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May 23, 1983

Letter Report P-330

Honorable Art Agnos
Chairman, and Members of the
Joint Legislative Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

This report responds to a legislative request for information concerning the number of welfare fraud cases that are backlogged at the county level, the causes of the backlogs, and, based on past collections, the amount of recoverable funds that these backlogged cases represent. Although state and county agencies do not keep records on such information, we were able to draw conclusions by analyzing other statistics and reviewing the operations of four counties.

We found that the number of potential fraud cases is increasing and that some counties are being forced to reject a number of cases for investigation and prosecution. Furthermore, some counties are accumulating a growing number of fraud cases that are encountering processing delays. The causes for these conditions differ in each of the counties we visited. We found, however, that action was being taken to collect all overpayments as soon as they were identified.

BACKGROUND

Department of Social Services regulations state that fraud in public assistance programs occurs when a person knowingly makes a false statement or fails to disclose a fact in order to obtain public aid, increase public aid, continue public aid, or avoid a reduction of public aid. These regulations also state that public assistance fraud occurs when a person knowingly accepts aid to which he or she is not entitled. Section 11483 of the California Welfare and Institutions Code states that fraudulent activity in the Aid for Families with Dependent Children (AFDC) program can be punishable by a fine and/or imprisonment in state prison or in the county jail for not more than one year.

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California's public assistance fraud investigation and prevention efforts attempt to prevent, identify, investigate, and prosecute fraudulent activity in public assistance programs. These public assistance programs include the AFDC program and the Food Stamp program, both of which are administered by California's counties. The Department of Social Services is responsible for supervising the counties' administration of the AFDC and Food Stamp programs, while federal, state, and county governments share the costs of the AFDC and Food Stamp programs.

The AFDC program provides cash assistance to children and their parents or guardians whose income is not sufficient to provide for their basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, continued absence, or unemployment of a parent or guardian. In fiscal year 1982-83, cash grants in the AFDC program will total an estimated \$2.93 billion in federal, state, and county funds distributed to an average of 1.59 million recipients per month in California.

The federal Food Stamp program provides food stamps at no cost to eligible low-income households so that these households are able to maintain an adequate level of nutrition. Eligibility for food stamps is based on income and resources; most AFDC recipients are eligible for food stamps. In fiscal year 1982-83, the Food Stamp program will provide an estimated \$602 million in federally-funded food stamp coupons to approximately 1.68 million recipients in California.

According to state regulations, each county is responsible for investigating possible public assistance fraud cases that are referred to the county. Counties with more than 1,000 AFDC cases conduct these investigations through special investigative units (SIU), as mandated in state regulations.*

* State regulations require that counties with fewer than 1,000 AFDC cases must either maintain an SIU or designate one person as responsible for referring suspected fraud cases to the district attorney for investigation.

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The SIU is separate from the county department that determines eligibility for public assistance programs, and it is staffed by county employees who meet minimum state standards for investigators. The investigators examine possible fraud cases referred to them by the State or by other sources and, in accordance with state-established procedures, report on their progress. If an SIU investigator develops sufficient evidence of fraud or other criminal activity, the SIU refers the completed investigation to the district attorney and requests that the district attorney issue a criminal complaint, which is the first step in prosecution. The district attorney decides whether to issue the criminal complaint and may also decide to conduct additional investigation or begin legal action to recover any overpayment.

Although referrals for possible fraud cases frequently come from county welfare departments, referrals may also come from the Department of Social Services' Fraud Program Management Bureau (bureau). This bureau coordinates fraud detection activities with the federal government, other state departments, and local district attorneys and welfare departments. The bureau also provides information that may aid counties in investigating and prosecuting welfare fraud cases. This information may range from verifying wage earnings and tax data of public assistance recipients to identifying public assistance recipients who may be receiving aid in two counties simultaneously. Additionally, the bureau provides direction to counties on program policy and regulations, trains county staff in fraud prevention and investigation, and compiles statistics on county investigation and prosecution activities throughout the State.

Each month the SIUs report the status of the fraud cases to the Department of Social Services. When the SIUs or the district attorneys have not completed investigating a fraud case, they report the case as "pending investigation" or "pending referral." (In this report we refer to cases "pending referral" as cases "pending prosecution.")

