



**Australian Government**  
**Australian Institute of Criminology**

# Responding to welfare fraud: The Australian experience

Tim Prenzler

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# Foreword

The introduction throughout the 20th century of welfare payments such as pensions, unemployment and parenting allowances, and the parallel rise of fraud eroding the integrity of these payment systems, has preoccupied advanced economy governments in terms of both designing and implementing robust welfare payments and compliance measures.

Professor Tim Prenzler has already published two papers through the AIC examining the Australian welfare system—*Detecting and Preventing Welfare Fraud* was published in June 2011 and closely examined detection and prevention systems within the Commonwealth agencies and compared them, favourably, with overseas systems. This was followed with *Welfare Fraud in Australia: Dimensions and Issues*, which measured the size of the problem that Australian agencies were facing.

This Research and Public Policy paper presents a more holistic oversight of the history of the welfare payments system around the world, the ideological debate that surrounded it and the measures (firstly welfare payments, and secondly compliance and detection systems) that have followed.

Not only does the author discuss the ideological divide over welfare payments, but also the parallel divide over detection and prevention methods, where the anti-welfare lobby sees these measures as weak and ineffective, while the pro-welfare lobby sees them as unduly punitive.

The extensive data is drawn from Centrelink and the Department of Human Services over the period 1997–2010. Over this time, there was an annual average of 6.4 million Centrelink customers. It is concluded that while the extent of welfare fraud is difficult to measure, it continues to occur at a high financial cost to the Commonwealth budget and the

Australian taxpayer. It was found that in 2008–09, single parenting payments, Newstart allowance and the disability payment were the most likely to attract fraud and hence convictions.

The author examines and tests compliance initiatives over that period, both primary prevention approaches—that is, public education campaigns and compliance reviews, and secondary prevention approaches—that is, direct investigation and prosecution. The suite of measures employed by Centrelink include data matching (through data such as tax file numbers, immigration records, job placement records and bank verification matching) public tip-offs, fraud investigations and recovery actions.

The pernicious problem of internal fraud and measures to combat opportunities for government employees to corrupt the payments system are also described and assessed.

While the welfare system is important for social cohesion and the wellbeing of vulnerable Australian citizens (almost one-third of the population are on some form of payment), it is concluded that the massive expenditure in this area means that a fraud prevention system must be optimally designed. 'Getting it right' enhances the credibility of the system including its acceptance by taxpayers who fund the payments and also allows genuine welfare recipients more dignity within a robust system. In that regard, this report is an important analysis at the start of the 21st century of how our welfare benefits system compares internationally and the effectiveness of government fraud measurement and prevention systems.

**Adam Tomison**  
**Director**



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# Acronyms

<b>AFP</b>	Australian Federal Police
<b>AGIS</b>	Australian Government Investigation Standards
<b>AIC</b>	Australian Institute of Criminology
<b>ANAO</b>	Australian National Audit Office
<b>ATO</b>	Australian Taxation Office
<b>AUSTRAC</b>	Australian Transaction Reports and Analysis Centre
<b>CDPP</b>	Commonwealth Director of Public Prosecutions
<b>CMOS</b>	Case Manager Optical Surveillance
<b>CPTED</b>	Crime Prevention Through Environmental Design
<b>DEEWR</b>	Department of Education, Employment and Workplace Relations
<b>DHSS</b>	Department of Health and Social Security
<b>DIAC</b>	Department of Immigration and Citizenship
<b>DVS</b>	Document Verification Service
<b>DWP</b>	Department for Work and Pensions
<b>MRT</b>	Mobile Review Teams
<b>OIG</b>	Office of the Inspector General
<b>POI</b>	proof of identity
<b>SSA</b>	Social Security Administration

# Executive summary

This report is the product of a research project begun in 2009, initiated by the Australian Institute of Criminology (AIC) with the support and assistance of Centrelink. The project is part of a wider commitment by the AIC to enhance knowledge about fraud and fraud prevention. This commitment has been driven by research showing that fraud is the main crime category that has been increasing in the last decade and represents a major component—up to 40 percent—of all crime costs (Rollings 2008).

Welfare fraud is an area of ongoing concern and controversy in Australia. All welfare states struggle with the problem of alleged fraud and the issue is characterised by an ideologically based debate between pro-welfare and anti-welfare protagonists. The anti-welfare lobby tends to play up the level of fraud and the need for tougher anti-fraud measures. The pro-welfare lobby tends to play down the level of fraud and condemns many anti-fraud measures as intrusive and punitive. Despite this controversy, there are very few studies of any depth on the topic in Australia. The present report seeks to address this deficit and support a bi-partisan policy response by examining key aspects of welfare fraud in this country. Welfare fraud prevention would be advanced by both sides adopting common ground in the search for fair and practical measures to reduce instances of fraud and respond more effectively to detected fraud, thereby also contributing to enhanced public perceptions of the legitimacy of the welfare system.

Overall, the main focus of the study is on strategies adopted by Australia's primary welfare distributor Centrelink for preventing welfare fraud. In particular, the study was concerned with impact measures of the different strategies. The study was also concerned with the antecedents of these strategies, associated prosecution strategies and debates about the justice of these strategies. In addition,

the study was concerned to map, as far as possible, the dimensions of suspected and confirmed welfare fraud in terms of numbers of offences, characteristics of offenders, financial losses, types of fraud and trends over time.

## The analysis

In pursuit of these goals, a multi-method approach was developed. Centrelink agreed to cooperate in the research and in 2009, a formal agreement was signed between the author and Centrelink regarding access to Centrelink data. Subsequently, Centrelink provided the following data annualised by financial year, from 1997 (when Centrelink was established) to 2009–10.

- numbers of customers;
- numbers of compliance reviews;
- numbers of customers whose entitlements were cancelled or adjusted down as a result of a compliance review;
- estimated fortnightly savings from adjusted entitlements;
- estimated overpayments and associated debts from adjusted entitlements for the financial year;
- all debts raised as a result of adjustments in the financial year;
- debts recovered in the financial year;
- numbers of cases referred to the Commonwealth Director of Public Prosecutions (CDPP);
- numbers of prosecutions;
- numbers of convictions; and
- dollar amounts defrauded in criminal convictions.

Centrelink also provided the following data for the four year period 2006–07 to 2009–10:

- numbers of fraud-related investigations; and
- debts and savings from fraud investigations.

More detailed data were also provided, mainly for 2008–09, on fraud convictions across the top 15 payment types, the main types of prosecution referrals (eg ‘cash economy’, ‘identity fraud’), data-matching types and estimated savings and debts, as well as outcomes from the fraud tip-off line and surveillance program. In addition, Centrelink annual reports were searched for relevant material.

Centrelink also provided a number of case study summaries. Case studies provide another source of information on welfare fraud, including how frauds can operate for many years. The examples provided by Centrelink also show how case study analysis can be used as a learning tool to improve prevention. Additional case studies were obtained from the Centrelink website, from CDPD annual reports, a search of the Factiva media database and ministerial press releases at the website of the Minister for Human Services.

The CDPD supplied data for 2008–09 and 2009–10 on the amounts of money involved in convicted cases, the age and sex of offenders, and penalties. Information used across the study was also obtained from Australian National Audit Office (ANAO) reports, media reports, ministerial press releases, parliamentary documents, various other reports and academic literature. Secondary sources on welfare fraud were obtained using a keyword search of social science publication databases including Criminal Justice Abstracts, CINCH, Wiley Online Library and Google Scholar. Newspaper reports were searched using Factiva. Finally, the websites of social security departments in English speaking countries were searched for reports relevant to welfare fraud.

The study’s findings are limited to the time periods outlined above and to information supplied or available to the author during the research phase.

## Findings

Following a description of the basic aims of welfare systems (see *The Welfare State and the Problem of Fraud*), an analysis is provided of the growing recognition of the vulnerability of these systems to

fraud, and of issues around culpability and appropriate responses to suspected fraud. The section also incorporates a description of the problems experienced when attempting to measure fraud and presents available data about the size and dimensions of the welfare fraud problem internationally.

For Australia, the evidence shows that convictions for welfare fraud represent a small fraction of all welfare transactions, but they also involve ongoing significant losses and ongoing demands for prosecution and recovery action (see *Dimensions of Welfare Fraud in Australia*). Available data from Centrelink indicate that fraud convictions are occurring at fairly stable rates at just over 3,000 cases per year. This represents 0.04 percent of all Centrelink customers. Nonetheless, the losses in these cases add up to approximately \$40.5m per year and involve approximately \$120.9m per year in gross savings and amounts targeted for recovery.

Amounts of losses vary enormously between cases and although it was found that sentencing tariffs generally increased in severity with the level of financial losses, this was only a rough correlation. There were wide disparities within sentencing figures, including prison terms for relatively minor frauds and non-prison sentences for major frauds. Of particular concern is the fact that women comprise two-thirds of defendants, although few studies have examined the effects of prosecution on these women and any dependents they may have. Overall, there would seem to be considerable scope for a less punitive approach to minor offences and a more productive approach to offenders generally in terms of more meaningful sentences.

The present study further advances the goal of welfare fraud prevention through analysis of the potential contributions of situational crime prevention, security management principles and a hierarchy of fraud control goals (developed in *Detection and Prevention Initiatives*). The last 30 years have seen a great deal of innovation in welfare fraud prevention in Australia, consistent with initiatives introduced in other countries. An assessment of Centrelink policy and practice (see *Contemporary Australian Strategies*) indicated that Centrelink appears to be in step with best practice internationally, having developed a complex array of strategies to prevent and detect

fraud and recover losses. Strategies include strict eligibility tests and enforcement procedures, large-scale compliance reviews, extensive data-matching, a fraud tip-off line, 'stepped up' investigations, covert optical surveillance, 'stepped up' identity verification procedures, loss recovery procedures and staff professionalisation.

It is likely that these measures are both reducing the opportunities for fraud and increasing the detection of fraud, with the result that fraud conviction rates have remained stable. Whatever the cause, this finding evidences a strong case for a greater focus on the primary prevention of fraud, that is, stopping frauds before they occur. Improved primary prevention should also reduce adverse impacts on those charged with welfare fraud offences.

In the final section *Building Consensus and Reducing Fraud*, the implications from the study's findings are developed and the need for more systematic

research and evaluation highlighted (see *Building Consensus and Reducing Fraud: A Review of the Issues*). One way to facilitate the development of a better understanding of welfare fraud and successful approaches would be through the establishment of a Research and Fraud Prevention Unit within Centrelink. A number of specific strategies to reduce fraud could also be trialled, including increased numbers of compliance reviews and increased earlier detection of error. Greater use might also be made of covert surveillance and system penetration tests. Alternatives to welfare should also be considered as a likely key means to both reduce the welfare poverty trap and reduce opportunities for fraud. These include enlarging compulsory superannuation, increasing the retirement age, enlarging supported employment for persons with disabilities and adopting a genuine full employment program.



# The welfare state and the problem of fraud

Welfare fraud—or ‘benefit’ or ‘social security’ fraud—is a controversial problem that has accompanied the growth of the welfare state. In this section, a brief history of social security, the variety of welfare models and the philosophical underpinnings of welfare, are provided. The growing recognition of the problem of fraud and factors associated with the vulnerability of welfare systems to fraud is also outlined. The section includes a summary of the debate over welfare fraud and its division along traditional left and right wing ideological positions. Left wing protagonists tend to downplay the extent of welfare fraud and often see anti-fraud measures as oppressive. Right wing protagonists tend to see welfare fraud as a significant problem and advocate a tougher approach to detection and prevention.

The section also includes overseas data from welfare agencies on the nature and extent of fraud. Internationally, estimates of fraud vary substantially depending on the measures adopted, but available figures from countries such as the United Kingdom and United States show that suspected and detected frauds occur in the tens of thousands each year and account for many millions of dollars in losses. Consequently, fraud represents a significant ongoing problem for welfare systems and is a major drain on resources in efforts to prevent, detect and penalise offenders. Primary prevention of fraud is a major challenge for welfare agencies. In the discussion

section, it is argued that advancing prevention would be assisted by greater consensus among stakeholder groups about the extent of the problem and the most fair and effective methods to combat fraud.

## The welfare state

The idea of the ‘welfare state’ is associated with government provision of payments and management of insurance schemes for disadvantaged citizens, and was introduced in Western Europe in the nineteenth and early twentieth centuries, although it is arguably during the post-World War Two economic boom that the most complex and generous systems of state welfare were established. The modern welfare state developed in Australia in conjunction with a number of phases—federation in 1901, the centralisation of government power during World War Two and the post-War economic boom. Welfare states are designed, often in an ad hoc fashion, as comprehensive systems through which governments provide support for all citizens in need, with a view to eliminating poverty and enhancing health and wellbeing (McMahon 2005). Welfare systems are often seen as providing a ‘safety net’ that prevents citizens falling below a minimum standard of living. What distinguishes the welfare state from previous forms of welfare is the degree

to which governments take responsibility for the guaranteed direct provision of services across a comprehensive range of types of disability, disadvantage or need—hence the use of the term ‘social security’ (Jackson & Bozic 1997). Modern welfare systems frequently involve a wide range of living allowances paid to specific disadvantaged groups—primarily the elderly, unemployed, intellectually and physically disabled, sole parents and students. Support also normally includes a range of partial, indirect or in-kind government funded benefits, such as child support payments and free or discounted medical services and childcare. This frequently then entails the provision of support to a large proportion of the population. In many countries, recipients of social security living allowances make up a third of the population and the welfare budget can account for a third of government expenditures (Barker, Watchman & Rowan-Robertson 1990; Centrelink 2010a).

In nineteenth century Australia, support for the poor, sick and needy was largely provided by private charities, sometimes aided by colonial government grants, with the addition of government rations or relief work (DSS 1988). The Constitution of the newly federated states authorised the Australian Government to make laws in relation to age and invalid pensions, but did not preclude the government from providing other benefits. Legislation was passed in 1908 that led to the introduction of the means-tested age pension in 1909 and the invalid pension was introduced in 1910. These superseded state age pension schemes introduced through the decade from 1901 (DSS 1988).

Table 1 lists the main types of Australian federal welfare benefits and their dates of introduction. The Table shows there was a hiatus in the introduction of new social security benefits between 1912 (when a maternity allowance was introduced) and World War Two. During this period, New South Wales introduced a widow’s pension (1926) and child endowment (1927), and Queensland introduced an unemployment insurance scheme (1923). Federal pensions were administered by the Department of Treasury up until 1939, when the Commonwealth Department of Social Services was established (DSS 1988). Despite the financial constraints of

war, a number of major new federal benefits were introduced during the Second World War, including child endowment, widows’ pensions, sickness benefits and unemployment benefits. The Commonwealth’s collection of income tax during the War facilitated these and subsequent enlargements of welfare. Section 51(xxiii) of the *Commonwealth of Australia Constitution Act 1990* gives the federal parliament power to make laws in relation to ‘invalid and old-age pensions’. In 1946, subsection xxiiiA was inserted, granting power with respect to:

The provision of maternity allowances, widows’ pensions, child endowment, unemployment, pharmaceutical, sickness and hospital benefits, medical and dental services (but not as to authorize any form of civil conscription), benefits to students and family allowances.

This capacity was expanded by support for a 1946 referendum proposition to extend Commonwealth constitutional powers in social security and health care, leading to the *Social Security Act* of 1947 (long title ‘An Act to provide for the payment of certain pensions, benefits and allowances and for related purposes’). The Commonwealth, at times, considered adopting a social insurance system (favoured in many countries), which would limit payments on key benefits to the size of compulsory contributions made by individuals. However, this approach has been repeatedly rejected in favour of a model of universal access funded from general revenue.

The 1950s and 1960s saw few changes to benefits and eligibility. However, the introduction of Rent Assistance, a Guardian’s Allowance and Abstudy were notable initiatives. One major change involved a ‘tapered means test’, introduced in 1969, which allowed pensioners to supplement their pensions with increased levels of personal income and commensurate reductions in pension payments before a full cut off took effect. The 1970s saw the introduction of a means-tested living allowance for all tertiary students in the form of the Tertiary Allowance Scheme, a long-term sickness benefit and the Supporting Mother’s Benefit. The 1980s saw the introduction of the Spouse Carer’s Pension, along with mobility, rehabilitation, remote area and young homeless allowances, as well as the Family Income Supplement and Child Support Scheme.



**Table 1** Introduction of main federal welfare benefits, by year

Year	Legislation/amendment
1909	Age Pension
1910	Invalid Pension
1912	Maternity Allowance Act
1941	Child Endowment
1942	Widow's Pension Act (no. 19 of 1942)
1942	Widows Pension
1943	Child's Allowance
1943	Funeral Benefits
1943	Wife's Allowance
1943	Commonwealth Financial Assistance Scheme for students
1944	Commonwealth Reconstruction Training Scheme for returned service personnel
1945	Unemployment Benefit and Sickness Benefit
1945	Additional benefit payable in respect of the first child
1950	Pensioner Medical Service Scheme introduced
1951	Pensioner Medical Service was established
1958	Rent Assistance ('supplementary assistance')
1965	Guardian's Allowance
1966	Commonwealth University Scholarship Scheme and Commonwealth Advanced Education Scholarship Scheme replaced the Commonwealth Scholarship Scheme
1967	Sheltered Employment Allowance
1968	Special Temporary Allowance
1969	Abstudy
1970	Long-term rate of Sickness Benefit introduced
1973	Supporting Mother's Benefit
1973	Double Orphan Pension
1973	Tertiary Allowance Scheme (later became Tertiary Education Assistance Scheme)
1974	Handicapped Child's Allowance
1976	Family Allowance replaced Child Endowment Benefit
1977	Supporting Parent's Benefit replaced Supporting Mother's Benefit
1983	Spouse Carer's Pension
1983	Family Income Supplement (FIS)
1983	Mobility Allowance
1983	Rehabilitation Allowance
1984	Remote Area Allowance
1985	Carer's Pension
1985	Family Allowance—addition for families with multiple births (3 or more)
1986	Young Homeless Allowance
1988	Child Support Scheme introduced

**Table 1** (continued)

Year	Legislation/amendment
1989	Newstart Program for long-term unemployed
1989	Sole Parent Pension (amalgamation of Supporting Parent's Benefit and Widow Pension Class A)
1989	Jobs, Education and Training (JET) program
1990	Disaster Relief Payment
1990	Pharmaceutical Allowance (part of Pharmaceutical Benefits Scheme)
1992	Austudy Loans Supplement
1994	Disability Wage Supplement
1996	Maternity Allowance reintroduced
1998	Youth Allowance absorbed Austudy, Youth Training Allowance and Newstart Allowance

Sources: ABS 1988; Daniels 1996a, 1996b, 1995

In 1985, an assets test on pensions was brought in alongside the existing income test. In 1989, the Supporting Mother's Benefit was merged with the Widow Pension Class A to form the Sole Parent Pension. In 1990, the Disaster Relief Payment was introduced.

This brief account shows how Australia's welfare system has been extended to include new forms of benefits, in the form of direct payments, along with various tightened forms of means testing. Alongside this growth in types of benefits, there was also growth in eligible recipients, especially with mass unemployment from the mid-1970s. Even the last two decades have seen mass unemployment, with a peak of 10.7 percent of the labour force unemployed in 1992. Unemployment fell to 4.1 percent in 2008 and then started to rise again. In 2008–09, the number of unemployed was estimated at 562,200, with approximately 520,000 persons in receipt of the Newstart Allowance and approximately 259,000 of these classified as long-term unemployed (on Newstart for 12 months and over; ABS 2010b). In 2010, the number of 'unemployed persons' was estimated at 609,200 (ABS 2011). Growth in the number of welfare recipients has also been driven by Australia's ageing population, the expansion of tertiary education and increased numbers of single parents (Centrelink 2007).

## The emerging problem of fraud

The welfare state is the target of numerous criticisms (Douglas & Michaels 2005; Ervasti 1998; McKeever 1999b). One frequent allegation is that it stifles incentives for people to work and become economically self-sufficient. Another is that it creates a large unproductive government bureaucracy processing claims and delivering benefits, funded by excessive taxation. These are generally referred to as right wing views. A standard left wing view is that ruling classes provide welfare in order to keep oppressed classes in sufficient comfort to avoid revolution. Unemployment benefits also support a 'reserve army of labour', to be drawn upon and then abandoned with the vicissitudes of the capitalist business cycle; while minimalist benefit payments provide a hedge against consumer demand-led inflation.

Another standard critique is that welfare attracts fraud (Ervasti 1998). There is little doubt that some early benefit systems were often highly vulnerable to abuse (Reeve 2006). It was not without some justification that the terms *dole bludger*, *welfare chiseller* and *welfare queen* became part of the social and political discourse in many countries, particularly in the 1970s and 1980s (Douglas & Michaels 2005). The right to apply for welfare and the availability of money created intrinsic temptations

for people to attempt to obtain benefits fraudulently (Kuhlhorn 1997). The vulnerability of systems to fraud remains a common theme of even fairly recent critiques. McKeever (1999a: 261), for example, claimed that in Britain...

[s]ocial security fraud is currently estimated at £7 billion per year out of an annual social security budget of £90 billion. The social security system is hugely bureaucratic and administrative, leaving it wide open to abuse.

There were a number of reasons for the relative ease of welfare fraud (SNCCP 2008; Weatherley 1993). It was often difficult to check on the bona fides of applicants or to monitor recipients for changed circumstances. Paper-based identity documents could be forged and the lack of computer technology made the efficient matching of government records on any large scale almost impossible. Welfare providers were also expected to be sensitive to the needs and circumstances of applicants. Welfare recipients are almost by definition a vulnerable population. Anti-fraud measures generally entail procedures that can deter and stigmatise recipients and delay benefits. The situation is exacerbated by pressure for prompt delivery of benefits to people in urgent need of assistance, whether individuals are experiencing a personal financial crisis or are victims of natural disasters.

Media interest and public sentiment against welfare cheats appears to be correlated in many countries with the expansion of the numbers of people on social security benefits, typically from the 1960s or 1970s. According to Douglas and Michaels (2005: 184–185), US examples included

[j]ournalistic exposés with titles like ‘The Shocking Truth About the Aid to Dependent Children Welfare Program’, published in *Reader’s Digest*, or ‘Welfare: Has it Become a Scandal?’ in *Look*, both in 1961, [which] warned readers about a mother of seven in Washington, D.C., who sent her kids out to beg while she and her boyfriend ate steaks, or another mother in Newark who supposedly collected \$61,500 a year because she had fourteen illegitimate kids. In a pattern that would persist right up to the 1990s, journalists singled out some utterly appalling cases of behaviour and abuse, and made them

personify all welfare recipients and all welfare cases. But in the 1960s and ‘70s, such sensationalized resentment-breeders circulated with the equally if not more infuriating image of ‘able-bodied men’ collecting welfare checks instead of working, and with notions of bureaucratic ineptitude making the welfare mess worse.

US President Richard Nixon (1969–1974) was notorious for attempting to garner popularity with the ‘silent majority’ by attacking alleged welfare cheats. In a national address on television, he stated that ‘[t]he thing that is demeaning is for a man to refuse to work and then ask someone else who works to pay taxes to keep him on welfare’ (Douglas & Michaels 2005: 184). He is also infamous for asking Johnny Cash to sing *Welfare Cadillac*—a song about a man on welfare who drives a Cadillac—at a White House function (Cash refused). Despite this, Nixon oversaw an expansion of welfare:

In the Nixon Presidential years, federal government direct payments to individual citizens in benefits such as Social Security and Medicare rose from 6.3 percent of GNP to 8.9 percent of a 25 percent larger GNP; public assistance and aid in food rose from \$6.6 billion to \$9.1 billion... Nixon identified with truly disadvantaged people, with people who strove nobly and failed, and often with conditions of pathos (Black 2007: 703–705).

It was President Ronald Reagan who is credited with attempting to gain the most political mileage from anecdotes about ‘welfare queens’. One of his allegedly fictional descriptions went as follows:

She has eighty names, thirty addresses, twelve Social Security cards, and is collecting veterans’ benefits on four deceased husbands... She’s collecting Social Security on her cards. She’s got Medicaid, getting food stamps, and she is collecting welfare under each of her names. Her tax-free cash alone is over \$150,000 (Douglas & Michaels 2005: 185).

Despite the proliferation of anecdotes like this, Douglas and Michaels (2005) claim that only a few cases of documented large-scale frauds involving multiple claims were ever officially identified in the United States in the 1970s. Nonetheless, negative media drove a wedge between the public and welfare recipients:

In some polls, Americans guessed that 40 percent of those on the dole cheated, while Health and Human Services estimated that less than 4 percent of recipients actually lied about their financial situation (Douglas & Michaels 2005: 186).

In the 1970s, increased opposition to welfare and allegations of welfare fraud were influenced by economic downturns. Oil shocks in 1973 and 1979 generated inflation and unemployment, prompting ‘tax revolts’ against government spending. In the United States, between 1981 and 1986

by tightening eligibility requirements, the [Reagan] administration forced as many as five hundred thousand working-poor families off of welfare, and four hundred thousand people lost food stamps (Douglas & Michaels 2005: 187).

These and other cuts drove up the rate of poverty. In the first three years of the Reagan presidency, ‘the number of children living in poverty increased by 16 percent, rising to one in five kids’ (Douglas & Michaels 2005: 187).

In the 1970s and 1980s, anecdotes about people feigning illness or disability, living on welfare while avoiding work, or collecting benefits while working became a standard part of social gossip in many countries, including Australia (Bradbury 1988; Weatherley 1993). Although new benefits were introduced in this period for Australia, as presented in Table 1, it is probably the increase in the number of unemployed persons that provided a key driver of growth—in both the number of genuine welfare recipients and prejudice about fraud. From the perspective of fraud prevention, it is likely that the lack of jobs and demand for benefits made it extremely difficult to separate genuine from fraudulent cases. In Australia, for example:

[f]rom about 1974 to 1978 the number of people receiving unemployment payments increased 10 fold. This fast and dramatic rise in numbers placed a great deal of pressure on the Department (of Social Security). The attention given to accountability declined as staff tried to make sure that people were paid—feeling it was better to risk paying a few people incorrectly than have someone who was genuinely needy miss out. However, by the time of the economic recession in 1982–83, which caused further growth in unemployment, there was mounting

public concern that the social security system was open to abuse. Fears particularly related to the unemployed—the perception being that it was easy to work and get ‘the dole’ at the same time (Cahill 1994b: 100).

While it was difficult to deny the structural nature of unemployment at that time—as a mass economic phenomenon that had little or nothing to do with the morality of individual workers—it is likely that the size of the unemployed pool did make fraud easier and that this was something that was broadly known (Johnson, Johnston & Lewis 1980).

Single mothers provided another major target of allegations of welfare fraud in the post-1960s period. No fault divorce laws made it easier for couples to separate. The practice of coercively removing the babies of teenage mothers and adopting them out began to wane. Single parenthood became more socially acceptable and more economically viable with, for example, the introduction of the Supporting Mother’s Benefit in Australia in 1973 (see Table 1). It was usually difficult or impossible to prove that women deliberately had babies to obtain welfare. However, although this was clearly not ‘fraud’ in the legal sense, circumstantial evidence of intent to exploit the welfare system was used against women with large numbers of children (Douglas & Michaels 2005).

## Fraud and means testing

Welfare is usually organised around two main criteria—universal eligibility or means testing (outside social security insurance schemes). Under universal eligibility, all persons fitting general criteria receive a benefit. For example, anyone over a specified age receives an old age pension. Means testing, on the other hand, involves a second set of criteria related to income and assets. Recipients must meet a criterion, such as age, and also have income and assets below a specified threshold. In some cases, means testing may involve part payments adjusted to recipients’ income levels. Means testing underpins welfare provision in Australia. One of the advantages of means testing is that it appears to be less costly, by reducing the number of recipients. Another is that it appears to be fairer in providing income only to

## Box 1

### *Case study 1*

A 35 year old female fraudulently claimed the Australian Government Disaster Relief Payment and the Recovery Subsidy Assistance. A total of 21 claims were lodged. As a result of the fraud, the customer incurred a debt of \$47,925. The offences occurred over a three week period. The customer took advantage of the proof of identity protocols that were relaxed to assist disaster victims. She fabricated identities and manufactured circumstances to meet disaster relief eligibility rules. The fraud was discovered through claim analysis, where similarities in names were identified and in some cases, common destination bank accounts were used. As a result of this case, standard analysis rules were developed and implemented, and these are now run against all relief payments after disasters (Centrelink personal communication, March 2010).

those most in need (Jackson & Bozic 1997). Alleged disadvantages include the requirement for a complex bureaucracy and the creation of temptation to understate or hide income and assets (Kuhlhorn 1997). Eligibility tests also usually include other criteria, which become subject to attempted fraud, such as job search tests, residence tests or cohabitation exclusions.

Something of the enormous scope for fraud can be seen in statistics for Australia's federal welfare agency Centrelink (located in the Department of Human Services). In 2009–10, Centrelink distributed approximately \$84.2b to 7.02 million customers (just under one-third of Australia's population), across 66 payment types, including 11.4 million individual entitlements, in conjunction with 36 government departments and other agencies. It approved 2.7 million new claims, operated 313 service delivery centres and 574 agent and other access points, and employed 27,305 staff. Centrelink's services generated 32.7 million phone calls, 113.8 million letters to customers and over 30 million customer self-service transactions, including internet transactions (Centrelink 2010a).

The amount of money available and the complexity of welfare systems make fraud prevention extremely challenging. Vulnerability to fraud was dramatically illustrated in the Australian Government's response to the natural disasters in the country over the summer of 2010–11. Floods and cyclones led to half a million applications for assistance, many of which had to be processed as urgent matters to support persons in dire circumstances. However, in February 2011, the Minister for Human Services announced that a special Centrelink taskforce was investigating over 1,400 disaster assistance claims suspected of being fraudulent (Plibersek 2011a). The case study in Box 1 illustrates this problem and Centrelink's

response in terms of system improvements in relation to the detection and prevention of fraud.

## Ensuring payment integrity

As noted, a number of factors led to reassessments of liberal access to welfare in the years following the 1960s (Reeve 2006). One factor was the strain on existing allocations caused by the continuing enlargement of entitlements. A second was the contraction of state resources under global recessions from oil crises and other shocks from the 1970s onward. Another was the rise of 'economic rationalism' and 'user pays' philosophies, particularly in the 1980s. An associated factor was a voter backlash against high-tax, high-spending and high-debt governments. Media exposés of fraud continued to fuel popular opinion against welfare cheats. For example, an Australian public opinion survey in the mid-1980s found that social security fraud worth \$1,000 was considered worse than tax evasion or medical fraud worth \$5,000 (Wilson, Walker & Mukherjee 1986). This is a common finding internationally (Evans & Kelley 2001), although one public opinion survey in the United Kingdom found that, while the large majority of respondents were opposed to deliberate and planned welfare fraud, they were also tolerant of minor cases of undeclared income by welfare beneficiaries (McKeever 1999b).

One effect of these developments was to focus attention on improving mechanisms for ensuring benefits went to genuine cases. 'Modernisation' of systems entailed better screening processes at the point of application for support, as well as closer scrutiny of existing welfare recipients to ensure they remained eligible (Green 2008). In Australia, the Fraser government (1975–1983) and Hawke–Keating

government (1983–1996) tightened compliance measures in a number of areas, including work search tests for the unemployed and data matching. The Howard government (1996–2007) made anti-fraud measures a major plank in its 1996 election campaign and set about systematically fighting welfare fraud by expanding existing prevention and detection measures, and introducing new initiatives (Dunlevy & Hannon 1997; Kingston 1996).

In 1997, Centrelink was created by the Howard government as a ‘one-stop shop’ for government social security services. The Centrelink system represented the introduction of a ‘purchaser/provider separation’, with arrangements between Centrelink and other departments based on a ‘business partnership’ agreement (Mulgan 2002). This was primarily an efficiency measure in terms of service delivery (Mulgan 2002). At the same time, the establishment of Centrelink allowed for the centralisation and standardisation of anti-fraud methods. Centrelink currently provides services for 36 partner agencies; the main social services departments are the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Families, Housing, Community Services and Indigenous Affairs (Centrelink 2010a).

Internationally, the last 30 to 40 years have seen considerable innovation aimed at ensuring ‘payment integrity’ in welfare systems, focused on identifying both ‘error’ and ‘fraud’ (Centrelink 2009b). In the United Kingdom, three categories are used to describe inaccuracies in benefits claimed or provided:

The Department (of Work and Pensions) defines *fraud* as those cases where customers deliberately claim money to which they are not entitled. *Customer error* occurs when customers provide information to the Department which is inaccurate, incomplete or untimely, but without dishonest intent, and as a result the benefit paid is inaccurate. *Official error* occurs when officials fail to apply specific rules or do not take into account all the notified circumstances (NAO 2008: 6).

In Australia, welfare fraud has been prosecuted under federal social security law or federal criminal law (Nolan 1997). Fraud is made an offence under

s 212 of the *Social Security (Administration) Act 1999* in relation to any ‘false statement in connection with claim or hardship request’. Chapter 5 of the Act covers debt recovery and also the capacity to waive debt. Sections of the Commonwealth *Criminal Code 1995* also apply to crimes against social security law. Sections 11.1, 11.2, 11.4 and 11.5 relate to aiding and abetting breaches of the law, procuring offences, incitement and conspiracy. Section 6 of the *Criminal Code 1914* relates to acting as an ‘accessory after the fact’ – assisting an offender to dispose of the proceeds of crime or escape the law. Section 135.1 also prohibits ‘general dishonesty’ in relation to obtaining a ‘gain’ from ‘a Commonwealth entity’. Various attempts to tighten the law and regulations in relation to welfare fraud in Australia and overseas are elaborated upon in the fourth section, *Contemporary Australian Strategies*.

## Measuring welfare fraud

The extent and nature of welfare fraud is difficult to measure because it falls outside the two main crime measures of incidents reported to police and victim experience surveys. This also makes the preventive effects of interventions difficult to assess. A number of measures, or indicators, have emerged:

- econometric estimates, primarily of undetected fraud, based on international sampling methodologies and probabilities;
- self-report surveys;
- public opinion or public experience surveys;
- suspected fraud measured in terms of cases deemed ‘suspect’ by a welfare agency or referred by a welfare agency to a public prosecutor; and
- detected fraud or the number and value of cases where convictions were obtained in a court.

None of these provides a perfect measure and each is subject to the influence of bias, wrong assumptions and/or agency characteristics. The latter include the quality of investigations and/or the levels of resourcing of investigation or prosecution sections. The question of measurement is also entwined with ideologically oriented opinions about the provision of welfare. Aspects of the more speculative approaches, committed to making estimates of undetected fraud, appear to attract an anti-welfare lobby. A pro-welfare



lobby prefers to use official measures of detected fraud, which tend to reduce the numbers.

An Australian example of econometric measurement is that of Bajada (2005), who attempted to measure the extent of welfare fraud and the underground economy using international benchmarks. His findings lacked numerical specificity but nonetheless assumed high levels based on the relative generosity of the Australian welfare system. He concluded that '[t]here appears to be a significant number of people in Australia fraudulently accepting welfare benefit payments while in receipt of subterranean income' (Bajada 2005: 184). Saunders (2003: 11–12) has also argued that, although 'the welfare lobby insists fraud is not a serious problem', surveys of the unemployed show that close to three-quarters are not genuinely willing to search for or accept available jobs and are therefore, in a sense, fraudulent (see also Colmar Brunton Social Research 2002). By contrast, Raper (cited in Karvelas 2008: 4), using conviction rates, has argued there is very little fraud in social security 'It's pretty tight and hard already. Less than half of one per cent of social security debt is fraud'. Similarly, a 1993 Australian review entitled *Compliance Policies in Social Security* by an academic (Weatherley 1993: 1) estimated that fraud in the system was 'quite modest... There is no basis for the commonly held belief that fraud is rampant in the system'.

The international literature tends to see welfare fraud as a significant problem. Ervasti (1998: 288) referred to fraud as 'a major problem of the welfare state'. The 1980 'Rayner Report' in the United Kingdom estimated that fraud in unemployment benefits was at a 'disturbing' rate—approximately eight percent of cases (Johnson, Johnston & Lewis 1980). A recent Swedish study reported that:

In 2006, SEK 27 billion was paid out in unemployment benefits. Out of this amount, it is estimated that between SEK 1 and 1.5 billion has been paid out incorrectly as a consequence of 'unemployed' people conducting illicit labour (SNCCP 2008: 19).

