



Comptroller and Auditor General  
Report on Value for Money Examination

Department of Social and Family Affairs

## **Evaluation of Control Activity**

Report for presentation to Dáil Éireann pursuant to Section 11 of the  
Comptroller and Auditor General (Amendment) Act, 1993 (No. 8 of 1993)

November 2003

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This report was prepared on the basis of information, documentation and explanations obtained from the public bodies referred to in the report. The draft report was sent to the Department of Social and Family Affairs and comments were requested. Where appropriate, the comments received were incorporated in the final version of the report.

# **Report of the Comptroller and Auditor General**

## **Evaluation of Control Activity**

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out an evaluation of the control activity of the Department of Social and Family Affairs in the area of welfare payments.

I hereby submit my report on the above evaluation for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large circular flourish at the beginning.

**John Purcell**  
**Comptroller and Auditor General**

25 November 2003



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## **Summary of Findings**

## Summary of Findings

The Department of Social and Family Affairs operates 34 welfare payment schemes. In 2002, one and a half million people benefited from these payments at a total cost of €0.2 billion.

The Department carries out reviews of payments on an ongoing basis in an effort to detect overpayments and to recover the money involved. In 2002, 39,000 cases of overpayment were detected with a total value of €9 million. The estimated cost of this control activity in 2002 was €8.1 million.

In the period 1998-2002, almost half of the overpayments detected arose as a result of fraudulent claiming. A further one fifth came to light when the schedule of assets of deceased claimants revealed a financial situation which would have affected the validity of a claim. The balance of overpayments were due to client or Departmental error.

Historically, the Department has had limited success in recovering overpayments. By April 2003, about one third of the €139 million overpayments recorded in the period 1998-2002 had been recovered.

The examination considered

- whether review and control activity is informed by an assessment of the risk of fraud and error attaching to the different types of welfare payment
- the effectiveness, in practice, of the Department's reviews in recovering and deterring overpayments and how it evaluated its performance in that regard.

## Targeting Reviews

The Department's review activity focuses on some schemes but not on others. Broadly, it concentrates on those schemes which are considered to give rise to the greatest risk of fraud and error. The Department has carried out good work on identifying potential gaps in procedures which could lead to exposure to fraud and is building on that work. It has also carried out a variety of targeted data matching exercises which have resulted in significant savings. However, the Department does not formally assess scheme risks nor analyse the lessons to be learned from a review of overpayments detected. This militates against the most effective deployment of the resources used in control activity.

In its 2003 Control Strategy, the Department has recognised these shortcomings and its revised procedures will culminate in a risk rating for each scheme. It is intended that review activity will then concentrate on those schemes assessed as having the highest risk of overpayment.

## Improving Effectiveness

In regard to the effectiveness of review activity the Department's main measure of achievement, at present, is an estimate of savings which it put at €83 million for 2002. This estimate of savings is based on assumptions about how long a claimant will refrain from further recourse to the system and relates entirely to cases detected. Consequently, it does not give any indication of whether and to what extent reviews are effective in reducing overpayments in the first place. Internationally, it

has been recognised that the best indicator of effectiveness in this area is the movement in the levels of overpayment occurring.

In order to move to such an indicator however, the Department would need a reliable estimate of the scale of overpayments occurring in its schemes.

During the examination, the Department, in consultation with my Office, carried out a special review of a randomly selected sample of unemployment and One Parent Family payment cases designed to provide initial estimates of the scale of the overpayment problem in relation to those schemes. The preliminary results which must be treated with caution, indicated that about 28% of One Parent Family cases and 16% of Unemployment Assistance cases required a change to the payment amount. Most of these incorrect payments were due to alterations in the means of a claimant subsequent to the initial award of the entitlement. Only 2% of the Unemployment Benefit cases examined required a change to the payment amount.

Further refinement of the methodology will be required so that in addition to identifying cases requiring adjustment, it will in future capture the monetary value of changes in order that the baseline level of overpayment can be established and its materiality assessed for each scheme.

The Department has since decided that surveys to estimate the baseline level of fraud and error will become part of its overall control strategy in the future. This will allow it to monitor the effectiveness of its prevention and control activities on the level of overpayments occurring.

## **Deterring Fraud**

In the period 1998-2002, under 2% of overpayment cases classified as fraud were subsequently prosecuted. While slightly higher proportions of high value cases were prosecuted, 88% of cases where the overpayment was in excess of €5,000 were not prosecuted.

Where cases had been prosecuted and the case was finalised, a high proportion (87%) had some form of penalty imposed. The average fine imposed in 2002 was €455.

In view of the practicalities of increasing prosecution activity, it may be worth considering a greater array of sanctions such as administrative penalties and formal cautions.

The examination established that 12% of individuals who committed fraud had later re-offended. Improved recovery performance combined with new sanctions might send out a message to would-be fraudsters that crime doesn't pay and increase the deterrent effect of the Department's control activities.



## **Evaluation of Control Activity**



# 1 Introduction

**1.1** The Department of Social and Family Affairs (the Department) operates 34 income support schemes – some with several sub-schemes. Schemes are administered through headquarters sections in Dublin, Longford, Sligo and Letterkenny and a network of 57 local offices and 69 branch offices. In addition, ten Health Boards administer the Supplementary Welfare Allowance scheme on behalf of the Department.

**1.2** Overpayments arise in the course of administration of social welfare schemes due to

- errors in processing and incorrect data being supplied by claimants
- fraud and abuse of the system.

**1.3** One and half million people received welfare payments which totalled €10.2 billion in 2002. Given the total amount paid out to clients, even a small incidence of fraud or error could result in significant loss to the Social Insurance Fund and to the Exchequer.

**1.4** Due to the nature of social welfare administration, a balance has to be struck between giving timely assistance to claimants and the intensity of claim checking. This gives rise to a risk that initial assessments of entitlement may be incorrect. As a result, control activity and review of cases in payment designed to result in the detection and deterrence of fraud and error are important issues for the Department. Appendix A outlines the Department's key fraud control measures and structures.

**1.5** The Department publishes figures on the level of overpayments detected by its review operations. Between €6 million and €9 million per annum in overpayments have been identified in recent years.

**1.6** The Department estimates that the overall annual cost of its payment control activities is around €8.1 million.

## Nature of Overpayments

**1.7** Overpayments can be categorised on the basis of their cause. The Department uses four categories for this purpose.

- **Fraud cases** — Overpayments categorised as fraud arise when there is dishonest obtaining of a benefit by deception or withholding of information. Such dishonest recourse to the welfare system can involve
  - impersonation
  - providing false or misleading information or withholding information where there is an obligation to provide it
  - using false or forged documents to procure a benefit or assistance payment
  - subsequently failing to report material changes in means or circumstances where a claim is in payment.
- **Estate cases** — Overpayments may also come to light relating to the means of a deceased claimant which would have affected the validity of the claim. These arise from the administration of estates mainly of non-contributory old age pensioners.

- **Client error cases** — Non-fraud overpayments may be due to client error and can occur where clients unknowingly submit erroneous information or fail to inform the Department of changes in their circumstances without a deliberate intent to defraud.
- **Departmental error** — The residual category comprises overpayments arising from errors made by the Department in the administration of welfare claims.

## Objectives of the Examination

**1.8** The examination set out to evaluate the extent to which the arrangements of the Department were successful in dealing with fraud and payment error in welfare schemes. The period under review was 1998-2002.

**1.9** Specifically, the examination sought to examine

- whether reviews and control activity in general are informed by an assessment of the risk of fraud and error attaching to the different types of welfare payment
- the effectiveness, in practice, of the Department's reviews in recovering and deterring overpayments and how it evaluated its performance in that regard.

## Methodology

**1.10** Information for the examination was obtained through interviews with officials in the Department about systems, practices and procedures applied to the control of fraud and error and through the review of the Department's records. Some information has been drawn from the early findings of a recent survey of cases in payment. This survey was undertaken by the Department after consultation with my Office and was designed to establish a baseline level of fraud for a limited number of schemes.

