

Annexes attached

NEW YORK CITY
DEPARTMENT OF SOCIAL SERVICES
DUPLICATE CHECK FRAUD
ANALYSIS AND PREVENTIVE RECOMMENDATIONS

NCJRS

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ACQUISITIONS

Corruption Analysis & Prevention Bureau
New York City Department of Investigation
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MANAGEMENT SUMMARY

The history of the New York City Department of Social Services is filled with persistent, substantial problems involving the fraudulent acquisition of public assistance funds by agency representatives and clients alike. One of the most significant, costly, and publicly exposed aspects of this fraud problem is the matter of duplicate checks. Although numerous surveys and investigative audits on both the State and City level have commonly stressed the magnitude of the problem and demanded corrective action, it remains unresolved. This study, undertaken by the Corruption Analysis and Prevention Bureau of the New York City Department of Investigation, is an attempt to promulgate an effective opportunity blocking approach to duplicate check fraud.

THE NATURE AND SCOPE OF DUPLICATE CHECK FRAUD

Duplicate check fraud occurs when a Public Assistance recipient falsely reports to an Income Maintenance Center that the check was not received, requests a replacement, and cashes, or causes to be cashed, both the original and emergency replacement check. A client who engages in this larceny on more than two occasions is known as a multiple offender.

Between July 1, 1974, and November 30, 1975, at least 105,214 instances of duplicate check fraud were known to the New York City Department of Social Services. Of these, 38,431 instances involved multiple offenders. Currently the agency expects to experience about 64,000 additional offenses every year.

The severity of this problem can be judged by the resultant monetary loss sustained by the Agency between July 1970 and March 1976:

| | |
|---|----------------------|
| Direct loss (fraudulent check claims) | \$40,064,640 |
| less: Amount "recouped" from clients | <u>-15,563,029</u> |
| | \$24,501,611 |
| plus: Administrative costs of fraud control and recoupment program | + 36,955,955 |
| | <u>\$ 61,457,566</u> |
| plus: Adjustment for 19.75% of claim documents "lost" after replacement, but before reimbursement | +11,376,145 |
| TOTAL NET LOSS | <u>\$ 72,833,711</u> |

FINDINGS AND CONCLUSIONS

As a result of the analysis conducted by this Bureau we conclude that in spite of all efforts of the agency to date, duplicate check fraud continues to flourish. In our view, the Agency appears to have concentrated its fraud control energies on a relatively ineffective,

after-the-fact recoupment program, and has substantially abandoned constructive efforts designed to prevent duplicate check fraud activity.

We find that the absence of a viable fraud prevention effort has been substantially fostered by an apparent lack of concern and support on the part of Department of Social Services and Human Resources Administration management. This is manifested primarily by the inability or unwillingness of the Agency to provide staff with pertinent and timely information necessary to determine the disposition of the client's original check prior to the issuance of a replacement. In addition, in cases where the original check is known to have been negotiated, the Agency has invariably contained its efforts to after-the-fact fraud determination and possible eventual recoupment.

Recoupment and reroute activities are useful when strictly enforced and utilized on a limited scale. These procedures, however, were not intended to replace fraud prevention, but merely to control the relatively few instances when preventive measures were ineffective. In the absence of an effective preventive effort, we find both of the current "control" procedures to be insufficient.

- The present fraud control and recoupment system is not cost effective.
- Under the present system, many recipients commit at least three and as many as twelve (or more) acts of duplicate check fraud per year.
- Although State laws and regulations require that the Agency replace checks which are declared lost or stolen, nothing in the law precludes the Agency from attempting to quickly determine the disposition of the original check prior to issuing a replacement. More significantly, nothing in the law requires that the Agency issue a duplicate check if the recipient has cashed the original check.
- Neither Income Maintenance management nor Data Processing management have been able to develop viable fraud prevention programs.
- A lack of management attention to fraud control at every level of the Human Resources Administration has resulted in the failure of staff to fully implement existing "controls", and thus further encourages repeated attempts at fraud.

- A sample of 53 multiple offender's cases were reviewed and found to be in a disorganized and incomplete state. Not one case reflected full compliance with the Agency's established fraud control procedures.
- The Fraud Control and Recoupment section of the Agency's data processing operation appears to be unable to adequately maintain accurate and timely data. As many as 144,779 instances of substantiated duplicate check fraud have been "lost"; i.e., cases of fraud processed by the Reconciliation section and forwarded for action have never been accounted for by the Data Processing section. The potential recoupment value of these "lost" cases is approximately \$13,526,720.
- Within the Fraud Control and Recoupment section of the data processing operation, information bases for producing key reports necessary for fraud prevention were never developed, or were allowed to stagnate until the data became relatively useless.
- The imposition of recoupment upon a client has not served as a deterrent to committing further fraud. Recovery is never timely; very often the amount being recouped is substantially below the maximum allowed.
- The check rerouting procedure does not serve as a deterrent. In the absence of supervisory or procedural controls, staff have arbitrarily terminated reroute action, permitting the recipient to continue fraud activity.
- Check rerouting is presently carried out on such a massive scale that the procedure itself constitutes a substantially significant fraud hazard. By destroying the minimal verification afforded by check delivery to the home address, instances of multiple assistance fraud (one person having two or more cases) can be expected to multiply.
- The present five to eight month wait before fraud determination is made and processed is much too lengthy for effective action.
- The failure of data processing to produce a timely Cancellation Report has resulted in a flood of unnecessary claims of non-receipt of a check being forced into the system, increasing the backlog and time required for fraud determination.

PREVENTIVE RECOMMENDATIONS

The Corruption Analysis and Prevention Bureau has detailed herein a system designed to eliminate duplicate check fraud as a major concern. The proposed system is believed to be cost effective and utilizes existing information and personnel whenever possible. The recommended system seeks to prevent fraud by providing staff at Income Maintenance Centers with sufficient timely information to make the decision whether to issue a replacement check immediately, or to withhold it temporarily while a fraud investigation is made.

The proposal is accompanied by six supporting recommendations relating to specific aspects of the proposed system. It is intended that the Agency will utilize the proposal primarily as a guideline, implementing it in the way most compatible with its operations.

It is our belief that the suggested system, if implemented, will achieve many favorable results.

- In most cases, the Agency would be enabled to issue a replacement check immediately when the original check has been returned by the Post Office as not deliverable.
- When the original check cannot be accounted for, the Agency would be able to issue a stop payment order prior to replacement. The large volume of useless stop payment orders now processed would be discontinued, and their cost would be saved.
- The Agency would be informed quickly when an original check has been cashed, and fraud determination prior to issuing a replacement would be facilitated.
- Immediate recoupment action will be possible when fraud does occur. Check rerouting actions will be drastically reduced.
- Major forgery mills, which depend upon a lapse of several months before forgery determination is made to allow the forged checks to be run through "diversionary accounts", will be crippled by prompt forgery determination.

Additional elements of the recommendations provide for the following:

- Increasing timely returns from the Post Office;
- Reducing volume of checks returned by the Post Office, through analysis of returns and corrective action;
- Reducing by as much as 50% the volume of unnecessary statements of non-receipt of check;
- Insuring that all recoupments are for the maximum allowable amount.

