Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AFDC PRE-ELIGIBILITY FRAUD INVESTIGATIVE UNITS

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EXECUTIVE SUMMARY

PURPOSE

To determine whether or not local pre-eligibility fraud investigative units are effective in preventing inappropriate payments of Aid to Families with Dependent Children.

BACKGROUND

The Aid to Families with Dependent Children (AFDC) program provides financial assistance to families with children who are deprived of support due to death, absence, or disability of at least one parent. Some families with children deprived of support due to unemployment of the principal wage earner may also receive AFDC assistance. In Fiscal Year 1991, the AFDC program paid about $20.7 billion in Federal and State funds to about 12.5 million people. The Administration for Children and Families estimated that about $1 billion of those funds were inappropriate payments.

To prevent fraud and alleviate resulting overpayments caused by incorrect applicant-provided information, some State and local AFDC offices established pre-eligibility fraud investigative units. The principal objective of pre-eligibility fraud investigative units is to prevent applicants from fraudulently obtaining AFDC benefits. They do so by verifying applicant-provided information before AFDC payments are made. Preventing inappropriate AFDC payments is more effective than trying to recover payments after applicants have received them.

FINDINGS

Pre-eligibility fraud investigative units effectively prevent inappropriate AFDC payments

Thirty-nine local offices we surveyed reported that investigations by pre-eligibility fraud investigative units resulted in savings of over $41 million in program funds in 1992. The savings per unit ranged from a low of $1.20 per dollar of operating costs to a high of $104.34. The costs and savings information provided by the 39 selected offices showed a weighted average savings of about $8.43 for every $1.00 spent operating a unit.

We were unable to compare the relative effectiveness of pre-eligibility fraud investigative units to that of AFDC eligibility workers. Data to make such a comparison was not available. Most local offices did not keep records on application denial rates. Therefore, we could not compare denial rates prior to establishment of pre-eligibility fraud investigative units to denial rates after such units were operating. Further, where denial rates were available, dollar savings resulting from denials by eligibility workers had not been computed.

However, savings resulting from pre-eligibility fraud investigative units are additional to any that might result from eligibility worker decisions, and investigative and prosecution activities of regular AFDC fraud units. AFDC eligibility workers may cause applicants to withdraw fraudulent applications, or the workers may deny such applications. To the extent that fraudulent applications are withdrawn or denied, a savings to AFDC occurs. Every denial or withdrawal caused by pre-eligibility fraud investigative units represent additional savings to that resulting from eligibility workers. Likewise, even when fraud is discovered later by regular fraud units, erroneous payments have already been made. Such payments are very difficult and certainly inefficient to recover. Therefore, preventing such improper payments before they occur is an additional savings.

Local AFDC officials we interviewed also told us the presence of pre-eligibility fraud investigators in a community help deter fraud. Applicants may be less likely to provide false information if they know investigators will be interviewing relatives, neighbors, and employers to substantiate applicant-provided information.

Pre-eligibility fraud investigative units use basic investigative techniques

Staff at essentially all of the AFDC offices we inspected said they most often relied on basic investigative techniques. These included (1) interviews with relatives, neighbors, landlords, and employers, (2) unannounced visits to applicants' homes, (3) matching applicant-provided financial information with Federal and State databases, and (4) assisting eligibility caseworkers interview applicants. None of the offices we inspected used sophisticated techniques such as fingerprinting and electronic surveillance.

About 74 percent of the local AFDC offices we surveyed required that pre-eligibility fraud investigations be completed within 15 days after cases are referred by eligibility caseworkers. A fast turnaround time is essential for investigation results to be useful to eligibility decisions. Caseworkers must usually determine eligibility in 30 days for benefit payments to be made to eligible applicants within the federally mandated 45 day time limit.

Most pre-eligibility fraud investigative units are organizationally independent of AFDC benefit payments sections

About 62 percent of the sampled pre-eligibility fraud investigative units reported to supervisors that were organizationally independent of a benefit payments (eligibility) section. Local officials generally advised that keeping pre-eligibility fraud investigative units organizationally independent is beneficial because the missions of benefit payments workers and investigators differ. Eligibility workers have a social work ethic of wanting to help people and may give eligibility to an applicant even when there is doubt about eligibility. Conversely, investigators are interested in preventing fraud and look for proof of eligibility. The difference in missions can create a conflict of interest.

However, officials from all the local AFDC offices we surveyed said pre-eligibility fraud investigative units are most effective when physically located near eligibility staff. They said such a physical location helps assure (1) effective communication, (2) timely referrals, (3) quick feedback, and (4) accessibility to eligibility workers' files.

