

MEMORANDUM

TO: Bruce
FROM: Jofi
RE: State and Local Welfare Fraud Reform Efforts
DATE: May 17, 1994

~~cc: Kathi
Jeremy
(cc - I need this back)
BR~~
WR-FRAUD

This memo will be divided into two parts; first, I will take a look at selected state and local welfare reform efforts in recent years which offer a sense of the approaches being taken and what works and what doesn't. Second, I shall take a more macroscopic view of welfare fraud reform and offer general points on developing a sound welfare fraud program..

I. WELFARE FRAUD REFORM EFFORTS IN ACTUAL PRACTICE

Across the nation, state and local governments have taken up the cause of welfare reform with a zeal, striving to crack down on a problem that costs billions of dollars each year. Faced with rising public pressures for comprehensive changes in the system, governments have focused their efforts on perhaps the most galling aspect of the welfare system, the waste and abuse which takes place on a massive scale. In the following sections, I shall outline the efforts of several governments to crack down on welfare fraud; in no way do they present a comprehensive picture, since the vast majority of states have taken on initiatives in the last few years to tackle welfare fraud, whether in the form of a state-wide effort, or limited to selected local areas.

(1) Following a highly critical 1992 county grand jury report criticizing the Social Services Department's handling of welfare fraud, which cost the county an estimated \$70 million per year, San Diego transferred welfare fraud investigations from the Social Services Department to the District Attorney's Office. The belief that establishing a genuine criminal emphasis on welfare fraud would bring a more serious and professional approach to the investigation of fraud cases served as the reasoning behind the move. In many ways, the Social Services Department acts as the advocate of the rights and entitlements of welfare recipients; hence, it hardly can be expected to smoothly switch roles and investigate those very same people for possible fraud. Indeed, it is the District Attorney's Office which has the requisite capabilities and expertise to conduct criminal investigations.

WKS to
DOS

While monthly updates on the progress of the program have been slow in coming, general reports indicate the program is

having success in preventing welfare fraud and saving the county money. The number of applications investigated have gone up 50%, and welfare-fraud related criminal complaints have shot up more than 200%. In the period of July-December 1993, 66,000 applications for welfare were made; of these, 11% were considered suspicious and referred for investigation. Accordingly, the department denied benefits to 3459 people and discontinued payments in 1410 cases. The number of cases denied or discontinued rose 46% over the previous six-month period. While it is the prosecutor's office which now handles potential welfare fraud cases, the eligibility workers in the Social Services Department are also referring a higher percentage of cases for investigation.

Nevertheless, some critics do question the costs of the program and whether they are worth the benefits. A new unit, the Public Assistance Fraud Division in the office of the District Attorney, is responsible for all welfare fraud cases; it has a staff of 65 investigators and has a \$10.1 million budget for this fiscal year. Previously, the Social Services Department spent \$6.5 million per fiscal year on welfare fraud investigations. Critics wonder if the county is truly saving any money, if it is forced to incur such a high overhead.

The Assistant Attorney General claims to have saved \$1.5 million in payments from July to December 1993 alone; if we look at those payments from the perspective of the long-term (i.e. the fraudulent payments are not just for one month, but stretch on for possibly years), then the savings are projected to surpass \$31 million.

(2) The state of Massachusetts has established a front-end detection program, administered by the Department of Public Welfare and the Bureau of Special Investigations. The program provides for the review of applications which caseworkers suspect as fraudulent. Front-end detection has developed into a popular approach, since it offers a cost-effective means for states to screen out potential problems before they occur. The most critical obstacle facing front-end detection, however, is a lack of staff; this type of program requires a large number of investigators able to sift through applications. The Weld administration has also proposed attaching the wages of people who have been convicted of fraud and have stopped repaying the money owed. Other states, including California, New York, Texas, North Carolina, and Connecticut, now also engage in some form of front-end detection.

investigators ✓ In fact, Orange County in California established an Early Welfare Fraud Detection Program in 1982 and has saved taxpayers more than \$26 million in one 18-month period alone. The state of California has consistently touted the program as an example for other states and the nation to follow. The program utilizes investigators from the district attorney's office, who investigate applicants on the basis of tips from informants, type

of car driven, type of neighborhood and address, attire worn, and use of multiple Social Security numbers. In a study conducted by the firm of Arthur Young & Co., the money saved for the state by the program clearly exceeded the costs of operation, to the tune of \$17.3 to 26.3 billion during an 18-month period. Whereas an average of only 7.6 cases were being targeted for investigation each month under the old welfare fraud program, 142 cases were reviewed in the first year of the new program.

However, the estimated savings were reduced by about 11% to account for some applications that were first rejected but accepted later. In addition, the report does not compare the savings under the new system with those of the old one, nor does it estimate how much more expensive it is to obtain those savings by using higher-salaried district attorney's investigators instead of social workers.

(3) The state of Alabama has developed an automated claims system, whereby welfare claims can be tracked and the system can send out bills and notifications of delinquent child support payments. Alabama also has a computer matching system which compares state welfare records with IRS data.

(4) The city of Bridgeport, Connecticut, with the assistance of the state government, uncovered \$500,000 in welfare fraud last year. Through the use of the eligibility management system, or EMS, the city is provided access to files from the Social Security Department, the Department of Labor, and the Department of Motor Vehicles. The city also has access to another computer system which produces photo images of applicants and has helped expose cheaters who managed to collect multiple welfare checks by signing up under different names and Social Security numbers.

II. WELFARE FRAUD CONTROL IN PERSPECTIVE

(Note: For the most part, the sources I am using are rather old; they were published in the early 1980's. There doesn't seem to be much recent literature on the general problem of welfare fraud, although many articles are available on specific state/local efforts against fraud.)

It is important to examine the root causes of the difficulties in establishing firm welfare fraud control regimes throughout our nation. First of all, the entire ethos of the welfare system militates against strenuous efforts to cancel out deception and cheating in the welfare system. According to Hentzall et al,

the administrative agencies and legislative committees statutorily authorized to prescribe policy and operations for government benefit programs have tended to view their mission vis-a-vis these programs as one of assisting needy individuals enhance their lives through the transfer of public wealth. The focus...

has not been to try to eliminate...opportunities and incentives for defrauding benefit programs, but rather to try to facilitate the transfer of public funds (8).

Eligibility workers and welfare administrators do not enter this line of business with hopes of cracking down on "bad" welfare cheaters; they are more likely to understand the entire welfare population as a disadvantaged group who are entitled to some assistance, even if illegal.

Second, the decentralized structure of the welfare system in the U.S., where the states individually administer the AFDC programs with certain broad federal guidelines and mandates, does not permit for accountability or tight controls on waste/fraud. Perhaps an inevitable result of the system of federalism, the seemingly patchwork AFDC system across the nation makes it difficult for the federal government to launch an all-out drive against fraud. In addition, different states carry different laws and attitudes concerning what behavior is considered fraudulent.

incentives ✓
Third, both the front-line welfare caseworkers and welfare administrators have little incentive to adopt a tough attitude towards welfare fraud. While it is the federal and state government leaders who usually raise the biggest ruckus over the problem of welfare reform, they actually possess the least power to exert any action. The front-line caseworkers and welfare administrators are in the greatest position to do anything; yet, they lack the incentives necessary for motivation. In the case of the welfare caseworkers, they are usually poorly motivated and overworked, and, for the most part, are transitory employees. Zeller notes,

The caseworker has limited incentives to seek out instances of clients' not reporting changes. Wage increases for superior performance can be earned, but performance is evaluated on a variety of activities; there is no direct reward system for superior "investigative" work. (57)

penalties ✓
Finally, welfare recipients who are guilty of fraud, when caught, face little more than a slap on the wrist. The threat of criminal prosecution is little more than a threat; no prosecutor is going to waste his or her time with a routine welfare fraud case unless it garners high media coverage, a la "Welfare Queen" cases. Hence, those cases which are actually routed to the prosecutor's office from the social services/welfare office usually languish. The severest administrative penalty assessed against welfare cheaters is usually the repayment of excess benefits; this punishment offers little deterrent against would-be fraud cheaters, who at worst would have to pay back their ill-gotten gains and lose eligibility for AFDC. Few welfare recipients own assets which can be seized by the government. In other words, the current system practically invites cheating,

without providing a reasonable deterrent.

The question thus arises: are all welfare fraud control programs doomed to ultimate failure by the over-arching forces of inertial bureaucracy? Not necessarily so. Fraud prevention programs, where the focus is placed on stopping fraud before it occurs, have a much higher success rate than those programs which aim at catching fraud after it has already occurred. For example, one option is the simple task of providing better training to caseworkers so that they are better able to recognize those applications and claim information which are most likely to indicate the possibility of fraud. Other sound fraud prevention programs include quality control regimes, resource allocation (so that more resources are devoted to fraud control), and incentive systems for caseworkers. The front-end detection programs, used by both California and Massachusetts (mentioned above), are also excellent examples of fraud prevention activities.

Another sound tool for welfare fraud control programs involves the reliance on incentives/rewards as opposed to sanctions/penalties. States and localities that are given the incentive to crack down on welfare fraud are much more likely to do so than if a cloud of punishment is hanging over them; if they can share in the rewards, then they are more likely to cooperate. Hence, programs which return a certain percentage of the savings achieved to front-line caseworkers will encourage the caseworkers to be more vigilant for fraud. In addition, incentives can be better manipulated to fit the particular conditions of a state or locality than a broad restriction.

