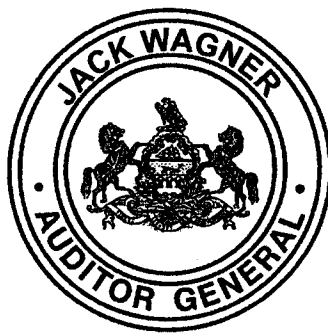


**TESTIMONY ON AUDIT OF THE DEPARTMENT OF
PUBLIC WELFARE'S SPECIAL ALLOWANCE
PROGRAM**

**SENATE PUBLIC HEALTH AND WELFARE AND
SENATE REPUBLICAN POLICY COMMITTEES**



Auditor General Jack Wagner

Dec. 16, 2009

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Department of the Auditor General
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Good morning, Chairman Vance, Chairman Hughes, Chairman Erickson and committee members.

I welcome the opportunity to discuss the findings of our special performance audit of the Department of Public Welfare's Special Allowance Program.

The Special Allowances Program is more important today with economic hardships facing more and more Pennsylvanians. Those hardships include:

- 1 in 5 Pennsylvanians is unemployed, underemployed or simply out of work.
- 1 in 9 Pennsylvania families cannot make the minimum payment on credit cards.
- 1 in 9 Pennsylvanians is on food stamps.
- 1 in 9 mortgages is in default or foreclosure.

The economic hardships facing more Pennsylvanians require us to make certain the Special Allowances Program is working efficiently and effectively without any fraud, waste or abuse in the program.

Special Allowances are vital to help people in need. I believe in the program, but it needs more accountability and transparency.

The Department of the Auditor General's special performance audit of the Special Allowances Program, released in August 2009, identified critical flaws in the program, and it offered 32 recommendations on how to make the program perform more efficiently for participants while protecting taxpayer dollars. In other words, it was a blueprint for fixing the program to help Pennsylvanians develop job skills and become self-sufficient.

There are some who would use the results of our audit as an excuse to kill or shrink the program. That would be wrong and wrongheaded, for the victims here would be the people whom government should be trying to help – Pennsylvanians down on their luck, trying to improve their lot by moving from welfare to work, and who need a helping hand. We in state government need to offer that hand.

Conversely, there are others who would use the findings of this report to accuse The Department of the Auditor General, or me personally, of being cold-hearted and callous toward the plight of our neediest citizens. Nothing could be further from the truth.

During my three decades of public service I have always spoken for the voiceless in our society, and I will continue to do so. My intent in conducting this audit was to make the Special Allowances Program work more efficiently, with less waste, so that more resources would be available to help more people. That remains my goal.

Let me begin by explaining what the Special Allowances Program is, and how it is funded.

The Special Allowances Program provides money for incidentals for those seeking to move from welfare to work. Participants may qualify for special allowances to cover expenses like textbooks and supplies, equipment or tools, clothing, and child care.

The Special Allowance Program is approximately 75 percent state-funded. Eligible recipients either receive special allowance payments on an Electronic Benefits Transfer card, which can be used to withdraw cash at an ATM machine or used as a debit card at a point of purchase, or are issued checks by DPW, which are sent directly to vendors. During the audit period July 1, 2006 through December 31, 2007, approximately \$320 million in special allowances were paid to approximately 150,000 recipients.

While I believe the mission of the Special Allowance Program is necessary and worthwhile, our audit found troubling aspects to the way it has been administered. We found that the Special Allowance Program

was rife with mismanagement and poor oversight, creating an environment for potential fraud and abuse that could cost taxpayers tens of millions of dollars. Based on audit procedures performed and interviews conducted with county assistance office management and staff, who work hard to make sure recipients get the assistance they need, we discovered that the organizational culture within DPW adheres to a philosophy of issuing special allowances based on entitlement rather than based on recipients' actual needs.

In fact, our auditors found insufficient documentation to justify 45 percent of the 3,201 special allowance payments examined. Specifically, auditors found insufficient documentation for 163 recipients totaling \$564,700 in cash for clothing, child care, tools, transportation and other expenses.

We determined that welfare offices in Allegheny, Dauphin, Delaware, Philadelphia and York counties disbursed \$205.9 million in special allowances during the audit period July 1, 2006 to Dec. 31, 2007. In many instances, there were insufficient receipts and other forms of documentation to prove that the allowances were legally permissible. Based on our findings, I believe the problems in the Special Allowance Program were systemic, meaning they existed in assistance offices in every county in the Commonwealth.