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SCOPE AND METHODOLOGY

The purpose of this review was to identify the number of welfare fraud cases that are backlogged at the county level, determine the causes of the backlogs, and estimate the amount of recoverable funds, if any, that the backlogged cases represent. To develop this information, we reviewed the statewide fraud investigation statistics compiled by the Department of Social Services for the period from January 1981 through December 1982. We did not test the accuracy of data submitted by every county, but we did review the fraud investigation activities in Alameda, Los Angeles, Sacramento, and San Diego counties for the same period. During the April 1982 reporting period, there was a change in the reporting procedure for food stamp fraud cases. Instead of reporting combination AFDC/food stamp fraud cases as one AFDC case, counties began reporting these as separate cases in each category. As a consequence, we have eliminated data on trends in food stamp fraud from our analysis because the number of pending fraud cases reported for December 1982 is not comparable to the number reported for January 1981.

We reviewed applicable laws and regulations governing the administration and operation of the welfare fraud investigation program. We interviewed the Chief of the Department of Social Services' Fraud Program Management Bureau to clarify the roles of the State and the counties in detecting, investigating, and prosecuting welfare fraud. We also interviewed county administrators in the special investigative units and deputy district attorneys responsible for fraud investigations in each of the four counties we visited.

To estimate the amount of money that the counties may recover from the fraud cases pending investigation, we developed formulas to calculate the amounts and reviewed these formulas with the Chief of the Department of Social Services' Fraud Program Management Bureau and the Assistant Chief of the Department of Social Services' Estimates Branch. We also reviewed the formulas with county administrators in the special investigative units and with representatives from the district attorney's office in each of the counties we visited.

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ANALYSIS

We were requested to identify the number of potential welfare fraud cases that are backlogged at the county level, determine the causes of the backlogs, and, based on past collections, estimate the amount of recoverable funds that the backlogged cases represent.

The Department of Social Services and the counties that we visited do not keep specific records on the number of welfare cases that are termed "backlogged." However, the counties do maintain statistics on the number of requests for investigation received and accepted, the number of cases pending investigation or pending prosecution, and the number of investigators. To determine if counties might be accumulating cases for investigation and prosecution, we reviewed available statistics to see if the number of cases received, accepted, or pending was increasing at a faster rate than the staffing levels or the number of cases completed.

Statewide statistics compiled by the Department of Social Services for the period from January 1981 through December 1982, indicate that the number of pending welfare fraud cases in the counties is growing. The number of cases still in progress has increased at a faster rate than either the number of investigators or the number of cases that have been completed.

In the sections that follow, we first present information on the increasing number of pending welfare fraud cases in the State. We then discuss trends in welfare fraud cases and the causes of fluctuations in fraud caseloads in four counties.

The Number of Welfare Fraud Cases Pending Investigation and Prosecution In California Has Increased