RECOMMENDATIONS

We could not reliably project a nationwide savings, but 39 local AFDC offices claimed to have saved on average over $8 for every $1 spent on pre-eligibility fraud investigative units. We recognize that pre-eligibility fraud investigative units might not be appropriate in every local office. However, such units could achieve significant savings in a cost effective manner in many areas. States and localities might well want to consider the advantages of establishing such units. Therefore, **we recommend that the Administration for Children and Families (ACF) encourage and help all States establish pre-eligibility fraud investigative units.** ACF can do this by:

- disseminating information on pre-eligibility fraud investigative units to States and localities without units, and

- offering technical assistance to States interested in establishing pre-eligibility fraud investigative units.

AGENCY COMMENTS

The Assistant Secretary for Children and Families commented on the report. She noted that we combined figures from units reporting only AFDC savings and costs with figures from units reporting AFDC and food stamps savings and costs. ACF also noted that we did not validate data States provided. We agree, and have disclosed our methodology in our report. We combined costs and savings in our calculation because some local AFDC offices could not separate AFDC and food stamp operations. However, we reported that 17 local AFDC offices that could separate AFDC and food stamps saved almost $9 million in only AFDC. Further, savings reported by the sampled units represented misspent Federal funds regardless of whether the savings came from the AFDC or food stamp program.

ACF reported that they make information available to States about innovative programs, and are developing a catalogue that will make such information more usable for States. We support their efforts, and believe they should include considerable information on pre-eligibility fraud investigative units. We know States have an interest in this information because several States and a consultant from Canada have contacted the OIG for such data upon hearing about our inspection.

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PURPOSE

To determine whether or not local pre-eligibility fraud investigative units are effective in preventing inappropriate payments of Aid to Families with Dependent Children.

BACKGROUND

AFDC Program

The Aid to Families with Dependent Children (AFDC) program provides financial assistance to families with children who are deprived of support due to death, absence, or disability of at least one parent. Some families with children deprived of support due to unemployment of the principal wage earner may also receive AFDC assistance.

The Administration for Children and Families (ACF), Department of Health and Human Services (HHS), has Federal responsibility for AFDC. The program is authorized by title IV-A of the Social Security Act. States administer the program through local offices--either district, county, or city. Program costs are shared by Federal and State governments. The Federal government pays 50 percent of the administrative costs and a percentage of the AFDC payments. The percentage varies by State and is determined by a formula using Department of Commerce statistics. Generally, poorer States receive a larger Federal contribution than affluent States for AFDC payments. In some States, counties pay part of the non-Federal portion of AFDC payments.

In Fiscal Year 1991, the AFDC program paid about $20.7 billion in Federal and State funds to about 12.5 million people. The ACF estimated that about $1 billion of those funds were inappropriate payments[1].

AFDC Pre-Eligibility Fraud Investigative Units

To receive AFDC benefits, applicants must complete an application. Local caseworkers then attempt to verify applicant-provided information to determine eligibility and amount of financial assistance. An inappropriate AFDC payment occurs when an applicant fails to accurately report facts which might affect the AFDC payment, and when a State fails to act properly on known information. Intentionally withholding or misrepresenting facts by an applicant may be considered fraud.

[1] Administration for Children and Families, *Quarterly Public Assistance Statistics, Fiscal Year 1991*

All States are required to identify alleged fraud and develop procedures for referring these cases to law enforcement officials. In most States, this is accomplished in on-going fraud units. ACF shares the expense of these activities with other programs and the State. The AFDC share is subject to the regular 50 percent administrative cost matching rate. However, to prevent fraud and alleviate resulting overpayments caused by incorrect applicant-provided information, some State and local AFDC offices established pre-eligibility fraud investigative units. The principal objective of pre-eligibility fraud investigative units is to prevent applicants from fraudulently obtaining AFDC benefits. They do so by verifying applicant-provided information before AFDC payments are made. Preventing inappropriate AFDC payments is more effective than trying to recover them after applicants have received them.

AFDC caseworkers refer applications to pre-eligibility fraud investigative units for investigation when a caseworker suspects an applicant has provided incomplete and inaccurate information to obtain benefits. Investigators then attempt to verify the applicant's financial and family circumstances. They do so by comparing applicant-provided information with information obtained from (1) employers, neighbors, family, and friends, (2) unannounced visits to applicants' homes to verify residence and household composition, and (3) computer matches with State databases, such as departments of labor wage files.

In 1987, we reported that pre-eligibility fraud investigative units were effective in detecting fraudulent application information and preventing inappropriate AFDC payments in two California counties[2]. In 1993, we reported that 26 States, in addition to California, had established pre-eligibility fraud investigative units[3].

SCOPE

We included 11 States and 39 local welfare offices that have pre-eligibility fraud investigative units in our inspection. We focused our inspection on (1) whether or not pre-eligibility fraud investigative units were effective in preventing inappropriate AFDC payments, and (2) how the units were operated.

