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STOP THE SCAM

Stop the Scam

HOW TO PREVENT WELFARE FRAUD IN YOUR STATE

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EXECUTIVE SUMMARY

The cost of welfare fraud and abuse is substantial. Not only do welfare scams result in millions of taxpayer dollars paid out to ineligible, undeserving fraudsters, they also steal limited resources away from truly needy individuals and families. Put simply, welfare fraud is a fiscal and moral crime.

No state is immune. From New York to Nebraska, reviews of states' welfare systems found individuals receiving taxpayer-funded welfare benefits without having their identity, assets, and even residency verified. Other reviews found individuals who no longer qualified for welfare benefits continuing to receive them—including millionaire lottery winners and even individuals who had died years prior.

Welfare scams drain state budgets, put the truly vulnerable at greater risk, and anger voters. But there is a simple solution to stop the scam.

Anti-fraud initiatives that embrace data-matching technology have attracted bipartisan support in states like Illinois and Pennsylvania, and have resulted in hundreds of millions of taxpayer dollars in savings. The three-step solution ensures individuals applying for welfare benefits are who they say they are and eligible to receive benefits; tracks welfare recipients already enrolled in programs to ensure they are still eligible; and prosecutes welfare fraudsters to the full extent of the law to deter future scams and recover funds paid out to perpetrators.

States across the country should look closely at the Stop the Scam solution to fix their welfare programs and guarantee only those who truly qualify and are in need of taxpayers' help will receive it. To do anything less is irresponsible and immoral.

OVERVIEW

Across the nation, government welfare programs are plagued with wasteful spending. The U.S. Government Accountability Office designates Medicaid, states' largest welfare program, as high risk because it is "particularly vulnerable to fraud, waste, abuse and improper payments" and has inadequate oversight to prevent wasteful spending.[1] Indeed, the U.S. Department of Health and Human Services (HHS) reports an improper payment rate of nearly 10 percent.[2]

Other welfare programs have similarly high rates of fraud. Although the federal government does not maintain a national estimate of improper payments in cash assistance programs, state-by-state reviews have identified excessive rates of waste, fraud and abuse. Worse yet, these only account for fraud that is actually identified. Taxpayers are likely paying even more for welfare fraud that continues to go undetected.

Although fraud prevention efforts traditionally focus on provider fraud, states have significant room to improve program integrity to ensure welfare recipients are actually eligible for the benefits they receive.

The federal government estimates that eligibility determination errors account for the vast majority of improper payments made by the Medicaid program.[3] Eligibility errors and insufficient documentation also account for the majority of improper payments for other welfare programs, according to state reviews of those programs. Taxpayers are not the only ones hurt by this welfare fraud. Every dollar spent on individuals who are ineligible for welfare benefits is one less dollar available for the truly needy and most vulnerable—the very people welfare programs were created to help.

Taxpayers' compassion and sacrifice should not be allowed to be abused. The solution is simple: better screening at the front door, periodic checkups of the welfare rolls, and prosecution of those found to be defrauding taxpayers. These three steps help ensure applicants are actually eligible before receiving welfare benefits, that individuals receiving welfare benefits are still eligible, and that those who knowingly defraud taxpayers are prosecuted to the full extent of the law.

Using this three-step approach, states can stop the scam and root out welfare fraud.

ELIGIBILITY ERRORS ARE WIDESPREAD

A number of state and federal audits have revealed just how pervasive these welfare eligibility problems are:

ARKANSAS

In 2014, the Arkansas Department of Human Services removed nearly 5,000 Medicaid expansion enrollees, representing approximately three percent of enrollment, after learning they were ineligible for benefits.[4] The state had not bothered to verify those applicants' eligibility before enrolling them in Medicaid.[5] In fact, some enrollees were receiving both Medicaid and federal ObamaCare subsidies.[6]

An earlier audit found more than 12 percent of individuals in higher-cost Medicaid cases were ineligible for the program.[7] Another 24 percent lacked appropriate documentation to establish eligibility.[8]

ILLINOIS

An Inspector General report released in 2010 found that 34 percent of randomly selected Medicaid files contained eligibility errors.[9] The vast majority were discovered in the areas of income and other basic eligibility requirements, such as residency and household composition.[10]

A subsequent report by the state's Auditor General in 2013 found that the state consistently failed to ensure the program's integrity.[11] Some files were missing evidence that income had ever been verified.[12] For others, state workers did not bother to collect paystubs at all and simply "verified" applicants' wages verbally or through handwritten notes.[13] Other files did not even have evidence the state verified Social Security numbers, citizenship or residency.[14] In fact, some files were missing applications altogether.[15]

