

# Fraud Made Easier: A Study of Fraud Prevention and Eligibility Screening of CALWORKS Recipients

## 1. SUMMARY

Orange County's Social Services Agency (SSA) won the plaudits of the California State Auditor in 2008, for operating one of the most successful welfare fraud detection programs in the state, saving an estimated \$1.82 for every dollar spent on finding fraud at the intake level.<sup>1</sup>

Despite this laudatory record, SSA cut \$1 million in February 2009 from its fraud detection budget, and another \$1 million in July, for a total of \$2 million. This was part of overall SSA budget reductions caused by a funding shortfall. As a result, the welfare fraud investigation staff was reduced 34 %, eliminating 15 highly experienced investigator positions.

In the months following the layoffs, the number of fraud referrals declined by 33% and the amount of fraud found dropped by 30% resulting in an estimated \$9.6 million in fraudulent payments during the last six months of 2009.

Needy California families that meet eligibility standards receive cash and services from the State's CalWORKS welfare program. In Orange County, CalWORKS is operated by SSA, which determines whether needy families will receive money each month to help pay for housing, food and other necessities. These funds come from the Temporary Assistance for Needy Families (TANF) federal block grant administered by the County. A critical part of this program is fraud detection and prevention.

The State Auditor's November 2009 report praised Orange County for operating one of the most successful welfare fraud detection programs in the state in 2008. The Auditor said that Social Services Agency had achieved the best use of fraud investigation staff in compliance with state guidelines.

<sup>1</sup>California State Audit Report November, 2009 for Calendar Year 2008

## Abbreviations

CalWIN	California shared computer program for checking eligibility information
CalWORKS	California Work Opportunity and Responsibility for kids
CDSS	California Department of Social Services.
DA-PAD	District Attorney – Public Assistance Division
DSS	Department of Social Services.
SFIS	State Finger Printing Imaging System
SSA	Social Services Agency
TANF	Temporary Assistance for Needy Families

But the recession that began in 2008 negatively impacted the county budget: all departments were asked to trim their budgets, and SSA was one of them. During this period, SSA cut only 3% of its eligibility and intake staff, although the number of fraud detection personnel was slashed 34%. There are plans to restore eligibility and intake staff to more than their former levels but to continue the reduced level of fraud investigation personnel.

Social Services Agency's primary emphasis is the disbursement of grant funds, while fraud detection and prevention receive limited priority.

With the reduction of staff because of budget cuts, Social Services Agency's intake social workers were assigned to the task of deciding whether to refer cases of suspected fraud to the district attorney for investigation. Even after being informed that Social Services Agency would put greater emphasis on fraud detection at the intake level, the Grand Jury found no evidence that the number of fraud investigators was being restored to previous levels or that the elimination of mandatory referrals was being reversed or a replacement process was put in place.

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Based on its study, the findings of the During this period, Social Services Agency) 2009-2010 Orange County Grand Jury include:

- The Social Services Agency has performed no meaningful analyses to determine the cost effectiveness of its efforts to detect and deter fraud in the CalWORKS and food stamp programs.
- No evidence has been found of regular, systematic fraud detection training of Social Services Agency employees after their initial training.
- There is no reference to fraud prevention in the mission statement or vision of the Social Services Agency.
- The staffing reduction and changes in the investigation process resulted in an estimated \$9.6 million in fraudulent payments during the last six months of 2009.

## 2. REASON FOR STUDY

The Social Services Agency has a vital role in assuring that all eligible residents of Orange County receive the benefits to which they are entitled. The money disbursed to needy families is money well spent. However, SSA also has a critical responsibility to ensure that these payments are made only to those deserving of the aid who meet all eligibility and grant requirements.

Social Services Agency is performing its function in disbursing benefits; however, it is not controlling the fraudulent aspects of these benefit programs.

The Grand Jury reviewed the welfare fraud detection process with regard to CalWORKS to better understand the effects of the 2009 budget cutbacks and reduced commitment to fraud prevention. The goal of this report is to highlight the issues, limitations and constraints placed on the CalWORKS program with regard to fraud detection and prevention. In section 6 of this report the Grand Jury offers recommendations that could reduce the amount of misspent money, improve a difficult work envi-

ronment and offer some structural alternatives that will prove useful during a period of great financial stress and in the future.

## 3. METHOD OF STUDY

The Grand Jury completed its study through a series of structured interviews with intake staff and welfare fraud investigators at all SSA offices as well as in-depth discussions with the administrative and program leadership of the agency. The Grand Jury also studied the November 2009 report by the State Auditor regarding administration of welfare fraud programs, internal reports and documents issued by Social Services Agency and documentation of the Fraud Investigation Unit of the Orange County District Attorney's Office. Additionally, the Grand Jury reviewed all appropriate state and federal guidelines regarding fraud detection and reports published by prior Orange County Grand Juries.

## 4. BACKGROUND AND FACTS

### 4.1 CalWORKS Program

The California Work Opportunity and Responsibility to Kids (CalWORKS) program was established by the Thompson-Maddy-Ducheny-Ashburn Welfare-to-Work act of 1997 (Assembly Bill AB 1542).<sup>2</sup> CalWORKS is a welfare program that gives cash aid and services to eligible needy California families. The program is intended to provide support to families and care for children while the family participates in welfare-to-work programs. The program serves all 58 counties in the state and is operated locally by county welfare departments. In Orange County this is the Social Services Agency.

If families have little or no cash and need housing, food, utilities, clothing or medical care; they may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance receive money each month to help pay for housing, food and other necessary expenses. These funds come from the Temporary Assistance for Needy Families (TANF) federal block grant that the

<sup>2</sup>CALIFORNIA-DSS-MANUAL-EAS 99-09 page 626

State distributes to the counties.<sup>3</sup> A critical part of this program includes fraud detection and prevention.