**1.11** The examination was carried out by staff of the Office of the Comptroller and Auditor General.

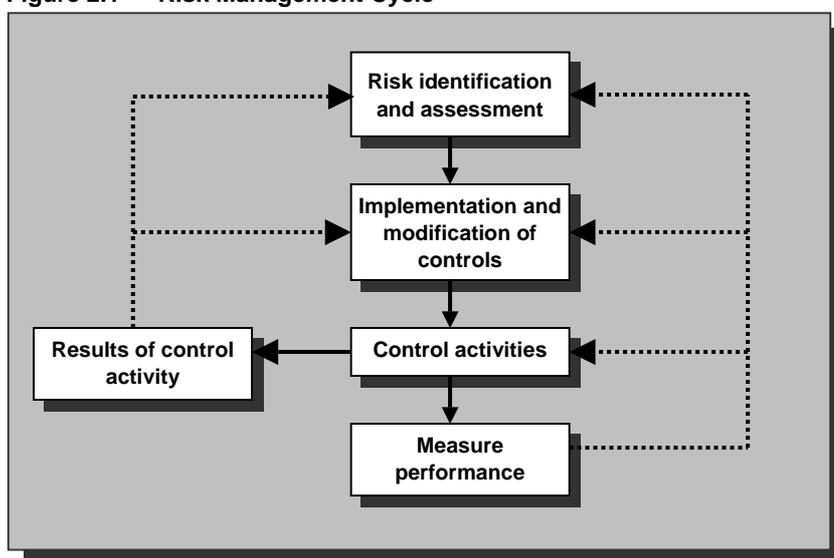
## 2 Risk Management

2.1 Best practice in the management of risk when applied to the Department's control and review operations would suggest a risk management cycle under which

- risks are identified and assessed
- control procedures are evaluated and modified to manage the risk, insofar as possible
- control activity is targeted so as to review cases where the risk of overpayment is high
- the results of control and review activity are evaluated and the process is refined
- effectiveness of risk management is measured and this information is used to enhance the existing risk management procedures.

2.2 Figure 2.1 illustrates these elements and their interrelationships.

**Figure 2.1 Risk Management Cycle**



2.3 This chapter assesses risk management in the Department in the light of this approach and concludes with a review of the lessons that may be learned from analysis of the detected overpayments.

### Risk Assessment

#### *Environmental Risk Identification*

2.4 The Department does not at present carry out periodic formal risk assessment taking account of the changes in its control environment and systems. It does, however, respond to risks as they are identified and alters its control systems accordingly.

2.5 Formal risk assessment is important because the risks facing the Department alter constantly with changes in its schemes, systems, client base and economic conditions. In particular, an analysis of the general risk climate would need to advert to factors such as

- The economic environment – Since 1998, the economic climate altered with the level of recourse to unemployment payments decreasing. Unemployment decreased from 8% to 4% between 1998 and 2002 while the number of persons at work has increased from 1.5 million to 1.7 million over the same period.
- The level of immigration has increased in recent years.
- The complexity of scheme regulations – Where regulations governing entitlement to payments under a particular scheme are complex or have recently changed, there is a risk that claimants may fail to provide the necessary information or officials may make errors in deciding entitlements.
- The information technology systems – where data is held on separate systems, it increases the risk of fraud and error.

### ***Scheme Risk Monitoring***

**2.6** At scheme level, the nature of risks attaching to each type of welfare payment varies. In some schemes, relatively high assurance can be taken from pre-processing checks while in others there is a high risk of payments continuing despite alterations in circumstances and qualifying conditions. In addition, new forms of payment like electronic funds transfer introduce new risks since they reduce the level of human contact. As a result, it is important to periodically review the adequacy of scheme controls.

**2.7** While formal risk assessment procedures have not yet been implemented, some preliminary work has been done at scheme level. A recent review to identify perceived gaps in control procedures which was completed by the Department, examined the adequacy of procedures in each of the schemes and identified possible exposures.

**2.8** This assessment of control procedures was undertaken as part of the preliminary work associated with the drafting of a new Control Strategy. The resulting report was prepared following a series of workshops held with staff in scheme sections, local offices and the inspectorate. The perceived gaps in control procedures will need to be further investigated to establish if they represent possible exposure to overpayment. The Department has indicated that this work will be undertaken in the context of the implementation of its new Control Strategy.

**2.9** The analysis was comprehensive and surfaced many concerns that could result in financial exposure (see Figure 2.2). The principal concerns were

- risks associated with the accurate identification of claimants
- risks associated with changes in the form of payment
- utilisation of opportunities to cross check claims data between schemes.

There was a concern that a general lack of declarations of a type that would place the onus on claimants to disclose changes in circumstances militates against enforcement.

**2.10** The purpose of the gap analysis was to list all of the areas, which in the view of the people participating in the exercise, might need to be addressed as part of the Control Strategy. A very large number of issues of both general and specific reference were raised during the course of the exercise and all were included.

**Figure 2.2 Payment control procedure gaps identified by Department of Social and Family Affairs review in 2002**

### **Identity Risks**

The accurate identification of claimants is crucial to proper claim assessment. Gaps identified in the area of identity included the following.

- There is a risk of PPS number duplication because a number of offices can issue them.
- Certain Central Records System (CRS) data is not verified or recorded as verified although payments are grounded on this information. Dates of birth are a particular example.
- There is a lack of photo records of applicants.
- The use of short birth certificates in identifying certain claimants posed risks.
- Identity checks at payment stage are variable and need to be standardised.

### **Form of Payment Risks**

Changes in the form of payment often alter the risk of abuse. Staff feel that extra vigilance in the following areas might improve control in this matter.

- Certain payment patterns need to be isolated and investigated, including EFT payees at the same address.
- Collection of payments at Post Offices a long distance from the claimant's recorded address should be targeted for investigation.
- More than one payment going into the same bank account should result in a review.
- Simultaneous changes of address and payment method should be examined.

### **Cross Checking**

The analysis noted that there was limited cross checking between schemes especially between short-term schemes and the pension schemes and greater use could be made of technology in the following areas.

- Identify possible cohabitation through matching pensions and unemployment systems.
- Identify discrepancies in number of children being claimed as dependants on One Parent Family claims and those recorded on the Child Benefit system.
- Isolate cases where contribution/credits exceed 60.
- Cross check between Unemployment and Child Benefit systems for people who are supposed to be in education.
- Identify cases of recourse to Disability Benefit following closing of Unemployment claims.

Source: Department of Social and Family Affairs, Control Strategy Working Group —Gap Analysis, February 2003

**2.11** The Department has pointed out that this work was a preliminary step in a larger process and the gaps identified represent the individual perceptions of the participants and further work needs to be done in refining the material, including ascertaining the extent to which the risks identified are borne out in practice, reaching agreement on the weightings to be attached to the different risks identified and developing responses accordingly. This will be done in the context of

the risk assessment exercise which is now being carried out by the scheme managers and the gap analysis will be of considerable assistance in that context.

## **Claimant Risks and Targeting of Review**

**2.12** The challenge of a risk based strategy is to combine information from the assessment of environmental and scheme based risks with that from profiles of individual claims. A crucial tool in achieving this is the use of information already available in modern computer databases to identify potential irregular claims<sup>1</sup>.

**2.13** Consequently, in the targeting of control activity at individual case level, the use of computer assisted selection techniques holds out the prospect of making targeting of review cases more efficient. A number of projects have been carried out in this area in recent years.

### ***Data Matching***

**2.14** Student data-matching exercises designed to compare enrolments in third level institutions and on Post-Leaving Certificate courses against Unemployment and Health Board databases have been carried out. This yielded almost 1,000 cases for investigation in 2000-2001 and 1,800 in 2001-2002. Over 1,000 of these cases were referred to Health Boards for investigation and 18% of the Unemployment cases investigated by the Department resulted in savings amounting to €747,500.

**2.15** A further exercise matches data on employment commencement with the Department's unemployment data. The aim was to identify claims where there was a possible overlap between the employment period and the payment of Unemployment Benefit or Assistance. In 2002, 7,145 cases were referred to Inspectors or local offices for investigation. Details are not available on the outcome of these cases as local offices do not differentiate between cases initiated by Control Division and the local office. However, of the 952 cases referred to the Special Investigation Unit, 601 (63%) resulted in savings with a total value of €2.5 million.

**2.16** The employment commencement exercise was extended to One Parent Family cases in September 2001 in order to identify claimants with earnings over the prescribed limits. 1,648 cases have been examined to date with savings estimated at €13.9 million.

### ***Categorisation using IT systems***

**2.17** In recent years, the Department has also carried out a number of projects to identify claimants with specific characteristics for further review. An example is the selection for review by members of the Special Investigation Unit in Wexford of all claimants in receipt of Unemployment Benefit or Unemployment Assistance who were being paid by EFT. The project is still ongoing but to date 23% of those investigated have signed off.

### ***IT Constraints***

**2.18** In selecting cases for review activity, it is important to be able to select cases based on specific criteria which link the payment data with information held on previous review activity.

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1 Irregular claims in this Report include claims arising due to both fraud and error.

Currently data in relation to review activity is held manually in relation to one third of reviews and on a computer database system (ERIN) in relation to the remaining two thirds. Details in relation to reviews carried out on illness schemes or reviews carried out at headquarters sections such as the Pensions Service Office are not recorded on ERIN.

**2.19** While the ERIN system records data in respect of both employers and employees, it is not linked to the various payment systems. Such a link would facilitate enhanced targeting of cases by allowing for the selection of individuals who had been in receipt of payment over a specified length of time who had not had their entitlement reviewed.