Finally, perhaps the most important aspect of a sound fraud control regime is placing accountability in a specific office. Currently, in most states, nobody is responsible for the problem of welfare fraud; it is a collective problem which has roots at every point of the bureaucracy. Accordingly, nothing gets done. Placing specific responsibility for welfare fraud detection solely in one office would bring new focus and determination to this problem; it would ensure that no other objective would compete with welfare fraud detection for time or resources. Hence, such ideas as establishing a specific welfare fraud unit in the prosecutor's office, or having the prosecutor's office "loan" several assistants to the welfare unit, would help bring focus to the overall task of fraud detection. Ideally, everyone should focus on detecting and preventing fraud; but, in reality, only the delegation of specific responsibility for this issue under a specific office will ensure results.

BIBLIOGRAPHY OF WORKS CITED

Gardiner, John, Shirley Hentzell, and Theodore Lyman. Fraud in Government Benefit Programs: Suggested State/Local Prevention Strategies. (Washington: National Institute of Justice, DOJ, February 1982).

Zeller, Florence. AFDC Payment Error Rate Case Studies: Comparative Analysis (Washington: National Academy of Public Administration, 1981).

SPECIAL

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

LRM NO: 5172

FILE NO: 1498

7/25/96

LEGISLATIVE REFERRAL MEMORANDUM

Total Page(s): 5

TO: Legislative Liaison Officer - See Distribution below:

FROM: Janet FORSGREN *Janet Forsgren* (for) Assistant Director for Legislative Reference

OMB CONTACT: Melinda HASKINS 395-3923 Legislative Assistant's Line: 395-3923
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haskins_m@a1.eop.gov

SUBJECT: ~~HHS Proposed Report~~ RE: S599, Elimination of Welfare Benefits to Fugitives
and Information Sharing with Law Officers

*WP -
Frank***DEADLINE: COB Friday, July 26, 1996**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Please review the attached report on S. 599 (see attached incoming letter).

DISTRIBUTION LIST:

AGENCIES: 7-AGRICULTURE - Marvin Shapiro - 2027201516
81-JUSTICE - Andrew Fois - 2025142141
110-Social Security Administration - Judy Chesser - 2024827148
118-TREASURY - Richard S. Carro - 2026221146

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The Honorable Joseph R. Biden, Jr.
United States Senate
Washington, DC 20510

Dear Senator Biden:

This responds to your request for the views of the Department of Health and Human Services (HHS) on that portion of S. 599 (Santorum) which would authorize state welfare offices to share with law enforcement officials information on program recipients who were fugitives from justice.

The relevant portions of S. 599 would amend several statutes authorizing federal assistance programs for needy individuals and families, including the Aid to Families with Dependent Children (AFDC) and Medicaid programs administered by HHS, to create exceptions to prohibitions on disclosure of personal information on program beneficiaries other than for program purposes. The exceptions would permit the agencies administering these programs to furnish the current address, Social Security number, and photograph of a recipient, upon request, to a law enforcement officer who notified the agency that the recipient--

- (1) was fleeing to avoid prosecution, or confinement after conviction, for a felony;
- (2) was violating a federal or state law condition of probation or parole; or
- (3) had information that was necessary for the officer to conduct the officer's official duties.

HHS believes that, for reasons including the preservation of program integrity and the protection of individual privacy, the exceptions to the general strict limits on disclosure and use of information in the files of the AFDC and Medicaid programs should not lightly be expanded. We would not object to providing exceptions, in carefully controlled and limited circumstances, in order to permit the State agencies administering these programs to furnish to law enforcement officials identifying and locator information on beneficiaries who have been charged with or convicted of serious offenses, as in the case of categories (1) and (2), above. We are, however, concerned about certain aspects of the bill and the additional category suggested in your letter with respect to persons subject to an arrest warrant.

First, we note that S. 599 would substantially lower the current standard for the showing the law enforcement officer would be required to make: whereas under the current AFDC statute the officer must "satisfactorily demonstrate" that the recipient is a fugitive felon, S. 599 would require the officer only to "notify" the welfare agency to this effect. We strongly prefer that the current standard be maintained, in effect requiring

Page 2 - The Honorable Joseph R. Biden, Jr.

persuasive documentary or other evidence before the privacy of welfare recipients may be invaded.

Second, we would object to an amendment to provide similar access with respect to individuals for whom an arrest warrant has been issued, unless the provision were limited to cases where the charge for which the individual was sought was a felony.

Third, we strongly object to category (3) above, which would permit virtually unlimited law enforcement access to locator information on any recipient. Whereas the first two categories allow access only to information on accused or convicted felons, under the third category the officer need only assert a belief that the recipient knows something related to the officer's official duties. The exception would apply even if the recipient was not under suspicion of any wrongdoing, and even if the information sought (with respect to the recipient or to someone else) concerned a matter involving no wrongdoing, or a minor civil matter or a misdemeanor rather than a felony. The proposed exception is so broad that we are unable to discern what narrower and more justifiable exception may have been intended.

Your letter also notes that certain provisions of the bill (those concerning the supplemental security income (SSI) and housing programs) would require rather than permit such sharing of information by welfare agency officials with law enforcement officers. We defer on the merits of those provisions to the Social Security Administration and the Department of Housing and Urban Development, respectively.

The Office of Management and Budget has advised that there is no objection to the transmittal of this letter from the standpoint of the Administration's program.

Sincerely,

Donna E. Shalala

DELAWARE

United States Senate RECEIVED
OF THE SECRETARY

WASHINGTON, DC 20510-0802

May 26, 1995 E

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The Honorable Donna Shalala
Secretary
Department of Health and Human Services
200 Independence Avenue S.W.
Washington, D.C. 20201

GENERAL COUNSEL OF
LEGISLATION DIVISION

Dear Madame Secretary:

I am writing with regard to the sharing of information between state welfare offices and law enforcement officials. Legislation regarding this matter has been introduced in the U.S. Senate by Senator Rick Santorum, and Delaware State Senator David Brady recently contacted me about the issue. I would appreciate your views on the matter.

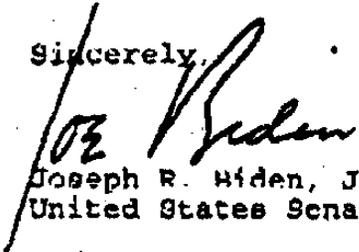
As you know, under section 409(a)(9) of the Social Security Act, states have the option of releasing to law enforcement officials the address of an individual who is receiving Aid to Families with Dependent Children if the individual is a fugitive felon and if law enforcement provides the name and Social Security number of the recipient. Some have argued that this authority should be expanded.

In March, Senator Santorum introduced legislation in the U.S. Senate that would expand the authority of state welfare offices to release information to law enforcement officials. S. 599 would, in part, require the release of the addresses of not only those welfare recipients who are fugitive felons but also those who are in violation of probation or parole.

Going one step further, State Senator Brady is interested in permitting law enforcement officials in Delaware to obtain the address of a welfare recipient for whom an arrest warrant has been issued. However, because of federal law, a state policy to this effect would be inoperative.

I would appreciate your perspectives on this matter, including your thoughts on S. 599 itself as well as on possible legislation to change the reference in current law from "fugitive felon" to "those with an arrest warrant." I look forward to having your input.

Sincerely,


Joseph R. Biden, Jr.
United States Senator

WR -
Fraud

Wilson Begins New Attack on Welfare Fraud

'One strike' would bar
convicted cheats for life

By Edward Epstein
Chronicle Staff Writer

Governor Wilson has proposed new measures to crack down on welfare fraud and on parents who skip child support payments.

Expanding on themes he has sounded throughout his term as governor, he introduced a "one strike and you're off" plan yesterday in Glendale that would permanently disqualify people convicted of welfare fraud from collecting benefits again. He estimates that such a rule would save the state \$50 million a year.

The children of disqualified recipients would still be eligible for benefits.

On Wednesday, the governor proposed allowing the state to sus-

Wilson also wants to suspend the driver's or professional licenses of parents who skip child support payments

pend the driver's or professional licenses of parents who skip child support payments.

Wilson — who is spending several days in Southern California — is making welfare reform the theme of his public appearances this week. Welfare reform is one of his favorite topics; during his term, welfare benefits have been slashed, and recipients have been encouraged to find work without endangering their benefits.

In a speech Wednesday in Huntington Beach, Wilson gave the rationale behind his license-suspension plan.

"We want to be very clear in our message to deadbeat parents: You shouldn't care more about your car payments than your child," he said. "But if you lack the decency to send love to your child, you'd better send money, or we'll hunt you down and dock your pay."

Wilson, who takes credit for many of the ideas included in President Clinton's proposal to change the federal welfare system, also said that although he backs a two-year limit for able-bodied recipients to collect welfare, he would prefer to see the limit cut to only six months.

He also criticized a provision in Clinton's plan that would allow recipients to get government-paid work if, after the two-year period expired, they still could not find a job. Wilson cited a Heritage Foundation study "that says the Clinton plan doesn't end welfare as we know it, it extends welfare as we know it."

