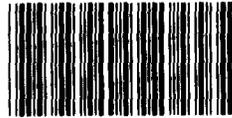




UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION



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NOVEMBER 9, 1981

B-205381

The Honorable Marion S. Barry, Jr.
Mayor of the District of Columbia
Washington, D.C. 20004

Dear Mayor Barry:

Subject: More Vigorous Action Needs to be Taken to Reduce
Erroneous Payments to Recipients of the Aid to
Families With Dependent Children Program
(GGD-82-15)

The Income Maintenance Administration (IMA) in the Department of Human Services (DHS), which is responsible for administering the Aid to Families with Dependent Children (AFDC) Program, has made some improvements in reducing erroneous benefit payments. However, more vigorous action needs to be taken if the error rate is to be reduced to the federally mandated 4-percent level. Also, the District should increase its efforts in developing and prosecuting cases in which recipients fraudulently obtained benefit payments.

For many years the District of Columbia has had an excessive AFDC payment error rate, with a high of 32 percent in 1978 and a current rate of about 11 percent. Many of the causes are continuing problems dating back to 1976 that have been reported by GAO and others.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our review was to assess the Department of Human Services' efforts to reduce erroneous payments. We concentrated our work on the AFDC program because it comprises most of IMA's workload. DHS statistics show that about 56 percent of all households that participate in the Food Stamp Program and 72 percent of persons eligible for Medicaid also receive AFDC benefits. Actions which result in loss of eligibility for AFDC benefits also could result in loss of eligibility for food stamps and Medicaid.

Our review was made during the latter part of 1980 and early part of 1981 at various offices within DHS which have responsibility for administering assistance programs. We also met with officials of the Department of Health and Human Services, the Department of Agriculture, other State and local jurisdictions, and the Offices of the District's Corporation Counsel and the United States Attorney.

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We had originally planned to review a random sample of AFDC case files; however, we reduced our scope when IMA issued an action plan to reduce the error rate after our review was underway. Accordingly, our work included:

- examining the erroneous payment problem, including reviewing selected AFDC case files, quality control reports, and overpayment reports; and
- identifying and evaluating the effectiveness of DHS policies and practices to prevent or reduce the incidence of erroneous payments, including DHS's Special Initiatives Management System.

IMPLEMENTATION OF ERROR RATE
REDUCTION PLAN SHOULD BE EXPEDITED

IMA is aware of the causes of many AFDC erroneous payments and has developed a plan which, if implemented, could significantly reduce the error rate. However, slow progress in implementing the plan will probably make it impossible for IMA to reduce the current 11-percent rate to the federally mandated 4 percent by September 30, 1982.

In September 1980, while our review was in progress, IMA issued an action plan known as the Special Initiatives Management System which set forth objectives and actions necessary to reduce the incidence of erroneous payments to 4 percent. The U.S. Department of Health and Human Services requires that all States and the District of Columbia reduce payment error rates to 4 percent by September 30, 1982, or risk the loss of Federal matching funds on erroneous payments in excess of the 4-percent target. IMA's plan for reducing the AFDC payment error rate includes (1) developing and implementing a workload planning system; (2) recertifying AFDC cases 3 months after application approval; (3) reviewing all AFDC cases not reviewed in the past 12 months; (4) developing and updating policy and procedures manuals; (5) implementing improved training and testing of eligibility workers, supervisors, and clerks; and (6) creating an Office of Management Systems.

IMA's plan has merit and could significantly reduce the error rate. However, at the time we completed our review in April 1981, implementation of the plan had been slow and the target dates for attaining most of the plan's specific goals had been rescheduled for a later time.

IMA's plan contains proposed actions which would subject more AFDC cases to more frequent recertification and review and would also upgrade the quality of these reviews. We support IMA's strategy and believe it should help to reduce the error rate to an acceptable level. Eligibility for AFDC is not

permanent but is often subject to changes. Because of these changes in eligibility, Federal regulations require that redetermination reviews be made every 6 months. The District has not met the 6-month requirement because of staffing limitations, and its less frequent reviews contribute significantly to higher error rates.

According to the latest information available, for the 6-month period ended March 31, 1980, the District erroneously paid about \$6.8 million in AFDC benefits. The District's error rate has declined in the past few years but is still higher than the national average rate of 8.3 percent and has more or less stabilized at about 11 percent in recent months.