Despite singular findings such as these, internationally there have also been attempts to place welfare fraud figures in meaningful contexts by comparing them to other fraud data. For example, comparisons with estimated tax fraud are sometimes used to suggest

that welfare fraud attracts undue opprobrium and enforcement action compared with the under-policed but much more damaging domain of tax fraud. Hessing and colleagues (1993: 227) used two studies to report that

from U.S. data it can be estimated that in 1986 \$235 million were fraudulently obtained through unemployment benefits compared to \$70 billion of income not reported to the tax authorities.

The \$70b was for individuals and amounted to possibly 20 percent of federal personal income tax. Total tax losses from all forms of under-reporting and non-reporting were put at US\$100b (Roth, Scholz & Witte 1989; see also Kingston, Burgess & St Louis 1986, 1981). In the United Kingdom, Uglow (1984) cited official estimates for 1979 that put losses from social security fraud at £108m, losses from VAT (Value-Added Tax) evasion at £250–£1,000m and losses from income tax evasion at £3–£3.5b. Nevertheless,

despite this difference, it is the [Department of Health and Social Security] that routinely employs criminal sanctions and not the Revenue or Excise... it is unjustified to offer private settlement to those defrauding the revenue while routinely prosecuting social security offenders (Uglow 1984: 129, 141; see also Cook 2006, 1987).

## The welfare fraud debate

The above discussion indicated how different methods of estimating welfare fraud can relate to different ideological perspectives. Nonetheless, in Australia, as in many countries, debate about welfare fraud occurs within a fairly strong consensus framework. Surveys reveal strong support for government assistance to support the aged, sick, students and the unemployed (Eardley & Matheson 2000; Wilson 2007). For many disadvantaged persons, welfare provides a permanent secure source of income. Recipients in this category include aged and handicapped persons. For others, government benefits are a vital stop-gap measure that contributes to equality of opportunity and longer term employment and career opportunities, such as benefits for students and unemployed persons. The availability of key pensions and benefits like these is

not fundamentally up for debate at present. Debate occurs more at the margins about levels of support and eligibility, and about fraud. The debate about fraud is fairly fractured and it has a long life. Differences are marked and there appears little prospect of common ground being found between the protagonist groups.

### *Perceptions of the extent of fraud*

Public opinion surveys show correlations between opinions on welfare fraud and politics. Persons with right wing political views tend to believe there are high levels of welfare fraud, while persons with left wing political views usually believe there are low levels of welfare fraud (Ervasti 1998). As one example, a Finnish survey from the 1990s found that 75.3 percent of respondents believed ‘unemployment benefits are often paid to people who do not even want to work’ (Ervasti 1998: 293). This was interpreted as ‘people quite commonly think that social security fraud is a widespread problem’ (Ervasti 1998: 294). The view was, however, much stronger among those with right wing views compared with those with centrist or left wing views. It was also stronger among older respondents, those working in the private sector and those with low levels of education.

In Australia, the anti-welfare view tends to be expressed most consistently by the conservative ‘think tank’ according to the Centre for Independent Studies. Peter Saunders, who was the Centre’s Director of Social Policy from 2002 to 2008, took a lead in attacking welfare fraud (eg Saunders 2007, 2003). Academic critique on the right tends to be associated with the discipline of economics. There are also a variety of spokespersons from various centre-right or right of centre political parties and groupings who also contribute to the debate. Attacks on welfare fraud and commitments to ‘get tough’ on welfare cheats have featured at times as an election strategy, primarily from the right (Dunlevy & Hannon 1997; Kingston 1996).

The views of the left wing—sometimes referred to as the ‘welfare lobby’ (Saunders 2003)—are expressed most consistently by two groups. The National Welfare Rights Network (2011b) is a coalition of community legal centres who provide advice on welfare issues. Its President, Michael Raper (cited

above), has been an outspoken critic of alleged prejudice about welfare fraud. The other group is The Australian Council of Social Services (2011: np), ‘the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality’. Left wing academic critiques are much more prominent than right wing critiques and tend to be concentrated in the disciplines of social work, law and socio-legal studies, and criminology. There is also a contribution to the debate from centre-left or left of centre political parties and groupings.

The anti-welfare lobby is rarely abolitionist but seek to increase incentives for self-sufficiency, work and enterprise. Fraud is a major target of their critique and one of their strategies for reducing welfare dependence and costs to taxpayers is through tougher measures to eliminate fraud. The argument for a ‘get tough’ approach is at times made in terms of individual ‘rights’—to ensure rewards for individual effort and minimum government imposts through tax and bureaucracy. However, there is also an appeal to public interest and general welfare. Welfare fraud ‘significantly affects government spending in important areas such as public health and education while at the same time creating an inefficient redistribution of income’ (Bajada 2005: 184).

Some welfare fraud, such as working while earning benefits, gives an unfair business advantage to employers paying discounted cash wages (SNCCP 2008). Public perceptions of welfare fraud have also been linked to a sense of grievance among taxpayers, providing a rationalisation for tax avoidance through participation in the underground economy (Bajada 2005; Ludwig 2008b). Survey research in Australia has shown fairly consistent levels of majority support for unemployment benefit payments but tied to job search activity tests (Eardley & Matheson 2000; see also DWP 2011). Despite the salience of the ‘dole bludger’ image in Australia, surveys show low levels of support (eg 15%) for statements such as *Most people on the dole are fiddling in one way or another* (Eardley & Matheson 2000: 195).

### *The motives for fraud*

Another area of debate concerns the motives for welfare fraud. Anti-welfare critics tend to emphasise



intent, as well as greed and laziness. An example of this is Saunders' (2003) use of research by Colmar Brunton Social Research (2002), commissioned for the Australian Department of Employment and Workplace Relations, to extrapolate the claim that approximately three-quarters of people on unemployment benefits were not genuinely looking for work. This is somewhat misleading and was also based on an assumption that jobs were fairly readily available. The survey found that only about 22 percent of the 53 unemployed persons who were interviewed were highly motivated and actively looking for work. But it also found that only 16 percent could be classified as 'relaxed about being unemployed, do not want to work in a full-time or permanent job and are not looking for work' (2002: 6). The majority of the remaining 60 percent felt demoralised from their experience of being unemployed. A small percentage (7%) were not willing to take any job but elected to wait for a suitable job. Thirteen percent felt unable to work because of medical conditions. Further, the report did not distinguish between survey respondents on unemployment benefits and those not on unemployment benefits. Reporting of the findings indicated some were and some were not; therefore, it was impossible to identify how many were fraudulently obtaining unemployment benefits.

The same problem was evident in Saunders' use of an Australian Bureau of Statistics (2002) labour force survey showing, in Saunders' (2003: 11) words, that

three in ten unemployed people believe there are no jobs available for them to do, but two-thirds are unwilling to move to another location in their own State or Territory to take a suitable job.

He also conflated 'unemployed people' with unemployment benefit recipients in referring to a Productivity Commission report on high dropout rates from government Job Search Training and Intensive Assistance programs (Productivity Commission 2002). There is potential for conceptual slippage in surveys of unemployed people. At the same time, it would seem the case that some welfare systems allow unemployed people to avoid compliance with the spirit of job search and willingness to work tests, partly as a result of discretionary decisions and lack of rigour on the part of social security staff. This situation is probably encouraged at times when there is a lack of job opportunities (Johnson, Johnston & Lewis 1980).

It should be said that some sources show that a component of welfare fraud is highly deliberative. Welfare services are an attractive target for 'fraudster'-style offenders who make a lifestyle commitment to non-violent crime (Hayes & Prenzler 2003). In defending their decisions to pursue suspected welfare fraud, prosecutors emphasise clear elements of highly deliberative planning in cases selected, the long-term nature of many frauds and the sophisticated techniques often required to create false identities (Webb 2001). This type of fraud can also be motivated in part by the need to feed addictions, such as gambling. For example, an analysis of gambling-related fraud convictions in Australia from 1998–2007 found that gambling was related to approximately \$2.4m of losses to Centrelink (Warfield 2008). While this was a small fraction of the losses involved in all gambling-related fraud, seven of the eight cases of longest duration in the sample involved social security payments (mainly through false identities; see also Warfield 2011).

The welfare lobby tends to argue that fraud is often motivated by need, rather than greed. Need is usually related to the inadequacy of minimum wages or the inadequacy of welfare benefits. Dependent children add enormous pressure. This is one of the explanations for the supposed higher representation of women in fraud figures compared with other crimes (Cook 1987; Heidensohn 1996; Thacker 1988). For example, in Australia, female convictions typically account for approximately five percent of violent crimes, 10 percent of property crimes such as burglary and 33 percent of 'deception and related offences' (Hayes & Prenzler 2009: 83).

There are a number of studies on the motives for welfare fraud. Hessing et al. (1993) interviewed 45 persons in Holland convicted of benefit fraud and compared their answers with those of 51 welfare recipients with no record of fraud. The study's findings were limited by the relatively small number in the fraud sample and the low number of women (3 of 45). Economic need or strain did not seem to figure significantly in the findings, although 'the fraudulent group do make a more unfavourable comparison between their current benefit and their previous earnings' (Hessing et al. 1993: 235). The 'fraudsters' had a more accepting attitude towards fraud generally but also seemed to have a stronger work ethic. The fraud group also made a higher

estimate of the chances of being caught and punished, but this was most likely related to their experiences of both.

In somewhat similar terms, in the United Kingdom, Tunley (2010) qualitatively analysed interview transcripts from 66 prosecution cases and identified a mix of motives including 'need' and 'greed', mediated by opportunity and perceptions of a low probability of detection (see also Dean & Melrose 1997; Rowlingson et al. 1997). One Canadian study compared mothers on sole parental support payments caught illegally cohabitating with a sample of non-cohabiting mothers. Using various measures of 'need', the study found that the cohabitating mothers suffered no greater hardship than the non-cohabitating mothers. The researchers therefore concluded that 'the need hypothesis provides a poor account of welfare fraud' (Sabatini, Menzies & Evers 1992: 196). At the same time, they noted that 'these needs are what women who commit fraud offer as accounts' and that 'needs may mitigate moral blame' (Sabatini, Menzies & Evers 1992: 196). This was especially the case in a context in which 'social assistance levels are substantially below the poverty line' (Sabatini, Menzies & Evers 1992: 196). The researchers also observed that

cohabitation fraud may be a way women without hope in the current system are able to preserve some autonomy and to resist male domination in the home (Sabatini, Menzies & Evers 1992: 196).

A recent Swedish report found that half of the unemployment beneficiaries who admitted to fraud in a survey felt that the risk of detection was low. A major theme from survey respondents was that the employment office lacked sufficient 'control', partly because there was a lack of a 'personal relationship' with beneficiaries (SNCCP 2008: 9).

Confusion about rules and reporting requirements is a recurring explanation given by persons involved in welfare fraud (McKeever 1999b; SNCCP 2008). This was also the finding of a San Diego study, which found the majority of persons convicted for fraud were mothers 'of color' who were living in extreme poverty and sought periodically to 'plug gaps in inadequate subsistence budgets' with paid work (Swan et al. 2008: 141–142). In addition to economic desperation, the women were often confused about their rules and reporting obligations

(and often felt misled by government officials). Their capacity to act lawfully was further complicated by partner violence and oppression (Swan et al. 2008). Research in Australia by the Bankstown Women's Refuge and Resource Centre similarly identified cases of women at risk of welfare fraud proceedings as a result of financial coercion by an abusive male partner (Green & Pearce 2002).

In a more developed Australian study, Weatherley (1993) interviewed 186 welfare beneficiaries and applicants during a period of peak unemployment when there were on average just over 30 job seekers for every listed vacancy. When asked if they would report extra income, 74.3 percent replied 'yes', 20.4 percent 'under some circumstances' and 5.3 percent 'no' (Weatherley 1993: 89). Of those who said they would report extra income, just under half (47.5%) said it was the honest thing to do; 18.0 percent cited 'fairness and reciprocity as reasons for compliance' (Weatherley 1993: 89–90). About one-third (31.1%) cited the 'deterrent effect of various DSS compliance measures' (Weatherley 1993: 89–90). Of the 20.4 percent who said they would probably not report income depending on the circumstances, 51.2 percent 'said it depended on whether it was temporary or casual, and/or would involve a small amount of money' (Weatherley 1993: 89–90). A further 20.9 percent said it would depend on the likelihood of detection, such as whether or not the income would be reported to the Tax Office (Weatherley 1993: 91). In addition, 55.8 percent of the 'under some circumstances' and 'no' groups said they would not report income because the benefits they received were not adequate for their 'basic needs', while 20.9 percent said reporting income was disruptive and could delay payments. (Weatherley 1993: 91–92).

Weatherley (1993) found that overall satisfaction with services was very high. Nonetheless, approximately 30 percent of interviewees were dissatisfied with the service they received from the Department. This was mainly attributed to long queues (29.7%), delays in payments (26.5%), rudeness (16.8%) and missing documents (16.8%). He also noted that 55.6 percent of respondents who said they would not report extra income were very dissatisfied with the system (Weatherley 1993: 95). He therefore concluded that (Weatherley 1993: 127–128):

Compliance is related to payment levels. Some clients may feel it is justified to conceal income if they cannot adequately subsist on what they receive. Hence, the improvement of payment standards should be considered part of the [Social Security] Department's compliance program...[furthermore]...clients are more likely to comply if they perceive the system to be fair and if they are treated respectfully. Hence the recent emphasis on improving client services may be viewed as a significant component of the Department's overall compliance strategy.

### *Debate over responses to welfare fraud*

Apart from the issue of motives for fraud, there is also an ideological divide over detection and prevention methods. The anti-welfare lobby tends to see many government detection and prevention schemes as weak and inadequate (Saunders 2003), while pro-welfare lobby views see them as overly intrusive, punitive and stigmatising (Jackson & Bozic 1997). As noted, the 'welfare lobby' often makes use of official statistics to downplay fears of fraud. But the lobby also tends to be in conflict with governments over the detection methods and prosecution policies that lie behind official counts of fraud (eg Marston & Walsh 2008). In particular, they object to the prosecution of customers over relatively minor amounts of alleged fraud. They argue that:

- these cases are often ambiguous as to criminal intent and that genuine errors are probable; and
- it is unproductive to pursue these cases in the courts when the fault can be rectified administratively, through decisions about error rather than fraud and through debt recovery orders.

Administrative assessments and adjustments, it is claimed, are more efficient and provide for a potentially better resolution of disputed assessments (see also Freiberg 1989; Sarre 1995, 1988). A secondary argument is that convictions for minor fraud inflate the official welfare fraud figures and misrepresent the size of the problem.

The welfare lobby also expresses concern about the potentially invasive and harassing effects of

anti-fraud methods on a vulnerable population. Anti-fraud 'crack downs' have been characterised as crude anti-welfare populism, pandering to tabloid stereotypes about an epidemic of cheating. The result, it is argued, is that welfare dependency is demonised and legitimate recipients stigmatised. Commitment is shifted from ensuring adequate support payments and 'positive' work creation schemes to 'a punitive approach to income support' (Bradbury 1988: 26; also Marston 2007; Mosher & Hermer 2005; Wilson 2007). A 'get tough' approach criminalises recipients who have made genuine errors in reporting their circumstances. This potential is exacerbated by the increasing casualisation of labour (or 'hypercasualisation') and the shifting circumstances of the working poor and unemployed (Dean & Melrose 1997: 112; also Chunn & Gavigan 2004; Marston 2007; Marston & Walsh 2008; Sivapragasam 1997). Finally, strict eligibility tests and ongoing scrutiny of recipients have also sometimes been seen as excessive in light of the view that most benefits are miserly and leave recipients below or around official poverty levels (McKeever 1999a; Thacker 1988).

One component of the pro-welfare critique, referred to in the section above on measuring fraud, is that a gross imbalance has developed between compliance checks and prosecutions of welfare recipients and those applied to taxpayers. This is despite the probable potential for much higher levels of tax fraud (Karvelas 2008; Sivapragasam 1997). For example, Marston (2007: 7) compared Centrelink and Australian Taxation Office (ATO) reviews and prosecutions:

- In 2004–05, Centrelink undertook 3.8 million reviews of social security eligibility and pay rates, whereas the ATO undertook fewer than 2 million reviews, despite a much larger client population.
- In the same year, the reviews in Centrelink resulted in debts (with an average debt of \$996) of \$390.6m. By comparison, the reviews by the taxation office led to \$800m in debts raised.
- According to budget papers, \$7.53 of increased revenue would be returned for every dollar spent by the ATO taskforce chasing tax avoiders, while only \$1.94 would be returned through the Department of Human Services compliance activity around social security fraud.

Marston (2007) found that prosecutions for social security fraud numbered in the thousands each year while prosecutions for tax fraud numbered in the mid-hundreds.

This same issue generated some controversy in 2006. A newspaper report entitled *Law Hunts Dole Fraud as Rich Cheats Go Free* questioned national differences in the preceding financial year between 4,102 welfare fraud defendants on the one hand and 'only 249 alleged tax cheats, 74 alleged corporate crooks and just one defendant referred from the Australian Competition and Consumer Commission' (Garnaut 2006: 1). A number of anonymous critics from law enforcement agencies accused the public prosecutor of being overly cautious in its prosecution policy, choosing the relatively easy welfare cases to meet its high conviction target in over 90 percent of cases. The conviction rate for welfare cases was 98 percent, based to a significant extent on a large number of guilty pleas. White collar crime expert Professor John Braithwaite was quoted as saying 'The DPP is serving Australia very poorly with respect to serious white collar crime...It is very tough on the fraud of the poor and very soft on the fraud of the rich' (Braithwaite cited in Garnaut 2006: 1).

From a feminist perspective, with reference to estimated large losses from tax evasion, Thacker (1988) argued that women were disproportionately persecuted for social security fraud when they were often simply trying to feed their children after being abandoned by the children's fathers (see also McKeever 1999b). To make her point, Thacker compared the 1991 prosecution of a mother for social security fraud with that of two barristers on tax evasion charges. The woman's fraud amounted to \$47,000 over 12 years. The barristers' frauds amount to approximately \$50,000 each over three years. The woman was given an 18 month suspended jail sentence with a good behaviour bond for three years on recognisance of \$2,000 and ordered to repay the \$47,000. One barrister was given a six month prison sentence suspended for 12 months. The other was given a three month prison sentence suspended for 12 months. Thacker further argued that ongoing poverty meant many female social security fraud offenders were at risk of breaching suspended jail terms.

Some research has been done on the range of losses involved in convicted fraud cases and the sentencing outcomes in Australia. Marston and Walsh (2008) studied 80 social security fraud cases in two magistrates' courts in Australia. They found that the average amount involved was just over \$10,000. The largest amount was \$30,105 and the lowest was \$162. There were no cases of identity fraud or elaborate scams. In their view, the findings 'challenge the stereotype of the organised criminal willingly defrauding the Commonwealth Government for large sums of money' (Marston & Walsh 2008: 297). The researchers concluded that in many cases it was plausible that circumstances pointed to error rather than criminal intent. In questioning the value of prosecuting many of these cases they also pointed to the fact that 85 percent of persons had already repaid all or some of the debt, were further burdened with court costs and that very low tariff penalties were imposed in almost all cases. Of 96 penalties, there were only two prison terms. The remainder involved good behaviour bonds (58%), community service orders (16%), suspended sentences (14%), fines (6%), or probation (3%). This study did not include higher courts where more serious cases are prosecuted. Nonetheless, the findings supported the argument that there may be little value in pursuing minor welfare matters in the criminal courts when administrative remedies are available.

While the welfare lobby tends to argue for administrative responses over criminal responses in responding to lower level suspected fraud cases, it does also express concern about the accumulation of debt by people in difficult circumstances (Hughes 2008). Furthermore, anti-fraud identification and authentication requirements are also said to constitute a powerful disincentive to marginalised persons to participate in the system—especially the homeless, drug dependent and illiterate—and that recovery orders sink these people further into poverty. However, while 'administrative remedies', such as reductions or cancellations of payments, have potentially less adverse impacts on clients, one downside of this approach is the reduction in protections afforded the accused vis-a-vis a criminal trial (McKeever 1999a; Sarre 1988).

A recent review of social security debt and fraud cases in Tasmania by Anglicare Tasmania (Hughes

2008) found serious shortcomings in the prosecution process. Apart from an alleged excess of prosecutions ‘not in the public interest’ (Hughes 2008: 37), the review found major problems with lack of early intervention, with customers at risk of being prosecuted for fraud and without access to legal aid, in part because of underfunding of legal aid services:

Centrelink customers do not have access to the legal advice and representation they need and this results in too many pleading guilty. The consequence is that there are few defended hearings and therefore the important question of criminal intent is often not tested... the chances of Centrelink customers who are prosecuted obtaining a fair trial are very small unless they can fund their own legal defence (Hughes 2008: 37, 40).

Consistent with overseas findings, the research also challenged the findings of criminal intent, arguing from case analyses and interviews with accused persons, that too many cases of unintentional error were treated as fraud (Hughes 2008: 37):

Participants interviewed for this research who had been to court were all prosecuted in relation to incorrectly declaring their income. The research has identified a number of reasons why Centrelink recipients may incorrectly declare their income. These include:

- finding forms very difficult to understand or complete because of literacy issues, learning difficulties or an intellectual disability;
- finding income calculations difficult or impossible because of numeracy problems;
- finding income calculations complex because they are working sporadic and irregular hours;
- not understanding the difference between gross and nett pay; and/or
- having a mental illness or facing other significant challenges in their life such as caring for a disabled child. Periods of significant stress mean that they do not deal properly, or at all, with paperwork such as Centrelink forms.

The Anglicare report included a number of accounts from Centrelink customers testifying to alleged

ambiguity in Centrelink rules and procedures, and the confusion, stress and perceived injustices that welfare fraud prosecutions can entail:

For them to turn up on my doorstep with a summons without warning me—I think they should have got me in to talk to me. The prosecution said in court that they’d been watching or keeping an eye on me or words like that. I can’t understand why, if they knew I was having trouble, why did they leave it and not get me in and say we need to fix this, why wait a couple of years? If they could see that I was making a mistake, and it kept on occurring, why did they let me get to that high debt? (Mary, working casually and receiving Newstart Allowance).

I put in my tax returns, so why didn’t it come out earlier? Why did it take five years? I wish [Centrelink] had picked it up in the first 12 months and then it would never have got as far as it got (Susan, working casually and receiving Newstart Allowance).

When I went to court, we had it adjourned a few times. I said I’d never plead guilty but I was left with no choice, because they were going to pull the pin on my legal aid as I wasn’t going to go and [my legal aid lawyer] suggested I’d be better off taking what the judge [Magistrate] said because I was never going to win against the government. Yes [my legal aid lawyer] was pretty good, but I think if she’d acted a bit quicker, I mean we tried to get in touch with her before we went to court, you know it was urgent to me—she had a lot on her plate, she’s a busy lady of course and I understand that. But I feel that I failed because I had to give in. I didn’t have the money to fight it. I didn’t have the money to get a criminal lawyer. When the judge said that it would be three month suspended sentence and a good behaviour bond, I wasn’t able to discuss how I had got into that mess to the judge. I wasn’t allowed to say to him I got here because I’m not real good at filling out forms and my reading and writing is poor. I didn’t get to explain how I got there. (Mary, working casually and receiving Newstart Allowance).

In my court case, I was pleading not guilty the whole way through and then in December or

whatever I said to [my private lawyer] this is it, no more adjournments, I want it finished. And he says, okay, are you still pleading not guilty? And I said, my word. And he says, okay well that's going to cost you, I think, \$2,000 to go through with that one. I said why? I've been pleading not guilty all the way through, why the sudden expense? Oh he said, because of all the litigation, I think he said, that will go with it to fight it, all the work. Well, I said, what choice have I got? And he said, plead guilty or come up with another \$2,000. I said, you know I haven't got the money. And he said, so plead guilty and we'll see how we go. As the judge [Magistrate] read out each plea he asked 'how do you plead?' And I said 'guilty' 19 times I think it was. And the judge said, is there anything you would like to add? And my lawyer got up and said, well my client here was told on two separate occasions by social security employees, when he questioned the payment he was receiving from them and said it was too much, he was told everything is fine, leave it, it is their job to check. And the judge turned to the social security lawyer and said, do you challenge those accusations? And the lawyer got up and said no we accept that. The judge said, well then I would like a full court hearing on this. And I turned to my lawyer and said, what is a full court hearing? He said, in money terms about \$5,000. And I said, get over the money, what is a full court hearing? That's when every person involved, the two people who told you at Centrelink and everyone you know comes in and they go through everything. I said, I can't afford it, finish it. And the lawyer got up and said, my client would like to not go any further with these proceedings, he wants it finished as of now. Well the judge says I find you guilty of blah blah blah and sentence you to 18 months imprisonment and then he added wholly suspended on the condition you do not commit a single offence for two years. (Brett, working casually and receiving Newstart) (Hughes 2008: 38–39).

## Overseas findings

As indicated above, estimates and reports of welfare fraud from different jurisdictions internationally show marked variation, depending in part on the measures adopted. Two surveys conducted in the Netherlands

in the 1980s (published in Dutch) were summarised by Hessing et al. (1993: 227):

One survey revealed a 13 percent participation in the black economy overall (with 17% of those receiving benefits participating); the other found a 26 percent participation rate overall (with 28 percent of those receiving benefits participating). These surveys lead to an estimate that of the approximately 2 million people receiving benefits in 1986, between 300 and 600 thousand earned money on the side. The vast majority of these earned less than 1,500 guilders (\$700) a year from this activity.

This final subsection reports in some detail on estimates and/or findings of fraud in the United Kingdom and United States.

The UK Department for Work and Pensions (DWP) (2009) estimated that in 2008–09, approximately 2.2 percent of all benefit expenditures, or £3.0b, was overpaid as a result of fraud and error. Half of this, about £1.1b, was attributed to fraud, although this was based on a sampling procedure rather than convictions. The figure represented a decline from estimates of £2.2b in 2000–01 and 2001–02 but an increase from a low of £0.6b in 2005–06. The increase in estimated fraud had occurred despite concerted efforts by the Department to stop fraud (NAO 2008). The estimates were based on a sampling and investigation procedure (DWP 2010a: 4):

Estimates are produced by statistical analysis of data collected through continuous survey exercises, in which specially trained DWP staff review a randomly selected sample of cases each year.

The review process involves the following activity:

- A preview of the case by collating information from a variety of DWP or Local Authority (LA) systems to develop an initial picture of the case and to identify any discrepancies between information from different sources;
- The interview of the customer at their home, which follows a structured and detailed set of questions about the basis of their claim. This aims to identify any discrepancies between the customer's current circumstances and the circumstances upon which their benefit claim was based.



If a suspicion of fraud is identified, an investigation is undertaken by a trained Fraud Investigator with the aim of resolving the suspicion.

For 2009–10, the estimate was that 2.1 percent of expenditures, or £3.1b, were overpaid as a result of fraud and error, and £1.0b (or one-third) was attributed to fraud. The main areas of 'estimated fraud' were £260m in housing benefits (26% of £1.0b), £240m in 'income support' (24%) and £120m in Jobseeker's Allowance (12%) (DWP 2010a).

In the United States during 2008–09, the Social Security Administration (SSA) Office of the Inspector General (OIG) received 129,495 allegations of fraud and closed 8,065 cases, with 1,486 criminal prosecutions. These activities led to US\$23.3m in recoveries, US\$2.8m in fines and a further US\$25.5m in settlements, judgements and restitution orders; contributing to an estimated US\$286.5m in savings (OIG 2010). In the 2009–10 period, SSA was responsible for 52 million beneficiaries. The OIG received 158,442 allegations of fraud and closed 7,113 cases, with 1,441 prosecutions leading to criminal convictions. Disability payments accounted for 75.1 percent of allegations. Recoveries amounted to US\$36.4m, with US\$1.7m in fines and a further US\$27.1m in settlements and judgements, and restitution orders contributing to an estimated US\$293.2m in savings. There is very little information available on US welfare fraud detection and prevention methods. The main officially reported methods are investigations of allegations from the public, SSA employees and policing agencies, and audits by the OIG (OIG 2010).

These figures give an indication of the enormous size of suspected and confirmed fraud in the United Kingdom and United States, often when many relatively minor frauds are aggregated. Occasionally, there are reports of major frauds by individuals or small groups. Large individual fraud cases also illustrate the vulnerability of welfare systems to major losses. For example, in Britain in 2010, Lavinia Olmazu was sentenced to two years and three months' jail, and Alin Enachi was sentenced to two years and eight months on fraud conspiracy charges in relation to a scheme that assisted Romany Gypsies to make false applications for national insurance numbers (Pitel 2010). Olmazu

(the mastermind of the scam) and Enachi received £80 per applicant for issuing false letters and references from sham companies in support of insurance number applications. Enachi, who worked as an interpreter, charged additional fees for filling out forms and accompanying applicants to Jobcentre interviews. Between 2007 and 2009, £2.9m in false payments were made on the basis of 172 successful applications (out of an estimated 368 false applications).

Another recent high profile case in the United Kingdom concerned a woman, Amina Muse, who was able to obtain asylum and UK citizenship after claiming she was the victim of gang rape by militia in Somali and had witnessed the murder of her brothers (Brown 2011). The mother of six obtained over £500,000 from multiple benefits using her false name. She was suspected of being Kenyan and perpetrating benefit fraud in Kenya before moving to Sweden, where she reputedly lived in luxury and flew between Stockholm and London in order to carry out the UK fraud. She was given a relatively short jail sentence of four and a half years out of consideration for her children. The Muse case was cited along with 10 others cases in a crackdown on welfare fraud by the Cameron government as part of a wider effort to rein in an estimated £192b welfare bill. Eleven welfare cheats were exposed in February 2011 for cheating the department out of £1m in seven months (Brown 2011). The estimated cost of benefit fraud in 2010 was reported in the press as '£5.2 billion', which was compared to the cost of 200 high schools or the salaries of 150,000 nurses (Brown 2011). However, the Department for Work and Pension estimated fraud in social security at £1.0b in 2009–10 (see above).

In a recent high-profile case in the United States, in 2010, a Colombian national was jailed and then deported after pleading guilty to obtaining a US passport with a forged birth certificate and then also claiming disability payments and payment of Medicare premiums. He was ordered to pay restitution of US\$103,992 to the SSA and US\$1,167 to the Texas Health and Human Services Commission (OIG 2010). Another recent major case in the United States also shows the vulnerability of welfare systems to forms of associated fraud, not directly involving losses through welfare payments. In January 2011, Dr Ubaldo Planell-Pabon of Puerto Rico was charged

with 709 counts of mail fraud and mail fraud conspiracy (FBI 2011). The doctor allegedly received kickbacks for falsifying accidental injury claims from 533 other defendants. As a result of the scheme, the American Family Life Assurance Company allegedly paid out US\$6.9m to policyholders who made false claims. The charges included misuse of social security numbers in relation to a number of defendants' children, amounting to social security fraud. The case was investigated by the Federal Bureau of Investigation and the OIG of the SSA.

## Conclusion

This section has provided a short history of the provision of social security and of the emergence of fraud as an associated problem that is charged with political and ideological controversy. There can be little doubt that welfare systems are intrinsically vulnerable to fraud and that some systems have experienced large volumes of fraud. In aggregate, these represent a major drain on state financial

resources—although not perhaps as damaging as other forms of fraud against governments, such as tax fraud. One potential goal of a welfare fraud reduction policy is to reconcile the opposing groups in the welfare fraud debate and enlist their support in the fight against fraud. This is especially important for the legitimacy of the welfare system. Accusations of fraud and revelations of fraud undermine confidence in the integrity of the system. There should be little disagreement about the view that welfare fraud shifts resources from the deserving to the undeserving. In theory at least, victims of fraud include genuine welfare recipients in that fraud reduces the pool of funds available for genuine cases. Fraud also victimises taxpayers and other recipients of government services. At the same time, there is evidence that pursuing minor cases is often oppressive and unproductive. Consequently, there is a strong case for stakeholders to seek common standards about fair and effective primary measures to prevent fraud (and error) occurring in the first place, while maintaining access for genuine applicants and recipients.





# Dimensions of welfare fraud in Australia

This section sets out the main dimensions of welfare fraud in Australia as made available by official data. The data include figures on the outcomes of Centrelink compliance reviews and referrals to the CDPP for fraud across the top payment benefit types. Further, data from the CDPP provides information on the costs of fraud in convicted cases, as well as age and gender dimensions of offenders, and penalties. A number of case studies are also provided that add some detail to the picture.

Evidence presented in this section shows that the rate of detected fraud is fairly stable. For example, in the last four years welfare fraud convictions in Australia have averaged about 3,000 per year. This represents a small fraction (0.04%) of all Centrelink customers in this period. Nonetheless, the amounts of fraud averaged \$40.5m per year. There were also wide disparities within these figures. For example, in 2009–10, 387 cases involved less than \$5,000, while 83 involved fraud of \$50,000 or more. Case studies show that some major frauds involve careful planning and considerable longevity. The available data also revealed that offenders were concentrated in the 31–50 year age group, with women comprising two-thirds of convicted offenders. Offenders were subject to a variety of penalties, including a large number of seemingly token sentences. These included suspended jail terms and recognisance orders, including for more serious offences. There

was also a substantial number of jail terms handed out for relatively minor offences.

The findings suggest that both sides in the welfare debate need to recognise that welfare fraud is a significant ongoing problem, but one that is confined to a very small percentage of Centrelink customers. There would also seem to be scope for a less punitive approach to minor offenders and for a more productive approach to offenders generally in terms of meaningful sentences, especially for orders of restitution. In terms of the scale of welfare fraud and issues of prevention, a key issue is that detection and prevention strategies are not producing reductions in detected fraud. There is a strong case therefore for renewed efforts to improve the primary prevention of welfare fraud and in the process, reduce the need for secondary level interventions.

## Measuring welfare fraud

As indicated in the previous two sections, official measures of the extent of welfare fraud are affected by different detection or measurement methods. Detection is an area where there has been considerable innovation in the last 30 years. Many of the innovations aimed at improving compliance have been driven by legislative requirements. For example, Centrelink is subject to the Commonwealth *Financial Management and Accountability Act 1997*

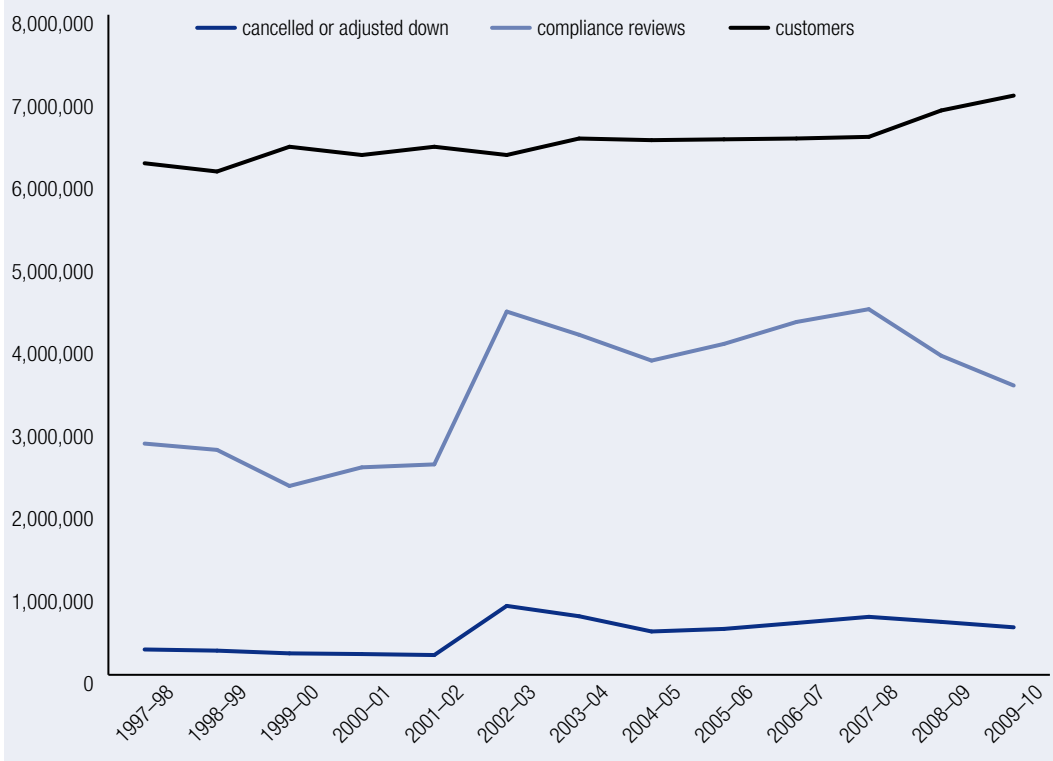
and must comply with the Commonwealth Fraud Control Guidelines (AGD 2002). Change has also been driven by reviews of Centrelink's fraud management processes by the ANAO (eg 2008a, 2007, 2006, 2001). Anti-fraud measures, designed to both prevent and detect fraud, that have been adopted in Australia include data matching between government agencies, stepped up verification checks and investigations, covert surveillance, public tip-off lines, professionalisation and increased resources dedicated to combating fraud (see *Detection and Prevention Initiatives and Contemporary Australian Strategies* in this report).