State Treasurer Kathleen Brown, Wilson's Democratic opponent, attacked Wilson for what she called his sudden interest in delinquent child support payments.

"Absent parents in California owe more than \$3 billion in delinquent child support," she said in a statement. "But while California's children have been suffering, Pete Wilson has been nowhere."

She also pointed out that for months she has been calling for parents who miss support payments to be made ineligible for all state licenses and barred from enrolling in the state's public higher-education system.

Her campaign spokesman, John Whitehurst, also hit the "one-strike" idea. "Wilson talks tough at election time, but as governor he did nothing" about the welfare fraud issue, Whitehurst said.

8/19/94 SF
Chronicle

THE GREEN SHEET 25

Eagle-Tribune August 21, 1994
Laurson, MA

One in 10 inmates found collecting welfare in jail

State estimates fraud in 'hundreds of thousands'

By David Goldstein
Eagle-Tribune Staff

A state welfare investigation has found nearly 10 percent of the state's prison population may be collecting another welfare while behind bars.

A preliminary report based on a computer search between welfare rolls and criminal records has uncovered hundreds of inmates in their county jails collecting public assistance while serving time.

State officials expect to uncover other cases of abuse when they get the results of computer checks of prisoners at the other 10 county jails and of the 1,000 inmates in state prisons.

"We're not talking small numbers here," Welfare Department spokesman Robert Kline said. "What kind of money is involved? It has to be hundreds of thousands of dollars."

Welfare checks are supposed to stop once the recipient is in jail because jails supply all essential needs.

But in many cases the checks are never stopped, the Welfare Department found.

"The checks keep going to an old address," Mr. Kline said. "There is other money who is a representative spouse or someone who keeps the checks active or someone who brings it up to them in the jail."

The state handles about 400,000 inmates housed at Essex, Bristol, Berkshire and Hampden county jails from Jan. 1, 1993, to May 1, 1994.

There is what the state has found to date.

Nearly 10 percent, or about 400 inmates, had open welfare cases at the time of the computer search. It is against the law to collect public assistance



This Department of Public Welfare photo follows.

while in jail, and welfare officials believe 20 percent of those inmates are collecting welfare here.

How does that of the inmates collecting behind bars work? Welfare checks are issued under the state-funded Supplemental Security Income (SSI) program. It is run by the U.S. Social Security Administration. It has some other checks from Congress, the U.S. General Accounting Office and Gov. William F. Weld for rapid growth, but oversight and allowing people to collect disability payments by skimming drug convictions or education.

A list of all inmates were collecting checks from the state Department of Health, Mental and Children program, the successor to the old Department Mental program. The program provides benefits to residents who are found to be the disabled in work. Mary KALDIC, executive director of the program.

Four percent of the inmates were found collecting monthly SSI to Families with Dependent Children (AFDC). Essex County jail officials said they recently implemented a drug welfare identification check within a two-week period from inmates here sent to Framingham State Prison. The cards were sent to the Welfare Department, which was supposed that the names were in jail.

Welfare Commissioner Joseph Quinn said he was surprised at the preliminary findings and expects the numbers to be even higher when the state rolls the state Criminal History System Board is completed sometime in September.

Mr. Quinn said The Eagle-Tribune's five-part series on welfare checks was the impetus for performing computer searches with the state's prison system.

Last September, the computer search found inmates collecting welfare out of the Laurson welfare office while serving prison sentences in the Essex County jail in Middlesex.

At the time, Mr. Quinn questioned the worth of performing such searches and estimated the state would recover only a handful of double-dipps.

"I must admit when we had our conversations, I was of the opinion we were going out to the payroll there is," Mr. Quinn said. "When I saw the report, I got very excited about it."

The state has also begun doing computer searches of welfare rolls with other states to track people collecting in more than one state.

In the check of the four county jails, state officials and employees to the Social Security numbers linked from jail records with Social Security numbers of welfare recipients.

The check of 1,000 inmates in Middlesex during 1993-94 found 117 — just under 10 percent — were still collecting public assistance while serving time. Sixty of them were collecting SSI.

Another 673 inmates were found to have been on welfare before going to jail.

In all, the number of 20 inmates — 40 percent — appeared on the welfare rolls.

Welfare officials could not provide similar breakdown for the other three county jails.

Essex County Internal Affairs Director Eric Fisher said he officials are still investigating welfare checks during routine mail inspections at the jail. A large number are on SSI disability checks.

The preliminary findings for Bristol and Hampden counties consistently showed problems with the SSI program.

Welfare officials said 11 of the 200 Bristol County inmates with open cases were on SSI disability. Bristol County includes Fall River and DDP District.

Cont'd on next page

CR - what's this - BR →

- **Welfare Fraud:** Beginning in September, seven counties in NC, SC and GA will attack interstate welfare fraud through fingerprinting technology and a joint database. The technology will allow the counties to cross-check each other's public assistance rolls to assure that persons applying for benefits are not already receiving them in other states.

FOIA Requests:

- ▶ *NBC Nightly News* has requested a copy of the HCFA report on an alleged case of patient "dumping" by Kaiser Permanente and any congressional correspondence concerning this report.
- ▶ This is the first year in which states must provide details on their implementation of the Synar amendment -- actions they will take to prevent access to tobacco products by those under 18 years of age -- as a condition for receiving substance abuse prevention and treatment block grant funds. To date, five requestors have asked for information from each State and territory concerning their Synar implementation plans.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- **Management Awards:** Secretary Cuomo presented 238 communities with awards for outstanding management of housing and community development programs funded by HUD. The new John J. Gunther Blue Ribbon Practices Awards recognize the top performing cities, towns, counties, states and territories among the 1,000 communities around the nation that receive about \$7 billion in block grants and competitive awards from HUD's Division of Community Planning and Development each year for housing and community development projects.
- **Fannie Mae:** HUD approved Fannie Mae's controversial proposal to insure mortgages against a homeowner's death, disability or unemployment. Initiatives in both the House and the Senate would eliminate the tax benefit that would help Fannie Mae earn profits from the insurance.

VETERANS AFFAIRS

- **Balanced Budget:** Veterans service organizations (VSOs) continue to express concern over the balanced budget agreement and its impact on VA's discretionary accounts, particularly VA's medical care account. VSO anxiety has increased regarding the Administration's FY98 budget proposal to provide for future increases in VA medical care funding through the retention of health insurance reimbursements.
- **Tobacco:** VA's Office of Public Affairs and General Council have been working with White House Cabinet Affairs and DPC to develop a fact sheet and questions and answers in preparation for additional media inquiries on Administration legislation that seeks to prohibit service-connection of disabilities or deaths based solely on their being

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

LRM NO: 150

FILE NO: 16

1/27/95

LEGISLATIVE REFERRAL MEMORANDUM

Total Page(s): 14

TO: Legislative Liaison Officer - See Distribution below:
FROM: Janet FORSGREN (for) *Janet K. Forsgren*
Assistant Director for Legislative Reference
OMB CONTACT: Chris MUSTAIN 395-3923
Legislative Assistant's line (for simple responses): 395-7362

SUBJECT: TREASURY Proposed Testimony on Food Stamp Fraud

DEADLINE: ~~1:00 pm Monday, January 30, 1995~~

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Robert Raso will give the attached testimony on Wednesday, February 1st, before the House Agriculture Committee.

AGENCIES:

230-AGRICULTURE, CONG AFFAIRS - Vince Ansell (all testimony) - (202) 720-7095
217-JUSTICE - Sheila F. Anthony - (202) 514-2141
328-HEALTH AND HUMAN SERVICES - Frances White - (202) 690-7760
429-National Economic Council - Sonyla Matthews - (202) 458-2174

WR - Fraud

EOP:

Harry Meyers
Mark Schwartz
Marcia Occomy
Keith Fontenot
Stacy Dean
Richard Green
Shannah Koss
Wendy Taylor
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**RESPONSE TO
LEGISLATIVE REFERRAL MEMORANDUM**

**LRM NO: 160
FILE NO: 16**

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

- (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
- (2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Chris MUSTAIN 395-3923
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: _____ (Date)
 _____ (Name)
 _____ (Agency)
 _____ (Telephone)

SUBJECT: TREASURY Proposed Testimony on Food Stamp Fraud

The following is the response of our agency to your request for views on the above-captioned subject:

- _____ Concur
- _____ No Objection
- _____ No Comment
- _____ See proposed edits on pages _____
- _____ Other: _____
- _____ FAX RETURN of _____ pages, attached to this response sheet

TESTIMONY OF ROBERT H. RASOR
SPECIAL AGENT IN CHARGE - FINANCIAL CRIMES DIVISION
UNITED STATES SECRET SERVICE

BEFORE THE HOUSE OF REPRESENTATIVES COMMITTEE ON AGRICULTURE
FEBRUARY 1, 1995

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO ADDRESS THIS COMMITTEE ON THE SUBJECT OF FOOD STAMP PROGRAM FRAUD. MY NAME IS ROBERT H. RASOR, AND I AM REPRESENTING THE UNITED STATES SECRET SERVICE IN MY CAPACITY AS THE SPECIAL AGENT IN CHARGE OF OUR FINANCIAL CRIMES DIVISION.