## 4.2 Social Services Definition of Fraud

The California Department of Social Services uses these definitions in determining fraud:

Fraud exists when a person, on behalf of himself or others, has:

(1) Knowingly, and with intent to deceive or defraud, made a false statement or representation to obtain benefits, or obtain a continuance or increase of benefits, or avoid a reduction of aid benefits.

(2) Knowingly, and with intent to defraud, failed to disclose a fact, which if disclosed, could have resulted on the denial, reduction or discontinuance of benefits.

(3) Accepted benefits knowing he or/she is not entitled thereto, or accepting any amount of benefits knowing it is greater than the amount to which he/ she is entitled.

(4) For the purpose of obtaining, continuing, or avoiding reduction, or denial of benefits made statements, which he/she did not know to be true with reckless disregard for the truth.<sup>4</sup>

SSA is charged with management of Orange County welfare fraud prevention and detection program. By regulation, this program is structured to help insure that benefit payments are accurate and meet eligibility standards, and that applicants providing fraudulent information are investigated and prosecuted for violation of fraud statutes.<sup>5</sup>

## 4.3 Mission Statement and Business Plan

In Social Services Agency's mission statement and business plan, the Grand Jury noted the absence of any reference to fraud detection, prevention,

<sup>3</sup>CDSS website, "California Work Opportunity and Responsibility to Kids (CalWORKS)"

<sup>4</sup>California-DSS-MANUAL-CFC-98-01 20-003 page 18

prosecution or the role such efforts might play in the overall strategy of the agency. Further investigation and interviews with SSA staff found the agency's purpose was primarily to disburse funds to the needy and that fraud detection was of minor concern.

The Grand Jury found an insignificant role for fraud detection and prevention in the overall philosophy of the agency. Financial aid for eligible needy families is money well spent. These taxpayer funds should be properly guarded. Evidence indicates that many of those receiving aid are doing so fraudulently.

In 2008, the Orange County Social Services Agency disbursed \$8.42 million in cash grants, food stamps and other forms of aid to 43,000 recipients per month. This funding has increased over 2% during the first two quarters of 2009 with growth anticipated at this level well into 2010.

The amount of a family's monthly assistance payment depends on a number of factors, including the number of people who are eligible and the special needs within the family. The income of the family is considered in calculating the amount of cash aid the family receives.<sup>6</sup>

Families on CalWORKS may qualify for other programs and benefits by being on CalWORKS, including food stamps, medical coverage and child support. In each case, applicants must be eligible for the specific aid requested.

## 4.4 State Audit Findings

The California Department of Social Services Audit Report for November 2009 report states that CalWORKS lacks an assessment of cost effectiveness and has missed opportunities to improve antifraud efforts. Although Orange County SSA has taken some steps, the agency has not performed any meaningful analyses to determine cost effectiveness in detecting and deterring fraud in the CalWORKS program. Sufficient steps have not been taken by the

<sup>5</sup> California-DSS-MANUAL-CFC-99-02 20-005.2 page 626

<sup>6</sup>CDSS website, "California Work Opportunity and Responsibility to Kids (CalWORKS)"

# Fraud Made Easier

agency to ensure the accuracy of the data it reports regarding their investigation activities<sup>7</sup>

As noted earlier Social Services Agency) fraud investigation process used in 2008 was among the most successful in the State. Orange County Social Services Agency investigated a higher percentage of CalWORKS applicants than other counties. Orange County saved \$1.82 for every dollar spent on early fraud detection on the CalWORKS program.<sup>8</sup> But SSA no longer uses the 2008 process.

In addition, the State Audit determined that early detection was a more efficient way to determine eligibility and prevent fraudulent payments. Orange County's emphasis on detection of fraud through ongoing monitoring of recipients was not as cost effective.

## 4.5 Social Services Agency Reports

The Grand Jury found that SSA does not effectively utilize available statistics and reports to manage the fraud detection program. Most statistics used by SSA are those reported and maintained by the District Attorney's office. Without effective use of records, it is impossible to determine totals of suspected or confirmed fraud.

## 4.6 Elimination of Mandatory Fraud Referral Categories

In 2009 due to budget shortfalls, SSA dramatically reduced its support for welfare fraud and detection. The number of District Attorney-Public Assistance Division (DA-PAD) contract fraud investigators was reduced from 44 to 29. To compensate for the reduction in investigative staff, Social Services Agency eliminated all categories of mandatory referrals for fraud investigation, including Child Only/Unaided Adult, Welfare to Work Sanctions, Fleeing Felons and State Finger Printing Imaging System (SFIS).

*Child Only/Unaided Adult* – where children are eligible but not the parents for the following;

<sup>7</sup>California State Audit Report 2009-101 page 29

<sup>8</sup>California State Audit Report 2009-101 page 57 and 24

Non-parental care givers cases, Non-qualified immigrant cases, Safety Net Cases (cases exceeding 60 months of assistance), Sanctioned Cases (do not participate in welfare to work), SSI Cases (receiving SSI Benefits which disqualifies the parents)

*Welfare to Work Sanctions* -Sanctioned by welfare to work program

*Fleeing Felons* – Persons with outstanding felony warrants

*(SFIS) State Finger Printing Imaging System* – Finger prints do not match name on file.

*Fraud Alerts from previous applications investigations*

In addition, Fraud Alerts are no longer mandatory.<sup>9</sup> Fraud Alerts are special indicators that are recorded in the CalWIN system on individuals by the investigator based upon previous investigations. The fraud alert warns of potential fraud that may come up in subsequent applications. When processing an application, if a Fraud Alert is present and is within two years of issuance, the intake worker must determine if there are reasonable grounds to suspect fraud. If there are no reasonable grounds to suspect fraud, no referral to the DA-PAD will be made. A note is to be entered in the case comments, stating, "No fraud referral was made because there were no reasonable grounds to suspect fraud."<sup>10</sup>

Social Services Agency (SSA), in an attempt to maintain program integrity with the elimination of the mandatory fraud referrals categories, stipulated that referrals of suspected fraud would be based on the discretion of the intake social worker. Staffs at both intake and ongoing levels were to use their experience in evaluating applications to determine if there should be fraud referrals. The intake worker was given greater responsibility with less time to evaluate and no additional training or staff support.