Those problems were just for the eligibility checks the state actually performed. The Auditor General's report also noted that between 15 percent and 20 percent of Medicaid cases were overdue for annual determination.[16] The delays for these cases ranged anywhere from three months to more than five years.[17] A follow-up audit of the program identified more than $12 million in improper payments made on behalf of enrollees who had died years earlier.[18]

MINNESOTA

A 2014 legislative audit of the state's Medicaid agency found that the state had not adequately verified eligibility before enrolling applicants into welfare programs.[19] As a result, nearly 17 percent of individuals in the audited sample were ineligible for benefits.[20] Even more cases required additional verification, which the state failed to perform. More than half of the audited files, for example, required additional verification of identity information, including Social Security numbers. Most of those cases remained unresolved.[21]

In other cases, the state did not bother to verify applicants' income at all, enrolling individuals who were ineligible at the time of application.[22] Even though the state had actual income information available through state-operated databases, it did not crosscheck applicants' reported income against that data.[23] By matching applicants to information in those existing state databases, auditors were able to identify several applicants who had under-reported income, in many cases by up to $70,000 per year.[24] In other cases, the state did not perform regular checkups of eligibility, allowing individuals to remain on the program after becoming ineligible due to significant income increases or moving out of state.[25]

NEBRASKA

An audit in 2013 of the Nebraska Health Insurance Premium Payment (HIPP) program—a component of the state's Medicaid program—found that the state lacked appropriate documentation in every reviewed case file, calling into question the entirety of expenditures made under the program.[26] More than three-quarters of the audited cases had received incorrect payments, with auditors identifying several cases of apparent fraud.[27] One individual, for example, received more than $29,000 from the Medicaid program despite being clearly ineligible for the HIPP program.[28] In all, state auditors found that at least a quarter of all audited expenditures were improper.[29]

NEW YORK

A 2006 federal audit found that eight percent of New York's Medicaid payments were made on behalf of individuals who were ineligible, but nevertheless enrolled in the program.[30] Approximately 29 percent of payments were made on behalf of enrollees whose case files did not contain the required documentation supporting their eligibility determinations.[31]

A follow-up audit in 2013 found a significant number of cases for which case files had missing or invalid Social Security numbers, individuals were enrolled in the same program multiple times, or the files lacked any documentation to support the eligibility determination at all.[32]

OHIO

A state and federal review of Ohio's Medicaid spending in 2008 found that nearly 10 percent of Medicaid payments were improper.[33] Nearly all of these improper payments were caused by errors and insufficient documentation in eligibility determinations.[34]

Auditors also found a payment error rate of roughly 20 percent for Ohio's TANF cash assistance program, caused primarily by eligibility and documentation errors.[35] Nearly seven percent of audited payments went to individuals who were ineligible for the TANF program, while more than 13 percent went to individuals whose case files were missing the documentation required to establish eligibility.[36]

THE STOP THE SCAM SOLUTION: EASY AS 1, 2, 3

States can combat these problems with a straightforward process that does a better job of screening at the front door, regularly checks eligibility information of individuals already on welfare, and publicly prosecutes those who knowingly defraud taxpayers.

1) BETTER SCREENING AT THE FRONT DOOR

One of the most important things states can do to improve program integrity is to perform better screening when applicants initially apply for welfare. A number of states accept self-attestation for income, residency, household size, and a variety of other eligibility requirements. Other states continue to approve welfare eligibility even if their own data shows discrepancies with what applicants self-report depending on the size of those differences. Even among those states that regularly check eligibility, verification tools are rarely used in a consistent and comprehensive manner.

States should use enhanced data-matching technology to verify and crosscheck income, residency, identity, employment, citizenship status, and other eligibility criteria for all welfare enrollees and applicants. Independent vendors are now able to utilize dozens of federal, state, and commercial databases in order to verify eligibility information.

If states find discrepancies between information provided by applicants and information in their databases, they can suspend eligibility determinations until those discrepancies are resolved. States can then give

applicants an opportunity to provide sufficient evidence to establish categorical and financial eligibility.

By regularly checking this information and requiring proof of eligibility, states can ensure applicants for taxpayer-funded welfare benefits are who they say they are, and that only applicants who are truly eligible will receive benefits.

2) PERIODIC CHECKUPS

Once the front door is secure, states must take a more proactive role in making sure individuals receiving welfare are still eligible for benefits. They can accomplish this by extending the same data-matching technology to those already on the program and automatically crosschecking that information regularly.