METHODOLOGY

We used a two-stage cluster sampling process to select States and local offices for inspection. First, we randomly selected 12 States from the universe of 26 States. Our universe included all States that had pre-eligibility fraud investigative units except California. Secondly, we selected 53 local offices from the 12 States. We dropped

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[2]Office of Inspector General, United States Department of Health and Human Services. *State Investigation of Fraud in the Aid to Families with Dependent Children (AFDC) Program.* OAI-04-86-00066.

[3]Office of Inspector General, United States Department of Health and Human Services. *AFDC Pre-Eligibility Verification Measures.* OEI-04-91-00100.

one State with four local offices from our sample because it no longer had pre-eligibility fraud investigative units as of June 1993. This reduced the sample size to 11 States and 49 local offices. Ten of the 49 local offices did not respond to our survey--therefore, reducing our sample results to 39 local offices. Appendix A shows the local welfare offices appearing in our sample.

We excluded California from our universe for two reasons. First, we had inspected and reported on local programs in that State in 1987. Second, the California program is atypical of most other States. California was the original pioneer to use pre-eligibility fraud investigative units, and their program is one of the largest in the United States. It is also generally more aggressive than other States in detecting fraud. For example, many California counties used trained peace officers rather than social workers for investigators. As such, California may have more advanced investigative techniques which could bias our sample results. We did, however, inspect operations of pre-eligibility fraud investigative units in five local offices in California. We expect to report our findings in a subsequent report.

To obtain information on operations and results of selected pre-eligibility fraud investigative units, we (1) surveyed all selected States and local offices, (2) reviewed pertinent documentation, and (3) interviewed appropriate officials and staff. To illustrate, we mailed survey questionnaires to six States and 29 local offices. Using the same survey instrument, we obtained information from the remaining five States and 10 local offices through personal interviews. Further, we obtained reports and other documentation on estimates of savings, program evaluations, policies, and procedures.

Finally, we interviewed staff from the United Council on Welfare Fraud. This organization has over 2500 agencies and individuals interested in maximizing efforts to prevent, detect, and eliminate welfare fraud.

To determine the effectiveness of pre-eligibility fraud investigative units, we computed cost/benefits for our selected offices in 1992. We based our cost/benefit computation on costs and savings information provided by our sample States and local AFDC offices. We did not validate the accuracy of the information they provided. In estimating savings, States included inappropriate AFDC payments that were prevented due to a pre-eligibility fraud investigative unit. States also included AFDC payments prevented when applicants withdrew applications after a pre-eligibility fraud investigation was initiated.

Eleven counties in two selected States did not provide specific costs and savings. However, the two State offices provided such data for all the counties in the State that had pre-eligibility fraud investigative units. We used the average costs and savings for all the counties to represent costs and savings for each of the 11 counties in our sample. Appendix B shows how we calculated cost/benefit ratios.

We were unable to compare the relative effectiveness of pre-eligibility fraud investigative units to that of AFDC eligibility workers. Data to make such a comparison was not available. Most local offices did not keep records on application denial rates. Therefore, we could not compare denial rates prior to establishment of pre-eligibility fraud investigative units to denial rates after such units were operating. Further, where denial rates were available, dollar savings resulting from denials by eligibility workers had not been computed.

We also did not compare the pre-eligibility fraud investigative program of one local AFDC office to that of another. The structures and policies of the units were designed to meet the needs of specific localities. We believed it inappropriate to rate the units based on a written survey, and we were unable to visit each location to evaluate whether or not the units met the needs of specific locations.

This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

PRE-ELIGIBILITY FRAUD INVESTIGATIVE UNITS EFFECTIVELY PREVENT INAPPROPRIATE AFDC PAYMENTS

All State and local AFDC officials we sampled said that pre-eligibility fraud investigative units are effective in preventing inappropriate AFDC payments. The units disclose discrepancies in applicant-provided information that result in a reduction or denial of AFDC assistance. Eligibility workers may not have the time or inclination to challenge and verify all suspicious applicant-provided information. Pre-eligibility fraud investigative units can validate applicant-provided information before eligibility is approved. Also, the presence of fraud investigative units in a community has a deterrent effect on fraudulent claims for AFDC assistance.

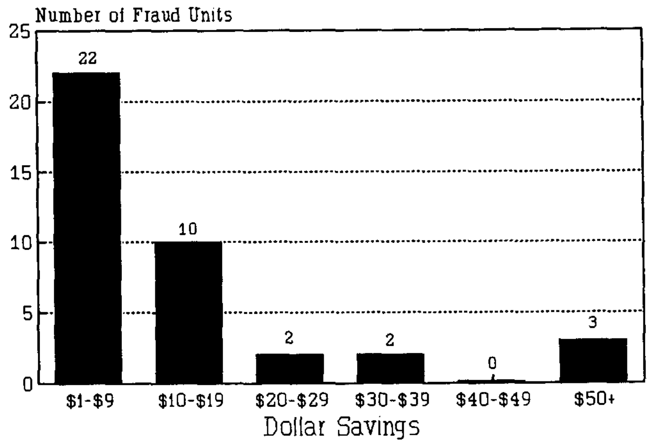
Preventing inappropriate AFDC payments is easier than trying to recover them after an AFDC recipient has received and used them. The procedures required to document fraud are lengthy, and recovering inappropriate welfare payments is very difficult. Pre-eligibility fraud investigative units detect potential fraud before welfare payments begin. Therefore, the need to recover inappropriate payments is eliminated.