<sup>9</sup>(11) SSA December 2008 Program Summary 19. Fraud Alert (Update)

<sup>10</sup>FSS Program Summary –January 2009 17 CalWORKS Fraud Referral Policy (Update)

After Social Services Agency eliminated the five categories of applicants from mandatory fraud referral, intake workers reduced the number of cases they referred for investigation of suspected fraud.

The number of intake personnel was reduced. This issue has been addressed with a November 2009 reallocation of the TANF block grant, increasing the number of intake personnel by 20 for a total of 157. This is above the pre-layoff levels. There was no increase in the number of fraud investigators.

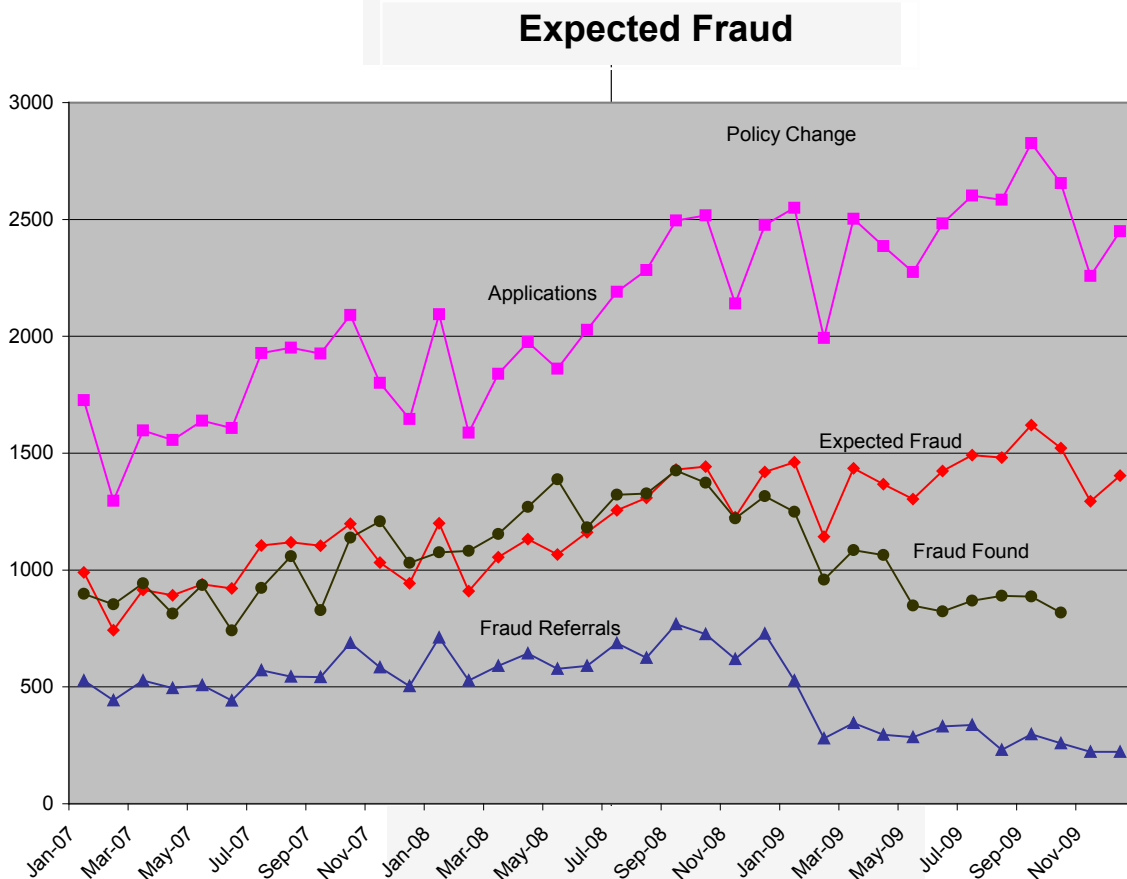
Statistics show that this process was ineffective. Comparing the last six months of 2008 to the same time period of 2009, the number of fraud referrals

went down 33%. Applications for aid increased 9%. Using a state formula from November 2009, the county did not capture an estimated \$9.6 million in fraudulent payments during the last six months of 2009.

Social Services Agency saved almost \$900,000 in operational expenses by eliminating investigators while allowing an estimated \$9.6 million in suspected fraud payments out the door during the last six months of 2009.