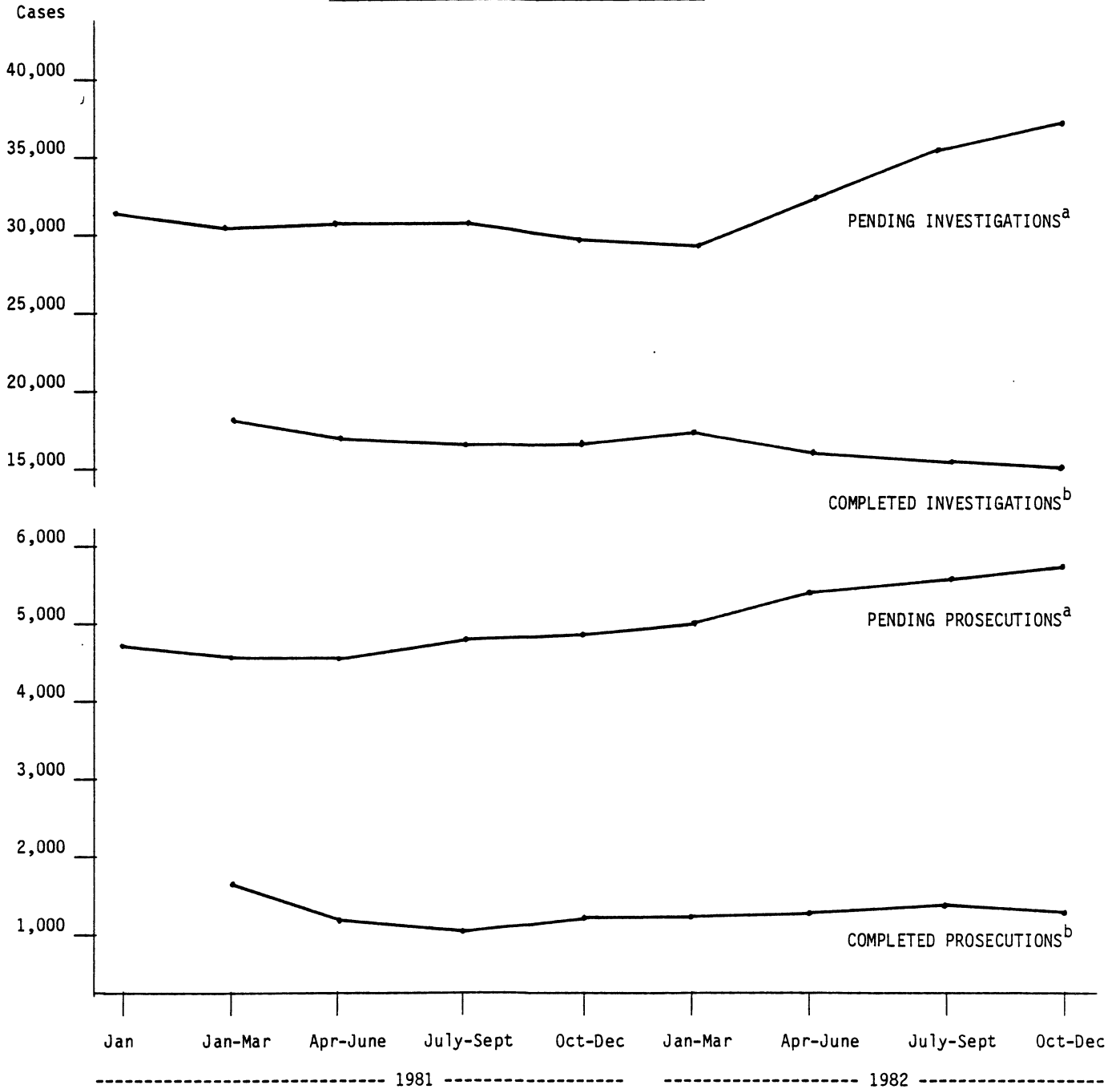
As reported by the Department of Social Services, between January 1981 and December 1982, the number of AFDC fraud cases pending investigation increased from 31,586 cases to 39,965 cases, an increase of 27 percent. Concurrently, AFDC fraud cases pending prosecution by district attorneys increased from 4,767 to 6,014, a 26 percent increase. While the AFDC fraud

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investigation caseload increased, the number of completed investigations and prosecutions decreased during this period. The number of AFDC fraud cases completed by county investigators decreased by 19 percent from 18,176 to 14,660; the number of investigators decreased by 5 percent. AFDC fraud prosecutions completed by district attorneys during this same period also decreased from 1,665 to 1,297, a 22 percent decline. In December 1982, 14,094 food stamp fraud cases were pending investigation at special investigative units; 1,071 cases were pending investigation by district attorneys. However, we could not determine a trend for food stamp fraud cases because of a change in reporting requirements pertaining to these cases. Graph 1 on the next page presents quarterly statistics on AFDC fraud cases for the two-year period from January 1981 through December 1982.

GRAPH 1

AFDC FRAUD INVESTIGATIONS AND PROSECUTIONS
 PENDING AND COMPLETED, BY QUARTER
JANUARY 1981 TO DECEMBER 1982



^a Pending investigation and prosecution totals are as of the end of the quarter.

