



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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# Preventing Welfare Fraud

## *Opportunities to Improve the Replacement Warrant Process*

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*An Operational Review by the:*

**Fraud, Waste and Abuse  
Prevention Division**





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Ms. Jacqueline Romer-Sensky, Director  
Ohio Department of Human Services  
30 East Broad Street, 30<sup>th</sup> Floor  
Columbus, Ohio 43266-0423

Dear Director Romer-Sensky:

The attached report discusses the results of our review of the replacement warrant process -- the process by which warrants for public assistance benefits are replaced when a recipient reports an original warrant was lost, destroyed or stolen. We performed this review in response to legislative concerns about public and private financial losses that occur as a result of replacement warrant fraud.

Over the long term, many of concerns discussed in this report should be resolved through the issuance of public assistance cash assistance by Electronic Benefits Transfer. Until that occurs, however, we believe there are opportunities to improve the processing of replacement warrants, and this report recommends actions for your consideration.

Copies of this report will also be sent to the Treasurer of State, the Attorney General, the counties who assisted in completing our review, and other interested parties. We appreciate the cooperation shown by state and county staff during the conduct of this project. If you or your staff have any questions concerning the report, please call Johnnie L. Butts, Jr., Chief of our Fraud, Waste and Abuse Prevention Division, at (614) 466-3212.

Yours truly,

JIM PETRO  
Auditor of State

June 29, 2000

Attachment



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## **EXECUTIVE SUMMARY**

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*During Calendar Year 1999, the State of Ohio issued about 1.5 million warrants (checks) for public assistance benefits, totaling \$386 million. When a public assistance recipient reports that his or her benefit payment was lost, stolen, mutilated, or not received, County Departments of Human Services issue a replacement warrant. During 1999, counties authorized the issuance of 25,725 replacement warrants, totaling \$7.3 million.*

*The Auditor of State performed this review in response to legislative concerns about public and private financial losses that occur as a result of replacement warrant fraud. Our objectives were to: (1) identify the extent and costs of the problem, (2) assess county and state processes for replacing warrants and controlling fraud, (3) identify best practices and fraud controls in use in counties and/or other states, and (4) recommend ways to prevent or reduce abuses of the replacement warrant process.*

*Instances where both the original and replacement warrant are cashed account for less than one percent of total warrant issues. Over a three-year period (1997 through 1999), the Ohio Department of Human Services (ODHS) issued about 5.7 million public assistance warrants, totaling about \$1.5 billion dollars. During that time, counties authorized the issuance of about 93,000 replacement warrants (for \$25.3 million), and all but about 9 percent of the replacements were cashed, supporting the need for a replacement warrant process. However, there were also 12,222 instances in which both the replacement and original warrants was cashed, amounting to \$4.2 million. In most instances, merchants who cash the original warrant incur the loss, because most of these warrants are considered forgeries and charged back through the banks.*

*Over the long term, most issues associated with replacement warrants will be resolved when Ohio begins issuing cash benefits by Electronic Benefits Transfer (EBT), much the same way as it currently issues Food Stamp benefits. With EBT, public assistance recipients use a card and a Personal Identification Number (PIN) to access their benefits. If the card is lost or stolen, the remaining benefits cannot be accessed without the PIN, and benefits will not be replenished if the benefits have been withdrawn. ODHS is currently negotiating EBT specifics with other stakeholders and plans to implement an EBT pilot once negotiations are complete.*

*In the meantime, we identified several areas where improvements are possible in the short term:*

- *Although replacement warrants are usually issued shortly after the date an original warrant is reported lost or stolen, the follow up process is costly and time consuming. We estimate that it cost at least \$400,000 in 1999 to process and investigate replacement warrants, and investigations of suspect replacements routinely take over six months to complete. These costs could be reduced by reducing the need for some replacement warrants, particularly for public assistance recipients who repeatedly request replacement warrants. In 1999, 1,450 assistance groups received three or more replacements. To avoid issuing multiple replacements to the same recipients, counties could, for example,*

*require that these recipients (1) undergo greater scrutiny when requesting replacements; (2) pick up warrants at county offices in lieu of having them mailed, and/or (3) arrange to have payments made by direct deposit. Each county needs to consider its options in light of its particular circumstances. We recommend that ODHS advise counties of the options available to them to reduce recipients' needs for replacement warrants.*

- *At the time counties authorize a replacement warrant, they also enter a stop payment request into ODHS' public assistance computer system (called CRIS-E). Stop payment requests are to be sent nightly to the Treasurer's Office so that an original warrant is not accepted for payment. We determined, however, that the Treasurer's Office does not receive stop payment requests timely, primarily because ODHS does not send requests timely to the Auditor's Office, who then passes them to the Treasurer. Moreover, a programming problem with the CRIS-E computer system may have caused 579 stop payment requests not to be processed correctly in 1999. As a result, \$168,000 in warrants were erroneously paid from state funds, and fraud investigations were not initiated to recover the payments. We recommend that ODHS work with the Auditor's and the Treasurer's Offices to establish a method of electronic transfer of stop payment requests. ODHS should also review and, if necessary, modify CRIS-E to ensure that it codes and recodes warrant dispositions accurately.*
- *The Ohio Administrative Code requires that ODHS' Office of Fiscal Services track instances of potential fraud; however, Fiscal Services lacks an effective tracking system. In particular, Fiscal Services maintains limited information about the disposition of replacement warrants, the results of fraud investigations, and benefit recovery. ODHS is implementing a new tracking system. We recommend that ODHS ensure the system keeps an accurate inventory of cases and tracks warrant investigations from inception through recovery of benefits.*
- *Losses to merchants could be limited and in some cases recovered. Some merchants were unfamiliar with fraud prevention measures in use by their peers. In addition, even when merchants practice due diligence when cashing welfare warrants, the current process does not provide a method for them to recover funds from ODHS. We recommend that ODHS and counties work with trade associations and local merchants to develop due diligence practices and that ODHS institute a process by which merchants who exercise due diligence are able to recoup losses that have been recovered through county fraud investigations.*

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### ABBREVIATIONS

AOS	Auditor of State
BCI	Bureau of Criminal Identification and Investigation
CRIS-E	Client Registry Information System Enhanced
EBT	Electronic Benefits Transfer
OAC	Ohio Administrative Code
ODHS	Ohio Department of Human Services
OGA	Ohio Grocers' Association
PIN	Personal Identification Number
WIC	Women, Infants, and Children

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## ***BACKGROUND***

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A replacement warrant is a check issued to replace a public assistance cash benefit payment that has been reported lost, stolen, mutilated, or not received by a client. Ohio Administrative Code (OAC) Section 5101:1-2-55 designates that county departments of human services are responsible for issuing replacement warrants and for recouping any overpayments that may occur as a result of warrant replacement. From 1997 to 1999, the Ohio Department of Human Services (ODHS) replaced approximately 93,000 public assistance warrants, totaling \$25.3 million in payments.