AS A LAW ENFORCEMENT AGENCY IN THE DEPARTMENT OF THE TREASURY, THE SECRET SERVICE HISTORICALLY HAS BEEN TASKED WITH INVESTIGATING THE COUNTERFEITING OF ALL UNITED STATES OBLIGATIONS IN ORDER TO PROTECT THE INTEGRITY OF OUR NATION'S FINANCIAL SYSTEMS. SINCE THE INCEPTION OF THE FOOD STAMP PROGRAM, THE SECRET SERVICE HAS CONDUCTED CRIMINAL INVESTIGATIONS OF COUNTERFEIT FOOD STAMP COUPON OBLIGATIONS. IN ADDITION, THE SECRET SERVICE HAS DEVELOPED A PROACTIVE RISK ANALYSIS PROCESS WHICH WHEN COUPLED WITH EXISTING ENFORCEMENT EXPERTISE, HAS PRODUCED MAJOR SUCCESSSES IN COMBATTING A BROAD SPECTRUM OF FINANCIAL CRIMES FRAUD BY ADDRESSING "SYSTEM'S FIXES" IN THE BANKING, CREDIT CARD, TELECOMMUNICATIONS AND GOVERNMENT ENTITLEMENT AREAS.

CURRENT STATISTICS INDICATE THAT THE COUNTERFEITING OF FOOD STAMP COUPONS IS VIRTUALLY NON-EXISTENT. IN FISCAL YEAR 1994 THE SECRET SERVICE MADE 45 ARRESTS FOR PASSING OR MANUFACTURING COUNTERFEIT FOOD STAMP COUPONS. A TOTAL OF \$42,482 IN COUNTERFEIT FOOD STAMP COUPONS WERE PASSED OR SEIZED WITH \$24 BILLION GENUINE STAMPS

HAVING BEEN ISSUED.

THE SECRET SERVICE SEEKS TO NOT ONLY INSURE THE INTEGRITY OF THE FOOD STAMP PROGRAM AGAINST COUNTERFEITING BUT ALSO AGAINST OTHER MEANS OF COMPROMISE. SINCE 1984, THE SECRET SERVICE HAS INVESTIGATED FOOD STAMP PROGRAM FRAUD IN THE FORM OF TRAFFICKING, IN ACCORDANCE WITH THE FOOD STAMP ACT OF 1977, AS AMENDED IN TITLE 7, USC 3011-3022. THE SECRET SERVICE WILL CONTINUE TO ASSIST THE UNITED STATES DEPARTMENT OF AGRICULTURE, OFFICE OF INSPECTOR GENERAL, IN ENFORCING THIS ACT AND OTHER CRIMINAL LAWS PERTAINING TO THE FOOD STAMP PROGRAM.

THE SECRET SERVICE AUTHORITY TO INVESTIGATE FRAUD IN THE FOOD STAMP PROGRAM AND THE COUNTERFEITING OF FOOD STAMP COUPONS IS DERIVED FROM TITLE 18, USC SECTION 3056. IN PART, THE SECTION CHARGES THE SECRET SERVICE, AS A LAW ENFORCEMENT BUREAU IN THE DEPARTMENT OF THE TREASURY, WITH THE ENFORCEMENT OF CRIMINAL LAWS RELATING TO OBLIGATIONS AND SECURITIES OF THE UNITED STATES. FOOD STAMP COUPONS ARE DEFINED AS AN "OBLIGATION OR OTHER SECURITY" OF THE UNITED STATES UNDER TITLE 18, USC SECTION 8 (OBLIGATION OR OTHER SECURITY OF THE UNITED STATES DEFINED).

THE TRAFFICKING OR COUNTERFEITING OF FOOD STAMP COUPONS (FSCs), AUTHORIZATION TO PARTICIPATE CARDS (ATPCs), OR ELECTRONIC BENEFIT TRANSFER CARDS (EBTs) ALL VIOLATE SPECIFIC CRIMINAL STATUTES UNDER SECRET SERVICE PURVIEW. THESE STATUTES INCLUDE, BUT ARE NOT LIMITED TO, THE FOLLOWING:

CHAPTER 25, COUNTERFEITING AND FORGERY, OF TITLE 18, USC
SECTION 471 (OBLIGATIONS AND SECURITIES OF THE UNITED STATES);
SECTION 472 (UTTERING COUNTERFEIT OBLIGATIONS OR SECURITIES);
SECTION 473 (DEALING IN COUNTERFEIT OBLIGATIONS OR SECURITIES);
AS THEY RELATE TO THE COUNTERFEITING OF FSCs.

CHAPTER 47, FRAUD AND FALSE STATEMENTS, OF TITLE 18, USC
SECTION 1029 (FRAUD AND RELATED ACTIVITY IN CONNECTION WITH ACCESS DEVICES), AS IT RELATES TO EBTs.

ADDITIONALLY, THE FOLLOWING FEDERAL CRIMINAL STATUTES ARE APPLICABLE TO OTHER MORE GENERAL FRAUD RELATED ACTIVITY IN THE FOOD STAMP PROGRAM:

CHAPTER 31, EMBEZZLEMENT AND THEFT, OF TITLE 18, USC
SECTION 641 (PUBLIC MONEY, PROPERTY OR RECORDS) AS IT RELATES TO THE EMBEZZLEMENT OR THEFT OF GOVERNMENT MONEY/FOOD STAMP COUPONS;

CHAPTER 47, FRAUD AND FALSE STATEMENTS, OF TITLE 18, USC
SECTION 1001 (STATEMENT AND ENTRIES GENERALLY) AS IT RELATES TO AUTHORIZED MERCHANTS AND FOOD STAMP PROGRAM ADMINISTRATORS FALSIFYING STATEMENTS TO DEFRAUD THE PROGRAM;

CHAPTER 47, FRAUD AND FALSE STATEMENTS, OF TITLE 18 USC
SECTION 1030 (FRAUD AND RELATED ACTIVITY IN CONNECTION WITH COMPUTERS) APPLIES TO INTRUSIONS ON THE COMPUTER SYSTEMS THAT REGULATE THE FOOD STAMP PROGRAM.

IN ADDITION TO THE ABOVE CRIMINAL STATUTES,

CHAPTER 46, FORFEITURE, OF TITLE 18, USC
SECTION 981 (CIVIL FORFEITURE) AND

CHAPTER 95, RACKETEERING, OF TITLE 18, USC
SECTION 1956 (LAUNDERING OF MONETARY INSTRUMENTS)

PROVIDE THE SECRET SERVICE AND OTHER FEDERAL AGENCIES THE AUTHORITY TO SEIZE AND FORFEIT ASSETS RELATIVE TO FOOD STAMP PROGRAM FRAUD INVESTIGATIONS.

THE SECRET SERVICE IS NOT THE PRIMARY FEDERAL LAW ENFORCEMENT

AGENCY CHARGED WITH THE ENFORCEMENT OF LAWS RELATING TO FOOD STAMP PROGRAM FRAUD. THE UNITED STATES DEPARTMENT OF AGRICULTURE, OFFICE OF INSPECTOR GENERAL (USDA/OIG) IS CHARGED WITH THAT RESPONSIBILITY. IN JANUARY 1984, A MEMORANDUM OF UNDERSTANDING (MOU) WAS SIGNED BY THE INSPECTOR GENERAL, USDA, AND THE DIRECTOR OF THE SECRET SERVICE. THIS MOU SETS FORTH GUIDELINES FOR WHICH THIS SERVICE AND USDA/OIG WILL CONDUCT UNILATERAL AS WELL AS JOINT INVESTIGATIONS OF THE FOOD STAMP ACT OF 1977, AS AMENDED. THE SECRET SERVICE CONDUCTS EXTERNAL INVESTIGATIONS OF THE FOOD STAMP PROGRAM. EXTERNAL INVESTIGATIONS ARE DEFINED AS THOSE WHICH TARGET AN INDIVIDUAL, ENTITY, OR GROUP WHICH IS NOT DIRECTLY INVOLVED WITH THE ADMINISTRATION OF THE FOOD STAMP PROGRAM. THIS SERVICE MAY ALSO CONDUCT INVESTIGATIONS INTO AUTHORIZED RETAIL FOOD STORES WHEN INFORMATION RELATING TO CRIMINAL ACTIVITY IS OBTAINED FROM AN EXTERNAL SOURCE (E.G. CONFIDENTIAL INFORMANT). THE MOU REQUIRES THAT USDA/OIG BE NOTIFIED WHEN THIS TYPE OF INVESTIGATION IS INITIATED.

A TYPICAL FOOD STAMP PROGRAM FRAUD INVESTIGATION CONDUCTED BY THIS SERVICE OPERATES AS FOLLOWS: HAVING OBTAINED INFORMATION FROM A CONCERNED CITIZEN, MERCHANT OR A CONFIDENTIAL SOURCE, AN UNDERCOVER AGENT WILL SELL FOOD STAMPS AT A DISCOUNTED RATE TO AN AUTHORIZED MERCHANT FOR CASH OR CONTRABAND. THIS CRIMINAL ACT, REFERRED TO AS TRAFFICKING, IS COMPLETED WHEN THE COLLUSIVE MERCHANT LAUNDERS THE TRAFFICKED FOOD STAMP COUPONS BY DEPOSITING THEM INTO HIS/HER MERCHANT BANK ACCOUNT(S) FOR THE FACE VALUE OF THE STAMPS.