The following Tables and Figures include data supplied by Centrelink on its compliance and fraud-related activities and outcomes. The large bulk of non-compliance issues identified by audits involve error, rather than fraud, but follow-up investigations from cases identified as non-compliance can lead to charges of fraud. Unlike the UK DWP, Centrelink does not provide estimates of fraud but reports on detected errors, and on fraud prosecution actions

and outcomes. To some extent, however, cases referred to the CDPP could be considered 'suspected fraud'. But beyond that, there are no official estimates of a possible 'dark figure' of undetected or suspected fraud. Formal fraud investigations are usually initiated through compliance and eligibility reviews. Reviews occur in large numbers each year. There is a crossover of triggers and methods, including routine data matching, random sampling, identity checks and public tip-offs. The data also include estimates of savings from interventions.

Additional dimensions of convictions, such as the sex and age of offenders and dollar amounts involved in frauds, were supplied by the CDPP. Case studies were supplied by Centrelink and were also obtained from the Centrelink website, as well as from the annual reports of the CDPP, from a search of the *Factiva* media database and from ministerial press releases at the website of the Minister for Human Services.

**Figure 1** Trends in compliance reviews, 1997–98—2009–10 (n)



Source: Centrelink data

**Table 2 Compliance and anti-fraud outcomes, 1997–98–2009–10**

Year	Customers	Compliance reviews	Cancelled or adjusted down	Fortnightly savings	Overpayments/debits from review	All debts raised	Debt recovered	Referred to DPP
1997–98	6,200,000	2,802,408	307,111	\$45,903,161	\$282,391,382	\$611,830,000	\$473,660,000	4,023
1998–99	6,100,000	2,726,114	292,993	\$41,740,500	\$279,686,737	\$869,200,000	\$555,600,000	3,828
1999–2000	6,400,000	2,288,810	260,054	\$34,744,959	\$293,136,619	\$794,600,000	\$653,970,000	4,023
2000–01	6,300,000	2,514,618	251,704	\$40,742,735	\$325,001,163	\$772,790,000	\$649,320,000	3,868
2001–02	6,400,000	2,550,324	239,735	\$41,115,893	\$344,478,751	\$1,496,000,000	\$751,580,000	3,783
2002–03	6,300,000	4,402,527	835,398	\$102,326,106	\$419,948,283	\$1,720,150,000	\$1,156,200,000	4,180
2003–04	6,500,000	4,121,196	709,923	\$104,562,589	\$459,958,265	\$1,662,210,000	\$1,269,250,000	4,471
2004–05	6,480,000	3,808,302	525,247	\$86,481,143	\$390,623,646	\$1,372,460,000	\$1,165,000,000	4,702
2005–06	6,490,000	4,010,773	556,355	\$98,536,848	\$445,277,273	\$1,684,000,000	\$1,221,000,000	3,961
2006–07	6,500,000	4,276,281	628,705	\$102,938,450	\$418,944,738	\$1,780,000,000	\$1,235,000,000	5,261
2007–08	6,520,000	4,431,309	702,624	\$107,200,083	\$496,106,197	\$1,831,200,000	\$1,139,000,000	5,312
2008–09	6,840,000	3,867,135	641,504	\$87,407,838	\$536,151,645	\$1,926,000,000	\$1,091,000,000	5,082
2009–10	7,020,000	3,506,431	575,715	\$92,445,262	\$551,413,107	\$1,747,000,000	\$1,094,000,000	4,608

Source: Centrelink data

## Centrelink data: Compliance reviews and prosecutions

Table 2 reports on the outcomes of Centrelink compliance reviews up to the point of referral to the CDPP for the 13 year period from 1997–98 (when Centrelink was established) to 2009–10. Of note is the fact that on average, only 14.4 percent of reviews led to cancellations or reductions in payments. Of these cancellations or reductions, as few as 0.8 percent were referred to the prosecutor. Over the 13 years, there was an average number of 6,465,385 Centrelink customers. The average number of customers convicted of fraud was 3,028 or 0.04 percent. Table 3 shows that for matters referred to the CDPP over the full 13 years, 70 percent of cases were prosecuted. Prosecutions resulted in a 98.4 percent conviction rate on average.

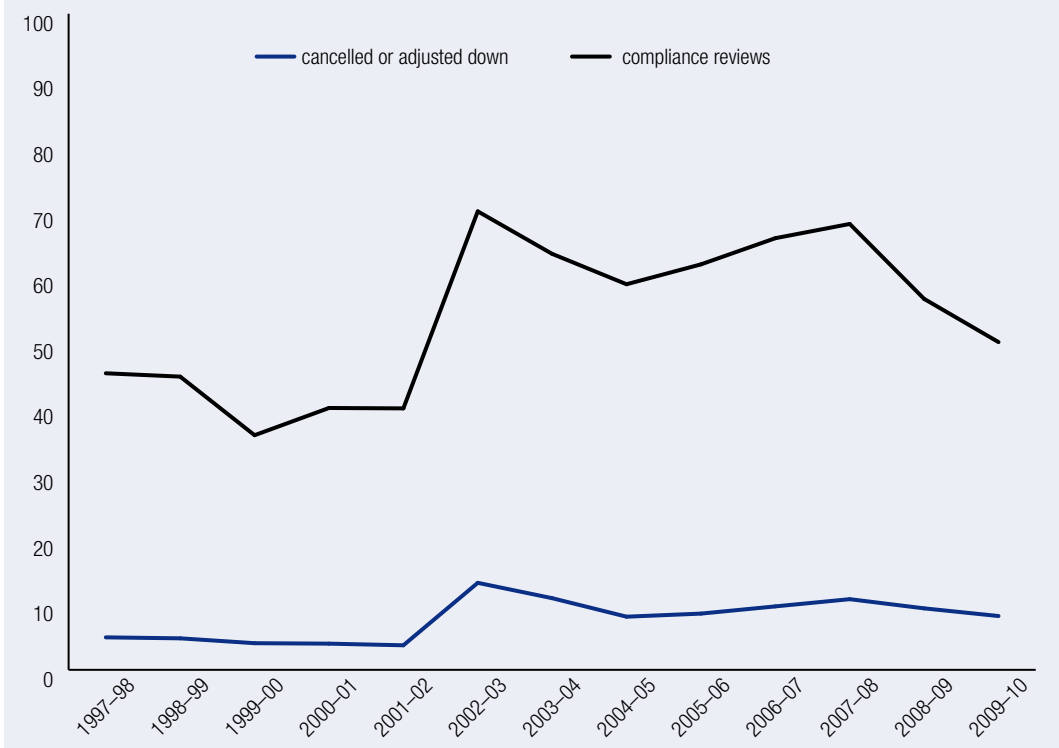
Figure 1 shows data from Table 2 graphically to illustrate trends for compliance reviews and adjustments for the 13 year period from 1997–98

to 2009–10. They show a gradual increase in the number of customers, but a dramatic increase in compliance reviews and in cancellations or downward adjustments, in 2002–03.

Figure 2 shows the data for compliance reviews and adjustments as a percentage of customers. Compliance reviews increased by 50 percent from an average of 41 percent of customers up to 2001–02 to an average 61.5 percent subsequently. Cancellations or adjustments increased by 127.9 percent in these same timeframes, from 4.3 percent of customers to 9.8 percent.

In Table 4, data are provided on compliance reviews and fraud prosecutions for the four years since Centrelink began reporting the number of fraud-related investigations, and debt and savings from these investigations. Overall, in the four years, 0.04 percent of customers were convicted of fraud—3,192 of 6,720,000 customers on average. Fraud investigations were estimated to have produced an average each year of \$120.9m in gross savings and amounts targeted for recovery, although

**Figure 2** Trends in compliance reviews, 1997–98–2009–10 (%)



Source: Centrelink personal communication October 2010

**Table 3 Compliance and anti-fraud outcomes, 1997–98–2009–10**

Year	Customers	Compliance reviews	Cancelled or adjusted down	Referred to CDPP	Prosecutions	Convictions	Prosecutions (%)	Amount involved
1997–98	6,200,000	2,802,408	307,111	4,023	2,821	2,785	98.7	\$26,551,000
1998–99	6,100,000	2,726,114	292,993	3,828	3,147	3,079	97.8	\$30,895,000
1999–2000	6,400,000	2,288,810	260,054	4,023	2,964	2,909	98.0	\$27,276,000
2000–01	6,300,000	2,514,618	251,704	3,868	2,854	2,820	98.8	\$26,570,000
2001–02	6,400,000	2,550,324	239,735	3,783	2,928	2,889	98.7	\$28,157,000
2002–03	6,300,000	4,402,527	835,398	4,180	2,899	2,853	98.4	\$31,134,000
2003–04	6,500,000	4,121,196	709,923	4,471	3,055	2,988	97.8	\$36,814,000
2004–05	6,480,000	3,808,302	525,247	4,702	3,511	3,446	98.1	\$41,151,000
2005–06	6,490,000	4,010,773	556,355	3,961	2,885	2,822	97.8	\$34,337,000
2006–07	6,500,000	4,276,281	628,705	5,261	3,400	3,355	98.7	\$38,775,000
2007–08	6,520,000	4,431,309	702,624	5,312	2,658	2,624	98.7	\$32,269,000
2008–09	6,840,000	3,867,135	641,504	5,082	3,388	3,354	99.0	\$43,983,000
2009–10	7,020,000	3,506,431	575,715	4,608	3,461	3,436	99.2	\$47,256,000
Average	6,465,385	3,485,094	502,082	4,392	3,075	3,028	98.4	\$34,243,692

Note: Includes no conviction recorded

Source: Centrelink personal communication October 2010

**Table 4 Compliance and anti-fraud outcomes, 2006–07–2009–10**

Year	Customers	Compliance reviews	Cancelled/adjusted down	Overpayments/debts from review	Prosecutions	Convictions	Amount involved	Fraud-related investigations
2006–07	6,500,000	4,276,281	628,705	\$418,944,738	3,400	3,355	\$38,775,000	42,000
2007–08	6,520,000	4,431,309	702,624	\$496,106,197	2,658	2,624	\$32,269,000	35,885
2008–09	6,840,000	3,867,135	641,504	\$536,151,645	3,388	3,354	\$43,983,000	26,084
2009–10	7,020,000	3,506,431	575,715	\$551,413,107	3,461	3,436	\$47,256,000	22,693

Source: Centrelink personal communication October 2010

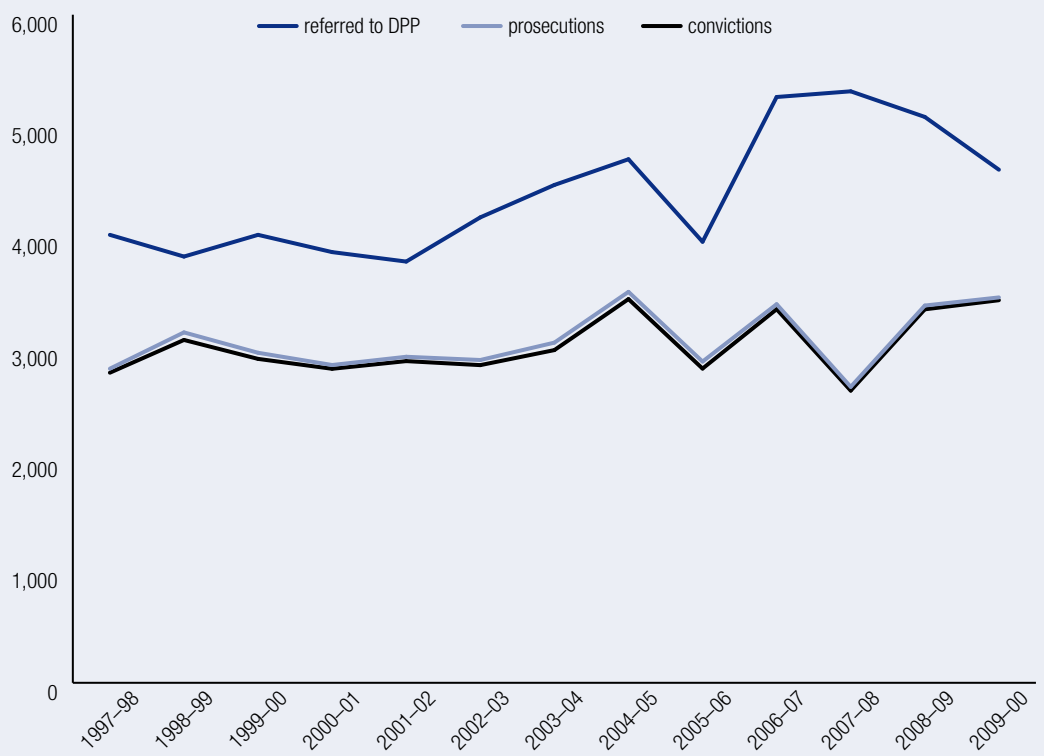
the convictions were related to \$40.5m on average. The estimated savings were 24.1 percent of the average \$500m in overpayments identified and debts generated from the review process. Fraud therefore accounted for approximately one-quarter of invalid payments. Furthermore, on average, only 15.9 percent (n=5,066; see Table 3) of the approximate 31,666 investigations per year resulted in a prosecution referral and 10 percent (n=3,192) resulted in a conviction.

Figure 3 shows fluctuations in the number of cases referred to the CDPP, with an overall upward trend increasing from 2001–02 but declining from 2006–07. When referrals are compared with prosecutions, the lines show a divergent trend over the long term, indicating that while the number of referrals was increasing, the proportion of referrals prosecuted did not keep pace. In other words, an increasing percentage of referrals was not followed through to prosecution. However, the situation reversed in recent years, with converging trend lines from 2007–08 as referrals declined and prosecutions increased slightly. The number of convictions was

consistently very close to the number of prosecutions for the whole period.

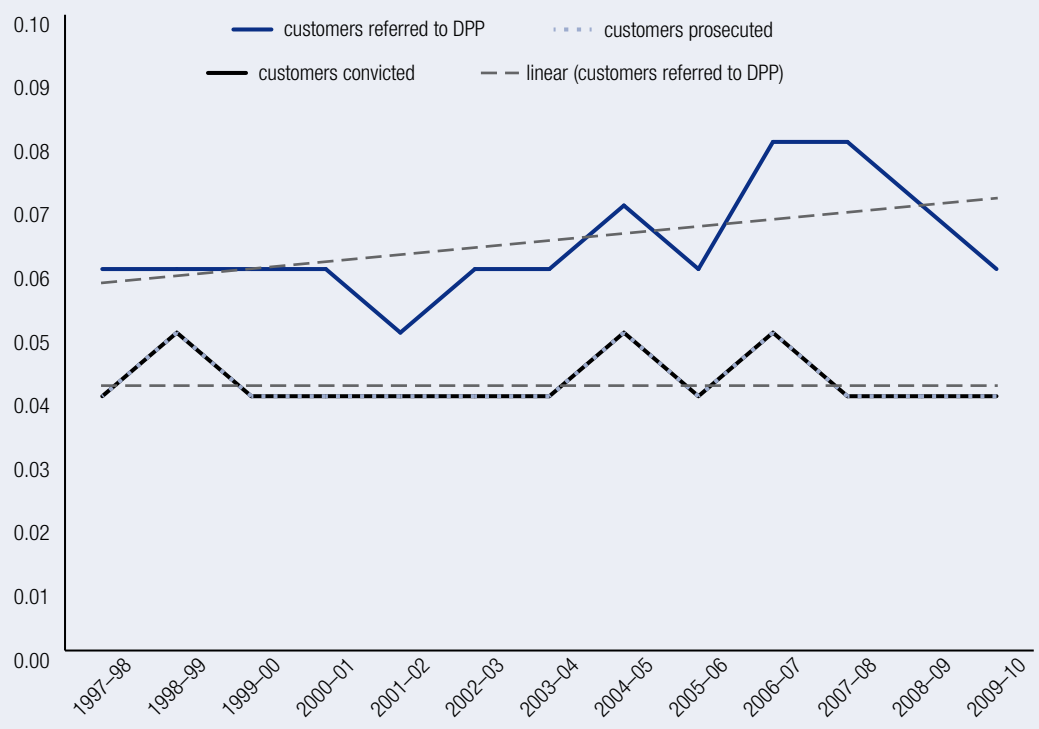
When these figures are adjusted as a rate per number of Centrelink customers (as shown in Figure 4), the long-term trends are very similar to those in Figure 3, with diverging lines for referrals and prosecutions. However, while the percentage of customers referred to the CDPP declined from 2007–08 onwards, the percentage of customers prosecuted and convicted was steady. This created converging trend lines in the two years to 2009–10. To reiterate, in terms of the increase in compliance reviews and prosecution referrals from 2002–03, this did not translate into increased prosecutions, although it did entail an increase in payments cancelled or adjusted down. Between 1997–98 and 2001–02, the percentage of Centrelink customers referred to the CDPP was 0.06. Between 2002–03 and 2007–08, the figure was 0.07 percent. The percentage of Centrelink customers prosecuted in both periods was the same at 0.04 percent. The percentage of prosecutions resulting in convictions was also consistent. The most likely explanation for the recent decline in referrals is

**Figure 3** Trends in prosecution referrals and outcomes, 1997–98–2009–10 (n)



Source: Centrelink personal communication October 2010

**Figure 4** Trends in prosecution referrals and outcomes, 1997–98–2009–10 (rate per customer)



Source: Centrelink personal communication October 2010

the increasing application of an ‘intelligence model’ to prioritise the investigation of cases with greater potential probity (ANAO 2010: 28; see also *Stepped Up Investigations* in the fourth section).

## Centrelink data: Types of fraud

Table 5 provides a snapshot of fraud across the top 15 benefit types for 2008–09 by the number of convictions. Within this group, the Single Parenting Payment and Newstart Allowance (unemployment benefit) together accounted for 72 percent of convictions and 71 percent (\$33.5m) of debt. The Disability Support Pension and Partnered Parenting Payment together accounted for a further 15 percent and \$7.6m of debt.

Box 2 provides examples of case study reports of frauds under the Parenting Payments types. They illustrate how some frauds in this area can continue for years and incorrect payments can add up to

many tens or hundreds of thousands of dollars. Similarly, Box 3 provides examples of case study reports of frauds under the Newstart Allowance (or unemployment benefits) scheme.

Box 4 provides an example of a welfare fraud case that attracted considerable publicity. It involved an alleged prisoner of war from World War Two, who fraudulently obtained hundreds of thousands of dollars from disability and war pension schemes over a period of more than two decades.

Table 6 provides a snapshot of ‘types of fraud’ as categorised by Centrelink for 2008–09, rather than by benefit type as shown in Table 5. Of 5,082 cases, ‘cash economy’ accounted for only 1.45 percent and ‘identity fraud’ accounted for less than three percent of all prosecution referrals. The remaining categories of ‘other’, and ‘standard’ and ‘complex’ cases of ‘legal action on serious fraud’ accounted for almost 96 percent. Although Centrelink was asked to clarify what these categories entailed and to provide a glossary of terms, no explanations were provided.

**Table 5** Fraud across top 15 payment types, 2008–09

Rank	Payment type	Convictions	Debt associated with prosecution
1	Parenting Payment—Single	1,280	\$22,157,531
2	Newstart Allowance	1,045	\$11,303,971
3	Disability Support Pension	301	\$5,675,043
4	Parenting Payment—Partnered	174	\$1,896,174
5	Youth Allowance Student	85	\$1,180,800
6	Austudy (Centrelink)	69	\$964,492
7	Age pension	59	\$1,270,728
8	Carer (Disability Support)	44	\$600,458
9	Carer Pension (Other)	40	\$497,621
10	Youth Allowance Job Seeker	26	\$168,395
11	Carer (Age)	25	\$337,888
12	Widow Allowance	24	\$607,314
13	Family Tax Benefit	23	\$366,385
14	Sickness Allowance	17	\$179,109
15	Carers Allowance (Adult)	16	\$63,192

Note: Cases can be recorded against more than one payment type

Source: Centrelink personal communication October 2010

## Box 2

### Case study 2

A 51 year old female fraudulently claimed Parenting Payment Single payments. While on the Parenting Payment Single benefit, the customer recorded losses of \$189,000 at an Australian casino. The fraud was discovered through analysis of casino data. Investigations found the customer had significant financial commitments not supported by pension payments and received significant amounts of cash income on a regular basis that were not declared to Centrelink. The customer and her teenage daughter also had records of extensive overseas travel. The offences occurred over a five year period and the amounts added up to approximately \$330,000 (Centrelink personal communication, March 2010).

### Case study 3

In June 2010, two Queensland women were jailed for fraudulently obtaining over \$140,000 in Centrelink payments. One woman, aged 32, from Redbank, pleaded guilty in the Beenleigh Magistrates Court to receiving \$88,707 worth of Parenting Payment Single between 1999 and 2007 while living in a relationship. She was jailed for three years, to be released after four months on a good behaviour bond for three and a half years. The second woman, aged 38 from Bilinga, appeared in the Brisbane District Court. She pleaded guilty to receiving Parenting Payment Single, worth \$51,479, between 2003 and 2008, while living in a relationship. She was jailed for 18 months, with a non-parole period of three months, to be released on a two year good behaviour bond. The first woman's deception was discovered as the result of a tip-off. The fraud committed by the second woman was detected through data matching with the Australian Tax Office (Centrelink 2010b).

### Case study 4

In June 2010, two Tasmanian women were sentenced to jail in the Launceston Magistrates Court after fraudulently obtaining \$50,000 in Centrelink payments. A 32 year old woman pleaded guilty to obtaining \$28,159 from the Parenting Payment Single between 2006 and 2008 while living in a relationship. She received a sentence of 12 months jail to be released after three months on a two year good behaviour bond. She was also ordered to pay \$25,491. The fraud was identified through data matching with the Australian Taxation Office. The second woman, aged 35, pleaded guilty to fraudulently receiving the Parenting Payment Single worth \$21,997 between 2006 and 2008 while living in a relationship. She was jailed for 12 months, to be released after two months on a two year good behaviour bond and ordered to repay the full amount. The fraud was uncovered through a tip-off (Centrelink 2010c).



### Box 3

#### *Case study 5*

In November 2009, a Gold Coast couple was jailed for 18 months after obtaining over \$110,000 in Centrelink payments they were not entitled to. The Southport Magistrates Court was told that the 63 year old man from Labrador received Newstart Allowance between 1999 and 2005 despite extensive periods of employment. His 68 year old wife received Partner Allowance and Age Pension while employed under her maiden name. The deception was uncovered through data matching with the Australian Taxation Office. The couple fraudulently obtained a total of \$110,652. At the time of sentencing, the pair had repaid the money and were scheduled for release after five months (Centrelink 2009a).

#### *Case study 6*

In February 2010, a Tweed Heads man received a suspended jail sentence for defrauding Centrelink of more than \$25,000. He was also ordered to repay the money. The Tweed Heads Court was told that the 58 year old man obtained \$25,041 in Newstart Allowance between 2006 and 2008 while earning more than the maximum amount of income allowed for eligibility. The fraud was uncovered through data matching with the Australian Taxation Office. The offender received a suspended eight month suspended jail term, ordered to be of good behaviour for two years and was ordered to repay the money (Centrelink 2010d).

#### *Case study 7*

A Mackay man was jailed in the Townsville Magistrates Court in June 2010 after claiming Newstart Allowance worth \$15,028 between February 2006 and December 2008. The man, who worked for 12 different employers, was described as 'a serial Centrelink fraudster'. He was jailed for eight months and ordered to repay the debt. In sentencing the man, the Magistrate noted that the offender had two previous convictions for Centrelink fraud and was involved in 'a struggle with drug abuse'. The fraud was uncovered through data matching (Centrelink 2010e).

### Box 4

#### *Case study 8*

In November 2010, Arthur 'Rex' Crane, aged 84, pleaded guilty in a Brisbane court to defrauding the Commonwealth of \$464,409 in disability and war pension payments. Crane posed as an ex-prisoner of war, claiming he worked on the Thai–Burma railway and was tortured by the Japanese. He also served as the president of the Ex-Prisoners of War Association. The fraud continued for 22 years until an historian exposed the complete fabrication. Crane was sentenced to four years prison, but with a non-parole period of just six months. Media reportage noted that he was ordered to repay the money but that it was unlikely that this would happen (Owens 2010).

In Figure 5, an analysis of fraud types is provided, using a different form of categorisation. The analysis was conducted by the ANAO (2010) as part of its 2010 audit of Centrelink investigations. The data source was cases that resulted in convictions in 2007–08, taken from Centrelink's Fraud Investigation Case Management System. The Figure shows that frauds involving 'employment' took up the majority of cases at almost 80 percent (79.1%). These offences included 'under-declaring casual earnings; failure to declare part-time and full-time earnings'; and 'failure to declare partner income' (ANAO 2010: 63). The next categories in rank order were 'member of a couple' (6.3%), 'non-employment income and assets' (5.4%) and 'education' (4.0%). The remaining categories accounted for less than two percent of fraud each; including 'identity fraud', which made up 1.4 percent of cases.

## Dimensions of convictions

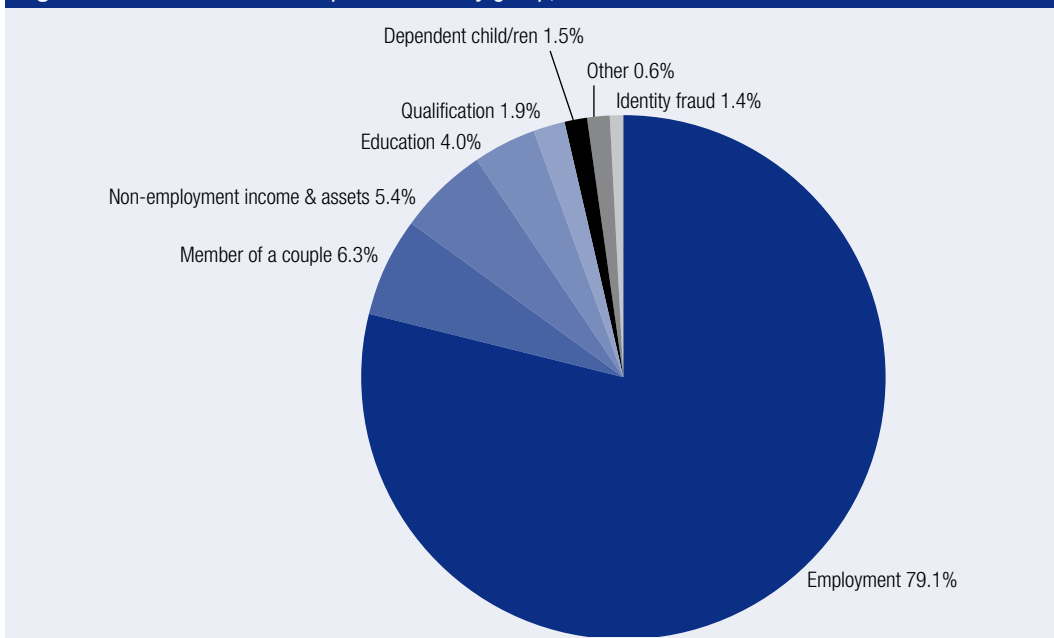
Centrelink was unable to provide statistics on financial losses per convicted fraud case, or demographics of convicted persons and penalties. The following section describes various facets of welfare fraud derived from data supplied by the CDPP for the years 2008–09 and 2009–10. The figures are broken down by the amounts of fraud, types of sentences, and sex and age of offenders. Before discussing these, Table 7 reports the five top referring agencies for the CDPP for the years 2007–08 to 2009–10. The Table shows that Centrelink consistently makes the majority of referrals at just below 70 percent. There is an enormous gap between the proportion of Centrelink referrals and those from the next largest referring agency—the AFP, at just over 10 percent in the last two years. There is an even larger gap between Centrelink and

**Table 6** Types of fraud by prosecution referrals, 2008–09

Prosecution type	n	%
Cash economy	74	1.45
Identity fraud	138	2.71
Other	2,900	57.06
Subtotal	3,112	
<b>Legal action on serious fraud</b>		
Standard	1,452	28.57
Complex	518	10.32
Subtotal	1,970	
Total	5,082	

Note: percentages may not total 100 due to rounding

Source: Centrelink personal communication October 2010

**Figure 5** Centrelink successful prosecutions by group, 2007–08

Source: ANAO 2010: 63

the Australian Taxation Office. The Tax Office was consistently fifth, providing only 2.7 percent of referrals.

For convicted criminal cases referred to the CDDP by Centrelink (see Table 8), the majority of offences were in the range of \$5,000 to less than \$25,000 (81% of all cases in 2009–10). In the same year, 369 cases (or 9%) involved \$25,000 or more, with 10 cases (0.2%) in the range \$100,000 to <\$200,000 and one case involving \$202,622.57.

The proportions were fairly consistent across the two years shown, with cases involving less than \$5,000 making between 9.6 percent and 13.6 percent of the total. A further breakdown was supplied for amounts of fraud less than \$5,000 for 2009–10 (not shown in a Table). Of 387 cases, there were 49 cases where the fraud was between \$1,000 and \$1,999, and two cases involving amounts below \$1,000 (\$702.80 and \$896.60).

**Table 7** Top referring agencies to Commonwealth Director of Public Prosecutions, by year

Rank 2009–10	Agency	2009–10	2008–09	2007–08
1	Centrelink	4,684 69.9%	4,494 68.9%	3,740 60.8%
2	Australian Federal Police (AFP)	699 10.4%	675 10.3%	619 10.0%
3	Insolvency and Trustee Service	285 4.2%	285 4.3%	267 4.3%
4	Non-Commonwealth agencies including state or territory police	293 4.3%	258 3.9%	222 3.6%
5	Australian Taxation Office	157 2.3%	165 2.5%	221 3.5%
Total		6,692	6,514	6,145

Note: combines summary and indictable offences

Source: CDPP 2010, 2009, 2008

**Table 8** Defendants convicted for offences referred by Centrelink, by amount of fraud

Amount of fraud	2008–09 (n)	%	2009–10 (n)	%
Under \$5,000	525	13.6	387	9.6
\$5,000—less than \$10,000	1,586	41.1	1,688	42.0
\$10,000—less than \$25,000	1,373	35.5	1,565	38.9
\$25,000—less than \$50,000	273	7.0	286	7.1
\$50,000—less than \$100,000	73	1.8	72	1.7
\$100,000—less than \$200,000	12	0.3	10	0.2
Over \$200,000	0	0	1	0.0
Unknown	15	0.3	10	0.2
Total	3,857		4,019	

Note: Percentages may not total 100 due to rounding

Source: CDPP personal communication September 2010

Table 8 shows that in 2009–10, there were 83 convictions for frauds over \$50,000. Some of these cases involve significant planning and complex strategies and the frauds were sustained over many years. Box 5 provides two examples of highly deliberative frauds, one of which was perpetrated through the sophisticated creation of false identities.

Table 9 reports the number of penalties (by highest penalty) within different fraud amount bands. Predictably, the proportion of severe penalties increased as amounts involved in offences increased. However, there were numerous lower level frauds resulting in jail terms and there were

numerous major frauds that resulted in lower level penalties.

Table 10 shows the aggregated data for each type of penalty for 2009–10. There were 1,468 recognisance orders, making up 36 percent of the total. There were also 949 community orders (24%), 328 fines (8%), 945 suspended prison terms (23%) and 284 prison terms (7%).

In 2008–09 and 2009–10, the majority of defendants were women (see Table 11); just under two-thirds of defendants in both years. It was also apparent that offending behaviour was concentrated in the

## Box 5

### Case study 9

In 2007, a jury found a man guilty of perpetrating a \$125,463 benefit fraud through the creation of multiple identities. The offences involved the use of three names—Matthew Vincent Ryan, Vincent Matthew Ryan and the offender's real name—in a scam that operated from 1995 to 2003. The accused pleaded not guilty, claiming he was not criminally responsible because he suffered from a form of multiple personality disorder—Dissociative Identity Disorder. His defence alleged that the different welfare claims were the result of the man switching personalities without being aware of the other identities. During cross-examination in the court, he also switched personalities. A medical expert for the prosecution successfully argued that the alleged mental disorder was not consistent with the high level of organisation involved in the fraud. The creation of the identities involved considerable planning. The offender had to attend Centrelink offices for interviews and provide medical reports from different doctors and other documentation consistent with the fictional identities of the claimants. The execution of a search warrant at his mother's home also revealed a consistent filing system for each identity (CDPP 2008: 18–19).

### Case study 10

Between February 1996 and June 2006, the defendant received Carer's Payment and Single Parenting Payment from Centrelink. However, over that 10 year period, she was living in America and using the payments to fund mortgages on properties in South Australia and Western Australia. The defendant subsequently sold both of those properties and bought another in Rockingham prior to leaving her partner. In an interview with Centrelink, the defendant admitted that she used her sister's address for all Centrelink communications and sent a letter to Centrelink in 2005 saying that she was moving to the east coast of Australia for work when she was in fact still in America. As a result of her actions, the defendant received \$102,440 in social security payments to which she was not entitled. The defendant was charged with one count of defrauding the Commonwealth pursuant to s 29D of the Crimes Act and one count of dishonestly causing a loss to a Commonwealth entity pursuant to s 135.1(5) of the Criminal Code. On 21 November 2008, the defendant was convicted and sentenced in the District Court of Western Australia in Perth to a total sentence of 32 months imprisonment to be released after serving 12 months on condition that she be of good behaviour for 20 months. The defendant was also ordered to pay a pecuniary penalty order of \$12,000 which she paid. The defendant repaid the debt to Centrelink prior to sentence being imposed. The defendant appealed against the excessiveness of the sentence and on 8 June 2009 the Western Australia Court of Appeal dismissed the appeal (CDPP 2009: 23).

31–50 years age group, comprising 63 percent of defendants across the two years and tapering off in the later years of life. This is reported graphically in Figure 6 for 2009–10. Table 12 shows the age of offenders in relation to the amounts of fraud involved in offences. The age–crime curve, in terms of onset and desistance of offending, was fairly consistent across the range of seriousness of offences.

Box 6 provides some insight into the complexities of sentencing. The two case studies involved strong mitigating factors, including age and medical and psychological factors, which led to reduced sentences. This was despite fairly large frauds being perpetrated. Box 7 includes a case where a person convicted of a \$43,000 fraud was ordered to repay the amount but was also discharged without a conviction (subject to a 12 month good behaviour bond). When the Director of Centrelink appealed, the Judge, who heard the appeal stated that the offender should have received a suspended jail term—while imposing a conviction and two year good behaviour bond.

## Conclusion

The extent of welfare fraud is difficult to measure, but available indicators suggest that fraud continues to occur at a high financial cost to Australians. This represents an ongoing threat to the integrity of welfare payments and public money. It is possible that the ongoing volume of suspected and proven fraud is not so much the result of a stable rate of real fraud, but the product of an interaction of improved primary prevention and detection. Nonetheless, the phenomenon of a stable rate of proven fraud supports the case for more effective prevention measures. Data on sentencing also suggest the need for a more productive sentencing system and the need for research on the consistency and impacts of sentencing. The data presented in this section showed that women made up two-thirds of convicted persons. This suggests the need for research on the causes and consequences of welfare fraud committed by women in the context of their lower socioeconomic position in Australian society. The next section examines in greater detail the efforts undertaken by Centrelink to prevent and detect fraud.