A number of states currently use a "passive" or "administrative" redetermination process, whereby states re-determine eligibility without requiring additional verification that individuals are still eligible to receive the welfare benefits they collect. In many cases, enrollees simply receive a letter telling them that their eligibility will continue until they inform the state they are no longer eligible. Federal law only requires states to perform these checks once a year and does not require any kind of active monitoring of income or other categorical requirements.

Federal data shows that individuals in poverty typically remain there for only a short time. Nearly half of individuals who fall into poverty for at least two months will leave poverty within four months, with the vast majority exiting poverty within a year.[37] The median length of time individuals spend in poverty is just six to seven months.[38] By reducing the amount of time between these periodic checkups, states can catch costly eligibility errors sooner.

Although ObamaCare regulations typically limit states to performing redeterminations only once each year, federal law provides states with a workaround that grants additional authority to begin the redetermination process whenever the state receives information that could have an effect on an individual's eligibility. By utilizing periodic checkups, states will receive this kind of information sooner and will be able to start the redetermination process earlier. States performing these checkups will also be checking far more information, as ObamaCare regulations generally accept self-attestation for eligibility.

When states receive information indicating a change in eligibility through periodic checkups, they can start the official redetermination process for those enrollees to ensure scarce welfare resources go only to the truly needy and not to those scamming the system.

3) PUBLIC PROSECUTION AND OVERSIGHT

States can deter eligibility fraud by publicly prosecuting individuals who knowingly scam the system. All cases of fraud and misrepresentation should be referred to the appropriate authorities for prosecution and benefit recovery. States would be able to use traditional collection tools, including garnishing wages or tax refunds, in order to recover the value of fraudulently-obtained benefits. States should uphold the sacred trust that comes with the collecting and spending of taxpayer dollars by collecting any fraudulent welfare payments and removing individuals from other public programs if they have committed fraud.

State lawmakers should also hold regular oversight hearings to ensure they are receiving regular updates on the progress of these anti-fraud initiatives. This proactive approach allows policymakers to adjust to any challenges in anti-fraud efforts and push for additional reforms as needed.

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Checklist | Best Practices to Stop Welfare Fraud

		BEST PRACTICE	Is My State Doing This?
IDENTITY VERIFICATION	1	Verify and confirm identity of all applicants before granting benefits.	☐
	2	Check a nationwide best-address and driver's license data source to verify individuals are residents of the state.	☐
	3	Check a comprehensive public records database that identifies potential identity fraud or identity theft that can closely associate name, Social Security Number, date of birth, phone and address information.	☐
	4	Check immigration status information maintained by U.S. Citizenship and Immigration Services.	☐
	5	Check death register information maintained by the Social Security Administration.	☐
	6	Check prisoner information maintained by the Social Security Administration.	☐
	7	Check national fleeing felon information maintained by the FBI.	☐
EARNINGS & ASSESSTS VERIFICATION	8	Check for unearned income with the IRS.	☐
	9	Check employer quarterly reports of income and unemployment insurance payments.	☐
	10	Check earned income information maintained by the Social Security Administration.	☐
	11	Check wage reporting and similar information maintained by bordering states.	☐
	12	Check earnings information maintained by the Social Security Administration in its Beneficiary and Earnings Data Exchange (BENDEX).	☐
	13	Check earnings and pension information maintained by the Social Security Administration in its Beneficiary Earnings Exchange Record System (BEERS).	☐
	14	Check employment information maintained by the state.	☐
	15	Check employment information maintained by the U.S. Department of Health and Human Services in its National Directory of New Hires database.	☐
	16	Check a database of all persons who currently hold a license, permit, or certificate from any state agency the cost of which exceeds $500.	☐
	17	Check income and employment information maintained by the state's and the U.S. Department of Health and Human Services' Office of Child Support Enforcement	☐
	18	Check earnings and pension information maintained by the state.	☐
	19	Check a nationwide public records data source of physical asset ownership; such as real property, automobiles, watercraft, aircraft and luxury vehicles, or any other vehicle.	☐
ADDITIONAL BENEFITS VERIFICATION	20	Check public housing payment information maintained by the Department of Housing and Urban Development.	☐
	21	Check child care services information maintained by the state.	☐
	22	Check utility payments information maintained by the state under the Low Income Home Energy Assistance Program.	☐
	23	Check emergency utility payment information maintained by the state or local entities.	☐
	24	Check supplemental security income information maintained by the Social Security Administration in its SSI State Data Exchange (SDX) database.	☐
	25	Check state veterans' benefits information against the federal Public Assistance Reporting Information System (PARIS) database maintained by the U.S. Department of Health and Human Services.	☐
	26	Check any existing real-time database of persons currently receiving benefits in other states, such as the National Accuracy Clearinghouse.	☐