**2.20** The potential of such a facility is highlighted by an exercise conducted in 2003 on the Department's Southern Region which compared the data on the ERIN database with Unemployment Assistance information to identify claimants who had been in receipt of payment for more than 156 days but had no record of a review by the Inspectorate. 1,189 claimants were identified where there was no record of their having been reviewed by the Inspectorate. These cases are currently being followed up and the outcomes will be analysed to establish if there is merit in extending the exercise to other regions.

**2.21** The Department has indicated that the potential use of ERIN is to be considered in the context of its future development and possible integration into the various payment systems.

### ***Coordination of Review Exercises***

**2.22** Much of the data-matching and risk profiling is carried out at local level. There are obvious opportunities for sharing of learning and good practice. The Department envisages that in the context of supporting and overseeing the implementation of its new Control Strategy, Control Division will promote best practice in relation to control activity and in this regard will be involved in piloting new initiatives with the regions and scheme managers, analysing the outcomes and if successful seeking to introduce them to other areas of the Department.

### **Learning from Reviews**

**2.23** Analysis of detected overpayments gives useful insight into the main causes of overpayments and points to areas where action needs to be taken either by implementing new controls or modifying existing procedures so as to reduce the level and value of overpayments occurring. It may also point towards areas requiring greater levels of review activity due to high levels of fraud and abuse. While some analysis has historically been carried out it was limited to identifying total overpayments detected and recovered or written off with no detailed analysis on a scheme basis.

### ***Reviews as a Result of Targeted Control Work***

**2.24** The trends and patterns which an analysis of overpayments detected would provide, could inform the Department by

- identifying high-risk schemes where high value or large volumes of overpayments are being detected
- identifying weaknesses in the present control systems which, if rectified, would reduce the levels of overpayments occurring

- providing information on the main types of fraud and error occurring within schemes and allowing for more focused control activity.

**2.25** During the examination, the overpayments recorded were examined to establish

- the composition of overpayments by scheme
- the classification of overpayments between fraud, estate cases, client error and Department error
- the value of overpayments recorded and the number of individual overpayments
- the average duration and average weekly amount overpaid by scheme.

**2.26** The analysis presented below demonstrates the characteristics only of those overpayments actually detected. Therefore, it should be interpreted with caution, as the level of overpayments detected in a particular scheme is heavily influenced by the level of review activity.

### ***Overpayments by Scheme and Cause***

**2.27** In the period 1998-2002, the value of overpayments detected each year remained relatively stable, varying between €26 million and €29 million and comprising between 30,000 and 40,000 individual overpayments in any year. Figure 2.3 shows the breakdown of these overpayments by scheme for the period.

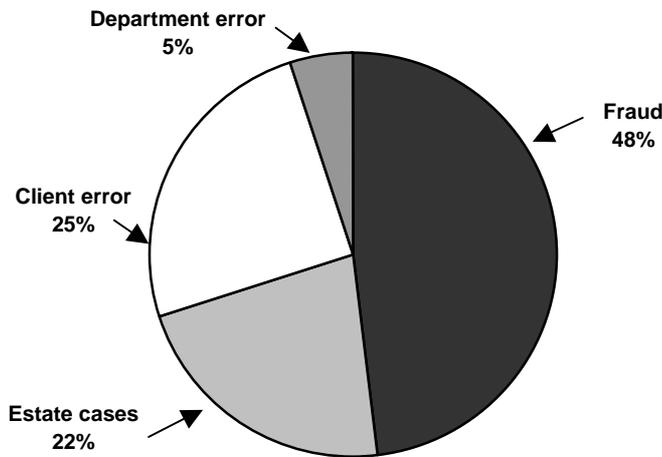
**Figure 2.3 Breakdown of detected overpayments, by scheme type, 1998-2002**

<b>Scheme</b>	<b>Proportion of total value of overpayments</b>	<b>Proportion of total cases</b>
<b>Unemployment Payments</b>	41%	73%
<b>Old Age Pension</b>	24%	3%
<b>Lone Parent Unmarried</b>	5%	1%
<b>Disability Benefit</b>	4%	5%
<b>One Parent Family</b>	4%	1%
<b>Child Benefit</b>	3%	5%
<b>Invalidity Pension</b>	2%	1%
<b>Widows Pension</b>	2%	2%
<b>Other</b>	15%	9%
<b>All schemes</b>	100%	100%
<b>Total</b>	<b>€139m</b>	<b>179,200</b>

Source: Analysis by Office of the Comptroller and Auditor General

**2.28** Unemployment Benefit, Unemployment Assistance and Old Age Pension account for almost two thirds of the value of all overpayments detected and 77% in terms of the number of cases detected. Figure 2.4 shows the breakdown of overpayments in the period 1998-2002 analysed by cause.

**Figure 2.4 Value of overpayments detected, by cause, 1998-2002**



Source: Analysis by Office of the Comptroller and Auditor General

**2.29** Almost half of the overpayments detected were as a result of individuals attempting to claim a payment to which they were not entitled. A further 22% of overpayments come to light when the schedule of assets of deceased claimants are received by the Department and reveal assets which would have resulted in the entitlements to some non-contributory pensions being revoked either in part or in full.

**2.30** About a quarter of all overpayments are classified as client error and arose where a client failed to furnish relevant information or gave incorrect information deemed not to have been fraudulent. About 5% of the overpayments are due to errors by the Department.

**2.31** In interpreting these results, a number of considerations need to be taken into account.

- Where a high proportion of the overpayments detected are fraudulent, it suggests more review activity is necessary in those schemes. In the period 1998-2002, the greatest proportion of overpayments categorised as fraud occurred in the areas of Unemployment Benefit and Assistance, Lone Parents and Pre Retirement Allowance.
- A high level of client error may suggest uncertainty around the information the clients need to supply to the Department. This might be addressed by more or improved explanatory documentation. In the period 1998-2002, the highest levels of detected client error arose in the Family Income Supplement and Disability Allowance.
- While the level of Departmental error is relatively low in light of the large numbers of transactions processed, analysis of the most likely error types would be helpful in implementing new procedures or modifying existing ones. The highest level of Department error arose in the Equal Treatment Allowance where all of the overpayments detected (€1.8million) were as a result of Departmental error.

### Value and Duration of Overpayments

2.32 While most overpayments are less than €1,000, the value varies by category with some having large volumes of small value overpayments and others having small volumes of high value overpayments. The distinction between estate cases and others is particularly marked. Figure 2.5 shows the stratification of overpayments in the period 1998-2002.

**Figure 2.5 Value of overpayments by category of overpayment, 1998-2002**

Value of overpayment in individual cases	Fraud cases	Estate cases
0 - €1,000	83%	3%
€1,001-€5,000	13%	27%
€5,001-€10,000	2%	27%
> €10,000	2%	43%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Analysis by Office of the Comptroller and Auditor General

2.33 The individual overpayments occurring are a combination of the claim period and the weekly amount overpaid. Analysis of both these dimensions would allow the identification of schemes where

- payments are made for a long time before being detected or
- where large amounts are overpaid on a weekly basis.

Overpayments analysed on this basis are displayed in Figure 2.6.

**Figure 2.6 Average overpayment by category, 1998-2002**

	Number of cases	Average duration (weeks)	Average weekly amount overpaid	Average overpayment
			€	€
<b>Fraud</b>	66,934	18	55	999
<b>Estate Cases</b>	2,500	380	32	12,110
<b>Client error</b>	94,268	14	26	370
<b>Department error</b>	15,486	14	34	484
<b>All cases</b>	<b>179,188</b>	<b>21</b>	<b>38</b>	<b>779</b>

Source: Analysis by Office of the Comptroller and Auditor General

## **Overpayments Classified as Fraud**

**2.34** An examination of the overpayments classified as fraud showed that Unemployment Assistance, Unemployment Benefit and One-Parent Family payments accounted for over 80% of amounts recorded. The main causes were:

- concurrent working and claiming
- concealment of information relevant to the claim such as means not disclosed
- dependant in employment or on training course
- claimant co-habiting.

**2.35** 5% of fraudulent overpayments were as a result of the claimant being absent from the State.

**2.36** In respect of overpayments classified as fraud in the period 1998-2002, the average value of the overpayment amount was €99. The average duration of the fraud prior to detection was 18.2 weeks and the average weekly amount overpaid was €5. There were, however examples of schemes where the fraud had been happening over a much longer period and where the overpayment amounts were thus much greater.

**2.37** In certain long-term schemes, the Department is at greater risk of losing larger amounts of money due to the duration of overpayments being longer. Fraudulent claims detected in pension schemes<sup>2</sup> continued in payment on average between 2.3 and 2.8 years, with weekly amounts overpaid ranging from €76-€115. The average amount overpaid was in excess of €10,000 for all these schemes.