ODHS considers it “fraud” when it determines that the same public assistance recipient cashed both checks. When both warrants are cashed, but a different person endorses one of the checks, it is considered “forgery”. Section 5101:1-2-55 (O) (4) of the OAC requires that ODHS monitor county replacement processes, act as a conduit during the fraud determination process, and track the results of replacement warrant activities.

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## ***PURPOSE, SCOPE AND METHODOLOGY***

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Our review was performed in response to legislative concerns about public and private financial losses that occur as a result of replacement warrant fraud. Our objectives were to: (1) identify the extent and costs of the problem, (2) assess county and state processes for replacing warrants and controlling fraud, (3) identify best practices and fraud controls in use in counties and/or other states, and (4) recommend ways to prevent or reduce abuses of the replacement warrant process.

To accomplish these objectives, we contacted and gathered information from county agencies, state agencies, and the private sector. We contacted staff in five of the six largest metropolitan county human services agencies (Franklin, Hamilton, Montgomery, Cuyahoga, and Summit). The purpose of these contacts was to identify and assess county level warrant replacement procedures and fraud preventative controls currently in place, including the procedures for processing replacement warrants in the statewide Client Registry Information System - Enhanced (CRIS-E) computer system. This system is used in determining and issuing welfare benefits.

At the state level, we obtained CRIS-E data on replacement warrants issued by ODHS from 1997 to 1999. We used the data determine the following:

- the number and amount of replacement warrants issued by each county,
- the number of instances in which both the original and replacement warrant were cashed, and
- the extent that stop payment requests were successfully executed.

We also met with ODHS staff, including staff from ODHS’ Office of Fiscal Services, to discuss the controls and processes involved in replacing public assistance warrants, and to determine how ODHS distinguished between fraud (when the public assistance recipient cashes both warrants) and forgery (when someone other than the recipient cashes one of the warrants). In addition, we

discussed how ODHS tracks fraud cases, monitors county benefit recovery efforts, and recovers funds on forgery cases.

We met with staff from the AOS Finance Division to discuss their involvement in stop payments of public assistance warrants. We also contacted the AOS' Warrant Records staff to determine the disposition of some public assistance warrants.

To assess the impact of fraudulent replacement warrant behavior on the private sector, we contacted the Ohio Grocers' Association (OGA), the Treasurer of State's Office, and ODHS' Office of Fiscal Services to identify the potential dollar loss to third parties and to assist in determining the extent of losses to merchants. Subsequently, the Grocers' Association contacted its members on our behalf to quantify any current problems they were experiencing.

We also spoke with other states regarding their procedures for replacing public assistance warrants and to identify practices in place for deterring fraud. Michigan was contacted about their replacement warrant procedures. Texas and Florida were contacted about their practices for deterring fraud.

Our work was performed from January through March 2000 in accordance with generally accepted government auditing standards at Auditor of State (AOS) headquarters in Columbus, Treasurer of State headquarters, and ODHS' Office of Fiscal Services and Bureau of Information Systems.

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## ***RESULTS***

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Table 1 and 2 show the number and dollar value of replacement warrants issued by ODHS for calendar years 1997 through 1999. The instances in which both original and replacement warrants were cashed are of particular concern because they represent occurrences of fraud or forgery. See Appendix A for an analysis of each county's replacement warrant performance in calendar year 1999.

**Table 1: Number of Warrants and Replacement Warrants**

	<b>3-Year Total</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Total Number of Issued Warrants</b>	5.7 million	1.5 million	1.8 million	2.4 million
<b>Number of Warrants Replaced</b>	93,075	25,725	29,229	38,121
<b>Number of Replacements When Both Original &amp; Replacement Were Cashed</b>	12,222 (13.1 % of replacements)	4,024 (15.6 % of replacements)	3,833 (13.1% of replacements)	4,365 (11.5% of replacements)

Source: AOS analysis of CRIS-E data provided by the Ohio Department of Human Services

**Table 2: Amount of Warrants and Replacement Warrants**

	<b>3-Year Total (millions)</b>	<b>1999 (millions)</b>	<b>1998 (millions)</b>	<b>1997 (millions)</b>
<b>Dollar Value of Issued Warrants</b>	\$1,498.9	\$386.2	\$484.5	\$628.2
<b>Dollar Value of Replacements</b>	\$25.3	\$7.3	\$8.3	\$9.7
<b>Dollar Value of Replacements When Both Original &amp; Replacement Were Cashed</b>	\$4.1 (16.2 % of replacement dollars)	\$1.4 (19.2 % of replacement dollars)	\$1.3 (15.8 % of replacement dollars)	\$1.4 (14.2 % of replacement dollars)

Source: AOS analysis of CRIS-E data provided by the Ohio Department of Human Services

Although exact numbers are not available (see discussion on the lack of good tracking below), ODHS data from 1999 indicates that “fraud” (when the public assistance recipient cashes both checks) occurs about one third of the time when both warrants are cashed. The other two thirds are considered “forgeries” (when a different person endorses one of the checks). In most instances when both warrants are cashed, the merchant who cashes the original check incurs the financial loss. This is because the Treasurer’s office does not honor bank claims for forgeries or for warrants in which

a stop payment has been processed before a fraudulent warrant has been presented to the Treasurer for payment.

## **HOW THE REPLACEMENT PROCESS WORKS IN OHIO**

Replacement warrants are authorized by county departments of human services (CDHSs). The process begins when recipients report their benefit checks lost, stolen, or destroyed. According to OAC 5101:1-2-55 (B)(2), recipients must wait a minimum of five days after the issuance date of the original warrant before a replacement warrant can be issued. Two of the counties we contacted required a five-day waiting period before replacing a warrant; the other two required a ten-day waiting period. The waiting period is waived if the original warrant has been returned and canceled, or the recipient has the warrant in their possession (damaged/mutilated). Appendix B shows the flow of the basic warrant replacement process.

Once the waiting period has passed, a CDHS schedules an appointment with the client to complete required paperwork, which includes the ODHS 2132, a notarized affidavit stating the recipient did not receive the original check, and the AUD 7202, a handwriting sample used to analyze check signatures. These forms may take up to an hour to complete. Affidavits and handwriting samples are not completed if the original warrant has been returned and canceled, or if it has been voided. When processing the replacement request, county workers also check CRIS-E to determine whether or not the original warrant has been cashed. If it has not been cashed, a county supervisor enters a stop payment order request into CRIS-E. Following completion of the paperwork, a county supervisor uses the CRIS-E system to authorize issuance of the replacement warrant and where applicable, request a stop payment on the original warrant. Once issued, replacement warrants are usually mailed to the client.