A PROVEN TRACK RECORD

These award-winning reforms have a proven track record in other states of helping ensure taxpayer money is being spent appropriately on welfare benefits.[39] In Pennsylvania and Illinois, welfare agencies use enhanced data-matching technology to verify income, residency, identity, employment, citizenship status, and other criteria for all applicants and existing enrollees.Those found ineligible by this process are kept off or removed from the program. Eligibility is suspended until discrepancies are resolved and suspected cases of fraud are referred for prosecution.

The Pennsylvania Department of Public Welfare (DPW) launched its Enterprise Program Integrity initiative in 2011.[40] In its first 10 months of operation, the state identified more than 160,000 ineligible individuals who were receiving benefits, including individuals who were in prison and even millionaire lottery winners.[41] This resulted in nearly $300 million in taxpayer savings in the first 10 months.[42]

In January 2013, Illinois followed Pennsylvania's lead and began its own program integrity initiative. The state hired an independent third-party vendor to verify income, residency, and other criteria of all new applicants and the state's existing 2.7 million Medicaid enrollees.[43]

During the first year of operation, Illinois' independent vendor identified eligibility errors in half of the cases it had reviewed.[44] A delayed program launch and early contract challenges by the state's public employee unions resulted in the vendor being unable to review all the cases it intended to complete. By the end of the first year, the state had removed roughly 300,000 individuals from the program as a result of the initiative.[45] In the second year, the state removed an additional 400,000 individuals.[46] State officials projected that the enhanced program integrity initiative would save taxpayers $350 million per year.[47] Based on the results of the second year, taxpayers can expect to save between $390 million and $430 million per year, with greater savings accumulating over time as the state moves more enrollees into managed care plans.[48-53]

These reforms are now being expanded to all state-administered welfare programs in Illinois, including Medicaid, food stamps, and cash assistance. By stopping fraud in one program, states are able to prevent related fraud in other programs.

STOP THE SCAM INITIATIVES HAVE BIPARTISAN SUPPORT

These approaches enjoy large bipartisan support. In Illinois, more than 80 percent of members in the House of Representatives and 77 percent of members in the Senate—including large majorities of each party—supported legislation to have an independent vendor strengthen the state's welfare integrity.[54-55]

In Pennsylvania, more than 64 percent of members in the House of Representatives and 70 percent of members of the Senate voted to establish program integrity initiatives.[56-57] Similar bills are pending in other states. In Massachusetts, for example, 23 Republicans and 20 Democrats have proposed implementing a similar program integrity initiative.[58]

Public polling confirms these strategies are popular with voters as well. Nearly 80 percent of likely voters support such measures, compared to just 11 percent who oppose them.[59] This support spans the political spectrum. Roughly 69 percent of Democrats and 87 percent of both Republicans and Independents support enhanced verification measures to root out welfare fraud.[60]

Voters view welfare fraud as a moral problem, where people scam the system at the expense of help for the truly needy.[61] Voters view anti-fraud measures as one of the best ways to protect resources for people who truly need help and for other state priorities.[62] These reforms also help ensure individuals do not stay on welfare any longer than necessary, keeping them from becoming dependent on government or trapped in poverty.[63]

CONCLUSION

With welfare programs often making up states' largest and fastest-growing budget line items, ensuring taxpayer resources are spent only on those actually eligible for benefits is a critical priority. States should take a three-step approach to protect the truly needy from fraudsters syphoning off scarce resources.

First, states need better screening at the front door to ensure those applying for welfare are actually eligible before they are enrolled. Second, states need more frequent checkups to monitor eligibility for those already enrolled in the program so individuals do not stay on welfare longer than they should. Lastly, states need to more comprehensively prosecute those found to be defrauding public programs.

This three-step solution is politically popular and proven to save taxpayers substantial sums. And this Stop the Scam solution makes sure limited resources are going only to those who are truly in need of targeted, temporary help.

Stopping welfare scams must become a priority for all states. Taxpayers and those in honest need of help deserve nothing less.

