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Economy & Efficiency Commission
Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

PRESENTATIONS BY
The Honorable Steve Cooley
District Attorney
Los Angeles County

Topic: Child Care Fraud in Los Angeles County
September 7, 2006

Chair Hill introduced Mr. Cooley and welcomed him to the Commission.

Child Care Fraud in Los Angeles County

Mr. Cooley greeted the Commission and introduced Mr. Jim Cosper, Head Deputy, and Mr. Jim Baker, Assistant Head Deputy of the Welfare Fraud Division of the Los Angeles County District Attorney. Mr. Cooley then introduced Ms. Janice Maurizi, Director, Fraud and Corruption Prosecutions Bureau.

Mr. Cooley began by discussing a letter he received from Mr. Frank De Balough, Chairman of the Commission for Public Social Services, in which he criticized a Grand Jury report on welfare fraud, claiming the report lacked sufficient empirical evidence. Mr. Cooley explained that, although he respects Mr. De Balough's view and agrees that the Grand Jury faces logistical limitations, he believes that the Grand Jury Report exposed a serious problem that needs to be addressed. Mr. Cooley explained that the Grand Jury is an independent body, and even though the report was made at the request of his office, their assessment is sincere and carries no ulterior agenda.

The Board of Supervisors read the Grand Jury report and recommended reviewing a process to deal with welfare fraud. Mr. Cooley observed that public assistance fraud is too widespread to only focus on investigation and prosecution. Other counties have been able to reduce welfare fraud with computers that assist in identifying applicants and verifying beneficiaries, while at the same time training employees to identify fraud. Mr. Cooley stated that the County needs to consider how to use fraud deterrents, and should urge the Department of Public Social Services (DPSS) to make fraud prevention a priority.

Mr. Cooley noted that the District Attorney is prosecuting seven welfare fraud cases with a combined total of $2.3 million defrauded from County public assistance funds. In most cases of child care fraud, providers claimed to supervise more children than actually cared for, while parents might claim to use a non-existent child care provider, claim more employment than actually worked, or claim to be in school and then withdraw after enrollment. Some program participants fraudulently claimed to employ or work for a neighbor, friend or family member, while others colluded in claiming to care for each other's children.

Mr. Cooley said that he agrees with some of the Grand Jury's recommendations, but believes others could be improved. His office has extended an offer to meet with members of DPSS and review actual welfare fraud case files to examine potential failings in the current system and consider how fraud can be prevented in the future. Although these questions have been asked before about DPSS-administered public assistance programs, they should now be posed on this newer program. Mr. Cooley added that the effect of federal and state regulations on fraud should also be evaluated. In addition, Mr. Cooley suggested that the Commission consider investigating In Home Supportive Services (IHSS) fraud, as techniques used to defraud IHSS resemble those used for child care fraud. Mr. Cooley also offered that the District Attorney has prepared a written evaluation of the Grand Jury recommendations, and that his office is prepared to work with the Commission, DPSS, and anyone else concerned with child care fraud.

Mr. Cosper also supports the Grand Jury recommendation for field visits to verify the number of children claimed, employment status and hours worked, and that child care is being provided. Mr. Cosper said he believes site visits to the home, employer, and child care facility could cut fraud loss by as much as sixty to seventy percent. Mr. Cosper added that DPSS takes exception with the Grand Jury's assessment that half of child care funds are acquired fraudulently, but this estimate was based, in part, on figures gathered by investigators employed with DPSS. This figure was also based in part on a study by the California Department of Education, who had difficulty recording attendance of children at child care facilities. In addition, Mr. Cosper pointed out that the District Attorney of San Diego County concluded in a one-year case study that there was an average fraud of fifty-one percent. Mr. Cosper recommended that an agency independent of DPSS and its Alternate Payment Providers conduct the suggested site visits. Mr. Cosper also recommended unannounced site visits for the application phase, one six to nine months into the aid period, and a confirmation visit to be conducted one year later and each year thereafter.