## **COUNTY CONTROLS OVER REPLACEMENT ISSUANCES VARY**

Section 5101:1-2-55 (E) (1) of the OAC requires that counties issue a replacement upon each request. County staff reported they do not limit the number of replacements given to any one recipient because the law does not specifically allow them to do so. In 1999, 1,450 assistance groups received three or more replacement warrants. Four or more replacements were issued to 487 assistance groups during the same year. Replacements continue to be issued even when the recipient has a previous history of cashing both their original benefit warrants and the replacement warrants (fraud). Cuyahoga County reported sending over 358 cases to their prosecutor over the last two years. These cases were described as involving clients who have fraudulently endorsed warrants on multiple occasions.

Some counties attempt to limit replacement requests by sending replacements to the county agency for recipients to pick up in person. Summit CDHS staff told us that their agency requires that all replacement warrants be picked up at the agency. They also had the lowest replacement issuance rate (replacements versus all checks issued) of any metropolitan county. Cuyahoga CDHS requires that recipients pick up replacement warrants after more than two replacement warrants have been

requested.

One method to limit replacement warrants for recipients with multiple replacements is electronic fund transfer (EFT). This method directly deposits benefits into a recipient bank account. In this way, benefits are securely transferred to the recipient and cannot be lost/stolen prior to receipt. However, Ohio law<sup>1</sup> only allows counties to mandate EFT issuance if such action does not pass administrative costs (i.e., banking fees) onto the recipient. Such action requires a resolution by the county commissioners, and the costs are not reimbursable. Voluntary direct deposit costs the county nothing.. We are unaware of any counties that mandated EFT issuance to any recipients.

The state of Michigan's warrant replacement process differs from Ohio. In Michigan, if the original warrant has already been cashed, their Warrant Control Division will determine whether the recipient cashed or benefitted from the cashing of the warrant before issuing a replacement. They also require that the client's mailing address be changed to the local agency address in cases where warrants are frequently lost, stolen, or not received.

### **SOME REPLACEMENT WARRANTS MAY NOT SERVE INTENDED PURPOSE**

Our overall analysis of replacement warrant files determined that about nine percent of all replacement warrants issued were never cashed. To learn more, we reviewed an unbiased sample of forty cases with at least one replacement in 1997, 1998, or 1999. These cases involved 98 warrants. Each replacement was either a replacement (85 warrants) of an original warrant, or a replacement (13 warrants) of a replacement warrant. Each warrant was then categorized according to the disposition of the warrant it replaced and the final disposition of the replacement (i.e., cashed, canceled, etc...).

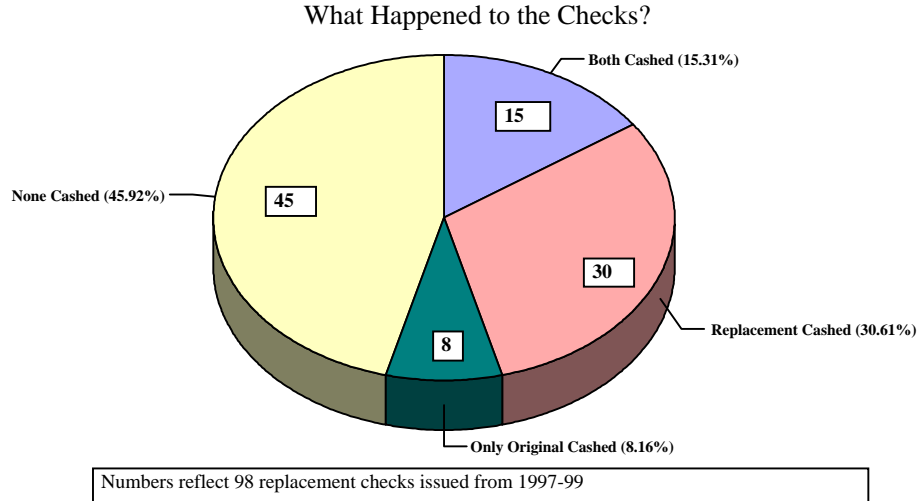
About 15 percent of the time, both the replacement and the warrant being replaced were cashed, which is consistent with the information shown in Table 1.

One unexpected result, however, was that about 46 percent of the time (45 of 98 replacements) neither the replacement nor the warrant it replaced was cashed, leading us to question whether the recipient received the assistance requested and presumably needed. These warrants were either returned and canceled, or they went void after 90 days. One case had 14 replacements in three years, twelve of which were never cashed. In this case, the replacements were mailed to the agency for pick up. However, the agency did not inform the recipient for three months. Another case had six warrants issued for a single month. Most cases had one or two replacements. Figure 1 shows the results of our review.

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<sup>1</sup> OAC 5101-7-24

**Figure 1: Review of 40 Cases**



Source: AOS Non-statistical Sample

This analysis supports the need for greater scrutiny at the time a replacement is requested to ensure that a replacement is needed and will be sent to a location where it will be received by the authorized public assistance recipient.

### **SOME REPLACEMENTS NOT ISSUED CORRECTLY**

OAC 5101:1-2-55 (G) requires the issuance of replacement warrants within the CRIS-E benefit issuance subsystem. CRIS-E programming protocol requires a replacement to be issued as an “auxiliary” payment, which allows the payment to be tracked back to the original check being replaced. Based on our analysis of replacement warrant data, we found that county staff did not follow these procedures about five percent of the time. This occurred when replacements were issued as “supplements”, which do not require supervisory approval and cannot be tied back to the original warrant number. Issuing replacements as “supplements” circumvents controls that require supervisory approval, and prevents keeping an accurate tally of replacement warrant requests and issuances. Without an accurate tally, counties are also hindered from identifying recipients who make multiple requests for replacements.

### **THE REPLACEMENT FOLLOW UP PROCESS IS LENGTHY AND COSTLY**

Both ODHS and counties play a role in investigating instances where both the original and replacement warrant are cashed. The process is lengthy, often taking longer than 6 months to resolve, and costly. We estimate that it cost the state at least \$400,000 in 1999 (nearly \$16.00 per replacement) to replace and investigate warrant replacements. This estimate includes the costs of

issuing replacements at the county level, determining if fraud or forgery occurred, processing stop payments, and the physical costs of replacing paper warrants. The estimate does not include county benefit recovery or prosecution costs.

If the original warrant has been cashed, counties forward the affidavit packet to ODHS for a determination. ODHS' Office of Fiscal Services requests copies of the cashed warrants (original and replacement) from the Auditor of State's Warrant Records Department. ODHS sends warrant copies and affidavit packets (containing handwriting samples) to the Attorney General's Bureau of Criminal Identification and Investigation (BCI) for a preliminary handwriting analysis to determine fraud or forgery. Once a determination is made, the information is sent back to ODHS.