NYC DEPARTMENT OF SOCIAL SERVICES, DUPLICATE CHECK FRAUD:

ANALYSIS AND PREVENTIVE RECOMMENDATIONS

The history of the New York City Department of Social Services (DSS) is filled with persistent, substantial problems involving the fraudulent acquisition of public assistance funds by agency representatives and clients alike. One of the most significant, costly, and publicly exposed aspects of this fraud problem is the matter of duplicate checks. Although numerous surveys and investigative audits on both the State and City level have commonly stressed the magnitude of the problem and demanded corrective action, it remains unresolved.^{1/}

The Corruption Analysis and Prevention Bureau (CPB) of the New York City Department of Investigation, in line with its objective to develop opportunity blocking measures to prevent corruption in municipal government affairs, undertook a new approach to the problem of fraudulent duplicate welfare checks. Rather than simply to recount the dimensions and incidents of this widespread offense, CPB staff endeavored to discover the underlying causes and factors which facilitate -- and as the investigation revealed, actually serve to encourage -- duplicate check fraud.

From September 1975 through April 1976, members of CPB staff met and discussed the duplicate check problem and contributing factors with representatives from the DSS Income Maintenance Division, the DSS Office of Information Systems and Services, the DSS Office of

^{1/} See Appendix A for list of audits.

Inspector General, the DSS Office of Fiscal Affairs, as well as the Public Funds Department of Manufacturers Hanover Trust Company, the repository bank for the public assistance accounts. Previously issued pertinent reports from the New York State Comptroller, the New York State Welfare Inspector General, and the New York State Commissioner of Social Services were reviewed and analyzed. In particular, the March 23, 1976, report of the NYS Welfare Inspector General was helpful and should be read in conjunction with this report.^{2/} Finally, selected client case records,^{3/} pertinent DSS reports and procedures were reviewed and analyzed in order to rate the timeliness, completeness, usefulness and effectiveness of current DSS fraud control operations.

The objectives of CPB in this effort are threefold:

1. To detect and analyze the operational and managerial weaknesses which facilitate the continuation of duplicate check fraud schemes.
2. To recommend cost-effective opportunity blocking measures for the prevention of this form of larceny.
3. To provide technical assistance in, and periodic evaluation of, the implementation of fraud prevention measures by the Department of Social Services.

^{2/} An Examination of Emergency Check Issuance and The Duplicate Check Fraud Control Program, New York City Department of Social Services, State of New York Office of Welfare Inspector General, 3/23/76.

^{3/} Appendix B.

F. THE NATURE AND SCOPE OF DUPLICATE CHECK FRAUD

Duplicate check fraud occurs when a public assistance recipient (client) receives a public assistance check, but reports to the Income Maintenance Center (IMC) that the check was not received and requests a replacement. The client cashes both the original and the "emergency" replacement check. A client who engages in this practice on more than two occasions is known as a multiple offender.

The problem is a severe one. During the twelve month period ending March 3, 1976, there were 101,628 instances of duplicate check fraud recorded by the Reconciliation Unit of the Agency. At the end of 1975, the data base maintained by the Office of Information Systems and Services contained the names of 105,214 individual offenders, 38,431 of whom had committed multiple offenses.

In mid 1970, alarmed by the large number of instances in which the agency had been defrauded into issuing replacements for public assistance checks, DSS initiated a formal fraud control program. By the end of 1971 a computerized data base had been established containing information concerning 50,000 offenses. During the succeeding five years, the number of offenses rose from an approximate average of 5000 monthly (1970) to 9,000 per month in 1973 to the current 6,000 monthly, a rate higher than at the inception of the fraud control program.

A. LOSSES DUE TO DUPLICATE CHECK FRAUD

The total monetary loss directly attributable to duplicate check fraud, as well as the attendant administrative costs, are difficult to assess adequately. CPB has used the most recent reliable statistics to estimate the extent of these costs. It should be noted, however, that

conflicting sets of statistics were produced by DSS on almost every phase of the duplicate check fraud problem.

Records of the Department of Social Services, Reconciliation Section, substantiated that \$40,064,640 was paid out between July 1970 and March 1976 in duplicate check claims later determined to be fraudulent.^{4/} Using conservative estimates, we judge associated administrative costs for the same period to approximate \$ including the development and maintenance of data processing programs, the processing of more than 1.25 million claims of non-receipt of a check, and the issuance of an equivalent number of stop-payment orders, most of which were too late to be effective.

During this period the agency claims to have recouped \$15,563,029. It is not clear that these funds were actually recovered, since in some cases it appears that the basic public assistance grant allowance was increased by the amount of the "recoupment". State regulations further clearly indicate that no reimbursement will be made for duplicate payments. Nevertheless, because a possible technicality exists, the full amount of recoupment is subtracted as a credit against total costs.^{5/}

Finally, an allowance must be added for the estimate of the NYS Department of Social Services, Office of Audit and Quality Control, that 19.75% of the forms which would initiate recoupment action were never received at the Reconciliation Section for processing, although replace-

^{4/} See Appendix C for computation of all costs cited in this section, as well as discrepancies noted.

^{5/} 18 NYCRR § 352.7(g)(1)(ii); also see footnote 10 and its referenced paragraph.

ment checks were issued.^{6/} In the absence of this form, there would be neither a fraud determination nor a resultant claim for state reimbursement. The New York State Report estimated an annual loss of \$2,275,429 from this "leakage". DSS indicated that in February 1975, it took corrective action to resolve this problem. To this date, the results of this action have not been audited. However, if only the period prior to the corrective action, 1970-1974, is included, an additional \$11,376,145 must be added to the total loss associated with duplicate check fraud.

The monetary loss sustained by DSS from July 1970 through March 1976 is thus summarized as follows:

| | |
|--|---------------------|
| Direct loss (fraudulent check claims) | \$40,064,640 |
| less: Amount "recouped" from clients | <u>-15,563,029</u> |
| | \$24,501,611 |
| plus: Administrative costs of fraud control and recoupment program | <u>+36,955,955</u> |
| | \$61,457,566 |
| plus: Adjustment for 19.75% of claim documents "lost" after replacement, but before recoupment | <u>+11,376,145</u> |
| TOTAL NET LOSS | <u>\$72,833,711</u> |

6/ Audit Report of Fiscal Claiming Procedures Followed by the New York City Department of Social Services, March 1974, New York State Department of Social Services, Office of Audit and Quality Control, Chapter 2 part 4 section E(1), p.48-49; of the 243 replacement checks reviewed 69 (28.4%) of the M-325's were never received at reconciliation; 21 eventually showed up on the transfer roles, leaving 48 (19.75%) which never appeared through June 1974.

B. LEGAL REQUIREMENTS GOVERNING CHECK
REPLACEMENT AND RECOUPMENT

The State Social Services Law requires that the Commissioner shall provide assistance to destitute persons. Failure of the system to deliver assistance does not alter the obligation of the Commissioner to provide such assistance. The claim of the client regarding loss or theft of the assistance to which he is entitled obligates the Commissioner to replace the lost income, although the State does not reimburse the local Department of Social Services for duplicate checks.^{7/}

Title 18 of the New York State Department of Social Services Codes, Rules and Regulations^{8/} governs the replacement of lost or stolen checks. It requires that the client file an affidavit of loss, and that the local Social Service official issue a replacement check after the client has filed a report of the loss or theft with the police.