CONCLUSIONS

Unless prompt action is taken to increase the number of AFDC cases reviewed, avoidable erroneous payments will continue. Because all AFDC cases are not reviewed every 6 months, as Federal regulations require, eligibility redeterminations are delayed which contribute to the high error rate. We believe IMA's plan has merit and, if implemented, would significantly reduce the District's AFDC error rate.

RECOMMENDATION

The Mayor should require the Director, DHS, to reemphasize to the staff the importance of reducing the error rate to the federally mandated 4 percent and take the necessary action to ensure that the Special Initiatives Management System plan is implemented without further delay.

AGENCY COMMENTS AND OUR EVALUATION

The City Administrator described various actions the District has initiated or already taken to implement its plan for reducing its payment error rate. (See enc. I.) Although some progress has been made since we completed our review, none of the plan's tasks have been completed to the extent that they are fully operational. We continue to be concerned about the delays that have occurred in implementing the plan.

He also suggested that we postpone this report on the payment error reduction system until experience with new Federal and State regulations can be evaluated. We believe that unless the new regulations are implemented quickly and effectively, the District's progress in reducing its error rate could be adversely affected. The plan's tasks of implementing a workload planning system, recertifying and reviewing AFDC cases more frequently, updating procedures manuals, and improving training of eligibility workers are designed to reduce the District's error rate. Their prompt implementation would help to reduce errors caused by lack of familiarity and experience with the new regulations.

Consequently, the District should take necessary action, as we recommended, to expedite the plan's implementation.

The District of Columbia Auditor who is responsible to the City Council strongly concurred with our recommendation and commented that, in addition, a procedure should be initiated in which AFDC staff are rotated so each case worker's records are periodically reviewed by other case workers. (See enc. II.)

COLLECTION AND FRAUD PROSECUTION
EFFORTS ARE NEEDED

The District of Columbia has been lax in collecting overpayments and prosecuting welfare fraud to recoup money erroneously paid to recipients. Strong collection efforts reduce error rates by serving as a deterrent to people who might otherwise try to obtain benefits to which they are not entitled.

Overpayments occur because of administrative errors by DHS workers and because of misunderstanding or willful deception by recipients, i.e., client errors. According to DHS personnel, requests for repayment are only made in cases of client error, and collections are usually only made from persons who voluntarily sign restitution agreements. A major reason for this collection policy is that recipients usually have limited or no income other than the benefits they are receiving, and DHS does not want to place additional hardship on these families.

In fiscal years 1978 through 1980, collections of money erroneously paid to AFDC recipients were practically nonexistent. For example, on the basis of information provided to us by DHS, we calculated that a total of \$50.8 million was erroneously paid out between 1978 and 1980 but only \$140,000 or less than one-half of one percent of that amount was collected.

We found no evidence that welfare or AFDC fraud has been prosecuted in the District since at least 1978. The Office of the Corporation Counsel, the District of Columbia's prosecuting agency, is empowered to prosecute misdemeanor cases which are punishable by fines up to \$1,000 and/or maximum imprisonment of 1 year. Felonies are prosecuted under Federal statutes by the U.S. attorney's office.

DHS officials told us that in March 1980 they stopped sending lists of potential fraud cases to the Corporation Counsel because none were being prosecuted. Attorneys at the Office of the Corporation Counsel said welfare fraud is not prosecuted because they have other priorities, such as housing and zoning violations, fire codes, and traffic cases. They handle 6,000 such cases each year and do not have the personnel to also handle welfare fraud cases.

We were also told that it is difficult to get a conviction for welfare fraud. The recipient's defense is usually that he reported changes in circumstances to his caseworker who then failed to make the necessary changes and notify the recipient of any reduction or termination of benefits. Statements like these are difficult to disprove in court, and judges and juries are often sympathetic to the plight of these individuals.

Corporation Counsel lawyers also told us that they would be reluctant to prosecute on the basis of the information provided to them by DHS because many of the case files are incomplete. Another reason given for not prosecuting was that the dollar amount of most cases is not large enough to warrant the effort. In the few instances where the Corporation Counsel believed the dollar value was high enough and sufficient evidence existed, cases were referred to the U.S. attorney for prosecution as felonies. Corporation Counsel lawyers estimated that 5 to 10 cases were referred to the U.S. attorney each year since 1978.

