

DOCUMENT RESUME

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**[Duplicate Payments to AFDC Recipients in Pennsylvania].
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(15 pp.).**

**Report to Rep. Robert S. Walker; by Gregory J. Ahart, Director,
Human Resources Div.**

**Issue Area: Federally Sponsored or Assisted Income Security
Programs: Fraud and Abuse (1308).**

Contact: Human Resources Div.

**Budget Function: Income Security: Public Assistance and Other
Income Supplements (604).**

**Organization Concerned: Department of Health, Education, and
Welfare.**

Congressional Relevance: Rep. Robert S. Walker.

Authority: #45 C.F.R. 235. #45 C.F.R. 233.

**Allegations were made that some Aid to Families with
Dependent Children (AFDC) program recipients in Pennsylvania
were obtaining duplicate benefit payments by improperly claiming
nonreceipt of original benefit checks, requesting and obtaining
replacement checks, and then cashing both checks. Two systems
are currently used in Pennsylvania to reduce the incidence of
duplicate AFDC payments through issuance of replacement checks:
the post office box system--in which checks are sent to a post
office box and recipients must appear, properly identify
themselves, and sign a receipt--and the direct delivery
system--in which checks are sent to participating banks where
recipients must appear, identify themselves, and sign a receipt.
Chester and Lancaster Counties are taking action to reduce the
incidence of duplicate payments through adopting the post office
box and direct delivery systems, but replacement checks are
still issued to recipients who receive the checks by mail. A
review of selected AFDC cases in Chester and Lancaster Counties
showed that investigations by the State Treasury Department
occurred long after replacement checks were issued. Regardless
of the amount involved in individual cases, little collection of
duplicate payments is occurring. Collection letters are not
being sent to all debtors on the manually operated claims
system, and many letters sent to debtors on the automated claims
system have been returned because of incorrect addresses. There
are few, if any, duplicate payment cases pending prosecution.
The Secretary of Health, Education, and Welfare should require
monitoring of Pennsylvania's activities in the area of duplicate
payment receipt and should provide the necessary technical
assistance for improvement actions. (HRS)**



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

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B-164031(3)

OCTOBER 20, 1978

The Honorable Robert S. Walker
House of Representatives

Dear Mr. Walker:

Your March 9, 1978, letter requested that we review certain matters related to some Aid to Families with Dependent Children (AFDC) program recipients in Pennsylvania obtaining duplicate benefit payments by improperly claiming nonreceipt of original benefit checks, requesting and obtaining replacement checks, and then cashing both checks. Some of these matters were expanded through a later discussion with your office.

Our work included

- examining into the duplicate payment problem in Chester and Lancaster Counties, including reviewing selected AFDC case files;
- identifying and evaluating the effectiveness of existing State and county policies and practices to prevent or reduce the incidence of the problem;
- ascertaining and evaluating the effectiveness of (1) State and county policies and practices for State investigations of duplicate payment cases and (2) policies and practices for prosecuting such cases and, in the context of Federal requirements, collection of the overpayments at the Philadelphia and Dauphin area claims settlement offices;
- determining actions by the Department of Health, Education, and Welfare (HEW) to assist Pennsylvania in dealing with the problem; and
- inquiring into the potential impact of the direct delivery system for recipient benefits on reducing duplicate benefit payments.

HRD-79-2
(105047)

FINDINGS

Pennsylvania mails semimonthly benefit checks to most of its AFDC recipients. For those claiming nonreceipt of their State checks, counties issue replacement checks. A duplicate payment occurs when a recipient improperly claims nonreceipt of the State check, obtains a replacement, and cashes both.

Two systems are currently used in Pennsylvania to reduce the incidence of duplicate AFDC payments to recipients repeatedly requesting replacement checks.

--The post office box system, under which checks are sent from the State to a post office box under the jurisdiction of the local welfare office and recipients must appear at that office, properly identify themselves, and sign a receipt for their checks.

--The direct delivery system, under which checks are sent from the State to participating banks where recipients must appear, properly identify themselves, and sign a receipt when picking up their checks.

Chester County implemented the post office box system in Coatesville in May 1976 and in West Chester in May 1977. The number of replacement checks issued to recipients on the system as well as to those receiving their checks by mail decreased. Duplicate payments in Chester County, while more numerous than in Lancaster County, represent only a fraction of 1 percent of the volume of original State-issued checks to its recipients.

Lancaster County implemented the direct delivery system in Lancaster in 1974. Since then, no replacement checks have been issued to recipients on the system and those issued to recipients receiving their checks by mail have decreased. Duplicate payments in Lancaster County represent a minute fraction of the volume of original State-issued checks to its recipients.

In August 1978, Chester County implemented the direct delivery system in West Chester and wants to implement it in Coatesville by December 1978 for AFDC recipients who repeatedly request replacement checks whether previously on the post office box system or not. As in

Lancaster County, however, Chester County's implementation will not be countywide so that replacement checks representing duplicate payments may still be provided to AFDC recipients receiving State-issued benefit checks by mail. One of the State's actions designed, in part, to further reduce the incidence of duplicate payments, the development of an automated client information system for all AFDC recipients in Pennsylvania, is not scheduled to be operational until 1980.

Our review of selected AFDC cases in Chester and Lancaster Counties showed that State Treasury Department investigations of the circumstances surrounding the claimed non-receipt of the State-issued checks occurred long after replacement checks were issued. Requests for investigation could not be accounted for and investigations which concluded that a duplicate payment had been made did not always result in the counties' referring the duplicate payments to area claims settlement offices for collection and/or prosecution. The counties were not maintaining control over the investigation of each possible duplicate payment. According to claims office officials, county referrals did not always indicate whether a duplicate payment case was suspected fraud or whether prior duplicate payment referrals on a case had been made.

In accordance with current policy, an initial Treasury investigation does not normally include a handwriting analysis comparing the endorsement on the State-issued check to the recipient's signature on the request for investigation. Little effort is made to contact a second endorser (bank or local merchant) to establish whether the recipient had cashed the check. Consequently, cases need to be reinvestigated when other evidence surfaces that refutes the recipient's initial claim that the endorsing signature on the original check was forged. Treasury also closes cases because recipients cannot be located or are off assistance. When a handwriting analysis has not been made to substantiate receipt of a duplicate payment in such cases, there is no basis to refer them for collection/prosecution action.

Repeated replacement memoranda, designed to encourage investigative priority by claims settlement offices to repeated replacement check recipients, have been ineffective. Based on our sample of cases in Chester County, these memoranda were not prepared by the county in most instances where warranted and, when prepared, were not always complete. The claims offices have not used the memoranda, including

informing their investigators of the more severe cases to be investigated. Effective use of the memoranda requires that claims offices have handwriting analysis expertise, but one claims office we visited did not possess the expertise and the other does not use such recently obtained expertise for that purpose.

Regardless of the amount involved in individual cases, little collection of duplicate payments is occurring. The Philadelphia area claims settlement office has backlogs in critical areas of its collection activity, such as purging uncollectible claims, establishing and pursuing new claims, and establishing better control over referrals received from the counties. Consequently, duplicate payment referrals, those classified as small claims (under \$200 according to informal policy) and those on which the criminal statute of limitations has apparently expired, are deferred for later collection action. Many thousands of such referrals have been merely filed away since 1974, with no claims having been established and no collection action taken. The Philadelphia office does not maintain a separate case file on each recipient for these deferred action referrals, so it cannot determine whether the informal \$200 limit has been exceeded.