^b Completed investigations and prosecutions are totals for the quarter.

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Based on past collections reported by the counties, we estimate that the AFDC and food stamp fraud cases pending as of December 1982 represent approximately \$13.1 million in recoverable funds. This estimate of potential recoveries may not be an accurate total, however, because the methods of gathering and reporting overpayment data are not the same in all counties. For example, Alameda County reduces a recipient's AFDC payment in order to collect an overpayment that was made to that recipient. But Alameda County does not include the amount of this reduction in its total for overpayments collected. Los Angeles County, on the other hand, considers such reductions as part of its collections. Overpayments that make up the \$13.1 million estimate are not going uncollected while the fraud cases are in progress. The Department of Social Services' Manual, Section 44-350, requires county welfare offices to initiate collection activities promptly when they have determined that a recipient has received an erroneous payment.

In Alameda, Los Angeles, Sacramento, and San Diego counties, we found that the AFDC fraud investigation and prosecution caseload increased and that there was some accumulation of unprocessed cases. We also found that the causes for the increased AFDC caseload were different in each of the counties.

Alameda County

The Alameda County special investigative unit (SIU) has been receiving an increasing number of requests for investigation of AFDC fraud cases. In 1982, the SIU had accumulated a number of potential fraud cases that were not being investigated. Despite the accumulation, the statistics reported by the county for January 1981 through December 1982 show a 44 percent decrease in pending investigations. This decrease occurred because the chief investigator reviewed all cases during the third quarter of 1982, ranked them by importance, and then eliminated approximately 1,500 pending cases. Cases deleted from the SIU's caseload included those for which the legal three-year statute of limitations had expired, those not warranting an investigation because of the relatively small amount of overpayments made, and those involving potential fraud because an unrelated adult was residing in the home of the recipient though that fact had not been reported to the county.

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Before the third quarter of 1982, Alameda County had a substantial number of AFDC fraud cases pending investigation. Until then, the SIU had no established guidelines for accepting cases referred to it, and the chief investigator in Alameda County stated that the SIU accepted every case referred. This policy resulted in a constantly increasing caseload. To prevent another backlog, the chief investigator changed the criteria used for accepting cases referred for investigation.

As a result of the chief investigator's new guidelines for accepting cases referred to the SIU, the SIU may no longer be accepting for investigation a number of cases with relatively small dollar amounts. Therefore, some AFDC recipients who may be guilty of welfare fraud will not be prosecuted and will not be deterred from engaging in future fraudulent activity.

AFDC fraud cases pending prosecution in Alameda County increased between January 1981 and December 1982. However, the exact amount of this increase cannot be determined because the statistics are inaccurate. Before January 1981, the deputy district attorney eliminated approximately 600 completed AFDC fraud cases but apparently failed to report these cases to the SIU, and the SIU is still counting these cases as pending prosecution. The deputy district attorney stated that the increase in fraud cases pending prosecution between January 1981 and December 1982 was due to a delay in receiving a decision from an Alameda County municipal court. The decision, which determined whether certain cases filed prior to a change in the law could be prosecuted immediately, affected many of the cases that had been awaiting prosecution.

Los Angeles County

AFDC fraud cases pending investigation by the SIU in Los Angeles County increased over the two-year period of review by 9 percent, to 13,492 cases in December 1982. However, throughout most of the period, the number of cases pending investigation was consistently below the 12,366 pending in January 1981. Completed investigations decreased by 46 percent during this period, from 5,842 cases to 3,159 cases.

Los Angeles County officials cited several reasons for the increase in cases pending investigation. First, the SIU placed more emphasis on the prosecution of welfare fraud cases. On

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February 2, 1981, the SIU transferred six field investigators from field investigation to prosecution investigation. A prosecution investigator prepares a case for prosecution and presents the case to the district attorney. If the district attorney decides to file a criminal complaint, the prosecution investigator will assist the district attorney and follow the case through the criminal justice system. Prosecution investigators have the district attorney file complaints on approximately 3 cases per month, while field investigators complete 20 to 30 cases per month. This shifting of investigators led to an increase in the number of AFDC fraud cases pending investigation at the SIU.

