Legislative Budget Committee

GOVERNMENT CODE SECTIONS 9140-9143

California Legislature

SENATORS
RANDOLPH COLLIER
FIRST DISTRICT
ROBERT J. LAGOMARSINO
TWENTY-FOURTH DISTRICT
FRED W. MARLER, JR.
SECOND DISTRICT
ANTHONY C. BEILENSON
TWENTY-SIXTH DISTRICT
ALAN SHORT
SIXTH DISTRICT
HOWARD WAY
FIFTEENTH DISTRICT

LEGISLATIVE ANALYST
A. ALAN POST

ASSEMBLYMEN
WILLIE L. BROWN, JR.
EIGHTEENTH DISTRICT
ROBERT W. CROWN
FOURTEENTH DISTRICT
MIKE CULLEN
FORTY-FOURTH DISTRICT
PAULINE L. DAVIS
FIRST DISTRICT
J. K. (KEN) MACDONALD
THIRTY-SEVENTH DISTRICT
ERNEST N. MOBLEY
THIRTY-THIRD DISTRICT

ROOM 306, STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814

October 27, 1972

Mr. Robert B. Carleson, Director
Department of Social Welfare
744 P Street
Sacramento, California 95814

Dear Mr. Carleson:

Through the news media, we have recently learned that your office has publicly released information regarding a 41 percent rate of welfare fraud. According to press reports, determination of this rate was the result of a study conducted by your department of the data produced by the Earnings Clearance System. We would appreciate it very much if you would provide our office with the details of your study as well as more backup information with regard to the results which were reported in the press.

Thank you very much for your assistance.

Sincerely,



A. Alan Post
Legislative Analyst

DEPARTMENT OF SOCIAL WELFARE

744 P STREET
SACRAMENTO 95814

November 17, 1972

Mr. A. Alan Post
Legislative Analyst
Joint Legislative Budget Committee
State Capitol
Sacramento, CA 95814

Dear Mr. Post:

Reference your letter of October 27, 1972 regarding the Earnings Clearance System (ECS) and the 41 percent apparent fraud rate publicity. On October 10 a representative of United Press International, who had been following the ECS litigation, asked for an interview immediately following the California Supreme Court's action in favor of the State which ended further litigation on the subject. It was this interview which sparked the fraud rate news. The 41 percent is a ratio of apparent fraud relating the ECS sample of AFDC recipients receiving aid grants during October - December, 1971 whose total earnings were not reported to county welfare departments.

AFDC recipients are required by law to report all earnings monthly to their county welfare department. ECS turns up any discrepancies between earnings shown on HRD records and those shown on welfare department records. Where such discrepancies are in a significant amount and cannot be explained by a review of the files, the case is considered apparent fraud and referred for investigation.

The following may be of some assistance in gaining a perspective on ECS, known results to date and expectations.

ECS HISTORY

As an important part of the Welfare Reform Act of 1971, Section 1094 of the Unemployment Insurance Code was amended to grant authority to the Director of the State Department of Social Welfare to review earnings of workers submitted by employers to the Department of Human Resources Development (HRD) for maintenance of unemployment insurance records. Procedures were developed to search these records quarterly against the names and social security account numbers of the AFDC recipients who are listed in the State Master Persons File, who were reported by the counties to have received aid payments during the relevant quarter. Unfortunately only approximately 25 percent of the AFDC social security numbers had been forwarded to SDSW for referral.

The first run of quarterly information was sent to the counties for checking late in December 1971. This run did not require a return. On February 1 1972 a temporary restraining order was issued without notice or hearing to SDSW by Sacramento Superior Court Judge William Gallagher on the basis of a petition of the San Francisco Golden Gate Welfare Rights Organization, Inc. effectively blocking all checking of recipient's income. In late May 1972, extraordinary legal action by the three-judge Third District Court of Appeal panel overruled Judge Gallagher's order, reviving the ECS. A preliminary check of 600 cases by six counties, which had an opportunity to review the first run prior to the temporary restraining order, reflected that approximately 48 percent of the cases checked showed substantial discrepancies in the amount of income reported to the Welfare Department. They further reported that a substantial number of those cases appeared to be totally ineligible for aid.

PROCEDURE

The HRD search is made by means of electronic data processing. Five separate reports are generated for each of the 58 counties. The search is made during the mid-month of a quarter for data on file for the second quarter prior to the search. The data is six months old at the time of the search, due to employer reporting requirements and mechanics of storing and retrieval.