If the BCI analysis indicates the payee did not endorse both warrants, ODHS' Fiscal Services identifies the replacement case as forgery and notifies the Treasurer of State to collect the warrant amount from the bank that presented the warrant for payment. The original warrant is then charged back through the federal reserve banking system to the entity that cashed the check. The Treasurer does not charge banks fees in such situations, however, the banks generally charge the merchants a returned item fee. The Treasurer does allow banks at least 45 days to show due diligence was taken in cashing "forged" checks, but the banks we spoke with generally charge these warrants back to their customers (the merchants) and leave collection to them.

If the analysis indicates the recipient endorsed or may have endorsed both checks, the county is notified by ODHS Fiscal Services. Counties reported that it takes six months or longer after they send information about a replacement warrant to ODHS before they receive notifications. After receiving notification that fraud may have occurred, the county interviews the recipient again. If the recipient denies cashing both warrants, further handwriting samples are taken and sent back to BCI for a positive identification. Should a positive identification be made, the county will attempt to recoup the lost funds from the recipient. Normally this occurs by reducing ongoing cash benefits by ten percent per month until the overpayment is fully recovered.

The decision to initiate recovery administratively or through the courts is made by CDHS staff, and practices vary greatly from county to county. However, counties told us that fraud prosecutions are infrequent because the dollar amounts involved do not command the attention of county prosecutors. In Cuyahoga County, for example, most cases sent for prosecution require three or more occurrences of fraud as the total dollars lost must exceed \$1,000 before the prosecutor would accept the case.

## **STOP PAYMENT REQUESTS NOT PROCESSED TIMELY**

Ohio Administrative Code 5101:1-2-55 (F) (3) states

The CDHS action necessary to effect a stop payment is accomplished in CRIS-E by requesting payment stopped on the outstanding warrant via SFSP (support functions stop payment request screen). Once the CDHS enters the information in SFSP, the stop payment information will be transmitted nightly to the treasurer's office.

About 6,600 stop payment requests were processed in 1999. A delay in forwarding stop payment requests to the Treasurer increases the risk that a fraudulent or forged original warrant will be cashed when presented to the Treasurer for payment.

ODHS' Fiscal staff retrieve county stop payment requests from CRIS-E and forward a paper list of requests to the Auditor of State's (AOS) Finance Office <sup>2</sup>. AOS staff determine if the original warrant is outstanding and if it is, enter the stop payment request in a computer and forward the request electronically to the Treasurer's Office. Unredeemed warrants with stop pay requests are captured by the Treasurer's Office, marked "stop paid", and returned to the bank of origin for recoupment. The amounts of stop paid warrants are electronically deducted from the total amount requested by the bank of origin on a daily basis. Appendix C shows the stop payment process.

ODHS requests an average of 50 to 75 stop payments each week, and ODHS staff said they forward a paper list of stop pay requests to the Auditor's Office at least every other day. However, AOS Finance staff stated they receive requests less frequently, particularly when the ODHS employee responsible for generating the list is absent from work. The process is further delayed because AOS staff must enter stop pay requests into a computer from the paper list provided by ODHS. Both ODHS and AOS staff agreed that the process could be expedited if ODHS provided an electronic list of requests to the AOS' Finance Office.

### **SOME STOP PAYMENT REQUESTS NOT PROCESSED CORRECTLY**

Auditors determined that the disposition of stop payment requests listed in CRIS-E may not accurately reflect the actual warrant disposition. Table 3 shows about 6,600 stop payments were requested in 1999. ODHS and the Treasurer's Office reported that 343 payments were actually stopped, with the balance ostensibly not presented for payment. We determined, however, that another 579 warrants were cashed because the stop payment did not reach the Auditor or Treasurer timely (see above). The number of warrants cashed prior to a stop pay being effected increased from 1997 to 1999. Undetected cashed warrants cost the State about \$168,000 in 1999. Moreover, because ODHS did not know that the warrants had been cashed, no attempts were made to recover the funds through fraud investigations.

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<sup>2</sup> The Auditor of State is responsible for issuing public assistance warrants and receives copies of cashed warrants.



**Table 3: Summary of Stop Payment Information by Year**

	1999	1998	1997
<b>Stop Payments Requested</b>	6,649	3,752	5,705
<b>Number of Stop Payments Effected</b>	343	unknown	unknown
<b>Stop Payment Requested and Warrant Cashed</b>	579	148	88

Source: Ohio Department of Human Services Stop Requested File; Treasurer of State Stop Payment File; Auditor of State Warrant Redeemed File

An ODHS Information System supervisor stated there were batch problems in 1999 that may have caused payment on warrants with stop requests. However, we found the warrants were cashed throughout 1999 and the problem was not an isolated incident. The ODHS CRIS-E system did not update the disposition of warrants initially coded as stop payment requested to stop paid, redeemed, or voided. ODHS only receives data on stop payments from the Treasurer for those warrants actually captured and returned, and not those stop payments recorded by the Auditor. The fact that the CRIS-E system failed to show that stop payment requested warrants were cashed or voided could indicate a programming error was present and inhibited such recoding. In addition, we found CRIS-E failed to update other warrants that had apparently gone void (over 90 days old) to a voided code, but rather the disposition field was simply left blank. CRIS-E should reflect the actual and final disposition for all checks.

### **INVESTIGATIVE PROCESSES LACK TRACKING AND MONITORING**

Auditors acquired the number of fraud cases returned from ODHS' Fiscal Services to the counties for collection. The numbers of active and closed forgery cases with recovered funds were also identified. Table 4 shows fraud and forgery collections completed for state fiscal years 1998 and 1999.

**Table 4: ODHS Fraud and Forgery Data by Year**

	1999	1998
ODHS Fraud Cases Sent Back to Counties	1,301	907
ODHS Forgery Cases Currently Being Collected	2,554	77
ODHS Forgery Cases Collected in Full	1,199	652

Source: Ohio Department of Human Services

Section 5101:1-2-55 (O) (4) of the OAC requires Fiscal Services to track all cases in which both the original and replacement warrant were cashed by the payee and to monitor county efforts at overpayment collection. We found that while Fiscal Services tracks collections on fraud and forgery cases, they do not track:

- the number of packets that should be received from counties (both warrants are cashed),
- the number of packets sent to BCI for analyses,
- the number of packets returned from BCI,
- the results of BCI analyses,
- county efforts at recoupment.

ODHS Fiscal Services cannot specifically determine if fraud/forgery investigations are being pursued for all cases in which both warrants have been cashed by the payee. They lack a process that shows when both warrants have been cashed and an investigation should have been initiated. Fiscal Services relies solely on counties sending affidavit packets for investigation, which fails to ensure all necessary packets are received.