Another factor contributing to the increase in cases pending investigation was the relocation of the SIU office during the second and third quarters of 1982. During this relocation, the number of clerical support staff declined, though additional clerks were hired later. According to Los Angeles County officials, the relocation of 200 people between May 1982 and July 1982 disrupted the operation of the SIU.

The increased emphasis that the SIU placed on prosecution contributed to an increase in the number of cases that the district attorney accepted into the criminal justice system. During the first quarter of 1981, the district attorney accepted 137 cases for prosecution. The number of cases accepted in subsequent quarters, through the third quarter of 1982, was consistently higher, averaging 170 cases per quarter.

AFDC fraud cases pending prosecution in Los Angeles County increased by 195 percent, from 169 cases in January 1981 to 498 cases in December 1982. Although the quarterly number of AFDC cases accepted for prosecution declined during this period, the number of cases accepted was still higher than the number of cases completed by the district attorney for most of the period. Only in the fourth quarter of 1982 did the number of prosecutions completed exceed the number of cases accepted.

Sacramento County

For every quarter during the two-year period we reviewed, Sacramento County received more AFDC fraud cases for investigation than it completed and thus experienced an increase in cases pending investigation. Sacramento County's

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SIU changed its method of reporting during 1981, however, and we can analyze only the statistics reported after the change in reporting method. Between January 1981 and September 1981, all requests for investigation of AFDC fraud were recorded as pending investigation regardless of whether they had been accepted by the SIU for investigation. Beginning in October 1981, only those AFDC fraud cases reviewed and accepted for investigation by the SIU were recorded as pending investigation. Between October 1981 and December 1982, Sacramento County's caseload of pending investigations increased by 150 percent, from 744 cases to 1,859 cases. Investigations completed by the SIU between October 1981 and December 1982 declined from 449 to 336, a 25 percent decrease.

The chief investigator for Sacramento County attributed the increase in AFDC fraud cases pending investigation between October 1981 and December 1982 to several factors. First, Sacramento County received a larger number of fraud case referrals from the Earnings Clearance System, a state fraud detection system that verifies recipients' reported income. The county also implemented a more extensive training program on fraud detection for AFDC eligibility staff. Finally, because there was no increase in investigative staff despite the increase in the number of AFDC fraud cases referred, the chief investigator selected for investigation those cases with larger dollar values; these cases involve more extensive investigations.

From January 1981 through December 1982, the number of AFDC fraud cases pending prosecution by the district attorney in Sacramento County increased. We could not determine the magnitude of the increase because the statistics included cases that the district attorney did not consider to be pending. Furthermore, the district attorney did not accept for prosecution cases involving welfare fraud overpayments of less than \$1,000. The district attorney referred these cases back to the SIU.

Sacramento County's deputy district attorney attributed the increase in AFDC fraud cases pending prosecution to an increase in the number of referrals from the SIU coupled with a relatively constant staffing level at the district attorney's office. From January 1981 through December 1982, AFDC fraud cases referred to the district attorney increased from 501

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cases to 617 cases, or 23 percent. However, staffing levels remained relatively constant, and the district attorney assigned most of its staff to child support cases, which generally result in a greater percentage of money collected for the county. The increase in the number of AFDC fraud cases pending prosecution could have been larger if it had not been for an increase in AFDC cases resolved by the district attorney. Between January 1981 and December 1982, the number of AFDC fraud cases resolved rose from 93 to 123, a 32 percent increase.

The effect of excluding certain cases from review by investigators and the district attorney is that possible guilty welfare recipients are neither investigated nor prosecuted. Additionally, Sacramento County has potentially decreased its ability to deter future cases of welfare fraud.

San Diego County

The number of AFDC fraud cases pending investigation by the San Diego County SIU increased between January 1981 and December 1982, although the exact amount of the increase is difficult to determine because of inaccurate recording of pending cases. To reduce the growth in the number of pending fraud cases, the San Diego County SIU changed its criteria for accepting cases for investigation. According to the chief investigator, in November 1981, the SIU increased the minimum dollar value of cases accepted for investigation from approximately \$800 to \$1,500 and rejected pending cases more than one year old. Currently, the SIU accepts for investigation only those cases that have a potential overpayment value of \$1,000 or more. During the two-year period, completed AFDC fraud investigations increased by approximately 55 percent from 711 to 1,101.