The five reports generated are known and described as:

County Report #2

This report is in list form, and contains all invalid social security account numbers in the SDSW file. This is for use by the counties to correct the Master Persons File.

County Report #5.

This report is in individual printout form by case of those recipients whose earnings were in the upper 10 percentile in each county and who received aid during all three months of the quarter. This is the only report presently requiring returns to SDSW.

County Report #6.

This report is in list form and contains the remaining 90 percentile of recipients receiving aid during all three months of the quarter, plus those of the upper 10 percentile who received aid either one or two months, but not all three months of the quarter.

County Report #9.

This report is also in list form and reports the duplicate social security account numbers in the SDSW file, either under different names in the same county, or under the same name in different counties. This may be due to errors in the SDSW file, or it may indicate persons transferred from aid in one county to another county during the quarter, or it may detect persons obtaining aid in two counties at the same time.

County Report #10.

This is also a list, reporting social security account numbers which are the same in SDSW's files and HRD's files, but with unmatching names. This is due either to an error in the listing of the social security account number in one file or the other, or it may indicate a person is employed under a name different from the name under which that person is receiving aid.

PRELIMINARY RESULTS - SAN FRANCISCO

The second run of ECS reports was issued to the counties for the quarter October to December, 1971. SDSW's Operations Security Office and Fraud Task Force personnel surveyed one county in an effort to determine the extent of unreported income discovered for this quarter. The county selected for review was San Francisco.

A review of the appropriate AFDC files was made in San Francisco County Welfare Department in June and July, 1972. ECS printouts of County Reports #5, #6, and #10 for the quarter ending December 1971 were utilized to make comparisons of the earned incomes reported by employers to HRD for unemployment insurance records.

A total of 632 case files were reviewed. Of these, 533 were active at the end of the quarter, and 478 were active at the time the review was made. Tabulated by report:

	<u>TOTAL</u> <u>REVIEWED</u>	<u>ACTIVE</u> <u>END OF</u> <u>QUARTER</u>	<u>ACTIVE AT</u> <u>TIME OF REVIEW</u>
County Report #5	485	475	411
County Report #6	70	14	11
County Report #10	<u>77</u>	<u>62</u>	<u>56</u>
Total	632	533	478

County Report #5 listed 495 cases of earnings credited to social security numbers of recipients who were reported in the Master Persons File as having received public assistance grants for all three months of the quarter and whose HRD earnings reports showed income of \$1,600 or more during the quarter.

County Report #6 listed the earnings of recipients who were reported receiving welfare grants during the only one or two months of the quarter. Only cases in which HRD earnings reports exceeded \$2,000 were reviewed.

County Report #10 listed earnings credited to social security numbers of 214 recipients in the Master Persons File, but whose names in HRD files did not match. Only files from this list were reviewed in which the recipient's first name began with the same letter as the payee's first name (payee's full first name was not printed).

The prior County Report #5 for the quarter ending June 1971, which was originally subject to the injunction prohibiting its use, contained the names of 89 payees which were repeated on the current Report #5. The data for the prior quarter was reviewed in these cases.

In 166 of the total 632 cases reviewed, ECS data was not applicable or could not be tabulated for one or more reasons: Case was not AFDC, recipient was not the HRD or MPF reported payee, recipient was not on aid all three months of the quarter (Report #5), or action to recover the overpayment had already been made.

In seven of the cases, fraud had already been detected by the county and an investigation had been initiated.

As the result of the review, it was found that in those cases which contained data for tabulation, 88% of the cases showed a discrepancy between the amount reported by HRD as having been earned by the recipients, and the amount recorded in the welfare files as earned income, reported by the recipients. The amounts of those discrepancies is set forth below for Categories II, III and IV.

	<u>CASES</u>	<u>HRD EARNINGS REPORT</u>	<u>EARNED INCOME RECORDED IN FILE</u>	<u>DIFFERENCE</u>	<u>PERCENTAGE DISCREPANCY</u>
Report #5	415	\$807,302	\$389,077	\$418,225	51.7%
Report #6	7	15,277	7,848	7,429	48.6%
Report *10	<u>44</u>	<u>80,082</u>	<u>38,153</u>	<u>41,929</u>	<u>52.4%</u>
Totals	466	\$902,661	\$435,078	\$467,583	51.8%

With respect to County Report #5, the following breakdown has been made of ECS data and the material recorded in the 416-case sample of county welfare case files.