Collection letters are not being sent to all debtors on the manually operated claims system; many collection letters sent to debtors on the automated claims system are being returned because of incorrect addresses, with little followup for correction. Many claims are not on the automated system, and both systems contain old claims.

Recoupment of duplicate payments by the counties through reduction of assistance has not occurred because until August 1978 State welfare policy provided that recoupment would always result in undue hardship if the assistance payment is the only resource, even though State law requires that such a determination be made on a case-by-case basis. Basic data on recipients showing available income or resources other than aid from which to attempt recoupment of overpayments has not been used by counties for that purpose nor conveyed to the claims offices to attempt recovery of prior claims.

There are few, if any, duplicate payment cases pending prosecution at the claims offices we reviewed. The Philadelphia claims office has not prosecuted a case since 1976. According to its officials, prosecutions in the past

have resulted in few sentences, and fines, when imposed, have been waived if the duplicate aid is repaid. These officials said, however, that they are unable to monitor court-ordered collections, determine whether to file contempt charges for nonpayment, or make collections in such cases, as the courts have requested, due to lack of staff.

A 4-year criminal statute of limitations specifically for prosecuting welfare fraud has not been used to its full effect at the Philadelphia claims office, in that cases were not considered for prosecution because they were classified as "statute expired" due to a reliance on a general 2-year statute of limitations for criminal offenses. Uncertainty on the appropriate statute to apply to cases on hand was evident at other claims offices.

Our detailed findings and related information are discussed in enclosure I.

CONCLUSIONS

Chester and Lancaster Counties have taken and are taking action to reduce the incidence of duplicate payments through adopting the post office box and direct delivery systems for providing assistance to some AFDC recipients. However, replacement checks can still be issued to recipients who continue to receive their State-issued checks by mail and may represent duplicate payments.

Pennsylvania is developing a comprehensive automated client information system which should, when implemented, reduce the incidence of duplicate AFDC payments. The system, however, will not be fully operational until 1980.

In the meantime, Pennsylvania might take other actions to reduce the duplicate payment problem and also more effectively handle existing duplicate payment cases. County control over the investigation of and reporting on possible duplicate payments needs to be improved to ensure that investigations are undertaken timely and that the results are available for collection and/or prosecution action.

Treasury investigations should be more thorough and concentrate on the more severe (high dollar value) cases. In our opinion, handwriting analysis should be an integral part of all duplicate payment investigations.

Preparing repeated replacement memoranda is an unnecessary burden on the counties unless they are used effectively by the claims offices. Unless handwriting analysis expertise is obtained or the information on the memoranda is provided to investigators to enable concentrated attention to the more severe cases, we believe preparation of the memoranda should be discontinued.

Collection and prosecution efforts need to be reemphasized to introduce the feeling to county and other officials that the efforts of all parties are useful. More active and systematic action may deter future improper requests for replacement checks and supplement State and county efforts to control duplicate payments. Old and uncollectible claims need to be purged to permit claims office staff to process current and deferred action duplicate payment referrals from the counties, transfer claims from the manual to the automated system, and undertake other critical collection activities.

Because the conditions at the counties and claims offices we visited resulted from failure to follow established policy and informal or unclear policy direction, these same conditions could exist at other offices. Accordingly, we believe the State should consider any improvements on a statewide basis.

We believe the problems with Pennsylvania's collection recovery effort could be improved if the Secretary of Health, Education, and Welfare implemented a recommendation we made in a recent report: 1/

** * * revise HEW's regulations to establish uniform and comprehensive overpayment recovery policies in the AFDC program for all types of overpayments, including requirements for States to (1) maintain information on the total number and amount of overpayments involved and their disposition and (2) establish a mechanism for assessing the effectiveness of their overpayment recovery efforts. In addition, we recommend that you direct the

1/Report to the Secretary of HEW on need for overpayment recovery requirements in the AFDC program, HRD-78-117, May 25, 1978.

Commissioner of SSA to assist States in establishing an appropriate mechanism for monitoring and evaluating the adequacy and effectiveness of their recovery efforts and to periodically review the State compliance with the requirements established in the regulations."

The Pennsylvania Department of Public Welfare could administer the AFDC program more effectively and reduce duplicate benefit payments by the following actions.

- Require counties to prepare (1) an investigative control card for each replacement check issued and (2) complete and accurate duplicate payment referrals including indicated suspected fraud.
- Require counties to either (1) use available wage and unemployment compensation data to attempt recouping duplicate payments from aid recipients or (2) refer such data to area claims settlement offices so that collection of prior claims may be pursued.
- Require counties to make and keep copies of cashed replacement checks to enhance Treasury's investigation of potential duplicate payment cases.
- Work with the State Treasury so that (1) priority will be given to investigating the more severe or high dollar value duplicate payment cases and (2) all available evidence, including a copy of the State-issued check, is made available to claims settlement offices to expedite their prosecution efforts. More extensive use of handwriting analysis should be considered by Treasury in all its duplicate payment investigations; such capability should also be acquired and used at claims offices if the repeated replacement memoranda are to serve any useful purpose. The continued need for these memoranda should also be reevaluated.
- Require area claims settlement offices to give greater emphasis to duplicate payment collection efforts, including purging old and uncollectible claims, establishing and pursuing new claims, transferring claims from the manual system to the automated system, establishing better control

over duplicate payment referrals received from the counties, and establishing a recordkeeping system to determine when the informally set \$200 limit on deferred claims for each referred case has been exceeded. As backlogs are reduced, the \$200 limit should be eliminated.

--Instruct the claims offices on the appropriate statute of limitations applicable to duplicate payment referrals on hand and require them to timely reexamine those previously classified as "statute expired" so that prosecution can be considered.

HEW AND STATE AGENCY COMMENTS

We obtained State welfare agency comments on the matters discussed in this report which are included as enclosure III. We also obtained informal HEW comments which expressed agreement with our recommendations. The Pennsylvania welfare agency disagreed with our recommendation for HEW monitoring of its overpayment recovery activities until HEW establishes uniform and comprehensive recovery policies, generally disagreed with our findings as not highlighting sufficiently its actions to reduce the number of duplicate payments, and did not fully respond to our conclusions and suggestions for additional action. Our evaluation of the HEW regional and State agency comments is included as enclosure II.

RECOMMENDATION

We recommend that the Secretary of Health, Education, and Welfare require the Social Security Administration's Regional Commissioner of HEW Region III to monitor Pennsylvania activities in the above-cited areas and provide the necessary technical assistance for improvement actions which are undertaken.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations no later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with

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the agency's first request for appropriations made more than 60 days after the date of the report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to the Secretary of Health, Education, and Welfare to set in motion section 236 requirements and to interested parties and make copies available to others upon request.

Sincerely yours,


Gregory J. Hart
Director

Enclosures - 3

PENNSYLVANIA'S POLICIES AND PRACTICES

FOR INVESTIGATING, PROSECUTING AND

COLLECTING DUPLICATE AFDC BENEFIT PAYMENTS

THE AFDC PROGRAM AND
ORGANIZATIONAL RESPONSIBILITIES

AFDC is one of the largest federally aided public assistance programs. Administered by the States in cooperation with the Department of Health, Education, and Welfare (HEW), the program provides financial assistance to needy children and their parents or relatives to encourage the care of dependent children in their homes.

