Performance audit report

Ministry of Social Development: Preventing, detecting, and investigating benefit fraud

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Foreword

The Ministry of Social Development has a major responsibility to fulfil with its role of providing policy advice and services for improving the social well-being of New Zealanders. This includes safeguarding the integrity of the social security benefits system, which makes payments amounting to billions of dollars a year.

To protect the integrity of the benefits system, the Ministry must effectively counteract attempts by some people to receive or keep receiving benefits they are not entitled to – known as benefit fraud. This presents a delicate balancing act for the Ministry to effectively target the minority who choose to abuse the benefits system by committing benefit fraud, while trying to avoid placing excessive checks and controls on the majority who honestly and accurately represent their needs for social security assistance.

Overall, my performance audit found that the Ministry has good systems, policies, and procedures for preventing, detecting, and investigating benefit fraud. However, the discovery of a major benefit fraud in late 2006, involving one person creating more than 100 false identities, is a reminder to all public agencies that the risk of new and sophisticated fraud methods is always present. Public agencies need to be increasingly vigilant to counteract the risks of fraud, and be open to using advanced ways to prevent, detect, and investigate fraud.

The Ministry is introducing a number of changes in response to the major benefit fraud, which should strengthen its systems, policies, and procedures to counteract benefit fraud. I will be interested to monitor how the Ministry implements its new approach during the next few years.

I thank the staff of the Ministry for their assistance and co-operation during our audit.

K B Brady
Controller and Auditor-General

9 June 2008

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Summary

The Ministry of Social Development (the Ministry) expects to pay more than $13 billion in social security benefits in 2007/08. Therefore, it is vital that New Zealanders have confidence and trust in how the Ministry administers the social security benefits system.

To protect the integrity of the benefits system, the Ministry needs to ensure that people receive their full and correct benefit entitlements at the right time. This includes a need for the Ministry to effectively counteract benefit fraud.

We carried out a performance audit to assess the effectiveness of the Ministry's systems, policies, and procedures for preventing, detecting, and investigating benefit fraud.

The focus of our performance audit was the Ministry's Integrity Services group, which is responsible for protecting the integrity of the benefits system by preventing and reducing benefit fraud and debt. We also visited some of the Ministry's Work and Income service centres, which contribute to the prevention of benefit fraud through regular contact with the Ministry's clients.

Our findings

Overall, the Ministry has good systems, policies, and procedures in place to prevent, detect, and investigate benefit fraud.

We were unable to assess the effectiveness of recent changes (such as establishing an Intelligence Unit) made by the Ministry in response to a major benefit fraud uncovered in late 2006. However, we expect that the recent changes will further strengthen the Ministry's systems for counteracting benefit fraud and improve its assessment of fraud risks.

We have made eight recommendations for the Ministry to make improvements in the three areas of preventing, detecting, and investigating benefit fraud. Our findings are summarised below, followed by our recommendations.

Preventing benefit fraud

The Ministry does not tolerate benefit fraud, and this position is well understood and supported by staff. The Ministry follows up all allegations of benefit fraud, considers prosecution, and seeks to recover all substantiated overpayments.

The Ministry has not assessed the fraud risks associated with benefit payments, but was planning to do so at the time of our audit.

In our view, the Ministry could use its recently established Intelligence Unit to carry out fraud risk assessments to identify and assess risks associated with

benefit payments. These assessments could then be linked to operational control plans to direct the Integrity Services group's work programmes.

We note that recent moves to increase the involvement of the Integrity Services group with the decision-making and standard-setting of other Ministry groups should also be beneficial for management of benefit fraud risks.

Regional Benefit Control Units within the Integrity Services group carry out several important benefit fraud prevention activities with the Ministry's clients and in local communities. These activities focus on educating people about the importance of receiving their full and correct benefit entitlements and avoiding benefit fraud.

Work and Income service centres have important benefit fraud prevention responsibilities because their staff have regular contact with the Ministry's clients when they apply for, and receive, benefits. Service centre staff are well trained to assess clients' circumstances and benefit entitlements. This training is backed up by strong quality assurance and checking procedures in the service centres.

The Ministry has recently increased its collaboration with other government agencies involved with fraud prevention. This should help the Ministry to improve identification of emerging serious fraud risks and to contribute to whole-of-government strategies for combating fraud.

In our view, there is potential for the Ministry to formally evaluate its range of benefit fraud prevention activities to ensure their ongoing effectiveness.

Detecting benefit fraud

The Ministry has several systems in place to detect benefit fraud. These include ways for staff and the public to make allegations of benefit fraud, data matching with other public agencies, and programmes that focus on groups with a high risk of committing benefit fraud.

Data matching is a significant detection activity for the Ministry. The Ministry was planning to review its data-matching activities at the time of our audit, but does not do this type of evaluation routinely. In our view, the Ministry should be evaluating its data-matching activities periodically to ensure that these activities continue to be effective in detecting benefit fraud. There is also potential for the work of the newly established Intelligence Unit to assist in ensuring that data-matching activities take account of emerging fraud risks.

Formal arrangements are in place to ensure that data is shared appropriately between the Ministry and other public agencies. The Ministry's code of conduct has clear requirements for staff who handle personal information.

The Ministry has a good mix of other fraud detection programmes, which aim to target client groups at higher risk of committing benefit fraud. We consider that there is also potential with these programmes for the Ministry to use its Intelligence Unit's specialist data analysis and statistical modelling capabilities to help ensure that the programmes are effectively targeting high-risk benefit types and client groups.

Investigating benefit fraud

The Ministry has well-established systems in regional Benefit Control Units to investigate benefit fraud. A standard procedure is used to assess the level of risk for allegations of benefit fraud. Higher-risk allegations are formally investigated. We were told that the Intelligence Unit is planning to filter all allegations of benefit fraud to identify high-risk factors. This should help to improve the prioritisation of investigations. In our view, the Ministry should also sample allegations of benefit fraud that were not assigned for investigation to see if they were actually of a low priority.

The computerised case management system used for recording and tracking allegations and investigations (called TRACE) needs significant upgrading to improve its functionality. In our view, upgrading TRACE would improve the productivity of Investigators when they are managing investigations. We also consider that changes to the system's design and functionality would improve the Ministry's ability to systematically analyse investigation records to identify causes of benefit fraud and emerging risks or trends.

The Integrity Services group has effective policies and procedures in place for ensuring that investigations meet legal requirements and Ministry standards. These include a clear enforcement policy and quality assurance procedures that ensure the success of most benefit fraud prosecutions.

Our recommendations

We recommend that the Ministry of Social Development:

Preventing benefit fraud

1 periodically carry out fraud risk assessments of emerging risks in the social security benefits system, and use the findings to guide and target its management of fraud prevention activities;

2 regularly and formally evaluate its benefit fraud prevention activities, and use this evaluation to help target benefit fraud detection and investigation activities;

Detecting benefit fraud

3 regularly and formally evaluate the effectiveness of its data-matching activities for detecting benefit fraud;

4 use fraud risk assessments of emerging benefit fraud risks to help evaluate and target its data-matching activities;

5 use its Intelligence Unit to periodically analyse its client databases to ensure that detection programmes are targeting areas of risk;

Investigating benefit fraud

6 periodically carry out evaluative sampling of allegations of benefit fraud that are not assigned for investigation to confirm that they were actually of a low priority;

7 upgrade its computerised benefit fraud case management system to improve the overall functionality and usability of the system; and

8 regularly and formally review the results of individual benefit fraud cases to identify any emerging trends or risks in the benefits system.

Part 1
Introduction

1.1 The Ministry of Social Development (the Ministry) is New Zealand's largest government department. It provides policy advice and social services aimed at improving social outcomes for New Zealanders. The Ministry is responsible for administering the social security benefits system. Nearly $13.7 billion of public funding was allocated for social benefits and other allowances in 2007/08.