**2.38** Lone Parent schemes also presented a risk of losing large amounts of money with fraudulent claims continuing in payment for over two years. The average overpayment detected in the Lone Parent Separated Scheme was €2,200 and in the Lone Parent Unmarried Scheme was €1,100.

## **Departmental Initiatives**

### **Revised Control Strategy**

**2.39** The Department has, in the most recent Control Strategy<sup>3</sup>, recognised that risk assessments should be conducted periodically across all functions to provide and maintain an up to date picture of the Department's fraud and error risk profile. Control Division, with the assistance of the Internal Audit Unit is currently devising a risk assessment questionnaire for completion by the relevant scheme managers. The target date for completion of this process is the end of 2003. The Department has indicated that the risk assessment process to be undertaken will address the risk environment and the adequacy of its control procedures.

**2.40** The intention is that a risk assessment model combining information from the assessments of risk and control procedures will culminate in a risk rating for each scheme. Selection

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2 Widows Contributory Pension, Old Age Contributory/Non-Contributory Pension and Blind Persons Pension.

3 This strategy was adopted in May 2003.

procedures using these criteria would ensure that groups of clients receiving payments are subject to a degree of review appropriate to their assessed risk of overpayment.

### ***Addressing System Deficiencies***

**2.41** Some systems are stand-alone and do not lend themselves to automated cross checks. The Department is responding to this by developing an integrated IT system for long-term payments entitled the Service Delivery Model. The first phase was launched in the Child Benefit Section during 2002, and work has commenced on its extension to the Pension Services Office. The development of this system will enhance the ability of the Department to data match between schemes and facilitate an integrated approach to control activity.

### ***Addressing Identity Issues***

**2.42** In June 2000, the Department assumed responsibility for the allocation of all PPS numbers. In the period June 2000 to September 2000, over 40,000 PPS numbers were issued. Just under a quarter of these were issued to EU citizens (excluding Irish citizens). In order to ascertain the level of forged or altered documentation being provided in support of an application for a PPS number, five Dublin local offices provided information on a sample of PPS numbers allocated to non nationals of which 2,306 were to EU citizens (excluding Irish citizens). Forged or altered documentation was discovered in 156 cases (7%).

**2.43** While the survey was limited to five offices, it was useful in identifying some new risks the Department faces in allocating PPS numbers. Since the survey was undertaken, all local and branch offices have been provided with ultra-violet document examination equipment. Revised procedures in relation to PPS number applications were also issued to staff and training in this area is on-going.

**2.44** A Central Anti-Fraud Unit was established during 2000 to monitor issues in relation to identity fraud and its responsibilities include that of providing support to staff of the Department in the area of identity related issues.

### ***Improving the Recording System***

**2.45** The Department records individual overpayments detected on a central database. The database records the value and cause of the overpayment as well as the period over which the overpayment arose. The Department is aware that although a large proportion of overpayments are recorded, the database does not represent the full population of overpayments.

**2.46** Each payment area records details of individual overpayments. A handwritten form is then completed (normally by a Deciding Officer) and forwarded to the Central Overpayments and Debt Management (CODM) section for input to a stand-alone computer system. Any amendments to the overpayment amount and, for the most part, recoveries of overpayment amounts are similarly processed.

**2.47** There is scope, therefore, for improving the processing of overpayments by introducing measures to ensure completeness of recording and best information management practices including the single instance recording of data. The Department has in place a project to introduce a new recording system for overpayments. It is intended that a new system would, in general, eliminate the use of manual forms for the updating of overpayments data to the central system.

**2.48** The Department has assured me that one of the objectives of the project to develop and implement its new Central Overpayments and Debt Management system is to identify and analyse the main causes of overpayments and pinpoint ways of reducing the level and value of overpayments occurring.

## **Responding to Risks**

**2.49** The identification of risks, whether on the basis of an analysis of the Department's systems or as a result of learning from review work or some combination of both, is a preliminary step in the management of those risks. Thereafter, risk management is primarily effected through the adjustment of internal controls and review procedures. Consequently, an effective risk management process needs to advert to underlying factors which give rise to any particular overpayment including

- the profile of the persons who have abused the system
- the type of means which may have been concealed
- the person to whom the means belonged
- how they are paid
- what has been the interaction with the Department over time
- the review history and what can be learned from the latest detection about review efficiency.

**2.50** It follows from this that risks once addressed by the introduction of controls should in theory reduce the level of detection from reviews. Consequently, the effectiveness of control work can best be examined by evaluating the overall impact of control rather than attempting to attribute effects to review work alone. This is considered in more depth in Chapter 3.

## 3 Effectiveness of Control Work

3.1 This section examines the results of control work in terms of

- the adequacy of the performance measurement systems in use
- the rate of recovery of detected overpayments
- the general deterrent effect of control work.

### Performance Measurement

3.2 In order to target control activity to achieve the most effective compliance outcomes, the Department needs to have

- information on its actual performance
- appropriate measures and indicators derived from this information.

3.3 At present the Department uses two main measures of achievement — how many reviews it has conducted and the savings which arise as a result of these reviews.

### Review Activity

3.4 The Department publishes information on the number of reviews carried out annually. This information is included in a report entitled *The Control Division Annual Report*. Figure 3.1 shows the review activity in respect of 2002.

**Figure 3.1 Number of reviews conducted, by scheme type, 2002**

<b>Scheme Type</b>	<b>Number of reviews</b>
<b>Unemployment</b>	90,404
<b>Illness</b>	167,165
<b>Pensions</b>	42,479
<b>Child benefit</b>	25,501
<b>Carers</b>	1,303
<b>Family Income Support</b>	14,576
<b>Total</b>	<b>341,428</b>

Source : DSFA, Control Division Annual Report, 2002

3.5 Essentially, the number of reviews conducted is a measure of activity, which aggregates reviews of different intensity. In order to extract performance information from these statistics, it would be useful to calculate

- the proportion of reviews conducted resulting in savings, which would give some indication of the success of targeting and the risk of unwarranted recourse to a scheme
- the proportion of individuals in payment in each scheme who were the subject of a control review during a year which would give an indication of the level of review intensity.

### *Proportion of Reviews Resulting in Savings*

**3.6** In just over two thirds of all reviews completed the Department records the proportion of reviews resulting in savings. In order for this measure to be useful it should be calculated and reported for all reviews conducted. The measure where reported is shown in Figure 3.2.

**Figure 3.2 Proportion of reviews resulting in savings, by type, 2002**

<b>Scheme</b>	<b>Proportion resulting in savings</b>
<b>Unemployment</b>	28%
<b>Pensions</b>	22%
<b>Illness</b>	15%
<b>Carers</b>	13%
<b>Child benefit</b>	5%
<b>Family Income Support</b>	5%
<b>Total</b>	<b>19%</b>

Source : DSFA, Control Division Annual Report, 2002

**3.7** Whilst it is recognised that the results recorded may be due to a combination of changes in risk exposure and the success in the targeting of persons who abuse the system, they are useful in planning future activity and allocating scarce resources. In this connection, the most important aspect of the result is the trend in the proportion of reviews resulting in savings. Examining these between regions and by the different review types should assist the Department in setting its annual operational plan.

### *Review Intensity*

**3.8** It would also be useful to calculate review intensity, that is, for any one year, the number of individuals reviewed as a proportion of the total number of people who claimed in that year. The Department currently calculate review intensity based on the total number of reviews as a proportion of the average number of claimants in that year. As a performance measure, this tends to overstate review coverage because

- It does not take account of the high throughput of claimants in certain schemes especially in short-term schemes.
- Some individuals could be reviewed a number of times in the same year, for example an individual may first have a medical review which is later followed by a medical examination (both being classified as a review).

### ***Savings Reported***

**3.9** The key measure currently used by the Department to monitor its achievement in the control area is estimated savings. The estimated savings are calculated on the basis of the weekly amount overpaid multiplied by a specified factor (the multiplier) for each scheme. The Department sees savings calculated in this way as a mechanism to benchmark the effectiveness of control activities year on year.

**3.10** An estimate of savings arising out of review activity is compiled annually by the Department. In its latest report on the results of control activity (relating to 2002), the Department estimated that going forward €283 million would be saved as a result of detections of fraud and error cases.

**3.11** The vast bulk of reported savings arise on directly administered schemes with PRSI (which is administered through the Revenue system) accounting for only €14.5 million. 91% of the savings associated with control activities arose in three areas. Unemployment schemes account for 42% of all estimated savings, Pensions for 31% and Illness Schemes for 18%.

**3.12** The estimated savings are a measure of the amount of money which the Department estimates will not be paid out due to the detection of irregular claiming. These estimates depend heavily on assumptions about the extent to which subsequent behaviour of former claimants is attributable to the review activity. Subject to this reservation the measure itself is dependent upon

- the accurate calculation of savings identified and
- the accuracy of the multiplier as an estimate of the numbers of weeks a person will refrain from irregular recourse to the welfare system.