Federal and State payments for AFDC during fiscal year 1977 amounted to \$10.2 billion, of which the Federal share was \$5.5 billion, or 54 percent. The Federal share varies among States and ranged from 50 to 83 percent in 1977. In Pennsylvania the Department of Public Welfare establishes eligibility criteria and other welfare policies which it applies through local boards of assistance in the 67 counties. The cost of Pennsylvania's AFDC program during fiscal year 1977 was \$696.1 million, of which the Federal share was \$385.6 million, or about 55 percent, and the State's share was \$310.5 million, or 45 percent. AFDC administrative costs were \$1.1 billion in fiscal year 1977, of which the Federal share was \$550 million, or 50 percent. Pennsylvania's AFDC administrative cost was \$81.4 million during fiscal year 1977, of which the Federal share was \$40.7 million.

In Pennsylvania a county board of assistance requests the State Treasury Department to investigate an AFDC case to determine whether a recipient had received a duplicate payment where the recipient claims nonreceipt of the State-issued check and the county issues a replacement check. After this determination is made, the county is to refer such a case to a State welfare agency claims settlement office for collection and/or prosecution.

PROGRAM POLICIES AND PROCEDURES

Each State must submit a comprehensive plan to HEW, describing the nature and scope of its AFDC program and stating that it will administer the plan according to Federal statutes and regulations.

Federal regulations (45 C.F.R. 235.110) require, in part, that States establish and maintain (1) methods and

criteria for identifying situations in which questions of APDC program fraud may exist and (2) procedures cooperatively developed with State legal authorities for referring to law enforcement officials situations in which there is valid reason to suspect fraud. Pennsylvania's State plan contains the Federal requirements for identifying and pursuing fraud cases.

Concerning recoupment of overpayments, Federal regulations (45 C.F.R. 233.20(a)(12))(i)(A)(2)) provide, in part, that a State may recoup prior overpayments caused by a recipient's willful withholding of information concerning his income, resources, or other circumstances which may affect the amount of payment from current assistance grants irrespective of current income or resources. If they are made from current assistance, the State shall, on a case-by-case basis, limit the amount of the deduction without causing undue hardship on the recipients (45 C.F.R. 233.20(a)(12)(i)(C)(4)(f)).

Pennsylvania's welfare law was amended in 1976, in part, to provide for overpayment recoupment from assistance grants without causing undue hardship, but the amending provision did not define undue hardship. This amendment also established a 4-year criminal statute of limitations specifically for pursuing welfare fraud. Previously such fraud had been covered by the general 2-year statute of limitations for criminal offenses

Although Pennsylvania's current State plan provides for recouping overpayments from current assistance without causing undue hardship, it also provides that undue hardship always exists where a recipient's only source of income is the assistance grant and no recoupment will be attempted. The State's welfare policy was changed in August 1978 to provide that recoupment will be made when the amount does not reduce the grant below the recipient's basic standard of living. However, the policy did not define this standard or provide any criteria for its application. The State plan has not yet been amended to reflect this change in policy.

State welfare regulations provide guidelines for identifying, investigating, collecting, and/or prosecuting duplicate APDC payment cases where fraud is suspected. For recipients who repeatedly request replacements for claimed nonreceipt of State-issued checks which have been mailed to them--once within six payment periods, three times within a year or a verified duplicate payment received within the last 3 years--the regulations provide that the checks should be issued to the recipient in person and priority is to be

given to investigating, collecting, and/or prosecuting such cases. Pennsylvania uses two methods of issuing benefit checks to recipients in person who have been identified as repeaters.

- The post office box system, under which checks are sent from the State to a post office box under the jurisdiction of the local welfare office and recipients must appear at that office, properly identify themselves, and sign a receipt for their checks.
- The direct delivery system, under which checks are sent from the State to participating banks where recipients must appear, properly identify themselves, and sign a receipt when picking up their checks.

PROBLEMS WITH DUPLICATE PAYMENTS

Pennsylvania issues AFDC checks to most recipients by mail. A county may also issue a check when a recipient claims immediate cash is necessary and the need is proven. Duplicate payments occur when a recipient improperly claims on the request for investigation that the State-issued check was not received and certifies benefits were not received from it, the county issues a replacement check, and the recipient then cashes both checks.

Upon issuing a replacement check, the county requests Treasury to investigate the circumstances surrounding the presumably missing State-issued check. The investigation is waived, however, if the State-issued check had been redeposited (returned to the State uncashed). The county is required to maintain control over the investigative and reporting process for each possible overpayment.

Duplicate payments in Chester and Lancaster Counties

Chester County places the names of those recipients repeatedly requesting replacement checks on the post office box delivery system. The system was phased in at Coatesville in May 1976, and at West Chester in May 1977. As of April 27, 1978, of the county's approximately 3,500 AFDC cases, 114 were on the system.

Available information indicates that potential duplicate AFDC payments have decreased since 1976. For the period October through December 1977, 204 replacement checks were issued compared to 371 for the same period in 1976. County officials told us and our review of selected cases showed that few replacement

checks have been issued to post office box system recipients. Thus, Chester County is issuing replacement checks primarily to recipients claiming nonreceipt of mailed State-issued checks.

Treasury data showed that, of 2,211 investigations of State-issued checks made at Chester County's request during calendar years 1975-77, 906 (or about 41 percent) resulted in recipients' admitting receiving duplicate payments. During the January through March 1978 period, Chester County issued 211 replacement checks; investigative requests were made on 84 of them. On the basis of Treasury's duplicate payment proof rate of 41 percent, we estimate that Treasury's investigations of these 84 cases would reveal about 34 duplicate payments. At an average replacement check for \$147, these duplicate payments would total about \$5,000. We estimate that about 21,000 original State assistance checks were issued to Chester County recipients during the period. Accordingly, the probable 34 duplicate payments represent only a fraction of 1 percent of the volume of original checks issued.

Lancaster County has fewer duplicate payments than Chester County, although each has a comparable AFDC caseload. The use of the direct delivery system only in the city of Lancaster, which accounts for over one-half of the county's caseload, has resulted in no replacement checks being issued to recipients on the system since 1974. Sixty-two percent of the city's caseload was on the system at April 1978. Thus, Lancaster County is issuing replacement checks only to recipients who claim nonreceipt of mailed State-issued checks.

Treasury data showed that, of 366 investigations of replacement checks made at Lancaster County's request during calendar years 1975-77, 118 (or about 32 percent) resulted in recipients' admitting receiving duplicate payments. Of 146 replacement checks issued by Lancaster County during the period January through March 1978, 11 were forwarded to Treasury for investigation. On the basis of Treasury's duplicate payment proof rate of 32 percent, we estimate that Treasury investigations of these 11 cases would reveal about 4 duplicate payments. At an average replacement check for \$147, these duplicate payments would total about \$588. We estimate that about 18,000 original State assistance checks were issued to Lancaster County recipients during the period. Accordingly, the probable 4 duplicate payments represent a minute proportion of the volume of original checks issued.