IN A SIMILAR SCENARIO, UNDERCOVER AGENTS WILL SELL THE FOOD STAMPS TO "BROKERS", WHO THEN RESELL THE STAMPS TO AN AUTHORIZED MERCHANT FOR DEPOSIT. IN BOTH CASES THE FOOD STAMPS ARE TRACKED BY THIS SERVICE THROUGH THE REDEMPTION PROCESS TO FINANCIAL INSTITUTIONS, WHICH ULTIMATELY FORWARD THE STAMPS TO THE FEDERAL RESERVE BANK.

IT IS IMPORTANT TO NOTE THAT FOOD STAMP INVESTIGATIONS COMPETE FOR RESOURCES WITH THE MANY OTHER INVESTIGATIVE RESPONSIBILITIES OF THE SECRET SERVICE. EVEN SO, WE HAVE INVESTIGATED LARGE SCALE FRAUD SCHEMES IN SELECTED REGIONS WHEN RESOURCES PERMITTED AND THESE CASES HAVE RESULTED IN SIGNIFICANT ARRESTS AND SEIZURES. A TASK FORCE APPROACH TO FOOD STAMP INVESTIGATIONS HAS ALLOWED US TO ACHIEVE THESE RESULTS. THE TASK FORCE CONCEPT OPTIMIZES FEDERAL AND LOCAL LAW ENFORCEMENT RESOURCES OF INVESTIGATIVE MANPOWER, EXPERTISE AND JURISDICTIONS TO JOINTLY TARGET FOOD STAMP TRAFFICKING MERCHANTS AND BROKERS.

SEVERAL SUCH INVESTIGATIONS WERE CONDUCTED BY THE SECRET SERVICE DURING 1994'S "OPERATION STAMP OUT". THIS COMBINED EFFORT BY OUR FIELD OFFICES IN SIX CITIES TARGETED FOOD STAMP TRAFFICKING BROKERS AND MERCHANTS. A TASK FORCE APPROACH WAS USED IN ALL OF THESE INVESTIGATIONS. "OPERATION STAMP OUT" CULMINATED IN THE SUMMER OF 1994, WHEN THE TASK FORCES EFFECTED OVER 100 FEDERAL AND STATE ARRESTS. IN THE DALLAS-FT. WORTH AREA ALONE, "OPERATION STAMP OUT" RESULTED IN RAIDS ON 65 TRAFFICKING STORES AND 83 ARRESTS. EACH OF THE 65 STORES WERE ESTIMATED BY STATE AUTHORITIES TO BE CONDUCTING OVER \$90,000 IN ILLEGAL FOOD STAMP TRANSACTIONS ANNUALLY. THIS INVESTIGATION REVEALED THAT THERE IS

WIDESPREAD COLLUSION BETWEEN UNSCRUPULOUS RETAIL MERCHANTS AND THIEVES WHO ARE MORE THAN WILLING TO EXCHANGE FOOD STAMP COUPONS FOR UNAUTHORIZED ITEMS. UNDERCOVER INVESTIGATORS PURCHASED GUNS, DRUGS AND CASH WITH FOOD STAMP COUPONS FROM "BROKERS" AND COLLUSIVE MERCHANTS. THE TASK FORCES FOUND THAT JUST ABOUT ANYTHING AND EVERYTHING WAS FOR SALE IN EXCHANGE FOR FOOD STAMP COUPONS. GENERALLY, THE RATE OF EXCHANGE FOR FOOD STAMP COUPONS WAS 50 CENTS ON THE DOLLAR. THIS OPERATION HELPED CONFIRM WHAT MANY SUSPECTED: FOOD STAMP COUPONS WERE AND ARE AN ALTERNATE FORM OF CURRENCY IN THE CRIMINAL ENVIRONMENT.

THE SECRET SERVICE HAS CONDUCTED SMALLER OPERATIONS IN OTHER REGIONS WITH PROPORTIONATE SUCCESS. WE WILL CONTINUE TO CONDUCT LARGE AND SMALL SCALE OPERATIONS WHEN RESOURCES AND PROSECUTORIAL PRIORITIES AFFORD US THE OPPORTUNITY.

AS IN ALL SECRET SERVICE INVESTIGATIONS, FOOD STAMP PROGRAM FRAUD INVESTIGATIONS HAVE THREE PRIMARY GOALS:

- 1) ARREST AND PROSECUTION;
- 2) IDENTIFICATION AND RECOVERY THE PROCEEDS OF THESE CRIMINAL ACTIVITIES;
- 3) IDENTIFICATION OF SYSTEMIC WEAKNESSES AND PROPOSAL OF REMEDIES TO PREVENT RECURRING CRIMINAL ACTIVITY.

THE FOLLOWING IS A PARTIAL STATISTICAL SUMMARY FOR THE SECRET SERVICE DURING FISCAL YEARS 1993 AND 1994 PERTAINING TO FOOD STAMP PROGRAM FRAUD:

	1993	1994
CASES RECEIVED:	124	270
CASES CLOSED:	144*	145
ARRESTS:	151	133
CONVICTIONS:	114	155*
MAN HOURS:	19,856	36,643

*INCLUDES SOME CASES OPENED IN PRIOR FISCAL YEAR.

OUR INVESTIGATIVE EXPERIENCE LEADS THIS AGENCY TO BELIEVE THAT THE FOOD STAMP PROGRAM IS VULNERABLE TO FRAUD. CRIMINAL INVOLVEMENT INCLUDES EMBEZZLEMENT, RECIPIENT FRAUD, FRAUD BY AUTHORIZED RETAILERS AND TRAFFICKING IN DISCOUNTED FOOD STAMPS BY EXTERNAL PARTIES.

AS PREVIOUSLY STATED, THE SECRET SERVICE NOT ONLY AGGRESSIVELY INVESTIGATES THESE CRIMINAL VIOLATIONS OF THE FOOD STAMP ACT, BUT WE ALSO IDENTIFY BY RISK ANALYSIS, SYSTEMIC WEAKNESSES THAT ALLOW FRAUD TO TAKE PLACE. ADDITIONALLY, WE PROPOSE REMEDIES TO PREVENT RECURRING CRIMINAL ACTIVITY BY SUGGESTING PROCEDURES FOR MORE SECURE PROGRAM MANAGEMENT.

TO THIS END, THE SECRET SERVICE HAS IDENTIFIED APPLICANT FRAUD GENERALLY, AS A RECURRING SYSTEMIC WEAKNESS THAT RESULTS IN CRIMINAL ACTIVITY SUCH AS TRAFFICKING. APPLICANT FRAUD OCCURS WHEN AN INDIVIDUAL APPLIES FOR BENEFITS IN MORE THAN ONE NAME AND PRODUCES FALSE IDENTIFICATION DOCUMENTS TO PROVE HIS/HER IDENTITY. THIS FORM OF FRAUD, WHICH OCCURS NOT ONLY IN THE FOOD STAMP

PROGRAM BUT ALSO IN OTHER GOVERNMENT ENTITLEMENT PROGRAMS, ALLOWS THE CRIMINAL TO OPEN, ACCESS AND OBTAIN FUNDS FROM MULTIPLE ACCOUNTS. ELIMINATION OF FRAUD IN THE APPLICANT PROCESS BY MORE STRINGENT VERIFICATION PROCEDURES WOULD TAKE FOOD STAMPS OUT OF THE HANDS OF RECIPIENTS WHO APPEAR NOT TO NEED FOOD ASSISTANCE AND INSTEAD TRAFFIC THEIR STAMPS FOR CASH OR CONTRABAND. WITHOUT THE COOPERATION OF THE RECIPIENT, THE MIDDLE-MAN OR BROKER AND THE COLLUSIVE MERCHANT IN ALL LIKELIHOOD WOULD NOT EXIST. THUS, RELIABLE APPLICANT VERIFICATION MAY SIGNIFICANTLY HELP IN REDUCING FOOD STAMP TRAFFICKING.

THE SECRET SERVICE HAS OBSERVED IN OUR INVESTIGATIONS THAT APPLICANT FRAUD IS A SYSTEMIC PROBLEM WHICH CONSISTENTLY APPEARS IN ALL FORMS OF COMMERCIAL AND GOVERNMENT PAYMENT PROGRAMS. FURTHERMORE, THE SECRET SERVICE HAS FOUND THAT APPLICANT FRAUD IS FREQUENTLY NOT ADDRESSED, PRIMARILY BECAUSE FRAUD MUST BE FIRST DETECTED BY PROGRAM AGENCIES AND THEN REFERRED TO LAW ENFORCEMENT AGENCIES FOR INVESTIGATION. FEW METHODS ARE AVAILABLE TO DETECT APPLICANT FRAUD, THEREFORE, THIS TYPE OF FRAUD IS NORMALLY NOT IDENTIFIED AND NEEDED CRIMINAL INVESTIGATIONS ARE NOT CONDUCTED. OUR INVESTIGATIONS OF MULTIPLE APPLICATION FRAUD GENERALLY HAS LED US TO CONCLUDE ONLY PRO-ACTIVE PREVENTIVE MEASURES CAN DETER THIS RECURRING PROBLEM. A METHOD TO REDUCE APPLICANT FRAUD IS RELIABLE VERIFICATION OF THE APPLICANT'S IDENTITY. THE SECRET SERVICE HAS DETERMINED THAT RELIABLE APPLICANT IDENTITY VERIFICATION IS AVAILABLE BY USE OF BIOMETRIC IDENTIFIERS.