### ***Accuracy of Savings***

**3.13** The Department has issued guidelines to staff on the calculation of savings and its Control Section undertakes annual exercises to validate the savings claimed and reported and to ensure the guidelines on claiming and counting of savings are being applied uniformly.

### ***The Multiplier***

**3.14** The concept of a multiplier in calculating savings was adopted around 1992. The multiplier measures the average amount of time the person who signs off will remain off the books before returning. As there may be many reasons for the lapse of time before the recommencement of claiming and since new claims are in the main likely to be valid, the use of the interval between the cessation of an irregular claim and the commencement of a subsequent valid one in calculating the impact of review work seems dubious.

**3.15** The formula itself derives from attempts first made in the UK in the late 1980s to measure savings on cases which had terminated as a result of control work on the basis of surveys of claims. A 32 week multiplier emerged from this work. In the early 1990s an examination, in Ireland, of a sample of cases where an Unemployment Assistance or Unemployment Benefit claimant had signed off as a result of control work estimated that it was 36 weeks before a fresh claim was made. While this was slightly higher than the 'dormant' period suggested by the UK studies, a multiplier of 32 weeks was adopted.

**3.16** The 32 weeks formula was subsequently used as a basis for compiling multipliers for other schemes, taking factors specific to each scheme into account. The multipliers currently in use by the Department in relation to the schemes accounting for the majority of reported savings are shown at Appendix B.

**3.17** The multiplier in use in relation to long term Unemployment Assistance (52 weeks) was last examined in July 1998 by surveying 178 cases. It was found that the average number of weeks claimants remained off social welfare differed between regions from 51 weeks to 92 weeks with an overall average of 74 weeks.

**3.18** The multiplier in use in relation to short-term Unemployment Assistance was examined in the same way in March 2002 by reviewing 152 cases. None of the regions dropped below the multiplier of 32 weeks and the average was 39 weeks.

### *Measuring Performance – International Comparisons*

**3.19** The Australian Audit Office in a recent report<sup>4</sup> recognised ‘the need to shift the focus to reducing fraud and incorrect payment, rather than just detecting it once it has occurred’.

**3.20** In the UK the primary measure used by the Department for Work and Pensions to measure effectiveness is to monitor the levels of fraud and error occurring (based on the results of a random sample) by scheme and by region. These estimates help assess the risks faced by the Department and evaluate the success of action taken to reduce the level of loss.

**3.21** Internationally, it has been recognised that the best measure of performance in this area is the movement in the levels of fraud and error occurring. Consequently the estimation of the level of fraud and error at various points in time would be a more meaningful indicator of the impact of control activity. A performance measure based on movements in the level of fraud and error would also be useful in comparing performance between different schemes and regions.

**3.22** Measures of effectiveness in fraud control, to be useful, must assist in resource deployment decisions and in addressing risks of irregular payment. Consequently, they need to be supplemented by surveys to determine underlying causes of irregular payments, new patterns in fraud cases and deficiencies in systems which allowed them to emerge. The Department has stated that it intends to undertake further such studies.

### **Baseline Level of Fraud and Error**

**3.23** At present, the Department has no reliable estimate of the level of fraud and error occurring. Periodic estimates of the levels of fraud and error in the welfare payments generally could provide

- an accurate basis for assessing risk
- a reliable indicator of how well the combination of the Department’s control and review functions were working
- the possibility of identifying changes in systems and procedures necessary to combat any new risk emerging or deficiencies in its systems

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4 **Management of Fraud and Incorrect Payment in Centrelink**, Australian Audit Office, 2001

**3.24** In order to produce such estimates of the levels of fraud and error occurring, it would be necessary to base it upon a random sample of claims in payment from each of the major schemes. Having determined the extent to which they are fraudulent or in error, the results would be extrapolated to obtain a national estimate of the level of loss at a point in time. The criteria necessary for successful implementation of a random survey of baseline fraud and error are set out in Figure 3.3.

**Figure 3.3 Criteria for the successful implementation of a survey of baseline fraud and error**

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- All cases for inclusion in the survey must be selected randomly from the population of cases in payment at a specific time.
  - The sample size must be sufficiently large to yield reasonably reliable estimates.
  - The reviews should be carried out quickly or samples may be affected by clients signing off etc.
  - The results of the survey should be capable of being audited e.g. test checks on individual cases.
  - Cases should be tested fully for all possible breaches of regulations.
  - The monetary values of any changes as a result of the review together with the monetary value of the sample should be captured so that the results can be extrapolated to draw conclusions about the estimated value of the loss.
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**3.25** In the course of this examination my Office and the Department agreed that a survey should be undertaken to help establish the baseline level of fraud and error.

**3.26** The survey was initially limited to Lone Parents, Unemployment Benefit and Unemployment Assistance payment cases. The survey was carried out by the Department's inspection staff. Ideally there would be two stages in the analysis of the results

- determining the cases that may require change in the amount paid to claimants and the reasons for the required change
- establishing the monetary effect of the corrections.

**3.27** The detail recorded at the data collection stage proved insufficient to allow the analysis to proceed to a full assessment of the impact of fraud and error on the accuracy of the reported payments from the schemes examined. The Department intends to address this deficit in future surveys.

**3.28** The Department has however conducted analysis on the extent to which payments in the cases examined required to be altered. The preliminary results of this analysis are shown in Figure 3.4. It should be noted that these are preliminary results and should be interpreted with caution. The final outcome of the review in each individual case will only be known when a Deciding Officer has examined the case and made a decision

**Figure 3.4 Proportion of cases examined requiring change**

	One Parent Family cases	Unemployment Assistance	Unemployment Benefit
<b>No change recommended</b>	72%	84%	98%
<b>Changes recommended</b>	28%	16%	2%
<b>Total cases</b>	100%	100%	100%
<b>Number of cases examined</b>	728	442	500

Source: DSFA survey of cases in payment, 2002

**3.29** It is possible that some will result in no change in payment – for example, not all cases where there was an increase in means will result in a reduction in payment. In addition, some of the cases suspended for ‘not known at the address’ may simply have moved without informing the Department, but would otherwise have no change in circumstances.

**3.30** While it is not possible to come to any definitive conclusions pending decisions by Deciding Officers and Appeals Officers, the preliminary results of the survey in relation to One Parent Family cases indicating that about 28% of the cases examined require a change in the rate of payment are in keeping with the findings of a number of special control projects in this area. 78 of the 201 cases where changes were recommended have been terminated to date.

**3.31** The preliminary results of reviews of unemployment cases indicate that while in Unemployment Benefit cases the risk is low, a surprising proportion of Unemployment Assistance cases require some level of change in payment.

**3.32** The main reasons for changes to payment amounts in the One Parent Family cases reviewed are shown in Figure 3.5. An increase in the means of the claimant accounted for almost two thirds of all cases requiring change.

**3.33** Three quarters of all Unemployment Assistance cases where the review concluded that a change to the payment level was required came about due to an increase in the means of the claimant.

**Figure 3.5 Reasons for change – One Parent Family cases**

Reasons for change	Number of cases	Percentage of cases
Increase in means/earnings	131	65%
Co-habitation/Marriage	44	22%
Not at the address/Left State/Did not make themselves available for interview	22	11%
Other	4	2%
<b>Total</b>	<b>201</b>	<b>100%</b>

Source: DSFA survey of cases in payment, 2002

### *Improving the Survey Methodology*

**3.34** Random samples of cases were selected for review in order to assess the likely underlying level of overpayments at a point in time. However, certain categories of cases in the sample were not reviewed afresh which may impact on the reliability of the results produced. Overall, only 60% of the survey results reported arose from specific survey related reviews.

**3.35** Of the 500 Unemployment Benefit cases selected for review in 2002, 23% had signed off the live register before being reviewed. The initial survey treats these as 'no change' cases. The Department estimates that on average there is a 60% exit rate from unemployment payments after six months. This effect would need to be taken into account in future surveys, perhaps by periodically selecting a number of smaller samples thereby reducing the elapsed time between sample selection and review.

**3.36** A decision was taken not to review cases where the decision to award payment was made in the previous six months in respect of Unemployment schemes and 12 months in the case of One Parent Family payments. Without actually reviewing these cases the survey treats them as if they had been reviewed and the result was 'no change'. These cases represented 40% of all Unemployment Benefit cases and 6.5% of all Unemployment Assistance cases selected for review<sup>5</sup>.

**3.37** In addition, cases which had been reviewed in the previous six months in Unemployment cases and twelve months in One Parent Family payments as part of normal control activities, were not reviewed for the purpose of the survey but results of the normal ongoing reviews were taken into account in analysing the results of the survey.

**3.38** The decision not to review certain categories of cases in the sample and rely on the results of other review and assessment work could affect the estimates of the likely underlying level of overpayments and would need to be addressed if the surveys are to provide a basis for the precise calculation of a baseline level of fraud and error. The Department has indicated that in future surveys of this nature, all live cases included in the samples selected will be reviewed.