Although the number of duplicate AFDC payments in Chester and Lancaster Counties do not appear to be substantial, we found that problems exist in the investigative, reporting, referral, and claims settlement processes in handling

potential and verified duplicate payments. These problems and corrective actions taken and planned are discussed in the following sections:

Review of duplicate payment cases

To test the effectiveness and efficiency of the investigative and claims referral processes in Chester County, in May 1978 we reviewed 15 randomly selected post office box system recipients who had received 89 replacement checks before being put on the system but received only 1 check since then. Of the Treasury investigations on the 89 checks, 32 resulted in the recipients' admitting having cashed the State-issued check. Of the remaining 57 checks, 8 State-issued checks were redeposited, 2 were alleged to have forged endorsements, 1 investigation was closed, and 46 were shown as still under investigation.

On 1 of the 15 cases, the recipient had also received assistance for several consecutive months from two counties. Until our review Chester County was unaware of the duplicate receipt of assistance although there was evidence of it in the case file. Subsequently the county referred the case to the area claims collection office for action. Also, a Treasury investigative report documenting a duplicate payment in another case was received, but no referral to the claims collection office had been made at the time of our review. A Chester County official said that, during a recent case file review, other duplicate payment cases were discovered where no action had been taken on Treasury reports.

We also reviewed another case in which the recipient had received 14 replacement checks before being put on the post office box system and 3 afterward. Available county information indicated that the status of the State-issued check was still under Treasury investigation in 15 of the 17 instances. Of the two remaining instances, the recipient admitted to having cashed one of the State-issued checks; the other had been redeposited.

We reviewed 3 of 16 cases to determine the status of 33 of the total of 61 State-issued checks shown as still under Treasury investigation. In 15 of the 33 instances, the recipients admitted to having cashed the State-issued checks, but the county had made no duplicate payment referrals to the claims office at the time of our review. Of the remaining 18 instances, which county records indicated were under Treasury investigation, Treasury had no record of an

investigative request on 11 of them. Of these 11 cases, we reviewed 7 at the State welfare agency's data processing office and found that 6 were listed as still under investigation.

To test the effectiveness and efficiency of these processes in Lancaster County, in May 1978 we reviewed nine requests for Treasury investigation made during November and December 1975, which county records showed were still being investigated. We selected this early period because sufficient time had elapsed for the investigations to have been completed. Treasury records showed that six of the nine requests had resulted in investigations being made and in two cases the checks had been redeposited; it had no record of receiving the remaining request. Of the six investigations, two had resulted in proof of duplicate payments and notification to the county accordingly; however, Lancaster County had not referred them to the area claims collection office at the time of our review.

State welfare policy requires each county to prepare and maintain a control card for each possible overpayment from the time a Treasury investigation is requested until a duplicate payment is referred to a claims settlement office, to serve as a means to control the investigative and reporting process. We noted that neither Chester County nor Lancaster County prepare or maintain these cards on possible duplicate payments; therefore, the desired control was lost on the cases we reviewed.

Current actions to prevent/
reduce duplicate payments

In August 1978 Chester County began phasing in the direct delivery system at West Chester because it was considered the area with the greatest duplicate payment problem; the county wants to phase in the direct delivery system by the end of 1978 in Coatesville. However, as in Lancaster County, the system will not be used countywide.

Direct delivery appears to be effective in reducing duplicate payments. Lancaster County has not issued a replacement check to any recipient on the system since it was implemented in 1974. Bank officials who used the system said that it was effective for this purpose. While we did not make a cost-effectiveness evaluation of the direct delivery system, a State welfare official estimated that since 1971 about \$29.5 million has been saved from its use.

INVESTIGATION AND REPORTING PROCESSES

Our review of Chester County cases showed long delays between the time a recipient claimed nonreceipt of a State-issued check and the time an investigation was made by the Treasury. For 17 of 32 investigations completed (primarily in 1976 and 1977), in 7 of these cases, nearly a year or more elapsed between the claimed nonreceipt of the State-issued check and the subsequent investigation, ranging from 4 to 30 months for all 32 investigations. A Treasury official said that insufficient staff and untimely receipt of the requests for investigation from the State welfare agency's data processing group (through which county requests are processed) contributed to the delays.

The number of cases pending investigation in Chester County had decreased from more than 1,000 in 1976 to 425 at May 1978. A Treasury agent said he is investigating requests not more than a year old whereas they were up to 3 years old the previous year. Lancaster County had only 43 cases pending investigation at May 1978, and the Treasury agent said he is making investigations requested during January 1978.

A Treasury official stated that an automated investigative file being developed is intended to reduce the investigative time. The system has the potential for accumulating all investigative requests made on recipients so that they may be investigated at one time, and it will also generate letters to recipients on the need to meet with the investigating agent. The system was not operational at the time of our review.

In its investigations of duplicate payments, Treasury policy does not normally require either handwriting analysis comparing the endorsing signature on the State-issued check to the recipient's signature on the investigative request or for the investigator to contact the second endorser, such as a bank or merchant, for evidence of whether the recipient had cashed the check. A Treasury official said that lack of staff precludes going to the second endorser and that Treasury has been advised by the State Police, who perform handwriting analyses on request, to keep its requests to a minimum.

As a result, cases need to be reinvestigated during the State's attempts to collect duplicate payments from banks or second endorsers. In one of the Chester County cases we reviewed, the second endorser filed suit in court alleging that the recipient admitted to having cashed the checks in 11 instances in which the recipient had previously alleged

to the Treasury agent that the check endorsements had been forged. Bank and county officials expressed dissatisfaction with Treasury duplicate payment investigations.

Treasury closes a case when the recipient cannot be located or is off assistance and will not meet with the Treasury agent so that it can be determined whether the check endorsement was forged. Treasury officials said incorrect addresses are a problem in attempting to locate recipients. If no handwriting analysis has been made, there is no basis for further action on such a case, including collection or prosecution. On another of our selected Chester County cases, an investigation which was closed earlier was not reopened although during a subsequently requested investigation, the recipient admitted receiving duplicate payments. A State welfare agency data processing official said that few investigations are reopened once they have been closed.

Counties do not make and retain a copy of the replacement check. A Treasury agent said his investigation would be enhanced if the recipient could be confronted with the endorsing signature on both the State-issued and replacement checks, which would constitute the best available evidence of a potential duplicate payment.

CLAIMS SETTLEMENT PROCEDURES

A debtor is not considered financially able to pay if he is receiving assistance and has no other resources or income, according to the current State definition of undue hardship. However, any resources such as wages or unemployment compensation are subject to recovery action. Where such resources are available, the county may recoup the duplicate payment through grant reduction. If such resources are disclosed after the case is referred to a claims settlement office, claims personnel can collect through voluntary repayment or civil court action, such as filing a lien or attachment against the resources.

Upon referral of a duplicate payment case by a county, a State welfare agency's claims settlement office is to compute the amount of the duplicate payment, establish a claim, make collections on it, and initiate any necessary legal action. During claims collection action, claims personnel are to inform debtors that although they are not required to make repayment while receiving assistance, voluntary repayments will be accepted.

Collection efforts are to continue until the claim is paid in full or it is determined that full payment cannot be

obtained, when collection action is suspended. Claim nonpayment does not affect eligibility for assistance. The county is to immediately notify the claims office when it has reason to believe that a liquid asset is available to make repayment.