San Diego County's chief investigator cited two reasons for the increase in AFDC fraud cases pending investigation by the SIU. First, the SIU has improved its fraud detection systems by placing more emphasis on the Earnings Clearance System that verifies recipients' reported income, by providing more extensive training programs to AFDC eligibility staff, and by assigning investigators to county welfare eligibility offices. As of December 1981, San Diego County assigned 7 of its 18 welfare fraud investigators to county welfare offices to

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prevent fraud at the time that eligibility is determined. The second cause of the increase is that the SIU incorrectly included in the total of cases pending investigation cases that had been rejected by investigators at eligibility offices. This recording error led to an overstatement of the number of cases pending investigation.

Between January 1981 and December 1982, completed prosecutions in San Diego County decreased by 77 percent from 420 cases to 95 cases. During that period, the district attorney reported no pending AFDC fraud cases. However, we found that a number of fraud cases referred to the district attorney have not been completed or are awaiting prosecution in court. In January 1981, the number of AFDC fraud cases pending prosecution was 130. As of December 1982, the deputy district attorney estimated the number of AFDC fraud cases pending prosecution to be 353, an increase of 172 percent over the January 1981 total.

The San Diego County District Attorney's office attributed the increase in cases pending prosecution to a staff reduction in the district attorney's Family Support Division. In December 1981, the Family Support Division employed ten attorneys, three of whom were assigned to welfare fraud. By October 1982, the district attorney reduced the division's staff to seven attorneys, not one of whom was assigned to welfare fraud. Except for certain cases that remained with the division chief, the district attorney assigned all welfare fraud cases pending prosecution to attorneys in other divisions. The deputy district attorney in San Diego County said that he gave priority for staffing to child support cases because these cases allow the county to keep a greater percentage of the money collected.

San Diego County's change in criteria for accepting cases for investigation has resulted in a number of potential fraud cases remaining uninvestigated. According to San Diego County's chief investigator, this may allow possibly guilty individuals to remain unpunished.

CONCLUSION

AFDC cases pending fraud investigation and prosecution increased throughout the State between January 1981 and December 1982. During this same period, the number of completed AFDC fraud investigations and prosecutions declined.

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We were unable to analyze trends in the investigation and prosecution of Food Stamp fraud cases during this period because of a change in reporting requirements. However, efforts to collect overpayments made in these cases begin as soon as a case is identified for fraud investigation.

Trends in the AFDC caseload of special investigative units and district attorneys varied in the four counties we visited. Officials in each county cited different reasons for the fluctuations in the fraud caseload. Some counties changed the criteria for accepting fraud cases, while other counties reduced caseloads by disposing of pending cases. As a result of these changes, individuals who may be guilty of welfare fraud remain unidentified and unpunished.

We conducted this audit under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically contained in the audit request.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Audit Completion Date: May 16, 1983

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Attachment: Response to the Auditor General's Report
Health and Welfare Agency



HEALTH and WELFARE AGENCY
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May 12, 1983

Mr. Thomas W. Hayes
Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

AUDITOR GENERAL REPORT #P-330, THE STATEWIDE NUMBER OF WELFARE FRAUD CASES
BEING INVESTIGATED AND PROSECUTED

Thank you for providing our agency with the opportunity to respond to Draft
Audit Report #P-330 regarding the number of welfare fraud cases being investi-
gated and prosecuted in California.

Given that the majority of the audit findings are based on statewide statistics
compiled by the Department of Social Services, we concur with the investigative
caseload trends outlined in your draft report and believe that the conclusions
drawn by the study team are accurate.

We appreciate the opportunity of working with your auditors and would be pleased
to provide any additional information or answer any questions which may arise
after the report is presented in a final form to the Joint Legislative Audit
Committee.

Sincerely,

A handwritten signature in cursive script that reads "David B. Swop".

DAVID B. SWOAP
Secretary

cc: Linda S. McMahon, DSS