Fiscal Services stated they open a case for each county affidavit packet received with the original and replacement checks cashed. However, ODHS did not know the number of cases currently open because of the implementation of a new tracking system. ODHS staff stated they were experiencing problems in obtaining reports from the new system. Historical data on open case counts was in the old tracking system, but ODHS could not obtain current reports from that system or ensure that available reports were accurate. This could explain the significant differences in the 1999 and 1998 numbers outlined in Table 3. Neither report would have been accurate by itself. Fiscal Services staff stated their primary focus was the tracking of collections once a determination has been made by BCI and the collection of the receivable created.

ODHS Fiscal Services could not accurately inventory active cases at the time of our review. They were unable to provide the total number of cases or where these cases were in the replacement process. Because of this, Fiscal Services stated they could not determine how quickly affidavit

packets were processed through their system (from the county and out off their system). Both ODHS and BCI staff thought BCI took about 30 days to process 50 affidavits. Yet counties reported it took six months for these decisions to reach them. ODHS staff indicated the new monitoring system should be able to provide tracking information about inventories and timeliness when the system is fully implemented.

To quantify actual fraud and forgery numbers, we contacted BCI and the Treasurer's Office. We learned that BCI does not track the number of warrants sent to them by ODHS, nor do they track the results of analyses performed. One of the two BCI handwriting analysts stated the number of warrants BCI reviewed has decreased. However, ODHS numbers showed an increase in the percentage to total of replacement dollars from 1997 through 1999 (see Table 1). The Treasurer's Office reported that though they track forgery activity for all state offices by which banks owe them money, and not by state agency or fund. Therefore, neither ODHS, BCI, or the Treasurer could accurately indicate the extent of fraud or forgery. Only ODHS is required to track this information however.

### **MERCHANT LOSSES COULD BE REDUCED**

As noted earlier, the merchant who cashes the original check generally incurs the financial loss when both warrants are cashed. This occurs because the Treasurer's office will not honor warrants deemed forgeries by ODHS or warrants in which a stop payment has been executed timely. We estimated potential losses to merchants to be about \$1.4 million annually in 1999. Merchants have little recourse for recovering lost funds beyond seeking civil litigation against the payees. Most warrants are written for \$300 to \$400, which may not make civil action a cost effective recovery method.

ODHS' Office of Fiscal Services staff told us that it is possible to reimburse merchants where a determination of fraud is made and a merchant has exercised due diligence in cashing the original warrant. Due diligence by merchants would include obtaining proper identification, reviewing signatures, and obtaining a photograph of the person cashing the check. Reimbursement would occur only when a warrant amount has been completely repaid to ODHS by the recipient.

ODHS Fiscal Services staff stated that while merchant reimbursement has occurred on occasion, no specific procedures exist, nor is there legislation that addresses losses to merchants. As a result, merchants were still unlikely to be repaid and county staff we spoke with were unsure how to reimburse such merchants. However, a June 8, 1994 CRIS-E bulletin explains the use of recipient photo identification card numbers to determine fraud. This number is entered on the stop payment request screen (optional) in CRIS-E to assist ODHS Fiscal Services in determining if the recipient cashed both the original and replacement warrants. If the identification number issued matches the identification number recorded on the cashed warrant, the case is to be earmarked as fraud. The merchant is to be paid and a fraud recovery action is to be taken against the recipient. Because the process was not standardized or specifically addressed in any ODHS manuals, it is unlikely that state and county staff were aware such a process existed.

We contacted the Ohio Grocers Association (OGA) to determine the potential impact of replacement warrant fraud on OGA members. The OGA President stated that procedures established about two years ago had nearly eliminated welfare warrant losses. The OGA President stated that association members worked with ODHS to identify fraud preventive controls for use by local merchants. These included obtaining photo identification for the payee, comparing the warrant signature to the photo identification signature, and recording the photo identification number on the warrant itself. The OGA President added the best photo identification is the welfare identification card which provides the payee's case number and assistance group which are also on the warrant itself. To confirm his what he told us, the OGA President agreed to contact their constituents in Ohio's urban centers. This effort detected few problems.

Nevertheless, merchants who are not OGA members may incur losses if they are not exercising the due diligence advocated by OGA. One merchant in Cuyahoga County reported losses of about \$500,000 over 3-4 years because of fraudulent and forged replacement warrants.

AOS staff also contacted two large retail banks in order to identify other fraud preventive check cashing controls. These banks indicated their most successful tool was thumb print imaging. Thumb print imaging requires non-account holders to place their thumb print on checks they are cashing. Thumb printed checks can later be used to identify whether or not the payee cashed them. Though the banks track and report fraud differently, they agreed thumb printing was a success. One of the banks tracked results during the first year of thumb printing and estimated fraud was reduced by 40 percent.

#### **OTHER STATES MOVING TOWARD ELECTRONIC BENEFITS TRANSFER (EBT)**

We spoke with several states regarding their procedures for replacing warrants. Florida and Texas no longer issue paper warrants and now use EBT for public assistance benefit issuance.<sup>3</sup> Michigan still issues benefits using paper warrants, though they began conversion to EBT in May 2000.

Florida estimates savings of approximately \$4 million annually since the implementation of its EBT system. EBT transactions require the use of a personal identification number (PIN). If a card is lost or stolen, the benefits remaining on the card cannot be accessed without the PIN. A replacement card may be issued with a new PIN and any remaining benefits can be replenished. Benefits will not be replenished if they have been accessed using the original PIN number. EBT has been well received by merchants because it simplifies their accounting procedures. They are able to reconcile overnight and receive funds on the following day. EBT has also been well received by law enforcement because it allows them to more easily identify merchants who are abusing the system. Transactions can be traced which may provide concrete proof of suspect usage of benefit cards.

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<sup>3</sup> Ohio currently uses EBT only to issue food stamp benefits. Women, Infants, and Children (WIC) benefits are in the process of being added to the card. EBT for cash benefit issuance is under negotiation.

In addition to EBT, Texas also has a finger imaging program. Finger imaging is a requirement for any adult or minor head of household applying for cash or food stamp benefits. Cross matching of finger image data may only occur within the state human services agencies. The data is matched to ensure recipients are not accepting benefits in more than one county simultaneously. Texas attributes finger imaging to a savings of over \$6 million annually. Florida has begun efforts to secure an automated finger imaging system. This system will require the identification of the recipient at point of sale or point of entry devices. Finger images are read by these devices and if the recipient is not positively identified, the transaction will not be approved.

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## ***CONCLUSIONS***

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Although fraudulent and forged replacement warrants account for less than one percent of all public assistance warrants, these warrants still cost the state and private sector about \$1.8 million annually, including the costs of issuing them. Merchants who cash the original warrant bear the majority of the loss, \$1.4 million, because the Treasurer's Office stops payment on the original warrant when a replacement warrant is issued.