Each claims settlement office is also to initiate prompt prosecution action on suspected welfare fraud cases. Summary or nonjury proceeding convictions for fraud of \$300 or less carry penalties of restitution and/or a fine of not more than \$200; in default of meeting these penalties, imprisonment not to exceed 60 days. Convictions for fraud exceeding \$300 carry penalties of a fine not to exceed \$1,000 or imprisonment not to exceed 1 year or both, and restitution. A 4-year criminal statute of limitations applies in prosecuting suspected welfare fraud cases.

Lack of duplicate payment
referral data

Existing policy provides for assembling evidence on and giving prompt consideration to collection/prosecution action on duplicate payment referrals. Before July 1978 the Philadelphia area claims settlement office (which serves Chester and other counties) did not know how many duplicate payment referrals in any amount it had received, although officials estimated there were thousands on hand dating back at least to 1974. Although the office was to keep track of those referrals of \$200 or more since 1974, no data was available on the number of such referrals. The Philadelphia office began keeping track of those \$200 or more in July 1978 as a result of our review.

The Dauphin area claims settlement office, which serves Lancaster and other counties, also had no data on the number of duplicate payment referrals received over the years.

Action deferred on small claims

In July 1974 claims settlement offices began following an informal State welfare policy for processing duplicate payment referrals which provided that those under \$200 would be deferred for later collection and/or prosecution action. Referrals--regardless of amount on which the statute of limitations had expired--would also be deferred for later collection action.

A July 5, 1974, internal State welfare agency memorandum, which set forth this policy, stated that all claims settlement offices could handle about 10,000 overpayment referrals of all

types annually, but were not staffed to handle the 40,000 received during the 12 months ended June 30, 1974. According to an official at the meeting during which the informal policy was set forth, the decision not to formally issue the policy to the counties was made so that recipients would not get the impression they could commit fraud of under \$200 and not be required to repay or be prosecuted.

Duplicate payment referrals deferred for later action have not been subject to collection or prosecution attempts. Philadelphia claims officials said they are unable to keep up with the current workload, let alone deal with the thousands of such cases already on hand. They estimated that one-third of all referrals received contain only one duplicate payment, probably always less than \$200, so that action on them is deferred.

The Dauphin claims office also follows the \$200 limit policy. However, the Dauphin office maintains a case file on each recipient referred so that it can identify cases which accumulate duplicate payment referrals totaling more than \$200. The Philadelphia office does not maintain such case files. Philadelphia claims officials said that prior referrals on a case would be identified only if a subsequent referral of over \$200 was received, identified as suspected fraud, and all indicated prior referrals had been submitted by the county. They said that there have been some problems with these referrals being complete and accurate. A Chester County welfare official said although improvement has been made in indicating suspected fraud on the referrals, further improvement could be achieved if the referral policy required fraud to be indicated on the form whenever a replacement check was involved.

Confusion over the applicable statute of limitations

In September 1976 the Pennsylvania Legislature passed a bill establishing a 4-year statute of limitations specifically for prosecuting welfare fraud. The State welfare agency's General Counsel interpreted that the effect of the new statute of limitations for welfare fraud was to extend for 2 more years the period within which prosecution could be pursued for cases which had not expired under the general 2-year criminal statute of limitations as of September 1976. However, we noted that in June 1978 officials at the Philadelphia claims office were still applying the general 2-year statute of limitations to duplicate payment cases referred to them for prosecution which had not expired under the 2-year statute as of September 1976. The effect was that prosecution was not considered in those cases because they

were classified as "statute expired" due to reliance on the general 2-year statute of limitations rather than the 4-year statute of limitations enacted specifically for welfare fraud. Officials at both the Dauphin claims office and State claims headquarters were uncertain as to which statute applied to such cases.

This reliance on the general 2-year criminal statute of limitations has resulted in referrals receiving deferred action for collection and no recommendation for prosecution. A Philadelphia claims official estimated that the 2-year statute had expired on 90 percent of the referrals received in calendar year 1977 and that the other 10 percent were probably cases less than \$200 each in duplicate payments so that all duplicate payment referrals were deferred for later action, but no data was available. Under these circumstances, we did not attempt to determine the number of cases involved or the potential collections lost.

Repeated replacement
memoranda not used

A county is to prepare and forward to the area claims settlement office a repeated replacement memorandum on a duplicate payment case when the second and any subsequent replacement check is issued within an established time frame to a recipient claiming nonreceipt of a State-issued check. Upon receipt of the memorandum, the area claims office is to

- establish and maintain a record of this and any future check replacements,
- obtain the recipient's original request for a Treasury investigation of the missing check,
- give top priority to investigating the reported nonreceipt, and
- report the results of the investigation to the county for action on the case.

In addition, the claims office is to notify the county if a client does not meet with a claims agent for a fact-finding interview or refuses to give handwriting samples. In these circumstances, a county is advised not to issue any replacement checks until the client complies. Upon compliance, the county is to be notified so that client eligibility for future replacement checks can be determined, depending upon whether fraud is suspected.

Philadelphia claims officials said that repeated replacement memoranda are to receive investigative priority because the Treasury investigation is to be waived and the claims office is to make a handwriting analysis comparing the endorsing signature on the State-issued check and the recipient's signature on the request for investigation. The Philadelphia claims office had no handwriting analysis expertise since 1976. Although that office hired a claims agent with such expertise in January 1978, a claims official said the agent is doing other settlement work and would not be assigned to suspected duplicate payment cases.

Dauphin claims officials said they had no handwriting analysis expertise since 1976 and do not refer any cases to outside agencies because the agencies are too busy.

The Philadelphia claims office has not logged in repeated replacement memoranda since 1976. A claims official estimated that of the more than 5,000 logged in and another 1,000 received but not logged in up to that time, the 2-year statute had expired on thousands which precluded prosecution. No data was available on the number to which the 4-year statute applied or of those on which collection had been pursued.

In our sample of Chester County duplicate payment cases, repeated replacement memoranda had not been prepared in most instances where warranted; when they were prepared, the memoranda did not include all replacement checks which had been issued. We noted that in one case with 26 replacement checks, replacement memoranda identifying 20 checks had been prepared and sent to the Philadelphia claims office, but the county file had no evidence of prosecution or collection action. A Chester County official said that the memoranda are not prepared because there is no evidence or feedback that the Philadelphia claims office uses them.

Data available at the Dauphin claims office showed that 67 memoranda had been logged in during the 18 months ended June 1977. Dauphin claims officials could not provide any information on prosecution or collection action on these cases; they believed the counties were not preparing and forwarding such memoranda in all cases.

Duplicate payment referrals
not adequately handled

We reviewed 7 of the 16 selected Chester County cases and 1 of our sample of 9 Lancaster County cases having duplicate payment referrals to determine how the respective claims offices had disposed of them. On the Chester County cases, the Philadelphia claims office had classified some

referrals as "statute expired" under the general 2-year criminal statute of limitations and on which claims were not established, others could not be located, and some were deferred for later action without a claim being established.

On one case, for example, three referrals totaling \$1,300 were classified as "statute expired" under the 2-year statute, no claim was established, and collection action was deferred. Although a claim had been established on the four other referrals on this case, prosecution was not undertaken because all four referrals were classified as "statute expired" under the 2-year statute. However, a Philadelphia claims official agreed that the 4-year statute of limitations for prosecuting welfare fraud was applicable to most of those referrals and said that prosecution would be recommended on this case.

On the Lancaster case, the one referral was classified as a small claim in accordance with policy and collection action was deferred.