### *Estimating Monetary Effects*

**3.39** The results produced from this survey have been used to estimate the proportion of cases requiring change. Ultimately, the common yardstick for determining risk is assessed financial exposure. As some of the changes will result in payment being terminated while others may result in relatively minor adjustments to the rate of payment, it will be necessary in the case of future surveys to capture the monetary value of overpayments detected in the sample so that the baseline level of overpayment can be expressed in monetary terms.

**3.40** The Department has decided that surveys to estimate the baseline levels of overpayment will become part of its overall Control Strategy in the future. These sampling exercises will be integrated into the Department's business planning process and over time, extend to all schemes.

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5 One Parent Family payment cases were not reviewed where the payment was awarded or the claim had been reviewed in the previous twelve months, no data was retained on the breakdown between these categories.

## Effective Debt Recovery

**3.41** Apart from the benefits of stopping future irregular payments, detecting overpayments will not be effective unless it is backed up by recovery and enforcement measures. In particular, effective debt recovery is essential to convince claimants that defrauding the welfare system does not pay. The Department recognised in its 1998 and 2003 Control Strategies that the overall debt management strategy should create a climate where

- overpayments are regarded as debts which must be recovered
- the recovery of overpayments would be an intrinsic part of scheme management
- a debt management function should exist in each scheme, local office and health board area
- recovery rate targets should be set involving overall and minimum ratios for schemes
- recovery of overpayments should be pursued
- debt recovery should be reported on as part of the overall reporting framework.

### *DSFA Recovery Practice*

**3.42** A Code of Practice for the recovery of overpayments was issued in 1996. At the same time, a set of guidelines was issued to give effect to the Code of Practice. The main provisions of the guidelines were that subject to recognising a person's basic income need,

- every effort should be made to achieve a full recovery of overpayments
- an overpayment under €3.49 need not be pursued unless it could be recovered simply and without undue cost
- civil proceedings could be considered to recover debts where the person had significant resources available.

**3.43** Account is taken of circumstances and, in general, a deferral of repayment of an overpayment is considered where there are special circumstances, which prevent the person from making the repayment for the time being. Special circumstances may include cases where the person incurs unavoidable additional expense or suffers from a serious illness or has had a recent bereavement.

### *Write Offs and Cancellations*

**3.44** The Department's practice in regard to the write-off of overpayments is

- not to pursue debts where there is no reasonable prospect of repayment<sup>6</sup>
- where there has been no recovery after three years to write off any other debts.

**3.45** Where there is no reasonable prospect of securing payment of the debt and there is no possibility that the circumstances of the person will change and that he or she would be able to make repayment, the repayment is not pursued although the debt remains. This applies in particular where the person overpaid has died without an estate.

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<sup>6</sup> These are notified by scheme sections to a central unit and an annual write-off request is made to the Department of Finance.

**3.46** There is a distinction, in practice, between the debt recorded and pursued by the Department at scheme level and the manner in which accounting for the debt is effected. In the Department's central records an overpayment may be written off for accounting purposes in cases where there has been no activity on the overpayment recording system for a period of three years. Cases above €5,000, due for write-off, are, however, referred firstly to local offices and scheme sections to seek up to date information on the current status and prospects for future recovery.

**3.47** While the purpose of 'accounting write-offs' is to present a fairer view of that element of debt in respect of which there is a reasonable prospect of recovery, the fact that cases are written off for accounting purposes does not mean they may not be recovered at some later date. In 2002, 8% (€1.3m) of the total amounts recovered was in respect of overpayments that had previously been written off in this way.

**3.48** In addition to the write-off of debts, reduction or cancellation of the repayment of an overpayment may occur where it arises due to an internal failure by the Department or Health Board either to act within a reasonable period on information already provided by or on behalf of the person concerned or an error by the Department or Health Board and the person concerned could not reasonably have been expected to be aware of the failure or error.

### ***Debt Management Systems***

**3.49** The overpayments system currently in use in the Department has been in place since 1987. It is essentially a stand-alone system and does not interface with any of the Department's other computer systems and therefore requires a high degree of manual inputting of data. Consequently, it plays little role in the management of debts due to the Department for overpayments and functions largely as a recording and accounting system.

**3.50** To underpin the debt recovery effort a business case for a new computerised central overpayments and debt management system was prepared and approved as far back as 1997. However, due to other IT commitments, such as ensuring Year 2000 compliance, the system was not developed.

**3.51** The project has recently been re-activated with a new project team appointed in 2003. Its high level objective is to implement a new Central Overpayments and Debt Management system which would

- record and account for overpayments and
- support a comprehensive debt management function.

**3.52** In order to implement the project, two interlinked initiatives will be put in place

- an IT solution which integrates with existing internal and external systems and includes a debt management function.
- a re-organisation of the business processes in order to maximize the benefits achievable from the implementation of the new IT system, as well as reduce the level and value of overpayments and increase recoveries.

### Recovery of Overpayments

**3.53** Figure 3.6 shows the amounts recorded for recovery in each of the years in the period 1998-2002 and tracks how recovery action has progressed for each annual tranche of overpayments up to April 2003.

**Figure 3.6 Status of overpayments recorded in the period 1998-2002 as at April 2003.**

	1998	1999	2000	2001	2002	Total
	€000	€000	€000	€000	€000	€000
<b>Amount recorded for recovery</b>	28,472	28,591	27,077	26,111	29,286	139,537
<b>Written off</b>	8,072	8,085	1,448	1,900	1,867	21,372
<b>Cancelled</b>	840	614	624	361	291	2,730
<b>Recovered</b>	11,454	8,436	8,495	8,648	7,668	44,701
<b>Balance outstanding</b>	8,106	11,456	16,510	15,202	19,460	70,734

Source: Analysis by the Office of the Comptroller and Auditor General

Note: The information in the figure is derived from the tracking of all subsequent transactions (recovery/write-off and cancellation) which arose up to April 2003 in respect of the tranches of overpayments originally recorded in a particular year. The proportion of overpayments written off in respect of earlier years is substantially higher due to accounting write-offs under the 'three year rule'.

**3.54** Up to the end of April 2003, about one third of overpayments recorded in the period 1998-2002 had been recovered.

**3.55** The rate of recovery varies significantly depending on the underlying cause of overpayment. The recovery rates in respect of overpayments recorded in the period 1998-2002 are shown in Figure 3.7.

**3.56** The rate of recovery is highest in estate cases (cases where overpayments are recovered from the estates of deceased claimants). This tends to mask an even lower recovery rate for other types of overpayments.

**Figure 3.7 Recovery rates of overpayment by type, 1998-2002**

Type of overpayment	Amount €000	Proportion recovered
Fraud	66,849	18%
Estate cases	30,274	68%
Client error	34,910	32%
Department error	7,504	16%
<b>Total</b>	<b>139,537</b>	<b>32%</b>

Source: Analysis by the Office of the Comptroller and Auditor General

**3.57** Up to one third of cases involving client error result in recovery. However, only 18% of the value of overpayments is recovered in fraud cases, and only 16% where an error is made by the Department.

**3.58** Pending the provision of a centralised overpayments and debt management system, proactive recovery measures are necessary at local level. There have been some initiatives in this regard. For instance, in the Mid West Region, debt management projects have been initiated in a number of local offices with a view to securing repayment of recorded overpayments. The claimants are reminded by letter of their obligation to repay any outstanding debts. In addition, the Inspectorate is involved in visiting claimants in cases where no response to the written notification is received.

**3.59** To date, significant numbers of claimants have entered into repayment arrangements with the local offices, others have signed undertakings to start repaying in a number of months and a small number of cases have been submitted to the Central Prosecution Section for recommendation of civil proceedings to recover the debt.

**3.60** However, there still appears to be scope for greater recovery effort on a global scale. This is highlighted by the results of a survey carried out in 2000, of debts due for accounting write off because they were more than three years on the overpayments system and did not have any activity recorded on them over that three-year period. The amounts to be written off were in the region of €5.6 million. 819 cases were examined. Over half the cases related to fraud with the balance, in the main, relating to client or departmental error. The survey sought to examine what action, if any had been taken to recover the overpayment.

**3.61** The results of the survey which are set out in Figure 3.8 showed that in over half of the overpayments, either no action had been taken or the action to recover the overpayment was very limited. The results also underscore the fact that the central overpayments recording system is not a comprehensive record since in 5% of the cases the information recorded on the central records was incorrect.

**Figure 3.8 Survey of action taken to recover overpayments, 2000**

	Number of cases	Proportion of cases
No action to recover overpayment taken	154	19%
Request for overpayment made/letter to claimant	267	33%
Recovery on-going	224	27%
The overpayment had been recovered	24	3%
Overpayment cancelled or written off	20	2%
Case referred to CAB/CPS	12	1%
Other reported outcomes	22	3%
<b>Status of cases reported</b>	<b>723</b>	<b>88%</b>
No response to survey	96	12%
<b>All cases surveyed</b>	<b>819</b>	<b>100%</b>

Source: DSFA survey of overpayments due for accounting write off, 2000

## Deterrent Effect of Control Work

**3.62** A wide range and spread of control activities is an important weapon in combating fraud and abuse. Apart from having an effective debt recovery strategy deterrence can be aided by

- publicising the success of the Department's control strategy and promoting voluntary compliance
- prosecution of those who defraud the system
- monitoring the rate of re-offence — recidivism — in the case of fraudulent overpayments detected.

### *Publicity*

**3.63** Publicity, in the context of control of fraud and error, needs to involve not only the publicising of the Department's stance on fraud and the nature and extent of the procedures in place to combat fraud and error but also highlighting the successes that have been recorded in detections and prosecution of the offenders.

**3.64** The Department's Control Division reports, while very informative at a statistical level might benefit from the inclusion of material which indicates how its activities successfully combated fraud in individual cases. Publication of this type of material may have a higher impact on the decisions of a proportion of people who are contemplating perceived opportunities for fraud.

## *Prosecution of Fraud*

### *Criminal Prosecutions*

**3.65** Offences created by social welfare legislation are indictable. The Director of Public Prosecutions (DPP) is the only person empowered by law to prosecute on indictment and, under rules of procedure, he must elect between summary and indictment proceedings. Historically, the DPP has consented to summary prosecutions being brought for all indictable offences committed under social welfare legislation, unless the Minister for Social and Family Affairs refers a case to him with a recommendation to proceed on indictment. Accordingly, the vast majority of cases taken by the Department to date have been by way of summary proceedings as the penalties available for such proceedings are considered to adequately reflect the seriousness of the offences involved.

**3.66** Authority for the preparation of summary prosecution cases for referral to the Chief State Solicitor's Office (CSSO) has been delegated by the DPP to the Minister for Social and Family Affairs. The Central Prosecution Service (CPS) within the Department is responsible for this work.

**3.67** The penalties involved are as follows:

- The maximum penalty provided for by social welfare legislation for cases taken by way of summary proceedings is a fine not exceeding €1,270 and/or a term of imprisonment not exceeding twelve months

- In the case of trials on indictment, heard in the Circuit Courts before a judge and jury, the maximum penalty is a fine of €12,700 and/or a term of imprisonment not exceeding three years.

### *Civil Proceedings*

**3.68** Civil proceedings are taken to facilitate the recovery of scheme overpayments, the collection of PRSI arrears or the enforcement of maintenance recovery orders made against liable relatives by the Maintenance Recovery Section of the PSO. Civil proceedings are only contemplated, however, where it has been established that the debtor or liable relative has sufficient means to discharge the debt.

### ***Recourse to Prosecution***

**3.69** The prosecution of offenders is a key element of the Department's control of fraud and abuse strategy. It is the policy of the Department that all cases of fraud and abuse will be considered for prosecution. A general consideration is the need for deterrence in relation to particular areas or industries where multiple offenders have been detected in a particular work force.

**3.70** Factors taken into account in considering a case for prosecution include

- whether the alleged offender lives within the jurisdiction
- the seriousness of the offence
- the strength of the available evidence
- the availability of witnesses
- the degree of culpability, responsibility and experience of the alleged offender
- the mental and physical health of the alleged offender.

**3.71** It is intended, in the main, that these criteria would apply to first-time offenders only and in general, all repeat offenders would be prosecuted.

**3.72** In the period 1998-2002, overpayments classified as fraud were recorded in 66,934 cases. The total value of these overpayments was €66.8 million. The number of cases referred to the CPS by scheme sections and the number subsequently referred to the Chief State Solicitor's Office for each overpayment band is shown in Figure 3.9.

**3.73** Overall, under 2% of overpayment cases classified as fraudulent were subsequently prosecuted. While slightly higher proportions of high value cases were prosecuted, the level of high value cases not prosecuted is still high.

**3.74** Revised guidelines on the prosecution of fraud were issued to staff in February 2003. These require that all overpayments between €2,000-€5,000 classified as fraud/suspected fraud must be referred to the CPS for pursuit unless otherwise directed by an Area Manager. All similar cases with an overpayment of €5,000 must be prosecuted unless otherwise directed by CPS.

**Figure 3.9 Fraud cases referred for prosecution, 1998-2002**

Value of Overpayment	Number of cases			% of total detected
	Fraud detected	Referred to CPS	Referred to CSSO	
0 - €1,000	55,602	181	172	0.3%
€1,001 - €5,000	8,965	669	617	6.9%
> €5,000	2,367	309	293	12.4%
<b>All cases</b>	<b>66,934</b>	<b>1,159</b>	<b>1,082</b>	<b>1.6%</b>

Source: Analysis by the Office of the Comptroller and Auditor General

### *Outcome of Cases Prosecuted*

**3.75** The outcome of the cases referred to the Chief State Solicitor's Office is shown in Figure 3.10. The average fine imposed between 1998-2002 was €371. The average fine in 2002 was €455.

**Figure 3.10 Result of court cases, 1998-2002**

Outcome	Number	Proportion
<b><i>Finalised - penalty imposed</i></b>		
Fine Imposed	315	29%
Probation Act applied	127	12%
Sentence suspended	96	9%
Community service	28	2%
Fined and suspended sentence	23	2%
Imprisoned	13	1%
Bound over to the peace	7	1%
<b>Cases where penalty imposed</b>	<b>609</b>	<b>56%</b>
<b><i>Finalised – No penalty imposed</i></b>		
Dismissed	25	2%
Struck out	32	3%
Not proceeded with	37	4%
<b>Cases finalised without penalty</b>	<b>94</b>	<b>9%</b>
<b><i>Not Finalised</i></b>		
Adjourned	291	27%
Bench warrant issued	66	6%
Unable to serve summons	22	2%
<b>Cases not finalised</b>	<b>379</b>	<b>35%</b>

Source: Analysis by the Office of the Comptroller and Auditor General

### *Comparison with UK's Department for Work and Pensions*

**3.76** Apart from prosecutions, two other forms of sanction are available to the UK Department for Work and Pensions where there is sufficient evidence of fraud. These are

- a formal caution or
- an administrative penalty.

Formal cautions and administrative penalties are sanctions not provided for in Irish Social Welfare legislation.

**3.77** All sanctions applied by the UK Department for Work and Pensions are required to meet the same standard of evidence since a claimant may refuse a caution or penalty and may opt for prosecution instead. Sanctions are imposed in addition to any reduction or withdrawal of benefit claimed, and any overpayments recovered. The principal features of the system are outlined below

- **Formal Caution** – This is usually applied in cases where the value of the fraud is less than £400. The claimant must repay the overpayment and, if it is the first time they have committed the offence, is given a formal caution.
- **Administrative Penalty** – This is usually applied in cases where the value of the fraud is between £400 and £1,500. The claimant must repay the overpayment and will receive an administrative penalty of 30% of the amount overpaid.
- **Prosecution** – This is usually applied in cases where the value of the fraud is in excess of £1,500. The claimant may be prosecuted, subject to evidential and public interest tests, and may receive any form of penalty as imposed by the Courts.

### **Recidivism**

**3.78** The rate of re-offence is an important indicator of the deterrent effect of control activity. If the sanctions for abuse of the system are stringent, the rate of re-offence should be low. The Department does not report on the level of repeat offenders.

**3.79** During the examination, all overpayments categorised as fraud (around 155,000 individual overpayments) were analysed to establish the rate of recidivism. A number of the overpayments were recorded to An Post who act as paying agents for certain schemes. These were excluded from the further analysis.

**3.80** The analysis highlighted two situations where multiple overpayments can be recorded for the same individual

- where an individual has recourse to different schemes over a period of time and when reviewed, is found to have overpayments on more than one scheme
- cases where more than one detected overpayment occurs but the overpayments are not concurrent.

**3.81** Overall, in about 6.5% of detections of fraudulent overpayments the claimant has had recourse to more than one scheme.

**3.82** Further analysis indicates that just under 12% of individuals who commit fraud re-offend at a later date. The results of the analysis are set out in Figure 3.11.

**Figure 3.11 Detected fraudulent recourse to Welfare System at April 2003**

<b>Number of detections</b>	<b>Number of persons</b>	<b>Average per person €</b>	<b>Average per detection €</b>
1	112,049	1,377	1,377
2	11,804	2,231	1,116
3	2,232	2,552	851
4	491	3,052	763
5	144	3,078	616
6	41	3,165	528
7	9	3,257	465
<b>Total</b>	<b>126,770</b>	<b>1,486</b>	<b>1,296</b>

Source: Analysis by the Office of the Comptroller and Auditor General

**3.83** As would be expected, the average amount overpaid per person increases from €1,377 in the case of a single detection to €3,257 where the individual has been detected seven times. The average amount overpaid each time the individual is detected, is, however, decreasing from €1,377 in the case of a single detection to €465 in the case of an individual detected seven times. This suggests that individuals who re-offend are detected more quickly or they tend to commit fraud, which is noticeably lower than the average values occurring.