**Table 9** Defendants convicted for offences referred by Centrelink, by fraud amount and highest penalty

Amount	Highest penalty	2008–09 (n)	% in band	2009–10 (n)	% in band
<b>Under \$5,000</b>		525		387	
	Recognisance order	262	49.9	195	50.3
	Community-based or community service order	70	13.3	43	11.1
	Fine	88	16.7	68	17.5
	Periodic detention	2	0.3	0	0
	Jail (fully suspended)	69	13.1	59	15.2
	Jail	24	4.5	15	3.8
	Other	10	1.9	7	1.8
<b>\$5,000—less than \$10,000</b>		1,586		1,688	
	Recognisance order	789	49.7	837	49.5
	Community-based or community service order	341	21.5	360	21.3
	Fine	154	9.7	186	11.0
	Periodic detention	1	0.0	3	0.1
	Jail (fully suspended)	235	14.8	249	14.7
	Jail	46	2.9	39	2.3
	Other	20	1.2	14	0.8
<b>\$10,000—less than \$25,000</b>		1,373		1,565	
	Recognisance order	358	26.0	405	25.8
	Community-based or community service order	416	30.2	474	30.2
	Fine	95	6.9	70	4.4
	Periodic detention	13	0.9	12	0.7
	Jail (fully suspended)	396	28.8	496	31.6
	Jail	93	6.7	101	6.4
	Other	2	0.1	7	0.4
<b>\$25,000—less than \$50,000</b>		273		286	
	Recognisance order	32	11.7	24	8.3
	Community-based or community service order	66	24.1	61	21.3
	Fine	4	1.4	4	1.3
	Periodic detention	10	3.6	10	3.4
	Jail (fully suspended)	82	30.0	104	36.3
	Jail	78	28.5	83	29.0
	Other	1	0.3	0	0
<b>\$50,000—less than \$100,000</b>		73		72	
	Recognisance order	2	2.7	2	2.7
	Community-based or community service order	9	12.3	10	13.8
	Periodic detention	2	2.7	1	1.3
	Jail (fully suspended)	22	30.1	22	30.5

<b>Table 9 (continued)</b>					
Amount	Highest penalty	2008–09 (n)	% in band	2009–10 (n)	% in band
	Jail	38	52.0	37	51.3
	<b>\$100,000—less than \$200,000</b>	12		10	
	Recognisance order	0	0	0	0
	Community-based or community service order	0	0	0	0
	Fine	0	0	0	0
	Periodic detention	1	8.3	0	0
	Jail (fully suspended)	4	33.3	1	10.0
	Jail	7	58.3	9	90.0
	<b>Over \$200,000</b>	0		1	100.0
	Jail	0		1	100.0
	<b>Unknown</b>	15		10	
	Recognisance order	6		5	
	Community-based or community service order	1		1	
	Fine	4			
	Jail (fully suspended)	3		4	
	Jail	1			
	<b>Total</b>	<b>3,857</b>		<b>4,019</b>	

Note: Recognisance order 'includes: s 19AB Crimes Act Recognisance Release Order, Crimes Act s 19B discharge without conviction, *Crimes Act 1914* s 20(1) (a) convicted and released without passing sentence, *Crimes Act 1914* s 20(1)(b) conditional release order, Recognisance—self, Recognisance—to be of good behaviour'

Source: CDPD personal communication September 2010

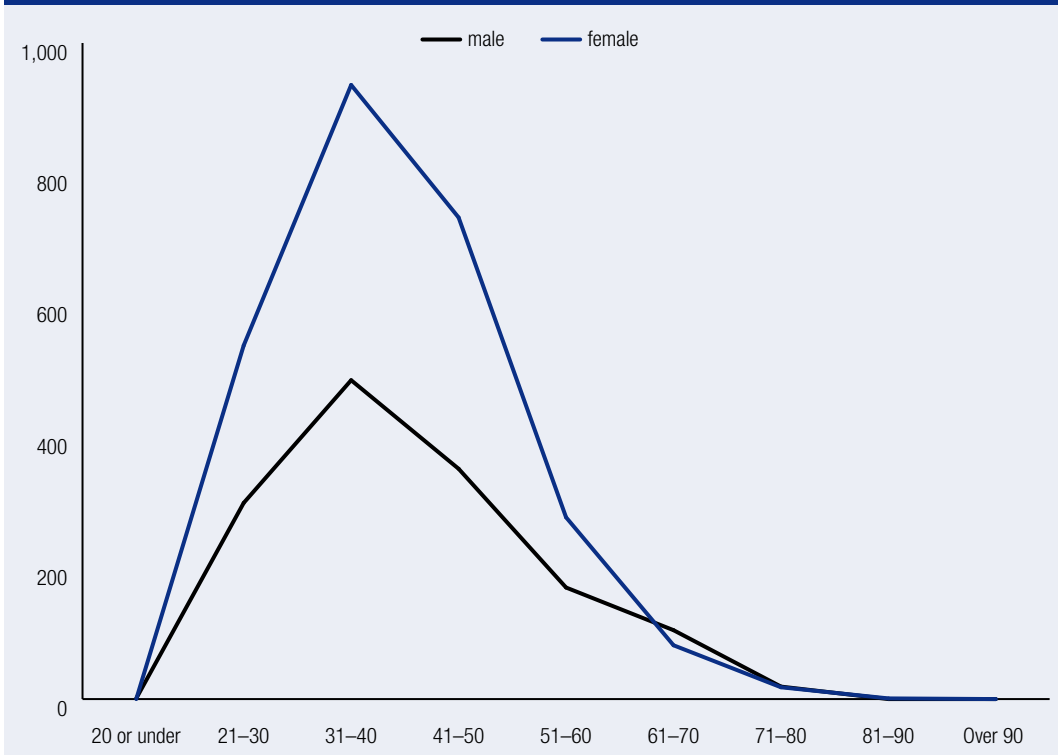
<b>Table 10 Fraud convictions by total penalties</b>		
Highest penalty	2009–10 (n)	%
Recognisance order	1,468	35.9
Community-based or community service order	949	23.6
Fine	328	8.1
Periodic detention	26	0.6
Jail (fully suspended)	935	23.2
Jail	284	7.0
Other	28	0.6
<b>Total</b>	<b>4,018</b>	<b>100</b>

Source: CDPD personal communication September 2010

**Table 11** Convicted defendants, by age and sex (n)

Age (in years)	2008–09		2009–10	
	Female	Male	Female	Male
20 or under	0	0	0	1
21–30	408	272	539	299
31–40	965	478	936	486
41–50	689	352	734	351
51–60	268	190	277	170
61–70	94	99	82	105
71–80	16	23	18	19
81–90	1	1	1	0
Over 90	0	0	0	0
Unknown	1	0	1	0
Total	2,442(63.3%)	1,415(36.6%)	2,588(64.3%)	1,431(35.6%)

Source: CDPP personal communication September 2010

**Figure 6** Convicted offenders, by gender and age, 2009–10 (n)

Source: CDPP personal communication September 2010

**Table 12** Convicted defendants by age and amount of fraud (n)

Fraud amount	Age (in years)										Total	
	20 or under	21–30	31–40	41–50	51–60	61–70	71–80	81–90	Over 90	Unknown		
<b>2008–09</b>												
<\$5,000		125	212	118	52	16	1	1				525
\$5,000–<\$10,000		319	618	412	171	60	6					1,586
\$10,000–<\$25,000		204	509	391	175	74	19	1				1,373
\$25,000–<\$50,000		23	78	93	43	28	8					273
\$50,000–<\$100,000		4	19	19	12	14	4			1		73
\$100,000–<\$200,000			1	6	4	1						12
Unknown		5	6	2	1		1					15
<b>Total</b>		<b>680</b>	<b>1,443</b>	<b>1,041</b>	<b>458</b>	<b>193</b>	<b>39</b>	<b>2</b>	<b>0</b>	<b>1</b>		<b>3,857</b>
<b>2009–10</b>												
<\$5,000		101	135	106	39	6						387
\$5,000–<\$10,000	1	413	630	417	159	61	6			1		1,688
\$10,000–<\$25,000		289	547	450	177	84	18					1,565
\$25,000–<\$50,000		28	85	92	54	23	4					286
\$50,000–<\$100,000		3	22	16	14	10	7					72
\$100,000—less than \$200,000				2	3	2	2	1				10
Over \$200,000						1						1
Unknown		4	3	2	1							10
<b>Total</b>	<b>1</b>	<b>838</b>	<b>1,422</b>	<b>1,085</b>	<b>447</b>	<b>187</b>	<b>37</b>	<b>1</b>	<b>0</b>	<b>1</b>		<b>4,019</b>

Source: CDDP, personal communication September 2010



## Box 6

### *Case study 11*

In 2007, an accused woman pleaded guilty to fraud occurring between 1999 and 2006 involving \$81,977. The woman held Power of Attorney for her mother and had been responsible for her care. She received her mother's Age Pension cheques and banked them on her mother's behalf. The woman failed to notify Centrelink of her mother's death in 1999 and she continued to bank the fortnightly cheques. In court, the woman entered into a three year good behaviour agreement in lieu of three years in prison. In determining the sentence, the judge took into account that fact the offender was 72 years old, had no prior convictions, was a poker machine addict and suffered from depression. Centrelink had also been able to obtain a recovery order against her home (CDPP 2008: 20).

### *Case study 12*

This case involved a fraudulent scheme against the social security system conducted over 28 years. The defendant, who was legally blind, was aged 76 at the time of sentence and 78 at the appeal. The New South Wales Court of Criminal Appeal considered how age and disability should be addressed when sentencing a social security offender. Between May 1978 and June 2006, the defendant was legally blind and legitimately in receipt of a social security payment. However, over that 28 year period, he continuously claimed another social security payment using a false identity to unlawfully obtain approximately \$203,000 in social security payments from the Department of Social Security (DSS)/Centrelink. The defendant was charged with one count of imposing on the Commonwealth by false representation pursuant to s 29B of the Crimes Act; four counts of defrauding the Commonwealth pursuant to s 29D of the Crimes Act; and two counts of dishonestly causing a loss to a Commonwealth entity pursuant to s 135.1(5) of the Criminal Code. On 21 February 2008, the defendant was convicted by the District Court of New South Wales in Sydney and sentenced to a total effective penalty of four and a half years imprisonment with a non-parole period of two years and eight months. On 15 February 2007, a restraining order was made by the Supreme Court of New South Wales pursuant to s 17 of the *Proceeds of Crime Act 2002* prohibiting any person from dealing with the property of the defendant. On 13 March 2008, all of the property subject to the restraining order and amounting to \$80,772 was forfeited to the Commonwealth. The defendant appealed to the NSW Court of Criminal Appeal against the excessiveness of the sentence in light of his age and disability. On 2 June 2009, the defendant's appeal was dismissed and the NSW Court of Criminal Appeal found that there had been no error by the sentencing Judge and that the defendant's subjective circumstances were adequately addressed by the imposition of wholly concurrent sentences for each count. The NSW Court of Criminal Appeal stated 'The extent to which appropriate care and medical assistance is available, and the nature and extent of facilities that are at hand to care for prisoners with ill health, are factors that are directly related to questions of whether or not the applicant will or might be subjected to an unduly burdensome period in custody. There is no significant weight of medical opinion that suggests that the applicant's indifferent health will impose unique hardship upon him in the circumstances, even if his period in custody might reasonably if not obviously have been thought to be somewhat easier for him if he were well. The balancing exercise that His Honour was required to undertake having regard to the idiosyncratic nature of the applicant's combination of conditions and the need to impose a sentence that reflected the extent of his criminality does not appear to me to have been miscarried' (CDPP 2009: 22).

## Box 7

### *Case study 13*

The defendant in this matter received the Disability Support Pension over a period of approximately five years. However, over that time, she was working and earned a total of \$149,314 in gross wages and only declared to Centrelink that she had earned \$23,858. As a result, the defendant received \$43,252 in social security benefits to which she was not entitled. The defendant was charged with two counts of obtaining a financial advantage by deception contrary to s 135.2 of the Criminal Code. On 11 February 2009, the defendant appeared before the Magistrates Court of Victoria in Werribee and was discharged without conviction on condition that she be of good behaviour for 12 months. She was also ordered to pay reparation for the outstanding debt to Centrelink. The Director appealed against the inadequacy of the sentence. On 19 June 2009, the County Court of Victoria upheld the Director's appeal, convicted the defendant and released her on condition that she be of good behaviour for two years. The presiding appeal Judge stated that had he heard the matter at first instance, he would have imposed a fully suspended term of three months imprisonment (CDPP 2009: 23).



# Detection and prevention initiatives

This section explores historical developments in the detection and prevention of welfare fraud. It begins with a short recapitulation of the changing social and political contexts, and the evolving goals and priorities of welfare systems in relation to fraud. This is followed by a review of the introduction of anti-fraud initiatives in welfare systems, primarily in the United Kingdom and Australia. A summary is provided of the limited academic and other research on prevention initiatives. The section then sets out some useful theoretical frameworks for thinking about ways to advance welfare fraud prevention. These are:

- situational crime prevention;
- security management principles; and
- a hierarchy of fraud control goals.

The implications of these are then developed, largely in terms of the need for greater attention to primary prevention methods and for more systematic research and evaluation.

## Background

In Australia and many other countries, the development of welfare systems during World War Two and during the post-War boom, followed a similar pattern. Systems were enlarged on the back

of rising prosperity in a process that extended an increasing number of types of benefits to an increasing number of claimants. As outlined in *The Welfare State and the Problem of Fraud* in the first section of this report, during the initial stages of expansion there were often only limited controls on eligibility and systems were vulnerable to fraud. There were a number of reasons for this. It was often difficult to check on the bona fides of applicants or to monitor recipients for changed circumstances. For example, the lack of computer technology made the cross-referencing of government records extremely difficult. As noted, welfare providers were also expected to be sensitive to the needs and circumstances of applicants. Anti-fraud measures often entail procedures that can deter and stigmatise recipients and delay urgently needed benefits.

The relatively open nature of welfare came under concerted attack from the 1970s onwards, following oil crises, 'stagflation' and the rise of 'economic rationalism' and 'user pays' philosophies. There was also a growing interest across government in reducing losses from all types of fraud (Smith 1998; Wait 1997). This was evidenced in Australia, for example, in the publication of the *Commonwealth Fraud Control Guidelines* in 1994 (AGD 2002). The need to counter fraud in the public sector is an ongoing issue, with recent estimates of losses still at extremely concerning levels in many locations.

The AIC 2008–09 survey of Commonwealth government agencies reported estimated losses of \$489m, compared with \$445m in 2007–08 (Lindley & Smith 2011). A 2010 UK estimate put total losses at approximately £25b per annum (NFA 2010). Assessments of anti-fraud measures continue to produce mixed results, especially by comparison with the private sector (eg Gee, Button & Cook 2010; Lindley & Smith 2011; NFA 2010; Smith 2002). Typical findings report significant progress in areas such as the development of fraud control plans, data matching, risk analyses, board-level overviews and reporting of fraud, but with a need for more information sharing, research and more attention to identity verification (Gee, Button & Cook 2010; NFA 2010; Wait 1997). The National Fraud Authority (2010: 4) in the United Kingdom recently identified a ‘significant contrast’ between private sector methods (focused on prevention) and public sector methods, which place ‘proportionally more effort on detection, investigation and prosecution of fraud which has already been committed’:

Private sector examples show how use of data sharing, access to a wide range of databases and use of data analytics can prevent fraud occurring, either by deciding to refuse the provision of a service or product or by flagging high risk cases for investigation before a transaction is completed (NFA 2010: 4).

In their study of fraud resilience in the United Kingdom, Gee, Button and Cook (2010: 3) identified the following areas where improvements need to be made:

- accurate measurement of the scale of fraud losses within individual organisations
- measurement of the real benefits of counter fraud work and the related return on the investment made...
- implementation of propriety checks on new staff
- assessment of the extent and development of anti-fraud cultures
- application of analytical intelligence techniques...
- performance management of counter fraud work like any other area of business activity.

Welfare fraud was one area targeted for public sector anti-fraud crackdowns post-1970s, as outlined above. This was consistent with public opinion, which was set firmly against ‘dole cheats’

and others allegedly defrauding social security (Evans & Kelley 2001). Many governments made increasing use of means testing to reduce the costs of welfare and target it more efficiently to the most deserving. This entailed the need to conduct closer eligibility checks on applicants and to monitor recipients for changes in eligibility. In Australia, the Fraser government (1975–1983) and Hawke–Keating government (1983–1996) tightened compliance measures. The Howard government (1996–2007) made welfare fraud an election campaign issue and boosted resources to combat fraud (Dunlevy & Hannon 1997; Kingston 1996). The current Rudd–Gillard government, which took office in November 2007, also committed itself to enlarging anti-fraud programs. In January 2008, Human Services Minister Joe Ludwig declared that:

The Rudd Labor Government is committed to ensuring people in need have access to adequate assistance. But we won’t tolerate people who abuse the community’s willingness to give them a hand up (Karvelas 2008: 4).

The Rudd government’s inaugural budget included an additional \$138m to fight welfare fraud, with projected savings from improved compliance of \$728m over four years—approximately \$600m in net savings (Ludwig 2008b). The Minister also announced the extension of data matching to more agencies and more proactive targeting of employment risk areas for the black economy (Karvelas 2008). In early 2009, Centrelink announced the allocation of \$43.2m to ‘boost the anti-fraud, call centre and online infrastructure capacity’ (LeMay 2009: 1).

A focus on enhanced data-mining techniques was projected to save \$57.4m over a four year period (LeMay 2009). The Minister also signalled a greater focus on primary prevention through better initial compliance checks, with associated avoidance of debt (Ludwig 2008a, 2008b). These moves were motivated in part by rising inflation, a commitment to reduce expenditures and a range of strong future demand pressures—including from the growing longevity of Australians, enlarged drought assistance claims, increasing tertiary education and a widening concept of conditional family support (Centrelink 2007; Green 2008; Karvelas 2008; Wilson 2007).

More recently in Australia, long-term pressures from the ‘global financial crisis’ of 2007–08 and financial

pressures from large-scale natural disasters, prompted a fresh wave of political announcements about cutbacks to welfare and the need for more alternatives to welfare (Dunlevy 2011; Dusevic 2010). Proposed alternatives included boosting compulsory superannuation, extending the age of retirement and enlarged employment schemes for people with disabilities.

There are common themes in these developments wherever forms of government welfare have been established. Monetary crises, shrinking revenue bases and increasing demand pressures have all pushed welfare systems into economy drives that include restricting the availability of benefits and tightening eligibility criteria. Inaccurate payments and fraud are typically part of this agenda. Allegations of error, waste and fraud reflect poorly on the legitimacy of systems, especially in periods of heightened fiscal restraint. Governments are therefore usually keen to appear to be actively engaged in combating fraud. One of the challenges, however, is that saving money from fraud usually requires spending money on fraud prevention and detection systems. A sophisticated fraud prevention infrastructure will require a considerable commitment of taxpayer dollars and accounting for this expenditure has therefore become a standard part of reporting on fraud prevention measures.

In mapping the field of fraud prevention methods and impacts, the main sources are government reports—either welfare department annual reports or special reports on fraud prevention plans. Additional government sources include audit reports. Some information is also available from media reports and from welfare lobby groups. Academic or other independent research is limited; much of what is available is highly critical and comes from the social work and civil libertarian areas, and was summarised in the first section of this report. The focus of these studies is on issues of fairness and welfare rights. There is less research on welfare fraud in the discipline of criminology and even less in the area of applied crime prevention studies.

The following sections report on some of the main developments in welfare fraud prevention and detection measures, and elaborate on some of the theoretical implications for a developed science of welfare fraud prevention.

## The evolution of welfare fraud detection and prevention strategies

Evidence presented so far in this report shows that welfare fraud prevention is an evolving field characterised by an apparent ongoing process of adding approaches to an ever widening set of strategies. It appears that the 1970s were something of a watershed period. A shift occurred from simplistic approaches to welfare fraud to a process of continuing innovation characterised by an ongoing search for more automated and efficient methods. It would seem that the economic crises of the 1970s and increasing demands on the welfare system, especially in relation to unemployment, were crucial factors driving this change. The perpetual nature of change since then appears to have been influenced by recurring fiscal crises, shifting demographics and increasing numbers of applicants for benefits, along with ongoing pressure for new or enlarged entitlements. There is very little available on the specific stages of development of anti-welfare fraud prevention methods in different countries. Australia, in fact, appears to have one of the better documented processes. There is also some British material, which identifies the 1971 Fisher Committee as a key turning point.

### *The United Kingdom*

In the United Kingdom, in the early 1970s, the Fisher Committee was tasked with reviewing strategies in place at the time to detect and prevent false benefit claims. This was in response to ‘public concern and disquiet about abuse of Social Security benefits’ (Fisher et al. 1973: 2). In response to submissions and witness interviews, the Committee concluded that

[a]buse by wrongful claims is a serious problem. Although the percentage of claims which are known to be fraudulent is not great, substantial sums of money are misappropriated each year. We do not doubt that a considerable effort should be devoted to preventing and detecting abuse (Fisher et al. 1973: 224).

The committee felt controls on unemployment benefits were sufficiently strict and there was little evidence of ‘voluntary unemployment’ in the welfare

system. Nonetheless, it recommended a widening of the range of 'suitable jobs' unemployed persons were expected to take (Fisher et al. 1973: 226). The committee identified non-disclosure of earnings as the main area of fraud and recommended increased investigations, more inspectors and 'special investigators' for more complex cases, and training of local office staff (Fisher et al. 1973). Better communication about compliance requirements and fraud was also recommended, including in more languages. Recommendations also included more home visits for suspect cases, a requirement that employers provide information on staff to the Department of Health and Social Security (DHSS) officers, focused investigations of industries where it was easy to conceal earnings and establishment of a standing committee on fraud. The committee recommended an enlarged research effort to identify the extent of fraud through surveys. It also recommended a more experimental approach to identifying 'the relative effectiveness of different administrative methods and systems of control' (Fisher et al. 1973: 225, 242–243).

The Fisher Committee enquiry occurred early in 'a vigorous, and at times strident, public campaign against social security abuse' (Barker, Watchman & Rowan-Robertson 1990: 116):

Between 1970 and 1977 the number of cases of alleged social security fraud investigated in Great Britain rose steadily from 79,881 to 139,641, as did the proportion of investigated cases prosecuted, from 9.7 percent in 1970 to 18.7 percent in 1977 (an increase in the number of cases from 7,707 in 1970 to 26,058 in 1977). However...the number of cases of alleged social security fraud prosecuted peaked in 1980/81 at 30,116. Thereafter the number of cases prosecuted fell from that high-point to 25,654 in 1981/82, 19,343 in 1982/83, and fell again to 13,084 in 1983/84...a figure slightly below that in 1974 of 13,716 cases prosecuted.

The election of the conservative Thatcher government in 1979 entailed a strong rhetorical focus on welfare fraud:

In 1980, Reginald Prentice, the Minister of Social Security, announcing that the prevention and detection of fraud and abuse was to be given higher priority, stated that, despite the government's

commitment to reducing staff in the public sector, they were to provide 1,050 extra staff to boost prevention and detection efforts (Barker, Watchman & Rowan-Robertson 1990: 116).

A 1980 report, *Payment of Benefit to Unemployed People* ('The Rayner Report') estimated that fraud was probably about three times the official rate—measured in terms of prosecutions. Of 4.5 million unemployment claimants in 1979, 0.24 percent were prosecuted, with a conviction rate of 98 percent (Johnson, Johnston & Lewis 1980). The assumption that real fraud was probably three times the official rate was based on the much higher number of prosecutions resulting from 'special drives by special investigators' in particular regions (Johnson, Johnston & Lewis 1980: 62). The proportion of fraud (of unemployment claimants) was alleged to reach eight percent, or £108m, if minor cases of undeclared income above permissible limits were included (Johnson, Johnston & Lewis 1980). This estimate was based on the results of targeted investigations and surveys of unemployed people. For example, between four percent and 16 percent of unemployed young people in different locations admitted in interviews to receiving unemployment benefits while working.

Visits to DHSS offices also led the authors to believe that many staff turned a blind eye to minor violations of income limits. Jobcentre staff also allegedly overlooked those avoiding work because there were so many unemployed—approximately 2.5 million registered. The priority was to find suitable workers for employers as quickly as possible. At the same time, the authors conceded there was considerable ignorance of rules among beneficiaries. The report recommended better communication about rules, closer scrutiny and exclusion from benefits for those voluntarily leaving work, and a national computer system that would allow on the spot checking of claimants' employment records. It also recommended increased staff for use of 'the special drive technique' in all regions, along with random checks on claimants' circumstances by letter, a concentration on detecting and prosecuting more serious frauds, and prosecuting all employers colluding in fraud (Johnson, Johnston & Lewis 1980).

A vigorous investigation and prosecution policy, and increased fraud personnel appeared to be the mainstay

of anti-fraud policy in this period. However, for unknown reasons, as the figures above indicate, this did not translate into increased prosecutions. In 1988, the British Government 'announced it was setting up action against people claiming unemployment and supplementary benefit illegally and that investigations were to target selected groups, mainly those doing part-time and casual work' (Barker, Watchman & Rowan-Robertson 1990: 104). The DSS was separated from the DHSS in 1989. Barker et al. (1990: 115) observed that 'prosecution for social security fraud is an important, and routinely used, weapon in the Department's armoury'.

In a subsequent renewed attack on welfare fraud, the Thatcher government introduced the *Social Security Administration (Fraud) Act 1997*, aimed primarily at facilitating data matching. The government declared that anti-fraud measures would save £7b over three years (McKeever 1999a: 261). Apart from data matching, initiatives included a power to compel a medical examination in cases of questionable disability claims. A *Benefit Integrity Project* was established to scrutinise lifelong disability allowance recipients. The Act also created offences related to failing to notify authorities of a change in circumstances affecting a benefit and it allowed an option of a summary fine for less serious offences instead of prosecution. This was in fact designed to bring more suspected fraud under some kind of sanction, given that

there are some 100,000 cases a year where the DSS believe there are grounds for prosecution but only 12,000 or so of these are taken to court (McKeever 1999a: 267).

The timing of McKeever's (1999a) academic legal rights-based analysis of the *Social Security Administration (Fraud) Act 1997* did not allow for any impact data. McKeever speculated, however, that the Act was likely to fail in its main objective of addressing benefit fraud, partly because it failed to address structural factors behind fraud and because it was most likely to impact on minor offenders:

The 1997 Act does not address the underlying problems which can be said to lead to benefit fraud. As regards serious, organised fraud, the 1997 Act looks likely to improve matters for investigators and prosecutors, although

potentially at the expense of supposedly fundamental civil liberties. Individual claimant fraud, however, does not follow the same pattern as organised fraud and therefore demands a different approach...An examination of the structure of the benefits system reveals there are perverse incentives within the system which enforce benefit dependency and encourage claimants to either commit minor fraud or face substantial financial insecurity. Despite recent improvements, such as working benefits, the system is not flexible enough to cope with the modern realities of employment, or to accommodate rapid shifts in eligibility for means-tested benefits. As a result, in order to remain financially secure, claimants are forced to withhold information about their changing circumstances, particularly where those changes are of a temporary nature. In addition, much of what is currently perceived as fraud is simply straightforward claimant error. Claiming social security has become an increasingly complex business, with the rules and regulations governing the administration of benefits growing steadily...this note has emphasised the possibility of fraud arising from claimant confusion rather than dishonesty. The danger with the 1997 Act is that the distinction between the two will no longer be valid (McKeever 1999a: 270).

From the year 2000, the DWP phased in centralised service delivery, increased the number of risk assessments, increased follow up investigations of suspicious claims and introduced more aggressive prosecution and recovery actions (Reeve 2006). Between 2001 and 2005, the Department estimated benefit fraud was reduced by 50 percent. However, Reeve argued that this estimate was highly speculative and that there was no real evidence of a deterrent effect from prosecutions. Button (2011) notes a shift in the Department's strategy in the 2000s away from a decentralised model of local investigations towards central control and professionalisation. In the early 2000s, the Department established a Fraud Strategy Unit and a Counter Fraud Investigation Division. Specialist units were also created in areas such as intelligence, serious fraud and professional standards. A Joint Working group was also charged with carrying out cooperative investigations with police and local authorities. Further restructuring



occurred in 2006, with greater specialisation and reduced staff. Theoretically, the *Fraud Act 2006*, which superseded the complex *Theft Acts* of 1968 and 1978, facilitated the prosecution of benefit fraud by creating a more general test of dishonest intent (Gardner 2010; Summers 2008). However, despite all these innovations and changes, estimated fraud remained a major problem in the UK welfare system—estimated at £1b in 2009–10 (see above, DWP 2010a).

Of some novelty is a recent study commissioned by the DWP on a pilot of *Voice Risk Analysis*. The technology uses beeps to alert welfare officers to potential stress on the part of telephone callers. Customers and potential claimants appeared unfazed by the technology. Some staff thought it assisted them to be more alert to claimants' responses. However, there was no real evidence of effectiveness in detecting fraud (Adams et al. 2010).

The conservative Cameron government, elected in 2010, renewed the rhetoric and fight against welfare fraud. Its anti-fraud program was based in part on the assumption that both fraud and error are the result of the following aspects of the welfare system (DWP 2010b: 41):

- it is complex and difficult to understand and navigate;
- we rely on customers to keep us informed about their financial and non-financial circumstances;
- it can encourage fraud as for many work simply doesn't pay; and
- there is a lack of suitable IT, training and incentives for staff.

The government planned to counter these vulnerabilities with the introduction of a system of 'universal credit', in which welfare payments are integrated into the Pay As You Earn tax system. This was intended to facilitate speedier and more accurate identification of welfare recipients' additional earnings. The plan included a commitment to widen the gap in earnings before welfare was reduced. Part of the implied rationale for this was to reduce the temptation to commit fraud. In addition, the government announced a range of new penalties for breaches of benefit conditions, including a £50 'civil penalty' for those who do not report changes in their

circumstances within an adequate time period (DWP 2010b). Persons who have committed minor breaches likely to have been prosecuted in the criminal courts would be offered the option of a penalty instead, including loss of benefit for four weeks. Furthermore:

In the case of recipients who are convicted of criminal fraud, in addition to any sentence imposed by the court, the offender will also be subject to 'one strike' and 'two strike' regimes, which impose benefit deductions on recipients. We will seek to impose a loss of benefits for three months for a first conviction and six months for a second. For the most serious and organised cases of fraud we will look to ensure that a benefit loss of at least three years can be applied (DWP 2010b: 44).

Debt recovery would also be enhanced, including through deductions from benefits 'by almost 25%' and automatic deductions from earnings for those who have left the welfare system (DWP 2010b: 44).

## Australia

In Australia, a number of writers from the then DSS reported on developments in anti-fraud measures in the mid to late-1990s in articles in the *Social Security Journal*. Rodgers and Powlay (1995) noted that, from their inception, forms of unemployment relief required evidence of bona fide unemployment, usually through some kind of willingness to work test, including actual work requirements:

Australia did not have a federal system of income support for the unemployed until 1944, but even the earliest forms of State-supplied relief for able-bodied unemployed people were linked to work: in the late 1800s it was customary to grant wages or rations in return for work specially provided by the government. At that stage, it did not concern authorities if the work was of little consequence; what mattered was that government relief should not be given without work in return.

Providing a payment for the unemployed has always posed the public policy problem of how it might be achieved without acting as an incentive to leave, or not take up, paid employment. Consequently, almost all variations of the work test have included this as

an important objective, and the first federal legislation to provide income support for the unemployed was no exception. The *Unemployed and Sickness Benefits Act 1944* provided payment on the condition that 'an applicant for unemployment benefit [showed] that he was capable of undertaking and willing to undertake "suitable" work and had taken reasonable steps to obtain such work' (Rodgers & Powlay 1995: 67–68).

It would seem that the relatively small number of unemployment beneficiaries in the 1940s, '50s and '60s allowed for fairly close, personal, but probably ad hoc scrutiny of recipients' circumstances. The first major change to this situation was the requirement, introduced in 1976, for recipients to submit fortnightly income statements, with a view to detecting unauthorised payments and adjusting benefits down. More 'selective reviews' by department officers were also introduced (Rodgers & Powlay 1995). In 1979, modifications made it more difficult for workers to leave work voluntarily and go on unemployment benefits or obtain benefits while on strike. In 1986, unemployment beneficiaries were required to register with the Commonwealth Employment Service and report on efforts to find work on their fortnightly income statements. The *Social Security Review*, which was initiated in 1986 (see Cass 1988, 1986), was associated with a shift away from a 'passive system of support' (Rodgers & Powlay 1995: 68). This assumed work was easy to find and that it was the responsibility of the unemployed to find it. In the new system of 'reciprocal obligations', the state provided assistance to obtain work, primarily through training referrals. This was reflected in part by changing the 'Unemployment Benefit' to the 'Job Search Allowance' in 1988 and the 'Newstart Allowance' in 1989, and the adoption of an 'activity test' in 1989. The latter could include some training and part-time work, as well as job searching. The 'Job Compact', introduced in 1994, provided six to 12 months guaranteed work experience for persons on unemployment benefits for more than 18 months (Rodgers & Powlay 1995).

Cahill (1994b) outlined the background to the introduction of large-scale data matching in the early 1990s. Up to the mid-1970s, the Department conducted regular 'saturation reviews' of unemployment benefit recipients. This became

impossible with mass unemployment in the second half of the '70s:

In the early 1980s a review strategy based on risk was developed. Clients with a higher than average risk of incorrect payment, identified according to set criteria, were selected for review (Cahill 1994b: 100; see also Smith 1998).

Recession and high unemployment required a drive on efficiency.

In the 1982-83 financial year the total number of people receiving unemployment payments increased by 63 per cent on the previous year. In this general climate of high client numbers, stretched resources and flagging community confidence in the social security system, attention began to focus on the need to achieve the right balance between providing relatively easy access, adequate income support and being accountable for the significant amount of money being spent. Measures aimed at stopping incorrect payment and fraud were introduced at virtually every Budget Economic Statement throughout the latter part of the 1980s. This meshed with the new move to Portfolio budgeting in that the savings achieved from compliance initiatives were often used to offset, at least to some degree, expenditure on program extensions and enhancements. There was also a related concern that general community support for programs [was] seen as having strong integrity. In other words, additional monies were seen as going to those with genuine need rather than being good money thrown after bad.

The initiatives which were introduced included more resources for compliance. A key illustration of this was the mobile review teams which were introduced in December 1986. The teams were usually set up to conduct risk-based entitlement reviews and verify efforts by unemployment beneficiaries to find work. The teams often received publicity when visiting particular localities and their visibility helped demonstrate to the public that the Department was serious about compliance. The teams were successful in detecting incorrect payments and saving substantial amounts of money. As a result resources were provided in later Budgets to increase the number and strength of the teams (Cahill 1994b 101–102).



In 1994, there were 93 teams, with four staff on average in each team (Cahill 1994b). Despite these initiatives, by 1990

the large number of clients receiving payments... called for an even more cost-effective method of control which would review client entitlements automatically and supplement the more resource intensive review strategies already in place (Cahill 1994b: 102).

Cahill noted that the DSS had engaged in some computer-based data matching in the late-1970s and 1980s. However, by the end of the 1980s, computer technology had advanced to a point where it was possible to cross-reference enormous volumes of data held by different agencies. The Australian Government established the Data-matching Program in the 1990–91 budget under the authority of the *Data-matching Program (Assistance and Tax) Act 1990*. This occurred against opposition from civil libertarians concerned with the alleged invasions of privacy and overly intrusive government. Tax File Numbers were crucial to most matching exercises. The program allowed for a separate agency within the DSS (the Data-matching Agency) to compare data from major government departments, including the ATO, DSS, Employment, Education and Training, Human Services, Health and Veterans' Affairs. The objectives of the program included the following (Cahill 1994b: 103):

- To detect fictitious or assumed identities; that is, where a person has made a false identity or used another person's identity to obtain a payment.
- To detect people who are receiving incorrect payments from an income support agency; that is, people receiving two payments, for example Job Search Allowance from DSS and AUSTUDY from [Department of Employment, Education and Training], which may not be paid together.
- To verify with the ATO the accuracy of individual client, partner and parental incomes disclosed to the agencies which make income support payments.

Cahill noted that where data matching revealed inconsistencies, customers were sent letters with a 28 day response period before cancellations or adjustments were made.

In 1992–93 letters were sent to some 23,000 DSS clients. About 5,300 clients subsequently had their payments cancelled or reduced resulting in savings of outlays of about \$520,000 a fortnight (or \$13.5 million in a twelve month period). Additionally, about 6,800 overpayments were identified amounting to about \$19 million (Cahill 1994b: 104).

The program was also thought to serve as a deterrent against false claims and failures to report circumstances:

Awareness in the community about the tax file number requirements and the uses to which the numbers are being put in the Data-matching Program is thought to have encouraged people to advise the Department about changes in their circumstances or not to claim payment at all. The effect is estimated to save in the range of \$90–120 million a year.

Data matching facilitated a 208 percent increase in the number of compliance reviews from 1988–89 to 1993–94 (Cahill 1994a: 122).

Cahill (1994b) also described the introduction of 'duration based reviews'. These involved entitlement reviews triggered by a set time on a benefit, introduced progressively through the 1980s. For example, from 1986, recipients of the Widows Pension and Sole Parent Benefit were required to attend a review meeting three months after the start of funding.