The U.S. attorney's office did not prosecute any of the cases referred to it since 1978 because it places priority on prosecuting more serious crimes. One prosecutor told us that adequate evidence was not available to take these cases to court as felonies. This official also stated that welfare fraud cases could be prosecuted effectively as misdemeanors by the District Corporation Counsel since court-ordered restitution would probably be the most severe penalty imposed.

Other States prosecute welfare fraud

We contacted social service representatives and investigators in eight States at the city and State levels and were informed that each of these States prosecute welfare fraud to some extent.

All eight States prosecute welfare fraud at the State level, and most also prosecute at the county or city level. The lowest dollar amount required to prosecute varied from no minimum to \$5,000 at the State level. Officials in most of the States we contacted said that convicted individuals are usually ordered to make restitution and can also be fined or imprisoned. One State prosecuted almost 800 cases in a recent year, resulting in a 96 percent conviction rate. Another State had a conviction rate of 99 percent in 1980.

DHS officials and those in several States we contacted believe that publicizing large dollar fraud convictions serves as a deterrent to potential cheaters and saves a substantial amount of money. We found articles publicizing the arrest and indictment of welfare cheaters in Baltimore and New York City newspapers. Both articles listed the recipients' names and addresses,

the crimes for which they were convicted, and the amount of money involved.

CONCLUSIONS

DHS needs a more comprehensive policy for collecting overpayments. DHS should make it a priority to attempt to collect any overpayment in a timely manner when it determines that the recipient has the resources to make restitution.

DHS and the Corporation Counsel need to increase their efforts in developing and prosecuting welfare fraud cases. Overpayments resulting from client error and possible fraud should be referred to the Corporation Counsel for possible prosecution. We also believe that publicizing high dollar fraud convictions serves as a deterrent to potential cheaters.

RECOMMENDATIONS

The Mayor should require the Director, DHS, to:

- Assign a high priority to developing and implementing procedures to immediately collect money erroneously paid to recipients who have the means to make restitution.
- Ascertain from the Office of the District Corporation Counsel the type of information needed to prosecute fraud and direct caseworkers to maintain complete and fully documented evidence.

We also recommend that the Mayor direct the Corporation Counsel to develop and prosecute large dollar welfare fraud cases and publicize the results of those successfully prosecuted.

AGENCY COMMENTS AND OUR EVALUATION

The City Administrator commented that the District intends to pursue overpayments more vigorously but does not intend to prosecute potential fraud cases in which the evidence is ambiguous or the amount is trivial. The Administrator also stated that while the report was accurate for years prior to 1981, it failed to note the efforts made by the Corporation Counsel during 1981. Further, he stated that the recommendations in the report that pertain to the Office of the Corporation Counsel have already been implemented.

DHS had been sending a list of 500 to 600 potential fraud cases every month to the Corporation Counsel until March 1980 when it stopped because of lack of prosecution. In 1981, after our review was initiated, 10 cases were referred to the Corporation Counsel. The Corporation Counsel has only declined action

on one of the 10 referred cases and that was due to low dollar amount. We believe this limited resumption of case referrals and its initial success demonstrate the value of such practices.

While it is unreasonable to expect that most of the 500 to 600 potential fraud cases each month would be prosecutable, it is also unreasonable to expect that the number of cases would dwindle to only 10 per year. The District has taken some positive action including the publicizing of one conviction, but much more remains to be done.

The District of Columbia Auditor agreed with our recommendations. He suggested in addition, however, that the District establish a threshold amount at which prosecution becomes an appropriate remedy even in cases where the cost of prosecution may be more than the amount recovered. He also suggested that procedures be developed to collect amounts mistakenly paid to recipients but that care should be taken to prevent undue hardship on recipients whose records were not properly adjusted when they reported changes that should affect their entitlements.

Section 736(b) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving our audit report, to state in writing to the District Council what has been done to comply with our recommendations and send a copy of the statement to the Congress. Section 442(a) (5) of the same act also requires the Mayor to report, in the District of Columbia's annual budget request to the Congress, on the status of efforts to comply with such recommendations.