The language of the above regulation, when quoted as the basis for a decision on replacement policy, in a case^{9/} where replacement checks were being withheld for 20 working days, included the statement that replacement be made "without delay." The current language of that regulation does not include the stipulation "without delay," but merely implies that replacement be issued after the Social Service official is satisfied that a police report has been made in cases of loss or theft.

^{7/} N.Y.S. Social Services Law § 62, note 6-Lawson v. Shuart, 1971 67 Misc. 2d 98, 323 N.Y.S. 2d 488

^{8/} 18 NYCRR-§ 352.7 (g) (1)(i)

^{9/} Greer v. Monroe County D.S.S., 1971, 67 Misc. 2d 480, 324 NYS 2d 466

The New York City Department of Social Services, by way of contrast, replaces checks upon affidavit of simple "non-receipt." This replacement, being neither a "loss" nor a "theft", apparently falls outside the purview of this New York State Regulation.^{10/}

According to the State Social Services Law, recovery of funds fraudulently obtained by the replacement process is authorized.^{11/} Recovery is limited to no more than 10% of the household needs for any one cause of recoupment, and a maximum of 15% for more than one cause of recoupment.^{12/}

A 1974 decision held that the Commissioner of Social Services, in adopting a regulation requiring the total withholding of public assistance until the amount withheld equalled the amount which the claimant previously wrongfully received, upsurped the legislative function by establishing standards for granting of benefits.^{13/} The decision notes that the penalty for welfare fraud is that of a misdemeanor, and further states, "Nowhere by statute has the legislature provided that those unable to adequately care for themselves be deprived of assistance if guilty of welfare fraud. It appears to the court that the Legislature, by specific legislation, has pre-empted this area with specificity."

^{10/} However, the effect upon the problem of fraud is extensive. Virtually all checks replaced by NYCDSS are issued upon the affidavit of "non-receipt" of a check by a client. By permitting the client the option of claiming simple non-receipt, the agency has effectively avoided the requirement that all lost or stolen checks be reported to the police before a replacement is issued. Additionally, the agency seems to have effectively relieved itself of the responsibility of accounting for the disposition of the original check before granting a replacement.

^{11/} § 106-b; the implementing regulation is 18 NYCRR § 352.7 (g)(1)(iii)

^{12/} 18 NYCRR § 352.31 (d)

^{13/} Hudson v. Sipprell, 1974, 76 Misc. 2d 684, 351 N.Y.S. 2d 915

Thus in the majority of cases, where prosecution referral is not feasible, the only functional remedy for duplicate check fraud seems to be a garnishment process.^{14/}

It is clear from the Rules and Regulations and case law that the agency must replace a check when the original has been lost or stolen, provided that the original check has not been fraudulently cashed by the client. However, the replacement of a check "without delay" does not preclude the agency from taking certain, swift steps to account for the original check. Presently the agency requires the client to wait three days before requesting a replacement. If a minimal food allowance for five days were to be given to the client immediately, the additional two days would allow the agency to ascertain that the original check has not been negotiated and to issue a timely stop payment order. The two additional days would not be unreasonable, nor would they of themselves constitute a delay in violation of the regulation or statute.^{15/}

^{14/} 18 NYCRR § 352.31 (d)

^{15/} Other Social Service jurisdictions within the State adhere to more stringent requirements prior to issuing a replacement check. Erie County requires a wait of five delivery days and the filing of a police report before a claim for check replacement is made. Actual replacement is made only after the agency is certain the stop payment order has been effective. Onondaga County requires a police report to be filed. It will not issue a replacement check prior to ten days after the original issue date, and then only when the original has been accounted for. Suffolk County requires a police report, a wait of five working days before a claim is made, and will issue a replacement only after the original check is accounted for. All jurisdictions will issue food money to the client when necessary.

II. ¹ DESCRIPTION AND ANALYSIS OF CURRENT OPERATIONS

For the purpose of this analysis, five distinct functions will be discussed. They are:

1. Procedures related to the issuance of replacement checks;
2. Maintenance of client case records;
3. Procedures related to recoupment;
4. Procedures related to rerouting of regular and replacement checks to Income Maintenance Centers to be picked up in person; and
5. Identification and handling of checks not received for legitimate reasons.

Each function exhibits features that contribute to the overall duplicate check problem, and all must be treated together to relieve the problem. Previous piecemeal approaches have not only failed to solve the problem; in some respects they have aggravated it.

A. CURRENT CHECK REPLACEMENT PROCEDURES

A client wishing to report the loss, theft, or non-receipt of a public assistance check is required to appear at the Income Maintenance Center to sign form M-325, "Statement of Loss, Theft, or Non-Receipt of a Public Assistance Check".^{16/} This notarized affidavit alone suffices as the basis for issuing a replacement check. Form 661, "Authorization of Emergency Payment", is then prepared and submitted to the Disbursements and Collections section of the IMC to authorize issuance of the emergency (i.e., immediate) replacement check.

^{16/} Appendix D

Form M-325 is prepared in quadruplicate: the original is forwarded through the Control Unit of the IMC to the Reconciliation Section of DSS; the first copy is sent to the bank as a Stop Payment Order; the second copy is placed in the case folder; and the third copy is given to the client.

Sometime later, the Reconciliation Unit, guided by the M-325's received from the IMC, pulls all original checks for which replacements were issued. If it is discovered that the original check was never negotiated (e.g., never having been returned to DSS by the bank; or having been returned by the postal authorities; or stopped by a Stop Payment Order), the IMC is so notified. If the original check has been negotiated, a handwriting analyst makes a determination of fraud (involving the client's own signature) or forgery (someone else's signature). If forgery is determined, a claim is made and submitted to the bank for credit. If fraud is determined, form M-325H is prepared and sent to the Office of Information Systems and Services Fraud Control and Recoupment Section. OISS generates form M-324, "Notice of Intent to Reduce Public Assistance", which initiates the recoupment process. If the client fails to request a fair hearing within a ten day period, recoupment (limited to no more than 10% of the grant and a maximum of 15% for more than one cause of recoupment) automatically commences. The exact amount to be recouped from each semi-monthly check is determined by OISS.

After the M-324 form is sent to the client, the recoupment action is included in a "Recoupment Report" sent to HRA Division of State Claims, which charges the state for payment of the full amount of the planned recoupment.^{17/}

Pertinent information is placed on a Duplicate Check Status Report(M-322A), produced every two weeks, as well as on a Multiple Offender Report (FDC 099), which is produced upon demand and used by the Office of the Inspector General as the basis for preparing prosecution referrals.

When a client has received replacement checks on three occasions, whether fraudulently or legitimately, current procedure requires that future checks for that client be pulled and delivered to IMC for personal pick up, rather than to be mailed to the home address. Initiation of this rerouting procedure previously depended upon the Income Maintenance Specialist noticing the third instance of replacement and entering the rerouting information into the date processing system (form W-677). Since 1976, the responsibility for such initiation has been assigned to central data processing operations. A list of multiple offenders is matched against the master case file, with automatic reroute action following.