In the Disability Reform Package the temporary nature of Sickness Allowance was emphasised and a regime of three monthly reviews was imposed (Cahill 1994b: 102).

Nolan (1997) provided an update of Cahill's (1994b) paper with a summary of anti-fraud and correct payment measures in place for unemployment benefits in 1995–96 in the DSS. Generally speaking, strategy initiation dates were not included. Strategies were framed around three primary 'objectives' (Nolan 1997: 74):

1. *prevention*—to have systems in place that minimise the risk of incorrect payment;
2. *detection*—to detect incorrect payments at the earliest possible stage if it does occur; and

3. *deterrence*—to deal decisively with the cases that are detected, thus creating a public recognition of the risks and penalties involved in attempting to defraud the department, and to promote voluntary compliance.

Under 'prevention', Nolan described 'front door' mechanisms, including proof-of-identity checks, such as tax file number checks (Nolan 1997). 'Accelerated Claimant Matching' was aimed at preventing 'duplicate claims', where customers might obtain two or more benefits that are mutually exclusive. The system was described as

a major success, savings consistently exceeding original estimates. For 1995/96 total savings from Accelerated Claimant Matching were \$58.2m' (Nolan 1997: 76).

Valuable prevention measures included publicity about anti-fraud measures and the provision of accurate and easy to understand information to applicants about 'rights and obligations'. Nolan also noted that

[d]irect payments to bank accounts have also reduced the occurrences of fraud, which were evident in previous years when the department paid customers by cheque (Nolan 1997: 76).

Under 'detection', Nolan reported on data-matching initiatives, mobile review teams and the work of regional offices. He observed that:

Traditionally, cases were identified for review by local regional office staff using their local knowledge and in other instances by acting on information from the public. Both of these methods continue to play a major role in detecting incorrect payment and fraud. Information from the public, which can be given anonymously, is of particular assistance in addressing risks such as fitness for work, domestic/marital status and cash-in-hand earnings.

These traditional methods have now been supplemented by risk-based sampling methods using customer characteristics. Essentially this is done by examining the eligibility of random samples of customers and using the results of those reviews to develop risk algorithms. These algorithms are then applied across the program generally and customers with 'risk' characteristics are selected for review (Nolan 1997: 76).

The Data-matching Program (well established by this time) involved a 'direct saving' in 1995–96 estimated at \$93m (Nolan 1997).

The success of the Mobile Review Teams (MRTs), introduced in 1986 to check on the job seeking activities of the long-term unemployed, led to extensions to cover all benefits:

MRTs play an important detection role by providing a high-profile review mechanism that concentrates on specific districts and areas of risk not covered by data-matching. In many cases MRTs investigate public information allegations. Their relatively high profiles are reflected by their results. In 1995–96 mobile review teams completed 218,716 reviews (up 9,909 on the previous year), with a cancellation rate of 11.2 per cent. Total savings for 1995–96 were \$217.6m (up \$16.3m on the previous year) (Nolan 1997: 78).

The bulk of the anti-fraud and correct payment review work was carried out by regional offices (including 'mail reviews' and field work), usually by dedicated compliance units. In 1995–96, 9.8 percent of the 2,408,402 reviews conducted resulted in cancellations or downward adjustments of benefits and estimated savings of \$42.3m (Nolan 1997).

'Deterrence' strategies were discussed by Nolan under four headings—*overpayments and debt recovery, prosecutions, non-payment and rate-reduction penalties* and *voluntary compliance*. Recoveries were pursued by

withholding payments, arranging for repayment by regular instalments from the debtor's bank account, civil action and garnishee of wages or assets, where other recovery methods have not been fully successful (Nolan 1997: 80).

Prosecutions were seen as 'a crucial element of deterrence' against 'serious offences' by both customers and staff (Nolan 1997: 81). In 1995–96, the Commonwealth Director of Public Prosecutions pursued 2,631 cases referred by the Department, with a 98.5 percent conviction rate. Non-payment and rate-reduction penalties were applied to customers who failed to comply with job search and reporting requirements. Finally, information about rules, penalties and prosecutions was

supplied directly to applicants, and promoted through the media. This was intended to encourage voluntary compliance in terms of accuracy of information supplied to the Department, including notification of changes of circumstances.

Nolan documented how the new conservative Howard government, elected in 1996, tightened job search tests through intensified case management and an 'activity test', which required documentation of all job search and related actions. All payments were paid at the end of a fortnight of unemployment, subject to submission of an SU19 form detailing all job search activities and any income in that period. The signed forms were used in prosecutions. A long-term 'Job Seeker Diary' was introduced, where a required number of approaches to employers was meant to be recorded. Department staff could use the diary to profile the characteristics of the job seeker and there was some effort to facilitate compliance through advice and offers of training positions. An 'Employer Contact Unit' was also set up to verify job seeker claims (Nolan 1997). Breaches of job seeking and reporting requirements led to cancellations or reductions in payments. A first breach attracted a six week suspension of benefits and a second breach attracted a 13 week suspension. If a customer moved to a low employment area they would lose benefits for 26 weeks. There was also a tightening of the definition of 'unsuitable work' and a tightening of the interpretation of 'sufficient reason' for refusing a job (Nolan 1997). Nolan (1997) reported that the SU19 form had a dramatic effect on the detection of non-compliance and subsequent adjustments to entitlements:

Approximately 40 per cent of all SU19s in any fortnight include notification of a change of circumstances. The majority of these result in a reduction in payment, most due to the declaration of casual earnings. In addition over a 12-month period in excess of 700,000 cancellations were attributable to the SU19 requirement...Of the 700,000 cancellations, 350,000 are 'automatic cancellations' as a result of failure to lodge an SU19 form (Nolan 1997: 84–85).

Finally, Nolan (1997) reported briefly on the introduction of the 'Work for the Dole Scheme' in 1997 under a more explicit 'mutual obligation'

philosophy. The scheme was initially aimed at 18 to 24 year olds who had been unemployed for six months or more. The compulsory scheme required those under 21 years of age to work for 24 hours in a fortnight and those over 21 years of age to work for 30 hours. The intention was to assist participants find a job through enhancing their work experience, skills and contacts, but also to act as a deterrent to 'dole bludgers'.

Importantly, Nolan (1997: 73–90) also documented how compliance strategies were focused on 12 key areas of risk identified by departmental research:

1. Identity: fictitious or assumed identities may be used to obtain payment;
2. Dual payments: one person may claim two or more payments which are mutually exclusive (eg Newstart Allowance and AUSTUDY);
3. Marital status: a marriage-like relationship will affect the rate of Newstart Allowance and is relevant to the means testing of payments generally;
4. Fitness for work: this may preclude eligibility for disability-related payments (Disability Support Pension) or an activity test exemption;
5. Work efforts: eligibility for Job Search Allowance/Newstart Allowance generally requires active efforts to find employment;
6. Income: a source of income may not be declared or their value understated;
7. Assets: assets may not be declared or their value understated;
8. Compensation: this may not be disclosed (for most payments there are special direct-deduction, recovery and preclusion rules for treatment of compensation);
9. Residence: prohibited non-citizens are not eligible for payments; some payments are not payable for periods outside Australia (eg Newstart Allowance) or have time limitations;
10. Imprisonment: eligibility is precluded during periods of imprisonment;
11. Dependants: payments for dependent children are no longer payable where the person loses custody, care and control;
12. Rent: rent may not actually be paid or the amount may be overstated to obtain the maximum rate of rent assistance.

Nolan's (1997) paper also flagged an expansion of large-scale risk management and review processes, and it argued that the planned centralisation of payments in a Commonwealth Service Delivery Agency (Centrelink) would make fraud detection and prevention more efficient.

These accounts of welfare fraud prevention and detection initiatives indicate that many were effective in 'secondary prevention' – detecting fraud and stopping its continuation. This often occurred in large numbers and in terms of large estimated savings. There was also evidence of significant achievements in recovering losses. However, across these initiatives, specific and detailed cost–benefit data were often lacking. There have also been some promising initiatives in primary prevention, including through enhanced identification verification, wide advertising and communication of rules, and training of staff in early detection. Nonetheless, a continuing feature of increased efforts to combat welfare fraud is that they generally appear to be more effective in detecting and stopping existing fraud (secondary prevention) than stopping the initial onset of fraud (primary prevention). In theory, prosecutions might increase for a period after new detection and prevention initiatives are introduced, but then the number should start to reduce as the system matures. However, enhanced detection mechanisms can mean that offenders taken out of the system are simply replaced by new entrants, creating an expensive 'revolving door' phenomenon, rather than an effective prevention system. Hence the need to focus on primary prevention in order to halt the onset of new frauds and reduce the overall incidence of detected and suspected fraud.

## Welfare fraud prevention research

As noted, there are very few academic or independent scientifically-constructed, prevention-oriented studies in the area of welfare fraud prevention. One exception is Kuhlhorn's 1982 study of the implementation of data matching in Sweden (Kuhlhorn 1997). The study was centred on the impact of a computer-based system for cross-referencing two databases. One database consisted

of income estimates for recipients of subsidised housing (the target group), the other contained estimates for recipients of sickness insurance. In the first case, applicants were motivated to understate their income in order to increase their housing subsidy. In the second case, they were motivated to overstate their income to increase their sickness benefit. In the first year of operation (1979), 64,710 households were identified where housing subsidy income estimates were 1,000 Swedish Crowns or more below the medical insurance claim. This was 19 percent of households checked. These households were sent letters requesting explanations. The final outcome was that 9,170 (or 2.7%) of 'checked households' lost all or part of their subsidy. A further 30,238 households lost all or part of their subsidy as a result of voluntarily reporting changes in their income. In total, 6.1 percent of households whose details were cross-referenced had their subsidy removed or downgraded. In the following year, the figure was 11.4 percent, with an increase in voluntary disclosures and a decrease (to 1.2%) of those detected by the system.

Kuhlhorn (1997: 238) described the cross-referencing capacity of the new Swedish system as 'a crime prevention Eldorado', but recommended the centralisation of income assessments for all benefits in a single statement to improve efficiency. He did not describe any prosecutions resulting from the cases that appeared to be deliberately falsified, nor were there any data on cost–benefit ratios. The study did however report the findings of a national opinion poll on the legitimacy of the program, which found that 94 percent of people thought the checks were appropriate and 94 percent thought they would motivate people to more accurately report their income. Of those recipients of the housing subsidy in the sample, 87 percent supported the checks (see also SNCCP 2008).

Another of the very few studies on welfare fraud reduction is an early US study on the introduction in 1982 of computer-based 'wage-matching' systems for clients on a food stamp and a family support program. Greenberg, Wolf and Pfiester (1986) estimated total savings from halted payments and restitution in four counties at US\$4.3m. The total systems costs were US\$2.2m. Net savings were therefore substantial. The primary identifier was normally social security numbers, but names and

birthdates were also used at times. The main databases compared were ones containing client-reported data and ones containing employer-reported wage data. While the focus was on correcting incorrect information and incorrect payments, suspected fraud was followed up with investigations, usually involving contact with the client and employer, with prosecutions pursued for more serious cases (see also Greenberg & Wolf 1985).

Reeve (2006) reviewed initiatives in the United Kingdom in the areas of centralised service delivery, enlarged risk assessments, follow-up investigations of suspicious claims, and more aggressive prosecution and recovery actions. Reeve (2006) was supportive of similar Australian initiatives as responsible cost-effective measures to protect public money, but argued there was scope for improved administrative procedures to maximise primary prevention. Reeve (2006: 44) advocated moving beyond a 'detection-investigation-prosecution model' to an 'intelligence-led model' based on an 'IT-enabled-transformation of administrative services'. This would include wider data-matching processes between more government agencies and improved software that allows 'real time transaction monitoring' of applications across government and bank databases (Reeves 2006: 44).

In an academic study of related value involving the insurance industry, Blais and Bacher (2007) discovered that warning letters significantly reduced suspected 'claim padding' by individuals. The letters, accompanying claim forms sent to claimants, warned that the company was committed to prosecuting fraud, outlined the legal sanctions and referred to public opinion that was opposed to claim padding. The effect was measured in reductions to the value of estimated losses made on insurance claims.

## Theoretical frameworks

The sources on welfare fraud prevention strategies reported in this section—mainly government agencies—tend not to have clear theoretical positions about best-practice approaches.

Nonetheless, theory is implicit in these strategies and the following subsections outline three areas of established theory that can usefully be applied to welfare fraud prevention in advancing effectiveness by making various approaches more explicit and open to scrutiny and testing. The three theoretical frameworks developed here are:

- situational crime prevention;
- security management; and
- a model hierarchy of fraud control goals.

### *Situational crime prevention*

Situational crime prevention has been one of the most important theoretical frameworks for developing effective crime prevention strategies. The approach involves the introduction of measures designed to pre-empt offences at the location in which crime occurs. Clarke (1997: 6) refers to four components of the situational prevention framework:

1. A theoretical foundation drawing principally upon routine activity and rational choice approaches,
2. A standard methodology based on the action research paradigm,
3. A set of opportunity-reducing techniques, and
4. A body of evaluated practice including studies of displacement.

The guiding principles and techniques have supported numerous projects demonstrating major reductions in crime (Clarke 1997). Many innovations in welfare fraud prevention resonate with these principles (Kuhlhorn 1997; SNCCP 2008).

Situational crime prevention shifts the focus away from a traditional criminological interest in the disposition, or background motives, of offenders and places attention instead on the opportunity factors in the setting where the crime event takes place. The approach perhaps understates the value of changing the motives of offenders, through treatment programs, sanctions and deterrence, or social equity programs. Nonetheless, the many successes of situational interventions demonstrate the utility of the approach, especially for agencies that have a mission for crime prevention but face considerable challenges in changing dispositional factors in the potential offender population. The

**Table 13** Techniques of situational crime prevention for welfare fraud

Increase the effort	Increase the risks	Reduce the rewards	Reduce provocations	Remove excuses
<b>1. Target harden</b> Not applicable	<b>6. Extend guardianship</b> <ul style="list-style-type: none"> <li>Encourage public tip-offs</li> <li>Upgrade fraud prevention training and responsibilities for welfare agency staff, especially assessment officers</li> </ul>	<b>11. Conceal targets</b> Not applicable	<b>16. Reduce frustrations and stress</b> <ul style="list-style-type: none"> <li>Make forms easy to complete</li> <li>Provide friendly and accessible advice</li> </ul>	<b>21. Set rules</b> <ul style="list-style-type: none"> <li>Statutory law</li> <li>Clear regulations (eg clients must inform welfare agency of changes in circumstances)</li> <li>Clear prosecution policy</li> </ul>
<b>2. Control access to facilities</b> <ul style="list-style-type: none"> <li>Better identity checks</li> <li>Better eligibility tests</li> </ul>	<b>7. Assist natural surveillance</b> <ul style="list-style-type: none"> <li>Make it easy for the public to report suspected fraud (eg online, free call)</li> </ul>	<b>12. Remove targets</b> <ul style="list-style-type: none"> <li>Reduce the number of types of benefits</li> <li>Enlarge alternatives to welfare (eg subsidised employment, better compulsory superannuation)</li> </ul>	<b>17. Avoid disputes</b> <ul style="list-style-type: none"> <li>Easily accessible review and appeals system</li> <li>Easily accessible complaints system</li> </ul>	<b>22. Post instructions</b> <ul style="list-style-type: none"> <li>Place signage about fraud in welfare agency offices, on all correspondence and at webpages</li> </ul>
<b>3. Screen exits</b> <ul style="list-style-type: none"> <li>Review status of all clients exiting the system</li> </ul>	<b>8. Reduce anonymity</b> <ul style="list-style-type: none"> <li>Data matching</li> <li>Better identity checks</li> </ul>	<b>13. Identify property</b> Not applicable	<b>18. Reduce emotional arousal</b> <ul style="list-style-type: none"> <li>Warn against fraud on forms</li> </ul>	<b>23. Alert conscience</b> <ul style="list-style-type: none"> <li>Warn against fraud on forms</li> <li>Fraud awareness programs (theft from taxpayers)</li> </ul>
<b>4. Deflect offenders</b> <ul style="list-style-type: none"> <li>Work for the dole</li> <li>Disability employment</li> <li>Enlarge compulsory superannuation</li> <li>Extend aged pension age</li> </ul>	<b>9. Utilise place managers</b> <ul style="list-style-type: none"> <li>Upgrade fraud prevention training and responsibilities for Centrelink regional and branch managers</li> </ul>	<b>14. Disrupt markets</b> Not applicable	<b>19. Neutralise peer pressure</b> <ul style="list-style-type: none"> <li>Publicise anti-fraud messages</li> <li>Publicise convictions and sentences</li> <li>Avoid jail where fraud rationalisations and techniques can be learned</li> </ul>	<b>24. Assist compliance</b> <ul style="list-style-type: none"> <li>Make forms easy to complete</li> <li>Make it easy to report changes to circumstances</li> <li>Provide accessible plain language advice</li> </ul>
<b>5. Control tools/weapons</b> <ul style="list-style-type: none"> <li>Better identity checks</li> <li>Prevent identity theft</li> <li>Prevent identity fabrication</li> <li>Money laundering checks, for example, transaction monitoring</li> </ul>	<b>10. Strengthen formal surveillance</b> <ul style="list-style-type: none"> <li>Frequent routine compliance reviews</li> <li>Routine data matching</li> <li>Boost in-house investigations against staff fraud</li> <li>Develop partnerships with other investigative agencies</li> <li>Covert surveillance</li> </ul>	<b>15. Deny benefits</b> <ul style="list-style-type: none"> <li>Recover proceeds of fraud</li> <li>Seize assets from fraud</li> <li>Enhance debt recovery methods</li> </ul>	<b>20. Discourage imitation</b> <ul style="list-style-type: none"> <li>Advertise convictions</li> <li>Advertise surveillance</li> </ul>	<b>25. Control drugs and alcohol</b> <ul style="list-style-type: none"> <li>Make therapies available to drug-addicted customers</li> </ul>

Source: Adapted from Cornish and Clarke 2003



'routine activity' perspectives on offending (Cohen & Felson 1979) and the 'rational choice' perspective (Cornish & Clarke 1986), referred to in the quote from Clarke, also demonstrate how the decision to offend is often based on a calculation about the likely success of a crime. Changes in modern lifestyles created increased opportunities for crime, in increasing anonymity, for example, or increased wealth and reduced guardianship.

As was outlined in the previous sections, social welfare provision includes characteristics that make it attractive for attempted fraud. A number of these factors are consistent with opportunity perspectives. These include the universal availability of welfare and the rights of all citizens to apply for benefits. As noted, there has also been a reluctance to place challenging identification and verification checks at the entry level to welfare systems because of the needs-oriented nature of welfare. It is also often difficult to monitor changes in recipients' circumstances that place them in breach of rules. A new partner who co-habits with a welfare recipient might disguise their status in terms of being a boarder in a home. Transactions in the 'black' or 'cash' economy, outside payment rules, are also extremely difficult to monitor because of the difficulty of tracing cash.

The welfare fraud detection and prevention strategies outlined in the report so far are designed, at least in part, to narrow the opportunity structure for fraud and are consistent with Clarke's definition of situational crime prevention:

Situational prevention comprises opportunity-reducing measures that (1) are directed at highly specific forms of crime, (2) involve the management, design or manipulation of the immediate environment in as systematic and permanent way as possible, (3) make crime more difficult and risky, or less rewarding and excusable as judged by a wide range of offenders (Clarke 1997: 4).

Cornish and Clarke (2003) break down this approach into 25 techniques and a number of these are particularly relevant to welfare fraud reduction. Table 13 provides a matrix of the 25 techniques, grouped under the five headings of *increase the effort*, *increase the risks*, *reduce the rewards*, *reduce provocations* and *remove excuses*, with at least one welfare fraud-related example for each relevant technique.

As can be seen in the Table, a large number of welfare fraud reduction strategies are consistent with situational techniques. The most relevant involve *access control*, *facilitating compliance*, enhanced *guardianship*, *formal and informal surveillance*, *rule setting*, *denying benefits* and *alerting conscience*. One of the advantages of a matrix like this is that it encourages fraud prevention officers to think about additional techniques that could be introduced and trialled. One risk though with a matrix is that attempting to include all strategies can undermine organisational goals. Removing targets, for example, or *conceal targets*, are problematic strategies in a welfare context. Here, Crowe provides a useful caution when discussing the place of Crime Prevention Through Environment Design (CPTED) in an organisation:

CPTED planners are trained to reprogram their thinking from focusing solely on security and crime prevention to emphasizing the objectives of the agency or organisation they are trying to help. It is important to remember a CPTED motto, 'What are you trying to do here, and how can we help you to do it better?' If you are meeting your objectives, the potential for crime and loss is reduced. It is an axiom that human functions that achieve their objectives experience fewer crimes and losses. Crime and loss are a by-product of human functions that are not working (Crowe 2004: 82).

The matrix of situational techniques might also suggest the promotion of 'off-the-shelf' or tailor-made 'solutions' to crime problems. However, the Table only provides an inductively developed list of strategies available for application in highly variable forms in differing contexts. What is perhaps most relevant about situational prevention is the focus on fitting interventions to specific situations and this can only be determined through the application of a research (or an *action research*) approach. The *action* component refers to practitioner-researcher collaboration and the involvement of all relevant stakeholders in the applied research process. In that regard, Clarke (1997: 15) sets out five stages required for the implementation of a situational prevention project:

1. Collection of data about the nature and dimensions of the specific crime problem;

2. Analysis of the situational conditions that permit or facilitate the commission of the crime in question;
3. Systematic study of possible means of blocking opportunities for these particular crimes, including analysis of costs;
4. Implementation of the most promising, feasible and economic measures;
5. Monitoring of results and dissemination of experience.

An important implication of situational crime prevention for welfare fraud prevention is the focus on measuring the impacts of prevention initiatives, including incidents and costs. In addition, the process of research, refinement of interventions and evaluation can be repeated almost indefinitely to ensure optimal outcomes. Overall, the explicit adoption of a situational approach to welfare fraud prevention will entail repeated monitoring of impacts, experimentation with tailor-made interventions and assessment of the cost–benefit ratios of interventions. This is an area where there are a number of guidelines to assist in developing and evaluating projects that build on the action research and situational crime prevention paradigms (eg Homel 2009; Marks, Meyer & Linssen 2005).

### *Security management principles*

*Security management* is now a developed science that integrates the knowledge base of situational crime prevention with principles derived from the experience of security practitioners. Security management exemplifies the application of situational crime prevention principles in an institutional environment. Although the term may invoke images of uniformed guards and CCTV, and an orientation towards property crimes and crimes of violence, the practice of security management relates directly to all forms of fraud, including welfare fraud.

The concept of security management entails a systematic and planned approach to security, as opposed to crisis management or reactive security—where preventive actions are mainly adopted after an incident. The focus of security management is on anticipating problems (in the most informed way possible) and pre-empting them in the most

appropriate way possible (Fennelly 2004). Principles of security management can be organised and expressed in different forms. One popular model by Walsh and Healy (1990) employs the concept of a ‘systems approach’. The model is centred on a three step process that is very similar to the situational prevention action research paradigm:

- (1) vulnerability analysis, (2) installation of countermeasures, and (3) a test of the operating program to insure its effectiveness (Walsh & Healy 1990: 1–7).

Within this framework, Walsh and Healy (1990) propose three categories of countermeasures—‘software, people, and hardware’—which need to be involved in the security system and be working together to ensure effective protection.

*Software* refers to policies, rules, procedures and training that set the whole security framework for an organisation. It includes establishing a security culture, with clear expectations about security standards and responsibilities that starts at the top and continues down to all staff. *People* refers to the assignment of security duties and responsibilities to ensure adequate monitoring and coverage of all aspects of an organisation’s functions and facilities from a security perspective. *Hardware* refers to all target-hardening, monitoring and access control devices, such as fences, locks, safes, alarms, cameras and lighting. In the case of welfare fraud, *hardware* can be interpreted as overlapping somewhat with *software*, including all prevention and detection strategies in practice, such as data matching, surveillance, identity verification checks and eligibility checks.

Walsh and Healy’s (1990) systems approach can be enhanced with reference to two other key principles of security management—*risk assessments* and *defence-in-depth*. Both of these concepts were developed in relation to physical security. Nonetheless, they also have relevance to fraud with some modifications. Security risk assessments (or security audits) involve inspections of locations to assess security strengths and weaknesses (Fennelly 2004). The survey allows the security manager to identify areas of vulnerability where security needs to be improved. The process also assists in targeting resources (using a scale of risk) to ensure efficiency in crime prevention expenditures. The main elements



of a risk assessment are set out below. The terminology illustrates the traditional focus on physical security, but it should be kept in mind that the process has direct relevance to financial systems and fraud control. Security risk assessments should:

1. Be conducted on a regular basis, at least annually.
2. Be comprehensive, covering every square foot of a location, as well as examining the immediate surrounds and local area.
3. Go beyond physical security to analyse the organization's security plan and staff training.
4. Utilise a checklist that obliges auditors to cover all aspects of security...
5. Periodically include an independent security consultant.
6. Integrate as much information as possible, including internal incident and loss data, local area crime statistics and trends, and local demographic data.
7. Ensure that insurance is adequate and has kept pace with the current value of assets.
8. Ensure that security modifications do not adversely affect safety and check for displacement.
9. Covertly test security without staff knowledge (subject to safety procedures) (Prenzler 2009: 22).

A security risk assessment of a welfare agency, with hundreds of thousands of customers, would need to include auditing of cases by a sampling methodology. Vulnerabilities that could be assessed would include quality of identification documents, evidence of maintenance of eligibility (eg job search criteria) and the product of data matching. This is essentially what is already done by many welfare agencies with compliance reviews and follow up investigations where suspicions are flagged.

Contemporary best practice now integrates these practices within a broader risk management framework. Risk surveys attempt to forecast all threats to the viability of a business or institution. For example, an economic downturn may involve a risk to markets and also an increased risk of fraud. Risk assessments are aided by matrixes that assign threat levels to different crime categories. Two key

concepts here are *criticality*—the extent to which loss or damage would affect the functioning of the organisation and *probability*—an estimate of the likelihood of an adverse event occurring (Walsh & Healy 1990). These should be used interactively to match countermeasures to risk. For example, major frauds involving false identities might have a low probability of occurring but a high criticality, suggesting that preventive actions need to be resourced at a higher level than the projected incidence rate would suggest is warranted.

The security management concept of *defence-in-depth* also has relevance to welfare fraud. In its original conception in relation to physical security, it involves putting in place concentric rings of protection that utilise physical structures and human guardianship to block or impede the progress of an intruder towards their target, as well as making it more difficult for the intruder to exit with stolen goods (Prenzler 2009). The outer perimeter of security should be an initial deterrent to intruders. Where this fails, checkpoints at each stage should allow sufficient time for a detection system to alert an appropriate guardian who can intercept the intruder. In the case of welfare fraud, perimeter security relates to controls on entry to the system, mainly eligibility tests and identity checks. The fact that many welfare frauds have been perpetrated over numbers of years shows how important the initial screening process is. Once inside, it may be difficult or impossible to ever identify the fraudster and stop the fraud. One of the principles that applies here—from the concept of CPTED (closely related to situational crime prevention)—is that the entrance to a premise should appear welcoming to 'normal' or legitimate users but deter 'abnormal' or illegitimate users (Crowe 2004). Examples would include friendly, polite, helpful reception staff who also are clearly and firmly committed to enforcing the rules and provide warnings against fraud. Further deterrents can be provided by measures outlined in Table 13, such as clear warnings on posters at reception areas and on forms.

Defence-in-depth also teaches that interiors should include checkpoints where the progress of an intruder can be stopped, damage minimised and capture of the intruder can lead to recovery of stolen property. In other words, the system should also prevent escape. In the case of welfare fraud, scrutiny

of customers leaving the system may help to detect frauds that have been ongoing and invoke the process of recovery of losses.

*Penetration testing* is one part of a systems test used at times in security audits that has application to welfare fraud. Penetration testing involves a specialist acting incognito to attempt to bypass security. Attempting a burglary would be one example. A specialist is not essential but they are most likely to test the security system to its limits. Penetration testing has been particularly useful in information technology security in identifying vulnerabilities and closing them off before a real hacker makes an attempt (Long 2007). Welfare security system tests should be easily constructed to involve a variety of scenarios including false identity and false eligibility claims. It would also be possible to have persons act as underground agents and seek to penetrate employment areas that have a reputation for attracting welfare fraudsters with cash-in-hand payments.

A final relevant principle of good security management is professionalism. Security managers should stay up to date with developments in crime prevention in their field. They do not necessarily have to have a technical knowledge of all aspects of security under their authority (Crowe 2004), but they should be familiar with all the principles of security management, be able to work with technicians and be engaged as 'reflective practitioners' in encouraging research and sharing knowledge. They should be engaged in professional associations, meetings and other forums for sharing knowledge and overall, they should seek to be involved in a process of continuous improvement.

### *A model hierarchy of fraud control goals*

Another way to think about the issue of welfare fraud prevention is by reference to a model hierarchy of fraud control goals, with a focus on prevention. This is closely related to the idea of an *enforcement pyramid*, developed in the field of regulatory enforcement. For example, Ayres and Braithwaite (1992) have argued that regulatory compliance is most likely to be achieved when regulators have a mix of enforcement strategies available to them.

Placing strategies in a hierarchy allows regulators to select the strategies most likely to be effective in different circumstances and to escalate levels of enforcement when lower levels fail. Each strategy comes with advantages and costs or risks that should be estimated before the strategies are put into action. Braithwaite's enforcement pyramid is shown in Figure 7.

Lower level strategies, such as *persuasion* or a *warning letter* might work in circumstances where regulatory targets are fairly responsible and simply need to be better informed of their obligations or of potential penalties. However, these strategies might fail and problems of non-compliance continue when a target is irresponsible. However, civil or criminal penalties in the form of fines might not work if a company can absorb these costs. Top level strategies, such as *licence revocation* or *imprisonment* may stop a problem such as pollution or have deterrent effect through fear of returning to jail. However, these strategies may have unintended negative effects, such as closing a business, thereby generating unemployment and loss of service. On the whole, interventions should also be matched to the severity of non-compliance. Evidence of more harmful and serious offending, such as serious violations of workplace health and safety laws, might need to be pre-empted or stopped by immediate applications of higher level enforcement methods. Lower level violations, such as discriminatory employment practices, might be best matched with lower level interventions.

The anti-welfare fraud strategies discussed in previous subsections of this section can be usefully placed into a pyramid such as this. Criminal penalties most likely belong at the top, with repayments below that, adjustment of entitlements below that and warnings at the bottom. However, decisions about the best mix of strategies can also be aided by an associated hierarchy focused on the goals of a system. Developing a goal hierarchy allows for resources and strategies to be prioritised at the higher levels and justifications developed for resource allocations. A useful starting point is a hierarchy of fraud control goals developed by Hayes and Prenzler (2003), which attempts to prioritise potentially conflicting goals. For example, systems can be focused on reducing the number of frauds or the severity of frauds. Systems can also be offender

**Figure 7** Ayres and Braithwaite's enforcement pyramid



Adapted from Ayres and Braithwaite 1992: 35

oriented (focused on detection and punishment) or prevention oriented (focused on closing off opportunities). It should be emphasised nonetheless that the goals are not all mutually exclusive. They may overlap and it is possible that some strategies will contribute to more than one goal. Figure 8 provides a modified version of this hierarchy of fraud control goals.

The ultimate goal of a welfare fraud prevention scheme is to eliminate all incidents. Of course, eliminating fraud can be difficult and/or impossible to prove because fraud involves deception and it is always possible that undetected fraud is occurring. It is also the case that frauds vary significantly in value. Arguably, the critical value in welfare fraud is the total financial losses, not so much the number of frauds and a small number of frauds often account for a disproportionate amount of loss. Consequently, it may be more cost effective to focus resources on stopping the more severe frauds. Theoretically, elimination should remain at the top, but the 'next best' goal is therefore a reduction in losses. This will then most likely entail a focus on the types of fraud that attract the greatest losses.

This requires research to identify the most damaging fraud areas and the cost-benefit ratios of different prevention initiatives. Previously documented losses from fraud provide baseline data for measuring impacts. It is also possible therefore (although not inevitable) that increased recoveries will reduce the

total losses. In other words, a focus or part-focus on detecting and stopping existing frauds and recovering proceeds of crime may also prove the next best goal (overlapping with goal 2). Charging offenders for the costs of investigation and recovery action may also further reduce losses. In terms of stopping frauds, this then leaves goal of reducing incidents. All frauds involve some loss and even attempted frauds usually require a response, entailing some administrative costs. Evidence of fraud, even small frauds, also challenges the legitimacy of the system. Some attention should therefore be given to reducing the overall numbers of frauds. Again, it is likely that the best strategies are likely to be identified by analysis of the spread of fraud types and cost-benefit ratios of interventions to reduce incidents.

Another benefit of prevention, especially primary prevention, lies in 'saving' offenders from the negative effects of criminality including imprisonment, fines, debt, unemployment, stigma, and fractured families and broken relationships. This is particularly relevant when many potential offenders are likely to be impoverished and in need of government assistance because of illness, disabilities, age or other factors inhibiting their capacity to live independently. Finally, there is a moral and legal obligation to convict and penalise offenders. On its own, this satisfies a need for justice, but it does not necessarily contribute to

**Figure 8** A hierarchy of welfare fraud control goals



Adapted from Hayes and Prenzler 2003: 96


prevention. However, it can be managed in a way that might aid deterrence, incapacitate offenders for a period and facilitate restitution through court assigned recoveries. This further illustrates points of overlap across the hierarchy.

## Conclusion

This section has outlined developments institutionally and in the research literature on welfare fraud detection and prevention. There is very little systematic research in the academic literature on effective welfare fraud prevention measures beyond two studies on data matching from the early 1980s. Nationally and internationally, the 1970s through to the 1990s saw considerable tightening of eligibility tests and innovation in fraud prevention strategies by different welfare agencies. Improvements in computer networking capabilities allowed for the

introduction of data-matching programs. These have been gradually extended to include most government departments where personal information may conflict with information held by welfare agencies in relation to the eligibility of customers.

Many of these innovations are reported in agency annual reports and fraud prevention plans, but evaluation is rudimentary, usually limited to gross estimates of savings and recoveries from stopping existing fraud. There would therefore appear to be greater scope for in-house research and evaluation, including a greater experimental approach based around the concepts of situational crime prevention, action research and security management. An explicit hierarchy of welfare fraud prevention goals can also be helpful in prioritising resources and strategies, and developing impact and process evaluation methods.



# Contemporary Australian strategies

This section reports on the current Australian system of welfare fraud prevention and detection. As previously indicated, the last 20–30 years have seen a great deal of innovation in Australia, consistent with the types of anti-fraud initiatives introduced in other countries. The section begins with a description of Centrelink’s fraud control framework, including governing legislation, related legislation, key policies and institutional structures. It then covers 13 strategic areas, with a focus on new initiatives or upgrades of established strategies. The section includes available data on impacts, including estimates of monies saved from stopping fraud and estimated financial recoveries related to specific strategies. A separate section reports on a recent evaluation of Centrelink’s fraud investigation methods by the ANAO.

The establishment of Centrelink in 1997 as the main service delivery agency for welfare benefits allowed for the centralisation and standardisation of anti-fraud methods. Consequently, the section is focused on the work of Centrelink. Nonetheless, it should be kept in mind that Centrelink’s partner agencies also conduct their own anti-fraud programs (eg Bayles 2008).

As noted in the *Method* section of this report, the main source for this section is Centrelink data provided specifically for this study between 2010 and 2011. Most of these data are for the financial period 2008–09, but data from other periods are included when these are the only data available or to provide some perspective over time. Some data have also been included from the 2009–10 period. Additional sources include Centrelink annual reports and ANAO reports, and job seeker compliance data from the DEEWR.

The main findings of the section support the conclusions developed in the second section, *Dimensions of Welfare Fraud in Australia*. According to available indicators, Centrelink has adopted many cutting edge and best practice methods of fraud prevention and detection in terms of public record information about international practices. Centrelink deploys a complex and sophisticated array of anti-fraud methods. It would seem that the probability of fraud being prevented and/or detected and stopped is quite high, given the diversity of overlapping controls currently in place. At the same time, the number of detected frauds remains stable and relatively high when theory suggests that the rate should be declining as a consequence of enlarged anti-fraud measures.