We are sending copies of this report to interested congressional committees; the Director, Office of Management and Budget; and the Council of the District of Columbia.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

Enclosures - 2

GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE

OFFICE OF THE CITY ADMINISTRATOR

ELIJAH B. ROGERS
CITY ADMINISTRATOR
1350 E STREET, N.W. - ROOM 507
WASHINGTON, D.C. 20004

SEP 23 1981

Mr. William J. Anderson
Director, General Accounting
Office
441 G Street, N.W.
Room 3866
Washington, D.C. 20548

Dear Mr. Anderson:

On September 4, 1981, you forwarded a copy of a draft report entitled "More Vigorous Action Needs to be Taken to Reduce Erroneous Payments to Recipients of the Aid to Families with Dependent Children Program." Your review, which took place during the latter part of 1980 and the early part of 1981, indicated that the Special Initiative Management Plan developed by the department has merit, and you support the strategy. However, your report expresses doubt that the rate of implementation is sufficient to accomplish the goal of reducing the error rate to the Federally mandated goal of 4% by September 30, 1982.

We are concerned about the issuance of this report at this time for two reasons. First, we disagree with a number of the findings and conclusions of the report, as detailed below. Second, the implementation of new Federal, and consequently state, regulations for the AFDC program on October 1, 1981, will significantly change procedures in program administration. New regulations in respect to monthly reporting, retrospective accounting, and collection of overpayments will certainly impact on error rates. It would seem wiser to postpone this report on a system which is being replaced by new Federal and state mandates, until experience with the new systems can be evaluated.

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Specific points in respect to your findings follow:

- 1) Every task in the Special Initiative Plan is complete except for actual use of the Workload Planning System; formal establishment of the Office of Management Systems; and complete use of the three-and twelve-month redetermination listings. The first profiles from the Workload Planning System will be run at the offices of Maximus, Inc., in McLean, Virginia, by October first. The draft Organization Order for the Office of Management Systems has been sent to the Commissioner of Social Services for review. The three-and twelve-month redetermination listings are not being used because our current data system cannot produce accurate listings of cases by date of last action. The system enhancements that we have undertaken in order to implement the Reagan Administration's sweeping AFDC policy changes will make available a data base far more complete than that we now have, including a full history file on each case, as well as a report writer far more powerful than those available now. We plan to integrate the Workload Planning System with monthly reporting to reduce the total number of monthly reports required and to inquire every month about error-prone factors specific to each case in the error-prone categories.
- 2) A new policy manual, written by the American Public Welfare Association, has been issued and is in use; a new worker handbook, modeled after the one developed for the State of Massachusetts, will be issued shortly.
- 3) The system enhancements we are planning will completely automate grant calculations. We expect that this will almost totally eliminate payment errors and substantially reduce eligibility errors.
- 4) We intend to pursue overpayments more vigorously, but do not intend to attempt recoveries that are not cost-effective or to prosecute potential fraud cases in which the evidence is ambiguous or the amount trivial.
- 5) Your report fails to note the efforts made by the Office of the Corporation Counsel during 1981 to increase the level of prosecutions of welfare fraud violators. Beginning in February, 1981, ten cases

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of suspected welfare fraud have been referred by the Department of Human Services to the Office for review. Four have been initiated by the filing of informations in the Superior Court. Three have been completed successfully, in that convictions have been obtained. The fourth is in trial as of the date this memorandum is written (September 16, 1981). The results of the three cases in which convictions have been obtained are shown on the attached Welfare Fraud Status Sheet for August, 1981.

Two of the referred cases are being actively investigated at this time. One has been declined because of the relatively low amount of the overpayment involved. Three other cases are being referred to the United States Attorney's Office for felony prosecution because the defendants now live outside of the District of Columbia, and D.C. Superior Court misdemeanor arrest warrants cannot be executed outside the District. D.C. Code § 23-563(b) (1973). Because the Office of the Corporation Counsel has jurisdiction to prosecute only misdemeanor welfare fraud cases pursuant to D.C. Code § 3-216(a) (1973), it has no effective means for bringing defendants before the Superior Court if those defendants do not live or work within the District.

It is true that for several years the Office of the Corporation Counsel handled few if any welfare fraud cases. This was due to a number of factors including (1) the Law Enforcement Section of the Office has a yearly caseload of approximately 10,000 cases, and, during the period in question, had an attorney staff ranging from a low of six to a high of eleven; (2) welfare fraud cases are extremely difficult to prepare because they depend for the most part on accumulation of difficult-to-obtain records; (3) defenses such as a defendant's allegation that she reported a change in circumstance to the Department of Human Services, but that for some reason no recordation of that report was made, are extremely difficult to disprove; (4) arrest warrants in misdemeanor cases cannot be served on non-resident defendants who can no longer be located in the District of Columbia; and (5) cases referred to the Office for prosecution were for the most part

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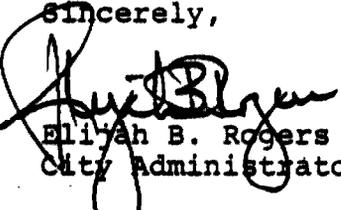
insufficiently investigated. Notwithstanding these problems, in early 1981, the Office began a concerted effort to assist in training Department of Human Services investigators in the proper preparation of a welfare fraud case and an effort to prosecute the most serious cases referred.