^{17/} The basic premise underlying this action is that the amount of recoupment to be paid to the City will be offset by the amount of reduction in the client's grant. Should full recoupment not take place, there is no procedure for a reverse charge to be made against the City by the State.

B. MAINTENANCE OF CLIENT CASE RECORDS

Seventy-five case records from three Income Maintenance Centers^{18/} were chosen at random from the duplicate check status report for review and analysis. Of the 75 cases chosen, 53 were available to be read, 18 had been transferred out to other centers and 4 could not be located. All cases reviewed involved individuals who had been multiple offenders. Approximately 40% had accumulated 10 or more offenses, while the remainder ranged between 4 and 9 incidents.

Case records are the final repository of activity within the system, reflecting in the history of a client's case activity the performance of the system. This review was directed solely at auditing the degree of compliance with the agency's duplicate check fraud control procedures. In brief, of these fifty-three cases reviewed, not one was judged to reflect full compliance with the agency's duplicate check fraud requirements. In addition, many indicated that actions had been taken which were directly contrary to established fraud control procedure.

The fifty-three cases represented between 235 and 469 instances of duplicate check fraud. The case records were so incomplete that it was not possible to determine the degree of loss resulting from this fraud, nor even ascertain with accuracy the total number of instances involved.

^{18/} Queens, Wycoff and Brownsville IMC's. See Appendix B for list of case numbers.

The IMC special payment ledgers reflected 469 payments for check replacement (Code 7). For each such replacement there should have been a "Statement of Loss, Theft, or Non-Receipt of a Public Assistance Check" (form M-325). However, only 418 such forms were found in the case records. It was expected that for each of the 418 M-325's, there would be some indication of a determination having been made (fraud, forgery, lost, stop payment, etc.). However, there were no dispositions recorded on 183 of these forms. 235 forms indicated that a determination had been made by the Reconciliation Section, Fraud Control Unit: yet there were 271 copies of the "Notice of Intent to Reduce Public Assistance" (M-324), the form which is required to be sent to the client upon determination of fraud. The extra notices of intent referred to affidavits of loss for which there was no record in the case file.

C. RECOUPMENT PROCEDURES

The Fraud Control and Recoupment Section was established within OISS as a key factor in the agency's control effort, charged with recoupment and check rerouting activities and with maintaining a corresponding data base. By December 1971 the data base was established concerning 50,000 offenses. It was supposed to include "all outstanding offenses which had been identified between the initiation of recoupment (i.e., December 1970) and the beginning of the initial backlog elimination program (i.e., October 1971)."^{19/}

^{19/} OISS Project Studies Report, Check Duplication Analysis and Systems Development, April 28, 1972, p. II-1.

CPB staff attempted to determine the extent and cost of duplicate check fraud and measure the success of the agency's effort to combat it. Information regarding the total data contained in the files of OISS Fraud Control and Recoupment from the program's inception (January 1972) to the second check cycle half of March 1976 was requested and received.^{20/} Every attempt was made to verify the contents of the reply and assure that it represented a full and complete statement of the agency's achievements.^{21/}

The response received from OISS, based upon its complete data base, apart from a "few thousand" offenses of DAB (Disabled, Aged and Blind) offenders which were removed from the file, indicate that during the period January 1, 1972 through March 1976, OISS received from Reconciliation and processed 200,991 notices of duplicate check fraud offenses (M-325H).

^{20/} Appendix E .

^{21/} Appendix F

OISS statistics relating to these offenses are as follows:

Face value of replacement checks issued

| | |
|--|----------------|
| January 1972 - March 1976 | \$23.2 million |
| less: Amount recouped as of March 1976 | -11.5 million |
| | \$11.7 million |
| less: Amount theoretically recoupable ^{22/} | - 8.1 million |
| TOTAL NET LOSS ^{23/} | \$ 3.6 million |

Subsequently, a request for similar information was made of the Reconciliation Section, covering the full period from July 1970 through March 1976. Even after adjusting these statistics downward to allow comparison with OISS statistics for the shorter time period, large discrepancies exist.^{24/}

According to the information received from the Reconciliation Section, approximately 345,770 fraud determinations (M-325H forms) were forwarded to OISS for recoupment action, representing \$36,726,576 in paid duplicate checks. There is a difference of 144,779 offenses which were processed and forwarded by Reconciliation but failed to appear on the OISS data base. These "missing" offenses constitute a probable additional loss of approximately \$13.5 million in potential recoupment value.

^{22/} Includes balance being recouped from 25,860 active cases (March 1976), as well as balances due on cases temporarily or permanently closed as of that date, only part of which will actually be recouped. In addition, 13,078 cases were already closed and therefore beyond recoupment.

^{23/} Represents failure to process notice of intent, or unfavorable or pending Fair Hearing decision.

^{24/} Adjustments were made by adding or subtracting (as appropriate) monthly averages for the missing time period. See Appendix G for full period figures.

Recoupment is intended to serve the purpose of "repaying" the agency for the amount defrauded. The amount of the semi-monthly recoupment is established by 18 NYCRR § 352.31 (d) (4) which allows 10%, or in some cases, 15% of the "household needs" to be withheld from the semi-monthly grant. The amount of the recoupment is supposed to be controlled by the OISS Fraud Control unit.

Our review of the fifty-three case records^{25/} revealed that only thirteen multiple offenders were having their budgets reduced by anything close to the 10% allowed. Twenty-eight of the clients were having funds recouped from their semi-monthly grants, but at a much lower percentage than that which is allowed. Of these twenty-eight, twenty-three were also having their grants restricted by a two-party rent check. The cases of twelve clients had been temporarily or permanently closed.

Recoupment does not appear to serve as a deterrent to repeated check fraud attempts nor does it effectively and promptly "return" the funds of which the agency has been defrauded by the client. In attempting to learn why twenty-eight out of forty-two active cases we reviewed were being recouped below the maximum allowable amount, we discovered two apparent factors.

By having the rent portion of the grant restricted through a two-party check, a client is able to have a reduced recoupment effected. After the back rent has been paid and eviction forestalled, a delinquent client is frequently placed on a restricted grant involving a two-party rent check, which may be cashed legitimately only by the landlord. Fraud recoupment from a client who is on a restricted grant appears to be based upon approximately 10% of only the pre-added allowance, which includes all needs except rent, rather than 10% of the total household needs. In effect the client is rewarded for mismanaging the grant allowance. When recoupments are made for two different purposes, NYS regulations^{26/} allow up to 15% of the grant to be withheld from the client. This certainly should be the case when recoupment occurs for duplicate check fraud while the client is repaying money advanced as a loan to cover unpaid back rent.

We also found that a client is able to achieve a reduction in recoupment by pleading his or her case before a staff member. The staff member takes it upon himself or herself to process a budget change reducing the recoupment rate or raising the grant by an amount equal to the recoupment. We have been advised that in the Face-to-Face Recertification Program, a client who is able to make a strong case in his favor is likely to receive such an adjustment. In our review of the case records, we came across documented evidence of exactly such an occurrence. On 5/15/74, the Face-to-Face Recertification worker recommended that a client (case #ADC 2384083) be given an increase in budget from \$102.40 semi-monthly to \$115.50. The reason for the increase was "possible recoupment." When this request (form W-908F) was received

^{26/} 18 NYCRR 352.31 (d)(4)

at the IMC Undercare Unit, the budget was reviewed and the request denied on the basis that "the recoupment was removed."^{27/}

If a staff member is able to increase the client's grant to match the amount of recoupment or to reduce the amount of the recoupment on the request of the client, the purpose and usefulness of the recoupment action is undermined. A situation where the IMS or case-worker may act solely on their own authority to remove or reduce recoupment, cannot be tolerated. Additionally, if the client's budget is raised while undergoing recoupment (e.g., by addition of a family member or increased rent), the amount of recoupment should be raised to the full 10 or 15% of the new grant.