The time period from Treasury's investigation until a duplicate payment referral is made to the area claims office has been lengthy. Twenty of the 32 referrals in these 7 Chester County cases were prepared 6 months or more after Treasury's investigation, with 8 prepared more than a year later.

Collection efforts are limited

Information was not readily available on the amount of duplicate payments that are collected; Philadelphia claims officials estimated that such collections on all their duplicate payment claims amount to perhaps \$25 monthly. A Chester County official said that he was unaware of any collections made by the claims office from Chester County recipients.

Dauphin claims officials had no available information on duplicate payment collections and could not make an estimate.

The Philadelphia claims office is backlogged in virtually all phases of its collection activity: review of any type of overpayment referral, computing and establishing claims, interviewing recipients and obtaining handwriting samples, transferring manual claims to the automated system, monitoring court-ordered collections and filing contempt charges for nonpayment, followup when recipients go off aid, and collection efforts under the manual and automated systems. Philadelphia claims officials said that other priorities, such as pursuing child support collections and other high payoff recoveries, and lack of staff keep them from pursuing most AFDC overpayment collection activity.

Philadelphia claims officials said they had about 36,000 active claims being handled manually rather than being on an automated system which generates collection letters and maintains account balances. Manually prepared collection letters are sent only to overpayment cases (1) of State employees, (2) in which prosecution has not gone to trial, and (3) selected by the State Auditor General for review in connection with quality control sampling. None have been sent to others since at least 1977. We attempted to trace 69 of the 114 Chester County post office box system recipients for claims and found that 12 had some type of claim on the automated system and 2 others had some type of claim established on the manual system. We found no evidence of claims established on the remaining 55 cases. Referrals deferred for action generally have had no claims computed.

Many Philadelphia claims office computer-generated collection letters have been returned because of incorrect addresses. Philadelphia claims officials estimated that of 4,000 letters mailed in 1977, half were returned for incorrect addresses and the cases were closed. According to claims officials, plans to refer these closed cases to the State's Justice Department for action were deferred because of the large number of such cases.

Dauphin claims officials said they recently eliminated their backlogs and have established claims on all duplicate payment referrals over \$200, but had no available data on collections.

Wage and unemployment compensation data are not being used by either the counties or claims offices to attempt recovery of duplicate payments. The counties receive the data, but do not inform claims offices that such resources exist and do not use it themselves to attempt recoupment. Our review of a portion of such data dated April 1978 and covering the period April to June 1977 showed that one Chester County recipient, who had previously admitted to cashing a State-issued check and had three investigations open, had received earnings which he had not reported to the county and on which no recoupment or collection action had been taken.

Lack of prosecution efforts

According to a Philadelphia claims office official, prosecution of duplicate payment cases in Chester County have not been made since 1976. This official said that the general

2-year criminal statute of limitations had expired on most referrals received during 1977 or that they were small-claims (under \$200) and were deferred for later action; none of the 2,238 AFDC overpayment cases approved for prosecution as of May 1, 1978, were duplicate payments. Claims officials said that when counties recommend prosecution, long delays in obtaining a copy of a State-issued check from State files have contributed to duplicate payment cases expiring under the 2-year statute. (As discussed on pp. 10 and 11, the new statute of limitations has not been used to its full effect.)

Claims officials said prior success in prosecuting duplicate payment cases was due to Federal Postal Inspector staff making handwriting analyses to assist investigations and the availability of claims staff to handle the cases filed in court. One official said most of the claims staff have been assigned to child support collections, employee fraud, and other high payoff recoveries. Claims officials estimated that about 170 duplicate payment AFDC referrals were received each month during 1977 on which no action will be taken.

In the past, duplicate payment cases were prosecuted in summary (nonjury) proceedings in the counties because amounts were under \$300. Few, if any, were prosecuted in higher court. Claims officials said summary proceedings rarely resulted in sentences, and fines, when imposed, were waived provided repayments were made. These officials said they are unable to monitor the courts' collection activities, consider whether to file contempt charges for non-payment, or make collections in such cases, as some courts have requested, due to lack of staff.

Philadelphia claims office records of summary proceedings on referrals of Chester County AFDC overpayments resulting from all causes show little activity from January 1975 to June 1978. During that period nine cases were closed without prosecution because the statute had expired, and only two criminal complaints were filed. It had 31 complaints pending as of August 1976; the number was unchanged as of April 1978. A claims agent said that as of April 1978, only one duplicate payment case had been filed in court during the last year and a half. As discussed on page 10, the Philadelphia claims office does not maintain case files to accumulate overpayment referrals so that civil court limits for filing liens or attachments of personal property could be met or cases could be considered for prosecution in non-summary proceedings with more severe penalties.

ENCLOSURE I

ENCLOSURE I

Dauphin claims office officials did not know the number of duplicate payment cases that had been prosecuted over the years. A claims official said that few, if any, of the criminal complaints that office had pending in court as of June 30, 1978, included duplicate payment cases.

STATE ACTION TO REDUCE OR
PREVENT DUPLICATE PAYMENTS

Pennsylvania is taking action which should, if properly implemented, reduce the number of or prevent duplicate AFDC payments by

--developing a proposed rule to govern issuing replacement checks to recipients on the direct delivery system and

--establishing an automated client information system.

To formalize and strengthen controls over checks being replaced to persons on the direct delivery system, the State welfare agency plans to publish a notice for proposed rule-making which would require some investigation before a replacement check was issued.

The client information system, to be partially funded by the Federal Government, will include a complete history of all AFDC recipients in Pennsylvania and provide on-line access for the counties to query the computer on matters such as the status of the original check before a replacement check is issued. The system project manager said it will track the number and frequency of replacement checks issued on each case and will alert program officials to recipients who exceed replacement criteria that will be developed. He said the recipient data bank is scheduled to be developed in 1979 with most counties scheduled to be on-line by early 1980.

HEW EFFORTS TO REDUCE OR
PREVENT DUPLICATE PAYMENTS

As part of its efforts to assist the State in dealing with duplicate payments, HEW shares with Pennsylvania the costs of operating the direct delivery system. Also, in 1974 HEW published a description of the system in a pamphlet which has been made available to other States. During fiscal year 1979 it plans to pilot-test the use of electronic funds transfer which may have nationwide application.

ENCLOSURE I

ENCLOSURE I

In its fiscal year 1979 budget justification, HEW stated that the Social Security Administration plans to improve the administration of the AFDC program through increased uniformity in State AFDC programs. In a report to the Secretary of HEW on the need for overpayment recovery requirements in the AFDC program (HRD-78-117, May 25, 1978), we recommended that HEW revise its regulations to establish uniform and comprehensive overpayment recovery policies for all types of overpayments. This recommendation is in line with that HEW goal.

GAO EVALUATION OFHEW REGIONAL AND STATE AGENCY COMMENTSHEW REGION

In commenting on the draft report, HEW's Regional Commissioner for Region III endorsed Pennsylvania's steps to correct what instances of duplicate payments there are and a prior GAO recommendation incorporated in this report by reference (see pp. 6 and 7 of transmittal letter) which in part recommended that HEW establish a mechanism for monitoring and evaluating the adequacy and effectiveness of State AFDC overpayment recovery efforts. The Regional Commissioner also noted, regarding the other part of the prior GAO recommendation--that HEW establish the requirement for States to maintain information on the total number and amount of AFDC overpayments involved and their disposition--that while recent program instructions require the States to exclude the Federal share of all identified individual payments to ineligibles and overpayments, these instructions do not seem to specifically or adequately address the question of duplicate payments.