The use of EBT for cash benefits would reduce both the administrative costs of replacing warrants and the occurrence of fraud or forgery. In addition, EBT would reduce the burden on poor families waiting for a legitimate replacement of a lost or stolen warrant. ODHS is currently negotiating with stakeholders to implement EBT in Ohio. In the meantime, we identified a number of areas that deserve the attention of ODHS and counties.

For example, reducing the need to issue replacement warrants would reduce the inconvenience to recipients of requesting and waiting for a replacement warrant, cut merchant losses, and minimize administrative follow up costs, which we estimate cost the state and counties at least \$400,000 in 1999. The most likely candidates to need fewer replacement warrants are persons receiving multiple replacement warrants. Counties have several tools available to them to reduce the number of replacement issuances, including to degree of scrutiny given to persons who request replacement warrants, the place where replacements are delivered, and the use of direct deposit. Some counties appeared to make greater use of these tools than others.

Stop payment requests on original warrants are intended to prevent such warrants from being cashed and paid by the Treasurer of State. Therefore, requests must be expedited to the Treasurer. However, ODHS Fiscal Services transfers requests by a paper list and does not do so daily as required by the Ohio Administrative Code. Such delays allowed 579 warrants totaling \$168,000 to be paid from state funds during 1999. This occurrence likely went undetected because of a computer error in the coding of check dispositions.

ODHS' Office of Fiscal Services does not properly monitor the replacement warrant process as it pertains to warrant fraud. For example, they do not track the number of affidavit packets the counties should be forwarding, based on cases where both the original and replacement warrants were cashed. In addition, they fail to monitor the number of packets they send to BCI for analysis and the number of packets returned to them. Fiscal Services cannot specifically determine if all cases

where both warrants have been cashed are being investigated, thus the inability to accurately monitor county recoupment efforts. ODHS did not track forgery receivables by year of issuance; they tracked work based on when their cases are closed. This prevents an accurate inventory of cases or potentially lost dollars. In addition, Fiscal Services cannot determine either affidavit packet processing times or the overall efficiency of their processes.

Losses to merchants could likely be prevented. Merchants who experienced losses from replacement warrant charge-backs likely do not perform due diligence when cashing such checks. However, even when due diligence is taken, ODHS lacks a specific and orchestrated procedure for ensuring those merchants are repaid. CRIS-E procedures issued in 1994 outlined a process using identification card numbers to show due diligence and protect merchants, but none of the counties we spoke with used this methodology. We found no other administrative rules that speak to this issue.

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## ***RECOMMENDATIONS***

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Over the long term, EBT should reduce many of the costs and risks associated with replacement warrants. In the meantime, we are making the following recommendations to ODHS to alleviate current issues.

1. We recommend that ODHS advise counties of the options available to them to reduce recipients' needs for replacement warrants. Such options, which could help avoid issuing multiple replacements to the same recipients, could include (1) having counties scrutinize replacement requests more closely; (2) require that replacements be picked up at county offices in lieu of having them mailed, and/or (3) arranging for recipients to receive payments made by direct deposit.
2. ODHS should work with the AOS and the Treasurer's Office to establish a method of electronic transfer of stop payment requests. ODHS should also review and, if necessary, modify CRIS-E to ensure that it codes and recodes warrant dispositions accurately.
3. ODHS Fiscal Services should ensure that its new tracking system keeps an accurate inventory of cases and tracks warrant investigations from inception through recovery of benefits. This includes working with EBT staff to determine a functional time line for EBT implementation.
4. ODHS and counties should work with trade associations and local merchants to develop due diligence practices and that ODHS institute a process by which merchants who exercise due diligence are able to recoup losses that have been recovered through county fraud investigations.

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***AGENCY RESPONSE***

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A draft of this report was provided on May 26, 2000 to the Ohio Department of Human Services and the Office of the Treasurer of State of Ohio for their review and comment.

The Ohio Department of Human Services provided comments by a response letter (contained in Appendix D). ODHS agreed with the findings and recommendations contained herein, and also agreed to implement the short-term recommendations as written.

Auditor of State staff met with representatives of the Treasurer of State to obtain their comments. Minor technical changes recommended by the Treasurer's Office were incorporated into the final report.

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**Appendix A: County Replacement Data for CY1999**

County Name	Number of Replacement Warrants Issued-1999	\$ Expended in Replacement Warrants-1999	OWF Combined County Net Expenditures-1999	%of Net Expenditure-1999
Adams	33	\$11,211	\$979,653	1.14%
Allen	180	\$48,714	\$2,333,480	2.09%
Ashland	18	\$4,164	\$334,881	1.24%
Ashtabula	78	\$18,813	\$1,870,627	1.01%
Athens	120	\$33,266	\$2,412,644	1.38%
Auglaize	26	\$8,703	\$307,682	2.83%
Belmont	71	\$18,651	\$2,878,754	0.65%
Brown	21	\$5,440	\$503,139	1.08%
Butler	321	\$89,566	\$5,379,960	1.66%
Carroll	18	\$4,221	\$579,229	0.73%
Champaign	27	\$7,155	\$519,318	1.38%
Clark	291	\$80,339	\$4,809,610	1.67%
Clermont	112	\$29,727	\$2,108,717	1.41%
Clinton	21	\$5,599	\$381,165	1.47%
Columbiana	73	\$20,909	\$1,628,560	1.28%
Coshocton	37	\$7,937	\$719,483	1.10%
Crawford	43	\$12,449	\$919,113	1.35%
Cuyahoga	9,338	\$2,509,311	\$99,592,397	2.52%
Darke	15	\$4,283	\$460,227	0.93%
Defiance	20	\$5,180	\$348,878	1.48%
Delaware	18	\$4,451	\$576,895	0.77%
Erie	39	\$12,125	\$978,437	1.24%
Fairfield	96	\$27,583	\$1,372,490	2.01%
Fayette	25	\$5,193	\$518,387	1.00%
Franklin	2,685	\$817,045	\$41,186,157	1.98%
Fulton	10	\$2,824	\$200,472	1.41%
Gallia	116	\$33,448	\$2,228,854	1.50%
Geauga	12	\$3,108	\$276,688	1.12%
Greene	132	\$35,164	\$2,290,963	1.53%
Guernsey	30	\$9,809	\$556,005	1.76%
Hamilton	2,183	\$659,064	\$32,242,027	2.04%
Hancock	34	\$9,308	\$544,656	1.71%
Hardin	7	\$1,596	\$280,158	0.57%