## Chart 1

Expected fraud is based on fraud found in previous two years



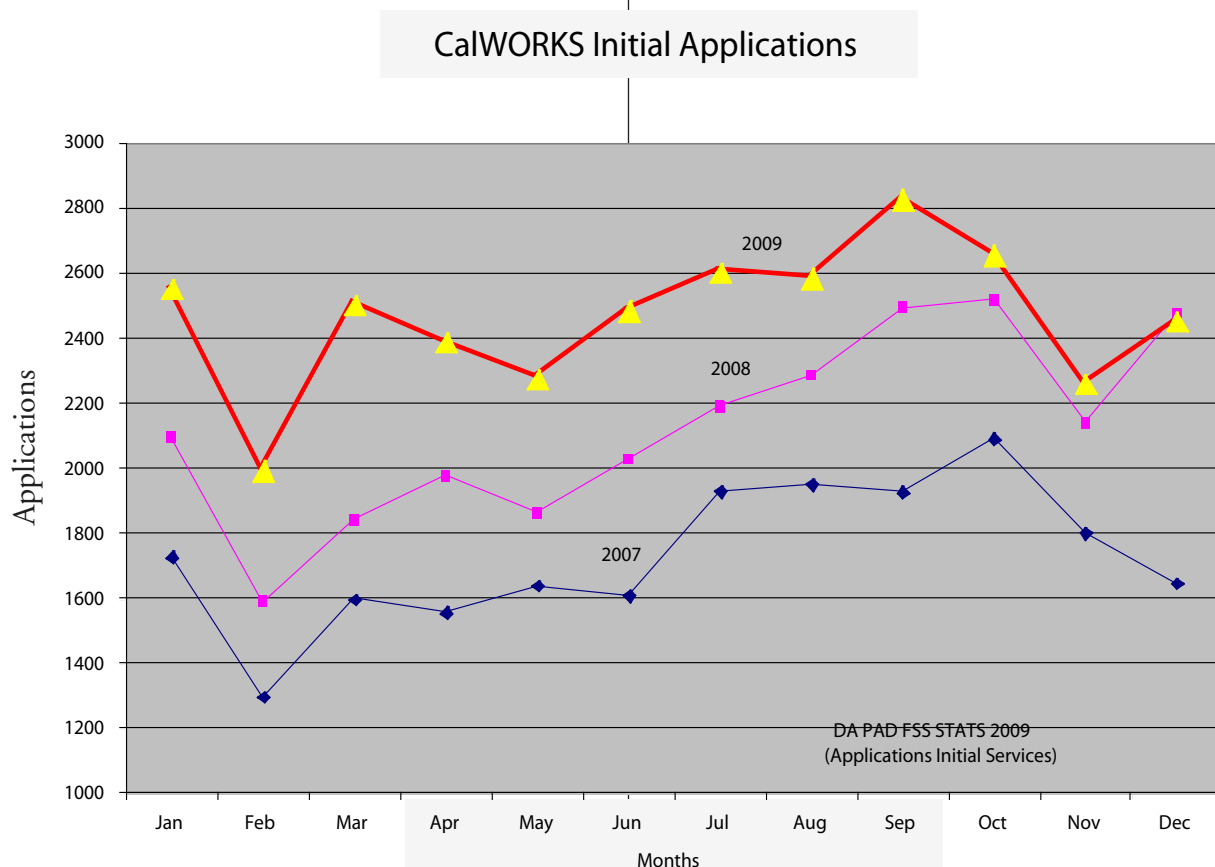
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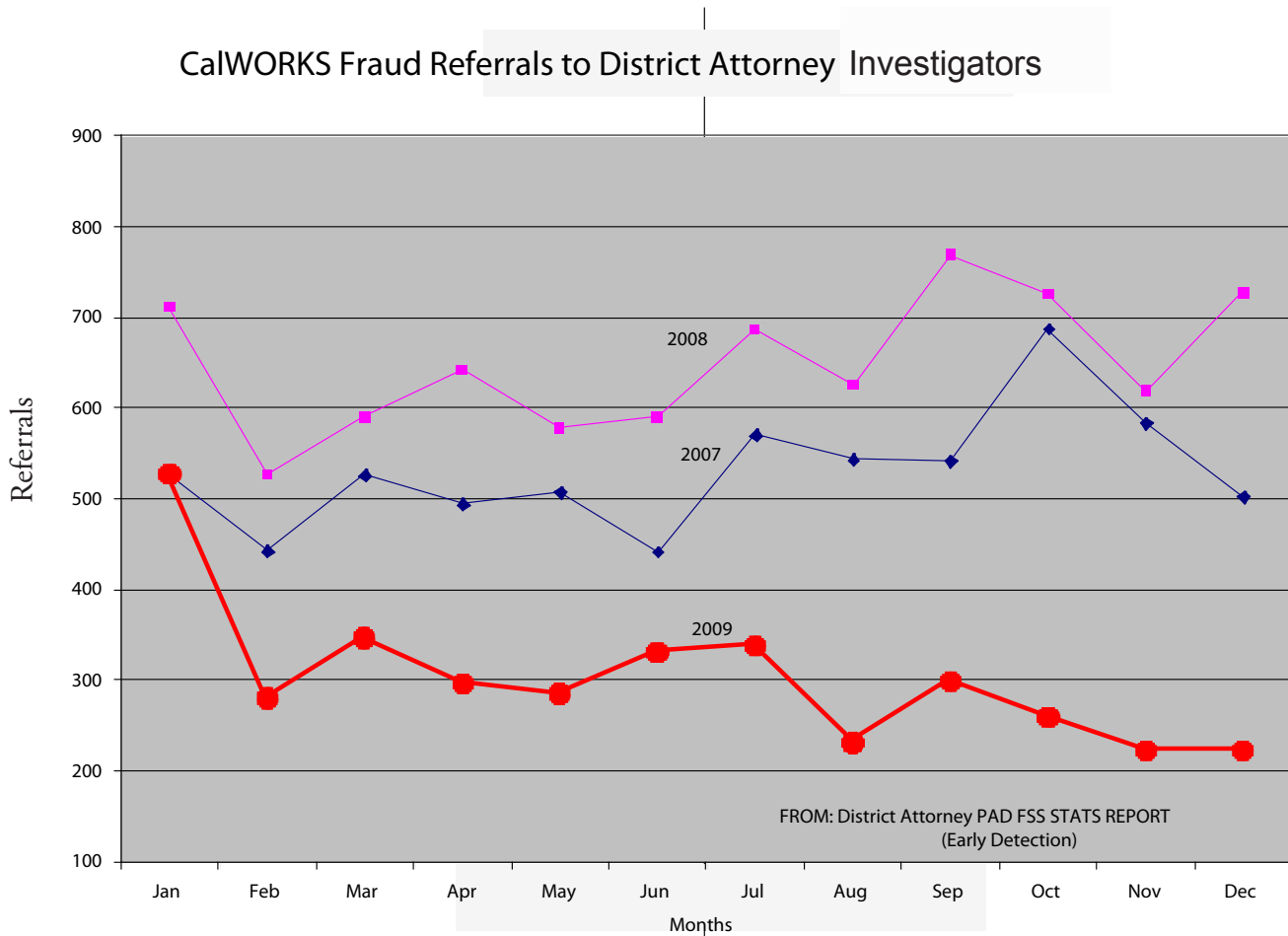
## 4.7 Applications Up, Fraud Referrals Down

