

**FRAUD  
PREVENTION  
INVESTIGATIONS**

*FY 00*

***COST BENEFIT  
ANALYSIS***

***OIG 00-0322***



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## **EXECUTIVE SUMMARY**

The Fraud Prevention Investigations (FPI) program targets error-prone public assistance applications containing suspicious information or meeting special criteria for pre-eligibility investigation. The program is administered through 23 Cook County Illinois Department of Human Services (DHS) local offices and the program's goal is to prevent ineligible persons from receiving welfare benefits, thereby saving tax dollars.

In fiscal year 2000, FPI posted the largest annual savings to date. The Bureau of Investigations (BOI) calculated the estimated net savings at more than \$8.7 million for all assistance programs – Temporary Assistance for Needy Families (TANF), Medicaid and food stamps. Substantial savings are derived from this program and are shared between IDPA (Medicaid - 55%) and DHS (TANF/Food Stamp - 45%) programs, with Medicaid savings on the rise. Generating 3,913 investigations, the program tracked 2,038 cases that were either reduced or denied benefits.

By broadening operations and streamlining the process, the program experienced an increase of nearly 122% in annual investigations and a jump of more than 92% in the annual net savings, compared with fiscal year 1999. Since FPI began in Illinois, the program's estimated total net savings have reached nearly \$23 million (see Appendix A, page 5).

## OVERVIEW

The FPI program's success has been the result of the cooperation of the Office of Inspector General (OIG), DHS local offices and the private contractor, Paul J. Ciolino & Associates, to detect and prevent fraud in TANF, Medicaid and food stamps during the application process. Ciolino & Associates has conducted the fraud prevention investigations in Cook County since the program's implementation in 1996. The state again contracted with Ciolino & Associates in February 1999 after a competitive procurement process.

The OIG and DHS' Division of Community Operations developed the error-prone referral criteria used by local office staff to identify applications for referral to the FPI program. The criteria was revised effective with fiscal year 2001 referrals.

Local office intake staff sends referrals by messenger to the BOI's Cook County office <sup>1</sup>. The FPI contract monitor, a BOI employee, reviews the referral the same day it is received and determines if it warrants investigation. If it does not warrant further review, the monitor discusses the reasons with the DHS local office staff. If the referral does warrant investigation, the FPI contractor monitor enters the case and referral information into the FPI database. The contractor then retrieves the case by electronic link from the FPI database, and the completed investigation report is returned to BOI in the same manner.

The contractor must complete its investigation within five days for food stamp applications and eight days for TANF and Medicaid applications, which allows prompt decisions on whether to approve or deny benefits to applicants. The time frames help the state act quickly to prevent benefits being paid to persons who are not eligible, which is the FPI program's goal.<sup>2</sup>

Generally, each investigation includes a visit to the applicant's home and, whenever possible, an interview with the applicant or other household members. The investigation also may involve contacts with employers, landlords, neighbors, school officials and others to get reliable and pertinent information.

The monitor reviews the report to decide if the investigation was satisfactory, examining it for timeliness, facts, findings and supporting documentation. The monitor makes recommendations as to whether the application should be approved or whether benefits should be denied or reduced. The report with a recommendation is sent to the DHS local office, which makes the eligibility determination.

BOI staff works closely with DHS local offices and the contractor's employees to ensure quality and efficiency. BOI staff make monthly outreach visits to talk with DHS intake administrators and local office staff to answer questions and address concerns. Out of the 3913 cases investigated there were

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<sup>1</sup>Future plans for the FPI program in FY2001 are to conduct an electronic referral pilot at one of the DHS local offices.

<sup>2</sup>Applications are sometimes approved but are subsequently canceled immediately after the investigation.

three inquiries about the FPI program and one complaint against the contractor from clients. All were appropriately handled.

## **COST BENEFIT ANALYSIS**

The net savings realized by the project must be weighed against the costs of operating the program. The net savings represent the denial, reduction or cancellation of TANF, Medicaid and food stamp benefits. In fiscal year 2000, BOI estimated net savings of \$8,724,320, an increase of 92% over the amount identified in fiscal year 1999.

Costs associated with the project include department staff salaries, fringe benefits, travel expenses, indirect costs and the contract with the private firm. Three full-time Department professional staff members worked on the project and one temporary clerical, who did data entry and routed reports. The combined BOI staff salaries, benefits and travel amounted to \$119,734.

During fiscal year 2000, the same information was used as last fiscal year to determine DHS' administrative costs for the FPI program. DHS local office intake staff spent an estimated 30 minutes per case and local office administrative staff spent an estimated three minutes, determining if they should refer a case to the contractor monitor.<sup>3</sup> Using the amount of time devoted to each case, it was calculated that local office administrative and staff salaries, fringe benefits and indirect costs totaled \$59,563. The BOI and DHS administrative costs for the program in fiscal year 2000 totaled \$179,297.