Moreover, the results of one of the prosecutions have already been reported in a local newspaper thus generating the type of publicity discussed in your report (page 5). See Washington Post article on the McDuffie case, enclosed hereto.

Thus, although the report is accurate for years prior to 1981, in fairness it should point out the efforts that have been initiated during 1981, the successes that have been had to date, and the fact that all the recommendations in the report that pertain to the Office of the Corporation Counsel have already been implemented.

Both Mr. James Buford, of the Department of Human Services, and Mr. Geoffrey M. Alprin, Deputy Corporation Counsel, are available to discuss any further questions you may have.

Sincerely,



Elijah B. Rogers
City Administrator

Enclosure

cc: Judith Rogers
James Buford



OTIS H. TROUPE
DISTRICT OF COLUMBIA AUDITOR
1:82:VJ:jmb

OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR
THE PRESIDENTIAL BUILDING
415 - 12TH STREET, N.W. - ROOM 210
WASHINGTON, D.C. 20004

727-3600

October 2, 1981

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Room 3866
441 G Street, N. W.
Washington, D. C. 20058

Dear Mr. Anderson:

I have reviewed the draft report by GAO entitled "More vigorous action needs to be taken to reduce erroneous payments to recipients of the Aid to Families with Dependent Children Program (GGD-81-103)". The GAO recommendations and our response to those recommendations follow:

GAO Recommendation:

- (1) "The Mayor should require the Director, DHS, to re-emphasize to the staff the importance of reducing the error rate to the federally mandated 4 percent and take the necessary action to ensure that the Special Initiatives Management System plan is implemented without further delay".

D. C. Auditor Comment:

I strongly concur with the recommendation cited above. The City cannot afford to risk the loss of Federal matching funds due to erroneous payments in excess of the 4 percent target. This will happen if error rates are not reduced to 4 percent by September 30, 1982. This should be emphatically communicated to the staff personnel who work on AFDC cases. Also, I believe DHS officials should institute a procedure in which AFDC staff personnel are rotated so that each case workers' records are periodically reviewed by other case workers.

GAO Recommendation:

The second set of recommendations are that:

- (2) "The Mayor should require the Director, DHS, to assign a high priority to developing and implementing procedures to immediately collect money erroneously paid to recipients".
- (3) "Ascertain from the Office of the District Corporation Counsel the type of information needed to prosecute fraud and direct case workers to maintain complete and fully documented evidence".
- (4) "That the Mayor direct the Corporation Counsel to develop and prosecute large dollar welfare fraud cases and publicize the results of those successfully prosecuted.

D. C. Auditor Comments:

I concur in part with these recommendations. I suggest in addition however, that the Corporation Counsel and DHS establish a threshold amount at which prosecution becomes an appropriate remedy. Such a number could be a range or even a formula depending upon the need for agency flexibility. The threshold amount should recognize several aspects of the strategy implicit in GAO's recommendation.

- if prosecution is to serve as an example to other wrong doers, the threshold amount should be sufficiently low to be applicable to a significant number of the types that DHS seeks to discourage.
- this may result in a situation where the cost of these prosecutions are disproportionate to the amount of anticipated recoveries. If this occurs, DHS must recognize such a budgetary reality and be prepared to subsidize, perhaps from its own enforcement budget, this prosecutorial strategy.

Procedures should be developed immediately to collect amounts mistakenly paid to recipients. Care should be taken, however, to ensure that an undue hardship is not imposed on those recipients who have properly contacted the Department of changes which would affect their entitlement but whose records have been erroneously adjusted.

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DHS should require that recipients report all changes to case workers either in person or by certified letter so that adequate written records can be maintained. Any changes reported orally or by telephone or other means should not be accepted.

Sincerely,



Otis H. Troupe
District of Columbia Auditor

cc: Veronica Johnson
Chairman Arrington Dixon
Councilmembers
Elijah B. Rogers, City Administrator