On Average, Pre-Eligibility Fraud Investigative Units Saved Over 8 Times Their Costs

The 39 local AFDC offices responding to our survey estimated that their pre-eligibility fraud investigative units prevented about $45 million in inappropriate welfare assistance during 1992. The $45 million included inappropriate AFDC payments, food stamps, and general assistance payments in 22 of the 39 offices. In the other 17 offices, the savings represented only AFDC funds. The operating costs for the 39 units during 1992 was about $3.7 million. Therefore, savings attributable to the pre-eligibility fraud investigative units of the 39 offices were about $41.3 million (prevented inappropriate assistance minus operating costs).

The savings per pre-eligibility fraud investigative unit ranged from a low of $1.20 per dollar of operating costs to a high of $104.34. As the chart on the next page shows, about 56 percent of the 39 units saved between $1 and $9 for each dollar of operating costs. About eight percent of the units saved over $50 per dollar of operating costs. The costs and savings information provided by the 39 selected offices showed a weighted average savings of about $8.43 for every $1.00 spent on a pre-eligibility fraud investigative unit.

ESTIMATED SAVINGS PER DOLLAR OF OPERATING COSTS



Only 17 of the 39 local offices could provide data that showed AFDC savings separately. In 1992, the pre-eligibility fraud investigative units of those 17 offices produced savings to the AFDC program of about $8.9 million after deducting operating expenses.

The officials we interviewed said that pre-eligibility fraud investigative units frequently identify discrepancies in applications for AFDC. Once identified, the discrepancies either limit the amount of AFDC assistance, or disqualify an applicant for assistance. The officials identified the following most commonly found discrepancies.

- Applicants underreport their income so that expenses exceed income.

- Applicants incorrectly report their household composition. They may show that a parent is absent when in fact the parent is residing in the household with their children. Likewise, they may report children in the home who are not actually residing there.

- Applicants may report incorrect addresses. They may report living at one address when they actually reside in another county or State and receive AFDC benefits there.

- Applicants may underreport their property and assets.

The savings resulting from pre-eligibility fraud investigative units are additional to any that might result from eligibility worker decisions, and investigative and prosecution activities of regular AFDC fraud units. AFDC eligibility workers may cause applicants to withdraw fraudulent applications, or the workers may deny such applications. To the extent that fraudulent applications are withdrawn or denied a savings to AFDC occurs. Every denial or withdrawal caused by pre-eligibility fraud investigative units represent additional savings to that resulting from eligibility workers. Likewise, even when fraud is discovered later by regular fraud units, erroneous payments have already been made. Such payments are very difficult and certainly inefficient to recover. Therefore, preventing such improper payments before they occur is an additional savings.

Pre-Eligibility Fraud Investigative Units Help Deter Fraud

Local AFDC officials we interviewed told us the presence of pre-eligibility fraud investigative units in a community helps deter fraud in three ways.

First, the presence of fraud investigators in a community may make people more reluctant to provide false information to acquire AFDC eligibility. The investigative process of interviewing relatives, friends, neighbors, employers, landlords, and others in a community causes AFDC applicants to think that their applications will be investigated. As a result, they are less likely to submit false information.

Second, the presence of an investigator in a community allows easy access for people to provide information on defrauders. To illustrate, a friend or neighbor who is temporarily angry with a defrauder may provide information to an investigator who is readily available in the community. However, such associates are less likely to actively seek out a welfare office to inform on a defrauder--particularly after their anger has subsided. Likewise, neighbors, friends, and relatives may know of welfare fraud and resent it, but they are not likely to go to a welfare office to inform on a defrauder. Often, however, they will divulge information to an investigator who is readily available in the community.

Third, through continuous presence in a community, an investigator may develop networks of people who can provide information on fraudulent activities. To illustrate, investigators in one county told us they have established networks of "snitches" akin to those used in police work. Through such networks, investigators discover locations of mail-drops used to falsely establish a residency. Likewise, they discover residences where groups of defrauders live and assist each other in deceit and cover-up. Such information typically leads to closing on-going AFDC grants and preventing new improper AFDC grants.

PRE-ELIGIBILITY FRAUD INVESTIGATIVE UNITS USE BASIC INVESTIGATIVE TECHNIQUES

Most Commonly Used Investigative Techniques

Pre-eligibility fraud investigative units used basic investigative techniques to prevent inappropriate AFDC payments and deter fraud. Staff at essentially all of the AFDC offices we inspected said they most often relied on the following techniques.