CATEGORY I Earnings shown on welfare records substantially in agreement with those reported by HRD. \$1 to \$100 per quarter.

CATEGORY II Earnings reported by HRD of \$100 to \$500 per quarter more than shown in welfare records.

CATEGORY III Earnings reported by HRD of \$500 to \$1,600 per quarter more than shown in welfare records.

CATEGORY IV Earnings reported by HRD over \$1,600 per quarter without any earnings shown in welfare records.

From a review of data, it can be concluded that the 54 recipients in Category I have substantially met their income reporting responsibilities. The recipients in Category II (151) have not reported all of their earned income.

The 108 recipients in Category III show income in HRD reports considerably more than recorded in the file, the discrepancy averaging \$323 per month. In many of the cases reviewed, using this additional \$323 per month in the budget computation would have reduced the grant to almost zero, and it is believed that in many of these cases, the recipient is deliberately failing to report earned income to remain eligible.

In Category IV (153 recipients), where no earned income was reported, although HRD report showed earnings averaging \$693 per month, it is suspected that in most cases a deliberate fraud is being perpetrated to obtain aid. No other explanation was available through a thorough review of all material available to the Welfare Department. In one such case where the investigation is complete, the recipient has admitted receiving over \$4,000 in aid during the period checked while working full time and concealing the income from the worker. There were many cases where the recipient was working full time using a maiden or married name or completely fictitious name for employment records, and receiving aid under still another name. In this regard, County Report No. 10 should be of inestimable value to the counties in detecting persons working under other identities.

STATEWIDE RESULTS

Statewide, the HRD-SDSW ECS printout for the October - December 1971 quarters contained 118,756 records. Of these 15,215 showed earned income, according to HRD, of \$1,600 or more during the quarter and 44,434 showed income of \$900 or more during the quarter.

Reports received to date from county welfare departments reflect 7,999 of the upper ten percentile of ECS cases have been reviewed and found to be applicable to persons who received aid grants during the quarter. Of these, the counties reported substantial unexplained discrepancies in 3,311 cases, or 41.3 percent of the sample reviewed. A county-by county breakdown of statistics follows:

DISCREPANCIES IN EARNED INCOME REPORTS - SAN FRANCISCO COUNTY

OCTOBER - DECEMBER 1971

COUNTY REPORT #5

	<u>AFDC-U</u> <u>Cases</u>	<u>AFDC-FG</u> <u>Cases</u>	<u>TOTAL</u> <u>Cases</u>
I.	2	45	47
II.	14	125	139
III.	14	79	93
IV.	54	83	137
	<u>84</u>	<u>332</u>	<u>416</u>

CASH GRANTS PAID:

	<u>AFDC-U</u>	<u>AFDC-FG</u>	<u>TOTAL</u>
I.	\$ 1,399	\$ 21,855	\$ 23,254
II.	7,230	65,153	72,383
III.	10,363	46,017	56,380
IV.	36,622	56,162	92,784
	<u>\$55,614</u>	<u>\$189,187</u>	<u>\$244,801</u>

EARNINGS REPORTED BY HRD:

	<u>AFDC-U</u>	<u>AFDC-FG</u>	<u>TOTAL</u>
I.	\$ 3,328	\$ 78,976	\$ 82,304
II.	26,787	224,459	251,246
III.	30,783	156,395	187,178
IV.	126,391	160,183	286,574
	<u>\$187,289</u>	<u>\$620,013</u>	<u>\$807,302</u>

EARNINGS RECORDED IN WELFARE FILES:

	<u>AFDC-U</u>	<u>AFDC-FG</u>	<u>TOTAL</u>
I.	\$ 3,231	\$ 77,456	\$ 80,687
II.	22,944	188,588	211,532
III.	10,985	85,873	96,858
IV.	-0-	-0-	-0-
	<u>\$37,160</u>	<u>\$351,917</u>	<u>\$389,077</u>

DISCREPANCIES BETWEEN HRD REPORT AND WELFARE FILES:

	<u>AFDC-U</u>	<u>AFDC-FG</u>	<u>TOTAL</u>
I.	\$ 97	\$ 1,520	\$ 1,617
II.	3,843	35,871	39,714
III.	19,798	70,522	90,320
IV.	126,391	160,183	286,574
	<u>\$150,129</u>	<u>\$268,096</u>	<u>\$418,225</u>

TOTALS OF INCOME DISCREPANCIES - SAN FRANCISCO COUNTY

OCTOBER - DECEMBER 1971

The totals for County Report #10 are as follows:
(No breakdown was made between AFDC-U and FG.)