In summary, the rate of recoupment is frequently set too low, and recovery is unnecessarily slowed or never completed because the case is closed before the full amount has been recouped. The failure of recoupment action as a deterrent is evidenced by the large number of multiple offenders who never considered recoupment too high a price to pay for a chance at additional fraud.

^{27/} See Appendix H

D. REROUTING OF CHECKS TO INCOME MAINTENANCE CENTERS

In 1975, the agency attempted to lessen the multiple occurrences of duplicate check fraud by expanding the "R.O." procedure ("Return to Office"), in which welfare checks are rerouted to Income Maintenance Centers to be picked up personally by the client, rather than being mailed to the client's home address.^{28/} This procedure is not only relatively ineffectual as a control method; it also acts to facilitate a different corruption hazard.

Although the procedure specifies that checks are to be rerouted to the IMC upon three or more occurrences of replacement, whether legitimate or fraudulent, CPB staff discovered through review of case records and conversations with IMC personnel that the procedure was usually not followed when three or more cases of "legitimate" non-receipt of checks were reported. Any welfare client who so chooses can always commit at least three duplicate check frauds, and if desired, many additional frauds, before even the first duplicate check fraud is discovered and recorded on the Duplicate Check Status Report. The requirement that there be at least three fraud or forgery offenses, and the five to nine month backlog of cases awaiting fraud determination combine to assure ample time for repeated check frauds before rerouting action is taken. While it is possible that an alert Income Maintenance Specialist may detect excessive check replacements by examining the Special Payments Ledger before three check frauds have been determined, there seem to have been relatively few instances where this has occurred. In those centers where check replacement requests were handled at the Quick Service Unit, such discovery would have been virtually impossible, since replacement is made without referring to the client's case record.

^{28/} The procedure governing this activity is IM54/75 of May 1, 1975.
See Appendix J.

A memo from the Deputy Administrator for Income Maintenance Programs dated January 20, 1976,^{29/} effectively removes the responsibility for initiating rerouting activity from the IMC and places it within the data processing operation. The Duplicate Check Status Report is to be run against the Master Public Assistance File, and all cases which have three instances or more of duplicate check fraud are to be automatically rerouted to the IMC. The first such match was carried out on January 17, 1976, and resulted in the detection of 4,000 additional cases requiring rerouting action. A second match in March resulted in 1,700 more R.O. actions.

In addition to removing responsibility for initiation of rerouting action from IMC personnel, the memo assures that only cases involving duplicate check fraud, as distinguished from simple non-receipt of a public assistance check, are to be subject to this rerouting action. This memo corroborates two important findings: the addition of 5,700 rerouted cases indicates that the R.O. procedure had not been effectively followed in the past, and the memo assures that in the future all rerouting action will be subject to substantial backlog delay until the third determination of fraud is made.

After a case has been placed on R.O. status, there seems to be no clearly established policy for removing the action and resuming the mailing of checks to the client's address. In the absence of such a policy, the cases reviewed by CPB appear to have had their R.O. status terminated at the request of the client or by the whim of the IMC. Of the fifty-three cases reviewed, nineteen cases recorded duplicate check offenses after an initial reroute action had been ordered. Within these nineteen cases, eighty-seven instances of check replacements were recorded. Most of these subsequent replacements involved client fraud.

^{29/} See Appendix K

In virtually all cases, fraud continued to recur because the reroute action had been terminated. In some cases there was a lengthy history of R.O. initiations and terminations. It also appeared that when the case of a client whose check is being rerouted is closed and reopened, the reroute action often ceases.

In our view, the current reroute procedure creates a serious new fraud hazard. Under the present system, where services are separated from income maintenance, a caseworker no longer visits the client at home. Beyond the circumstances which may require a special investigation or the occasional declaration of continued eligibility, there is no verification of the client's address. As long as the public assistance check is being mailed to the client's home, some measure of address verification is provided. Although not foolproof, and consequently of little deterrence to the professional welfare cheat, such address verification does serve to deter an otherwise honest client from opening more than one public assistance case under the same name or an assumed name.

We expect that if the R.O. procedure continues, the agency will experience an increase in the incidence of multiple assistance for one client. With a minimum of difficulty, a client could continue to claim an R.O. check at one IMC, while moving to a different center's jurisdiction. Since the welfare population tends to be highly mobile, the client could obtain assistance at the IMC where the new residence is located by giving a few false items of information (name, or social security number, or family composition) on the new application. The client would continue to pick up a check at the old IMC while having another check mailed to the new address. Once the second check was

being received at the new address, the client could begin a new series of duplicate check frauds.

One of the primary tools the agency has used in the past to detect cases of multiple assistance has been address matches. Continued widespread use of the R.O. procedure will make this tool less effective in detecting frauds within the high risk segment of the welfare population whose members have already flaunted their ability to commit fraudulent acts.

E. IDENTIFICATION AND HANDLING OF LEGITIMATE NON-RECEIVED CHECKS

The Office of Information Systems and Services produces a daily Cancellation and Pull Report, M-322B. This report is meant to serve two purposes: to record those checks that have been returned as undeliverable by the Post Office, and to serve as a "pull" list for those checks that must be manually withdrawn from the daily mailing and diverted to the Income Maintenance Centers or other locations. This analysis deals only with the former, "cancellation" aspect of the report.

Four hundred to five hundred undeliverable "live" checks returned to the Post Office are picked up daily in a sealed mail bag by a bonded vendor at the Bowling Green Post Office and delivered to the Cancellation and Transcription Unit of HRA, at 2 Broadway. The mail bags are opened in the presence of a unit supervisor and the contents counted twice and sorted by reason of return. Each check is hand cancelled using a freshly inked pad and stamp. The checks are batched and a batch control card and transmittal sheet are prepared. The completed work is forwarded the same day to the Check Release Section of the Office of Information Systems and Services. At the Check Release Section, the checks are counted by batch and the total entered on a transmittal sheet. This

count is verified on a check counter and the checks are stored until they are forwarded to be keypunched. Checks, batch control cards and transmittal sheets are returned to the Cancellation and Transcription Section through the Check Release Section.

Computer Operations then prepares each day four copies of the Cancellation and Pull Report, M-322B. One copy remains in the Cancellation and Transcription Unit and the other three copies are separated according to Income Maintenance Center and forwarded to 250 Church Street for transmission to the centers.

The M-322B report is arranged by IMC number, and contains the name, case number, check number, date of issuance, amount and (coded) reason for return for each check. There are currently fifteen codes in use, thirteen for check return and two for pull requests.^{30/} The report also presumably makes use of a Daily Paid Journal computer tape furnished by Manufacturers Hanover Trust, the repository bank for all regular and special grant checks issued to clients by the Department of Social Services. This computer tape furnishes a record of all activity within the public assistance account for the previous day. Unfortunately, the computer programs have never been developed to glean any useful information from this source, such as to indicate the date an original check (for which a replacement is being requested) had been negotiated.