- Collateral interviews with relatives, friends, neighbors, landlords, employers, and others
- Personal visits to an AFDC applicant's home
- Surveillance of an AFDC applicant's home
- Matching financial and personal information provided by applicants with Federal and State computer databases
- Assisting eligibility caseworkers interview applicants

None of the offices we inspected used sophisticated techniques such as fingerprinting, searching criminal information files, and electronic surveillance.

Eligibility caseworkers refer applicants for investigation when they have reason to suspect fraud. The specific investigative technique used depends largely on the particular questions eligibility workers have about an applicant's application. For example, if an applicant says she is not working but the eligibility caseworker suspects that the applicant is working, the investigator would likely interview the applicant's neighbors and household members. In such instances, investigators might also cross match applicant-provided information with Federal or State wage records.

Likewise, investigators may assist eligibility caseworkers in interviewing applicants who are suspected of providing incorrect information. Some eligibility caseworkers told us that investigators often help prevent fraud by assisting them in interviewing applicants. To illustrate, eligibility workers often do not have time, and may not have an inclination, to challenge and verify applicant-provided information. As a result, applicants may take a chance and provide false information to an eligibility worker. However, eligibility workers who are suspicious about applicant-provided information may ask an investigator to assist in jointly interviewing the applicant. In such instances, applicants who intended to falsify their application are reluctant to do so. Because of an investigator's presence in an interview, such applicants often correct information they previously provided or withdraw an incorrect application.

AFDC Offices Require Timely Pre-eligibility Fraud Investigations

The AFDC offices we surveyed had local policies specifying the length of time for conducting a pre-eligibility fraud investigation. As illustrated by the table on the next page, about 51 percent of the local AFDC offices we surveyed required that pre-eligibility fraud investigations be completed within 5 days after a case is referred. About 74 percent of the offices required that cases be investigated within 15 days after referral. Only about 5 percent of our sampled 39 offices allowed more than 30 days for conducting a pre-eligibility fraud investigation.

LOCAL AFDC OFFICE POLICY ON TIMELINESS OF PRE-ELIGIBILITY FRAUD INVESTIGATIONS

TURNAROUND TIMES	# LOCAL OFFICES
Within 5 days	20
6 - 10 days	4
11 - 15 days	5
16 - 20 days	0
21 - 30 days	8
More than 30 days	2
TOTAL	39

A fast turnaround time on cases referred for pre-eligibility fraud investigation is essential. Caseworkers must determine eligibility in sufficient time for benefit payments to be made within a federally mandated 45 day time limit. Therefore, if investigation results are to be useful to eligibility decisions, they must be completed in time for eligibility workers to correct erroneous information and process an application for payment. Most eligibility workers told us they need to finalize the eligibility decision within 30 days in order to meet the 45 day time limit.

Investigators Are Used For Both Pre-eligibility and On-going AFDC Cases

Most pre-eligibility fraud investigative units investigate both pre-eligibility applications and potential fraud in on-going AFDC grants. Investigators in 27 of the 39 (about 69 percent) AFDC offices we surveyed said they do both pre-eligibility and on-going investigations. Investigators in 23 of the 27 offices establish both the existence and extent of fraud. Investigators in 4 of the 27 offices only establish the existence of fraud. Thereafter, the four units refer cases to a separate unit to document the extent of fraud. Investigators in the remaining 12 AFDC offices (31 percent) we surveyed said they investigate only pre-eligibility AFDC applicants.

A potential benefit of having investigators do both pre-eligibility and on-going fraud cases is that techniques learned for on-going fraud investigations can be used for pre-eligibility fraud investigations. However, some officials said requiring investigators to work both pre-eligibility and on-going fraud cases is ineffective.

Investigators who do on-going fraud investigations in addition to pre-eligibility may find that on-going fraud cases require so much time, they do not have sufficient time to conduct thorough pre-eligibility fraud investigations. In most of the AFDC offices where investigators work both pre-eligibility and on-going cases, investigators must take whatever action is needed to prosecute fraud cases. For example, they document fraudulent actions by AFDC recipients, determine overpayment amounts, and may prepare cases for legal prosecution. This is a very time-consuming process, and many AFDC officials stated that their investigators' time could be used more effectively on pre-eligibility fraud investigations. This is the reason that four of the local AFDC offices that investigate both pre-eligibility and on-going cases refer fraud cases to a separate unit for the fraud work-up. Pre-eligibility fraud investigations are generally perceived to be more effective than fraud investigations of on-going cases because it is easier to stop a fraudulent payment before it occurs than it is to recover overpayments.