BIOMETRICS IS A DISTINCTIVE MEANS OF INDIVIDUAL IDENTIFICATION,

SUCH AS PHOTOGRAPHS AND FINGERPRINTS. FOR APPLICATION VERIFICATION PURPOSES, FINGERPRINT IDENTIFICATION OFFERS THE GREATEST ADVANTAGE.

STATE OF THE ART TECHNOLOGY IN FINGERPRINT IDENTIFICATION IS AVAILABLE IN THE AUTOMATED FINGERPRINT IDENTIFICATION SYSTEM (AFIS). THIS COMPUTER DRIVEN SYSTEM SERVES AS A DEPOSITORY FOR ELECTRONICALLY SCANNED FINGERPRINT FILES AND TECHNOLOGY ALLOWS FOR A RAPID COMPARISON OF THESE RECORDS. IT IS IMPORTANT TO NOTE, THIS SYSTEM IS NOT A "TEN PRINT" PROCEDURE USED FOR CRIMINAL IDENTIFICATION PURPOSES.

AFIS TECHNOLOGY IS CURRENTLY SUCCESSFULLY BEING USED IN THE AUTOMATED FINGERPRINT IMAGE REPORTING AND MATCH (AFIRM) SYSTEM OF THE LOS ANGELES COUNTY WELFARE SYSTEM TO VERIFY THE IDENTITY OF ALL APPLICANTS AND DEFEAT FRAUDULENT APPLICATION SCHEMES. THE AFIRM SYSTEM WAS DEVELOPED IN RESPONSE TO ESCALATING MULTIPLE IDENTITY FRAUD CASES IN THE LOS ANGELES COUNTY GENERAL RELIEF PROGRAM AND WAS LATER EXPANDED FOR USE IN THE AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) PROGRAM. IT IS DESIGNED TO VERIFY THE UNIQUE IDENTITY OF EACH CLIENT, PERMITTING THE GENERAL RELIEF AND AFDC CASEWORKERS TO FOCUS ON THE OTHER REQUIREMENTS OF ADMINISTERING AID TO THOSE WHO ARE LEGITIMATELY ELIGIBLE. AFIRM WORKS BY ELECTRONICALLY CAPTURING THE FINGERPRINTS OF THE INDEX FINGERS ON EACH HAND OF THE PAYEE AND ALL OTHER RECIPIENTS IN A CASE. THE PRINTS ARE THEN MATCHED TO A DATABASE CONTAINING FINGERPRINTS FOR ALL OTHER CASES.

IT IS THE OPINION OF THE SECRET SERVICE THAT AFIRM IS AN EXCELLENT EXAMPLE OF THE PRACTICAL USE OF BIOMETRIC TECHNOLOGY TO DETER APPLICANT FRAUD IN THE SOCIAL WELFARE SETTING. AFIRM HAS SHOWN TO BE A FAIR, ACCURATE, USER-FRIENDLY, RELIABLE, QUICK AND COST EFFECTIVE METHOD OF DETERMNING WHETHER AN APPLICANT IS ALREADY RECEIVING AID UNDER MULTIPLE IDENTITIES.

MR. CHAIRMAN, I WOULD ALSO LIKE TO BRIEFLY DISCUSS THE NEW INITIATIVE IN THE AREA OF ELECTRONIC BENEFITS TRANSFERS. ONE YEAR AGO, ON FEBRUARY 2, 1994, I TESTIFIED BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY CONCERNING FOOD STAMP PROGRAM FRAUD AND EBT SECURITY. DUE TO THE SIMILARITIES IN THE FRAUD INVESTIGATED BY THE SECRET SERVICE IN THE COMMERCIAL CREDIT CARD INDUSTRY AND THAT WHICH WILL POTENTIALLY OCCUR IN GOVERNMENT EBT SYSTEMS, THE SECRET SERVICE WAS REQUESTED BY THE COMMITTEE'S CHAIRMAN, SENATOR PATRICK LEAHY, TO ADVISE THE NATIONAL EBT TASK FORCE ON SECURITY PROCEDURES THAT SHOULD BE IMPLEMENTED IN THE DESIGN OF THE NEW EBT CARD.

THE SECRET SERVICE IS THE PRIMARY FEDERAL AGENCY CHARGED WITH ENFORCEMENT OF TITLE 18, USC 1029 (FRAUD AND RELATED ACTIVITY IN CONNECTION TO ACCESS DEVICES), AND TITLE 18 USC 1030 (FRAUD AND RELATED ACTIVITY IN CONNECTION WITH COMPUTERS). BY DEFINITION, THE EBT SYSTEM SHOULD CONFORM TO THESE STATUTES FOR INVESTIGATIVE AND PROSECUTORIAL PURPOSES.

FRAUD IN BOTH CREDIT/DEBIT AND EBT CARD SYSTEMS INVOLVES THE UNAUTHORIZED USE OF AN ACCESS DEVICE, DEFINED AS ANY NUMBER USED

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TO ACCESS CASH, GOODS OR SERVICES. THIS AGENCY HAS PROVEN EXPERTISE IN INVESTIGATING CRIMES RELATING TO CREDIT/DEBIT CARDS. THE EBT CARD WILL PRESENT SIMILAR CHALLENGES TO INVESTIGATORS INVOLVED WITH THIS NEW PROGRAM. I CANNOT EMPHASIZE ENOUGH THE IMPORTANCE OF PROVIDING APPROPRIATE SECURITY FEATURES IN THE EBT CARDS AND CORRESPONDING SAFEGUARDS IN THE COMPUTER SYSTEM MAINTAINING THIS PROGRAM TO PREVENT THE RECURRING EXPLOITATION.

THE SECRET SERVICE SUPPORTS THIS COMMITTEE'S EFFORTS TO DEVELOP AN ELECTRONIC BENEFIT TRANSFER SYSTEM THAT WILL PROVIDE PROTECTION AGAINST DIVERSION OF RECIPIENT BENEFITS. THE SECRET SERVICE WILL BE HELPPUL IN THESE TYPES OF INVESTIGATIONS, AND CONTINUE TO IDENTIFY SYSTEM WEAKNESSES THAT PERPETUATE FRAUD.

I WILL ALSO ADD, MR. CHAIRMAN, THAT THE EBT SYSTEM MAY REDUCE THE ADMINISTRATIVE COST OF THE FOOD STAMP PROGRAM AS SOME RESEARCH HAS INDICATED. IN ADDITION, THE SYSTEM SHOULD BE DESIGNED AND IMPLEMENTED IN A MANNER THAT ATTEMPTS TO REDUCE THE POTENTIAL FOR ABUSE BY COLLUSIVE MERCHANTS AND FRAUDULENT RECIPIENTS.

IN CLOSING, THE SECRET SERVICE SUPPORTS INITIATIVES WHICH SPECIFICALLY INCORPORATE MEASURES DESIGNED TO MINIMIZE FRAUD, WHILE STILL MEETING PROGRAM GOALS. BOTH OBJECTIVES ARE NOT MUTUALLY EXCLUSIVE. TO THE CONTRARY, INCORPORATION OF TECHNOLOGY AND SYSTEMIC SAFEGUARDS RESULTS IN BETTER RESOURCE ALLOCATION IN BOTH ARENAS. THE POTENTIAL FOR FOOD STAMP RECIPIENTS BEING COMPROMISED WILL CONTINUE TO BE A CONCERN. HOWEVER, IT IS IN EVERYONE'S INTEREST THAT ANY RESULTANT LEGISLATION INCLUDE

PROVISIONS WHEREBY THAT POTENTIAL FOR COMPROMISE IS MINIMAL.

THAT CONCLUDES MY PREPARED REMARKS. I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU, OR MEMBERS OF YOUR COMMITTEE, MAY HAVE AT THIS TIME.

WR found

Albany Study Finds Fraud In Welfare

4,200 Took Payments From 2 Different States

By IAN FISHER
Special to The New York Times

ALBANY, Aug. 2 — In a new attack against welfare fraud around the region, computers that compared public assistance rolls in six states found more than 4,200 people who apparently received benefits both in New York and in another state, Gov. Mario M. Cuomo announced today.

State officials, who matched data from surrounding states for the first time, could not estimate how much the fraud cost taxpayers. But officials in New York City — where three-quarters of the double-dipping recipients claimed one of their addresses — said the data provided by the study could save them up to \$3 million as they strike offenders from welfare rolls.

The number of offenders that turned up in the comparison of welfare data for the month of June represents a tiny fraction, less than 1 percent, of the 2.8 million people who receive benefits in New York, including all those who receive food stamps and Medicaid.

But in an election year when welfare has emerged as an issue emblematic of the high cost of government, officials said the program was yet another way the state could crack down on fraud. After a bitter battle this summer, the New York State Legislature allowed 12 counties to take electronic fingerprints of welfare recipients, and New York City plans its own program. New Jersey is also instituting a finger-imaging pilot program.