## The fraud control framework

In Australia, welfare fraud is made an offence under s 212 of the *Social Security (Administration) Act 1999* in relation to any 'false statement in connection with claim or hardship request':

- (1) A person contravenes this subsection if:
  - (a) the person makes a statement; and
  - (b) the statement is false or misleading; and
  - (c) the person is reckless as to whether the statement is false or misleading; and
  - (d) the statement is made in connection with, or in support of, the person's or any other person's:
    - (i) claim for a social security payment under the social security law...

Similarly, in relation to a 'false statement to deceive or affect rates', s 213 states:

- (1) A person contravenes this subsection if:
  - (a) the person makes a statement; and
  - (b) the statement is false or misleading; and
  - (c) the person is reckless as to whether the statement is false or misleading; and
  - (d) the person is reckless as to whether the statement:
    - (i) deceives, or might deceive, an officer doing duty in relation to the social security law; or
    - (ii) affects, or might affect, the rate of a social security payment under the social security law.

Chapter 5 of the Act covers debt recovery and also the capacity to waive debt.

Sections of the Commonwealth *Criminal Code 1995* also apply to crimes against social security law. Sections 11.1, 11.2, 11.4 and 11.5 relate to aiding and abetting breaches of the law, procuring offences, incitement and conspiracy. Section 6 of the *Criminal Code 1914* relates to acting as an 'accessory after the fact' — assisting an offender to dispose of the proceeds of crime or escape the law. Section 135.1 also prohibits 'general dishonesty', related to 'obtaining a gain':

- (1) A person is guilty of an offence if:
  - (a) the person does anything with the intention of dishonestly obtaining a gain from another person; and
  - (b) the other person is a Commonwealth entity.

Penalty: Imprisonment for 5 years.

- (2) In a prosecution for an offence against subsection (1), it is not necessary to prove that the defendant knew that the other person was a Commonwealth entity.

Causing a loss

- (3) A person is guilty of an offence if:
  - (a) the person does anything with the intention of dishonestly causing a loss to another person; and
  - (b) the other person is a Commonwealth entity.

Penalty: Imprisonment for 5 years.

(See also the *Criminal Code Amendment (Theft, Fraud, Bribery and Related Offences) Act 2000*.)

All Commonwealth department Chief Executive Officers have obligations to minimise fraud under the Commonwealth *Financial Management and Accountability Act 1997* and the Commonwealth Fraud Control Guidelines (AGD 2002). The Act stipulates that the Chief Executive 'must implement a fraud control plan for the Agency' and explicitly refers to fraud 'by persons outside the Agency' being included in the plan (s 45). According to the Commonwealth Fraud Control Guidelines

fraud control risk management should be integrated into the agency's philosophy, practices and business plans rather than be seen or practised as a separate program [to ensure fraud risk management] becomes the business of everyone in the organisation (AGD 2002: 8).

Each agency is also required to develop a detailed Fraud Control Plan, relevant to the specific circumstances and functions of each agency (AGD 2002).

The chief organisational element within Centrelink for the development of fraud control strategies and implementing fraud control practices is the Business Integrity Division. Fraud control is a key element of the Division's responsibility for ensuring accuracy in payments to customers (ANAO 2010). The Division is responsible for development and updating of the

department's Fraud Control Plan, for example, Centrelink's *Fraud Control Plan 2008–10* (no fraud control plan by Centrelink was made available for the current study.)

Compliance reviews (see below) are a mainstay in Centrelink's efforts to identify fraud and error. Reviews are conducted in the hundreds of thousands each year and are carried out by a business team called 'Payment Review'. Compliance reviews account for the majority of suspected fraud referred to Fraud Investigation Teams (ANAO 2010). All debt cases involving amounts over \$5,000 are automatically referred to the Fraud Investigation Teams, along with 'generic referrals (arising from anomalies identified in compliance reviews) including manually referred cases' and 'serious fraud referrals generated by Centrelink's intelligence work' (ANAO 2010: 65). The full array of Centrelink's fraud control measures is set out in the main body of this section.

When it comes to the decision-making process for launching suspected fraud investigations, Centrelink is guided by the *Overarching Principles for Selecting Cases for Investigation and Administrative, Civil and Criminal Sanction*. These principles—known as 'the HOCOLEA Principles'—were developed by the Heads of Commonwealth Operational Law Enforcement Agencies (ANAO 2010; HOCOLEA 2011). The principles state that:

Each HOCOLEA agency will have a compliance strategy which will include an enforcement strategy. The strategies will encourage compliance with the laws the agency enforces by making full use of all available and appropriate means, including:

- education programs;
- intelligence assessments, risk management and strategic targeting;
- auditing and other compliance work;
- applying remedies including administrative penalties;
- strategic use of available sanctions (administrative, civil and criminal), for example, prosecutions that send a message to a selected group;
- civil action;
- prosecution; and

- where appropriate, make proposals to amend Commonwealth law (HOCOLEA 2011: 2).

The principles also include a commitment to attacking 'serious crime' and therefore, by extension, serious fraud (ANAO 2010). Serious crime is defined in the HOCOLEA principles as any crime:

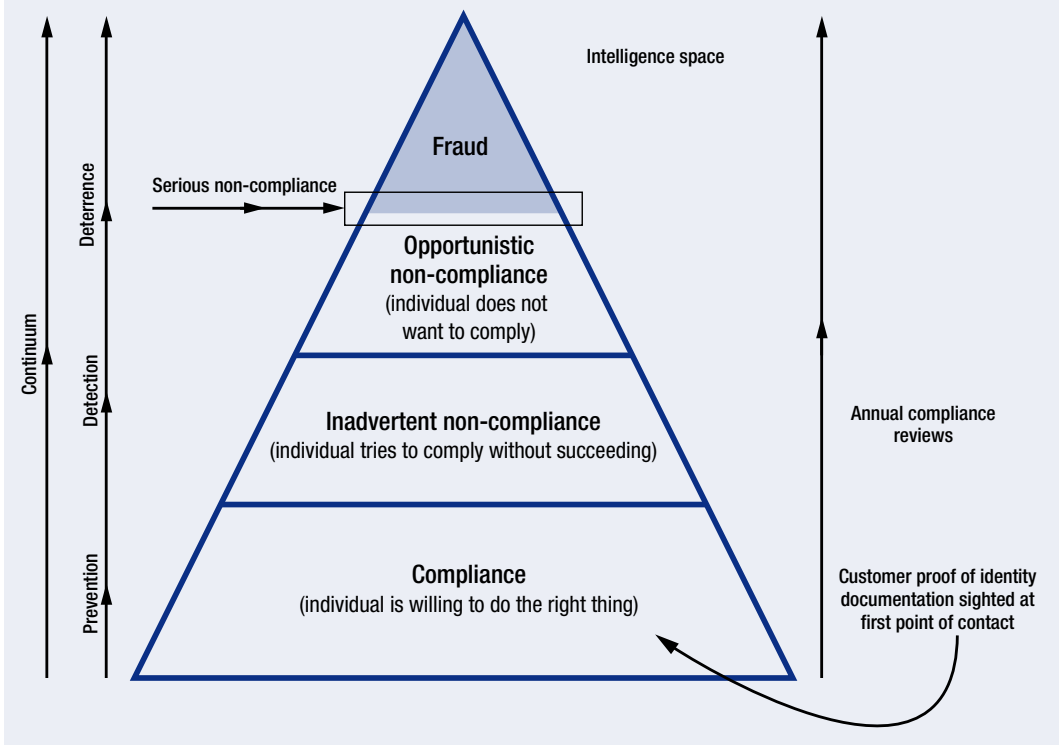
- which involved a significant degree of criminality on the part of the offender; and
- that the Commonwealth or the community expects will be dealt with by prosecution which is conducted in public before a court and usually carries the risk of imprisonment in serious cases; and
- either produced significant real or potential harm to Commonwealth or the community; or
- is of such a nature or magnitude that it is important to deter potential offenders and prosecution will act as a very effective deterrent (HOCOLEA 2011: 4).

It was noted in the ANAO's audit of Centrelink fraud investigations that Centrelink's *Fraud Control Plan 2008–10* does not refer to 'serious fraud'. This is despite the fact that serious fraud was meant to be the focus of Centrelink's fraud strategy following a 2006 budget initiative (ANAO 2010). Nonetheless, the target of serious fraud has been placed at the apex of a compliance framework adopted by Centrelink (ANAO 2010). As shown in Figure 9, the pyramid entails progressively closer scrutiny of customers' circumstances using a range of investigative techniques depending on the potential scale of losses and intentionality of suspected or detected non-compliance. The pyramid represents one way of combining the principles of Ayres and Braithwaite's (1992) enforcement pyramid with Hayes and Prenzler's (1993) hierarchy of fraud control goals discussed in the previous section. In commenting on the pyramid, the ANAO noted:

Encouraging compliance and ensuring that non-compliance is kept to a minimum is a major and ongoing task for agencies such as Centrelink, where there is a high exposure to external fraud and a close relationship between compliance strategies for customers and fraud control. Centrelink advised that it targets its fraud programs to the top of the pyramid, where customers have decided not to comply (ANAO 2010: 59).



**Figure 9** Centrelink's enforcement pyramid model for community compliance



Source: ANAO 2010: 59

## Specific Centrelink strategies and initiatives

The following section examines discrete anti-fraud measures adopted by Centrelink. An examination is made of the operations and rationales of these strategies and their impacts, including estimated savings. The section covers 13 strategies, including data matching, public tip-offs, media campaigns, stepped up investigations and recovery action. Information supplied by Centrelink is supplemented by some material from ANAO reports. Key findings and recommendations from ANAO audits are included, along with Centrelink responses. All estimated savings are gross except where otherwise indicated.

### *Administrative tests and enforcement*

Centrelink applies a complex set of rules and sanctions to ensure compliance with eligibility criteria for benefits. It was not possible to assess the rigour of checking and enforcement in the present

study. There is usually some discretion within a bureaucracy about rule enforcement (*cf* Johnson, Johnston & Lewis 1980) and allegations have been made of by Centrelink staff of under-enforcement (eg ITEC Employment & Community Enterprise Australia Limited 2011). At the same time, available data indicate an extensive program of enforcement, with a number of punitive outcomes. Eligibility criteria are highly variable, depending on the type of benefit. As one example, the Disability Support Pension is subject to a medical examination, with periodic re-examinations. An 'Impairment Table' is applied and a successful applicant must not be able to work for 15 hours or more per week (Centrelink 2011b; Karvelas 2011; NWRN 2011a). It was recently reported that over one-third of applications for disability support were rejected, on average. It was argued that a greater focus on the capacity to work by both the Howard and Gillard governments shifted many disabled persons onto long-term unemployment lists, with unemployment benefits paid at a lower rate than disability benefits (Karvelas 2011; Thomas 2011).



Income tests are also a major feature of the means-tested Australian system. This includes deeming of financial assets that should be receiving standard market rates of return on investments (Centrelink 2011a). Centrelink customers are also repeatedly reminded that they are required to inform Centrelink of any changes in income or circumstances that may affect their eligibility. Examples include a student on Austudy changing their enrolment or hours of work, or a person on a parenting payment changing their relationship status or leaving the country. No information was provided on how many eligibility checks lead to fraud investigations but it can be assumed that there is an overlap (see *Compliance reviews* below).

A short case study is provided below of job search requirements for people on unemployment benefits to illustrate the extent of administrative tests and enforcement. In relation to 'job seekers' for 2009–10, Centrelink reported that:

The compliance framework closely links the payment of income support to an individual's participation in the labour market and adherence to satisfying personalised activities included in their Employment Pathway Plan. The plan sets out the steps a job seeker must take to become employed or increase their chances of becoming employed. The current compliance framework affects job seekers who have a compulsory activity test or participation requirements while receiving Newstart Allowance, Youth Allowance (job seeker), Parenting Payment or Special Benefit.

When a job seeker fails to meet a compulsory requirement, centralised teams [Participation Solutions Teams] fully investigate the circumstances leading to a participation failure, which may be applied if the job seeker does not have a reasonable excuse. A failure may involve a financial penalty of up to eight weeks without payment when a job seeker refuses or fails to accept or commence suitable work without a reasonable excuse, leaves a job voluntarily or is dismissed from employment due to misconduct, or is assessed as persistently and deliberately noncompliant following a Comprehensive Compliance Assessment. In certain situations when the job seeker is prepared to re-engage with requirements, payment may be reinstated (Centrelink 2010: 27).

DEEWR (2010: 1) provides additional information on requirements and penalties:

**Financial Penalties**—A job seeker can have an eight week non payment period for persistent and wilful non compliance for refusing an offer of suitable work, for voluntarily leaving work or being dismissed for misconduct. A No Show No Pay (NSNP) penalty can be applied for failing to attend activities within the Employment Pathway Plan (EPP), or for failing to attend a job interview. A reconnection penalty can be applied for failing to attend a reconnection appointment, or for failing to return a Job Seeker Diary.

**Connection Failures** occur when a job seeker, without reasonable excuse:

- does not attend an appointment;
- refuses to enter into an Employment Pathway Plan;
- fails to meet a job search requirement in their Employment Pathway Plan.

**A Comprehensive Compliance Assessment** is conducted where a job seeker has:

- three (3) applied failures as a result of failing to attend an appointment or interview within a six month period; or
- three (3) days of applied No Show No Pay penalties, within a six month period.

A Comprehensive Compliance Assessment can also be requested at any time by either an employment services provider or Centrelink if a job seeker is failing to meet their participation requirements to determine why this is the case.

Centrelink (2010: 27) reported that in 2009–10 the Participation Solutions Team investigated 414,657 participation reports and 266,457 contact requests. The participation reports were made up of 411,762 participation failures and 2,895 serious failures. Unemployment non-payment periods amounted to 52,093. There were 7,304 Comprehensive Compliance Assessments conducted.

DEEWR reported that in 2009–10, financial penalties (or *connection failures*) were imposed on 32,891 job seekers. As a result, 10,838 persons were subject to an eight week non-payment period, while 22,053 were subject to 'other financial penalties' (DEEWR

2010: 2). Enforcement was stepped up in 2006 when the government introduced a ‘three-strikes’ rule. This entailed unemployment beneficiaries being cut off from payments for eight weeks following three infractions (Karvelas 2006). As a result, in 2006–07, 15,509 persons were reportedly excluded from unemployment benefits for the maximum eight weeks, compared with 6,432 in the preceding 12 months (Karvelas 2007). The change in policy was heavily criticised by the National Welfare Rights Network, who accused the government of taking ‘\$27.2m out of “the pockets of the most vulnerable Australians,”’ and leaving many destitute (Karvelas 2007: 9).

Although Centrelink can make direct payments for people who lose their allowance, the Network claimed that ‘of the 15,509 who lost payments, only 1,000 received help with bills’ (Raper cited in Karvelas 2007: 9). In 2011, the government further toughened job seeker rules by suspending benefits when a job seeker failed to attend an appointment (Ellis 2011). The benefit would be reinstated after the appointment was completed, but without back pay. This was designed in part to address the low appointment attendance rate of approximately 55 percent. More specific information is provided in the following subsections on eligibility checks.

## Compliance reviews

The second section of this report included data on Centrelink compliance reviews and outcomes. Since its establishment in 1997, Centrelink has conducted several million reviews of customer entitlements and eligibility on average each year. Compliance checks are ‘desk-based...using internal and external data and information sources’ (ANAO 2010: 61). Overlapping methods and inputs include data-matching results, public tip-offs and random sampling of cases for identity and eligibility checks. In 2009–10, Centrelink conducted 3,506,431 compliance reviews, which covered 49.9 percent of Centrelink customers. Of these reviews, 575,715, or 16.4 percent, led to cancellations or reductions in payments. Of these cancellations or reductions, 4,608, or 0.8 percent, were referred to the CDPP.

Centrelink reports that compliance reviews are ‘the most efficient and effective activity in detecting and targeting non-compliance’. Compliance reviews led

to the large majority (70–80%) of cases of suspected fraud referred to Fraud Investigation Teams for further assessment and possible formal investigation and prosecution (ANAO 2010: 61). As noted, these cases automatically include all debt cases involving amounts over \$5,000. An analysis by the ANAO (2010) found that, for the period 2005–09, 60 percent of fraud prosecutions originated from debt referrals.

## Data-matching program

The Data-Matching Agency was established in 1991. Its governing legislation, the *Data-matching Program (Assistance and Tax) Act 1990*, includes mandatory tax file declarations to facilitate data matching between government agencies. The main agencies were the then DSS and the ATO (Centrelink & the Data-matching Agency 2006). The purpose of data matching is to ensure that information about a customer held by an income support agency is consistent with that held by other agencies. Centrelink’s current Data-matching Program involves the ATO, the Department of Veterans’ Affairs and Centrelink. There are three main types of matching.

- *Payment matching* is designed to ensure customers are not ‘double dipping’ or receiving a payment that might be precluded by another payment. It also allows for debt recovery where debt on one type of payment can be recovered by withholdings from a current payment.
- *Income matching* allows customers’ declared income to be checked against income data held elsewhere, such as with the ATO. This also applies to relevant partners and parents.
- *Personal Identity Discrepancies* works by comparing personal identity information held by Centrelink for a specific Tax File Number with the personal identity details held by the ATO.

There is capacity for nine data-matching cycles each year. In 2008–09, Centrelink conducted four data-matching cycles, involving 53,643 reviews. The resulting corrections resulted in fortnightly savings of \$786,057 and \$112,562,246 in client debt for the year.

## Other data-matching initiatives

Centrelink is also involved in numerous data-matching exercises outside the legislated requirements of the Data-matching Program.

**Table 14 Other data-matching initiatives, 2008–09**

Project/agency	Introduced	Frequency	Purpose	Fortnightly savings	Debt raised
Tax File Number declaration form matching (ATO)	1987	Weekly	Identifies customers who begin employment	\$14,754,587	\$81,557,492
Accelerated claimant matching	1989	Weekly	Internal checks on new (and existing) claims against existing files to detect duplicate claims and unreported changes in circumstances. Allows for debt recovery from new payments	\$676,528	\$1,412,862
Immigration matching (Department of Immigration and Citizenship (DIAC))	1990	Weekly	Identifies customers who have left Australia	\$1,234,478	\$10,992,915
Corrective services matching	1992	Weekly	Identifies customers who have gone to prison, whose spouse continues to claim a married rate of payment or who have stolen a prisoner's identity	\$1,248,705	\$350,733
Enrolment checking (higher education institutes)	1997	Average three times per year	Ensures customers on student benefits are correctly enrolled at an educational institution	\$1,496,358	\$46,312,532
Defence Housing Authority matching	1997	Biannual	Ensures customers are not 'double dipping' through receipt of a payment and a Defence housing benefit	\$19,635	\$251,742
Superannuation matching (Comsuper)	1997	Biannual	Identifies undeclared superannuation payments	\$45,003	\$653,098
Death matching (state and territory registers of births, deaths and marriages)	1997	Daily/monthly	Ensure payments are not sent to deceased persons or their identities stolen	\$3,105,255	\$537,183
Accelerated claimant matching—Rent Assistance	1997	Weekly	Internal checks on new or changed claims prevent inflated rent assistance claims from multiple occupants	\$2,606,968	\$3,633,177
Trust matching (ATO)	2000	Biannual	Identifies undeclared assets in trust funds	\$52,082	\$2,867,907
Companies matching (ATO and Australian Securities and Investment Commission)	2000	Biannual	Identifies undeclared interest in private companies	\$25,567	\$1,273,422
Job Placement matching (Job Network, Department of Employment, Education and Workplace Relations)	2000–01	Monthly	Identifies customers placed in employment or who made a notification of employment	\$3,401,818	\$16,369,587
Investment property matching (ATO)	2001–02	Annual	Identifies undeclared assets in the form of investment property	\$42,949	\$1,769,674
International reviews	2006–07	Fortnightly	Reviews circumstances of customers who reside overseas	\$140,667	\$6,688,075
Avoiding debt for carers reviews (Department of Health and Aging)	2007	Daily	Identifies care allowance or payment recipients who have entered a residential care facility	\$173,569	\$1,388,512
Bank verification (under development with major financial institutions)	2008–09	Ad hoc	Identifies undeclared assets or income	\$80,491	\$4,765,731
Pay As You Go (PAYG) matching (ATO)	2000–01	Biannual	Identifies customers not declaring income or under-declaring income	\$446,119	\$101,849,552

Source: Centrelink personal communication 2010

Information supplied by Centrelink on the operations of these projects is shown in Table 14. Most of the detected errors are managed administratively; others involve fraud investigations.

The expansion of data matching has at times been driven by fraud cases. The analysis of offender techniques has prompted the introduction of system checks to close off opportunities. A case study example, reported by Centrelink, is provided in Box 8 in relation to the Disability Support Pension and the inclusion of Medicare in the data-matching program.

### *Fraud tip-off line*

The Centrelink electronic Tip-off Recording System was introduced in 1998. The Australian Government Services toll free telephone number for its Fraud Tip-off Line was introduced in 2005. Disclosures can also be made by mail and email. Public tip-offs received in 2008–09 triggered 50,277 Centrelink reviews and debts and savings of \$119.3m. An ANAO review of the system reported that, in 2007–08, Centrelink received 101,595 tip-offs. These were related to seven percent of all investigations into non-compliance and fraud, with 16.2 percent of tip-offs resulting in an alteration to the customer's payment and/or a debt being raised (ANAO 2008a). The Audit Office was strongly supportive of the tip-off system. Centrelink agreed to recommendations to develop guidelines to better protect the privacy of customers, and the privacy and safety of informants, and to better measure the costs of the system. It is possible that these enhanced controls resulted in a reduced number of entitlement reviews related to public tip-offs—down from 50,277 and \$119.3m in debts and savings in 2008–09 to 43,726 in \$101.8m in debts and savings in 2009–10 (Centrelink 2010a).

### *Media campaign*

In 2005, Centrelink began a four year media campaign *Support the System that Supports You*, which encouraged customers to report changes in their circumstances that might affect their entitlements. By 2008, the campaign resulted in 294,000 reports and a further 29,000 tip-offs.

### *Advertising fraud convictions*

Centrelink has a communications strategy aimed at encouraging compliance by informing customers of their obligations to accurately report their circumstances and any changes in their circumstances. Part of this involves press releases with information about successful convictions for larger frauds, typically of amounts above \$10,000 (see case study examples in this and previous sections). The press releases are available at the Centrelink website (<http://www.centrelink.gov.au/internet/internet.nsf/media/index.htm>). The cases include information about how fraud was identified, such as through data matching, and the penalties involved. The naming of offenders also adds the weight of shame to the aim of deterrence. Advertising of cases is intended to 'raise public awareness of social security fraud and Centrelink's response to fraudulent behaviour' (ANAO 2010: 60).

### *Stepped up investigations*

Formal investigations have been a staple of welfare fraud detection and prevention methods since welfare provisions were introduced. Investigations are designed to collect evidence of fraud, stop existing fraud from continuing, bring offenders to justice, deter would-be offenders and provide a basis for recovery of losses. A basic model of investigations involves collecting documentary

#### **Box 8**

##### *Case study 14*

A 52 year old male received a disability support pension under a fraudulent identity, created with fake documents, while also receiving disability support pension under his legitimate identity. The offences extended over a 14 year period. They were discovered when a group of customers were examined for not using their Medicare cards during a five year period. After examination of customer files, it was established there were two customers who shared many similarities including similar handwriting, similar medical histories and similar past addresses, and the same address was used for correspondence. As a result of this fraud, the offender incurred a debt of approximately \$240,000. In response to the case, Centrelink introduced regular data matching with Medicare to detect customers who had not used their Medicare cards for five years (Centrelink personal communication March 2010).

evidence, interviewing witnesses and suspects and taking statements, and may include covert surveillance. *Stepped up investigations* refers to the use of a range of additional techniques that augment this basic model.

In 2008–09, tip-offs, data matching and other triggers led to 26,084 formal investigations of possible fraud. Outcomes included \$113,384,228 in savings and debt, with 5,082 matters referred to the CDPP. Of the latter, 3,388 cases were prosecuted, with 3,354 convictions—a conviction rate of 98.99 percent. The average saving per investigation was calculated at \$4,347. In 2008–09, Centrelink adopted an ‘intelligence-led model’ of investigations, which makes early assessments of the probity of cases and prioritises cases most likely to yield adequate evidence for prosecution. Centrelink reported that this contributed to a reduced number of investigations.

Investigation capabilities have been enhanced by the creation of specialist intelligence analyst positions and through shared intelligence between Centrelink and law enforcement agencies. In 2008–09, there were 10 AFP agents posted to Centrelink Fraud Investigation Teams and two Centrelink intelligence officers posted to the Australian Crime Commission. In 2008–09, the Australian Transaction Reports and Analysis Centre (AUSTRAC) supplied information to Centrelink in 2,251 cases, resulting in an estimated \$8.1m of annualised savings (AUSTRAC 2009). Overseas investigations are enhanced by Australia’s participation in the Windsor Agreement on intelligence sharing with New Zealand, the United Kingdom, Canada and the United States. Centrelink also reports on a number of sub-types of investigations, as reported below.

## Cash economy investigations

These fraud investigations are targeted at welfare clients who receive cash in hand payments. The investigations are targeted at types of work and locations associated with the cash economy, including harvesting (or fruit picking) and hospitality. Joint field operations are conducted with a variety of agencies including the ATO, AFP and DIAC. Centrelink is also a member of the Joint Agency Strategic Cash Economy Working Group that includes the ATO, DEEWR and DIAC. In 2008–09,

intelligence processes directed attention to private security, labour hire, fishing, and restaurants and cafes. The year saw 7,925 cash economy investigations, including the investigation of 124 cash economy operations, with \$15.4m in savings and debts. Examples of these operations have been reported in the media. For example, in 2008, field operations in Sydney and Melbourne airports and the Rocks in Sydney identified 75 taxi drivers who were receiving unemployment benefits (Karvelas 2008). In 2006, a newspaper report claimed Centrelink officials and police were operating roadblocks to catch commercial drivers claiming unemployment benefits:

In the first trial of a CSI-style program 220 drivers were pulled over by Melbourne police and grilled by welfare investigators. Thirteen have been charged with welfare fraud and a further 20 are under investigation...

[A spokesperson for the Minister for Human Services] said the program was much bigger than just catching taxi drivers. ‘It’s not just taxi drivers, but couriers and any drivers’, she said, adding that it operated just like a random breath test (Garnaut 2006: 7)

Box 9 provides an example of a targeted field operation related to undeclared cash income in the gold prospecting areas around Kalgoorlie in Western Australia.

In 2010, Centrelink reported that it was planning to reduce the number of ‘intrusive’ field operations in the cash economy area and focus its energies more on pre-emptive compliance measures. This included involving businesses in screening out inappropriate persons from casual employment:

Centrelink has recently implemented a new cash economy business model that has moved towards a more broadly-based intelligence driven model across compliance and fraud investigation activities. This model includes a greater focus on working with industry in identifying procedures and processes in collecting information, educating and reminding business of obligations, in a manner that is the least intrusive to business. This will result in a significant reduction in the requirement to undertake cash economy operations in the field (Centrelink personal communication 16 June 2010).

## Box 9

### Case study 15

March 2005—'Centrelink investigators have saved taxpayers at least half a million dollars after a two month operation focusing on gold prospecting in Kalgoorlie. Acting on a tip-off from a member of the public, investigators launched the operation, culminating in 39 people having debts raised against them. Ken Hubbard, Team Leader of Centrelink's WA Cash Economy Team, said these customers were not accurately declaring money earned from 'cashing in' gold finds. 'Centrelink encourages customers to find employment, but there is a clear obligation to tell us about any income they earn' said Mr Hubbard. 'Some of the cases we came across involved people regularly cashing in gold worth tens of thousands of dollars over a number of years'. The original tip-off, which sparked an investigation in January, reaped evidence of wider fraud. The operation involved a combination of desk-based investigation, data-matching and field operations. WA Police and the AFP assisted Centrelink investigators during various parts of the operation. Mr Hubbard said a number of serious cases might be referred to the CDDP. 'Customers who don't declare income to Centrelink may be guilty of committing fraud' he said. 'The Australian public should be reassured taxpayers' money is going to people who are genuinely in need.' Information from members of the public is an important way Centrelink detects and prevents fraud. During the 2003–04 financial year, tip-offs from members of the public in Western Australia led to savings of nearly \$240,000 a week, and identified debts of \$5.2million'. (Centrelink 2005)

### Identity-related fraud investigations

Identity fraud involves offenders stealing, borrowing, fabricating or altering identities to obtain illegitimate payments. Offenders can make use of highly sophisticated forgery tools. Centrelink deploys a specialist Identity Fraud Detection Team whose capacities include advanced computer equipment and skills. In 2008–09, 3,873 investigations were conducted into possible identity fraud, with 166 referrals for prosecution in the same year and \$15.1m in debts and savings (see also the section below *Stepped up identity verification checks*).

### Optical surveillance

Covert or 'optical' surveillance was adopted as an 'Enhanced Investigation Initiative' by Centrelink in 1999. In the first year of operation, 1,063 cases were finalised, with 70 percent leading to \$3.9m in payments targeted for recovery (DFCS 2000; see also Prenzler & King 2002: 3). Table 15 presents an example of Centrelink's reporting of surveillance activities, outcomes and performance. In 2008–09, 1,023 surveillance operations were completed, with 589 or 57.5 percent considered 'actionable', leading to annualised gross reductions in payments of \$5.5m and debt of \$21.2m. Total savings were estimated at \$26.7m, or \$26,126 per investigation, with an 'effectiveness indicator' rating of 72.5 percent. An effective investigation

is one that incurs a reduction and/or a debt. Review effectiveness indicator percentage is the percentage of effective reviews divided by the number of completed investigations and is a financial year to date figure (Centrelink personal communication 16 June 2010).

The Table also shows surveillance operations by location, with most operations occurring in capital cities.

The case study in Box 10 provides an example of how an assessment of a tip-off from a member of the public was followed by surveillance, which provided grounds for the execution of a warrant on the surveillance target, leading to an arrest and conviction. This resulted in the cessation of a large-scale scam, and an order for recovery of financial losses.

Optical surveillance is outsourced to a panel of private investigation firms across Australia where it is identified that a case would benefit from this type of evidence gathering. In 2010, Centrelink had 11 contracted surveillance providers on its panel. Typical cases would involve a customer in receipt of a single rate payment who was suspected of living as a member of a couple, a person working for cash and receiving unemployment benefits or a person receiving a disability payment who was suspected of overstating their disability or having no disability. Table 16 presents Centrelink reporting of surveillance operations by review type and with gross estimated savings.

Centrelink (personal communication 16 June 2010) provided the following information about optical surveillance operations:

The specified timing for surveillance activities is a maximum of 10 hours, including travel to and from the surveillance location. The surveillance will generally be performed in 2 x 5 hour clocks over one or two days. The specified time must not be extended. The surveillance is to



**Table 15** Centrelink surveillance data, outcomes and performance, 2008–09

Centrelink Fraud Investigations Performance Reports  
 Fraud Investigations Activity  
 2008–09 Financial Year  
 Surveillance

Area	Investigations										Investigation Effectiveness Indicator			Savings				
	Completed		Listed		Cancelled		Actionable		Reduction		Debt		Reductions		Debt		Savings	
	No	No	No	No	No	No	No	No	No	No	%	%	%	%	\$	\$	\$	\$
Brisbane	179	279	9	173	100	125	55.9	69.8	78.2	1,048,008	1,755,027	2,803,035	15,659					
Townsville	13	2	0	7	5	13	38.5	100.0	69.2	50,284	350,137	400,421	30,802					
Newcastle	54	14	0	38	22	50	40.7	92.6	57.4	210,912	1,526,319	1,737,231	32,171					
Darwin	3	1	0	4	1	3	33.3	100.0	66.7	14,820	91,600	106,420	35,473					
Gold Coast	34	16	0	27	18	27	52.9	79.4	76.5	242,580	926,808	1,169,388	34,394					
Adelaide	157	128	2	165	79	177	50.3	112.7	72.6	847,262	2,729,318	3,576,580	22,781					
Queanbeyan	64	23	0	14	41	135	64.1	210.9	89.1	424,632	2,366,951	2,791,583	43,618					
Sydney	229	111	0	53	68	194	29.7	84.7	72.1	685,178	3,307,233	3,992,411	17,434					
Hobart	38	26	0	14	22	41	57.9	107.9	76.3	248,820	1,255,881	1,504,701	39,597					
Melbourne	187	26	0	62	107	183	57.2	97.9	65.8	1,262,092	5,159,522	6,421,614	34,340					
Perth	64	23	1	32	39	64	60.9	100.0	71.9	496,652	1,727,035	2,223,687	34,745					
Other	1	1	0	0	0	0	n/a	n/a	0.0	0	0	0	0					
Total	1,023	650	12	589	502	1,012	49.1	98.9	72.5	5,531,240	21,195,831	26,727,071	26,126					

Source: Centrelink personal communication 2010

commence within 14 days after receipt of instructions and should be completed with 28 days.

In general, the specified time for the completion of surveillance activities will be four weeks (28 days). It is important that surveillance commences within 14 days of the file being received by the provider. The specified time may be shorter where it appears that the surveillance activity required will be limited/or straightforward.

The Case Manager Optical Surveillance (CMOS) must clearly state that the surveillance is to be performed over a spread of hours, unless otherwise stated. This will provide more consistency in the evidence obtained,

eg surveillance evidence obtained indicates that a Newstart customer is employed in a full time rather than a part-time capacity.

When instructing the investigation or surveillance firms on the scope of the surveillance, the CMOS is required to initially allow surveillance to be conducted only for a maximum of 5 hours before the principal or operative from the service provider is required to contact the CMOS with a verbal progress report. If the service provider makes contact with the subject in less than the 5 hours, the CMOS should be advised where new instructions may be issued. The CMOS will then instruct the principal or the operative verbally to conduct further surveillance, specify the required hours and document the decision via a case note

## Box 10

### Case study 16

In early 2008, a woman from northern New South Wales was sentenced to three years in prison, with a 12 month non-parole period, in relation to benefit fraud of more than \$195,000. The fraud was perpetrated through the creation of a false identity and continued for 22 years, from 1984 to 2006. The offender received benefits in her own name and also under a false identity. She was ordered to repay a total of \$192,529. The investigation was triggered by a tip-off from a member of the public and included optical surveillance and the execution of a warrant at the suspect's home by the AFP (Ludwig 2008c).

**Table 16** Centrelink surveillance reviews key data, 2008–09

Review type	Review method	Completed reviews n	Net reductions \$	Net reductions annualised \$	Net debt raised \$	Total annualised savings (KPI formula) \$
Austrac	Surveillance	26	5,954	154,804	569,604	724,408
Cash economy	Surveillance	304	33,154	862,004	1,150,912	2,012,916
DEEWR match	Surveillance	0	0	0	0	0
Identity fraud	Surveillance	104	23,459	609,934	5,115,714	5,725,648
Internal data match	Surveillance	1	0	0	0	0
Local initiative	Surveillance	3	286	7,436	99,029	106,465
Office referral	Surveillance	21	3,258	84,708	585,787	670,495
Surveillance	Field	21	0	0	0	0
	File	45	0	0	0	0
	Mail	1	0	0	0	0
	Surveillance	480	3,553	92,378	173,264	265,642
Tip-offs	Surveillance	439	103,113	2,680,938	9,813,778	12,494,716
Undeclared family relationships	Surveillance	125	43,516	1,131,416	3,861,008	4,992,424
<b>Total</b>		<b>1,570</b>	<b>216,293</b>	<b>5,623,618</b>	<b>21,369,095</b>	<b>26,992,713</b>

Source: Centrelink personal communication 2010



on FICMS (Fraud Investigation Case Management System). The CMOS must maintain regular contact with the principal or operative on the progress of the surveillance.

If it becomes apparent that the surveillance activity is complex and/or extensive, and the principal has requested a longer period of surveillance, the CMOS may extend the specified time. The CMOS must document the reasons for approving the extension of surveillance via a case note in FICMS. When considering the request for extending the surveillance, the CMOS must take into consideration the cost effectiveness of their decision.

The CMOS should ascertain whether any other Centrelink, or other client referrals, could be combined to reduce costs.

Surveillance is bound by the *Covert Surveillance in Commonwealth Administration: Guidelines*. Examples of guidelines include the following (OPC 1991: 10–11):

2.1 The collection of personal information using a covert surveillance operation should be conducted in a lawful manner. Any covert surveillance operation which may involve the commission of a criminal offence or which may give rise to civil action, for example, trespass to lands or goods cannot be sanctioned.