1.2 Administering the benefits system is a complex and large-scale activity. It is vital for public confidence in the integrity of the benefits system for the Ministry to ensure that people receive their correct benefit entitlements. This includes having effective systems, policies, and procedures to prevent and counteract benefit fraud.

Defining benefit fraud

1.3 There is no single legal definition for the concept of fraud. Instead it is often used to cover a wide range of offences involving some form of deliberate dishonesty for the purpose of gain.

1.4 The Ministry does not use a precise definition of benefit fraud, but is guided by section 127 of the Social Security Act 1964 in determining what it regards as benefit fraud. That provision of the Act creates particular offences concerning social welfare benefits.

1.5 In practice, the Ministry categorises cases as benefit fraud where it has investigated benefit overpayments, determined deliberate intent, and decided to prosecute. Cases of benefit overpayment where a decision has been made to take some form of enforcement action other than prosecution are referred to as "substantiated overpayments".

1.6 For the purposes of this report, we use the term "benefit fraud" more widely, to include cases of substantiated overpayments, regardless of whether criminal prosecution resulted from investigation. Our focus was not on the outcome of investigations, but rather on the systems, policies, and procedures used in looking at matters that may or may not be ultimately proven to be fraud.

The purpose of our audit

1.7 The purpose of our performance audit was to assess the effectiveness of the Ministry's systems, policies, and procedures for the purposes of preventing, detecting, and investigating benefit fraud.

How the Ministry prevents, detects, and investigates benefit fraud

1.8   The Ministry has a large specialist Integrity Services group, which is responsible for providing services to protect the integrity of the benefits system by preventing and reducing benefit fraud and debt. The group is organised into five business units – Benefit Control, Debt and Data Match, Intelligence, Operational Support, and Internal Fraud.

1.9   The Integrity Services group has nearly 500 staff in 15 locations around the country, including a national office. There are 10 regional Benefit Control Units, a National Data Match Centre, and four regional Debt Collection Centres. Figure 1 shows the organisational structure of the Integrity Services group.

Figure 1
Organisational structure of the Integrity Services group
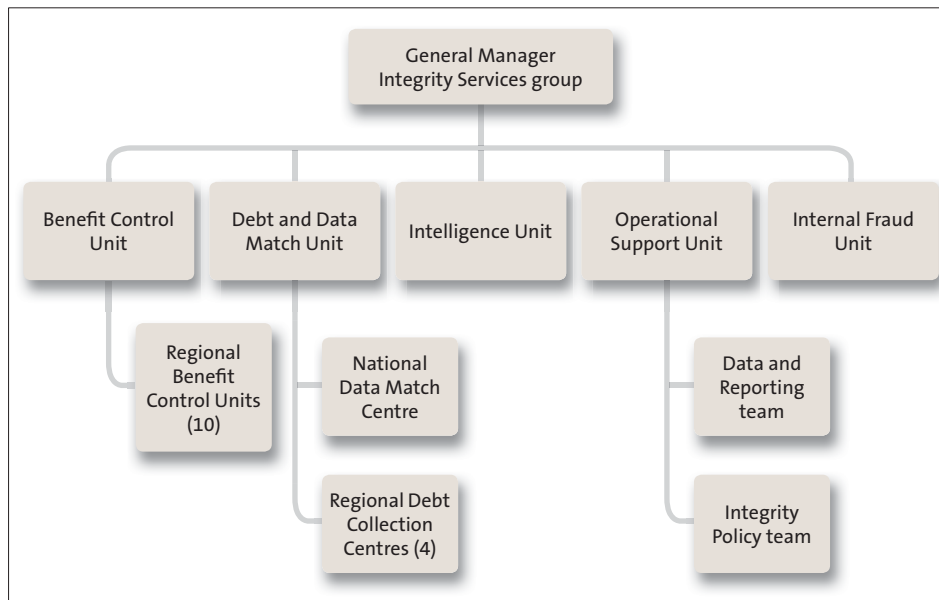
1.10   The Integrity Services group works with other groups in the Ministry as part of its role to counteract benefit fraud. The Integrity Services group interacts particularly closely with Work and Income, the service delivery arm of the Ministry responsible for providing income assistance and employment services to the Ministry's clients.

1.11   Figure 2 summarises the main roles of the five business units within the Integrity Services group. It also shows which business units were specifically covered by our performance audit. (We discuss the scope of our audit in more detail in paragraphs 1.22-1.27).

Figure 2
Roles and responsibilities of business units within the Integrity Services group

Business unit	Roles and responsibilities	Covered by our audit?
Benefit Control Unit	This Unit includes 10 regional Benefit Control Units around the country with responsibility for: • creating local benefit integrity initiatives; • delivering regional benefit fraud prevention programmes; • ensuring that Ministry clients receive full and correct benefit entitlements through early intervention programmes; • screening local allegations of benefit fraud; and • investigating benefit fraud and taking enforcement action.	Yes
Debt and Data Match Unit	The Debt and Data Match Unit includes a National Data Match Centre and four regional Debt Collection Centres. The Unit's main roles include: • data matching, and managing and screening the Benefit Fraud Allegations telephone line; • carrying out desk-based investigations arising from the Benefit Fraud Allegations telephone line and data-matching activities; • carrying out desk-based client-review programmes; • referring cases to the Benefit Control Unit for investigation; • collecting non-current debt; and • conducting benefit fraud prevention initiatives and programmes.	Only the National Data Match Centre and the Benefit Fraud Allegations telephone line role.
Intelligence Unit	The Intelligence Unit's main roles are: • gathering information to assist benefit fraud investigations; • identifying emerging benefit fraud trends; • managing internal and external relationships; • developing and evaluating intelligence policies and programmes; and • supporting other business units in the Integrity Services group.	Yes
Operational Support Unit	The Operational Support Unit's main role is to support the Integrity Services group's other business units and national office management, by providing: • research and analysis; • performance reporting; • policy and programme development and evaluation; • internal and external strategic policy, and service delivery support and advice; and • internal and external relationship management.	Yes
Internal Fraud Unit	Preventing, detecting, and investigating staff fraud.	No

The prevalence of benefit fraud

1.12   Figure 3 summarises Ministry statistics relating to its activities to prevent, detect, and investigate benefit fraud for the three financial years to 30 June 2007. It covers two main areas of activity within the Integrity Services group – the activities of the Benefit Control Unit, and data matching by the National Data Match Centre.

Figure 3
Summary of statistics on preventing, detecting, and investigating benefit fraud from 2004/05 to 2006/07

	2004/05	2005/06	2006/07
Benefit control activities			
Investigations of allegations of benefit fraud	24,378	19,812	17,450
Early interventions[a]	13,016	17,269	15,112
Selective client reviews[b]	18,238	8,911	6,579
Total benefit control cases investigated or reviewed	**55,632**	**45,992**	**39,141**
Outcomes of benefit control activities			
Number of substantiated cases of benefit overpayments	8,203	7,299	7,084
Total value of benefit overpayments	$42m	$36m	$42m
Number of prosecuted cases of benefit fraud	1,306	937	905
Data matching[c]			
Number of records compared with other agencies	9.1m	10.1m	12.0m
Data matches detected	156,170	119,871	209,316
Outcomes of data matching			
Number of substantiated cases of benefit overpayments	25,483	30,381	18,588
Total value of benefit overpayments	$30m	$29m	$19m
Total number of substantiated cases of benefit overpayments	**33,686**	**37,680**	**25,672**
Total value of benefit overpayments	**$72m**	**$65m**	**$61m**

Notes:

a   Early interventions are a main benefit fraud prevention activity carried out by Benefit Control Units. We discuss early intervention programmes in Part 2.

b   Selective client reviews are a detection activity carried out by Benefit Control Units. We discuss these reviews in Part 3.

c   Data matching involves electronic matching of the Ministry's records with those of other agencies, and is also discussed in Part 3.

Source: Ministry of Social Development

1.13　　Figure 3 shows that Benefit Control Units carried out nearly 40,000 investigations and reviews of Ministry clients in 2006/07. There were 905 prosecutions for benefit fraud and more than 7000 substantiated benefit overpayments, worth a total of about $42 million. In the same year, 12 million records were compared with other agencies' records, using data matching. This resulted in the detection of more than 18,500 cases of benefit overpayments, worth a total of $19 million.

Downward trend in number of cases reviewed by Benefit Control Units

1.14　　There has been a downward trend in the total number of cases investigated or reviewed by Benefit Control Units in the three years to June 2007. This has been accompanied by a reduction in the number of substantiated cases of benefit overpayments, although there is no apparent trend in the total value of benefit overpayments.

1.15　　The Ministry attributes this downward trend in the number of cases investigated or reviewed and the amount of overpayments detected in recent years by Benefit Control Units to four main factors:

- A **decline in the number of allegations of benefit fraud** received from the public and referred from Work and Income. The Ministry believes this is partly the result of a reduction in the number of working-age clients and partly the result of training staff at Work and Income service centres to better determine each client's correct circumstances and entitlements.

- A **substantial decline in cases relating to marriage-type relationships**.[1] The Ministry has found that cases involving marriage-type relationships have become more complex in recent years, and take longer to investigate. This is because the results of certain Court cases have required the Ministry to gather more evidence to establish that a marriage-type relationship exists.

- The **reduction in unemployment** in recent years. This has produced a significant fall in the number of Ministry clients receiving the Unemployment Benefit. This has lowered the number of cases investigated by Benefit Control Units of clients receiving benefits while working.

- The **effect of early intervention programmes** (discussed in Part 2). The Ministry believes that these programmes have helped to detect benefit fraud earlier and also to identify cases where a client's circumstances have changed and they are not receiving their full and correct benefit entitlement.

1　The Ministry considers a client to be in a marriage-type relationship if they are married, or in a civil union or de facto relationship with someone of the same or opposite sex. There also needs to be a degree of companionship in which two people have an emotional commitment for the foreseeable future and are financially interdependent.

More data matching, but downward trend in value of detected overpayments

1.16   The Ministry has steadily increased its data-matching activities in recent years. The number of records that the Ministry compared with records of other agencies rose from 9.1 million in 2004/05 to 12.0 million in 2006/07.

1.17   The total number of benefit overpayments detected by data matching fell during the same period, with a particularly marked drop between 2005/06 and 2006/07 (from 30,381 to 18,588). This was accompanied by a sharp reduction in the total value of benefit overpayments detected from data matching – from about $30 million in 2004/05 and 2005/06 to $19 million in 2006/07.

The size of benefit fraud

1.18   Most instances of benefit fraud involve benefit overpayments of less than $10,000. Figure 4 provides a breakdown of substantiated overpayment cases in 2006/07, and shows that more than 85% of cases involved overpayments of less than $10,000.

Figure 4
Number of benefit fraud cases, by value of overpayment

Overpayment band	2006/07	%	Overpayment totals	%
Less than $10,000	6069	85.7	$12.2m	29.0
$10,000 to $50,000	875	12.3	$18.9m	44.9
$50,000 to $100,000	110	1.6	$7.4m	17.6
Greater than $100,000	30	0.4	$3.6m	8.5
TOTAL	7084	100.0	$42.1m	100.0

Source: Ministry of Social Development

1.19   A small percentage of benefit fraud cases (less than 1% in 2006/07) involve benefit overpayments of more than $100,000. Marriage-type relationships are the most common source of these high-value benefit frauds.

1.20   In late 2006, the Ministry uncovered a major benefit fraud, as summarised in Figure 5.

Figure 5
New Zealand's largest benefit fraud case, detected in 2006/07

The country's largest benefit fraud was discovered in late 2006. It involved one offender using 123 false identities to fraudulently claim $3.4 million in benefit payments from the Ministry over three years.

The benefit fraud was detected after a bank alerted the Ministry in late 2006 to suspicious transactions in multiple accounts, with several of the accounts receiving benefit payments.

A special investigation by the Ministry and other agencies resulted in the offender being arrested and charged with multiple counts of fraud. The offender used fake birth certificates to obtain other forms of identification, including driver licences, IRD numbers, and Community Services cards.

The offender pleaded guilty to 10 representative fraud charges and was sentenced to imprisonment in October 2007. At the time of our audit, the Ministry was in the process of using provisions of the Proceeds of Crime Act 2002 to seize assets and investments from the offender and to recover the payments obtained fraudulently.

1.21   The major benefit fraud discussed in Figure 5 was detected while we were determining the scope of our performance audit, so many of the Ministry's responses to the fraud were introduced during our audit (see paragraphs 1.26-1.27).

How we carried out our audit

1.22   To assess how effectively the Ministry prevents, detects, and investigates benefit fraud, we examined relevant documentation and interviewed staff from within the Integrity Services group, including:

- national office management, the Operational Support Unit, and the Intelligence Unit located at the Ministry's national headquarters;
- the National Data Match Centre;
- the Eastern Debt Collection Centre, which manages the Ministry's Benefit Fraud Allegations telephone line; and
- three regional Benefit Control Units (Auckland South in Otahuhu, East Coast North Island in Napier, and Northern South Island in Christchurch).

1.23   We also interviewed staff at Work and Income service centres co-located at the same sites as the Benefit Control Units that we visited. The national network of Work and Income service centres provide the main face-to-face contact between the Ministry and its clients. As a result, the service centres have an important

prevention role to ensure that clients receive their full and correct benefit entitlements. Staff in Benefit Control Units work closely with staff in Work and Income service centres on benefit fraud prevention and investigation activities.

Outside the scope of our audit

1.24   We did not examine the Ministry's debt collection and minimisation activities related to benefit fraud, or how the Ministry deals with internal fraud.

1.25   The Integrity Services group works with other parts of the Ministry to help minimise benefit payment errors, which arise when overpayments are made to clients because of mistakes by Ministry staff, systems, or processes. Our audit did not assess how effective the Ministry is at minimising benefit payment errors.

1.26   Our audit did not specifically examine the effectiveness of the Ministry's responses to the major benefit fraud detected in late 2006, but involved a wider examination of the Ministry's systems, policies, and procedures for counteracting benefit fraud. However, some of the Ministry's responses to the major benefit fraud are covered by our audit findings.

1.27   For example, the Ministry has introduced a number of changes to its systems, policies, and procedures. We discuss these changes in:

- Part 2 (preventing benefit fraud):
  - adoption of an intelligence-led approach for preventing, detecting, and investigating benefit fraud, including establishing a dedicated Intelligence Unit;
  - increased involvement of the Integrity Services group with the rest of the Ministry, and the creation of a Ministry-wide senior governance group to oversee integrity, security, and intelligence issues;
  - changes to client verification systems, policies, and procedures; and
  - increased collaboration with other government agencies for fraud prevention.

- Part 3 (detecting benefit fraud):
  - introduction of birth records data matching with the Department of Internal Affairs; and
  - the Intelligence Unit's role in detecting cases of multiple identities.

Our expectations

1.28   We consulted several good practice guides and other reports to prepare audit expectations for our assessment of the Ministry's systems, policies, and procedures for preventing, detecting, and investigating benefit fraud. These guides and reports are listed in the Appendix.

1.29   We expected the Ministry to have:

- assessed and estimated the risks of benefit fraud, and put in place necessary and relevant preventative systems, policies, and procedures to minimise those risks;

- implemented effective systems, policies, and procedures to detect benefit fraud; and

- implemented effective systems, policies, and procedures to investigate suspected benefit fraud, and to take appropriate enforcement action for confirmed benefit fraud cases.

1.30   We set out our expectations in more detail with our audit findings in Parts 2, 3, and 4.

Part 2
Preventing benefit fraud

2.1   In this Part, we state our expectations for preventing benefit fraud, and present our findings and recommendations about the Ministry's:

- overall strategy for preventing, detecting, and investigating benefit fraud;
- identification of benefit fraud risks;
- systems, policies, and procedures for preventing benefit fraud;
- relationships with external stakeholders; and
- evaluation of benefit fraud prevention activities.

Our expectations

2.2   Benefit fraud prevention should involve the Ministry identifying benefit fraud risks, and using necessary policies, systems, and procedures to minimise the risks in all areas of its operations.

2.3   We expected the Ministry to:

- have a clear stance on benefit fraud and defined strategies for counteracting it;
- thoroughly and regularly assess benefit fraud risks;
- have effective systems, policies, and procedures to address and minimise identified benefit fraud risks; and
- evaluate the effectiveness of its benefit fraud prevention activities.

Overall strategy for preventing, detecting, and investigating benefit fraud

Our findings

2.4   The Ministry has a clear stance on benefit fraud and a defined strategy for counteracting it. The Ministry has recently revised its strategy with an aim to better anticipate and prevent benefit fraud.

2.5   The Ministry does not tolerate benefit fraud. Its policy is to investigate all allegations of benefit fraud, and to seek punitive action and recovery of overpayments with all proven cases.

2.6   The aim of the Ministry's management of benefit fraud is to protect the integrity of the benefits system by ensuring that people receive their full and correct benefit entitlements at the right time. There was strong understanding among Ministry staff we interviewed of the Ministry's position on benefit fraud and the importance of ensuring payment of full and correct benefit entitlements.

2.7   The Ministry has a defined strategy for counteracting benefit fraud. The strategy was established in the mid-1990s and focuses on:

- prevention/deterrence – educating the Ministry's clients about their obligations when receiving benefits, and the consequences of not meeting those obligations;

- intervention – using specialist staff to investigate allegations and work with clients to encourage them to meet their obligations;

- detection – using systems and procedures to detect possible cases of benefit fraud; and

- sanction – applying appropriate penalties in cases of proven benefit fraud.

Recent changes to the Ministry's strategy for preventing, detecting, and investigating benefit fraud

2.8   The Ministry revised its overall strategy for preventing, detecting, and investigating benefit fraud in 2007, in response to the country's largest benefit fraud (see Figure 5 in Part 1). The Ministry has called its shift in strategic focus an "intelligence-led approach". The new approach aims to enable the Ministry to better anticipate, prevent, mitigate, and manage benefit fraud and its associated debt.

2.9   The Ministry's intelligence-led approach involves four main changes:

- creating a dedicated Intelligence Unit within the Integrity Services group;

- increasing the Integrity Services group's involvement and collaboration with other parts of the Ministry to ensure that appropriate standards are used to protect and improve the integrity of the benefits system, and also identify risk areas to be addressed;

- moving the Ministry's Internal Fraud Unit into the Integrity Services group; and

- establishing a new senior governance group in the Ministry to oversee integrity, security, and intelligence issues.

Identifying benefit fraud risks

Our findings

2.10   We examined how the Ministry identifies benefit fraud risks at strategic and operational levels. In our view, the Ministry could carry out more assessment of risks in relation to benefit fraud.

Strategic risk assessment

2.11   The Ministry had not, at the time of our audit fieldwork, identified and assessed the risks associated with benefit payments. A fraud risk assessment would involve the Ministry:

- identifying and assessing risks associated with benefit payments;
- assessing the effectiveness of existing controls for benefit payments and identifying any improvement options; and
- identifying wider emerging risk areas or trends affecting the benefits system.

2.12   The Ministry has recognised the usefulness of fraud risk assessments. The Intelligence Unit plans to carry out fraud risk assessments and update them periodically.

2.13   In our view, the Ministry could specifically link the findings of its planned fraud risk assessments to its overall strategy for counteracting benefit fraud. Good practice guides on counteracting fraud recommend using detailed fraud control plans to:

- specifically link planned actions to issues identified in up-to-date fraud risk assessments;
- set timetables and targets for addressing identified issues or risks; and
- provide an ability to formally track and review progress against the plan.

Recommendation 1

We recommend that the Ministry of Social Development periodically carry out fraud risk assessments of emerging risks in the social security benefits system, and use the findings to guide and target its management of fraud prevention activities.

Other improvements to ongoing strategic risk identification

2.14   Continual changes to operating policies and procedures for the benefits system can introduce new fraud risks that need to be identified and managed. Therefore, it is important that the Integrity Services group works well together with other Ministry groups. The Ministry has identified that the Integrity Services group has had limited formal means to use the lessons learned from its benefit fraud prevention, detection, and investigation activities to influence the wider setting of standards and risk discussion in the Ministry. The Ministry plans to fix this deficiency through closer working relationships between the Integrity Services group and other groups of the Ministry.

2.15   At the time of our audit, the Ministry planned to set up a senior cross-Ministry governance group to oversee strategic integrity, security, and intelligence issues.

2.16   Because these strategic and governance changes were at the planning stage during our audit, we were unable to examine their effectiveness. However, in our view, they have the potential to improve the Ministry's strategic management of benefit fraud risks.

Operational risk assessment

2.17   The 10 regional Benefit Control Units have systems and procedures in place to assess benefit fraud risks that are unique to their particular region.

2.18   The Benefit Control Units, as well as other business units within Integrity Services, use regular meetings and outcome reporting to identify emerging issues or potential region-specific risks. In the regions we visited, this included:

• regular regional meetings of all of the Ministry groups to discuss existing or emerging risks in the region; and

• weekly reporting of benefit fraud prevention, detection, and investigation activities and outcomes within Benefit Control Units and to the national office of the Integrity Services group.

2.19   The Ministry has several systems and procedures in place to receive and manage allegations of benefit fraud from staff and members of the public. A standard national risk assessment form is used to screen all allegations received by Benefit Control Units and to prioritise action to be taken. Allegations considered to be high risk are formally investigated. We discuss the system and procedures for assigning allegations for investigation in more detail in Part 4.

Systems, policies, and procedures to address identified risks and prevent benefit fraud

Our findings

2.20   The Ministry promotes awareness of benefit fraud prevention, and encourages its clients to meet their obligations when receiving benefits. It has recently increased its collaboration with other public agencies involved in fraud prevention.

Benefit fraud prevention responsibilities

2.21   The Ministry views prevention of benefit fraud as an organisation-wide responsibility. However, the Benefit Control Units have specific benefit fraud prevention responsibilities. These include:

- using early intervention programmes to help ensure that recipients of benefits get their full and correct entitlements; and
- delivering regional programmes to prevent benefit fraud.

2.22 Staff in Benefit Control Units who have specific roles in preventing benefit fraud are Field Officers and Investigators. The Ministry was reviewing the Field Officer role during our audit.

2.23 The Ministry's service delivery arm, Work and Income, also has an important role in preventing benefit fraud through its network of service centres throughout the country. These Work and Income service centres are the main point of contact for people applying for benefits and maintaining an ongoing relationship with the Ministry.

2.24 Case Managers in Work and Income service centres regularly meet with the Ministry's clients and therefore have a critical prevention role. Their work to correctly and accurately assess clients' circumstances and benefit entitlements helps the Ministry to identify and prevent attempts to commit benefit fraud.

Benefit fraud prevention activities

2.25 The Benefit Control Units' activities to prevent benefit fraud focus on direct liaison with the Ministry's clients and the wider community, as well as close interaction with Work and Income service centres.

Benefit fraud prevention activities with clients

2.26 Field Officers in Benefit Control Units provide an important benefit fraud prevention role for the Ministry. Their main responsibility is to educate clients about their obligation to inform the Ministry of changes in their circumstances that might affect their benefit entitlements. Failure by clients to do this puts them at risk of committing benefit fraud. The Field Officers encourage this voluntary compliance by clients mainly through early intervention programmes.

2.27 Early intervention programmes are generally organised from the national office of the Integrity Services group, but on occasion can be initiated within a region. Each programme runs for three months and targets a particular benefit or client group. The targets are chosen based on analysis of proven benefit fraud cases and discussion within the Integrity Services group to identify issues or trends that present higher risk of benefit entitlement discrepancies.[1]

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1   These discrepancies can include identification of errors made by Ministry staff, or situations where a client may not be receiving the full social security assistance they are entitled to.

2.28   Clients are selected at random from a target group for each three-month programme. Field Officers arrange and conduct interviews with the clients selected in their region. These interviews are used to:

- ensure that clients are receiving their full and correct benefit entitlements;
- remind clients of their obligation to keep the Ministry informed of any changes in their circumstances; and
- identify any cases of suspected benefit fraud or other entitlement discrepancies that may require further action to ensure payment of full and correct benefit entitlements.

2.29   The Ministry plans to increase targeting of higher-risk client groups, using more sophisticated data mining[2] and profiling by the Intelligence Unit. The aim is to increase the effectiveness of the early intervention programmes by focusing resources on areas of identified higher risk. The Ministry will shift the programmes from using random samples during a three-monthly period, to a continuous sampling process. Pilots of this new system were planned for early 2008 to mid-2008 and therefore were not examined in our audit.

2.30   The Ministry needs to carefully manage the shift away from random sampling of clients to ensure that it avoids unduly targeting people who are part of a client group identified as high risk but are properly meeting their benefit obligations.

Benefit fraud prevention activities in the wider community

2.31   Staff in Benefit Control Units have clear roles and responsibilities for preventing benefit fraud. An important activity is to promote to local communities the Ministry's position of not tolerating benefit fraud.

2.32   Networking with community groups is a defined role of Field Officers. The role also requires effective relationships with local government and community-based agencies that provide services to the Ministry's clients. The aim of this networking is to help ensure that those agencies know about and support the Ministry's position of not tolerating benefit fraud.

2.33   Investigators in Benefit Control Units also work with community groups and give seminars in their regions to promote the importance of people receiving their full and correct entitlements and avoiding benefit fraud.[3]

2.34   Staff in the Benefit Control Units we visited held community seminars and talks with:

- major local employers and at career service expos;
- youth groups and teen pregnancy groups;

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2   Data mining is a process of selecting, exploring, and modelling large amounts of data to reveal previously unknown patterns, behaviours, trends, or relationships which may identify cases of fraud.

3   The main role of Investigators is to investigate suspected fraud cases. We discuss their role in Part 4.

- ethnic groups representing communities with English as a second language; and

- other social support agencies in their regions.

Benefit fraud prevention work with Work and Income service centres

2.35   There is good interaction between Benefit Control Units and Work and Income service centres in promoting prevention of benefit fraud. Investigators and Field Officers from Benefit Control Units are assigned to Work and Income service centres in liaison roles. They teach Work and Income staff about benefit fraud, and maintain regular contact to provide specialist assistance with any benefit fraud-related issues. This system was working well in the Work and Income service centres we visited. Work and Income staff were well aware of the Ministry's position of not tolerating benefit fraud, and regularly consulted with their Benefit Control liaison officers about potential benefit fraud-related issues.

Work and Income's benefit fraud prevention role

2.36   Because staff at Work and Income service centres have regular face-to-face contact with the Ministry's clients, they are in a vital position to help the Ministry prevent benefit fraud. For example, it is important that Case Managers at the Work and Income service centres are effectively trained to correctly and accurately assess clients' circumstances and benefit entitlements. This includes the need for systems, policies, and procedures to accurately verify the identity of clients.

Training and quality assurance

2.37   Case Managers we interviewed were well informed about the importance of their role in helping to prevent benefit fraud. Induction training for new staff, and ongoing training for existing staff, focuses on the importance of benefit fraud prevention. This includes:

- reinforcing the need to follow clear procedures to ensure that clients understand and agree in writing to their obligation to inform Work and Income about changes in their circumstances that might affect their benefit entitlements;

- teaching the interviewing skills to ensure that staff get the necessary information from clients to accurately assess and verify their entitlements; and

- training by Benefit Control Unit staff in general benefit fraud awareness.

2.38   Work and Income service centres apply rigorous procedures to check and authenticate benefit applications. All applications processed by Case Managers are checked by staff with specialist authentication roles. In addition, Trainers in Work and Income service centres do monthly quality assurance checks of this

authentication work. Regular national sampling of applications against national quality standards also occurs. Importantly, from a benefit fraud prevention perspective, separation of role functions means that a staff member who processes an application for a benefit cannot also approve its payment.

Client identity verification

2.39   Verifying the identity of Ministry clients is vital for ensuring correct entitlement to benefits and preventing benefit fraud. After the major benefit fraud in late 2006 (see Figure 5), the Ministry commissioned KPMG to conduct an independent review of the Ministry's identity-related controls on new applicants for benefits.

2.40   The review found that the Ministry has strong controls and checks in place to obtain evidence of the identity of clients. The review did make some recommendations for checks, which – had they been in place – might not have prevented the major identity fraud, but could have resulted in its earlier detection. Recommendations for changes to existing systems, policies, and procedures used for client verification in Work and Income service centres included:

- requiring photographic identification from clients;
- performing checks with issuing agencies to verify the authenticity of identification documents if photographic identification is not provided; and
- improving training and support resources about identify-related fraud for frontline staff.

2.41   An internal audit by the Ministry's Risk and Assurance group in October 2007 found that progress has been made with implementing these recommendations. Changes include:

- a preference in Work and Income service centres for at least one form of identification to be photographic;
- a requirement for all cases involving questionable identification to be assessed by service centre managers;
- a requirement for all forms of identification presented to be recorded in the client database;
- a review by the Ministry of its classification of forms of primary identification to ensure that they can be verified at source; and
- training for Work and Income service centre staff about client identification procedures, including information about anomalies to look for in identification documents.

Promoting client awareness about benefit fraud

2.42   The Ministry uses several methods to clearly communicate to clients its zero tolerance approach to benefit fraud. One of the most important methods for this is through clients' interaction with their Case Managers at Work and Income service centres. Training and procedures at the service centres reinforce the importance of ensuring that clients understand that they are obliged to advise Work and Income of changes in their circumstances. Clients must sign a form as part of the application process to confirm that they have had their obligations explained to them and that they understand them. This is a useful control for any fraud investigation where a client denies knowledge of their obligation to advise changes in their circumstances.

2.43   The Ministry also raises client awareness by displaying benefit fraud posters and supplying information pamphlets in Work and Income service centres. Pamphlets are handed out by Ministry staff to clients at seminars. This promotional material is available in several different languages, to cater for Ministry clients whose first language is not English. The obligations forms that are signed by clients are also available in other languages.

Fraud prevention collaboration with external stakeholders

2.44   The Integrity Services group is also involved in external fraud prevention forums and working groups, within New Zealand and overseas. These include the Combined Law Agency Group in New Zealand, which is an inter-agency group aimed at improving co-ordination between agencies at an operational level to deal with organised crime, and the international Six Nations Benefit Fraud Conference. The Six Nations Benefit Fraud Conference also has delegates from Australia, Canada, Ireland, the United Kingdom, and the United States. The annual conference provides opportunities for government agencies involved in managing social security benefits systems to share experiences and initiatives about fraud prevention, detection, and investigation. Ministry staff involved in the conference told us it is an effective way of keeping up to date with international developments.

Increased inter-agency fraud prevention collaboration

2.45   The Ministry has recently sought to increase its collaboration with other government agencies involved in fraud prevention, especially in relation to identity fraud, as a direct outcome of the detection of the major identity fraud in late 2006 (see Figure 5).

2.46   We were told that the Intelligence Unit – established within the Integrity Services group in mid-2007 – has recently formed working relationships with intelligence sections in other agencies involved in fraud prevention activities (such as the New Zealand Police, the New Zealand Customs Service, the Department of Internal Affairs, and the Inland Revenue Department).

2.47   Given that the Intelligence Unit had only recently been created when we did our audit, we could not specifically assess the effectiveness of this new inter-agency collaboration. However, the increased sharing of strategic intelligence information and strategies should be beneficial for:

- identifying emerging serious fraud risks or trends;
- promoting whole-of-government responses to identified risks; and
- improving the sharing of information and best practice initiatives to counteract fraud.

Evaluation of prevention activities

Our findings

2.48   The Ministry conducts a biennial survey to assess clients' awareness of the consequences of committing benefit fraud. The Ministry uses findings from the surveys to help identify ways to encourage clients to meet their obligation to advise the Ministry of changes in their circumstances that might affect their benefit entitlements. The next survey is due to be conducted in 2008.

2.49   In our view, there is scope for the Ministry to more comprehensively evaluate the effectiveness of its various benefit fraud prevention activities. Regular, formal evaluation would help the Ministry to measure the effectiveness of its prevention activities. Intelligence information from the evaluations can also help to inform benefit fraud detection and investigation priorities throughout the Ministry.

Recommendation 2

We recommend that the Ministry of Social Development regularly and formally evaluate its benefit fraud prevention activities, and use this evaluation to help target benefit fraud detection and investigation activities.

Part 3
Detecting benefit fraud

3.1 In this Part, we outline our expectations for the detection of benefit fraud and present our findings and recommendations on how the Ministry:

- receives and manages allegations of benefit fraud; and
- detects cases of suspected benefit fraud;

Our expectations

3.2 Early detection of benefit fraud is critical for the Ministry to protect the integrity of the benefits system. We expected the Ministry to have effective systems, policies, and procedures to:

- manage allegations of benefit fraud – this includes encouraging reporting by staff and members of the public of suspected benefit fraud, as well as recording, tracking and taking action on all allegations received; and
- proactively search for, and detect, suspected benefit fraud – this includes using risk profiling to assign detection (and subsequent investigation) resources to identify higher risk areas and benefit types, and ensure that detection activity is cost-effective.

Receiving and managing allegations of benefit fraud

Our findings

3.3 The Ministry has several systems and procedures in place to receive and manage allegations of benefit fraud from staff and members of the public.

Staff allegations and suspicions of benefit fraud

3.4 There are formal and informal systems for Ministry staff to advise Benefit Control staff if they suspect that a client may be committing benefit fraud. Work and Income staff can raise allegations (known as "file suspicions") using an intranet allegations email link which connects to the relevant regional Benefit Control Unit. They can also directly contact Benefit Control staff to discuss concerns about a client's circumstances and the potential for benefit fraud. Benefit Control Investigators are assigned in a liaison role with each Work and Income service centre and provide training on identifying anomalies in a client's circumstances that may indicate benefit fraud. Work and Income service centre staff told us that Investigators are accessible and available to provide guidance in cases where staff have suspicions about possible benefit fraud by clients.

3.5 The Ministry has a protected disclosures policy to protect staff making allegations of benefit fraud. Staff can use the Ministry's intranet site to get guidance on making a protected disclosure.

Allegations of benefit fraud from the public

3.6   The Ministry has several systems in place for the public to make allegations of benefit fraud. Allegations can be made in writing, in person at Work and Income service centres, by email, or by using the free-call Benefit Fraud Allegations telephone line. The free-call telephone line is the method most frequently used by the public when making allegations of benefit fraud. The Benefit Fraud Allegations telephone number is listed in telephone directories, on benefit fraud promotional posters and pamphlets, and on the Work and Income website.

3.7   Staff use prescribed procedures to systematically record information received on the Benefit Fraud Allegations telephone line. Call-takers are trained and given scripts to ensure that they collect necessary information to enable any subsequent investigation of allegations. Allegation details are forwarded to the relevant regional Benefit Control Unit for a determination of whether the allegation requires investigation.

3.8   All allegations of benefit fraud are recorded and tracked in the Benefit Control Unit's computerised case management system, TRACE. This system records basic logging information, such as case received dates, case allocation dates, and case completion dates. The Ministry's policy is to act on all allegations of benefit fraud. We discuss the assignment of allegations of benefit fraud for investigation in Part 4.

Detecting suspected cases of benefit fraud

Our findings

3.9   Data matching is an important tool used by the Ministry for detecting possible benefit fraud. It involves the electronic comparison of millions of records every year to help limit and prevent benefit overpayments. Data matching results in the detection of many potential benefit fraud cases. There is potential for the Ministry to use its recently introduced Intelligence Unit to help evaluate and review its data-matching and other detection activities.

Data matching

3.10   Data matching is the use of electronic matching of personal records held by different agencies to determine if benefit fraud has been committed. The computerised scanning of personal data held in different databases can help identify situations where the Ministry's clients have not accurately informed the Ministry of changes in their circumstances that affect their benefit entitlements.

Some examples of personal circumstances that clients can mislead the Ministry about, that data matching can help detect, include failure to disclose:

- hours worked in paid employment;
- amount of income earned; and
- personal relationship situations.

3.11   The Ministry has a centralised National Data Match Centre for running and managing its data-matching activities. Activities include regular data-matching scans, as well as some targeted matching.

3.12   The Ministry's data-matching activities are extensive. For example, in the year to 30 June 2007, the National Data Match Centre compared more than 12 million records with other agencies. This resulted in 193,358 matches and 18,588 cases of overpayments. The total value of these overpayments was $19 million.

3.13   Figure 6 sets out in more detail the range and scale of the Ministry's data-matching activities used for the purpose of benefit administration.

Figure 6
The Ministry of Social Development's data-matching arrangements with other government agencies for benefit administration

Agency		Frequency of match
Accident Compensation Corporation		weekly
Department of Corrections		daily
Department of Internal Affairs (births, deaths, and marriages)		weekly
Inland Revenue Department	– benefits	two-monthly
	– students	monthly
New Zealand Customs Service		weekly
New Zealand Housing Corporation		weekly

Source: Ministry of Social Development

Systems, policies, and procedures for using data-matching results

3.14   When a client's details match those of clients of the other agencies, National Data Match Centre staff check the client's details to ensure that their benefit entitlement is determined correctly. Centre staff liaise with Work and Income Case Managers if they are unable to confirm the correct entitlement. Unresolved concerns about a client's benefit entitlement are forwarded to the Benefit Control Unit for investigation.

3.15   There are systems in place to ensure that data matching is appropriately managed. Comprehensive memoranda of understanding between the Ministry and other relevant public agencies state their data-matching arrangements. The Privacy Commissioner monitors the activities of the National Data Match Centre. The Privacy Commissioner's 2007 annual report stated that all data-matching programmes involving the Ministry had generally been conducted in accordance with the Privacy Act 1993 and information-matching rules.

3.16   Ministry staff also have clear code of conduct requirements for maintaining legal compliance when handling personal information.

Review and evaluation of the Ministry's data-matching activities

3.17   The Ministry had not formally evaluated its data-matching activities at the time of our audit. However, we were told that the Ministry is planning to review its data-matching activities. This review is intended to examine the timeliness of data matches and also evaluate the existing mix of data matches. In our view, it is important that the Ministry regularly evaluates its data-matching activities to ensure their ongoing effectiveness for detecting fraudulent activity. Cost effectiveness of different data-matching programmes should also be periodically reviewed.

Recommendation 3

We recommend that the Ministry of Social Development regularly and formally evaluate the effectiveness of its data-matching activities for detecting benefit fraud.

3.18   We also consider that there is strong potential for the work of the Intelligence Unit to be included in the evaluation and review of data-matching activities. The Intelligence Unit has advanced data analysis and filtering programs that could be used to help the Ministry identify emerging fraud risk areas that may not be covered by existing data-matching arrangements.

3.19   The potential advantage of using the Intelligence Unit to help evaluate data matching is illustrated by the large multiple identity fraud detected in late 2006 (see Figure 5). This fraud was committed by an offender using fake birth certificates to obtain other forms of identification and create multiple separate identities. In response to the benefit fraud, in April 2007 the Ministry began matching its client records against birth records held by the Department of Internal Affairs. The earlier existence of this data matching could have identified the fraud much earlier. Strategic risk assessment of data-matching activities might have identified the lack of a birth record match as a potential benefit fraud risk.

Recommendation 4

We recommend that the Ministry of Social Development use fraud risk assessments of emerging benefit fraud risks to help evaluate and target its data-matching activities.

Other benefit fraud detection activities

3.20   Other activities the Ministry uses to detect benefit fraud include comparing staff lists of major employers with client records and selective client reviews. Establishing the Intelligence Unit in mid-2007 has enabled greater detection of potential multiple identity fraud cases for investigation by regional Benefit Control Units.

Benefit fraud detection work with employers

3.21   People receiving benefits are obliged to inform Work and Income if they find a job or change the number of hours they work, because this can affect their benefit entitlements. The Ministry uses data matching with the Inland Revenue Department's employer database as the main mechanism to detect clients who continue to receive benefit payments while working. However, Benefit Control Units also carry out some detection work with employers.

3.22   Under section 11A of the Social Security Act 1964, the Ministry has the power to obtain information for data-matching purposes from employers. The Benefit Control Units use this power to target higher-risk client groups, such as seasonal or casual workers. Major employers of target client groups are selected to provide information about the names, addresses, and IRD numbers of their employees. The employee information is matched against the Ministry's client databases to identify any clients who may be receiving benefit overpayments.

3.23   There is also a prevention aspect to this work. The Ministry has an employer liaison programme to advise employers about its power to obtain employee information, and to get employers to encourage their staff to advise Work and Income when they start work.

3.24   In the year to 30 June 2007, the Ministry reviewed 1556 cases under this programme. It resulted in identifying 648 cases of substantiated overpayments.

Selective client reviews

3.25   Selective client reviews involve Technical Officers in Benefit Control Units reviewing a targeted sample of clients whose circumstances or benefit type are identified through either national or regional analysis as being at higher risk of

entitlement anomalies. The aim is to identify clients whose circumstances may require further examination to ensure that they are getting their correct benefit entitlement.

3.26   Technical Officers write to clients to request confirmation and clarification of their current circumstances if the Technical Officers' review of known information suggests the possibility of incorrect benefit payments. Cases can be referred to Investigators for formal investigation if clients' responses to these requests do not sufficiently address the Technical Officers' concerns.

3.27   A new workflow model introduced in Benefit Control Units in late 2007 made changes to the work of Technical Officers. Benefit Control Units we visited had recently suspended or reduced selective client review work while the Technical Officers took on new roles assisting Investigators with their investigations. We were unable to assess what effect this change in doing selective client reviews will have for the overall detection of benefit fraud. The Ministry was reviewing the future operation of selective client reviews at the time of our audit.

Targeting risk with employer and selective client review programmes

3.28   Ministry staff informally monitor and discuss perceived risk areas as the main way of classifying risk categories for national and regional selection of target groups for selective client reviews. A similar methodology is also used for deciding which employers to target for review.

3.29   In our view, the Ministry could improve this selection process by using its recently introduced Intelligence Unit to contribute to the identification of higher-risk client groups. The Unit has advanced data analysis and statistical modelling programs that could be used to help predict benefit types more vulnerable to fraud, as well as defining the characteristics that can make a client more likely to commit benefit fraud.

Recommendation 5

We recommend that the Ministry of Social Development use its Intelligence Unit to periodically analyse its client databases to ensure that detection programmes are targeting areas of risk.

Detection work by the Intelligence Unit

3.30   The establishment of the Intelligence Unit in mid-2007 has improved the ability of the Ministry to detect cases of multiple identity fraud. This includes sophisticated computer analysis systems for creating graphical pictures of information stored on the Ministry's databases. These are used to automatically create links between clients and information they have provided to the Ministry, and help to see if links exist between different clients.

3.31   The Benefit Control Units we visited reported that they have been able to detect a few cases of multiple identity fraud as a result of using the Intelligence Unit and its more sophisticated detection resources.

Part 4
Investigating benefit fraud

4.1   In this Part, we set out our expectations for the investigation of benefit fraud, and present our findings and recommendations on how the Ministry:

- assigns and manages investigations;
- meets investigation standards; and
- deals with the outcomes of investigations, including deciding on enforcement action.

Our expectations

4.2   Investigating benefit fraud should involve the Ministry systematically and thoroughly reviewing, to required standards, all actions that are suspected to be fraudulent.

4.3   We expected the Ministry to have systems, policies, and procedures in place for:

- assigning and managing investigations – this includes using an intelligence and risk-based approach to assign allegations of benefit fraud for investigation, and having a case management system to effectively track the progress and outcomes of investigations;
- meeting consistent and lawful standards of investigation; and
- managing the outcomes of investigations with an overall aim of improving the Ministry's benefit fraud prevention capabilities – this includes having systems in place for internally reporting the results of investigations and learning from their findings, and taking enforcement action for confirmed benefit fraud cases that is appropriate and proportional to the seriousness of the offending.

Assigning and managing benefit fraud investigations

Our findings

4.4   The Ministry has well-defined systems, policies, and procedures for assigning and managing allegations of benefit fraud, although its computerised case management system for benefit fraud investigations could be substantially upgraded.

Arrangements for investigating benefit fraud

4.5   Investigations of suspected benefit fraud are carried out by Investigators in the Ministry's 10 regional Benefit Control Units. The Ministry has 90 full-time Investigators throughout the country. Investigators also determine what action to take for substantiated benefit fraud cases. Technical Officers in the Benefit Control Units assist Investigators with preparing cases for investigation. Investigation

Managers oversee investigations. This includes coaching and managing Investigators, and ensuring that investigations meet quality standards.

Assigning allegations of benefit fraud for investigation

4.6   All allegations of benefit fraud received by Benefit Control Units are screened using a standard national risk assessment form. This risk assessment involves reviewing the available information about an allegation to prioritise the action to be taken. Investigation Managers decide the action to take on allegations. Although the standard assessment form helps ensure consistency of allegation screening among Benefit Control Units, we found that Investigation Managers also use their experience with investigations to assess the potential complexity and risk of cases.

4.7   Allegations prioritised as high risk are assigned to Investigators in the Benefit Control Units. Allegations assessed as lower risk, or lacking sufficient information for investigation, are assigned to letter campaigns. These letter campaigns involve Technical Officers writing to remind clients of their obligations for benefit entitlement and to request information on their current circumstances.

4.8   The Ministry has recognised the potential for using more sophisticated data analysis and statistical modelling programs to help determine the risk level of various allegations of benefit fraud. The Intelligence Unit has a project planned for introduction in early 2008 to mid-2008 to use computer programs to filter all allegations using criteria that help identify high-risk factors. Because our audit preceded the use of these computer programs, we were unable to assess the effectiveness of the project. However, this planned filtering has the potential to improve the targeting of high-risk benefit fraud cases. It should also help Benefit Control Units to prioritise their investigations.

4.9   There is potential for the Ministry to use its Intelligence Unit to carry out evaluative sampling of allegations of benefit fraud that are not assigned for investigation to confirm that they were actually of a low priority. This is important for the Ministry to show that it is appropriately prioritising allegations according to risk.

Recommendation 6
We recommend that the Ministry of Social Development periodically carry out evaluative sampling of allegations of benefit fraud that are not assigned for investigation to confirm that they were actually of a low priority.

Case management system for benefit fraud investigations

4.10   The Ministry uses its computerised TRACE case management system to:

- record all allegations;

- record information relating to individual investigations, including all interviews conducted by Investigators with clients;

- monitor the workload of Investigators; and

- track the progress of investigations.

4.11   From interviews with TRACE users, and our own observations of the functionality of the system, we consider that the system could be significantly upgraded (or replaced) to improve the overall effectiveness of case management. Although the system accurately records and reports information about investigations, data entry of this investigation evidence is slow and cumbersome. Interview transcripts and other evidence collected by Investigators cannot be easily entered into the system in a time-efficient manner. Text can be entered into the relevant notes screen only line-by-line, as there is no word-wrap functionality.

Recommendation 7

We recommend that the Ministry of Social Development upgrade its computerised benefit fraud case management system to improve the overall functionality and usability of the system.

Meeting standards for investigating benefit fraud

Our findings

4.12   We found well-established systems for reviewing cases of benefit fraud and ensuring compliance with relevant standards and legal requirements. Investigations are guided by requirements of the Social Security Act and the Ministry's own national standards. The staff we interviewed understood well the relevant quality and compliance standards.

4.13   The Ministry's national standards for auditing of investigations are rigorous. Investigation Managers are required to conduct detailed audits to make sure investigations meet standards and legal requirements. This includes assessing:

- all the case work of new Investigators until they are deemed competent in the role by Investigation Managers or Benefit Control Centre managers;

- at least 10% of cleared investigation cases carried out by all other Investigators; and

- all cases where the estimated benefit fraud is $5,000 or more. This is to ensure that there is sufficient evidence to establish a debt against a client.

4.14   Investigation Managers' auditing of investigations is required to be fully documented and to address a well-defined set of minimum quality standards. These standards cover the full range of Investigators' work, including the taking and recording of statements from clients, complying with legal requirements, and meeting appropriate investigation procedures.

4.15   Quality Assurance Officers in Benefit Control Units also have a role to ensure that investigations meet required standards. The Quality Assurance Officers assess the investigation-related work of Technical Officers by audits that are similar to the audits carried out by the Investigations Managers. The Ministry's national office also conducts periodic checks of samples of investigations.

4.16   There is a formal process in place for clients to seek reviews of decisions made about them resulting from investigations. This review process is covered by provisions in the Social Security Act.

Managing the outcomes of benefit fraud investigations

Our findings

4.17   The Ministry could increase its use of data analysis and statistical modelling to review investigation results to help improve identification of causes of benefit fraud or any systemic issues. The Ministry has clear processes for deciding enforcement action to take with substantiated benefit fraud cases.

Internal reporting of investigation outcomes

4.18   The Integrity Services group reports monthly to the Ministry's executive leadership team about the outcomes of both external and internal fraud activity. Reporting on external fraud covers monthly and annual results of cases. It includes some analysis of case types and individual cases involving benefit fraud of $100,000 or more. These high-value cases are individually analysed by staff of the Integrity Services group to identify how to prevent similar situations.

4.19   There is potential for the Ministry to use the more sophisticated data-mining and analysis capabilities of its Intelligence Unit to review the results of individual benefit fraud cases to identify their causes. This analysis could help reinforce current practices, which are based on informally and manually reviewing cases to identify any trends, risks, or lessons to learn.

4.20   The existing computerised benefit fraud case management system (TRACE) is not designed to easily allow automated extraction of information about benefit fraud causes for trend and pattern analysis. This is because most investigation evidence gathered (including interview transcripts) is contained in a generic notes screen, with only limited use of standard category fields for specifying characteristics of individual benefit frauds. Any improvements to the system (as we recommend above) should consider improving its functionality to ensure that information can be readily extracted for analysis.

Recommendation 8
We recommend that the Ministry of Social Development regularly and formally review the results of individual benefit fraud cases to identify any emerging trends or risks in the benefits system.

Enforcement action

4.21   The Ministry has a clear process for deciding on types of enforcement action for substantiated benefit fraud cases. This is guided by provisions in the Social Security Act. The Crown Law Office's *Prosecution Guidelines* also guide the Ministry's actions when deciding if a client should be prosecuted.

4.22   Investigators in Benefit Control Units have responsibility for determining what action to take, including deciding whether to prosecute. Types of action available are prosecution, monetary penalties, or written warnings. The Ministry has clear criteria for guiding Investigators' decisions on which form of action to take. In practice, prosecution is always considered where deliberate intent to defraud the Ministry has been established. Warning letters tend to be used where intent cannot be proved, or where other mitigating factors suggest not to prosecute.

4.23   Benefit Control Units we visited rarely impose monetary penalties (although the Ministry always seeks to recover overpayments). This partly reflects that the Ministry must take into account its social development role when taking enforcement action. The Ministry also considers excessively large monetary penalties to have a limited punitive or deterrent effect.

4.24   Investigations Managers are required to audit all cases that proceed to prosecution, to ensure that the appropriate criteria have been applied and that sufficient evidence has been collected. Ministry solicitors also review cases going to prosecution. Successful prosecutions are reported in the Ministry's statements of intent and annual reports. The performance target for the year ended 30 June 2007 was for successful prosecutions to exceed 85%. The actual result for the year was 95.5%.

4.25   The Ministry has not formally evaluated the effectiveness of the types of enforcement action it takes in benefit fraud cases. However, on the basis of justice sector research, the Ministry considers that the belief that a person will be detected committing benefit fraud is a bigger deterrent than the penalties imposed.

Appendix
Good practice guides and other reports used to prepare our audit expectations

Audit Office of New South Wales (2005), *Fraud Control Current Progress and Future Directions – Guidance on Better Practice*, Australia.

Australian National Audit Office/Attorney-General's Department of the Australian Government (2004), *Fraud Control in Australian Government Agencies – Better Practice Guide*, Australia.

Australian National Audit Office (2001), *Management of Fraud Control, Department of Family and Community Services*, Audit Report No. 45 2000-2001, Australia.

Australian National Audit Office (2001), *Management of Fraud and Incorrect Payment in Centrelink*, Audit Report No. 26 2001-2002, Australia.

Department for Work and Pensions (2005), *Reducing fraud in the benefit system – Achievements and ambitions*, United Kingdom.

HM Treasury (2003), *Managing the Risk of Fraud – A Guide for Managers*, United Kingdom.

House of Commons Committee of Public Accounts (2003), *Tackling Benefit Fraud, Thirty-first Report of Session 2002–03*, United Kingdom.

House of Commons Committee of Public Accounts (2005), *Fraud and error in benefit expenditure, Fourth Report of Session 2005–06*, United Kingdom.

National Audit Office/HM Treasury (2004), *Good Practice in Tackling External Fraud*, United Kingdom.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Guardians of New Zealand Superannuation: Governance and management of the New Zealand Superannuation Fund
- Annual Plan 2008/09 – B.28AP(08)
- Central government: Results of the 2006/07 audits – B.29[08a]
- The Auditor-General's Auditing Standards – B.28(AS)
- Responses to the Coroner's recommendations on the June 2003 Air Adventures crash
- Inland Revenue Department: Effectiveness of the Industry Partnership programme
- Audit committees in the public sector
- New Zealand Trade and Enterprise: Administration of grant programmes – follow-up audit
- Mental health services for prisoners
- New Zealand Agency for International Development: Management of overseas aid programmes
- Liquor licensing by territorial authorities
- Implementing the Māori Language Strategy
- Management of conflicts of interest in the three Auckland District Health Boards
- Annual Report 2006/07 – B.28
- Turning principles into action: A guide for local authorities on decision-making and consultation
- Matters arising from the 2006-16 Long-Term Council Community Plans – B.29[07c]
- Local government: Results of the 2005/06 audits – B.29[07b]
- Effectiveness of the New Zealand Debt Management Office
- Statements of corporate intent: Legislative compliance and performance reporting

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