"New York is committed to providing welfare benefits for those who deserve them," Mr. Cuomo said in a statement. "We're equally committed to keeping peo-

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ple who don't deserve assistance off the welfare rolls."

A spokeswoman for New York City's Human Resources Administration said that although the numbers were small, her department considered the savings substantial and the new technology to combat such fraud promising.

"In the age before computer technology it made this kind of thing easy and much more difficult to detect," said the spokeswoman, Karen Calhoun. "Now with the expansion of automation, we should be able to eliminate it entirely."

Of the 4,218 names matched, the state with the highest number of people drawing double benefits was New Jersey, which had 1,543 people on welfare rolls in both states. In fact, New York and New Jersey developed their agreement to share computer data last spring after investigators discovered hundreds of people coming to New York City from Newark, often by jumping train turnstiles, to draw additional benefits.

"Remember the turnstiles — that was something that pointed out to us that a real problem could be going on across state lines," said Winnie Comfort, a spokeswoman for the New Jersey Department of Human Services. Authorities who detained people for jumping PATH train turnstiles last year found a number of them carried welfare identification cards for both New York and New Jersey.

Numbers for the other states were 1,457 matches for Pennsylvania, 670 for Connecticut and 548 for Massachusetts. Vermont was included in the check, but the numbers had not been tabulated by today.

At Mr. Cuomo's request, the states sent computer tapes to Albany with basic information — names, Social Security numbers, address and age — only for the month of June, though officials said they expect to continue the program at least four times a year. The states compared data on recipients of Aid to Families with Dependent Children, home relief, medical assistance and food stamp programs.

County Investigations

Terrance McGrath, a spokesman for the New York State Department of Social Services, said that benefits would be dropped immediately for anyone with computer matches of Social Security number, age and address, and that the department would consider criminal charges. He said welfare workers in individual counties would investigate cases that were less clear.

Ms. Comfort cautioned that some cases could be legitimate: there could be honest mistakes like a family in the process of moving collecting some benefits in one state and other benefits in another.

The report set off a round of political maneuvering in Albany as the Republicans who control the Senate called the numbers "outrageous proof" of the need for finger imaging statewide. State Senator Joseph R. Holland, Republican of Rockland County, said the report points to much greater welfare fraud and questioned why Mr. Cuomo had not thought to institute cross-state checks before.

Mr. McGrath said, however, that the report did not contradict state estimates that fraud accounts for no more than 2 percent of all public assistance payments.

Anne Erickson, an advocate for welfare recipients, said the small number of people caught in the computer matches showed that fraud was not as widespread as has been portrayed and perhaps even less than the state guesses.

'Tempest in a Teapot'

"This really proves without a doubt how minuscule the fraud problem really is," Ms. Erickson said. "It shows we are talking about a tempest in a teapot."

Mr. McGrath, noting that the state already performs its own computer checks of people on public assistance, said he could not provide any estimates of how much the fraud cost because the data, a one-month slice of the system, did not show how long people had been on public assistance.

He said, however, that the average monthly payment under Aid for Dependent Children is \$577 for a mother with two children. An average food stamp payment for such a family would be \$230 a month, he said.

For home relief, or the general assistance usually given to single people, the average is \$350, with an average of another \$100 in food stamps, he said.

THE NEW YORK TIMES, WEDNESDAY, AUGUST 3, 1994

Inmates found on welfare

WELFARE
FRAUD

699 are taken off rolls; 770 other cases probed

By Don Aucom
GLOBE STAFF

State officials disclosed yesterday that nearly 700 inmates at state prisons and county jails were collecting welfare and have been removed from the rolls.

The cases of another 770 inmates were referred to federal authorities when investigators found they may be illegally receiving federal Supplemental Social Security (SSI) or Medicaid payments.

Gov. Weld has come under fire since reports surfaced in August that inmates at county jails were illegally on welfare. The administration responded by launching a search of the prison system as part of an ongoing multifaceted crackdown on welfare fraud.

Overall, more than 10,000 people have been kicked off welfare this year as the state targeted prison inmates, double-dippers from other states, and welfare fraud cases involving workers' compensation and unreported income.

"We said we were going to do this last fall, and we did it," said Charles D. Baker, Jr., secretary of health and human services.

Baker said he did not know the cost to the state of the prison welfare fraud because it is unknown how long the recipients were simultaneously collecting welfare and serving prison time.

Rep. Mark Roosevelt (D-Beacon Hill), the Democratic gubernatorial nominee, has criticized Weld repeatedly because of the state's preliminary estimate, based on

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99 inmates kicked off welfare

Eligibility lower than expected, but 770 more fraud cases eyed

WELFARE
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from four county jails, that only 10 percent of the state's prison population may be collecting welfare.

Preliminary estimates off
But the final figure is far lower than that estimate. Welfare spokesman Robert Bliss said that the count sampled for the preliminary estimate proved to have a disproportionately high number of inmates collecting welfare.

Roosevelt campaign spokesman Wood said the new findings do alter Roosevelt's belief that Weld mismanaged the welfare system. There should be no inmates getting welfare, Wood said last night. "If the money is still gone, this is just further indication that, after 3 1/2

years, they still haven't cleaned up the problem."

Under federal law, welfare checks are supposed to stop when a recipient is sent to jail.

But when state welfare officials ran a computer match between welfare rolls and the criminal records of 20,000 inmates in county jails and state prisons, they found that 699 inmates were listed as eligible for either Aid to Families with Dependent Children, food stamps or emergency assistance. More than 400 of them were in county jails or houses of correction.

All 699 were taken off the rolls last month.

However, Bliss noted that some of the inmates identified were incarcerated for brief periods.

Some of these cases — we don't know how many — might not have involved fraud since the application for

welfare may have occurred before or after the incarceration period," Bliss said.

Nonetheless, state officials have opted to end the welfare eligibility of anyone whose name turned up in the computer match of criminal records and welfare rolls.

"We're trying to be safe here rather than sorry," said Bliss. "If it turns out somebody has been tossed off who shouldn't have been tossed off, they'll be right back on."

Other cases of fraud

The welfare fraud crackdown ranged in several other directions as well.

- Welfare checks were halted to nearly 8,000 recipients who had gotten jobs but failed to notify the state. They were trapped up by a new requirement that all employers report new hires to the state Department of Revenue within 14 days.

- More than 1,000 people were removed from the welfare caseload because they had not alerted the state to workers' compensation settlements awarded to them. Such settlements make recipients ineligible for welfare because they exceed the income guidelines.

- Interstate computer matches designed to root out so-called "double-dippers" collecting welfare in two states have so far uncovered 131 people in New York illegally collecting welfare from Massachusetts, 30 in New Hampshire, 15 in Rhode Island and 110 in Connecticut.

- Another 1,300 potential welfare fraud cases were prevented under the state's new "front-end fraud detection" program, which relies partly on a fraud hot line with an 800 number. Baker said that the state is emphasizing that approach, rather than playing the pay-and-chase game, once recipients are on the



"We said we were going to do this last fall, and we did it."

CHARLES D. BAKER JR.
Secretary of health and human services

rolls.

Caseloads differ in counties

Overall, the welfare caseload has dropped from 114,000 families to 107,000 in the past year, according to Baker. He acknowledged that the state's economic turnaround has played a role.

Some counties had more inmate welfare cases than others, said Bliss. For instance, nearly one-fifth of the cases were found in Bristol County, 16 percent turned up in Hampshire County, and 12 percent were in Worcester County.

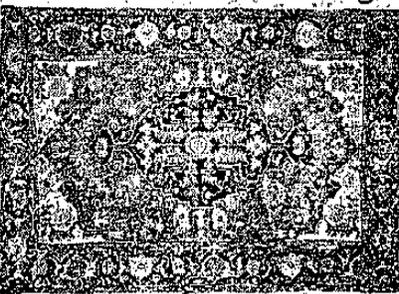
By contrast, fewer than 3 percent turned up in Berkshire County and fewer than 5 percent in Franklin County.

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AM-Welfare Fraud, Bjt, 780

Clinton's Budget Cuts Federal Spending on Welfare Fraud Investigations

By JENNIFER DIXON - Associated Press Writer -

WASHINGTON (AP) President Clinton is quietly scaling back the federal government's commitment to help states investigate welfare and food stamp fraud, by some estimates more than a billion-dollar problem.

The administration's plan would force states to pick up a bigger share of the cost of finding welfare recipients who work off the books, hide assets, collect multiple checks or sell food stamps on the black market.

But states, starved for cash and strapped by unparalleled growth in their welfare rolls, say they do not have the money to cover the loss in federal dollars and may have to shrink their anti-fraud programs.

"You will see the ripoff artists and the sleazy subculture that's trying to rip off this program quickly move to exploit the fact that the states are going to be in tough shape fighting fraud," predicts Rep. Ron Wyden, D-Ore., who has spent five years investigating food stamp fraud.

Adds Donna FitzGibbon, president of the Wisconsin Council on Welfare Fraud: "It's like leaving the vault at the bank open and hoping nobody walks by and takes the money. Ninety percent won't, but what about the other 10 percent?"

