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March 14, 2006

TO: Each Supervisor

FROM: Bryce Yokomizo, Director

SUBJECT: BOARD OF SUPERVISORS: MOTION (SYN 71B – JANUARY 31, 2006) REGARDING CHILD CARE FRAUD

This is in response to a Board Motion of January 31, 2006, instructing our Department to report on welfare fraud and the recommendations of the DPSS Internal Security Taskforce.

As required by state regulations, DPSS maintains a special investigation unit, the Welfare Fraud Prevention and Investigations (WFP&I) Section which investigates allegations of welfare fraud including fraud in the CalWORKs, General Relief, and Food Stamp Programs, as well as the Stage 1 Child Care Program. DPSS has approximately 200 investigative staff working welfare fraud cases. These investigators have limited peace officer status, are unarmed, and do not perform arrests or searches of private residences.

Welfare cheaters are often involved in other crimes, therefore, since July 1977, our Department has maintained an Interagency Agreement with the District Attorney (DA) for a Welfare Fraud Investigation Unit. The full peace officer status of the DA Investigators empowers them to engage in search, seizure, and arrest activities that significantly enhance the Department's welfare fraud investigation program. DA Investigators are trained to investigate crimes involving serious offenses and suspects who may have a prior record of violent crimes. These investigations are the most aggravated fraud situations, such as welfare cases involving links to multiple aid, forgery, organized crime, and conspiracy groups. Together, DPSS and the DA are equipped to investigate all welfare fraud offenses.

SYSTEMS FOR DETECTING FRAUD

DPSS has implemented numerous activities to target, identify, investigate, and prosecute welfare fraud. Various computer matches including the Income and Eligibility Verification System (IEVS), the Automated Fingerprint Imaging Reporting and Match (AFIRM) system, and the Welfare Fraud Linkage Analysis Database System (WFLADS) have been implemented.

IEVS, the umbrella term used for all income matching systems that assist in eligibility determination for applicants and recipients of CalWORKs and Food Stamp benefits, includes wage and asset matches, the fleeing felon match, and matches to persons receiving other types of assistance benefits such as SSI.

AFIRM matches the fingerprint image of applicants for General Relief, AFDC/CalWORKs, and Food Stamps against the fingerprint images of recipients already aided in Los Angeles County. AFIRM was successful in reducing the number of multiple aid applications for Food Stamps and General Relief and virtually eliminated multiple aid fraud in the AFDC/CalWORKs program. As a result of Los Angeles County's success with AFIRM, the state implemented the Statewide Fingerprint Imaging System (SFIS) in 2001. SFIS replaced AFIRM and provides fingerprints of applicants to be matched against the fingerprint records for CalWORKs, Food Stamp and General Relief recipients in all 58 California counties.

DPSS also implemented and maintains the Central Fraud Reporting Line (CFRL) and contracts with WeTip, Inc., to provide a 24 hour hotline for the public to anonymously report suspected welfare fraud. Our Department also implemented a reward program which allows callers on either hotline to receive a reward for information which leads to the identification of welfare fraud. This program has been very successful in identifying fraud not detectable by other methods. Since the implementation of WeTip in March 1988, $65 million in fraud overpayments have been identified through referrals received from the WeTip and CFRL hotlines.

WFLADS was developed to assist in the early detection of fraud at intake and to facilitate the investigation of fraud in approved cases. WFLADS is currently in the process of being enhanced and will have the following capabilities:

- Import and store data from various DPSS computer systems for the purpose of detecting potential fraud;
- Import available data files from other government agencies to compare with information provided to DPSS by applicants/participants;
- Identify inconsistencies in welfare case information;
- Identify suspicious links between cases;
- Monitor fraud patterns by applying specific information from known fraud cases to the existing approved caseload;

In 1999, DPSS implemented a Home Interview Program (HIP). HIP Workers complete a home visit to verify residence, note the well being of the children, explain the program requirements, identify the applicant's needs, and provide information on available services. In addition, HIP Workers look for indicators that may be inconsistent with the information provided by the applicant.

EARLY FRAUD DETECTION/PREVENTION

In 1991, DPSS implemented the Early Fraud Detection/Prevention (EFD/P) Program. EFD/P stations Welfare Fraud Investigators in district offices to immediately investigate referrals made directly by Eligibility staff for suspected fraud at application. The idea is to stop fraud at the front door before fraudulent benefits are even issued. As a result of the success of EFD/P program, the program was expanded to include Food Stamp referrals for suspected fraud on approved cases when current eligibility is in question.

Approximately 84 of WFP&I investigative staff are assigned to the EFD/P program. DPSS uses Cost Avoidance, the estimated amount of money saved when fraud is identified prior to the issuance of benefits, to measure the success of the EFD/P program. In FY 04/05, $50,002,119 in Cost Avoidance was identified as a result of EFD/P investigations.

In 2001, fraud referrals made by HIP Workers were added and a Child Care Early Intervention Program, which allows Alternate Payment Providers and GAIN staff to make Child Care fraud referrals directly to EFD/P investigators, was added in 2005.

DETECTED FRAUD

For fiscal year 2004/05, $1,397,296,367 in CalWORKs, General Relief, Refugee Cash Assistance (RCA), and Stage 1 Child Care benefits (excludes Food Stamp benefits) were issued by our Department. Fraudulent overpayments detected during this period totaled $10,021,820, 0.7% of the total benefits issued.

During the same period, a total of $7,489,563 in cash overpayments and Food Stamp over-issuances was recouped through restitution payments, grant adjustments, and collections by the Treasurer and Tax Collector.