Welfare applications and caseloads have increased due in part to the economic downturn in Orange County. CalWORKS applications for assistance are up 20% over the previous year. Statistically, the number of fraud referrals and the amount

of fraud found should increase proportionately with the increase in applications. This has not happened. Social Services Agency has de-emphasized the fraud detection process resulting in undetected fraud and creating opportunities for increased fraudulent behavior.

Chart 2





**Chart 3**

### 4.8 Training

State regulations require counties to provide eight (8) hours of initial fraud training for new employees. In addition four (4) hours of annual refresher training for all program staff and first line supervisors is required. This training must use curricula approved by the DSS.<sup>11</sup> After initial training, new social workers assigned to the welfare intake process receive no additional formal fraud detection training. Fraud detection and prevention updates are

occasionally mentioned during monthly staff meetings. When social workers are hired, they receive a standard six to eight weeks training, of which two to four hours are dedicated to fraud detection.

There is no structured cross training or sharing between social workers and investigators. This limits communication, resulting in misunderstanding and friction between the two key players in the fraud detection process.

<sup>11</sup>California-DSS-MANUAL-CFC-98-01 20-005.24 page 20

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## 4.9 Intake Process

The intake social worker is the primary determiner of applicant eligibility. The reduction in the number of fraud investigators has reduced the essential support for fraud detection. Social workers often are pressured by supervisors to act on an application before the investigation is complete. In most instances, the case is approved and sent to ongoing case technicians to deal with future problems.

The state audit points out that “early fraud detection programs generally are more cost effective than ongoing investigations.”<sup>12</sup> Intake social workers are hampered because they are not authorized to do field investigations. State law requires that sworn officers conduct all field investigations.<sup>13</sup>

## 4.10 Disbursement of Funds

The disbursement of funds is the main priority of the CalWORKS program. SSA managers see fraud detection and prevention as a distraction to this process. The emphasis is on completing cases and not the integrity of the application. Some intake supervisors stated that the reduction in fraud referrals enables intake workers to process cases more quickly. Intake workers do not have to wait for the fraud investigation to be completed before they approve the application. In such situations the potential for fraudulent payments is increased.<sup>14</sup>

## 5. FINDINGS

In accordance with California Penal Code Sections 933 and 933.05, the 2009-2010 Grand Jury requires (or, as noted, requests) responses from each agency affected by the findings presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

Based on its investigation of Fraud Prevention in Orange County, the 2009-2010 Orange County Grand Jury has arrived at seven principal findings, as follows:

<sup>12</sup>California State Audit Report 2009- 101 page21

<sup>13</sup>DSS MANUAL 98-01 Page 30, Fraud and suspected law violations recipient fraud 10-007. 115

<sup>14</sup>Interviews

Social Services, as a department of a local agency, is requested to respond to a finding or recommendation.

- F.1: There is no reference to fraud prevention in the Mission statement or the vision of the Social Services Agency. This lack of emphasis on fraud detection by management results in welfare funds going to ineligible individuals.
- F.2: The Social Services Agency has not performed any meaningful analyses to determine the cost effectiveness of its efforts to detect and deter fraud in the CalWORKS and food stamp programs. The only statistics that are used by the Social Services Agency, other than the number of applications, are those recorded and kept by the District Attorney’s office as required by the state.
- F.3: There is no structured cross-training or sharing between social workers and investigators with regard to the role each plays in the investigative process.
- F.4: There is no evidence of fraud detection training in an organized, periodic fashion that meets the State requirement, beyond the initial orientation training each new employee receives as required by California DSS MANUAL CFC 98 01 20 005 24.
- F.5: The fiduciary responsibility to protect tax funds from abuse should not be mitigated by budget cuts. It is the responsibility of the Social Services Agency to ensure the integrity of the fraud detection and prevention program.
- F.6: Social Services Agency does not effectively utilize statistical records that would assist in management of the program and evaluating employee performance.
- F.7: In the last half of 2009, Social Services Agency cut the fraud detection and prevention function by \$900,000 in staffing, resulting



in an estimated \$9.6 million paid out in fraudulent claims during the last six months of 2009.

*Responses to Findings F1 through F7 are requested from the Orange County Social Services Agency.*

## 6. RECOMMENDATIONS

In accordance with California Penal Code Sections 933 and 933.05, the 2009-2010 Grand Jury requires (or, as noted, requests) responses from each agency affected by the recommendations presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

Based on its investigation of the Social Services Agency in Orange County, the 2009-2010 Orange County Grand Jury makes the following seven (7) recommendations:

- R.1: Social Services Agency should include in its Mission Statement references to fraud detection, prevention, prosecution and the roles such efforts will play in the overall strategy of the agency.
- R.2: Social Services Agency should develop management reporting systems that monitor the performance of the fraud detection and prevention program.
- R.3: Social Services Agency should develop cross training and cross sharing between the Social Services intake workers and the fraud investigators.
- R.4: Social Services Agency should provide annual ongoing fraud detection training in accordance with the California-DSS-MANUAL-CFC-98-01 20-005.24.
- R.5: Social Services Agency should develop a plan that maintains program integrity in fraud detection at the 2008 level or greater.
- R.6: Social Services Agency should better utilize statistical records to assist them in management of the fraud detection and prevention program and evaluation of employee performance.