^{30/} Appendix L contains a list of codes and indicates the number of checks returned within each code for a four month period.

It is our understanding that the Daily Paid Journal tape was to have produced such a report, which would have played an important part in a genuine effort to prevent duplicate check fraud.^{31/} In many instances, check replacement or the refusal to issue a replacement could then have been based upon knowledge of a particular case rather than upon general procedure to be applied to all cases.

If the M-322B report were available at the IMC when a client requested a check replacement, and the original check had been returned by the Post Office, processed and included in the report, a replacement check could legitimately be issued immediately. The client would receive prompt service; in addition, since the IMC could immediately account for the original check, there would be no use for the M-325 declaration in these cases to be fully processed. After the statistical action, the original could be filed in the case record without a Stop Payment Order being issued or a referral to the Reconciliation Section being processed. To our knowledge, none of this has ever happened.

^{31/} In MBA magazine of June 1974, Mr. Kenneth L. Harris, Office of Project Management, states:

"A computer system was developed to keep track of all replacement checks and run against the bank's computer system, to determine whether the original check had been cashed or not. If it hadn't been cashed, an automatic "stop" was issued; if it had been cashed, the check was retrieved. A group of handwriting experts was hired to ascertain whether forgery had taken place, and if fraud had been committed, the money was immediately recouped from the recipient's next check."

In order for the information provided in the M-322B to be timely, it must be at the IMC within four days of the issue date of the checks, since clients are presently required to wait only three days before requesting a check replacement. However, CPB staff found that the report is not timely. Delays are attributable both to the Post Office--with regard to the speed of returning undeliverable checks--and to the production schedules within OISS.^{32/} These delays combine to make the report virtually useless in a fraud prevention effort.

The original purpose of the Cancellation and Pull Report was to reduce the number of M-325 forms flooding the fraud control system. Conservatively estimated, more than half of the M-325 forms processed relate to checks that are returned by the Post Office for one reason or another. Since the report is not timely, it is of little value to the IMC's, yet it is still distributed to them each time it is produced.

^{32/} See Appendix M

III. SUMMARY OF FINDINGS AND CONCLUSIONS

• The HRA Duplicate Check Fraud Control System has failed to prevent or control such fraud. The essence of the program has been and continues to be one of relatively ineffective recoupment action, which in itself produces new fraud hazards.

• Responsibility for this failure must be placed within the Fraud Control and Recoupment Section of the Office of Information Systems and Services for its inability to develop a program of fraud prevention, and for allowing a number of existing programs to degenerate into a useless condition.

• There has been a corresponding failure on the part of Income Maintenance Operations management to be sufficiently concerned about fraud control to demand the development of a workable duplicate check fraud control system, and to exercise ordinary management review to assure that current procedures are followed.

• As many as 144,779 substantiated instances of fraud, having a potential recoupment value of \$13,526,720, have been lost somewhere between the Reconciliation Section and the Fraud Control and Recoupment Section during the period January 1972 through March 1976.

• Recoupment procedure fails to adequately recover money fraudulently obtained by clients, due to the lack of timely action by DSS, the unnecessarily low rate assessed, and the inability to recoup from cases closed before recoupment is completed. The deterrent value of the recoupment procedure is further weakened by the practice of DSS of not recouping at the legal maximum rate.

• The prevalent practice of rerouting checks to the IMC for personal pickup, which owes its existence primarily to the failure of recoupment to serve as a deterrent, is also ineffective. In the absence of supervisory or procedural control, the rerouting is often terminated by a staff member acting unilaterally. The frequent result is continued attempts at duplicate check fraud on the part of the client.

• The rerouting procedure, of itself, constitutes a new and potentially serious fraud hazard. For a significant part of the welfare population, the limited address verification provided by mailing the client's check to the home is effectively destroyed when the check is routinely picked up at the Income Maintenance Center. Continuation of the practice may be expected to lead to an increase in the incidence of individual clients receiving public assistance under multiple case numbers concurrently.

• Duplicate check fraud will continue to flourish as long as the rerouting procedure remains in effect and central data processing has the responsibility to initiate this action on each case. Any client may commit duplicate check fraud at least three times and as many additional times as desired during the five to twelve month period subsequent to the determination of the first fraud. The extensive time lag before rerouting can be initiated, during which additional fraudulent action may occur, is created by the five to nine month wait before even the first of three referred frauds can be determined. The existing backlog and the irregular occurrence of the computer match to initiate the rerouting account for this time lag.

• OISS has allowed the production of the Cancellation and Pull Report to become so delayed that it is not timely. Virtually all of its value to a fraud prevention system is thereby destroyed.

• The failure of OISS to produce timely Cancellation and Pull Reports has flooded the Fraud Control Unit with legitimate transactions (M-325 forms) which never would have entered the system had the report been produced in a timely manner. The large backlog thus created has prevented the Fraud Control Unit from achieving quick and efficient determinations of fraud.

• The Department of Social Services has never analyzed the 400 - 500 checks returned daily by the Post Office as non-deliverable or refused, so as to determine which failures in agency or postal operations are responsible for the large number of returns. Such knowledge would enable the agency to take corrective action.

• OISS has never made use of the Paid Journal Tape, received daily from the repository bank, to produce a report which would have provided IMC with a listing of negotiated checks prior to the time of a request by a client for check replacement.

• There is an obvious lack of internal audit capability in the Department of Social Services to assess the adequacy of the control systems and the degree of adherence by the staff to established procedures.

• The Duplicate Check Fraud Control System, as presently constituted, is not and never has been cost-effective.

IV. PREVENTIVE RECOMMENDATIONS

A truly preventive, cost-effective approach to fraud control of duplicate checks depends on three components:

- Accurate, timely information concerning specific incidents of fraud must be available prior to the decision whether to issue a replacement check.

- Rapid, complete recoupment of fraudulently obtained funds must be the norm, not the exception.

- Sufficient sanctions must be taken against persistent offenders to serve as an adequate deterrent to systematic fraud.

The latter component will be the subject of a forthcoming Corruption Analysis and Prevention Bureau report. The former two components are addressed herein as a proposed procedure and six supporting recommendations. It is not anticipated that any additional staff or budgeted costs will be required.

A. DESCRIPTIVE OUTLINE OF NEW PROCEDURE

A client who wishes to make a claim of non-receipt of a public assistance check comes to the Income Maintenance Center.^{33/} Upon arriving at the Center the client is directed to the Quick-Service Unit. The Quick-Service Unit under ordinary circumstances is provided with adequate information to issue a replacement check when warranted, or to refuse the issuance of such a check.

^{33/} Later experience may make it possible for this initial inquiry to be made by telephone, rather than in person.

Once the client has stated the need for a replacement check, the Income Maintenance Specialist (IMS) obtains the original check number according to the existing procedure. The IMS first reviews the latest Cancellation Report to determine if the client's check is among the four to five hundred checks returned daily by the Post Office to the Cancellation and Transcription Unit.^{34/}

If the Cancellation Report lists the client's check as having been returned, the Income Maintenance Specialist may immediately issue a replacement check to the client, since the information contained on the report assures that the original check has been hand cancelled and is no longer negotiable. The appropriate record must be made of the issuance of the "Code 8" replacement check and filed in the case record.