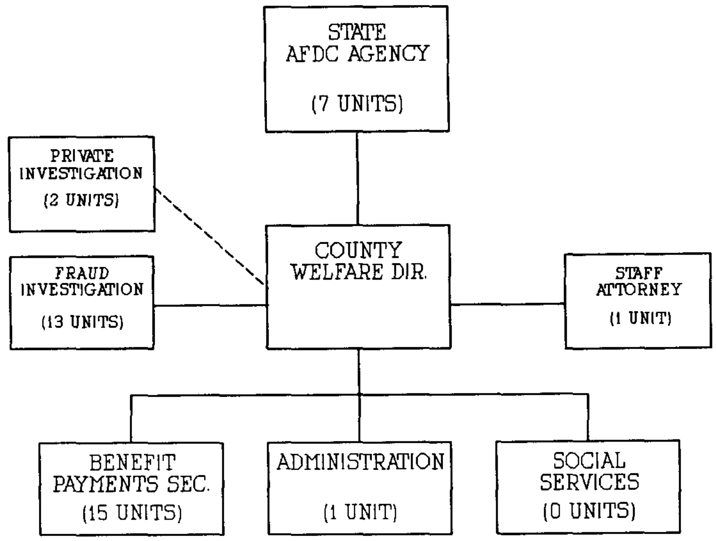
MOST PRE-ELIGIBILITY FRAUD INVESTIGATIVE UNITS ARE ORGANIZATIONALLY INDEPENDENT OF AFDC BENEFIT PAYMENT SECTIONS

About 62 percent (24 of 39) of the pre-eligibility fraud investigative units we surveyed reported to supervisors that were independent of a benefit payments section[4]. The remaining 15 units (38 percent) reported to supervisors that were organizationally a part of a benefit payments section.

The organizational location of pre-eligibility fraud investigative units varied considerably among the 39 local offices we surveyed. As shown by the chart on the following page, 15 (or about 38 percent) of the independent local pre-eligibility fraud investigative units reported directly to the welfare agency director. At one local office, the pre-eligibility fraud investigative unit reported to the welfare agency director through the staff attorney. The pre-eligibility fraud investigative unit of another local office reported to the county welfare director through the administrative office. Another 7 (about 18 percent) of the organizationally independent units reported to a State AFDC agency. None of the local offices we surveyed had organizationally placed the pre-eligibility fraud investigative unit within Social Services.

[4]Benefit payment sections generally determine eligibility for AFDC, food stamps, and Medicaid assistance.

ORGANIZATIONAL LOCATION OF PRE-ELIGIBILITY FRAUD INVESTIGATIVE UNITS



We did not survey local AFDC officials to determine whether or not organizational independence from benefit payment sections is more or less beneficial for pre-eligibility fraud investigative units. Therefore, the advantages and disadvantages of different organizational alignments are not clear. However, several local AFDC officials provided anecdotal information on the benefits of organizational placement of pre-eligibility fraud investigative units.

Benefits of Organizationally Independent Pre-eligibility Fraud Investigative Units

Some local officials told us that keeping pre-eligibility fraud investigative units organizationally independent of benefit payment sections is beneficial. Their general argument for organization independence focused largely on a difference in missions of benefit payment sections and investigators. They explained that benefit payment eligibility workers are interested in processing applications and benefit payments quickly. They said most eligibility workers have a social work ethic of wanting to help people. Therefore, their focus is to get assistance in the hands of people who need it. Because of this orientation, eligibility workers may give eligibility to an applicant even when there is doubt about eligibility.

Conversely, investigators are interested in catching fraud. The objective of investigators is to prevent fraud and give AFDC assistance only to those who can prove they qualify. In instances where doubt exists, they look for proof, using such techniques as unannounced home visits, surveillance, collateral interviews, and cross matching of government data records.

According to one county manager, the difference in missions of benefit payment sections and investigators creates a conflict of interest. Benefit payment section staff sometimes object to investigator mission and techniques and attempt to influence the results. To illustrate, one investigator advised us of an instance where his supervisor told him to "back off" when he interviewed an applicant's neighbors to obtain reliable eligibility information on earnings and family. The county manager said the pre-eligibility fraud investigative unit needs to be a neutral activity.

Two local welfare offices we surveyed recently reorganized to remove their investigative staff from the benefit payment sections. They said the pre-eligibility fraud investigative units are more effective when organizationally located outside of the benefit payment section.

Benefits of Physical Location of Pre-eligibility Fraud Investigations

Some local staffs told us that organizing pre-eligibility fraud investigative units as part of benefit payment sections is beneficial. However, they did not provide us with any illustrations of the benefits. Advantages they cited related to physical location rather than organizational location.

Officials from all the local AFDC offices we surveyed said investigative units are most effective when physically located near the benefit payment eligibility staffs. They said such a physical location helps assure

- effective communication between investigators and eligibility workers,
- timely referrals of cases from eligibility worker to investigator,
- speedy resolution of cases,
- feedback on cases, and
- accessibility to eligibility worker's case files.