There were 3913 cases referred to the contractor of which 3902 were paid for at a rate of \$165 per satisfactory investigation. Total contractor costs amounted to \$643,830 for fiscal year 2000. There were 11 unpaid cases referred to the contractor for the fiscal year that were deemed unsatisfactory, mainly due to the lack of timeliness of the completed investigation.

Project benefits were calculated on case information from DHS local offices. Of the total 3,913 cases investigated, 2,038, or 52%, led to negative action – case denied or public aid benefits reduced or canceled<sup>4</sup>. The cases with negative actions were categorized by the assistance program. Four thousand six hundred and ten ineligible persons were denied assistance. Six hundred ninety-nine others saw their cases canceled or assistance reduced. The total percentage of savings by assistance programs was: Medicaid (55%), TANF ( 19%), Food Stamps (26%).

Using information from DHS' Bureau of Research and Analysis, BOI calculated the average monthly benefit per person per program(s) applied for. The rate was then multiplied by the number of clients in negative action cases per program by six months. The calculation produced \$8,724,320 in public assistance net savings that would have most likely been paid if the FPI program had not existed. It is

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<sup>3</sup>The source is a 01/26/99 Inter-Office memorandum from James Dimas, DHS to Lauren Page, OIG.

<sup>4</sup>BOI believes the decline in the percentage of cases that led to negative action was the result of the excessive referral of TANF applications.

assumed that the intake worker would deny applications for which he or she could reasonably verify the applicant's questionable circumstances.

The six-month multiplier was used in the calculation for two reasons. The federal Internal Revenue Service uses six months in its cost analysis of public assistance. Other states operating programs similar to the FPI program also use six months. In an analysis of the FPI program by the OIG's Bureau of Fraud Research (BFR) in June 1999, it was recommended that the cost benefit could be calculated using 12 months versus six months to determine the program's overall annual savings. BFR determined that applicants for public assistance denied through the FPI program stay off the rolls longer than 12 months, and the median case life is longer than 12 months. BOI, however, preferred to use the more conservative six-month multiplier to calculate cost benefits.

In some instances, cases were referred more than once for investigation. Clients who had benefits reduced or their application denied the first time reapplied. It was possible that the second referral could have resulted in a reduction of benefits or denial again. However, every case was examined and the cost benefit for the first referral did not overlap the calculated cost benefit for the second referral.

By subtracting the costs paid for administrative and contract expenses, the net savings realized from the FPI program has been projected at \$8,724,320 for fiscal year 2000.

## **SUMMARY**

The FPI program has expanded and matured since its introduction in fiscal year 1996. All 23 DHS local offices in Cook County now participate, up from the five offices included in the original pilot four years ago. The number of cases investigated surpassed 3,900 during fiscal year 2000, compared with 737 in the first year. The program experienced an increase of nearly 122% in annual investigations, and the annual net savings increased by more than 92% compared to fiscal year 1999. Although the cost benefit ratio has declined, the savings are on the rise.

Since FPI's inception, the program's estimated total net savings have reached nearly \$23 million. In five years, the FPI program has proven its value to help ensure the integrity of public assistance programs in Illinois and, what is more important, increased savings for the taxpayers of Illinois.

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## Appendix

<b>Results of the FPI Program by Fiscal Year</b>						
	<b>FY 96</b>	<b>FY 97</b>	<b>FY 98</b>	<b>FY99</b>	<b>FY00</b>	<b>Combined Results Summary</b>
# of completed investigations	737	1,493	1,493	1,766	3,913	9,402
# of cases denied eligibility	515	885	896	956	1,742	4,994
# of cases with reduced benefits	12	13	7	21	32	85
# of cases canceled	9	45	62	115	264	495
Overall % of cases with negative actions	73%	63%	65%	62%	52%	59%
Gross Savings / Medicaid	\$950,123	\$1,990,188	\$2,189,898	\$2,691,685	\$5,257,967	\$13,079,861
Gross Savings / Financial & Food Stamp Assistance	\$1,097,232	\$1,945,107	\$2,216,187	\$2,259,770	\$4,289,480	\$11,807,776
Total Gross Savings	\$2,047,355	\$3,935,295	\$4,406,085	\$4,951,455	\$9,547,447	\$24,887,637
Administrative Costs & Contract Cost of Program	\$210,986	\$302,182	\$309,212	\$408,530	\$823,127	\$2,054,037
Net savings and cost avoidance	\$1,836,369	\$3,633,113	\$4,096,873	\$4,542,925	\$8,724,320	\$22,833,600
Amount Saved for Every \$1.00 Spent on FPI Program:	\$9.70	\$13.02	\$14.25	\$12.12	\$11.60	\$12.12