- R.7: Social Services Agency needs to restore fraud detection staffing to the 2008 level.

*Responses to Recommendation R1 through R7 are requested from the Orange County Social Services Agency.*

## 7. REQUIRED RESPONSES

The California Penal Code specifies the required permissible responses to the findings and recommendations contained in this report. The specific sections are quoted below:

### §933.05

(a) For purposes of Subdivision (b) of Section 933, as to each grand jury finding, the responding person or entity shall indicate one of the following:

- (1) The respondent agrees with the finding.
- (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

(b) For purposes of subdivision (b) of Section 933, as to each grand jury recommendation, the responding person or entity shall report one of the following actions:

- (1) The recommendation has been implemented, with a summary regarding the implemented action.
- (2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.

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(4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.”

## 8. COMMENDATIONS

The Grand Jury extends their appreciation to members of the Social Services Agency and the office of the District Attorney’s Welfare Fraud unit for their assistance and cooperation in the research and development of this report.

## 9. APPENDIX

### *Chart-4*

Fraud referrals submitted to the DA – July through December 2008 to 2009.

### *Chart-5*

Percentage of SSA workers submitting referrals - July through December 2008 to 2009.

### *Chart-6*

Average number of referrals submitted by SSA workers - July through December 2008 to 2009.

### *Chart-7*

Total number of Investigators - July through December 2008 to 2009.

### *Chart-8*

State formulas used to determine cost avoidance dollars saved.

### *Chart-9*

Statistical Summary Cost and Savings; Comparison of cost avoidance to investigator salary and benefits. To show dollars saved per dollar spent.