	<u>Cases</u>	<u>Grants Paid</u>	<u>HRD Earnings Report</u>	<u>Earnings Recorded in Files</u>	<u>Discrepancies</u>
I.	7	\$ 3,387	\$12,142	\$12,082	\$ 60
II.	10	6,001	17,305	14,781	2,524
III.	11	4,733	21,097	11,290	9,807
IV.	15	12,102	29,538	-0-	29,538
Total	<u>43</u>	<u>\$26,223</u>	<u>\$80,082</u>	<u>\$38,153</u>	<u>\$41,929</u>

The totals for County Report #6 are:

	<u>Cases</u>	<u>Grants Paid</u>	<u>HRD Earnings Report</u>	<u>Earnings Recorded in Files</u>	<u>Discrepancies</u>
I.	-0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
II.	2	579	4,285	3,524	761
III.	4	1,478	8,992	4,324	4,668
IV.	1	336	2,000	-0-	2,000
Total	<u>7</u>	<u>\$2,393</u>	<u>\$15,277</u>	<u>\$7,848</u>	<u>\$7,429</u>

Totals for Reports #5, #6, and #10 follows:

	<u>Cases</u>	<u>Grants Paid</u>	<u>HRD Earnings Report</u>	<u>Earnings Recorded in Files</u>	<u>Discrepancies</u>
I.	54	\$ 26,641	\$ 94,446	\$ 92,769	\$ 1,677
II.	151	78,963	272,836	229,837	42,999
III.	108	62,591	217,267	112,472	104,795
IV.	153	105,222	318,112	-0-	318,112
Total	<u>466</u>	<u>\$273,417</u>	<u>\$902,661</u>	<u>\$435,078</u>	<u>\$467,583</u>
Av/Case -		\$.585	\$ 1,936	\$ 933	\$ 1,003

COUNTIES	Recipients Receiving Grants for Whom HRD Reported Earnings**	Substantial Income Report Discrepancies	Additional Cases Under Investigation Where Overpayment not yet Resolved
01 ALAMEDA	510	218	63
02 ALPINE	1	0	
03 AMADOR	2	0	30
04 BUTTE	40	10	
05 CALAVERAS	1	0	
06 COLUSA	1	1	
07 CONTRA COSTA	35	9	
08 DEL NOTRE	7	2	
09 EL DORADO	11	4	
10 FRESNO	314	174	
11 GLENN	4	2	
12 HUMBOLDT	34	13	
13 IMPERIAL	24	14	
14 INYO	8	1	
15 KERN	190	105	
16 KINGS	39	17	
17 LAKE	13	4	
18 LASSEN	4	0	
* 19 LOS ANGELES	2,928	1,267	
20 MADERA	27	9	
21 MARIN	24	16	
22 MARIPOSA	0	0	
23 MENDOCINO	22	4	
24 MERCED	87	30	
25 MODOC	5	2	
26 MONO	1	0	
27 MONTEREY	111	22	
28 NAPA	16	10	
29 NEVADA	2	2	
30 ORANGE	105	79	
31 PLACER	29	13	
32 PLUMAS	5	0	
33 RIVERSIDE	200	69	
34 SACRAMENTO	384	105	
35 SAN BENITO	9	2	
36 SAN BERNARDINO	193	95	
37 SAN DIEGO	331	97	
38 SAN FRANCISCO	429	245	80
39 SAN JOAQUIN	183	45	
40 SAN LUIS OBISPO	24	2	
41 SAN MATEO	255	125	
42 SANTA BARBARA	84	29	
43 SANTA CLARA	509	97	172
44 SANTA CRUZ	40	13	
45 SHASTA	42	0	
46 SIERRA	0	0	
47 SISKIYOU	1	1	
48 SOLANO	62	22	
49 SONOMA	60	12	
50 STANISLAUS	130	55	
51 SUTTER	17	0	
52 TEHAMA	11	2	
53 TRINITY	2	1	
54 TULARE	211	210	
55 TUOLUMNE	15	1	
56 VENTURA	55	27	
57 YOLO	23	11	
58 YUBA	28	5	
TOTAL	(7,977)	3,311	355

Percent of apparent fraud = 41.3%

* Los Angeles was unable to clearly identify those cases which were not on aid during the quarter; however, did label other Master Persons File corrections which were not included.