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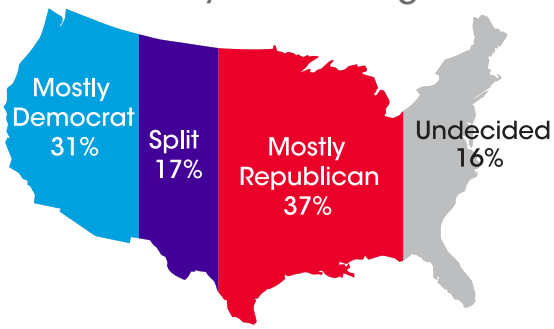
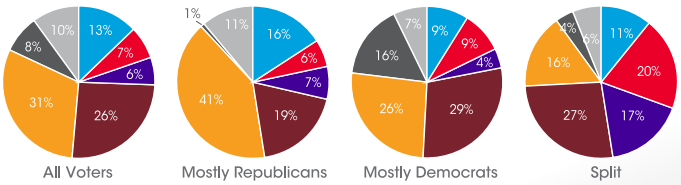
Voters' Impressions of Welfare Fraud and Abuse

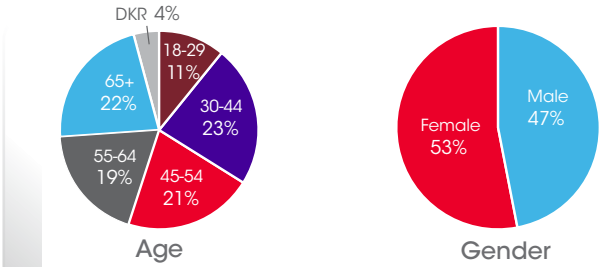
In the upcoming November election, who will you be voting for?



Which of the following statements comes closest to your opinion on why your state should reduce welfare spending by eliminating fraud? If you don't believe welfare fraud to be an issue, please say so.

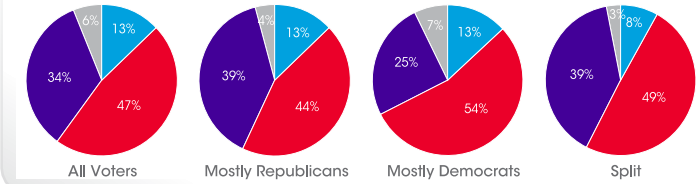
- People shouldn't stay on welfare any longer than necessary, to make sure they don't become dependent on government and trapped in poverty
- Reducing welfare fraud is the best way to protect resources for the people who truly need help
- It's unfair to allow those who are not truly needy to receive government handouts
- Welfare fraud takes scarce tax dollars away from other spending priorities
- Fraud forces government to keep raising our taxes
- Welfare fraud is not a problem
- Don't know / refused



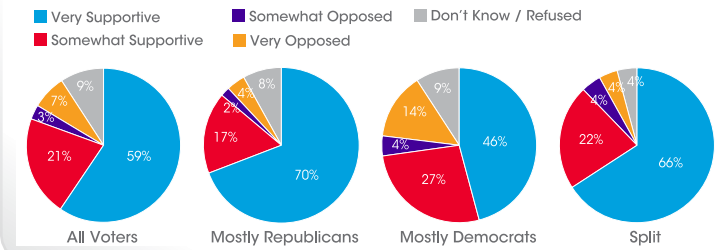


Why do you think welfare fraud and abuse is a problem?

- It is a moral problem where people abuse the system at the expense of help for the truly needy
- It reflects the government's inability to responsibly manage social programs
- It is a fiscal issue straining government budgets and adding additional burdens to taxpayers
- Don't know / refused



Both Illinois and Pennsylvania used an independent audit to check eligibility in real time, reducing fraud and saving taxpayers hundreds of millions of dollars. Would you support elected officials in your state using a similar audit to reduce fraud and abuse of welfare programs in your state?



Results for this poll are based on live telephone interviews conducted among a multi-state sample of 1,500 adults who were likely to vote in the November 2014 general election. Data for this survey research was collected by Advantage, Inc.

Interviews were conducted via a computer-assisted telephone interviewing system by professional interviewers who are extensively trained in interviewing practices, including techniques designed to achieve the highest possible respondent cooperation.

The surveys were conducted October 11-13, 2014.The margin of sampling error is plus or minus 2.53 percentage points.The margin of sampling error may be higher for certain subgroups.

Data is sampled using weighted demographic information from the U.S. Census Bureau's Current Population Survey Voting and Registration Supplement. Demographic information for actual voters in prior Congressional elections was used to construct sample target weights.

The Foundation for Government Accountability paid for all costs associated with this survey.

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