CHILD CARE FRAUD

The CalWORKs Child Care Program is administered in three stages. Stage 1 is funded by the California Department of Social Services and administered by DPSS. It begins with a family's entry in the CalWORKs Program and ends after 6 months or when the family's situation is stable, and there is a slot available in Stage 2 or 3. Allegations of fraud in Stage 1 are investigated by DPSS Welfare Fraud Investigators and/or DA Investigators.

The California Department of Education (CDE) administers Stage 2 and 3 Child Care under contracts with Alternative Payment Providers agencies. Stage 2 begins after 6 months or after a participant's work activity has stabilized and the family is transitioning off aid. Participants may continue to receive Stage 2 for up to 2 years after they are no longer eligible for aid. Stage 3 begins when a funded space is available and the participant has received 24 months of child care after transitioning off aid. DPSS and the DA do not receive funds from CDE for the investigation of suspected Child Care fraud. CDE is not a law enforcement agency and does not have personnel to conduct fraud investigations.

In fiscal year 2004/05, Stage I Child Care Program expenditures totaled $121,600,000 (34%). Stage II Child Care expenditures totaled $142,100,000 (40%). Stage III Child Care expenditures totaled $93,800,000 (26%). Child Care overpayments detected during this period totaled $2,024,039 (1.6%) of the total Stage I Child Care benefits issued.

During the last two years, we've seen a significant increase in the number of referrals for investigation of Child Care fraud. Currently our Department has approximately 804 Child Care fraud referrals under investigation assigned to 12 full time Welfare Fraud Investigators and 2 full time Supervising Welfare Fraud Investigators. In addition, to address the increase in Child Care fraud referrals our Department implemented an enhanced Child Care Early Fraud Intervention & Prevention plan to prevent and deter fraud in this program. This plan includes WFP&I staff to conduct "site checks" on questionable providers and/or employers to validate legitimacy before Child Care services are approved. In addition, "site checks" will be conducted on active Child Care cases. Further, we work closely with the DA's Investigation and Prosecution Sections and refer complex Child Care fraud investigations, such as multiple aid and conspiracy groups, to the DA Investigators who aggressively investigate and prosecute these cases.

One of the common methods of Child Care fraud we've encountered involves collusion between a welfare participant and Child Care provider giving false employment verification to DPSS to ensure the participant's eligibility to Child Care benefits. Child Care Payments after the split with the alleged provider are usually much higher than the participant's regular grant. In other words, after the mandatory deductions and work expenses are deducted from the participant's earnings the reduction in the amount of the participant's grant is far less than the participant's half of the Child Care payment. This makes it more financially lucrative and attractive for participants to commit fraud.

On January 26, 2006, sixteen (16) persons were charged with welfare fraud related crimes. The estimated loss was **$1,077,816** (CalWORKs $291,300, Food Stamps $127,291, Medi-Cal $119,995, Child Care $539,230, Stage I $138,377 and Stage II $400,853).

The referrals were provided by the Alternate Payment Provider agency and the Housing Authority. The suspects used the following methods to perpetrate the fraud:

- Failed to report the father of the children was residing in the home.
- Submitted false documentation for employment or training.
- Failed to report or under-reported earnings.
- Failed to report ownership of a business.
- Failed to report real and/or personal property, including jewelry, cash, vehicles, bank accounts, and money in foreign accounts.

On February 23, 2006, fourteen (14) persons were charged with welfare fraud related crimes. The total estimated loss was **$796,578.00** (CalWORKs $250,117, Food Stamps $126,797, Medi-Cal $106,219, Section 8 Housing $138,341, and Child Care $112,349).

The referrals were provided by the Alternate Payment Provider agency, Housing Authority and Welfare Fraud Section.

The suspects used the following methods to perpetrate the fraud:

- Failed to report the father of the children was residing in the home.
- Submitted false documentation for employment or training.
- Failed to report or under-reported earnings.
- Failed to report ownership of a business.
- Failed to report real and/or personal property, including jewelry, cash, vehicles, bank accounts, and money in foreign accounts.

INTERNAL SECURITY TASKFORCE

The Internal Security Taskforce (ISTF) was established in 1999, to identify and develop activities for the detection and prevention of fraud in all programs. ISTF is comprised of various DPSS sections, the District Attorney, and Auditor-Controller. ISTF receives and evaluates input from the Civil Grand Jury, Alternative Payment Providers, Child Care Alliance, and other organizations and agencies. Some of the ISTF recommendations implemented the Department are:

- Quarterly updates by DPSS Internal Affairs (IA) on employees investigated for possible internal fraud or other illegal activities, including persons investigated by the District Attorney's Public Integrity Unit.
- A Program Integrity Compliance Officer (PICO) is assigned to each district office to assist the Director in routinely reviewing and monitoring reports. Security issues are added to the PICO checklist as they are identified. In 2001 the program was expanded to include PICOs in GAIN district offices.
- Release a list of "Best Practices" aimed at helping Eligibility staff to identify potential fraud.

- Release a list of "Best Practices" aimed at helping Eligibility and Alternate Payment Provider staff to identify potential Child Care fraud.
- Implementation of the Computer Assisted Scanning Tracking (CAST) system for scanning periodic reports (QR 7s) into a database maintained by DPSS in order to ensure that they are available for review by WFP&I, District Monitors and IEVS Eligibility Workers.
- Mandated verification of the Eligibility Supervisor and/or Deputy District Director signature on designated budget input documents, and enhanced procedures for maintaining the signature listing, including periodic updates of signature listing for persons authorized to approve benefits.

Child Care fraud is a new and growing area of welfare fraud. Our Department, in collaboration with the District Attorney's office and local Child Care agencies have developed on-going technology advancements, fraud prevention training, Child Care Program administration advancements, and various other activities to fight against the increase in Child Care fraud. We are committed to protect the integrity of the programs we administer to ensure that the truly needy have access to services and programs available to improve the quality of their lives.

BY:mh

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors