

Human Services: Empowering Services,
Improving Lives

Fraud, Waste and Abuse in Social Services

Identifying and Overcoming
this Modern-Day Epidemic

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There is a financial leakage in social welfare systems all over the world. These cracks in the system, if left unaddressed, will continue to widen and negatively impact government—and society—as a whole.

These leakages manifest themselves in a variety of ways, with fraud, waste and abuse at one end of the spectrum, to overpayment and errors occurring as part of day-to-day processing. Each of these issues puts a hefty financial burden on the government system. For example, in the United Kingdom, the National Fraud Authority estimates that £21 billion (\$33B USD) is lost to fraud in the public sector each year. Overpayments in Ireland increased by 65 percent in just three years. And in

the United States, improper payments by government agencies reached \$125 billion in FY10.

Fraud, waste and abuse have significant social and economic impacts on the business of government. They can lead to reduced funding for government programs, increased public debt and denial of critical benefits to citizens—which can result in increased dissatisfaction with government as a whole.

The challenges of today's economy are fueling the problem. Rising demand for social services, coupled with increasing complexity of schemes, and greater use of online and self-service channels, drive up new opportunities for error, mistakes and abuse. The more challenges that government face, the greater chance there is for those wanting to abuse the system to spot weaknesses and siphon funds.

Government agencies must stem these leakages before they continue to swell. In this executive report, Accenture outlines how agencies are making strides in combating fraud, and proposes a framework to help address financial leakages in social services institutions.

Throughout this report, we use the word "fraud" in an encompassing way to cover the many related issues, including, fraud, waste, abuse, overpayment and error.

A view on fraud in social services

Analysis conducted by the Department of Work and Pensions and Her Majesty of Revenue and Customs in the UK suggests that the main causes of fraud and error in the social welfare system are¹:

Complexity of the system. This leads to confusion and genuine error among customers and staff.

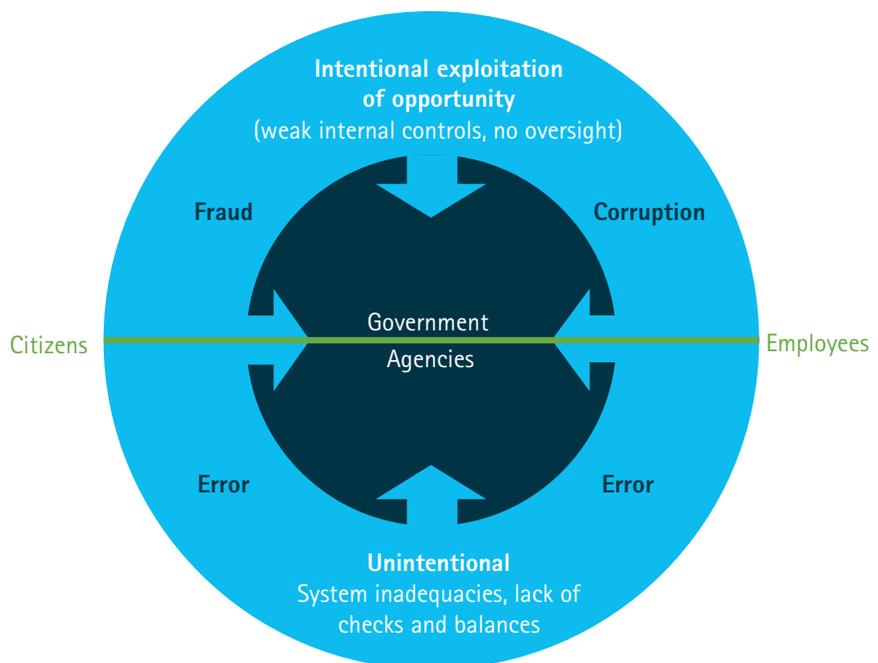
Means-testing. The difficulty in confirming the information provided by citizens is correct.

Perceived weakness of the sanctions regime. Users exploiting any apparent weakness.

Social norms. Including beliefs that welfare fraud is acceptable and everybody is doing it.

Internal organizational processes. Lack of resources for staff in IT, training and incentives for accurate processing.

Figure 1: The Fraud Ecosystem—Weak internal controls and lack of oversight make government agencies vulnerable to fraud and error both by citizens and agency employees.



Source: Based on Dr. Donald Cressey's 'Fraud Triangle' and The RAND Corporation.

Examining the fraud ecosystem in social services

Fraud is hurting social services agencies—from weakening an already fragile bottom line, to robbing citizens of the services they are eligible for. Fraud, waste and abuse also extend across geographies, however, only a limited number of countries are examining the financial leakage and comprehensively reporting on it.

According to Accenture research, the fraud picture worldwide is a bleak one. Most governments do not publish comprehensive data on the level of fraud in their countries which makes assessing the problem hard. However, where governments have started to publish figures, they are then in a position to use the data as a driver for implementing the necessary changes to address the problem. Below is an

estimated financial “snapshot” of the impact of fraud to these governments (based on data published by these governments).

Assessing the impacts

The public sector is widely perceived to be prone to fraud, waste and abuse given the large program outlays (e.g. the large sums of money associated with revenue and benefit payments) and apparent weaknesses of oversight mechanisms or internal controls.

With such large amounts of money at stake, the negative impacts reach deep and are widespread. Based on detailed data available from the UK, we have calculated the potential impact of fraud and overpayment on overall benefit spend in Europe (see Figure 3).

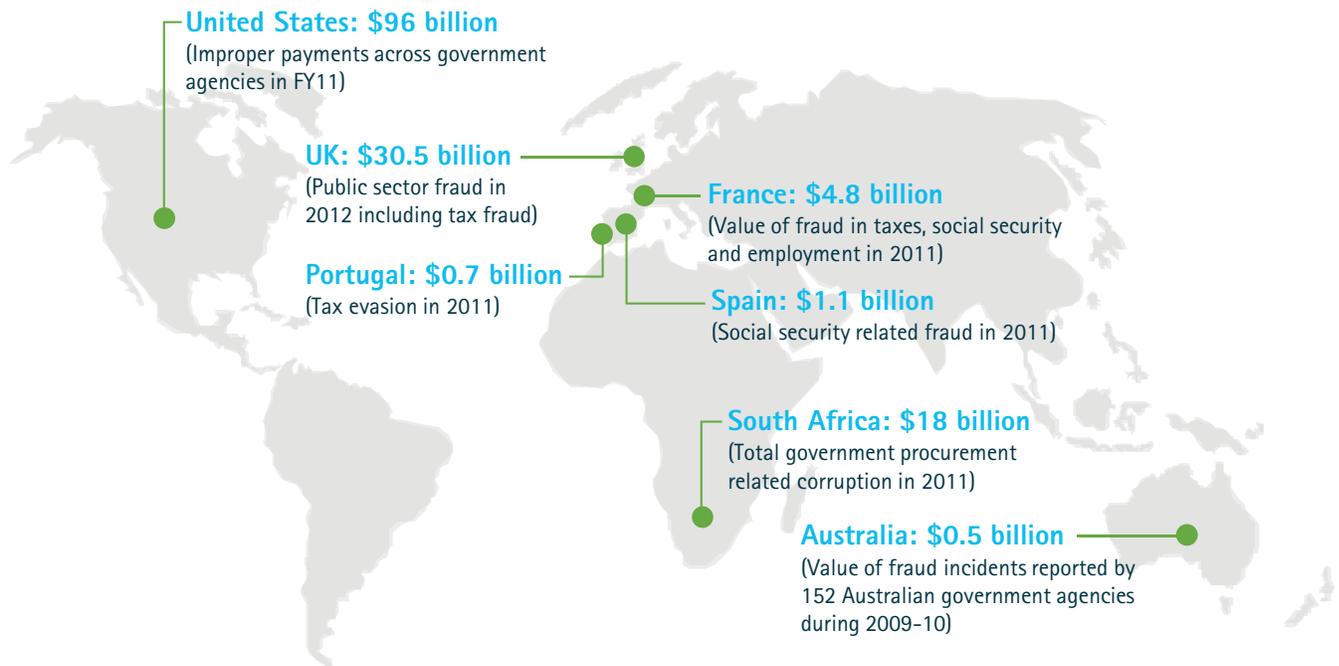
Fraud infiltrates the system in a variety of ways. According to Accenture research, these are the most common areas of weakness:

Overpayments and improper payments

Overpayments due to either employee error or fraud are a major concern for nearly all of the countries examined in Accenture's research. The problem is an apparent one. For example, in Ireland, overpayments increased from €50.5 million (\$68.5 million) in 2007 to €83.4 million (\$113.1 million) in 2010 (an increase of 65 percent). In the US, overpayments by government agencies continue to increase. Numbers reached \$125 billion in FY10.

Two primary issues are at the root of overpayments. The first is the frequent reliance on the customer to provide data and information that is then used in calculating their benefits. This “self-certifying” of data can lead to customers making small changes and misrepresenting their situation in the knowledge that this will provide a higher amount of benefit. The second

Figure 2: Estimated fraud impact worldwide



Source: Based on government data

Note: Currency conversion to USD was made at the average exchange rate in 2011 sourced from OANDA.com.

is the complexity of the benefit systems themselves, which leads to unforeseen errors being made either by citizens or government staff as they process claims.

Reducing improper payment continues to be primary focus in the United States. Improper payments totaled \$125 billion in FY10 according to a report by the Government Accountability Office (GAO), up from \$110 billion in FY09. Another GAO report in August 2013 which analyzed Social Security Administration (SSA) data on individuals who were Disability Insurance (DI) beneficiaries as of December 2010 found that SSA made \$1.29 billion in potential cash benefit overpayments to about 36,000 individuals as of January 2013.¹

The Obama administration's goal was to reduce improper payments by \$50 billion by the end of FY12 through initiatives such as the Fraud Enforcement & Recovery Act (FERA) and the Improper Payments Elimination and Recovery Act (IPERA). More recently (January 2013), Obama signed the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) into law. The purpose of the act is "to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within Federal spending." The new law clarifies

requirements for Federal agencies to use improper payment information to determine program or award eligibility, establishes a Do Not Pay Initiative and expands Office of Management and Budget (OMB) responsibilities in the effort to eliminate and recover improper payments.

The US government is addressing overpayments in social security schemes through a 'Do Not Pay Business Center.' The US government developed the Do Not Pay Business Center in 2010 to support Federal agencies in their efforts to reduce the number of improper payment made through programs funded by the Federal government. Do Not Pay is a one-stop shop that allows agencies to check various databases before making payments or awards in order to identify ineligible recipients and prevent fraud or errors from being made.

Healthcare programs

Healthcare programs appear to be more vulnerable to fraud than other government social sector spending schemes. Given the magnitude of government expenditure for healthcare, the level of fraud is significant. For example, in North America, it is estimated that 2 to 10 percent of healthcare spend is lost due to fraud.

According to the National Healthcare Anti-Fraud Association, "of the more than \$2 trillion spent annually in the US on healthcare, about three percent, or \$60 billion, is lost to fraud, thereby driving up the costs of healthcare, insurance premiums and taxes for all Americans." Estimates by government and law enforcement agencies such as the FBI place the loss due to healthcare fraud as high as 10 percent of annual healthcare expenditure (around \$226 billion).

According to a report by PKF LLP and the Centre for Counter Fraud Studies at University of Portsmouth in 2011, the range of percentage healthcare expenditure lost to fraud and error was found to be between 3.0 percent and 15.4 percent with an average of 7.3 percent.

The European Healthcare Fraud and Corruption Network reported that approximately €56 billion (\$76 billion) is lost annually to fraud and error alone within the European Union. Considering the most conservative estimate only, the price tag to healthcare fraud and corruption is of at least €80 million (\$108 million) every day in the European Union. The World Health Organization's latest estimate of global healthcare expenditure is \$5.7 trillion (€4.13 trillion). Thus, it is likely that around \$259 to \$415 billion is lost globally to fraud and error.

Figure 3: A closer look at potential fraud and overpayment as a percentage of total benefit spend in Europe:

EU-27 general government expenditure on social benefits and social transfers in kind (2010) as a % of GDP	21.6%
EU-27 general government expenditure on social benefits and social transfers in kind (2010) (billion)	€2,650 \$3,595
UK—percentage of total benefit expenditure overpaid due to fraud and error (2011)	2%
Using the UK %, total benefit fraud in EU-27 (billion)	€53 \$72

Source: Accenture Research estimates based on UK data

*Estimates based on available data, and assuming percentage of total benefit expenditure overpaid due to fraud and error in the UK

Source: Eurostat: [http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:General_government_expenditure_in_the_EU-27_and_EA-17_by_nature,_2002_and_2010_\(%25_of_GDP_and_millions_of_euro_in_2010\).png&filetimestamp=20120801091753](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:General_government_expenditure_in_the_EU-27_and_EA-17_by_nature,_2002_and_2010_(%25_of_GDP_and_millions_of_euro_in_2010).png&filetimestamp=20120801091753)

UK DWP: http://statistics.dwp.gov.uk/asd/asd2/index.php?page=fraud_error

1. Sources: <http://www.gao.gov/new.items/d11575t.pdf>, <http://www.gao.gov/products/GAO-13-635>, <http://www.whitehouse.gov/the-press-office/2013/01/10/statement-press-secretary-bills-signed-january-10-2013>, <http://bluedog.schrader.house.gov/news/documentsingle.aspx?DocumentID=318935>

Impact on citizens

Governments are paying a hefty price in the face of fraud, but citizens are also feeling the effects. The denial of essential services and reduction in available funding to citizens is a direct result of fraud. This impact is indelible during these difficult economic times when citizens need help more than ever. Not only do citizens lose access to benefits and services because of fraud—they lose their faith in government. Citizens are worried about corruption and its effects. In fact, more than 30 percent of citizens surveyed by Accenture in 10 countries identified corruption and financial scandals as the most worrying issue in their country.

Fighting the fraud battle

Government response to fraud continues to evolve. Across the world, governments are introducing new laws and regulations to combat fraud and error in social sector spending programs. These include setting up new bodies to oversee anti-fraud activities and also laying down guidelines for a fraud control program within agencies.

As a whole, governments are becoming increasingly vigilant in addressing and curtailing fraud and non-compliance in their departments and agencies. Oversight agencies, country auditors and transparency organizations are issuing reports that highlight the losses due to fraud and what governments can do to counter it. These paths to protection include:

Legislation

Governments across the world are introducing new laws, regulations and e-governance models to combat fraud and error in social sector spending programs. Countries such as the UK and Australia have brought out documents on fighting fraud and also best practice guides for government agencies.

The Australian National Audit Office has outlined a best practice guide that examines all aspects of a sound fraud control framework and fraud

control operations. The guide aims to assist CEOs, audit committees and practitioners in controlling fraud.

Ireland's 2011-2013 Fraud Initiative outlines a series of measures aimed at combating social welfare fraud in the Department of Social Protection.

In the US, initiatives such as the Fraud Enforcement & Recovery Act (FERA), Improper Payments Elimination and Recovery Act (IPERA), and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), lay the legislative groundwork for fighting fraud.

Independent authorities or commissions

Countries are establishing new, independent governing bodies to oversee anti-fraud activities and also provide guidelines for a fraud control program in agencies. The UK's National Fraud Authority is an executive agency of the Home Office and aims to make the UK more resilient to and less damaged by fraud. Through awareness, prevention and enforcement, the authority is helping to fight fraud through collaborative efforts with businesses, government organizations and the general public.

The UK is targeting tax fraud, which is represented by the portion of the tax gap that is driven by fraudulent behaviors. According to the Annual Fraud Indicator 2012, fraud against the public sector in the UK has been reduced from £21.2 billion (\$33.1 billion) in 2011 to £20.3 billion (\$31.7 billion) per annum, influenced to a large extent by a reduction in fraud against the tax system—which dropped from £15 billion (\$23.4 billion) to £14 billion (\$21.8 billion).²

In Canada, the United Council on Welfare Fraud (UCOWF)—which consists of investigators, administrators, prosecutors, eligibility workers and claims writers from local, state and federal agencies in the USA and Canada—has been active in the recovery of taxpayers' money lost to fraud, waste and abuse in social services programs. UCOWF's goal is

to strengthen the integrity of public assistance programs by providing its members training and collaboration tools to improve their ability to identify, investigate, prosecute and recoup fraud committed against the public assistance programs in North America. The organization also offers a website where the public can learn about its members' efforts to reduce fraud and about ways the public can assist in these efforts.

IT systems and analytics

Government agencies are increasingly collaborating with each other and investing in IT systems to better control fraud and non-compliance. When it comes to healthcare-related fraud, governments are using technology to reduce fraud and error with initiatives such as electronic medical records and health information exchanges. Some agencies are also working with the private sector in using new technology and analytics to address issues related to identity theft and improper payments.

The Department of Social Protection has a debt management function designed to record and, where possible, recover excess amounts paid to welfare claimants. As a result, the proportion of overpayments due to fraud has decreased from 42.4 percent to 21.1 percent from 2007 to 2010.³

The Washington State Department of Labor and Industries initiated an effort to identify all gaps in its detection and its management of possible workers' compensation fraud. The group automated the fraud analysis process and improved business analytics to move the organization from detecting fraud after the fact (and working toward recouping payments), to being a more proactive organization that can quickly detect fraud, stop it and prevent it from happening in the future.

Facing fraud head-on: A framework for success

Governments cannot rely on any one single solution to address the issue of fraud, and Accenture recommends taking an end-to-end approach to embedding **intelligent processing** to address the compliance issue. By moving the bulk of identification activities upfront and into the core processing areas, agencies move beyond detecting and correcting non-compliance after benefits have been paid, to preventing it from happening.

This approach helps agencies change their processes to:

- Prevent entry in real-time when non-compliance is known.
- Stop processing when non-compliance is suspected.
- Identify overall non-compliance patterns and insights that emerge from each stage in the process using advanced analytics.

Human services agencies can reap quantifiable value from such an approach. For example, depending on the program, approximately 3-15

percent of additional overpayments or complete ineligibility will be found compared to traditional methods:

Benefits of better targeting include

- Increase efficiency and effectiveness of the file review / investigations process
- Reduced caseload for staff
- Increased accuracy of eligibility determinations and benefit calculations

The overall financial impact can be significant with agencies achieving a 4-5 percent reduction in program spend from plugging the leakages of program dollars.

Agencies worldwide have used this intelligent processing and compliance approach to achieve success in combating fraud. For example:

US Metropolitan Finance Agency—

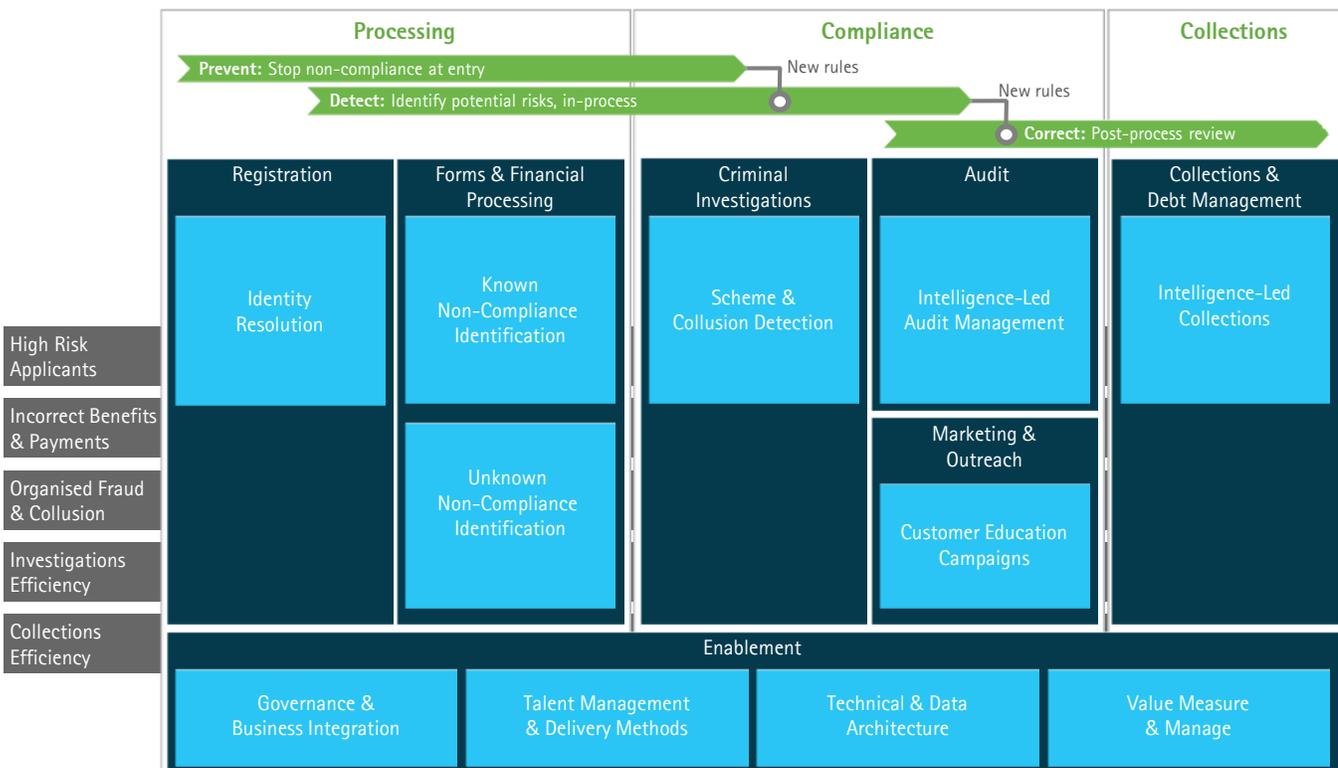
This agency values income-generating real properties to determine tax liability owed by the owner annually. There was a belief that owners were under-reporting income and/or inflating expenses in an attempt to reduce or maintain the tax

liability of their property. The agency conducted a 14-week pilot project to define a standard for identifying and quantifying non-compliance, and employed analytics to identify likely violators. An initial assessment of 100 properties (of 26,000) from the prioritized candidate list yielded an additional 21 percent non-compliance identification. As a result of identifying non-compliance, the agency stands to collect an estimated \$26 to \$50 million in additional revenue.

European Revenue Agency—

The agency wanted to address fraud and error caused by citizens claiming incorrect credit entitlements and understating, or not declaring, income in order to lower tax bills or obtain refunds. They implemented real-time risk analytics that focused on various non-compliance risks, and incorporated models and business rules from core transaction-processing systems. As a result, the agency is conducting real-time transaction scoring at point of entry, near real-time transaction scoring during nightly batch processing (before refunds

Figure 4: Human services compliance framework



Source: Accenture

or payments are finalized) and is maximizing the number and value of interventions being made.

Taxation Agency in Asia-Pacific— This agency has been at the forefront of using predictive analytics to identify fraud and the incorrect filing of tax returns. They implemented a new income tax system to be better equipped to stop risky returns and identify fraud and potential identity theft. By executing risk models before processing credit balances, all returns can be evaluated for fraud. In tax year 2010, the agency reviewed more than 70,000 higher risk income tax refunds, recouping more than \$140 million or .5 percent of the total refunds issued.