Upon review of the Cancellation Report, if the client's check is not listed as having been returned, the IMS reviews the Daily Paid Journal Report. This report, issued on a daily basis, with a cumulative report issued at the end of the week, will indicate if the original check issued to the client has been negotiated.^{35/}

If the Cancellation and Daily Paid Reports do not list the client's check, the client is asked to sign form M-325, which will be processed as a stop payment order. An appointment is made for the client to return to the Quick-Service Unit the following afternoon. Transportation money is provided if required. Once the M-325 has been signed and the client has left the center, the IMS brings the completed form to the

^{34/} See section IV.B1 for details of the new Cancellation Report

^{35/} See section IV.B2 for details of the new Daily Paid Journal Report

group supervisor. The group supervisor adds to a control sheet the name and case number of the client along with the original check number. The original and one copy of form M-325 are prepared for dispatch to the Fraud Control Unit by late afternoon mail. One copy of M-325 is retained by the group in a tickler file, the last copy having been given to the client. The M-325's are processed through the new Fraud Control Unit^{36/} and are delivered to the bank so they are available for midnight posting by the bank.

When the client returns to the Quick-Service Unit, the IMS reviews the latest Cancellation Report and Daily Paid Report. If the Cancellation Report now lists the original check of the client, the previously described action should be taken. If neither of these reports are able to account for the original check, the check is presumed to be lost or stolen, and a replacement check is issued to the client after the appropriate forms have been completed.

If the Daily Paid Journal Report previously or now lists the client's check as having been negotiated, a discussion is held with the client. Should the client agree to leave the Income Maintenance Center without the replacement check, admitting to have cashed the original check, a record is made and filed in the case folder. If the client is unable to account for the negotiation of the original check, form M-325 is signed by the client. However, M-325 is not processed as a Stop Payment since it is known that the original check has already been negotiated. An appointment is made for the client to return to the Quick-Service Unit in the afternoon two or three days later. The appropriate information is entered and filed in a tickler file.

^{36/} See section IV.B3

If the client insists that he or she is absolutely destitute, the absolute minimum food grant should be provided until the client is due to return to the Income Maintenance Center. Subsequently, if it is determined that a replacement check should be issued, the amount provided for food is deducted from the replacement grant. If the client has cashed the original check the amount provided for food is recouped from the next available regular check.

Once the client has left the center, the IMS submits to the group supervisor the completed form M-325. The client's name, case number and original check number are added to a Fraud Control Referral listing. The group supervisor informs the Fraud Control unit, in the same manner as with Stop Payments, to request the bank to pull the original check. At the end of the business day the original M-325 and one copy are forwarded to the Fraud Control unit.

When the client returns to the Quick-Service Unit, it is expected that the disposition report will have been received from the Fraud Control unit. If the client has cashed the original check, this finding is made known to the client and a replacement check is refused. If the client agrees with the refusal, the matter is recorded and filed in the case record. If the client still demands a replacement check, he or she is instructed to apply for a Fair Hearing. Appropriate entries are made and filed in the case record.

If the Fraud Control unit has determined that the original check was cashed by someone other than the client (i.e., forgery), a replacement check is issued to the client. The appropriate entry is made and filed in the case record; at the same time a request is initiated for reimbursement (charge-back) from the institution or individual who has cashed the original check.

When the client returns to the IMC and no response has been received from the Fraud Control unit, the IMS requests the client's case record from the file. Upon review of the case record, if there is any previous history of duplicate check fraud, the client is instructed to return to the Center the following day and no replacement is issued. If the client has no record of previous fraud, a replacement check is issued and the Fraud Control unit is notified. Should the Fraud Control unit subsequently determine that the client has engaged in duplicate check fraud, arrangements are made for immediate recoupment of the total amount at the maximum permissible rate.

B. SUPPORTING RECOMMENDATIONS

Recommendation #1: CANCELLATION REPORT

The Department of Social Services should provide a daily report of all checks returned by the Post Office to the Cancellation and Transcription section.

- Each business day a Cancellation Report is prepared (separately from the Pull Report) listing the checks returned by the Post Office that morning. The report is sorted by IMC.
- The report is completed that same afternoon and delivered to the Income Maintenance Center, Quick-Service Unit so as to be available for use the morning after the check has been received at the Cancellation unit.
- A cumulative report, listing the activity since the beginning of the previous check cycle, is prepared on Friday (including that day's activity) and is transmitted to the IMC so as to be available for use Monday morning.

Although this report would be valuable immediately, its value would be considerably enhanced if the Post Office can be induced to return undeliverable checks more quickly than they do presently. We estimated^{37/} that approximately 38% of undeliverable checks are returned within three days from the date of issue. Even this percentage accounts for more than 150 checks per day; but if the percentage can be doubled with the cooperation of the postal authorities, well over half of the useless M-325's now clogging the system can be eliminated.

^{37/} See Appendix L

It is recommended the Department of Social Services representatives, together with members of the Corruption Analysis and Prevention Bureau, meet with the postal authorities to determine both the reasons for the slow return of undeliverable welfare checks and possible steps to be taken to assure that these checks are returned on a more timely basis.

The Department of Social Services should also conduct an analysis (not merely a count, as has been done occasionally) of the checks returned to the Cancellation and Transcription Section. Such an analysis should concern itself primarily with certain types of return (01-unclaimed; 03-address unknown; 04-no such street/house number; 08-refused; 09-other) in order to determine where responsibility may be placed. Checks returned because the client has moved (code 02) should be analyzed to determine if the report was timely, or if a backlog of address changes within the system is responsible for the large number of checks returned for this reason.

Recommendation #2: DAILY PAID JOURNAL REPORT

The Department of Social Services should create and use a daily report which lists all bank transactions within the Public Assistance account for the time immediately prior to a client's replacement request. Such a report will allow the IMS at a Quick-Service Unit to identify a negotiated check and take appropriate action prior to issuing a replacement check.

- The base information for such a report is already produced and delivered daily to the agency by Manufacturers Hanover Trust (the repository bank) where it is known as the "Daily Paid Journal Tape" (OCRA.PAATAPE).
- A report can be produced by matching this tape against HRA's 60-day file of all checks issued.
- The resulting report, sorted by IMC, will indicate the transaction status (paid, stop payment, etc.), identifying these checks by at least check number, case number and category, case name and payee, date of issue, and amount of check.
- The bank tape (containing the prior day's transactions) is hand delivered to OISS each morning or early afternoon. OISS should prepare the report and deliver it to the Quick-Service Unit of each IMC so it is available for use the following morning.
- A cumulative report, listing the entire activity since the beginning of the previous check cycle, should be prepared each Friday and delivered to the IMC for use on Monday morning.

Recommendation #3: NEW FRAUD CONTROL UNIT

The Department of Social Services should reconstitute what will be the functional nerve center of the duplicate check fraud control system. The new Fraud Control unit has two basic functions: the immediate processing of stop payment orders, and the timely determination of fraud and forgery. The unit is responsible for issuing timely reports to the Quick-Service Unit of the IMC's to enable them to issue or withhold replacement checks from welfare clients.