Even the largest government estimates of fraud are not that high. Congressional officials now peg food stamp fraud at \$1 billion a year while the HHS Inspector General found that as early as 1987 fraud in Aid to Families with Dependent Children (AFDC) was a "billion-dollar problem." The government will spend \$22.4 billion on food stamp benefits and \$23 billion on AFDC benefits this year.

But Robert Greenstein, a former Agriculture Department official who now heads the Center on Budget and Policy Priorities, an advocate for the poor, argues that the government has no good data on the extent of welfare fraud.

Martha Armstrong, president of the United Council on Welfare Fraud, an organization of fraud investigators, estimates that fraud occurs in 5 percent to 10 percent of households on welfare.

"I wouldn't call it rampant, but you have to be concerned when looking at the amount of benefits paid nationwide," said Armstrong.

The federal government now gives the states \$3 for every \$1 they spend controlling fraud in food stamps and AFDC. Clinton wants to split those costs 50-50.

He also wants to split evenly the costs of computer automation and screening illegal aliens from the welfare rolls. The federal government now covers 90 percent of a state's automation costs for AFDC, 63 percent of food stamp automation costs, and 100 percent of the cost of the Systematic Alien Verification System.

The House and Senate lowered the matching rates in their versions of the president's budget-cutting legislation. Lawmakers are negotiating a compromise.

The so-called enhanced matching rates were adopted in the 1980s or earlier to encourage states to establish anti-fraud programs or upgrade their computers.

But now that states have had several years to get the programs going, the administration thinks it is time to bring the matching rate in line with the 50-50 split used for other administrative expenses, says Health and Human Services spokeswoman Melissa Skolfield.

"This does not signal and should not be interpreted as a signal of a reduced federal commitment to fighting fraud," she said.

And Greenstein says it is predictable that state bureaucrats would raise the red flag in a bid to save their budgets. But he does not think they will really cut their fraud fighters.

"If a governor proposes to cut (efforts against) welfare fraud, his political opponents will come down on him like a ton of bricks," Greenstein says. "The best way to get attention is to say we won't do as much on

welfare fraud. It's the right strategy for a state bureaucrat but I don't believe it.'

States spent \$43.6 million last year to investigate food stamp and AFDC fraud while HHS and USDA chipped in another \$131.2 million.

The National Conference of State Legislatures says states would have to spend an additional \$371 million over five years to cover the loss in federal money for fraud hunting and computerization.

Art Hamilton, minority leader in the Arizona House and president of the conference of state legislatures, has warned lawmakers that the cuts could force states to downsize fraud programs unless their fiscal conditions unexpectedly improve,

'So much money is sloshing about in the system that if you don't have good oversight it's just heaven for the ripoff artists,' Wyden says. 'We should be beefing up, not cutting back.'

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January 11, 1994

THE MILWAUKEE JOURNAL

WR-FEND

Budget repairs

Metro

Thompson to fund welfare probes

Clinton cut money for catching fraud

By DARRYL ENRIQUEZ
of The Journal staff

Gov. Tommy G. Thompson has included \$2.4 million in his budget repair bill to ensure the continuation of welfare fraud investigations, one of his top administrators said Tuesday.

President Clinton's economic package cut sharply the amount of federal dollars for welfare fraud investigations, leaving the state and counties to decide whether to pick up the shortfall or discontinue the investigations.

Thomas Brophy, director of the Milwaukee County Department of Human Services, had said he would suspend welfare investigations if the county was forced to use property tax money to pay for them. He could not be reached for reaction to Thompson's proposal.

Gerald Whitburn, secretary of the state Department of Health and Social Services, said county officials from throughout the state urged the governor to restore the money.

The federal government had been contributing \$3 to every \$1 spent by the state and counties on welfare fraud investigation.

Beginning in April, federal contributions will be cut to a dollar-for-dollar match.

"The governor's sense is that this is no time to be lightening up on welfare fraud investigation," Whitburn said. "Thompson agrees with the concern of county officials across the state that efforts in this area ought to be maintained."

Investigators attempt to catch cheaters who abuse Wisconsin food stamp and Aid to Families with Dependent Children programs in 72 counties and five

tribal governments. The annual aid totals \$4 billion statewide.

Investigators verify the accuracy of applications and check out complaints about recipient cheating.

US CUTS CALLED MISTAKE

"The Clinton administration's cutting federal support for welfare fraud investigation is a major mistake," Whitburn said. "It's a wrong signal to send. It's unfortunate that the new administration is backing away from this obligation."

In defending the cuts, Democrats say the program began with an enlarged match to encourage states to get welfare investigations up and running. The states, they say, have much to lose if they don't come up with funds to cover the cutbacks.

In 1993, the state contributed about \$660,000 to counties that spent about \$100,000 of their own money verifying applications. The federal match brought the total to about \$3.1 million. Whitburn said.

For welfare fraud investigations, the state contributed \$1.57 million matched with federal money, bringing the total to \$6.3 million, Whitburn said.

With the federal aid cut to a dollar-for-dollar match, the state would have got \$760,000 less in aid for application verification and \$1.57 million less for investigations than it would get under the new plan — for a \$2.33 million loss. That potential loss is what prompted Thompson to seek the extra \$2.4 million from the Legislature.

If approved by the Legislature, the money would carry the state through July 1, 1995.

Advocates of welfare fraud-fighting measures were happy with Thompson's plan to restore the money.

"By making the choice to restore all the money, he's putting the state in the forefront of welfare reform and welfare fraud reform," state Rep. David Prosser (R-Appleton) said. "It's very important for Wisconsin to show the way for the rest of the country."

The National Convention of Welfare Fraud Investigators will be held in Milwaukee in September.

David S.

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WR Files

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~PM-Welfare Overpayments, Bjt,770<

~Welfare Mistakes and Fraud Cost \$1 Billion<

~With PM-Welfare Overpayments-States<

~By JENNIFER DIXON=

~Associated Press Writer=

WASHINGTON (AP) - State agencies overpaid welfare recipients by \$1 billion in 1991 because of fraud and mistakes, according to a federal survey.

At the same time, thousands of other low-income families with children were improperly denied welfare benefits by state and county workers responsible for deciding eligibility for Aid to Families with Dependent Children.

The survey by the Department of Health and Human Services measures mistakes by agency employees and fraud and errors by welfare recipients. It found that overpayments accounted for \$1 billion of the \$20.7 billion paid to low-income families in 1991, an error rate of 4.96 percent and the lowest on record.

Conservative welfare experts say the survey fails to measure more sophisticated or hard-to-catch fraud by recipients who work off the books or by using phony IDs, hide assets, claim fictitious children, or double dip and collect benefits in two states or counties.

But liberals complain that caseworkers put more effort into keeping errors down than helping single mothers on welfare become self-sufficient.

The question of welfare fraud is especially sensitive as the Clinton administration drafts a plan to pump billions of new dollars into the welfare system to help low-income mothers get the skills, education and child care they need to get off welfare and into the work force.

Efforts to fight welfare fraud are rarely mentioned in the administration's draft plans to overhaul AFDC. And the Clinton administration on April 1 began cutting back the federal government's share of the cost of investigating both AFDC and food stamp fraud.

States and the federal government divide the expenses of running AFDC and providing cash benefits to 5 million low-income families with children. State or local employees decide eligibility and investigate fraud.

Rep. Ron Wyden, D-Ore., chairman of the House Small Business subcommittee on regulation, says the AFDC survey is the latest evidence of substantial fraud in the nation's welfare programs, set against a backdrop of federal cuts for local fraud investigators.

"These are potential daggers aimed at the heart of welfare reform," said Wyden.

"If you have mistakes in both directions - deserving people losing out and people who are undeserving taking advantage and exploiting the system - it undermines your ability to show that the government can really use resources wisely and implement overall reform," Wyden said.

In addition to the overpayments, the government's survey shows that tens of thousands of families were improperly denied benefits, including 15,057 in Texas, 13,266 in Florida and 11,955 in California.

Mike Genest, deputy director for welfare programs in the California Department of Social Services, is also critical of the Clinton administration for cutting spending on anti-fraud efforts. He said welfare fraud has been ignored by officials drafting the president's welfare reform plan.

"You can save a lot of money in welfare, without hurting anyone who really needs it, by clamping down on fraud," Genest said. "They need to put welfare fraud prevention and detection somewhere at the top of the welfare reform agenda."

expert for the conservative movement. "That's the tip-of-the-iceberg," Rector said.

But Robert Greenstein, executive director of the Center on Budget and Policy Priorities, a liberal research and advocacy organization for the poor, said there is no evidence to support such claims.

Welfare experts say that about 40 percent of the documented overpayments are the fault of recipients, who either intentionally or mistakenly misrepresent their incomes and assets. The rest are blamed on caseworkers, who must navigate complex eligibility rules that vary from one welfare program to another.

"The main emphasis in the welfare system today is on determining eligibility," Greenstein said. "There is more emphasis on getting the error rate down and less emphasis on transforming the system in other ways to get people off the rolls and into jobs more quickly."

A senior administration official, speaking on condition of anonymity, said the president's welfare reform task force will recommend that the plan include a national database to track welfare recipients nationwide.

The system would allow states to catch double dippers and parents who reach the plan's two-year limit on benefits and then move to another state to get on the rolls again, as well as monitor child-support payments.