We reviewed the program instructions referred to and agree with the Regional Commissioner's assessment. We believe that action taken by HEW on this prior GAO recommendation should specifically address AFDC overpayments resulting from duplicate benefit payments of the type discussed in this report.

HEW regional officials agreed with our recommendation in this report that the Regional Commissioner monitor Pennsylvania activities in the areas we cited as needing improvement and provide the necessary technical assistance for improvement actions which are undertaken.

STATE AGENCY

The Pennsylvania Department of Public Welfare commented (see encl. III) that our report was critical of the system currently in effect for handling replacement checks issued to AFDC recipients based on a review in two counties where positive action had been taken to virtually eliminate the problems the report highlights. Further, the State agency felt we did not emphasize the most significant and effective action it has taken to eliminate the replacement check problem: bank (direct) delivery of assistance checks.

Our report is not critical of the "system in effect for handling replacement checks" but rather points out those

policies and procedures for handling possible duplicate payments that are in need of improvement, specifically effective investigations of whether such checks represent duplicate payments and, for those that do, timely and effective collection and/or prosecution action. Since Pennsylvania centrally establishes and enforces policies and procedures, the problems we noted in two counties and two claims settlement offices are likely to exist elsewhere in the State. The report does highlight the effectiveness of direct delivery in Lancaster County in reducing the number of replacement checks and we believe that, when operational in Chester County, it should also have a positive effect. However, as long as any AFDC recipient receives benefit checks by mail, in Chester and Lancaster Counties or elsewhere, the potential exists for the need for replacement checks to be issued for benefit checks claimed to have not been received; a few of these are likely to be duplicate payments.

The State agency said it is continually attempting to expand use of the direct (bank) delivery system Statewide depending on the availability and participation of the banking communities; where banking facilities are scarce, it plans to expand the use of the post office box delivery system. While State actions to reduce the number of replacement checks should reduce the future number of possible duplicate payments, they have not resulted in improving the investigation, collection and prosecution processes for handling those that have occurred and will occur in the future.

Concerning the significant backlogs of duplicate payment cases awaiting action at the claims settlement offices, the State attributed the problem primarily to a rapid increase in the numbers of cases received over the past several years without a commensurate increase in staff. The State cited three major steps taken, apparently to address this problem: (1) creating the Office of Program Accountability in January 1978 which consolidated the claims settlement, investigation, audit and review functions under a Director reporting to the State welfare department head, (2) revising the written claims settlement procedures and (3) studying recommendations for eliminating less cost-effective aspects of current claims settlement responsibilities.

While these are positive steps which may lead to long-range improvements in the collection process, we believe they should be supplemented by the actions we proposed to effectively deal with the short-term problems of the duplicate payment referral backlogs which need to be timely handled to maximize collections and minimize lost prosecution opportunities through tolling of the statute of limitations.

In addition, the State said that staff of the Office of Program Accountability have been reviewing every aspect of the overpayment (restitution) and collection processes; any improving changes to departmental policies and procedures will consider our proposals and any changes made will be implemented Statewide.

Concerning our suggestion that counties be required to prepare an investigative control card for each replacement check issued, the State commented that its policy did not intend that an investigative control card be prepared for each issued replacement check. It said the administrative complexity to prepare control cards at that time might outweigh the benefits of timely submission of referrals to the claims settlement offices because one-half of the State-issued checks for which replacements are issued are returned uncashed and there is then no need to prepare the card. The agency stated it appeared more feasible to prepare the card 6 weeks after the replacement check is issued, when it has been determined that the original State-issued check was cashed.

A potential duplicate payment is one type of possible overpayment and State welfare policy requires that a control card be prepared for each possible overpayment. We believe the control card should be prepared at the time the replacement check is issued because the existing record system does not readily permit determining, 6 weeks later, those replacement check actions on which control cards ought to be prepared. In our view, this action would provide greater assurance that the needed control is established and should enhance, not impede, the timely referral of duplicate payment cases to claims settlement offices. In those cases where the State-issued check is returned uncashed, the control card could be destroyed.

The State welfare agency said it is working with the Office of Program Accountability and the State Treasury Department to strengthen and improve every aspect of its system and final changes will be the subject for training appropriate staff. However, the State did not provide specifics on those aspects under joint review or any results.

Concerning the prior GAO recommendation (see pp. 6 and 7 of transmittal letter) that HEW develop and issue uniform and comprehensive overpayment recovery policies in the AFDC program, the State expressed support. The State disagreed with the recommendation originating in this report that HEW Region III monitor Pennsylvania activities and provide needed technical assistance. The State believed no such monitoring

should be done until Federal regulations have been developed and promulgated and the monitoring would be applicable to all States and that the technical assistance would be welcomed after HEW developed and issued recovery regulations and standards.

We believe such monitoring and technical assistance should be currently provided on any State actions to reestablish controls over possible duplicate payment investigations, improve the quality of such investigations and improve the timeliness and accuracy of referrals of duplicate payment cases to claims settlement. State actions and HEW assistance in these areas are not contingent on and should not be delayed until the issuance of comprehensive overpayment recovery policies, regulations, and standards.

The Pennsylvania welfare agency believed that it is ahead of other States in dealing with the duplicate check issuance and recovery problems, particularly in its preventive programs. The State agency also believed it is ahead of other States in reviewing and strengthening its collection procedures. While believing the success achieved has been significant, the State agency recognizes more needs to be done and stated that it is currently addressing its collection processes with vigor.

This report highlights the success Pennsylvania has achieved in reducing the incidence of duplicate AFDC benefit payments through use of the post office box and direct (bank) delivery systems. The report also points out areas in need of improvement in the investigation, collection and prosecution of the duplicate payments that do occur. We believe timely and vigorous implementation of the actions we proposed should result in achieving the needed improvements in these processes.



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
HARRISBURG 17120

THOMAS L. HOOKER
DEPUTY SECRETARY FOR
FAMILY ASSISTANCE

October 10, 1978

TELEPHONE
AREA CODE 717, 783-3883

Mr. Gregory J. Ahart
Director
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

We have reviewed your draft report regarding duplicate AFDC benefit payments. What follows is a preliminary response by the Office of Family Assistance, Department of Public Welfare, to the findings in your draft report.

Your report contains findings and conclusions which are critical of the system currently in effect for handling replacement checks issued to Public Assistance recipients. Your criticisms are based on a review of replacement check issuances in two Pennsylvania counties (Chester and Lancaster) where we have taken positive action to virtually eliminate the problems you highlight in the report.

Further, while your report critically emphasizes alleged deficiencies in the issuance of replacement checks Statewide, it fails to emphasize the most significant and effective action taken by this Department to eliminate the replacement check problem; that is, bank delivery of Public Assistance checks.

Based on information similar to that contained in your report, the Department initiated bank delivery of Public Assistance checks in Chester County in August of this year. This program has been in effect in Lancaster County since 1974. However, your report fails to indicate that efforts began in 1973 to enlist the participation of banks in the Bank Delivery system and that this five year effort culminated in the implementation of the Bank Delivery system in August 1978 in Chester County. With the implementation of both the Bank Delivery and Post Office Box Delivery systems, the duplicate check problem has been virtually eliminated in Chester County. The only check replacements would be those issued which trigger the mandatory safeguards specified above.