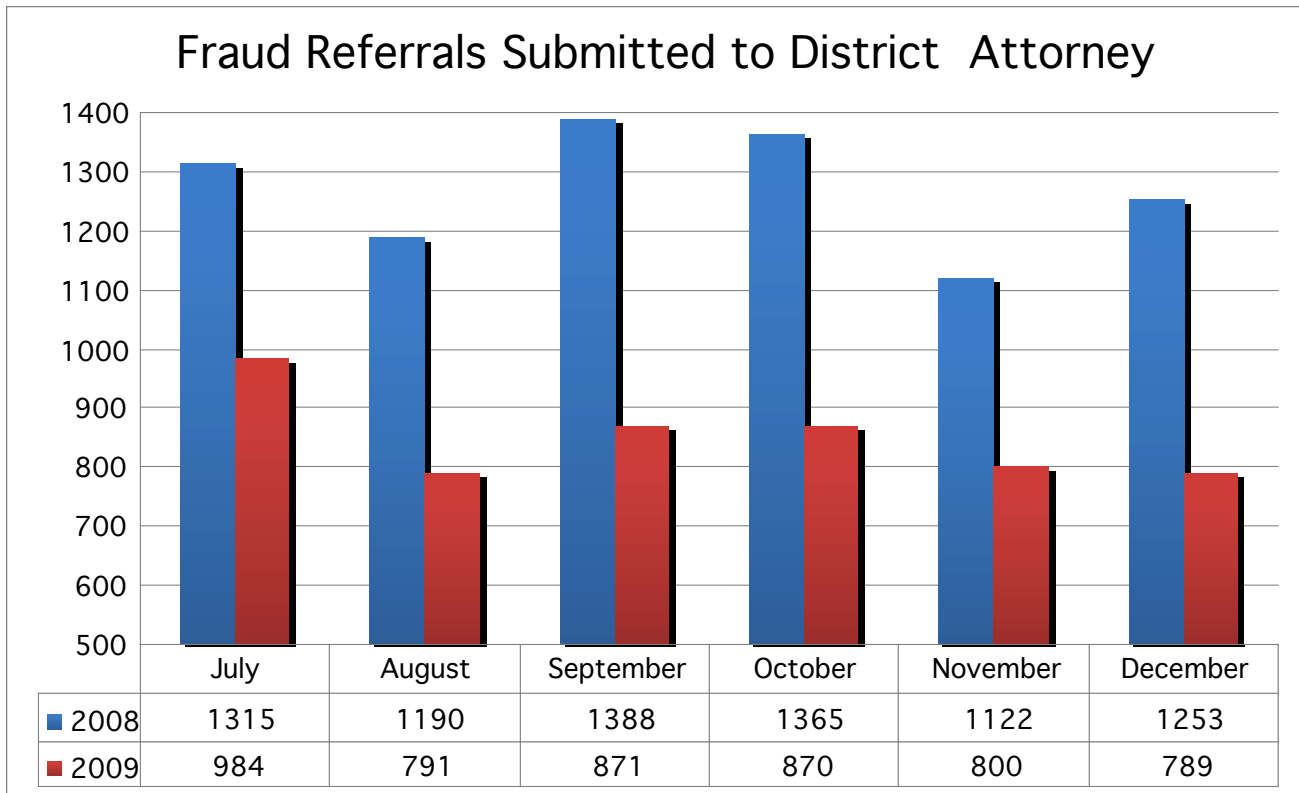


Chart 4

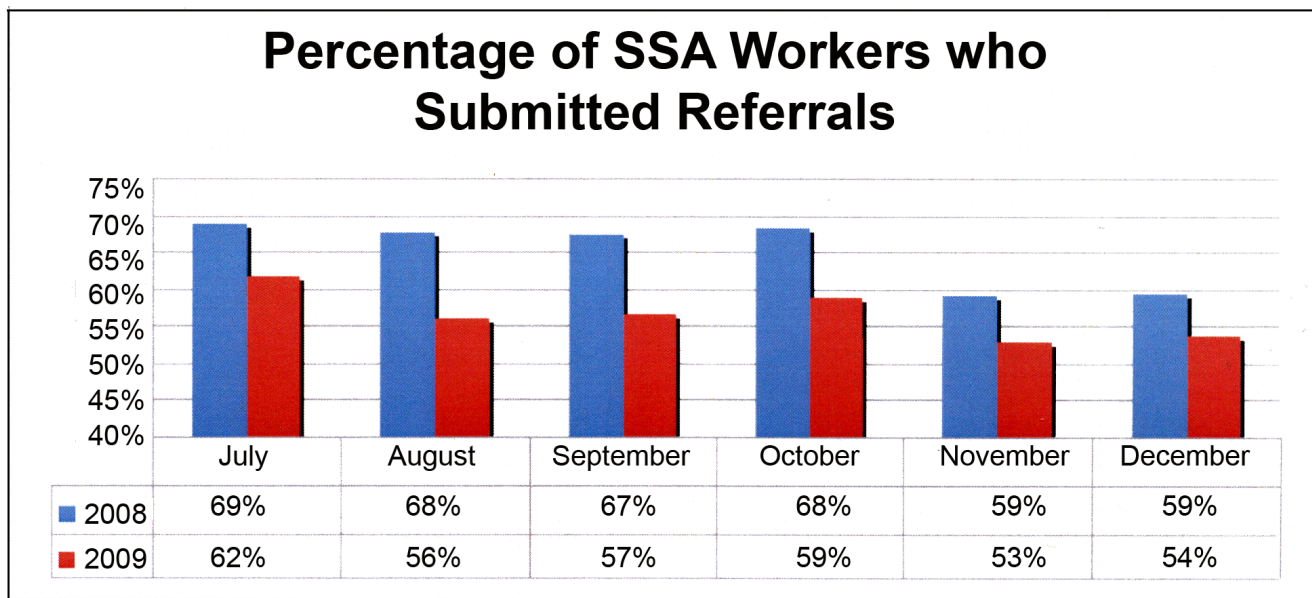


Chart 5

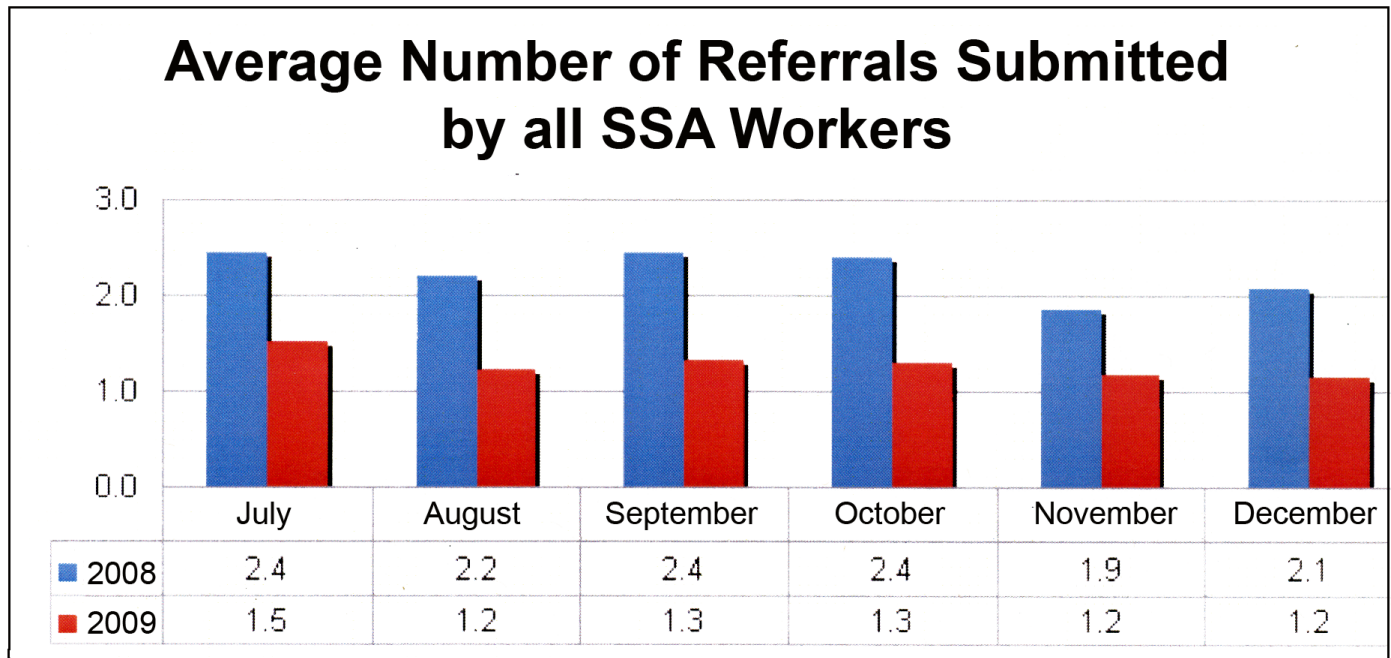


Chart 6

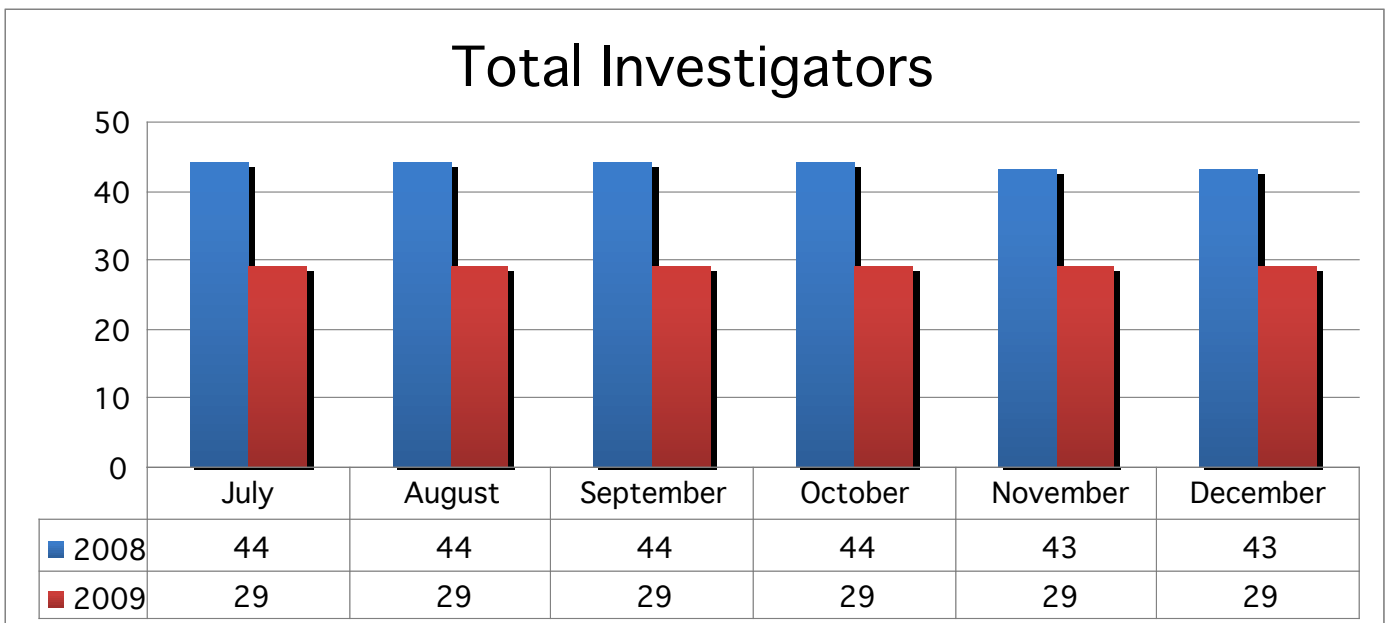


Chart 7

**Cost Avoidance Formulas - Revised 11-30-98**

**Early Action (Ongoing)**

**CalWORKS/PA Food Stamps**

CalWORKS Discontinuances	Total Number x \$550 x 10 months
CalWORKS Reductions	Total Number x \$100 x 10 months
FS Discontinuances	Total Number x \$125 x 10 months
FS Reductions	Total Number x \$25 x 10 months

**NA Food Stamps Only**

Food Stamps Discontinuances	Total Number x \$125 x 5 months
Food Stamps Reductions	Total Number x \$25 x 5 months

**Early Detection/Intake (Initial)**

**CalWORKS/PA Food Stamps**

CalWORKS Denials	Total Number x \$550 x 17 months
CalWORKS Reductions	Total Number x \$100 x 17 months
CalWORKS Discontinuances	Total Number x \$550 x 10 months
FS Denials	Total Number x \$125 x 17 months
FS Reductions	Total Number x \$25 x 17 months
FS Discontinuances	Total Number x \$125 x 10 months

**NA Food Stamps Only**

Food Stamp Denials	Total Number x \$125 x 9 months
Food Stamp Reductions	Total Number x \$25 x 9 months
Food Stamp Discontinuances	Total Number x \$125 x 5 months

**General Relief**

**GR/Food Stamps**

General Relief Denials	Total Number x \$239
Food Stamps	Total Number x \$95 x 9 months

**Food Stamps Only**

Food Stamp Denials	Total Number x \$95 x 9 months
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**General Relief Only**

