

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1201 (Delegate Harkins)

Appropriations

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**Family Investment and Food Stamp Programs - Automated Finger Imaging - Fraud Prevention**

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This bill requires the Department of Human Resources (DHR) to establish a statewide automated finger imaging identification system to prevent fraud by Family Investment Program (FIP) and Food Stamp Program (FSP) recipients. All FIP and FSP applicants are required to be fingerprinted by DHR.

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**Fiscal Summary**

**State Effect:** Net savings of \$2.9 million could be realized in FY 1999, exclusive of indeterminate but significant savings due to fraud prevention. Future year net savings decrease because costs and savings apply only to new applicants. Revenues would not be affected.

(\$ in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF/FF Expenditures*	(2.9)	(0.9)	(0.9)	(0.8)	(0.8)
Net Effect	\$2.9	\$0.9	\$0.9	\$0.8	\$0.8

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

\*Savings come from combined pool of general funds and federal block grant funds.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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## Fiscal Analysis

**Background:** An increasing number of states are using biometric identifying systems (fingerprinting) for welfare fraud prevention. Biometrics are used to identify each welfare applicant to determine if they are already in the system, thereby preventing a client from receiving duplicate benefits by using false identification. The fingerprint image of a client is read by a scanner and is recorded on an automated data base, where the information is matched against the fingerprints of persons receiving benefits.

The Legislative Auditor recommended in a May 1996 audit of DHR that the department conduct a comprehensive analysis to determine the cost/benefits of using an automated fingerprinting system to reduce welfare fraud. DHR created a welfare reform fraud prevention committee to review the latest welfare fraud prevention technologies and to conduct a cost benefit analysis using data from other states' biometrics experience. The cost analysis showed that finger imaging had the lowest return on investment of the fraud initiatives reviewed. The other initiatives included overpayments/recoupment investment, computer matching, expansion of front end fraud detection programs, and EBTS trafficking unit. The committee recommended that DHR first pursue the other options due to their lower cost and higher rates of return and that finger imaging be re-evaluated periodically.

**State Expenditures:** State expenditures could increase by an estimated \$5.5 million in fiscal 1999, which accounts for the bill's October 1, 1998 effective date. This estimate reflects the cost of contracting with a vendor to develop the finger imaging system and hiring a project manager to oversee the pilot program (\$5.4 million). It includes salaries and fringe benefits (\$32,100), one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate for vendor system development are stated below:

- 382,084 statewide clients based on November 1997 data;
- vendor contract cost of \$22 per client per year (based on Los Angeles County's experience);
- the number of clients includes new applicants (167,498) as well as current caseload (214,586);
- TCA clients (218,324) includes adults and children;
- FSP clients (163,760) includes head of household only;
- TCA savings per client = \$1,830;

- FSP savings per client = \$2,175; and
- the vendor contract includes an evaluation component of 10% of the contract cost.

The DHR fraud prevention committee reported a closing rate of 1.3% as a minimum rate and that closing rates could be as high as 4.3% (based on Los Angeles County's experience). Assuming a 2.8% case closing rate and a 90-day start-up delay, fiscal 1999 savings could total \$8.4 million. Taking into account program costs, net savings in fiscal 1999 would be \$2.9 million. DHR's estimate of net costs of \$2.1 million in fiscal 1999 assumes that closing rates will be only 1.3%.

Future year net savings reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; (3) fingerprinting of only new applicants; (4) decreases in TCA recipients of 3.5% in fiscal 2000, 3.9% in fiscal 2001, 3.1% in fiscal 2002, and 2.6% in fiscal 2003; and (5) FSP recipient numbers remain stable.

Expenditures and savings for the TCA portion of a finger imaging program are represented as a total pool of State funds. The proposed fiscal 1999 budget includes \$165.8 million for cash assistance payments, of which \$90.5 million is federal block grant funds and \$75.3 million is general funds. With the block grant, however, it is not possible to reliably predict the federal/general fund split used for any particular program. The \$165.8 million pool of money could be used to fund other programs, such as the finger imaging program to the extent that caseloads continue to drop below budgeted levels. Any funds used for a finger imaging program results in fewer funds available for other uses.

Federal government costs would increase by an estimated \$1.5 million in fiscal 1999, assuming that the federal government agrees to pay 50% of fingerprinting costs. Federal government savings would total \$7.5 million.

**Additional Comments:** The experience in other states indicates that the finger imaging system's primary value lies in the deterrence effect, i.e., in preventing fraudulent receipt of family investment assistance. A September 1995 report by the U.S. General Accounting Office (GAO) indicated that states and municipalities have realized substantial cost savings in public assistance programs by requiring new applicants and existing clients to submit to electronic fingerprint imaging during the enrollment or redetermination process. A fingerprint imaging pilot program initiated in 1991 in Los Angeles County, California realized cost savings of \$5.4 million as a result of terminating over 3,000 active cases and denying benefits to an additional 240 applicants who failed to comply with the fingerprinting requirements. In a 1995 report, Los Angeles County stated that through September 1996, estimated cumulative benefit savings of \$86 million significantly exceeded the estimated

costs of \$20 million.

In New York State, 15% of all general assistance recipients initially failed to appear for digital imaging; of those, 70% have never submitted to finger imaging. The net case closing rate was 3.3%. In New Jersey, 12% failed to appear for digital imaging and in Connecticut, 27% failed to appear. Although some recipients returned to the assistance rolls in Connecticut, 13% appear to have permanently dropped from the rolls. It is difficult to accurately evaluate the full effect of these systems, since the number of individuals who might have applied for assistance had a finger imaging system not been in effect cannot be reliably measured.

The estimates in this fiscal note rely primarily on Los Angeles data, which is several years old. Although several states have begun finger imaging pilot projects, formal evaluation reports are generally not yet available. Both Connecticut and Illinois are scheduled to complete an evaluation report within the next few months for their respective legislatures.

**Small Business Effect:** Because the necessary biometrics work would be contracted out through the State procurement process, one or more small biometrics services businesses could benefit as a result of this bill.

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**Information Source(s):** Department of Human Resources (Family Investment Administration, *Monthly Statistical Report* [November 1997]); Department of State Police; Department of Public Safety and Correctional Services (Data Services Division); Department of Legislative Services; State of Connecticut (Department of Social Services, *Digital Imaging Program Fact Sheet*); Connecticut Biometric Web Page [www.dss.state.ct.us/digital.htm](http://www.dss.state.ct.us/digital.htm); *Biometrics in Human Services*, Volume 1, Issue 5 (September 1997); *Biometrics in Human Services*, Volume 1, Issue 6 (November 1997)

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