The presentation in the Enclosure section of the report conveys a mixture of data regarding duplicate payments which occurred prior to the implementation of the safeguard systems and implies a continuing replacement/duplicate payment problem which no longer exists in Chester County.

The implementation of the Bank Delivery system in Lancaster County has also virtually eliminated a check replacement/duplicate payment problem there. On the basis of your own data and estimates, you anticipate duplicate payments in possibly only four cases out of 18,000 issued checks over a three month period.

A running tabulation by the Department indicates that in Lancaster County in the past four and one-half years (January 1974 through August 1978), 155,298 checks were issued to Bank Delivery clients with no replacement checks being issued. A total of 243,308 checks were mailed to clients in Lancaster County over the same period and 2,375 replacement checks were issued. However, 76% of these 2,375 checks or 1,805 checks were returned by the Postal Service and redeposited. Of the remaining 570 checks, approximately 50% or 285 checks were in fact either lost or stolen with forged endorsements (which are charged back to the banks). Accordingly, only 285 checks represent duplicate payments over a fifty-six month period or an average of five per month. These cases are brought into the Bank Delivery system as repeated replacements occur. This data reflects a dramatic and significantly effective preventive system which should be highlighted rather than addressed by saying "...replacement checks...have decreased..."

Therefore, departmental efforts in both Lancaster and Chester Counties reflect our continued drive since October 1971, when the check replacement problem was addressed, to implement preventive measures to eliminate duplicate check issuance and save tax dollars. We currently have 93,258 AFDC cases in 14 counties on the Bank Delivery system. This represents 47% of our AFDC statewide caseload. Since 1971, we estimate we have saved \$29.5 million in tax dollars largely through the elimination of replacement check issuances for Bank Delivery clients.

Our nationally acclaimed Bank Delivery system has been studied by all of the other 49 states and Canada for possible implementation to address the check replacement/duplicate issuance problem. In 1977, Illinois adopted our system in toto and other states are in varying stages of implementation. We, in Pennsylvania, are continually striving to expand the system statewide depending on the availability and participation of the banking communities. We also plan to correspondingly expand the Post Office Box Delivery system where banking facilities are scarce. Accordingly, we would think it would be appropriate as part of your recommendation for the United States Department of Health, Education and Welfare to incorporate both the Bank Delivery and Post Office Box Delivery programs into Federal regulations.

The difficulties facing the Bureau of Claim Settlement (BCS) have arisen primarily from a rapid increase, over the past several years, in the workload of the Bureau, as measured by number of referrals. The rapid increase, without a commensurate increase in staff, led to an increased load on each employee and the growth of a backlog. Unfortunately, until just recently the Bureau did not receive the type of systems evaluation necessary to adjust to this much larger type of production effort.

We have taken three major steps:

First, in January of 1978 the Office of Program Accountability (OPA) was created, bringing together the Bureau of Claim Settlement, Special Investigation, Internal Audit, and Field Review. This removed supervision of these activities from the program, to reflect the objectivity of their work, permitted a fresh look at their methods of operation, and gave the Bureau greater visibility, with the Director of OPA reporting directly to the Secretary of the Department.

Second, the operating procedures of BCS have not been thoroughly revised in several years, so that much current policy is not written or, if written, is not well-organized. Because this lack of documentation has barred meaningful systems analysis, BCS presently is doing a total revamping of its written procedures.

Third, in light of the budgetary limitations on the capacity of the Bureau of Claim Settlement to perform its enormous workload, as referenced in the GAO report, in addition to improving operations BCS also is studying recommendations for possible elimination of less cost effective aspects of its current responsibilities.

Since the reorganization, the Director of the Office of Program Accountability and his top Claim Settlement management staff have been reviewing every aspect of the overpayment (restitution) and collection processes. Many of the recommendations contained in your proposed report will be considered in any changes to Departmental policies and procedures to improve the system. Any changes will be statewide as we are well aware that the problems are not localized.

Your recommendations further indicate a lack of complete understanding of many of our processes in the system:

(1) It is not present Departmental intent to require an Overpayment Investigation Control Card, form PA 189-X, to be completed for each issued replacement check. The Overpayment Investigation Control Card, PA 189-X, is used as a control to insure submission of an overpayment referral when a possible overpayment is determined. It is not a control over the entire investigatory process. Since approximately 50% of state issued checks for which replacement checks are issued are returned by the Post Office and redeposited, they do not all represent duplicate payments. Accordingly, we are not certain, at this time, whether the administrative complexity of maintaining a control file for each replacement check as a possible overpayment outweighs the benefits to be achieved in more timely submission of referrals to the Bureau of Claim Settlement. It appears more feasible to prepare a Control Card six weeks after submission of the replacement check when the Bureau of Data Processing notifies the Counties of the checks returned by the Post Office which have been redeposited.

(2) The data exchange with the Bureau of Employment Security (BES) files on wage and unemployment compensation data provides us with stale-dated information (e.g., a six month lag). Therefore, this information cannot be used to automatically trigger recoupment. It can and should be used as an indication of income but would require a determination of the actual and current availability of the resources for recoupment purposes. The County would also need to make a case by case determination of "undue hardship".

(3) We presently do not see any advantage for the County to photocopy County Disbursement replacement checks to enhance Treasury's investigation. Treasury Department currently receives a transcript of all issued checks and the client's signature is currently shown on the Treasury Investigation Request, PA 207, and is the case record on the application forms.

Our Program Office is working with the Office of Program Accountability and the Treasury Department to strengthen and improve every aspect of our system. When changes are made, we will, as usual, undertake an intensive training session to ensure complete understanding by all County and Claim Settlement staff.

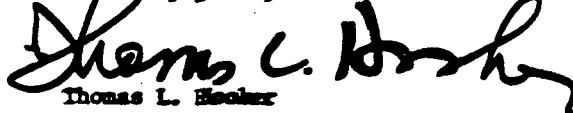
Your proposed report recommends that the United States Department of Health, Education and Welfare develop and issue uniform and comprehensive overpayment policies in the AFDC program for all types of overpayments and that HEW Region III monitor our activities and provide necessary technical assistance. We welcome your recommendation for Federal uniform and comprehensive recovery policies and, as stated earlier, would further recommend that DHEW incorporate our preventive systems in any regulations. We would also welcome technical assistance after DHEW has developed and issued the recovery regulations and standards. We do not agree that HEW Region III should monitor our activities until Federal regulations have been developed and promulgated and monitoring would be applicable to all states.

We believe, from discussions with other states about their duplicate check issuance and recovery problems, that Pennsylvania is far ahead in many areas such as our preventive program. We believe we are equally ahead in reviewing and strengthening our collection procedures. As we stated, we have been aware of the magnitude of the duplicate check problem since 1970 and have been taking significant steps to dramatically and effectively address the problem since that time. While we believe our success has been significant, we also recognize that more needs to be done. We have proven successful preventive programs and we are currently addressing our collection processes with equal vigor.

We trust these comments will be given thorough and careful consideration in drafting your final report.

As you directed, we are returning your two (2) copies of the proposed draft report.

Sincerely yours,


Thomas L. Hooker