2.2 The collection should not involve entrapment of the surveillance subject. Hence, passive observation is permissible, however, any attempts to actively induce the surveillance subject into a situation in which that person would not ordinarily and voluntarily enter should not be permitted. For example, whilst an investigator could pose as a patient in cases of investigations for overservicing by a doctor to afford an opportunity for the doctor to commit a crime if the doctor is so minded, the investigator should not induce a doctor into a crime the doctor is otherwise unwilling to commit.

2.3 Agencies should avoid any actions which may unreasonably impinge on the privacy and rights of other people, e.g. when using photography, avoid, where practicable, including other individuals such as relatives and friends in the photograph.

2.4 Where practicable only material relevant to the purpose of conducting the covert surveillance should be collected. There should be a clear separation of facts from opinions and only relevant personal information should be included in records resulting from the surveillance.

There are also controls in relation to disclosure of material, secure storage of data and agency compliance monitoring.

Centrelink was asked to provide data on the relationship between findings from surveillance operations and prosecutions. For example, does surveillance footage assist an early guilty plea or in securing a conviction? What are the benefits of contracting out? Centrelink (personal communication 16 June 2010) reported that '[s]urveillance footage is rarely used in court and it is not possible to measure how many guilty pleas the use of surveillance has prompted'. Centrelink also reported that:

Covert surveillance plays a useful role in gathering evidence in connection with a wide range of possibly unlawful activities. It is argued by a large number of agencies that covert surveillance should continue to be allowed unhindered in the public interest. Optical surveillance is an evidence-gathering tool and not a means of detection.

The Privacy Commissioner's guidelines of 'Covert Surveillance in Commonwealth Administration' indicate that covert surveillance should be undertaken by trained investigators/surveillance officers. Centrelink does not have or employ any trained surveillance operatives, nor does it possess the necessary equipment to enable it to do so. Given the nature and the infrequent use of covert optical surveillance in Centrelink investigations, it would be irresponsible of Centrelink to permanently employ trained surveillance operatives. In addition, the OH&S considerations for the well-being of its staff has further prompted Centrelink, as a responsible employer, to consider the best interests of its staff. Instead, it is more cost effective and a better use of taxpayer funding to outsource these functions to trained surveillance operatives. Centrelink uses the same methodology when it requires other specialist investigative services such as forensic document examination/handwriting analysis or forensic accounting (Centrelink personal communication 6 July 2010).

Centrelink was also asked to provide a breakdown of all costs in the surveillance program, including contract, administration and recovery costs. Only the contract costs were reported (Centrelink personal communication 19 January 2011)—‘the optical surveillance contracted costs for 2009–10 were \$1,003,998’. ‘Total annualised savings’ were estimated at \$28,007,961. These figures suggest a net return of \$27,003,963, or \$27.89 saved for every dollar spent, not including administration and debt recovery. However, it must be kept in mind that actual recoveries were not reported, only ‘debt raised’, which was listed at \$22,831,803.

### *Stepped up identity verification checks*

The construction of a false identity is one source of fraud, including multiple false identities that can generate large amounts of illicit income. Current practice in Centrelink regarding identity verification has been in part driven by ANAO audits. A 2007 report noted significant improvement to proof of identity (POI) arrangements since the introduction of a tiered POI model in 2001 (ANAO 2007). The 2007 audit involved a sample of Centrelink customer records. It found that approximately 15.5 percent lacked sufficient documentation to meet the current POI standards. This was partly a historical legacy of earlier systems and also a result of some customers’ circumstances (eg refugees who lacked proof of identity documents). Follow-up verification of the sample found there were no indicators of fraud. However, Centrelink also agreed to implement recommendations that all customer files in the at-risk category in relation to proof of identity would be checked, and that further training of staff and a more detailed checklist be developed for POI checking.

For the purposes of the present study, Centrelink reported that it

further strengthened its POI arrangements during 2009 while retaining alignment with the policy introduced in 2001 as part of the ‘Whole of Government Identity Framework’. [For new claims] POI requirements generally exceed those of banks and financial institutions (Centrelink personal communication 22 November 2010).

Centrelink provided the following elaboration:

#### BACKGROUND:

Financial institutions are required to comply with Part 7 of the AML/CTF Act [*Anti-Money Laundering and Counter-Terrorism Financing Act 2006*] and chapters 4 and 5 of the AML/CTF Rules (administered by AUSTRAC). An AUSTRAC issued example of Customer identification procedure (CIP) form—individuals is included below (Attachment A). AUSTRAC notes that the identification requirements comply with the relevant legislation and rules (for medium or lower money laundering or terrorism financing risk customers).

Financial institutions have developed their own proof of identity procedures (the four major banks, NAB, Commonwealth, ANZ and Westpac are included below—Attachment B–E) that are compliant with the legislation and rules. Not all financial institutions or banks have been examined by Centrelink due to their large numbers which is why Centrelink commentary always includes the term generally when making comparisons and references between banks and Centrelink for the purposes of Proof of Identity (POI).

#### SUMMARY:

Financial institutions generally allow customers to provide certified copies (in-line with AUSTRAC issued example of Customer identification forms (AML/CTF Act)). Centrelink generally does not accept certified copies.

It is generally mandatory for Centrelink customers to provide a *Commencement of Identity in Australia* (exception is for a variety of concession cards, eg. Commonwealth Seniors Health Card) document. The document used for this purpose does not count towards the ‘points’ required during the Centrelink Proof of Identity process. It is not mandatory for financial institutions to request *Commencement of Identity in Australia* documents and all documents provided to financial institutions contribute to the ‘points’ or documents required to prove identity. A copy of Centrelink’s *Proving your identity to Centrelink* form is included as an attachment to this response.

Using the AUSTRAC issued *Customer identification forms* two (2) documents only (both of which could be certified copies) are required to be provided by the customer. The minimum 'points' value that Centrelink would attribute to two documents considered 'acceptable' to comply with Part 7 of the AML/CTF Act and chapters 4 and 5 of the AML/CTF Rules would be 10 points (Taxation Notice of Assessment) + 20 points (Proof of Age Card) = 30 points. Centrelink POI requirements for primary payment claims (eg. Newstart Allowance, Disability Support Pension) are 100 points + *Commencement of Identity in Australia* document.

The Commonwealth Bank, for example, requires that new (individual) customers produce (original or certified copy) of:

- One primary photographic identification document; or
- Two primary non-photographic identification documents; or
- One primary non-photographic and one secondary identification document.

A new Commonwealth Bank customer could potentially meet the bank's POI requirements by producing a Proof of Age Card (based on the information provided by the bank on their website). Centrelink would require significantly more POI original documentation (for primary payments) including the mandatory *Commencement of Identity* document (Centrelink personal communication 22 November 2010).

An additional aspect of stepped-up identity verification checking is Centrelink's involvement in the Commonwealth's National Identity Security Strategy (COAG 2007) and in particular, the roll out of a national Document Verification Service (DVS). The latter provides for a rapid, electronic, system of verification, as described in the following account by the Commonwealth Attorney General's Department (AGD 2007: 5–8):

The DVS will be a secure, national, real time, on-line system which allows authorised Commonwealth, State and Territory Government agencies to verify the details of documents presented to them as POI with the data recorded in the register of corresponding document issuing agencies.

Verification requests and responses will be facilitated by a DVS Hub which will direct responses and requests to appropriate agencies. All communication through the Hub will be encrypted.

It is intended that the DVS allow participating agencies to verify that:

- a document was in fact issued by the document issuing agency claimed on its face
- the details recorded on the document correspond to those held in the document issuing agency's register
- the document is still valid (ie has not been cancelled or superseded), and
- the document has not been lost or stolen.

The DVS is essentially a system to verify personal identification information from POI documents. Therefore it will necessarily involve some data transfer of personal information in the verification process.

As noted above, the DVS will not change the way in which agencies deal with personal information. Rather it will provide a way to replace current manual practices and link a comprehensive range of documents and create a single online verification mechanism.

From a human perspective, it is intended that the verification process consist of the following steps:

- A person presents their POI documents to an agency in support of their application for a benefit or service.
- The agency (querying agency) seeks authorisation from the person to undertake checks to verify the documents.
- Details on the identifying document such as name, date of birth, official registration number of the document, or other identifying features are entered into a computer system linked to the DVS.
- The information is sent via a secure communications pathway to the document issuing agency where an automated check of the agency's register will verify whether the information provided is identical to the information on the document.

- If the information provided matches the information held by the issuing agency, a YES response is transmitted to the querying agency informing them that the document has been verified; otherwise, a NO response is returned indicating that the document details were not verified.
- In normal circumstances a response to the verification request will be returned in a couple of seconds.
- If there is a system error, such as problems with connection between the agencies and the Hub, which cannot be resolved an ERROR response will be generated. The new DVS request could be entered or manual verification sought.

Consistent with this, in 2008–09, Centrelink began a roll out of digital holdings for all documentation to allow staff anywhere in Australia to access documents without the need to locate paper copies. This ‘Business Integrity Process Redesign’ enables more efficient and comprehensive compliance reviews and allow for ‘real time’ verification processes at the time of application. This in-house project also allows Centrelink to engage in real time document verification checks with other government agencies.

In its 2009–10 annual report, Centrelink (2010a: 71) emphasised the threat posed by identity fraud and the extension of an intelligence-based approach to attempted identity fraud:

Identity-related fraud involves people using fabricated, manipulated, stolen or borrowed identities to claim payments from Centrelink. Intelligence analysts and fraud investigators use advanced detection and investigation techniques to combat this type of serious fraud. A further aspect to the intelligence-led model for investigations was the continued enhancement to profiling, particularly identity-related risks associated with the various Australian Government disaster recovery payments.

In the annual report’s section on performance, the following summary was provided in relation to anti-identity fraud measures (Centrelink 2010a: 72):

In 2009–10 Centrelink carried out 7333 identity-related fraud investigations or reviews compared to 3873 in 2008–09. This resulted in \$9.4m in debts and savings, compared to \$15.1m in 2008–09. Improvement measures that were

put in place have had a positive effect, resulting in identity-related fraud being detected earlier and reducing the average debt. The 2009–10 data includes compliance reviews (incorporating identify fraud) which were not included in the 2008–09 data.

### *Stepped up recovery action*

Centrelink upgraded its debt collection processes following ANAO reviews (ANAO 2008b, 2005). The second audit in 2007 found Centrelink had implemented better recovery strategies, which included increased resources devoted to debt recovery and enlarged options to facilitate repayment (eg Australia Post, BPay, telephone, mail, internet and direct debit). Centrelink also outsourced selected difficult cases to private debt recovery agencies. At the same time, debt had increased ‘rapidly’ from \$967m in 2003 to \$1.3b in 2007, with 650,000 customers in debt in 2007 (ANAO 2008b). In 2008–09, Centrelink met a target of 70 percent recoveries, or \$1,091m for the year. This was below the previous year’s collections of \$1,131m as a result of resources being diverted to disaster relief. In 2009–10, Centrelink raised \$2.2m debts, worth \$1,747m—a reduction from \$1,926m in 2008–09 (Centrelink 2010a).

Centrelink’s (2010a: 74) annual report provides a brief summary of its debt collection process, in somewhat reassuring tones:

When a customer has problems repaying a debt, Centrelink organises a repayment agreement that ensures the customer is not put in financial hardship. Sometimes Centrelink uses a contracted mercantile agent to manage the recovery of a debt, with commission only paid on the recovered amount. Debts are only referred to mercantile agents when a person is no longer receiving Centrelink payments and has failed to make or maintain a recovery arrangement directly with Centrelink.

For the present study, Centrelink (personal communication 16 June 2010) reported that

the 09/10 budget allowed for Centrelink to increase the rate at which a debt is recovered, by increasing the standard withholding rate from 14% to 15%.

Centrelink (personal communication 19 January 2011) also reported that in 2009–10, 'Debt Recovery Mercantile Agents recovered \$62,084,136...at a cost of \$7,358,476'. In 2011, the Minister for Human Services announced a new scheme whereby tax payers who owed Centrelink money will have their tax refunds garnished. The system would involve daily data matching and it was predicted to recover over \$71m in four years (Plibersek 2011b).

## Professionalisation

The CEO of Centrelink signs off on Centrelink's investigator training as compliant with the *Commonwealth Fraud Control Guidelines 2002*, which require certificate level competencies for operatives and diploma level competencies for managers (AGD 2002). Centrelink reported in 2010 that it was also 'positioning all investigators at the APS 5 level, with team leaders that manage the case-work of up to eight investigators' (Centrelink personal communication 16 June 2010).

## Data mining/service profiles

During 2006–08, Centrelink undertook a fraud-related data mining pilot. According to Centrelink (personal communication 16 June 2010)

the pilot developed models that allow Centrelink to predict which customers are likely to benefit from a review. This means that reviews can more effectively assist customers at risk in terms of timeliness and cost effectiveness.

Data mining was included as a 2009–10 Centrelink budget initiative. The Australian Government made a commitment to:

provide \$71 million over four years (including \$10.4 million in capital over four years) to Centrelink to act on information from government intelligence and law enforcement agencies to identify and prevent abuse of the social welfare system by organised crime groups. This measure will enable Centrelink to employ specialist analysts and investigators to increase referrals to law enforcement agencies and refer serious cases to the CDPP. This measure is estimated to provide savings of \$127.6 million over four years, resulting in net savings of \$56.6 million over four years (Centrelink personal communication 16 June 2010).

The 2009–10 Centrelink annual report provides a related description under the heading 'data-analysis' (Centrelink 2010a: 69):

In 2009–10 Centrelink continued to use advanced data analysis techniques to identify customers at risk of non-compliance. New predictive models to identify customers at risk of incorrect payment were also developed, trialled and implemented. Centrelink is exploring the application of data mining to assist in debt recovery strategies for non-current customers and to manage risks associated with online declaration.

The 2009–10 annual report also referred to the concept of 'service profiling' (Centrelink 2010a: 69):

Service profiling helps to identify Centrelink customers most at risk of unsuccessful program outcomes, tailors services to individuals, and improves opportunities for people most in need of assistance. Service profiling aims to help reduce incorrect payments, ensure ongoing eligibility compliance, and improve economic and social participation outcomes for customers...

In 2009–10 Centrelink completed 844 478 service profile updates, compared to 945 030 in 2008–09. The reduction in the number of service profiles for 2009–10 is attributable to enhanced targeting and increased complexity and effort associated with certain profiles, and has resulted in a reduced level of debt through earlier identification. As a result of the service profile updates Centrelink identified:

- 154 836 (18.3 per cent) reductions to payments, which led to \$21.7 million in fortnightly savings (that is, yearly savings of \$564 million)
- 100 095 (11.9 per cent) debts identified and raised worth \$23.4 million.

This compares with \$22.5m in fortnightly savings and \$22.4m in debts identified and raised in 2008–09.

## Managing internal fraud

Centrelink's 2009–10 annual report states the following under the heading *Managing Internal Fraud* (Centrelink 2010a: 77):

Centrelink has various confidential methods for the public and employees to report internal fraud. All allegations of inappropriate staff involvement are assessed and suspected fraud or misconduct is investigated. When necessary, cases are referred to the AFP and/or the CDPP for criminal proceedings. During the year Centrelink internal fraud prevention and control initiatives included:

- fraud control planning
- conducting fraud prevention and ethics training
- developing programs for detecting and investigating potential fraud and misconduct
- regular reporting to the Centrelink Audit Committee.

The case study reported in Box 11 is another example of how the analysis of fraud cases has led to improved systems for the prevention and detection of abuses—in this case by Centrelink employees.

## The 2010 Australian National Audit Office report on Centrelink fraud investigations

This section provides a separate follow up to the sections above related to investigations. In 2009–10, the ANAO conducted an audit of Centrelink’s fraud investigation system and practices. The audit was conducted primarily through consultation with Centrelink’s key partners and stakeholders, and through the analysis of a random sample of case files from Centrelink’s Fraud Investigation Case Management System. The final sample consisted

of 113 cases, which were analysed in terms of compliance with the mandated standards and guidelines outlined in the first subsection of the present section, on the institutional framework for Centrelink’s fraud control program—in particular the Australian Government Investigation Standards (AGIS).

The main findings of the audit were critical of some Centrelink practices at the time. In summary:

The results of the ANAO’s case reviews identified that 87 per cent of Centrelink’s 113 fraud investigations did not comply with the AGIS and Centrelink’s mandatory policies and procedures. The impetus for Centrelink implementing the FIM [Fraud Investigation Manual] was to provide assurance to government and other stakeholders that the investigative and prosecution referral work undertaken by Centrelink is performed consistently across the Business Integrity Network and to ensure investigation case management practices comply with the AGIS. However, the ANAO’s case reviews identified inconsistencies with: the case management of investigations and decision-making; recording of activities during investigations; practices around third party checks and insufficient oversight of decision-making at key points in the process; policies and procedures regarding the purpose and lawful use of coercive information-gathering powers; and Centrelink practices and the AGIS in relation to investigation outcomes (whether civil, administrative or criminal).

The limited review and quality assurance of decision-making, including the lack of managerial oversight of decisions made throughout investigations and Centrelink’s approach to record keeping, is affecting the transparency and accountability of its decision-making and compliance with legislated safeguards such as

### Box 11

#### *Case study 17*

A 35 year old staff member fraudulently created 25 Baby Bonus claims involving 62 fictitious children. The offences occurred over a four month period. As a result of the fraud, the offender incurred a debt of \$328,286. The offender targeted age pension recipients and accessed customer records to obtain the tax file numbers of recently deceased customers. He then created new customers and granted claims for Baby Bonus and Maternity Immunisation Allowance payments. In many of the claims, the children were registered as stillborn so additional payments of Bereavement Allowance were paid. The fraud was discovered by internal controls designed to detect suspicious access to customer records, as well as by ‘identity scoring controls’ that detected fabricated identities. As a result of this case, system enhancements were implemented to prevent the use of encrypted tax file numbers in this unauthorised manner (Centrelink personal communication March 2010).



the *Freedom of Information Act 1982* (Freedom of Information), the *Privacy Act 1988* and Archival legislation. (ANAO 2010: 95–96).

The report also argued that Centrelink's approach to fraud detection was overly reliant on automated or paper-based process, with insufficient active follow up investigations:

Most investigations undertaken by Centrelink are desk-based, using administrative coercive information-gathering powers to collect evidence. The ANAO's case reviews found that only a small proportion of fraud investigation cases referred to the CDPP had used criminal investigative techniques such as surveillance (five per cent) or formal customer interviews (23 per cent) (ANAO 2010: 96).

Further, it was argued that there was insufficient record keeping to generate an adequate paper trail and overall that there was insufficient transparency and accountability:

There was insufficient evidence on file to support third party checks including when a written Legal Notice was issued. In all instances there was no supporting Critical Decision Record (CDR—a mandatory requirement in the FIM) approving the decision to send the Legal Notice. During 2008–09, CDRs were the single quality control point in the investigative process that Centrelink had implemented (ANAO 2010: 96).

This problem was in turn related to an alleged more general problem of inadequate quality control and managerial oversight:

Most of Centrelink's controls in the investigative process are procedural and designed to ensure that Centrelink staff adhere to both written standards and internal policy advice. However, the absence of appropriate oversight of decision-making throughout fraud investigations and lack of hard-coded controls in FICMS means the capacity of the FIM and the FICMS to control workarounds and non-compliance are limited. This situation, coupled with the poor documentation to support decision-making, undermines Centrelink's ability to be confident that its practices meet legislated requirements and that external fraud is being effectively managed (ANAO 2010: 96).

It was found that correspondence between Centrelink and the CDPP, and minutes of liaison meetings, evidenced recurring issues about 'the quality of Centrelink briefs of evidence', including specifically:

incorrect debt schedules; insufficient evidence to support a prosecution; the provision of inconsistent documentation; and the reluctance of Centrelink staff to pursue further evidence in support of a case, after it has been submitted to the CDPP (ANAO 2010: 125).

Finally, the report also found that Centrelink was prioritising cases where there were better prospects of recovering losses and that these appeared to be the simpler cases that were more easily proven (ANAO 2010). At the same time, the audit report acknowledged that Centrelink's increased emphasis on intelligence-driven case prioritisation

will better position Centrelink to focus its fraud investigation resources on the high risk areas. A key responsibility of Centrelink's Intelligence teams is to support fraud investigation operations by identifying complex and serious fraud and prioritising cases for investigation (ANAO 2010: 25–26).

These alleged deficiencies had a number of effects. The main implication was that a considerable number of offenders were allegedly not being pursued, including in cases of major long-term frauds. The ANAO did not imply that this entailed any reduction in the prevention of fraud. The cases in question were already targeted for suspension or reduction of benefits and the generation of debt through the administrative compliance assessment process. It meant, however, that there was probably an attrition of suspected fraud cases from the pool of cases referred to the prosecutor. Additionally, the CDPP was allegedly burdened with the task of remedying deficiencies in briefs, including requests back to Centrelink for clarification and further evidence (ANAO 2010).

The following is the ANAO's summary of its recommendations for improving welfare fraud investigations (ANAO 2010: 37–38):

## Recommendation No. 1

To facilitate the more effective use of its fraud intelligence capability, the ANAO recommends that Centrelink: review its fraud prioritisation and case selection policies; internal targets; and performance indicators for fraud management; so as to better align these policies and measures with its fraud control strategies.

## Recommendation No. 2

The ANAO recommends that Centrelink reviews the support provided to fraud control staff, paying particular attention to:

- the content of its Fraud Investigation Manual to ensure investigation guidelines, procedural controls, processes and practices are clearly articulated and consistent with the Australian Government Investigations Standards and Social Security legislation;
- managerial oversight of decision making and documenting of critical decisions throughout the investigative process, including when an administrative investigation transitions to a criminal investigation;
- the efficiency and useability of Centrelink's fraud-related decision support and reporting systems.

## Recommendation No. 3

To improve compliance with external and internal fraud investigation requirements and the quality of its decision-making, the ANAO recommends that Centrelink:

- increase the level of guidance and oversight provided to support decision-making by fraud investigators throughout the investigative process, from the point of case selection through to finalisation of the fraud investigation; and
- develop a rolling program of specialised training for its fraud control staff that includes regular refresher courses on the policies and procedures in its Fraud Investigation Manual.

## Recommendation No. 4

To improve the quality and reliability of its fraud management-related systems, the ANAO recommends that Centrelink review its standards and procedural controls for the accurate recording, reporting and evaluation of fraud data, to enable:

- investigation timeframes to be monitored, particularly in regard to serious fraud cases; and
- fraud to be more accurately quantified and the cost-effectiveness of Centrelink's fraud control strategies to be assessed.

## Conclusion

The findings from this section indicate that Centrelink has adopted international best practice measures to combat fraud. A complex and overlapping system of controls is in place to counter attempted fraud and to identify and cut short successful frauds. Welfare in Australia has been described as having 'a long history of highly intrusive, detailed and ongoing surveillance of claimants and recipients to minimise fraud and ensure eligibility' (Henman & Marston 2008: 194). Many of the principles and techniques of situational crime prevention and security management are in place; indeed, 'a deep suspicion pervades the system' (Henman & Marston 2008: 194). However, despite the operation of this complex machinery, the number of confirmed fraud cases is stable over time. In theory, the number (or rate) should be declining. Consequently, the main challenge appears to lie in the area of finding and demonstrating more effective primary prevention measures. Ideas for responding more effectively to welfare fraud, especially in the area of primary prevention, are developed in the following section *Building Consensus and Reducing Fraud: A Review of the Issues*.





# Building consensus and reducing fraud: A review of the issues

The first section of this report *The Welfare State and the Problem of Fraud* included a section on *The Welfare Fraud Debate*. Here, it was argued that there was a high level of consensus in Australian society about the need for a basic welfare system for disadvantaged persons. There was little in the way of calls to abolish welfare. There is, nonetheless, debate about a number of areas, including levels of fraud and anti-fraud strategies. It was argued in the section that opposing opinions on these topics tend to detract from the legitimacy of the system. Therefore:

One potential goal of a welfare fraud reduction policy is to reconcile the opposing groups in the welfare fraud debate and enlist their support productively in the fight against fraud... Accusations of fraud and revelations of fraud undermine confidence in the integrity of the system...Fraud...victimises taxpayers and other recipients of government services...Consequently, there is a strong case for stakeholders to seek common standards about fair and effective primary measures to prevent fraud (and error) occurring in the first place while maintaining access for genuine applicants and recipients.

This final section reviews the evidence presented in the second and fourth sections of this report regarding the nature and extent of welfare fraud in Australia, the profile of convicted offenders and

sentences, and theoretical and applied approaches to prevention and detection, including available evidence of impacts. It is argued, from this evidence, that common ground can potentially be identified between protagonists in the welfare fraud debate and that a number of strategies are available to advance primary prevention of welfare fraud. These include a more research-based and experimental approaches to the subject, including the creation of a Research and Fraud Prevention Unit within Centrelink, as well as a number of other specific miscellaneous strategies.

## Key findings from the present study: Dimensions of fraud

The measures of welfare fraud in Australia presented in the second section of this report make for a very mixed picture. As noted, the measures cannot provide an accurate or complete picture of the dimensions of the problem and trends. Nonetheless, there is value in the findings for providing significant detail and showing a number of consistent patterns, which in turn suggest a number of useful interpretations about the nature and direction of welfare fraud and about responses to fraud.

With regard to referrals to the CDPP generated by compliance reviews and other detection methods, these can be referred to as ‘suspected fraud’, although not as a measure of all suspected fraud for all Centrelink customers. The data presented showed that there was a large increase in compliance checks from 2001–02 to 2002–03, which translated into increased referrals, but not increased prosecutions. Compliance reviews increased from an average of 41 percent of customers up to 2001–02, to an average 61.5 percent to 2009–10. Cancellations or adjustments increased in these same timeframes, from 4.3 percent of customers to 9.8 percent. Referrals to the CDPP increased from 0.6 percent to 0.7 percent, or from 3,905 on average per year to 4,697. However, prosecutions remained stable at 0.04 percent of Centrelink customers in both these periods—or just over 3,000 per year. Convictions averaged 98.5 percent of prosecutions. There was a notable reduction in referrals in the last two years of data, but prosecutions and convictions still remained stable.

This situation suggests a number of possible explanations. One is that as referrals increased, the proportion with adequate probity declined and the CDPP was obliged not to follow through to prosecution. The explanation for the increase therefore might lie with increased political pressure to act on fraud, with Centrelink lowering its threshold for referrals in order to be seen to be acting more decisively against fraud. This need not be interpreted cynically. Centrelink may have been genuine in its commitment to tackling fraud and sought to test its own assessments against those of the prosecutor. This process involves delegating more decision making to the public prosecutor and introducing a greater degree of independent assurance into the process.

An alternative explanation is that the referred cases were intrinsically strong but that the quality of some investigations and briefs of evidence declined. This view attracts some support from the 2010 ANAO analysis of Centrelink fraud case files, which was critical of the rigour of investigations and quality of briefs (discussed in *Contemporary Australian Strategies*). Another explanation is that the number of prosecutions—and hence convictions—is strongly influenced by the discretionary decisions of prosecutors. These are related to various factors,

including the CDPP’s resources and capacity to pursue cases. The stability of the prosecution numbers suggest there may be a stable case load limit constraining the CDPP. In other words, the proportion of referrals prosecuted is, to a considerable extent, a product of the resources of the office, not the probity of the cases. It is possible that the failure to translate increased referrals into increased prosecutions then led to a decline in referrals from 2007–08, although a shift to a more selective ‘intelligence model’ of investigations may be behind this. It was not possible to probe these issues within the constraints of the current study. However, this is the sort of research that could be productively pursued by both agencies in developing a more informed approach to welfare fraud (see *Recommendations* below).

An alternative hypothesis for the flatlining of substantiated fraud is that enhanced prevention strategies reduced the real number of new frauds, while enhanced detection strategies identified an increasing proportion of frauds. The effect of each strategy countered the other, generating a stable rate of confirmed frauds, as shown in Figure 10. When looking at the question of primary prevention, it is difficult to believe that the expanding initiatives discussed in this report have not been effective in deterring or excluding fraudsters and preventing the initial onset of fraud. However, this is an area where there is currently very little concrete evidence of impact in terms of primary prevention.

Overall, it therefore appears that the main area of challenge, for both practical and ethical reasons, lies in making a decisive shift from secondary prevention to primary prevention, while maintaining the essential goal of access to support for eligible persons. The major case studies included in this report (involving many tens of thousands of dollars in losses to taxpayers) also highlight the importance of primary prevention in pre-empting fraud, especially larger frauds. Primary prevention would also reduce the need for expensive and difficult secondary level processes of detection, prosecution, punishment and recovery, thereby also mitigating the ‘revolving door’ phenomenon of welfare fraud prosecutions.

The data presented from the CDPP also highlighted some important dimensions of welfare fraud in terms of the age and gender of convicted persons, and

penalties. Not surprisingly, the peak offending years were in the offenders' thirties and forties. This is consistent with general criminological research showing that offending for white collar crimes, such as fraud, are concentrated later than the peak period for most violent and property crimes (in the late teens and twenties; Hayes & Prenzler 2009, 2003).

The findings on gender are both surprising and not surprising. On the one hand, as noted, women's offending behaviour is often concentrated more in the area of fraud. Typically, women make up 20 percent of all offenders but up to one-third of fraud offenders (Hayes & Prenzler 2009). In their study of serious fraud offences in Australia and New Zealand, Goldstraw, Smith and Sakurai (2005) found that women made up 21 percent of accused persons. But, while the highest level of representation of women in all types of crime is usually in fraud-related offences, typically this is still well below half of all such offenders. What is surprising then is that the present research shows that women made up the majority of welfare fraud offenders, accounting for two-thirds of convicted persons (see also Swan et al. 2008).

The prominence of women in welfare fraud is commonplace in the literature on gender and crime (Chunn & Gavigan 2004; Davies 1999; Swan et al. 2008). Women's traditional role in child rearing and the much higher proportion of female single parents

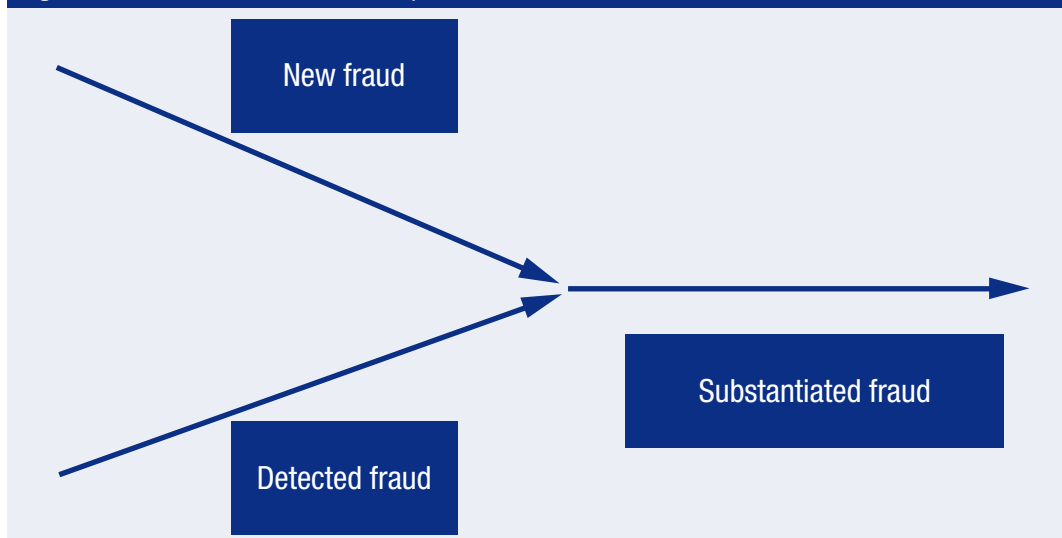
tends to place them more prominently in the welfare system and subject to temptations or pressures—such as economic strain—to commit fraud.

However, the high rate of representation revealed here is a phenomenon that deserves research in the Australian context, in terms of the types of welfare fraud committed by women and the motivations for fraud. This applies especially in relation to measures of poverty and economic stress, perceived need and levels of dependency of children. The specific impacts of welfare fraud prosecutions and convictions on women and their dependent children should also be examined by Centrelink and the CDPP.

The data on penalties also provide some challenges for interpretation. The figures show a rough correlation between the severity of losses and the severity of penalties. However, there is still a significant proportion of lower level frauds resulting in jail terms. There are also a surprising number of major frauds resulting in lower levels penalties such as recognisance orders, community service, fines and suspended prison terms. For example, in 2009–10:

- fifteen of 387 frauds under \$5,000 resulted in a jail term and 39 of 1,688 frauds between \$5,000–<\$10,000 resulted in jail time;
- of 72 offenders who committed frauds of <\$50,000, 37 were jailed, while 22 received fully suspended jail terms and 10 were given community service orders; while

**Figure 10** Model of effect of increased prevention and detection efforts



- of the 286 offenders who committed frauds worth \$25,000–<\$50,000, 83 were jailed, 104 received fully suspended jail terms, 61 received community service orders and 24 were given recognisance orders.

It is difficult to interpret sentencing practices, as the figures do not show the circumstances of each offence, which sentencing judges and magistrates are required to take into account, such as prior history of offending. A number of case studies were provided in the second section of this report that highlighted mitigating factors that need to be considered, in areas such as age and disability. The *Commonwealth Fraud Control Guidelines* include an obligation to prosecute offenders, ‘including in routine or minor instances of fraud where appropriate’ (AGD 2002: 5), subject to consideration of mitigating circumstances and a number of other ‘public interest’ factors set out in the *Prosecution Policy of the Commonwealth* (AGD 2008). These factors (in s 2.10) however, do conceivably allow for much greater use of administrative processes as opposed to criminal prosecution. For example, consideration should be given to the following (AGD 2008: 7):

- (a) the seriousness or, conversely, the relative triviality of the alleged offence or that it is of a ‘technical’ nature only...
- (c) the youth, age, intelligence, physical health, mental health or special vulnerability of the alleged offender...
- (f) the degree of culpability of the alleged offender in connection with the offence...
- (j) the availability and efficacy of any alternatives to prosecution...
- (l) whether the consequences of any resulting conviction would be unduly harsh and oppressive...
- (p) the actual or potential harm, occasioned to an individual;
- (q) the likely length and expense of a trial.

Despite these considerations, overall, it appears to be the case that sentencing in welfare fraud involves the extensive use of penalties, such as recognisance orders and suspended sentences, that attract public criticism as being soft on crime and that may be

perceived as offensive to victims (taxpayers in this case; see Prenzler & Sarre 2009). Yet the value of imprisonment and fines is also questionable. Fines can aggravate the impoverished circumstances of welfare recipients, especially where any proceeds of crime are also recovered. Community service can therefore provide a better alternative for low income offenders.

The value of imprisonment is also questionable from a restorative justice perspective—perhaps not so much in terms of options for victim–offender mediation or conferencing, but in terms of restitution. Community service (or fines where appropriate) provide offenders with an opportunity to give something back to the community. The community service option is especially attractive when losses to taxpayers are combined with the costs of imprisonment. In 2009–10, it cost \$215 per day to keep an offender in prison in Australia, but only \$18 per day to keep an offender in community corrections (SCRGSP 2011: Tables 8A.11 8A.9).

Finally, the use of imprisonment to prevent welfare fraud offending or reoffending is also highly questionable. In relation to crime generally, there is a lack of evidence of a deterrent effect from prison, apart from the impact on serious repeat offenders (Weatherburn 2004). Data on repeat welfare offenders would help to provide a more developed picture of the impact of convictions.

These issues would suggest, again, a case for more research, including more information on public record about the relationship between welfare fraud sentencing and reoffending. Apart from using existing data on the specific deterrent effect of offending, studies could also be constructed around the general deterrent effect of different penalties. This could be done by way of surveys or interviews, for example. Research on the consistency of welfare fraud sentences, which attempt to control for all possible variables, would also be useful.

## Implications for the welfare fraud debate

As outlined in the first section of this report, various social, economic and political trends have meant

that 'payment integrity' is now a major principle of welfare delivery services in many countries. In particular, increases in the number of persons eligible for welfare, and lobbying for a wider array of welfare benefits, have come into conflict with demands for fiscal restraint by governments. In Australia, the period since the establishment of Centrelink in 1997 has been marked by increased commitment to stopping fraud, with considerable innovation in anti-fraud techniques. These developments have been accompanied by heightened debate about the extent of fraud and appropriate anti-fraud measures.