**3.84** There is scope, with advances in information technology systems, to address the issue of recidivism by making information of claim history and overpayments available for review by officers processing new claims. The Department should examine how this might be done in the context of planned enhancements to its computer systems.



## **Appendices**

## Appendix A Departmental Fraud Control Measures

For most of the period reviewed the DSFA operated under a Fraud Control Strategy in place since 1998. A revised strategy was issued in May 2003.

The 1998 Fraud Control Strategy identified the key risks as

- **The risk of incorrect payment** – which occurs as a result of error or incorrect/incomplete data
- **The risk of abuse** – which occurs when recipients fail to reveal circumstances which might affect entitlement e.g. an increased capital, a spouse commencing work, or when employers or the self-employed fail to make full PRSI returns
- **The risk of fraud** – which is a deliberate attempt to claim a payment to which the individual concerned is not entitled, e.g. making false declarations, impersonation, concurrent working and claiming or where an employer fails to comply with PRSI statutory obligations.

The 2003 strategy document articulates the Department's approach to control comprising the identification of key control points in the claim life-cycle, the devising of checks and controls to be carried out at each one and the scheduling of reviews based on overall risk assessment of the claim.

The overall strategic approach could be summarised as follows:

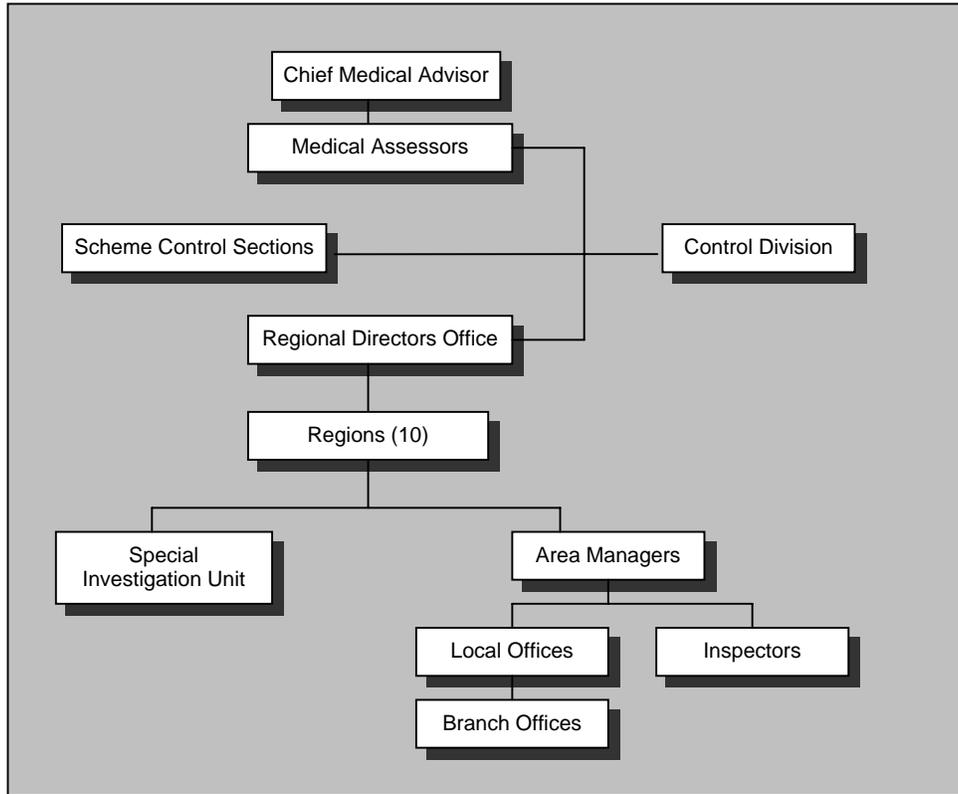
- **Prevention** - having systems and procedures in place that prevent and minimise the risk of fraud, abuse and error;
- **Detection** – detecting fraud, abuse and errors at the earliest possible stage, and detecting unpaid PRSI contributions by employers and self-employed;
- **Deterrence** – to develop an anti-fraud culture among staff and the public by ensuring that the public is aware of the risks and penalties of defrauding the Social Welfare system and dealing decisively with cases of fraud and abuse detected;
- **Debt recovery** – to actively pursue the recovery of all debts.

### Control Structures

Figure A.1 shows the control structure in place in the Department. While all staff in the Department are concerned with the prevention of incorrect payments to claimants and the detection of abuse of social welfare schemes, there are some 600 personnel specifically involved on control activities. Over 300 staff work full time on control work while the balance are general inspectors who spend about 60% of their time carrying out reviews on existing claims and the balance of their time determining entitlements in respect of new claims.

The estimated full salary cost of the control staff per annum is in the region of €6.3 million. An additional €1.3m is spent on overtime and travel and subsistence.

**Figure A.1 Control Structure in the Department**



Control work on existing claims involves

- carrying out inspections of employers' records
- investigating cases of concurrent working and claiming of social welfare payments
- reviews of payments to ensure continuing entitlement to welfare payment
- interviews of clients in receipt of unemployment payments to verify continued compliance with such requirements as being capable of, available for and genuinely seeking work
- a special investigation unit investigates employers and employees where abuses are suspected
- medical examinations and examination of medical reports in respect of claimants in receipt of illness payments who are medically certified as being unfit for work.

The control resources are deployed as follows:

**Control Division:** is a central policy development and liaison section. The section aims to promote control as an essential element of scheme administration. Control Division monitors, co-ordinates and reports on all control activities across the Department. They are also responsible for liaising with other departments, government agencies, employer associations and trade organisations in relation to control matters. Control Division is also responsible for supporting and overseeing the implementation of the new Control Strategy.

**Medical Assessors:** carry out reviews of the medical records and reports and conduct medical examinations of claimants in receipt of illness payments. In general, they monitor all medical aspects of the sickness schemes.

**Scheme Control Units:** Each scheme has a Control Unit which co-ordinates all control activities within its respective areas. The scheme control units are mainly involved in data matching projects in order to select cases for review. While some 'desk review' work is carried out at the scheme control unit, the detailed investigations are sent to the local inspectors or to the special investigation unit.

**Regional Director's Office:** is responsible for supporting the regions in the delivery of services at local level. Amongst the RDO's responsibilities is to liaise on behalf of the regions with other sections within the Department including Control Division. Discussions center on issues relating to regional control activity and the setting of targets for regional reviews/employer inspections and savings each year. The targets are based on input from the regions and are subsequently cascaded down to individual offices and Inspectors. The RDO also monitors regional control activity on an ongoing basis.

**Investigative Units:** carry out a wide range of control functions which include processing and reviewing means tested claims; reviewing entitlement of recipients; carrying out inspections of employer records; and investigating suspected fraud and abuse. They have increasingly become involved in specific projects as a mechanism for the better targeting of control activity. Examples of special projects would include data-matching exercises, targeting particular sectors, projects involving staff in the Special Investigation Unit (SIU) interviewing and visiting live register claimants within an area and simultaneously carrying out inspections in that location and projects focusing on claimants being paid by EFT.

**Local Area Control Teams (LACTs):** were established in 1996 to co-ordinate live register control activity and under the chair of the area manager, involves local office staff, inspectors both general and SIU and the local Jobs Facilitator. They co-ordinate all of the control activities and resources at local level and a number of the special projects undertaken would have come about as a result of the LACT activity.

## Appendix B Multipliers in use and reported savings, 2002.

In 2002, savings of just over €280m were reported by DSFA as a result of control activity. The savings and multipliers in use for schemes accounting for over 90% of the reported savings are shown below.

Scheme	Reported savings 2002 €m	Multiplier in use
<b><i>Unemployment</i></b>	118.5	
Short-term Unemployment Assistance/Unemployment Benefit		32
Long-term Unemployment Assistance/Unemployment Benefit		52
<b><i>Pensions</i></b>	89.3	
All Terminations of OAP/Free schemes/OPF/Carers		136
All means reviews of OAP/Free Schemes/OPF/Carers		52
Free Fuel		
- Pensions		68
- Other Schemes		16
Duplicate book cancelled		26
<b><i>Illness</i></b>	50.1	
Disability Benefit Final Cert		32
Disability Benefit Suspensions (Factual)		9
Equality Checks/ Means Reviews		52
Disability Allowance		136
MR Capables		
- DB(short term)/US cases		24
- DBPPO		80
- Invalidity Pension		136