General Relief Denials	Total Number x \$239
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FS –food stamps      GR – general relief      NA –non –assisted relief (food stamps only)

CHART-8

Chart 8

## Statistical Summary

("Avoidance" is funds not paid when fraud has been found)

Using California State Formulas

	Total Number of Referrals Initial/Ongoing	Total Number of SSA Workers	DA Persons Identified Initial/Ongoing	Total Cost Avoidance Initial/Ongoing	Salary & Benefit Cost	\$ Saved Per \$1 Spent
7/08	1315	541	30	\$3,353,150	\$423,615	\$7.91
8/08	1190	539.5	30	\$3,508,525	\$417,767	\$8.39
9/08	1388	571.5	30	\$3,592,850	\$435,948	\$8.24
10/08	1365	573.5	32	\$3,489,325	* \$654,734	\$5.32
11/08	1122	602.5	31	\$3,027,150	\$420,947	\$7.19
12/08	1253	602.5	29	\$3,072,250	\$414,980	\$7.40
<b>TOTAL</b>	<b>7633</b>	<b>AVG 572</b>	<b>AVG 30</b>	<b>\$20,043,250</b>	<b>\$2,767,991</b>	<b>AVG \$7.41</b>
7/09	984	65.1	23	\$1,844,050	** \$348,029	\$5.29
8/09	791	652.5	23	\$1,779,900	\$279,691	\$6.36
9/09	871	661.5	24	\$1,918,050	\$279,370	\$6.86
10/09	870	670.5	24	\$1,767,200	* \$415,831	\$4.24
11/09	800	680.5	24	\$1,287,250	\$276,300	\$4.65
12/09	789	682.5	24	\$1,809,200	*** \$275,528	\$6.56
<b>TOTAL</b>	<b>5105</b>	<b>AVG 666</b>	<b>AVG 24</b>	<b>\$10,405,650</b>	<b>\$1,874,749</b>	<b>AVG \$5.66</b>
Difference	-2528	94	-7	-\$9,637,600	-\$893,242	-\$1.75

\* Includes three pay periods

\*\* Includes retirement/layoff pay-outs

\*\*\* Includes actual for pay period 26 and estimate for pay period 1

CHART -9