RECOMMENDATIONS

The States we surveyed showed a savings-to-costs ratio of over $8 to $1 from use of pre-eligibility fraud investigative units. We did not project a nationwide savings because of extreme variations in State AFDC organizations, and a lack of sufficient data to make a statistically valid estimate. Nevertheless, savings by our sample States indicate significant potential for nationwide savings if all States used such units. In addition to potential savings, State officials said the presence of pre-eligibility fraud investigative units in a community helps to deter fraud.

While our inspection focused primarily on AFDC, the pre-eligibility fraud investigative units also produced savings in food stamps, general welfare assistance, and potentially in Medicaid.

We recognize that pre-eligibility fraud investigative units might not be appropriate in every local AFDC office, such as in rural communities. However, the AFDC offices we inspected provide sufficient indication that significant savings can be achieved in a cost effective manner in many locations. State and local governments might well wish to experiment with pre-eligibility fraud investigative units. In fact, some States are interested in forming such units. For example, one State that currently does not have a pre-eligibility fraud investigative unit learned of our study and contacted us to obtain information on the benefits of such units. Therefore, we believe

ACF should actively promote the establishment of pre-eligibility fraud investigative units in those States without such units.

ACF can assist States in developing pre-eligibility fraud investigative units by

- disseminating information on pre-eligibility fraud investigative units to States and localities without such units, and

- offering technical assistance to States interested in establishing pre-eligibility fraud investigative units.

Such activities are compatible with objectives of the Administration's proposed Work and Responsibility Act of 1994. The objective of improving government assistance calls for a central Federal role for interstate coordination of welfare program integrity. The Federal coordination activities should focus on detection and prevention of fraud in income support programs and assuring welfare payment accuracy.

AGENCY COMMENTS

The Assistant Secretary for Children and Families commented on the report. She noted that we combined figures from units reporting only AFDC savings and costs with figures from units reporting AFDC and food stamps savings and costs. ACF also noted that we did not validate data States provided. We agree, and have disclosed our methodology in our report. We combined costs and savings in our calculation because some local AFDC offices could not separate AFDC and food stamp operations. However, we reported that 17 local AFDC offices that could separate AFDC and foodstamps saved almost $9 million in only AFDC. Further, savings reported by the sampled units represented misspent Federal funds regardless of whether the savings came from the AFDC or food stamp program.

ACF reported that they make information available to States about innovative programs, and are developing a catalogue that will make such information more usable for States. We support their efforts, and believe they should include considerable information on pre-eligibility fraud investigative units. We know States have an interest in this information because several States and a consultant from Canada have contacted the OIG for such data upon hearing about our inspection.

Appendix C shows the full text of the comments provided by ACF.

APPENDIX A

SAMPLED LOCAL AFDC OFFICES

LOCAL OFFICE NAME	CITY	STATE
ANCHORAGE	ANCHORAGE	AK
PULASKI (NORTH)	NORTH LITTLE ROCK	AR
PULASKI (SOUTH)	LITTLE ROCK	AR
SEBASTIAN	FT. SMITH	AR
WASHINGTON	FAYETTEVILLE	AR
UNION	EL DORADO	AR
HINDS	JACKSON	MS
HARRISON	GULFPORT	MS
MERCER	TRENTON	NJ
BURLINGTON	MT. HOLLY	NJ
CAMDEN	CAMDEN	NJ
PASSAIC	PATTERSON	NJ
SUFFOLK	HAUPPAUGE	NY
ERIE	BUFFALO	NY
HERKIMER	HERKIMER	NY
ROCKLAND	POMONA	NY
WESTCHESTER	WHITE PLAINS	NY
HAMILTON	CINCINNATI	OH
PIKE	WAVERLY	OH
BUTLER	HAMILTON	OH
ROSS	CHILLOCOTHE	OH
PHILADELPHIA	PHILADELPHIA	PA
ALLEGHENY (SOUTH)	PITTSBURGH	PA
ALLEGHENY (EAST)	PITTSBURGH	PA
BUCKS	BRISTOL	PA

LOCAL OFFICE NAME	CITY	STATE
DAUPHIN	HARRISBURG	PA
MONTGOMERY	NORRISTOWN	PA
MINNEHAHA	SIOUX FALLS	SD
PENNINGTON	RAPID CITY	SD
NEWPORT NEWS	NEWPORT NEWS	VA
BRUNSWICK	LAWRENCEVILLE	VA
CHARLOTTE	CHARLOTTE COURTHOUSE	VA
HALIFAX	HALIFAX	VA
YORK	YORKTOWN	VA
DANE	MADISON	WI
SHEBOYGAN	SHEBOYGAN	WI
KENOSHA	KENOSHA	WI
ST. CROIX	NEW RICHMOND	WI
RICHLAND	RICHLAND CENTER	WI

APPENDIX B

METHODOLOGY FOR CALCULATING SAVINGS AND COMPUTING COST BENEFITS

To determine effectiveness of pre-eligibility fraud investigative units, we compared their operating costs to the program savings resulting from their investigations. We used costs and savings figures provided by local and State agencies. We did not validate the accuracy of the information they reported.