The new Fraud Control unit will be recreated from the present control component located within the Reconciliation Unit. No additional staff should be required. We believe that once the system is operational, it will be able to reduce the number of M-325's processed by 50% or more. Existing personnel, both handwriting analysts and clerical staff, will be freed to perform many of the duties they presently perform, but in such a way as to contribute to fraud prevention rather than after-the-fact recoupment.

PROCESSING OF STOP PAYMENT ORDERS

- Each day, when the Fraud Control unit has received the full roster of check numbers for which Stop Payment Orders are to be processed, contact should be made with the bank in the manner found most suitable by the agency (telephone, teletype, computer, hand delivery, etc.). When the actual M-325 forms are received from the IMC's, the first copy is sent to the bank as confirmation of the Stop Payment Order.

The original M-325 should be maintained by the Fraud Control unit, so that if the bank reports a check has been negotiated for which a stop payment order had

been issued, the check may be returned to the Fraud Control unit for immediate signature identification and fraud determination.

- The Fraud Control unit should maintain a control to make certain that the bank is promptly processing Stop Payment Orders. Audit will determine whether the bank is improperly charging the city for checks on which Stop Payment Orders have been processed in a timely manner.
- If the bank finds that a check has already been negotiated when a Stop Payment Order is issued, the bank should report this fact immediately to the Fraud Control unit. Once such a report is received, the Fraud Control unit will contact the Quick-Service Unit of the proper IMC. If the replacement check has already been issued to the client, a determination of fraud should be made and the standard recoupment process should begin immediately.

DETERMINATION OF FRAUD OR FORGERY

- When the Fraud Control unit receives from the IMC's the list of those checks for which it will be making fraud determination, contact is made with the bank or check-handling vendor in the manner deemed most expeditious by the agency (telephone, telegraph, computer, hand delivery, etc.).
- The Fraud Control unit requests those checks for which determination of fraud must be made. Arrangements will be made for the most expeditious delivery of the check-see recommendations below.

- Checks should then be matched against signatures contained on the original M-325 forms, and a determination of fraud or forgery should be reached.
- If it is determined that forgery has been committed, an immediate charge-back should be made to the bank. If the determination is one of fraud, the IMC should be notified in the manner deemed most suitable by the agency.
- The report from the Fraud Control unit will enable the IMS to determine whether the replacement check should be issued to the client upon the client's return to the IMC.
- If deemed necessary to continue the present practice, the disposition of fraud or forgery may be noted on the copy of the M-325 and returned to the IMC in the afternoon mail, along with a copy of the original check.

Since the same number of handwriting analysts will be processing approximately 60% fewer M-325's,^{38/} backlog problems are not anticipated.

^{38/} The remainder of the M-325's are no longer necessary, since the original checks have been accounted for by the Cancellation Report or by the Stop Payment Process.

At the present time, officials of Manufacturers Hanover Trust believe it would take approximately 15 days from the date of check negotiation to retrieve a particular original check for the Fraud Control unit. A meeting is reportedly planned with DSS officials to seek ways to reduce this time to 6 days. We believe that even 6 days is excessive and recommend that the agency exert every effort to achieve a more suitable time frame. Some of the possible approaches to be explored for both efficiency and cost-effectiveness include:

- Daily pick-up and sort from bank by a vendor, providing
 - daily check extraction requests submitted directly to vendor
 - vendor forwards original requested checks to Fraud Control unit
 - monthly delivery of sorted checks to the Reconciliation unit for storage.
- Daily check pick-up from the bank and direct delivery to the Reconciliation unit, providing
 - daily sort of all checks by the Reconciliation unit
 - extraction of requested checks for Fraud Control unit investigation
 - storage of all checks by the Reconciliation unit.
- Exploration of additional methods of check location and retrieval, such as a computer-indexed microfilm system to permit extraction of requested checks prior to sorting.

Recommendation #4: RECOUPMENT

To establish the deterrent effect of recoupment action and assure that all misappropriated revenues are returned, the agency must immediately review all existing recoupments for adequacy, and set firm guidelines for patrolling all such future actions. Since the city has already received full reimbursement from the state for the amount to be recouped, it alone bears the responsibility for seeing that the full recoupment amount is collected as quickly as possible. In accordance with 18 NYCRR 352.31 (d) (4), the full allowable amount (10% or 15%) should be withheld from client's checks until the full amount defrauded is repaid. If a client's budget is altered while the client is undergoing recoupment, the amount of recoupment should be similarly increased or decreased by a corresponding amount.

The agency must assure that no employee, acting solely on his or her own authority, reduces or removes recoupment action, and that supervisors enforce strict accordance with established procedure. Ideally, recoupment would be discontinued only by central EDP action upon full recoupment of the amount defrauded.

Recommendation #5: CHECK REROUTING SAFEGUARD PROCEDURES

It is anticipated that implementation of the new Fraud Control procedures will result in a noticeable reduction in multiple offenders who must pick their check up at the IMC. Since most duplicate check fraud can be controlled prior to release of the replacement check, only those individuals who persist as multiple offenders, or those individuals who for a valid reason request a personal pick-up, will have their checks rerouted to the IMC. Therefore, whenever a check is being rerouted to the IMC, at least once every three months a "check pick-up authorization" should be mailed to the client's home address. Subsequent checks could be claimed by the client only upon presentation of the authorization, in order to reduce the hazard of "multiple assistance" facilitated by the rerouting procedure.

Recommendation #6: SUPERVISORY RESPONSIBILITY

One of the most persistent and pernicious problems underlying all of the directly causative factors in the duplicate check problem is the apparently widespread inability of the Department of Social Services to adequately manage and supervise its staff. The evidence of this basic inadequacy may be seen in the rampant fraud and ineligibility which continues to flourish despite repeated attempts at control; the incomplete and inaccurate basic case records; the failure of staff to observe established procedures; the uneven distribution of workload and responsibility; the slow, inadequate and often unjust treatment of clients; the growing lack of respect by the client and the general public for the agency and its staff; and the total inability to fix responsibility for specific action that might allow errors to be corrected, detrimental employees to be disciplined, and outstanding staff members to be recognized and rewarded.

Such managerial and supervisory malfeasance continues to shackle the agency for two reasons: a lack of basic audit procedure that would permit quality control, predication of responsibility, and flagging of procedural weaknesses; and a lack of determination and will on the part of the agency to continuously and consistently implement the ordinary standards for work performance and management review.

We therefore recommend that upon implementation of the new duplicate check fraud procedure, the agency schedule a full audit to be conducted three months and six months after implementation and thereafter every six months. Each instance of duplicate check fraud which has occurred since the new procedure was instituted should be reviewed at a level of detail sufficient to locate weaknesses within the procedure

and to affix responsibility for individual errors and failures. The audit might best be carried out by a team composed of designated individuals from the agency as well as representatives of the Mayor's Office of Management and Budget and members of the Corruption Analysis and Prevention Bureau.

The agency must also establish standards of job performance. Continued violations of these standards must lead to disciplinary action against the individuals who were responsible for the violations. Disciplinary action cannot be limited to lower level staff, but should include supervisory and managerial personnel as well.

END