** Cases which were not on aid during the quarter are not included.

ECS FUTURE

A third run of ECS reports was sent to the counties in mid-September for the quarter of January to March 1972, containing earning reports for recipients as follows:

Report #5	8,613
Report #6	112,440
Report #10	6,968

A number of changes and adaptations are being considered in order to streamline the county implementation, while insuring proper use of the information. Workshops have generated an enthusiasm for innovation and expansion of ECS to other programs. Some counties have established special units to handle the county reports in response to recommendations by SDSW.

GENERAL OBSERVATIONS

ECS has doubled the number of fraud referrals to the local special investigative units. This increase on top of approximately 16,000 fraud investigations backlogged statewide, and a 25 percent increase in investigations during the last fiscal year, dictate serious in-house investigative personnel considerations.

Investigative units throughout the state have observed a number of specific violations by wage-earning recipients of AFDC cash grants:

- A large percentage of recipients report none of their earned income to their eligibility workers;
- Many receive two checks for wages each month, but report income from only one check, submitting wage stubs to substantiate earnings, but withholding all information concerning the second check;
- A prevalent practice is failure to report overtime earnings and bonuses, (Christmas bonuses were given during the October-December 1971 quarter);
- Some recipients are paid biweekly, thus receive three checks during two months of the year; reporting only two checks;
- Wage-earners who suffered periodic layoffs do not report their return to work;
- Unmarried pregnant working girls forced to resign or taking maternity leaves do not report their return to work.

The Master Persons File showed 677,681 AFDC recipients old enough to have work permits and presumably employable. Human Resources Development records showed 118,756 of these to be on payrolls. Earnings Clearance System was designed to learn whether they were reporting their earnings in compliance with the law.

The working recipients in this group were those least likely to conceal their income. They were working under their real names and their paychecks bore their own Social Security numbers.

The amount of unreported outside income in this sample - because it does not include those who have taken pains to cover their tracks - may indicate a lower incidence of fraud than actually exists.

Also, this group includes only those whose jobs are covered by Unemployment Insurance Benefits (UIB). Thus, it does not include city, county, state or federal employees, the self-employed, or those who work only for cash.

More of these will be included in future ECS runs, when we are able to base them on the record of earnings reported for purposes of State withholding.

In the period covered by this first ECS run, the new state requirement that welfare cases be listed by Social Security number was just beginning to be carried out and only about 25 percent of AFDC cases were so listed.

As the counties complete this conversion, the payroll records of larger numbers of working AFDC recipients will come under scrutiny.

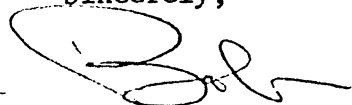
Inadequate record-keeping in some counties will mean that many glaring discrepancies that resulted in a substantial overpayment may never be prosecuted for fraud, although civil action to recover will be in order as well as removal from the rolls for those whose concealed income disqualifies them for welfare.

We expect to achieve a better county record base through the use of our new WR-2 welfare application form. It covers all the contingencies under penalty of perjury.

In the only county in which SDSW conducted its own review, reporting discrepancies were found in 88% of the cases. We hope to find lower percentages in this and other counties in the second ECS run, now underway, and in future and more inclusive runs.

We are confident of the deterrent effect of ECS.

Sincerely,



ROBERT B. CARLESON
Director of Social Welfare

November 17, 1972

FOR IMMEDIATE RELEASE

SACRAMENTO -- In a report to Legislative Analyst A. Alan Post, Welfare Director Robert B. Carleson said today that substantial unexplained discrepancies in reporting outside income were found in 41.3 percent of a sample of working welfare recipient cases run through the State's Earnings Clearance System.

ECS is a computer comparison of earnings reported by employers to the State for unemployment insurance purposes with earnings reported by recipients to their county welfare departments for purposes of determining eligibility and grant size.

Today's report was based on returns from the counties, which are given the earnings information on all working AFDC recipients and are required to report back to the State on those recipients whose earnings put them in the top ten percent in their county.

The sample reported on includes AFDC recipients 16 and over who are old enough to have a work permit. It did not include welfare recipients on Aid to the Aged, Blind or Disabled, nor did it include AFDC children under 16.

The report said that "apparent fraud" is the State's conclusion when examination of a working recipient's file fails to yield an explanation of any substantial discrepancy and further investigation must be made.

In San Francisco, the only county reviewed directly by the State, substantial unexplained discrepancies were found in 88 percent of 478 AFDC recipients who earned more than \$1,600 in outside income during the last quarter of 1971 and were still active cases this July.