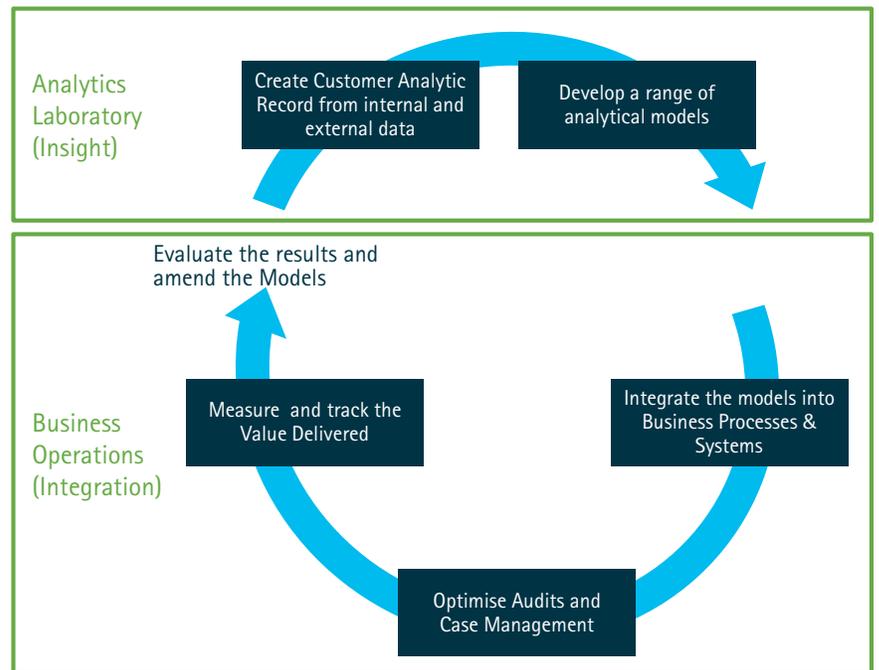
While agencies such as these are making inroads to fight fraud, fraud is complex and changing every day. Agencies must be flexible in adapting the process over time to accommodate new and evolving threats. There is no one-size-fits-all or "right the first time" solution. However, by engaging the right stakeholders within the organization and building a collaborative governance structure that evolves over time, the agency will have the necessary tools to fight back.

Positioned for the future: Insight + Business Integration = Integrity

Fraud did not suddenly occur overnight, nor can it be resolved overnight—but there are ways in which agencies can position themselves for future protection against fraud, waste and abuse. It is our view that agencies can address the issue and reduce its impact by focusing on three core goals:

1. Develop a cross-functional, integrated compliance vision with analytics at its core. Social services agencies need an integrated end-to-end vision of how they address fraud rather than relying on one- or

Figure 5: Value = Insight x Business Integration



It is important to view delivery of value as a closed loop: the key insights generated using analytics must be integrated into the core business operations to deliver value. The tighter the integration and feedback the greater the value that will be delivered.

two-point solutions. A key part of this is using advanced analytics to root out errors and fraud and make use of the amounts of data agencies now have available. They also must educate employees and leadership on what analytics can—and cannot—do and how its use can be integrated into the business. Developing a framework of analytic capabilities can be helpful in making progress in a structured manner.

2. Prioritize efforts. Implementing a structured approach which directs agencies to focus on high-value processes, specifically those related to where value is being lost today, will help find the money that can then be redirected to fuel improvements and growth. Agencies are most likely to move the needle in finance if they use consistent criteria to prioritize interventions and, then, perhaps most

importantly, put in place methods to track the value delivered from initial idea to realization of results.

3. "Operationalize" analytics. Analytics should no longer be seen as a backroom activity undertaken in isolation from the front line business. Agencies must consider a governance structure, processes, metrics and technology to integrate the use of analytics as part of their core business processes and to expedite movement to actions that yield value.

Countries including Australia, Ireland, the United States and the United Kingdom are pursuing legislation, new governing bodies and enhanced technology architectures to help stem the fraud problem. Forward-thinking agencies can learn from these leading practices and begin to implement frameworks and governance structures to fortify the agency against this modern-day epidemic.

1. Oireachtas Library & Research Service
 2. National Fraud Authority
 3. Oireachtas Library & Research Service, Department of Social Protection

For more information,
please contact:

Christopher Gray

Global Lead Accenture
Intelligent Processing Services
+44 161 435 5335
christopher.gray@accenture.com

For more information about Accenture
Human Services, please visit:
www.accenture.com/humanservices

About the research

This study is based on secondary research in public sources to provide fact-based evidence to estimate the level of fraud, waste and abuse in human service agencies. The key elements in the research included data on the scale of fraud in the government sector, fraud ecosystem, causes of fraud, fraud across geographies, response of governments to fraud, case studies of agencies successful in combating fraud and lessons from the financial services sector. Findings were vetted with subject matter experts in each of the target geographies. The research covered a total of ten countries including Australia, Canada, France, India, Ireland, Portugal, South Africa, Spain, UK and USA.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 275,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.