<u>Questions and Comments</u>

Chair Hill opened the floor up to questions. Commissioner Cole asked who would conduct and pay for the site visits. Mr. Cooley replied that the District Attorney would not be responsible for hiring investigators, and that DPSS would most likely pay investigators from funds designated for program integrity and fraud loss prevention. Commissioner Cole then asked whether the program has funds designated for this purpose. Mr. Cooley said that millions are available, depending on how they are used. Mr. Cooley claimed that DPSS and the Welfare-to-Work Programs saw a fifty percent decrease in case load, yet their personnel increased from 12,000 to 14,000, which suggests new resources should be available to verify the composition of public benefit applications. Mr. Cooley then commented that front-end deterrence would be particularly effective against fraud loss, but that DPSS has not demonstrated that they consider this part of their responsibility when disbursing public funds. Mr. Cooley referred to the practice of social workers visiting the homes of people who receive public assistance and expressed support for reinstating this practice. The rationale is that the amount of public funds typically disbursed for child care assistance is enough to warrant verification. Mr. Cosper added that collusion between child care providers and program participants is common. Commissioner Soteras commented that when he served on the Sybil Brand Commission, unannounced site visits to McLaren Hall and various other detention centers proved to be revealing. Commissioner Parks contributed that he felt field visits would be a good way to deter and expose fraud, suggesting that such a program might benefit from the experience of retired investigators in the Retired Peace Officers Corps.

Commissioner Tortorice asked how the public learned about child care fraud. Mr. Cooley replied that every public assistance system in California has had significant problems, and that the fraud problems identified with DPSS are hardly unique. Mr. Cooley believes that MediCal may have the worst vendor-to-vendor system in California, i.e. in one year the state paid for more wheelchairs than were manufactured in the entire U.S. The State of California has received fictitious bills from providers and mailed out checks to post office boxes. Many offenders in these cases also received welfare.

Commissioner Tortorice asked Mr. Cooley how often he sees collusion between program participants and DPSS employees. Mr. Cooley acknowledged that internal welfare fraud occurs, and that his office is currently prosecuting a particularly large internal fraud case. Mr. Cooley also cited other internal fraud cases.

One involved the United Community Resource Association (UCRA), where a vendor defrauded $3 million by billing the County for welfare-to-work services not rendered. District Attorney investigators recovered $2 million. In another case, a DPSS employee figured out systemic vulnerabilities and within six months had sent out approximately $750,000 to relatives and friends who did not qualify for welfare.

Mr. Cooley explained that when internal fraud occurs, the Internal Welfare Fraud Division investigates. This unit reports to the Public Integrity Division, and not the Welfare Fraud Division, so as to prevent a conflict of interest. Ms. Maurizi added that fraud could be reduced substantially by developing greater inter-agency computer system portability, so that the IHSS computer system talks with welfare-to-work programs, and eventually to MediCal, thereby facilitating identification of habitual thieves. Commissioner Petak agreed with Ms. Maurizi, adding that it is difficult to understand why DPSS's payroll has increased while their caseload has dropped fifty percent. Mr. Cooley explained that DPSS has historically received a certain amount of funds, which has continued since transitioning into a new welfare program. Commissioner Petak noted government agencies in such instances often invent superfluous positions. Mr. Cooley agreed. Commissioner Petak then remarked that current technology makes an up-front risk analysis quite feasible, and that the County should take advantage of fraud prevention technology. In response, Chair Emeritus Philibosian mentioned that the Commission's report on child care fraud includes a recommendation to coordinate the databases so that habitual thieves will be identified and removed from the system.

Commissioner Hill asked what types of sentences convicted child care fraud offenders receive. Mr. Cooley replied that gross offenders go directly to prison for substantial periods of time, but that the average low-level child care fraud offender goes on probation, spends little or no time in a County jail, and must pay an order of restitution. Mr. Cooley explained that most people convicted of child care fraud do not have any other prior offenses on record, and imprisoning them would have a negative impact on their family situations. Mr. Cosper gave an example: the District Attorney recently accepted a guilty plea on a case with a loss of about $250,000 where the conspiring child care recipient was sentenced to seven-years in prison. Commissioner Cole asked what happens to the children of parents convicted of child care fraud. Mr. Cosper explained that the courts allow parents time to make arrangements, normally for their children to stay with other family members.

Chair Emeritus Philibosian asked whether DPSS had been invited to meet with his office to discuss how fraud can be detected in advance, and then asked whether this has taken place. Mr. Cooley replied that as of September 7, 2006 he has extended the invitation, and that discussions should follow since the Grand Jury broached the issue. Mr. Cooley explained that he is acting on a recent recommendation of the Board of Supervisors to investigate welfare fraud. He feels that DPSS will need to keep an open mind and not be defensive in helping the County meet its goal of protecting and preserving tax revenue while ensuring that program resources reach those who need them. Chair Hill mentioned that she is chair of an audit committee that brought together employees to conduct a risk assessment, and asked whether DPSS conducts any such assessment. Mr. Cooley replied that he does not know whether DPSS encourages that kind of meeting. He does believe that DPSS should have a program where employees who care about the program can point out systemic problems and contribute observations and suggestions.

Chair Hill thanked Mr. Cooley for his informative presentation.

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