The report points out that HRD records include only those covered under unemployment insurance and thus leave out city, county, state and federal employees, the self-employed and those who work only for cash.

It adds that in the period covered by the report, the last quarter of 1971, only about 25 percent of the AFDC recipients were identifiable by Social Security number as required by state law.

Discounting those not covered by UIB, those not identifiable by Social Security number and those who have purposefully covered their tracks, the ECS was able to find 118,756 people on private payrolls out of the 678,681 AFDC recipients over 16.

Of these, the earnings of 15,215 put them in the upper ten percent of earnings within their own counties. This is the sample the counties were required to report on, which formed the basis for today's report.

"The people in this group were at least using their own names and their own Social Security numbers," Carleson commented, "so they would be the group in which we would expect to find the least amount of cheating.

"We intend to be able to check further in future ECS runs when we can base them on earnings reported by employers for purposes of state withholding. That should give us more information on those who work under their first name on one job and their middle name on another, plus access to government employees on welfare.

"In addition, it is anticipated that other welfare reform measures will result in wider coverage by the earnings clearance system.

"I want to indicate my appreciation for the cooperation and efforts of most of the county welfare directors in handling the large workload of this ECS run."

The report said that because county records are faulty or inadequate in many instances, fraud prosecutions may not be possible in a large number of cases in which glaring and unexplained discrepancies have resulted in substantial overpayment, but that civil suits for recovery may be in order.

The new WR 2 welfare application form should result in a better record base for the counties because it covers all contingencies under penalty of perjury, the report adds.

"I am confident of the deterrent effect of the earnings clearance system," Carleson said, "and I hope we get lower percentages of discrepancies in the second run, which is being assessed now."

#

RECIPIENT FRAUD INCIDENCE STUDY

June, 1969

NUMBER OF CASES, TOTAL PAYMENTS, AND FRAUD PAYMENTS IN AFDC SAMPLE CASES, BY TYPE OF FRAUD

TYPE OF CASE	CASES		TOTAL PAYMENTS		FRAUDULENT PAYMENTS	
	NUMBER	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
Cases Determined to Contain Fraud:						
Unreported Income	106	8.74%	\$ 20,947	9.30%	\$10,649	4.73%
Unreported Man Assuming Role of Spouse	51	4.21	10,626	4.71	7,890	3.50
Other:						
Unreported Change in Family Composition	7	.58	1,561	.69	779	.34
Misstatement of Material Fact	9	.74	1,519	.67	746	.33
Unreported Ineligible Child	3	.25	664	.30	116	.05
Unreported Excess Personal Property	5	.41	936	.42	936	.42
Unreported Ineligible Recipient	4	.33	557	.25	557	.25
Failure to Disassociate	5	.41	1,165	.52	684	.30
Misrepresentation of Availability for Employment	1	.08	166	.07	166	.08
Total Other	34	2.80	6,568	2.92	3,984	1.77
Total Cases Determined to Contain Fraud	191	15.75	38,141	16.83	22,523	10.00%
Balance of Cases	1,022	84.25	187,133	83.07	183.10	
TOTAL IN SAMPLE	1,213	100.00%	\$225,274	100.00%	\$185.72	

NUMBER OF CASES, TOTAL PAYMENTS, AND PAYMENTS INVOLVING ADMINISTRATIVE ERROR IN AFDC SAMPLE CASES

TYPE OF CASE	CASES		TOTAL PAYMENTS		ADMINISTRATIVE ERROR	
	NUMBER	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
Cases With Administrative Error	65	5.34%	\$ 11,161	4.95%	\$3,956	1.76%
Balance of Cases	1,148	94.64	214,113	95.05	186.51	
TOTAL IN SAMPLE	1,213	100.00%	\$225,274	100.00%	\$185.72	

Note: It can be accepted with 95% reliability that the sample percentages above which relate to recipient fraud are accurate to within better than $\pm 2.2\%$. Information relating to administrative error was noted incidental to the investigation of recipient fraud and the review tasks were not designed to determine the extent of such error. Accordingly, no accurate projections of such error can be made from the cases investigated.

*Due to a November 1972 judicial decision, an unreported man assuming the role of spouse is no longer of itself sufficient to sustain fraud.

Source: The Recipient Fraud Incidence Study, conducted by the Fraud Review Panel for the State of California Human Relations Agency, Department of Social Welfare, January 1970.