**Appendix A: County Replacement Data for CY1999 (cont.)**

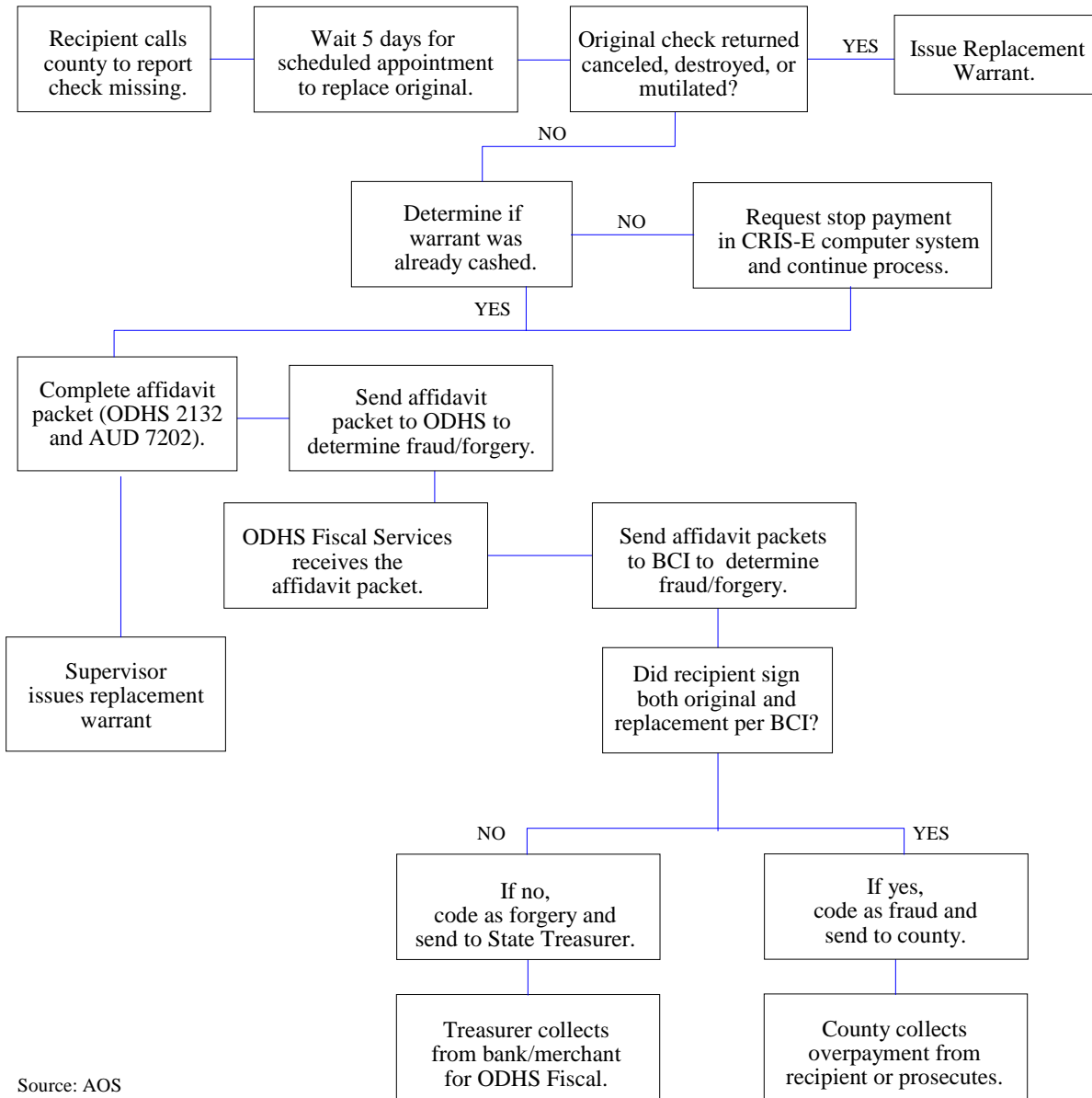
County Name	Number of Replacement Warrants Issued-1999	\$ Expended in Replacement Warrants-1999	OWF Combined County Net Expenditures-1999	% of Net Expenditure-1999
Harrison	12	\$3,133	\$323,160	0.97%
Henry	6	\$1,753	\$132,206	1.33%
Highland	17	\$4,074	\$436,877	0.93%
Hocking	22	\$5,635	\$802,870	0.70%
Holmes	1	\$409	\$119,312	0.34%
Huron	28	\$7,825	\$398,301	1.96%
Jackson	27	\$6,791	\$1,130,298	0.60%
Jefferson	138	\$37,659	\$3,564,784	1.06%
Knox	48	\$12,323	\$943,009	1.31%
Lake	98	\$26,774	\$2,003,849	1.34%
Lawrence	166	\$47,035	\$4,361,112	1.08%
Licking	108	\$30,584	\$2,402,728	1.27%
Logan	27	\$6,747	\$600,236	1.12%
Lorain	501	\$144,355	\$7,797,082	1.85%
Lucas	2,147	\$647,506	\$29,317,720	2.21%
Madison	17	\$4,600	\$503,347	0.91%
Mahoning	850	\$249,325	\$13,725,327	1.82%
Marion	89	\$23,272	\$1,418,557	1.64%
Medina	47	\$13,757	\$1,103,111	1.25%
Meigs	43	\$12,797	\$1,548,278	0.83%
Mercer	17	\$4,425	\$318,570	1.39%
Miami	37	\$7,758	\$653,274	1.19%
Monroe	14	\$2,456	\$462,663	0.53%
Montgomery	1,110	\$331,435	\$20,123,440	1.65%
Morgan	11	\$3,276	\$455,515	0.72%
Morrow	18	\$6,482	\$531,817	1.22%
Muskingum	142	\$40,129	\$3,271,807	1.23%
Noble	3	\$648	\$205,332	0.32%
Ottawa	20	\$4,749	\$401,264	1.18%
Paulding	6	\$1,708	\$211,535	0.81%
Perry	30	\$9,477	\$1,093,404	0.87%
Pickaway	61	\$16,775	\$1,134,213	1.48%
Pike	50	\$15,520	\$1,543,940	1.01%

Appendix A: County Replacement Data for CY1999 (cont.)