Our auditors detected instances of potential fraud in at least three counties:

- In a Delaware County assistance office, an invoice for tools from a beauty school was altered, changing the amount from \$321 to \$821.
- In Philadelphia County, the father of five children of a Philadelphia recipient received child care special allowances totaling \$7,367 to babysit his own children by changing his name and Social Security number.
- In York County, two students at a beauty school each collected \$637 for nail supplies that they never purchased.

Our auditors also found dozens of other questionable allowances. For example:

- 12 recipients collectively received allowance payments totaling \$9,274 for 7 automobile purchases and 15 auto repairs with no supporting documentation in the case files, including one recipient who received funds for two automobiles and two repairs totaling \$2,215.
- 20 recipients received special allowance payments totaling \$22,300 for books/supplies and registration fees with no supporting

documentation in the case files, including one recipient who received nine special allowances for books/supplies totaling \$2,095.

- 26 recipients received special allowance payments totaling \$40,800 for equipment/tools with no supporting documentation found in the case files.
- 37 recipients collectively received special allowance payments totaling \$15,625 for clothing with no supporting documentation found in case files.

We found that duplicate payments may have been issued and went undetected because special allowances issued by employment and training contractors were not recorded in the county assistance office's computer system. We attempted to determine the severity of this control flaw, but Department of Public Welfare officials **refused** to provide necessary information.

We also found four systemic control weaknesses affecting special allowance processing at the county assistance offices that we audited. The weaknesses included a lack of adequate documentation, lack of adequate supervisory review, inadequate monitoring of recurring special allowance payments, and inconsistent application of special allowance policies and procedures.

Additionally, we uncovered weaknesses in the accounting, processing and controlling of electronic benefits transfer cards. During the audit period, the Department of Public Welfare placed \$127.7 million on cards without having proper controls to compel recipients to make only authorized purchases. Our auditors also noted failure by assistance office employees to properly store benefit cards, increasing the potential for theft.

In addition, auditors found excessive card usage by recipients, with at least one person receiving 99 electronic benefits transfer cards. We found these weaknesses despite DPW failing to provide an electronic benefit transfer data file, which precluded the auditors from performing procedures that may have resulted in further identifying potential fraud and abuse.

The failure of DPW's computer systems to detect and track problems is of significant concern. Our recent special performance audit of the Department of General Services' procurement of information technology contracts determined that the Commonwealth approved \$592 million worth of contracts to a single vendor from January 1, 2004 to December 31, 2007, \$368 million of which were contracts with DPW. One has to wonder if this was money well spent if the computer systems do not properly prevent errors in the Special Allowance Program, resulting in the loss of taxpayer dollars.

Let me be clear, I support Special Allowance Program because it is an effective way to get people from welfare to work. I believe the program provides a valuable service, especially during the current recession when so many Pennsylvanians are looking for jobs, but I want to make sure that the program is properly working for both recipients and taxpayers. If the program does work and works properly, the individual receiving assistance and the taxpayers are the winners.

Our audit made 32 recommendations to improve the administration of the program. Most notably, we believe the Department of Public Welfare should:

- Provide active leadership and appropriate policies and procedures to CAOs to ensure accountability for approval and use of special allowances through adequate documentation including receipts of all special allowance purchases, supervisor review, and management oversight;
- Monitor to ensure duplicate special allowances are not issued by CAO and employment and training contractors, and ensure that training schools and other institutions notify DPW if they believe that DPW has overpaid for recipient expenses;
- Cooperate fully with government audits and provide auditors with all requested information in a timely manner, and do not hinder the

audit process by informing personnel to correct documents prior to providing them to the auditors; and

- Provide sufficient oversight with respect to all aspects of electronic benefits transfer cards, including performing a review of all management controls at each CAO related to the inventory, printing/activating, distributing, and monitoring of electronic benefits transfer cards.

While DPW management agreed with the audit findings and most of the recommendations pertaining to special allowances, it demonstrated an unwillingness to provide requested information to auditors regarding special allowances issued by employment and training contractors. DPW claimed that the information was beyond the scope of our audit.

Consequently, we were not able to determine whether recipients were receiving duplicate payments, one from a CAO and one from an employment and training contractor. Also, due to DPW's unwillingness to provide electronic benefits data, we were unable to extend audit procedures to determine participants' EBT card usage.

Department of Public Welfare management must provide greater leadership and accountability, and must ensure that these vital funds are not wasted and are used appropriately so that these funds are available to assist some of Pennsylvania's most vulnerable citizens who are eligible and truly need the benefits.

Thank you for the opportunity to discuss this important issue with your committee. I am happy to answer any questions you may have.

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