Both sides in the debate over welfare fraud tend to agree that public opinion on the topic is important and that the fair delivery of services to disadvantaged persons should be a consensus public policy position (eg Bajada 2005; Green 2008). Finding common ground on fair and effective strategies for reducing fraud and dealing with non-compliance is therefore a potentially important means of enhancing trust in the system. Greater consensus would certainly help to set a political environment that is conducive to finding more effective prevention strategies. Both the primary and secondary sources analysed in this report provide openings into this debate. Overall, the very mixed nature of the available evidence both supports and challenges different elements of the conflicting positions on fraud.

The fact that detected fraud accounts for a very small fraction of all Centrelink customers challenges the 'anti-welfare' view about the large size of the problem. The extent and nature of contemporary efforts to detect fraud also challenges the view that welfare fraud is neglected and under-enforced. The overlapping and often intrusive nature of these strategies—including covert surveillance and targeted cash economy investigations, for example, should provide powerful incentives against fraud and powerful methods for detecting fraud. The evidence shows that the long-term trend has been towards increased referrals of suspected fraud to the CDPP for prosecution. Imprisonment and fines also appear to be fairly extensively used against convicted persons, including for lower level frauds of \$10,000 and less—providing at least a partial counter to allegations about leniency.

The 'pro-welfare' view about the over-policing of fraud is also partially challenged by the available evidence. The alleged focus on lower level frauds is challenged by the prosecution of a substantial number of very large frauds (over \$50,000 for example), at least some of which involve long-term scams and quite deliberate attempts to defraud the system. Furthermore, numerous light sentences are handed out by Australian courts for welfare fraud, including for many larger frauds. It can also be seen that referrals to the CDPP for welfare fraud account for a small fraction of all compliance assessments. For a fraud prosecution to proceed, due process requires evidence of intent in the wrongful receipt of benefits. Accusations of punitiveness and oppressiveness must also be seen in light of the accountability framework in which Centrelink operates. There are protections on privacy and rights of appeal—including to independent bodies—and the right to apply for information under Freedom of Information legislation. Available data from agencies such as the Commonwealth Ombudsman (2009) and ANAO (2009a), do not indicate that there is any problem of systemic abuse of customer rights in Centrelink in relation to fraud-related matters. Furthermore, while the pursuit of debt from fraud can be considered to compound disadvantage in some cases, it should be noted that Centrelink also waives many millions of dollars in debt each year.

Delivery of welfare payments and the prevention of fraud involve a difficult balancing act. On the one hand, there are obligations related to the protection of customers' privacy, the speedy delivery of benefits and the avoidance of additional hardship to customers through investigation and debt recovery action. On the other hand, there is a legal and ethical duty to ensure taxpayers' dollars go to genuine recipients. Centrelink must be seen to be strongly committed to preventing and detecting fraud. Any exposés of undetected fraud or loopholes in the system will result in bad publicity that potentially stigmatises all welfare recipients as potential fraudsters. These circumstances need to be acknowledged more explicitly by both sides in the welfare fraud debate. In particular, where the pro-welfare lobby seeks to advocate for the interests of a disadvantaged constituency, support should be given to the idea of better primary prevention if for

no other reason than the negative effects on customers when fraud is detected. It is notable that neither side has contributed much to advancing knowledge about effective primary prevention. Some support for this topic, both in principle and in practice, from the respective research arms of the institutional protagonists would be welcome.

Apart from a greater commitment to primary prevention, reaching a greater degree of consensus regarding the threshold for fraud prosecutions would be a beneficial development. The findings of this study support the notion that there is little apparent value in pursuing minor suspected frauds in the criminal courts. However, this is not a view that is easy to translate into practice. It might seem vindictive and inefficient to pursue a fraud that results in very small losses. Nonetheless, this might be an example of the early detection and termination of a fraud that could have continued for decades and netted the offender tens of thousands of taxpayers' dollars. However, a presumption of 'error'—related at least in part to the sometimes complex and confusing nature of government bureaucracy and rules, and the sometimes chaotic and highly stressful nature of welfare customers' lives—is likely, at least in some cases, to be a more fair or compassionate (and more efficient) response. The result would be the termination or reduction of payments and/or repayment of losses, rather than prosecution in the criminal courts (Hughes 2008; Marston & Walsh 2008).

One suggestion for systematising this is through a 'pre-sanction review process', in which Centrelink staff 'review the circumstances of first time non-compliant individuals and help them to comply before applying sanctions' (Murphy 2005: 47). It is likely that such 'administrative remedies', along with more meaningful penalties, such as community service in the case of criminal convictions, will be more productive, or at least less expensive, than jail time for minor offences. Exactly what the threshold should be for activating these options is something that should be worked out with all stakeholders with a view to reaching a consensus.

A more developed alternative to welfare fraud prosecution is provided by the San Diego Welfare Fraud Diversion Program, operating since 2007 (Swan et al. 2008). The program resulted from

diagnostic research conducted jointly by the San Diego Public Defender's Office and a community group of welfare recipients and persons on low incomes, the Supportive Parents Information Network. The research (outlined briefly in the first section of this report) found most persons convicted of welfare fraud were mothers in extreme financial difficulties. Prosecution, conviction and recovery orders added significant personal stress and economic strain to their families. The proposal for a diversion program found support from the District Attorney and county judges. Key elements include the following:

Fraud amounts of less than \$5,000 are automatically charged as misdemeanours, whereas previously, they were charged as felonies. If the diversion participants pay a third of their restitution per year, follow the rules of the program, and fulfil their community service hours (i.e., a 40-hour requirement for misdemeanour defendants and an 80-hour requirement for felony defendants over the three-year period), they will successfully complete the program. Upon completion, participants can petition the court to remove their guilty pleas and all charges against them will be dropped (Swan et al. 2008: 146).

A preliminary evaluation found the new system to be a considerable improvement, although it fell short of a wider vision for improved education and economic support for participants (Swan et al. 2008).

Another important dimension of the welfare fraud debate concerns the comparison with tax law enforcement. As outlined in the first section of this report, studies in the United Kingdom, United States and Australia have pointed to the questionable gap between tax fraud prosecutions and welfare fraud prosecutions. The present study has shown that this situation persists in Australia. The gap is enormous. A recent ANAO review of the management of serious non-compliance in tax identified 'considerable scope for the Tax Office to improve the effectiveness of arrangements to deter, detect and deal with fraud and serious evasion' (ANAO 2009b: 14). It also identified a serious lack of research about the effectiveness of compliance strategies. At the time, the ATO was responsible for revenues of approximately \$278b, but the taxation system was described as one 'based on self-assessment' and



largely reliant on ‘voluntary compliance’ (ANAO 2009b: 11). This can be contrasted with the welfare compliance system, frequently described, for example, as ‘a rigorous regime’ applied to ‘benefits which are extremely low’ (Lunn 2010: 4; also Henman & Marston 2008). This situation evidences a strong case for a comprehensive inquiry into the persistent wide gap between tax fraud prosecutions and welfare fraud prosecutions.

## Key findings from the present study: Contemporary Australian strategies

The fourth section of this report, *Contemporary Australian Strategies*, reported available information on the types of anti-welfare fraud strategies adopted by Centrelink, with a focus on innovations and enlargements of programs. A variety of forms of impact data was also supplied in relation to specific strategies, including estimated recoveries and estimated savings. Overall, it is evident that Centrelink has a complex array of overlapping strategies that, on paper at least, strongly support an interpretation that the agency has been in step with best practice methods internationally (cf NFA 2010).

Where dates were available for the introduction of new or ‘stepped up’ strategies, it can be seen that Centrelink has been engaged in a process of continuous improvement since it was established in 1997. Even within programs, such as the data-matching program, there has been continuous enlargement and augmentation (see Table 14). This process appears to be ongoing, with relatively recent initiatives in identity verification, debt recovery and data-mining.

As noted, when assessing the dimensions of welfare fraud in Australia (see *Dimensions of Welfare Fraud in Australia* in this report) against the strategies adopted by Centrelink (see *Contemporary Australian Strategies*), there is support for the view that while there has been an enlargement and enhancement of detection and prevention strategies, the effects of this are unclear. It is possible that more fraud has been prevented but that this was not seen in

available measures of fraud because greater efforts in detection led to more ‘suspected fraud’. This would appear to fit with the fact that the second half of the 2000s saw increased referrals of fraud cases to the CDPP. It could be argued from this that ‘secondary prevention’—stopping fraud after it started—was more apparent than primary prevention. However, increased referrals did not lead to more substantiated fraud and prosecutions and convictions continued at stable rates. It is possible, as the ANAO report on Centrelink investigations suggests, that referrals did not translate into prosecutions and convictions because of quality problems with some briefs.

Whatever the case, the last three years of data show that the rate of referrals has been decreasing. While it is possible that this is because the detection of suspected fraud has peaked and prevention initiatives are finally starting to show an effect, it may be more the case that Centrelink’s ‘intelligence driven’ approach to fraud resulted in a greater focus on larger frauds. There has in fact been a decline in the number of fraud-related investigations, from 35,885 in 2007–08, to 26,084 in 2008–09 and 22,693 in 2009–10 (see Table 4). The amounts of money involved, however, have increased from \$32,269,000 in 2007–08 to \$43,983,000 in 2008–09 and \$47,256,000 in 2009–10. It is possible then that a more strategic approach to case selection, focusing on the larger more damaging frauds, is showing an effect. It will take some more years of data, however, to see if this is a confirmed trend. A strong commitment by Centrelink to the implementation of the ANAO report on the quality of fraud investigations might see a continuous narrowing of the gap between referrals and prosecutions. Ideally, a long-term decline in referrals will result from better prevention and consequential reduced detections, rather than discretionary decisions not to refer weaker cases.

One issue that was not addressed in the ANAO report was the likely impact of enhanced quality in investigations. From one perspective, the value of enhanced investigations is questionable given that the ANAO report indicated that no fraud would be prevented, no additional error detected and no additional recoveries or savings made as a result. It is likely that enhanced quality in investigations will only lead to more prosecutions and convictions. In

terms of the hierarchy of fraud prevention goals outlined previously, this may assist a ‘criminal justice’ goal, but adversely affect the goal of reducing adverse consequences for offenders.

While there was considerable ambiguity about the full impacts of Centrelink’s anti-fraud program, there was also ambiguity in some of the descriptions of anti-fraud measures. This applies particularly to the concepts of *service profiles*, *data mining*, *conducting fraud prevention* (in relation to internal fraud controls), *ethics training* and *developing programs for detecting and investigating potential fraud and misconduct*. There was also some ambiguity and information gaps in the area of cost–benefit ratios. A properly democratic commitment to accountability in crime prevention requires transparency in the research and implementation phases of a project, and this must include financial impact data. This does not mean that all crime prevention initiatives have to show dollar savings, but the issue cannot even be considered if the data are not available. It would be helpful, if it were possible, for Centrelink to more fully disaggregate input costs against estimated savings and report net savings for specific strategies.

The need for better impact data meshes with the idea (discussed in the preceding section in relation to situational crime prevention) of more diagnostic analyses of the nature and possible causes of welfare fraud. This was also a key finding the ANAO (2010: 58–59) report:

Centrelink would benefit from expanding its analysis of fraud data, from particular types of special fraud operations and Budget measures, to identify a broader range of risks. Better use could also be made of the data analysis undertaken by Centrelink’s Intelligence teams. This should better position Centrelink to develop appropriate measures to treat the risks, that translate into effective fraud mitigation strategies ‘on the ground’, in terms of service delivery.

It is possible that this approach would be further enhanced by a more explicit adoption of situational crime prevention and security management principles, and by the adoption of a clearer set of fraud control goals, as set out in the third section of this report. Although the array of anti-fraud measures adopted by Centrelink is already quite sophisticated, it is

possible that a wider range of measures might be harnessed to contribute more effectively to primary prevention and earlier secondary prevention. These issues are developed in the next section.

## Implications for advancing detection and primary prevention

As noted, Centrelink appears to have been in step with best practice in fraud management internationally. However, an examination of Centrelink’s detection and prevention strategies indicates the current approach is showing impact mainly in ‘secondary prevention’—detecting fraud and stopping its continuation—and in recovering losses. The ongoing detection of fraud simply underscores the fact that opportunities remain in the system that conceivably can be closed off. There appears to be scope for enlarged primary prevention, including with a view to reducing the ‘downstream’ costs of enforcement. This situation was acknowledged in 2008, by Social Services Minister Joe Ludwig (2008a, 2008b), in announcing a renewed commitment by the then Rudd government to combating welfare fraud. This included more attention to primary prevention and the avoidance of debt through better initial compliance checks. A number of useful recommendations can be made in this area by comparing what Centrelink has been doing in the field in recent years with the crime prevention literature. None of these recommendations are guaranteed to reduce substantiated or suspected fraud, but there would appear to be scope within the present system for trialling and evaluating these measures.

### *Diagnostic and experimental research*

A clear finding from this research is that more should be done in the areas of data collection and the analysis of existing data in order to identify areas amenable to preventive interventions. This is consistent with the theory of situational crime prevention and also with the theory of security management in terms of the security risk assessment



process. For example, it is possible that more could be done in the area of diagnostics by categorising fraud cases in more detail and analysing the techniques of offenders. Resources could then be targeted at the most frequent or most expensive types of frauds amenable to opportunity-reducing techniques. Development of an explicit hierarchy of welfare fraud goals and associated rationales would also assist in targeting interventions where they are most likely to impact positively on agreed targets.

As noted, the view that research should be used to guide prevention efforts was supported by the 2010 ANAO report on Centrelink fraud investigations. An example concerns the potential gains from targeting the benefit types most vulnerable to fraud. Analysis of Centrelink data in Table 17 (adapted from Table 5) shows that, across the top 15 benefit types for fraud for 2008–09, the Single Parenting Payment accounted for 39.6 percent of convictions and 46.9 percent of debt associated with prosecution. The Newstart Allowance (unemployment benefit) accounted for 32.3 percent of convictions and 23.9 percent of debt associated with prosecution. Together, they accounted for 72 percent of convictions and 70.7 percent (\$33.5m) of debt. This means that if fraud could be prevented in these two areas alone, then an extraordinary 70.7 percent of all fraud could be prevented in financial terms and over 2,000 court cases could be dispensed with each year. If the third and fourth highest payment types in terms of debt—Disability Support Pension and Partnered Parenting Payment—were added to the equation, then the losses prevented could be increased to almost 90 percent (86.8% or \$41m). Similarly, the number of court cases prevented would increase to 86.7 percent or 2,800 cases.

In this context, it is also interesting to note the difference between this Table, based on Centrelink data, and the ANAO (2010) analysis of convicted cases from Centrelink's Fraud Investigation Case Management System in 2007–08. This was shown in Figure 5 in the section *Dimensions of Welfare Fraud in Australia*. It shows that frauds involving *employment* took up the majority of cases at almost 80 percent. These 'employment-related offences' included 'under-declaring casual earnings; failure to declare part-time and full-time earnings; and failure to declare partner income' (ANAO 2010: 63). The next categories in rank order were *member of a*

*couple* (6.3%), *non-employment income and assets* (5.4%) and *education* (4.0%). The remaining categories accounted for less than two percent of fraud each, including *identity fraud*, which made up 1.4 percent of cases.

The data in the Centrelink Table and ANAO Figure use different categories and they appear to be contradictory. Nonetheless, the fact remains that analyses of this sort have the potential to enhance fraud prevention and lead to substantial savings, particularly if they involve drilling down to levels that provide more information about the methods of offenders. The question of repeat offenders should also be researched. For example, what proportion of offences is committed by repeat offenders and how many offences could be accounted for by the work of serious persistent offenders? What penalties have these offenders been given before and how have they viewed these penalties? The issue of the high profile of women among convicted welfare cheats also needs exploration, particularly in relation to questions of the influence of economic strain, the impacts of prosecution and penalties, and the impacts on dependants.

Another important consideration for increased research investment is to introduce as many controls as possible on extraneous variables when attempting to measure the impacts of different strategies. For example, it was noted that there is an issue concerning administrative factors in the rates of referrals to the CDPP and the rate of prosecutions. Both of these figures relate directly to the key measures of 'suspected fraud' (referred cases) and 'substantiated fraud' (convicted cases). It is important that discretionary and other factors (personnel numbers for example), are controlled or at least accounted for when measuring the impacts of innovations or modified anti-fraud strategies. It is possible that the ANAO could play a key role here in regular assessments and reports on the decision making and quality control processes in Centrelink's Business Integrity Division and in the Office of the CDPP.

Interviews with offenders is a related area where there is potential for productive research. This can cover both fraud methods and motivations (*cf* gender issues above). It might be possible to identify the extent to which lower end minimum wage levels and levels of personal debt provide incentives for

**Table 17** Fraud across top 15 payment types, 2008–09

Rank	Payment type	Convictions	Convictions (%)	Debt associated with prosecution	Debt (%)
1	Parenting Payment—Single	1,280	39.6	\$22,157,531	46.9
2	Newstart Allowance	1,045	32.3	\$11,303,971	23.9
3	Disability Support Pension	301	9.3	\$5,675,043	12.0
4	Parenting Payment—Partnered	174	5.3	\$1,896,174	4.0
5	Youth Allowance Student	85	2.6	\$1,180,800	2.4
6	Austudy (Centrelink)	69	2.1	\$964,492	2.0
7	Age Pension	59	1.8	\$1,270,728	2.6
8	Carer (Disability Support)	44	1.3	\$600,458	1.2
9	Carer Pension (Other)	40	1.2	\$497,621	1.0
10	Youth Allowance Job Seeker	26	0.8	\$168,395	0.3
11	Carer (Age)	25	0.7	\$337,888	0.7
12	Widow Allowance	24	0.7	\$607,314	1.2
13	Family Tax Benefit	23	0.7	\$366,385	0.7
14	Sickness Allowance	17	0.5	\$179,109	0.3
15	Carers Allowance (Adult)	16	0.4	\$63,192	0.1
Total		3,228	100.0	\$47,269,101	~100

Note: Cases can be recorded against more than one payment type

Source: Centrelink personal communication 2010.

welfare fraud. It might also be possible to identify the extent to which benefit levels might be considered inadequate and motivate customers to seek to enlarge their income by illicit means (Marston & Walsh 2008; Weatherley 1993). Another issue that could be explored is whether or not permissible levels of legitimate part-time and casual income, on top of benefits, are high enough to reduce incentives for fraud—while maintaining the legitimacy of benefits (McKeever 1999a). Personal and administrative barriers to compliance should also be a key topic for research (Murphy 2005). Questions of the legitimacy and effectiveness of the system would also be well served by more surveys, including surveys of customers and the public, including questions about specific types of interventions (*cf* Kuhlhorn 1997).

Research on welfare fraud prevention strategies should also include data on the costs of specific detection and prevention methods set against estimated savings (*cf* Greenberg, Wolf & Pfister 1986). It is not enough to simply list estimated gross savings or amounts targeted for recovery action. Net savings and actual recoveries provide the more important figures, which show the cost effectiveness of strategies.

### *A research and fraud prevention unit in Centrelink*

A key way to advance prevention-oriented research is to create a dedicated unit within Centrelink, with a title such as the Research and Fraud Prevention Unit. This would necessitate the employment of specialist statisticians and fraud prevention experts. One model is provided by state and federal anti-corruption agencies (Prenzler 2011). The more sophisticated of these have legislated requirements for prevention-oriented research, with 'education' often included in the specifications. Section 17 of the Western Australian *Corruption and Crime Commission Act 2003*, provides one example:

- (1) The Commission has a function (the prevention and education function) of helping to prevent misconduct.
- (2) Without limiting the ways the Commission may perform the prevention and education function, the Commission performs that function by—
  - (a) analysing the intelligence it gathers in support of its investigations into organised crime and misconduct; and

(ab) analysing the results of its investigations and the information it gathers in performing its functions; and

(ac) analysing systems used within public authorities to prevent misconduct; and

(ad) using information it gathers from any source in support of its prevention and education function; and

(b) providing information to, consulting with, and making recommendations to public authorities; and

(c) providing information relevant to its prevention and education function to the general community; and

(ca) ensuring that in performing all of its functions it has regard to its prevention and education function; and

(cb) generally increasing the capacity of public authorities to prevent misconduct by providing advice and training to those authorities, if asked, to other entities; and

(d) reporting on ways to prevent misconduct.

As ss 17(2)(d) shows, one function of such a body is the publication of reports, usually directly accessible by the public at the agency's website. Such an approach can enhance public accountability and contributes to stakeholder and public knowledge about agency strategies and achievements.

Work in such a Research and Fraud Prevention Unit should make use of frameworks for developing effective fraud reduction strategies. These include situational crime prevention, security management principles and hierarchies of crime prevention goals and methods, as outlined in the third section of this report. Members of the unit should also productively engage with the wider crime prevention community—including by attending and presenting at conferences, publishing in refereed journals, through partnership research and in other professional development activities such as in-service training.

### *Miscellaneous strategies*

There are a number of additional specific strategies that can be enacted in the fight against welfare fraud. These are outlined below and are derived from

the welfare fraud literature, and the broader crime prevention and security management literature.

### **Casework and face-to-face interviews**

The ANAO report on Centrelink investigations noted that Centrelink was overly reliant on paper-based reviews and that formal customer interviews were used in only 23 percent of cases referred to the CDPP (ANAO 2010). The implication was that this was a technique that could be enlarged. In the United Kingdom, the DWP has usefully employed home visits and interviews in their 'continuous survey exercises' as part of research on suspected fraud levels, in which specially trained DWP staff review a randomly selected sample of cases each year, with follow up investigations (DWP 2010a: 4; see also Johnson, Johnston & Lewis 1980).

A more personal relationship between welfare agency officials and welfare beneficiaries has been suggested as an anti-fraud measure by beneficiaries (SNCCP 2008). Regular personal contact increases the perception of agency support, thereby reducing resentment and alienation that can be used to justify fraud. It also increases perceptions of possible detection of fraud. In addition, consultations can be used to identify barriers to compliance and facilitate ways of overcoming barriers (Murphy 2005). This approach relates to the situational prevention technique *remove excuses*, including *post instructions*, *alert conscience* and *assist compliance*. It also relates to the technique *reduce provocations* including *discourage imitation*, *avoid disputes* and *reduce frustrations and stress* (see Table 13).

### **Onsite inspections and the cash economy**

A shift in policy in Centrelink away from field operations in the cash economy area towards more intelligence-based risk-profiling (described in the fourth section of this report) requires close evaluation, especially where it risks shrinking rather than extending guardianship. The 2008 Swedish study on welfare fraud prevention claimed that 'unannounced control visits' are one of the best ways to deal with the black labour markets that aid potential fraud offenders because of the absence of overt records or other sources that can generate suspicions (SNCCP 2008).

## Penetration testing and undercover agents

*Penetration testing* is a security management technique that may have application to welfare (see the third section of this report). Penetration can assist 'systems tests' as part of regular security audits and has been used both in physical security tests and information security tests. Penetration testing involves a specialist acting *incognito* to attempt to bypass security. False identities would seem to be an area particularly amenable to penetration testing. Suspected cash economy areas might also be amenable to the related strategy of undercover agents.

## Enlarged surveillance

The ANAO report on Centrelink investigations noted that surveillance was used in only five percent of cases referred to the CDPP and also indicated that this was an area that could be expanded (ANAO 2010). *Contemporary Australian Strategies* above reported that, in 2008–09, of 1,023 completed surveillance operations, 589 or 57.5 percent were considered 'actionable', leading to annualised gross reductions in payments of \$5.5m and debt of \$21.2m. There was no reporting as to whether or not a threshold of suspected cases had been reached but this does seem like an area that could be investigated with a view to possible expansion.

## Improved identity verification

Table 6 reported 'types of fraud' in relation to prosecution referrals as classified by Centrelink. Only data for one year (2008–09) were provided, showing that 'identity fraud' made up only 2.7 percent of cases, or 138 out of 5,082 cases referred to the CDPP. In another format (see the fourth section in this report), Centrelink reported that in 2008–09, 3,873 investigations were conducted into possible identity fraud, with 166 referrals for prosecution. Although the proportions are small in both cases, the estimated debt and savings in the latter figures was \$15.1m.

Identity fraud presents a particular challenge that requires a technically sophisticated research-based approach to predicting and pre-empting new technologies for offending, including identity theft. Centrelink clearly takes this threat seriously and has

developed a number of countermeasures, including the specialist Identity Fraud Detection Team whose capacities include advanced computer equipment and skills. However, this area may again be characterised by the problem of secondary prevention versus primary prevention. There is a growing body of research on identity fraud and identity theft, but prevention of these types of crimes appears to still be an underdeveloped science (eg Benson 2009; Berg 2008; Leeper Piquero, Cohen & Piquero 2011; Levi 2008; Newman 2008; Smith 2008). It may be that identity fraud needs to be addressed through a more experimental approach, within an enlarged research-based approach to welfare fraud that makes more of the situational technique of *control tools/weapons*. It is possible, for example, that the 100 point test might need to be expanded, given that document-based identity verification systems are increasingly vulnerable to counterfeiting technology (Smith 2008). Certainly, research needs to be done on successful cases of identity fraud to identify how fraudsters have bypassed the system. Penetration tests (see above) might also assist.

## Increased compliance reviews

In Table 18, data were reported on compliance reviews and fraud prosecutions for the four years since Centrelink began reporting the number of fraud-related investigations, and debt and savings from these investigations. There were 6,720,000 customers on average and on average, 4,020,280 compliance reviews were conducted each year, which covered 60 percent of customers. In terms of suspected fraud, the yield of cases referred to the CDPP, was relatively small—0.04 percent of customers or 3,192 on average were convicted of fraud. However, fraud investigations were estimated to have produced \$120,975,000 in gross savings and amounts targeted for recovery on average each year, although the convictions were related to \$40,570,750 on average. The estimated savings were 24.1 percent of the average \$500,653,922 in overpayments identified and debts generated from the review process. Fraud therefore accounted for approximately one-quarter of invalid payments. On average, only 15.9 percent (5,066; see Table 3) of the approximate 31,666 investigations per year resulted in a prosecution referral and 10 percent (n=3,192) resulted in a conviction.

It was noted in *The Welfare State and the Problem of Fraud* that, in the United Kingdom, measures of 'estimated fraud' are based on extrapolating the findings from a sampling and investigation procedure. The procedure includes collation of all available information on the sample cases, home visits and detailed interviews, and follow-up investigations by specialist fraud investigators where appropriate. The outcome of this process in 2009–10 was an estimate of £1.0b in fraud (DWP 2010a). The size of the sample was not reported, but an inference that could be made, as with the Australian data, is that an increase in reviews would lead to an increase in the amount of fraud identified and stopped; with possible greater deterrence through promotion of reviews and adjustments. For example, a 25 percent increase in compliance reviews by Centrelink might possibly increase the amount of gross savings and amounts targeted for recovery by \$30m per annum and the amount related directly to convictions by \$10m.

This begs the question why isn't this being done? One possible explanation is that it is not cost effective. Given, in particular, the very large number of compliance reviews conducted in Australia each year, there may be very little scope for 'strengthening formal surveillance'. However, the cost–benefit ratios are not reported. One important task therefore for a Research and Fraud Prevention Unit would be to model the costs and likely impacts of increases in compliance reviews and follow-up investigations. Another area that is showing promise in compliance reviews is analysis of social networking sites, such as Facebook, to check claims about persons' whereabouts, employments status and health (Dibben 2010).

### Increased early detection of error

One possible effect of increased numbers of compliance reviews is that error and suspected fraud are detected and stopped earlier. This is consistent with the contemporary emphasis on early intervention in crime prevention and fraud prevention (Farrington & Welsh 2007; NFA 2010). Early detection of error is likely to reduce losses and the amounts targeted for recovery. Increasing the number of investigators is also likely to reduce the time gap between:

- error being flagged;

- a fraud investigation launched;
- the customer being notified of an investigation or prosecution;
- a prosecution being launched; and
- a verdict being reached.

This also has considerable potential to prevent hardship and perceived injustice in the prosecution process. It is also possible that early detection of 'error', entailing a minor loss, might pre-empt the need for a later fraud referral. This was a key finding of the Anglicare Tasmania report:

Another issue raised by research participants relates to Centrelink's compliance system and whether Centrelink is doing enough to support customers to avoid overpayments and debt, and in particular to avoid prosecution. This issue was raised by participants who were prosecuted in relation to incorrectly declaring income. Invariably they had been working casually and declaring their income incorrectly by small amounts in any one income period. This means that the Centrelink client may have been regularly overpaid by a relatively small amount, perhaps \$20–\$40 a week, over a long period of time. Over the years it seems these amounts had built up to a sufficient amount for Centrelink to consider referring them for possible prosecution. Centrelink guidelines suggest that a debt of over \$5,000 should be investigated and considered for prosecution...The research participants queried why debts were allowed to build up to this significant amount, which then invited investigation for prosecution. They acknowledged they were making mistakes when declaring their income but expressed the need for a system to warn them that they were making errors. They felt that the situation should not have been left to get to the point where they faced prosecution (Hughes 2008: 39).

### Media campaign

*Contemporary Australian Strategies* contained a brief report on Centrelink's four year media campaign *Support the System that Supports You*, which began in 2005. The campaign encouraged customers to report changes in their circumstances that might affect their entitlements. By 2008, the

campaign resulted in 294,000 reports and a further 29,000 tip-offs. There was no cost–benefit report on this but it is possible that another campaign is warranted with more systematic evaluation built into the process. This approach is consistent with the principle of *extend guardianship* and *assist natural surveillance*.

## Internal fraud prevention

There is very little information available about Centrelink's internal fraud controls. This is another area where research and development appear warranted, along with greater transparency about policy and practice. For example, compulsory reporting and whistleblower protection have emerged as areas where many public sector agencies can make improvements (NFA 2010), consistent with the situational principle of *strengthen formal surveillance*. Consultation with staff, through confidential surveys for example, can assist in assessing and improving strategies around internal disclosures and enhanced supervision.

## Alternatives to welfare

In Table 13, techniques of situational crime prevention related to welfare were presented, including *reduce the rewards* as a relevant strategy. This included the specific technique of *12. Remove targets* (related to *deflect offenders*). The examples included *reduce the number of types of benefits* and *enlarge alternatives to welfare* (eg *subsidised employment, better compulsory superannuation*). This view is consistent with recurring moves to reduce poverty, welfare dependency and welfare costs by moving more welfare recipients into secure employment. In many cases, this will entail government subsidy and management, but preferably at a lower cost than direct welfare payments. Options to reduce welfare dependency and eligibility for welfare include supported employment for persons with disabilities, enlarged compulsory superannuation, later retirement ages for aged pension eligibility and 'work for the dole'. Employment options would also need to include flexible and part-time work, including for supporting parents and those with a limited capacity for full-time work. 'Middle class welfare' in the form of direct payments to parents for child support can be replaced by better child care and school resources, and lower health care costs.

From a fraud prevention point of view, this 'removes targets', but also 'removes excuses' when employment is undeniably available. The potential anti-fraud benefits can be seen in the statistics above showing that, according to Centrelink, for 2008–09, the four top areas for fraud convictions were parenting payments (single and partnered), unemployment benefits and disability support—totalling \$41m in debt associated with prosecutions. Although the idea of moving people off welfare is often seen as right wing or anti-welfare and criticised as repressive, properly implemented it is also consistent with a left wing, 'pro-welfare', social democratic perspective on poverty reduction. It can be argued, for example, that employment and unemployment are policy choices of government. The examples *par excellence* concern government inaction on unemployment levels of one-third of the workforce in the Great Depression in the 1930s, followed by the creation of full employment, or 'virtual full employment', during World War Two and into the 1950s. In this view, it is the responsibility of government to stimulate business in ways that support private sector employment and to soak up remaining unemployment with jobs in the public sector (Weatherley 1993).

This policy would involve a commitment to eliminating long-term unemployment; thereby confining the payment of unemployment benefits to those experiencing 'frictional unemployment'—moving between jobs. This is no small challenge. In 2008–09, there were approximately 259,000 persons on the Newstart Allowance for 12 months and over, classified as long-term unemployed welfare recipients (21 years and over). There were also 344,000 persons on the Single Parenting Payment and 757,000 on the Disability Support Pension (ABS 2010b: 13–15). At the same time, the Australian Bureau of Statistics estimated job vacancies to be somewhere between 150,800 and 183,600 (ABS 2010a, 2008). However, Australia 'exports' many labour-intensive industries offshore to locations where work is carried out for much lower wages and benefits, and under much lower health and safety standards. Free trade policies that allow competitors to undercut domestic wages are not fair trade policies and the benefits of Australia's economic policies and resources boom are not shared equally in terms of employment opportunities.



**Table 18** Compliance and antifraud outcomes, 2006–07–2009–10

Year	Customers	Compliance reviews	Cancelled/adjusted down	Overpayments/debts from review	Prosecutions	Convictions	Amount involved	Fraud-related investigations	Debts and savings from fraud investigations
2006–07	6,500,000	4,276,281	628,705	\$418,944,738	3,400	3,355	\$38,775,000	42,000	\$127,000,000
2007–08	6,520,000	4,431,309	702,624	\$496,106,197	2,658	2,624	\$32,269,000	35,885	\$140,200,000
2008–09	6,840,000	3,867,135	641,504	\$536,151,645	3,388	3,354	\$43,983,000	26,084	\$113,400,000
2009–10	7,020,000	3,506,431	575,715	\$551,413,107	3,461	3,436	\$47,256,000	22,693	\$103,300,000

Source: Centrelink personal communication 2010

One way to achieve full employment is by taxing the super wealthy and super profits at higher rates in order to better fund training in areas where there are skills shortages, and to fund local councils to employ lower skilled people in their local areas to work on civic improvement projects. This should also mean that the anti-welfare idea of ‘help and hassle’ (Saunders 2003) in getting people off unemployment benefits can be implemented within a framework where work and training opportunities are genuinely available. Without supported employment:

There is a danger that surrogate work effort and job search tests may be used arbitrarily to force people off the benefit rolls and otherwise harass the unemployed. Those who feel aggrieved by the treatment they receive are more likely to withhold their compliance. Conversely, clients are more likely to comply if they perceive the system to be fair and if they are treated respectfully (Weatherley 1993: 127).

In 2010 and 2011, a flurry of policy announcements from the main political parties on tightening welfare eligibility included commitments to further moves to assist persons on welfare to move to employment and to supported employment for disabled persons (Dunlevy 2011; Dusevic 2010). However, the history of unemployment and welfare in Australia suggests these moves will not be substantive (eg Horn 2010). What is really needed is an end to party-political exploitation of the welfare fraud issue and the inauguration of a mature responsible approach to full employment.

## Conclusion

Despite the numerous innovations in welfare fraud prevention and detection in recent years, welfare fraud remains a major problem, a contentious social issue and a challenge for policymakers. Australia’s welfare system is fundamentally important to the health and standard of living of approximately one-third of Australians, with significant flow-on effects throughout society and the economy. Welfare recipients are among the most vulnerable and disadvantaged members of the community. There is a lot at stake therefore in ensuring that the welfare fraud prevention system is optimal. ‘Getting it wrong’ can result in discrimination, harassment, stress,

serious injustices and substantial losses to taxpayers. ‘Getting it right’ is also important to the credibility of the system, including its acceptance by those whose labour and taxes fund the system and for the dignity of all genuine welfare recipients. Fraud is not something that should be tolerated out of fear of interference in the lives of welfare customers. Close scrutiny of customer eligibility is a necessary part of democratic accountability and responsible management—both at the point of application for benefits and in terms of ongoing eligibility. As Rob Nolan wrote in 1997:

It is the combination of all this [payment integrity] activity that helps maintain the integrity of the social security system and, importantly, retains public confidence and support for the continued provision of income support. While some may find the range of compliance mechanisms rather onerous it is important to understand that without these sorts of controls taxpayers (and voters) would not unreasonably call into question continued expenditure at current levels. Similarly, any support for extensions of the social security system would be jeopardised (Nolan 1997: 90).

In light of the importance of the welfare fraud problem and the risks of under- and over-enforcement, it is important that key stakeholders find a consensus position. The evidence presented in this report suggests there are problems with black and white ideological views on welfare fraud. Both pro-welfare and anti-welfare protagonists should move towards a centrist policy position that favours improving primary prevention of welfare fraud while maintaining customer rights and agency accountability. In terms of primary prevention, the most likely way forward is through the application of an ‘action research’ or ‘problem-oriented policing’ approach. More developed diagnostics and some experimentation provide the means that are most likely to produce effective implementation strategies. Evaluation, including cost-benefit evaluation, is essential to ensure initial and ongoing effectiveness. This work would be facilitated by the creation of a Research and Fraud Prevention Unit within Centrelink, tasked exclusively with a knowledge-based approach to reducing welfare fraud.





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All URLs correct at September 2012

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