County Name	Number of Replacement Warrants Issued-1999	\$ Expended in Replacement Warrants-1999	OWF Combined County Net Expenditures-1999
Portage	90	\$27,254	\$1,722,757
Preble	25	\$6,422	\$341,382
Putnam	15	\$4,879	\$287,185
Richland	186	\$50,566	\$3,197,727
Ross	68	\$19,106	\$2,186,290
Sandusky	30	\$6,996	\$558,488
Scioto	260	\$72,084	\$5,602,418
Seneca	40	\$8,958	\$549,855
Shelby	30	\$8,475	\$324,521
Stark	627	\$179,201	\$13,261,462
Summit	1,493	\$458,338	\$28,548,474
Trumbull	368	\$102,639	\$7,987,928
Tuscarawas	40	\$9,365	\$1,162,573
Union	13	\$2,993	\$358,909
Van Wert	3	\$383	\$139,525
Vinton	20	\$5,952	\$747,225
Warren	37	\$10,071	\$567,399
Washington	29	\$7,023	\$578,149
Wayne	114	\$35,235	\$1,592,869
Williams	22	\$6,562	\$297,789
Wood	47	\$10,634	\$669,357
Wyandot	7	\$1,876	\$133,242
<b>TOTALS</b>	<b>25,725</b>	<b>\$7,312,560</b>	<b>\$386,174,164</b>

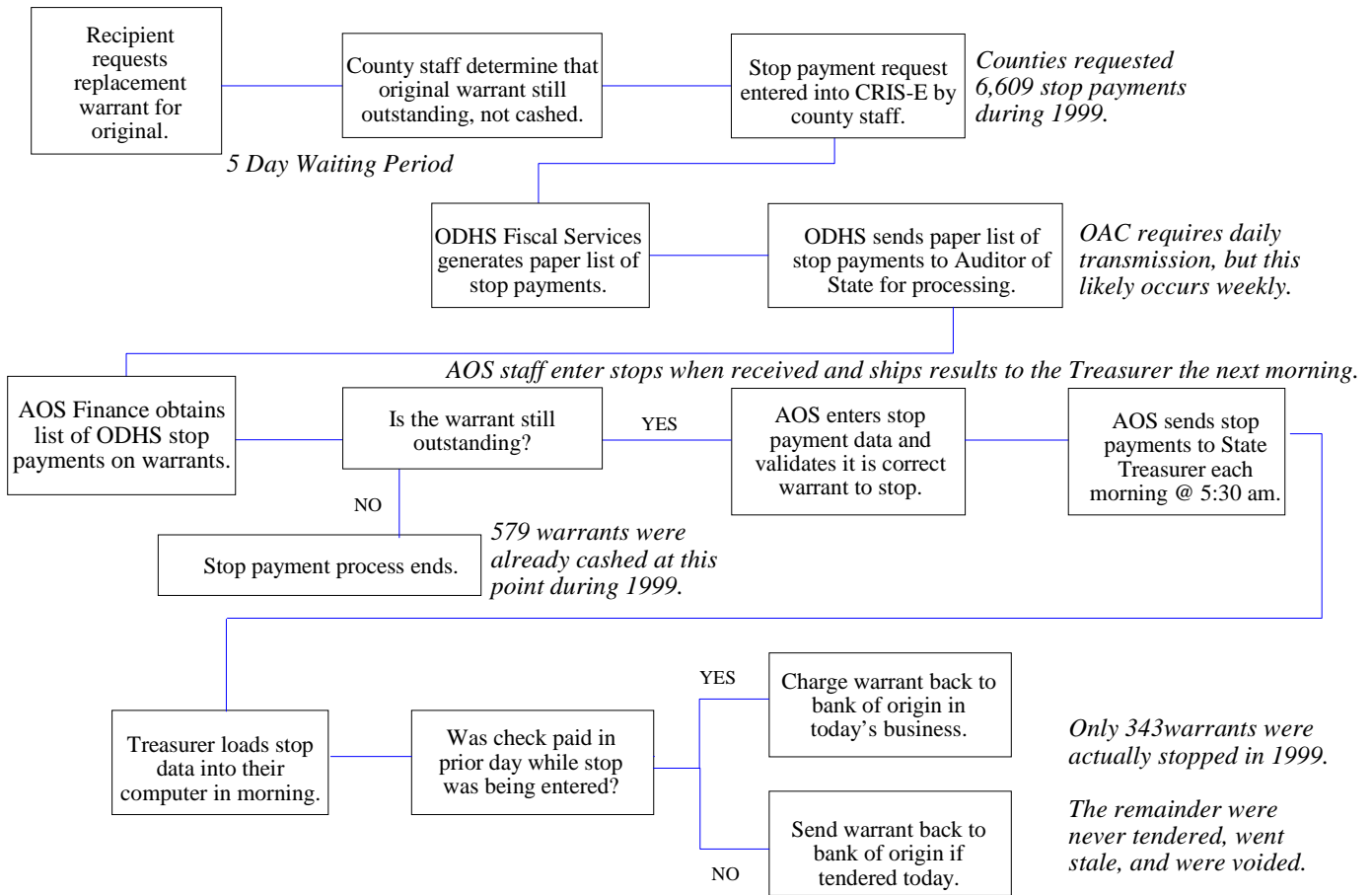
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**Appendix B: The Replacement Warrant Process**



Source: AOS

**Appendix C: The Warrant Stop Payment Process**



**Details on stop payment file transmissions**

The Auditor of State transmits an electronic file of stop payments entered to the Treasurer each morning at about 5:30. The Treasurer loads this file into their computer system and processes the day's work. They do not maintain a history of stop payments. Therefore, ODHS only receives information on the warrants actually presented and not all validated stops.

**Details on transmissions of warrant disposition files**

The Treasurer transmits a warrant redemption file to ODHS nightly. ODHS runs this file to update the CRIS-E system. However, CRIS-E failed to update a warrant disposition from stop requested (SR) to redeemed (RM) 579 times in our 1999 sample. In addition, CRIS-E files showed warrants from 1997 and 1998 as stop payment requested or no disposition. All warrants should show either a redeemed (RM), canceled (RC), stop paid (SP), or void (VO) disposition to accurately reflect what took place.

Source: AOS

## Appendix D: ODHS Response Letter

Bob Taft  
Governor



Jacqueline Romer-Sensky  
Director

Ohio Department of Human Services  
40 East Broad Street, Columbus, Ohio 43260-0421

June 12, 2000

Jim Petro, Auditor of State  
88 East Broad Street  
P.O. Box 1140  
Columbus, OH 43216-1140

Dear Mr. Petro:

I am writing in response to the May, 2000, draft report from your office's Fraud, Waste, and Abuse Division, titled, *Opportunities to Improve the Replacement Warrant Process*. The report discusses the ODHS process for replacing public assistance warrants which are reported lost or stolen, and areas of possible improvement.

As the report states, most issues will eventually be resolved by our payment of cash assistance via Electronic Benefits Transfer (EBT). We are currently negotiating with several state and federal agencies concerning implementation of this initiative.

In addition, your report makes recommendations for improvement in the short term. These recommendations are well-taken, and we are committed to implementing them.

We appreciate your continuing assistance and attention to the prevention of fraud and abuse in Ohio's public assistance programs.

Sincerely,

A handwritten signature in blue ink that reads "Jane Wasman".

Jane Wasman, Chief  
Fraud Control Section  
Bureau of Program Integrity, ORAA









STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

## OPPORTUNITIES FOR IMPROVEMENT IN THE REPLACEMENT WARRANT PROCESS

### STATEWIDE

#### CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JUNE 29, 2000