Generally, selected local and State AFDC offices considered a savings to be the difference between the benefits, if any, an applicant received after an investigation and what the applicant would have received without an investigation. The difference typically represents a one month savings. However, most AFDC recipients receive benefits for more than one month. Therefore, to project the savings, local offices typically multiply the one month savings by the number of months that AFDC recipients usually remain on their rolls.

To illustrate, in 1992 one local office pre-eligibility fraud investigative unit prevented $59,000 in erroneous benefits from being paid. The investigators found 111 applicants had provided incorrect information. Once the correct information was found, the potential benefits for the 111 applicants were either reduced or denied. To determine the potential savings of the investigative unit for the 111 applicants, the local office multiplied the $59,000 by 12 months. The 12 months was based on State records which showed that most AFDC recipients in that State typically receive benefits for at least 12 months. Therefore, the estimated savings was $708,000--the $59,000 monthly savings x 12 months average benefit period.

To compute costs/benefits of pre-eligibility fraud investigative units, we did the following analyses.

First, we determined the monthly savings. In instances where an AFDC office had projected its savings to several months, we reduced the estimate to one month by dividing the reported savings by the number of months used in the projection. For example, if a local office reported 12 months savings of $708,000, we divided by 12 to get a one month savings of $59,000.

$780,000 / 12 = $59,000 Monthly Savings

Second, we projected the monthly savings over a six month period. We used six months for our projection because AFDC cases are usually reviewed every six months to reestablish eligibility. Therefore, if a fraudulent application had been approved, it is possible that the error would have been identified and corrected during the six month review.

$59,000 x 6 = $354,000 Projected Savings

Finally, we computed cost/benefit ratios. We divided projected savings by operating costs. The cost/benefit ratio shows potential savings for every dollar spent on pre-eligibility fraud investigative units. Since most operating costs such as salaries, space, and equipment are fixed, we used annual cost figures provided by local agencies. We realize this procedure may understate the actual expected savings, however we believed a more conservative estimate of savings was appropriate.

$354,000 / $50,000 = $7.08 Cost/benefit Ratio

Our example shows that the pre-eligibility fraud investigative unit saved $7.08 in program funds for every $1.00 of operating costs.

APPENDIX C

ACF COMMENTS

The OIG is aware of ACF Regional Office workplan items to conduct and provide follow-up review of State overpayments, fraud, and other early fraud detection program activities.

We appreciate the opportunity to review and comment on this draft report. If you have any comments or wish to discuss this response further, please contact Robert Laue (401-5040) or Robert Shelbourne (401-5150).

DEPARTMENT OF HEALTH & HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
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Washington, D.C. 20447

IG ___
SAIG ___
PDIG ___
DIG-AS ___
DIG-EI ✓
DIG-OI ___
AIG-CFAA ___
AIG-MP ___
OGC/IG ___
EXSEC ✓
DATE SENT 1/12

DATE: January 11, 1995

TO: June Gibbs Brown
Inspector General

FROM: Mary Jo Bane
Assistant Secretary MJ Bane
for Children & Families

SUBJECT: OIG Draft Report: "AFDC Pre-Eligibility Fraud Investigative Units," OEI-04-91-00101

We have reviewed the OIG draft report on AFDC Pre-Eligibility Fraud Investigative Units and provide the following comments:

- It appears that the data used to develop the weighted average ($8.00 savings for $1.00 of cost) comes from a mix of data - separated AFDC costs from other program costs, as well as non-separated costs that include Medicaid and Food Stamps. With the exception of personal statements by State/local staff as to the effectiveness of pre-eligibility fraud investigative units, the draft report is vague regarding specific data sources. Also, data accuracy was not validated.

- The report recommends that ACF actively promote the establishment of pre-eligibility fraud investigative units by disseminating information about the units and offering technical assistance to States interested in establishing such units. Though not specific to pre-eligibility fraud investigative units, ACF has made and continues to make such information available to the States. One example is an issuance of an Information Memorandum regarding Minnesota's "Fraud Prevention Program," demonstrating effective methods for cutting red-tape and empowering employees to obtain results. In addition, ACF is in the process of developing a system we refer to as SWAP (Sharing Workable Achievements and Practices) to provide States with an up-to-date, easy-to-use, catalogue of information that will enable States to develop contacts with other State agencies who have undertaken innovative program improvements and/or procedures. These would not be the usual "best practices." The SWAP system will include operational processes States have implemented that have time/dollar savings, as well as add to the effectiveness of AFDC program administration.

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